2020 FINANCIAL DASHBOARD

THE CITY OF Waterloo

The annual financial dashboard provides a quick view of the city's position on a number of high level financial measures including:

- overall financial position,
- economic growth,
- reserves and assets conditions, and
- debt.

The majority of measures use information from an annual financial information return that all municipalities are required to file with the Province of Ontario. This audited information allows the city to use measures that can be easily compared with other cities.

Additionally, many of the measures are based on best practices by other municipalities and measures developed by the BMA Management Consulting Municipal Study. Commissioned by municipalities across Ontario, BMA Consulting Inc. publishes an annual municipal study highlighting the demographics, finances, and growth patterns within participating Ontario municipalities.

SUMMARY OF RESULTS

OVERALL FINANCIAL POSITION

The city's assets (what the city owns) are growing at a faster rate than its liabilities (what the city owes) and the city is able to meet its debt obligations. The annual tax-based operating surplus does not include a provision for annual amortization. If this was included in the reporting to council, the city would be recording a material annual deficit on the tax side, since sufficient funds are currently not set aside in reserves for the replacement and maintenance of existing assets.

ECONOMIC GROWTH

There has been an increase in the non-residential assessment and levy collected by the city over the last three years. Council has a strategic focus to facilitating a positive local business environment that focuses on attraction, expansion and retention. This should be reflected in this ratio over time.

RESERVES AND ASSET CONDITION

Reserves are a critical component of a municipality's long-term financial plan. The purpose for maintaining reserves is to provide stability to tax rates in the face of variable factors, provide funding for one-time requirements, make provisions for the replacement/acquisition of infrastructure and provide flexibility to manage debt levels to protect the municipality's financial position.

Historically reserve levels have been increasing, but potentially not at a sufficient rate to adequately be used to replace tangible capital assets on a timely basis. This year overall reserve levels decreased by $7.4 million as the city continues to implement the planned capital expansion and replacement programs to address the infrastructure gap. Reserve levels on the water/wastewater side rate more favourable. However, the asset consumption ratio is deteriorating for both, indicating that assets are not replaced or maintained to extend their useful life on a timely basis.

Staff provided an updated long-term financial plan to council as part of the 2020 - 2022 budget release. This assisted council as part of the 2020 - 2022 budget deliberations and delivering on the strategic plan goal of responding to infrastructure needs today and into the future. This ensures the city maintains existing infrastructure, while planning for new growth and development.

DEBT

Our debt to reserves ratio is falling short of the target level. Additionally, both our debt interest as a percentage of "own source revenue", and debt per capita, are much higher than our provincial comparator groups. The overall trend for tax-funded debt is improving, since the city has shown discipline in minimizing additional debt issues.

OVERALL FINANCIAL POSITION

The overall financial position of the city is positive with a positive trend.

The city's financial situation is improving and the city is able to meet its debt obligations. The city does not currently budget for amortization because including amortization in the budget would increase the taxes payable. Excluding amortization is standard practice across all municipalities. As a result, total expenditures exceeded budget. If this non-cash item were removed, the city expenditures for 2020 would fall well within budget.

The city is running a surplus on the water/wastewater side of operations. Long-term projections indicate there will still be insufficient funding to replace important water-related infrastructure. Innovative programs like the storm water management utility fee and credit program provide the city with dedicated funding. In addition, the long-term asset management plan provides recommendations for long-term funding for the capital budget.

	2020 RESULTS	2019 RESULTS
Financial position per capita	POSITIVE	POSITIVE
Financial position per capita including TCA	POSITIVE	POSITIVE
Financial position as % of revenues	POSITIVE	POSITIVE
Operating surplus ratio to own source revenue (includes amortization)		
Tax-based	NEGATIVE	NEGATIVE
Enterprise (water, wastewater)	POSITIVE	POSITIVE
Operating surplus (includes amortization)		
Tax-based	NEGATIVE	NEGATIVE
Enterprise (water, wastewater)	POSITIVE	POSITIVE
Tax Receivables Ratio	POSITIVE	POSITIVE
Liquid assets to total reserves	POSITIVE	POSITIVE

LEGEND

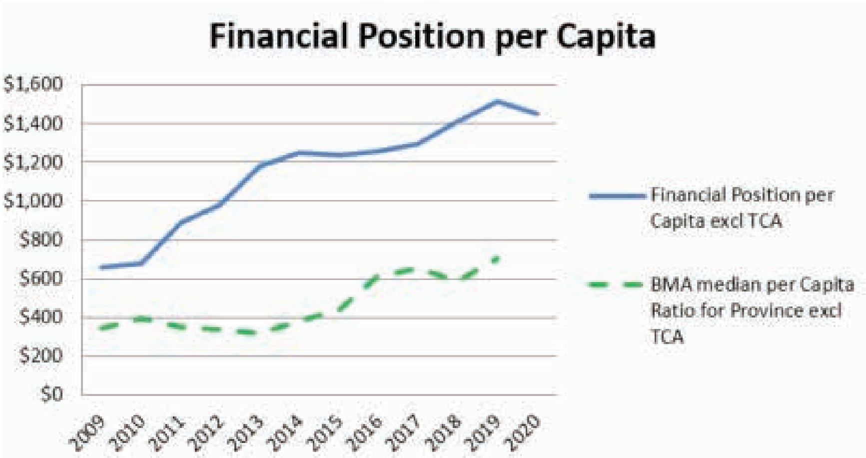
- POSITIVE: indicates to stay the course
- CAUTION: multi-year trend is deteriorating
- NEGATIVE: below target for several consecutive years, requires continuation of previous attention or that corrective action is now necessary

DASHBOARD FACTS

1. **FINANCIAL POSITION PER CAPITA** represents the total financial assets less liabilities on a per capita basis. A positive balance indicates the city's ability to cover its debt obligations and that funds have been set aside for future sustainability.

   TARGET: Positive trend and Waterloo aims to be above the provincial median capita ratio as reported by the consulting firm, BMA, in the prior year.

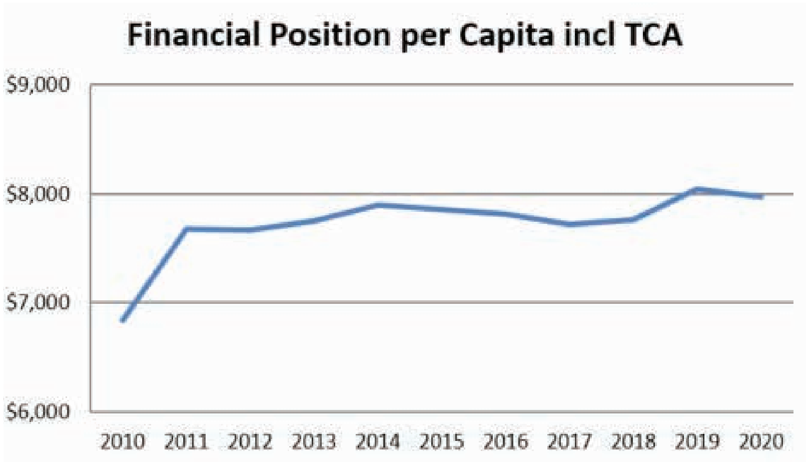
   ACTUAL RESULTS: The city has been above the provincial median for the last decade and the city's ratio has increased every year, with a slight deterioration in 2020.



2. **FINANCIAL POSITION PER CAPITA INCLUDING TCA** represents total assets less liabilities on a per capita basis and it grows as the city accumulates assets that are paid for.

   TARGET: A positive trend over several years is the city's goal.

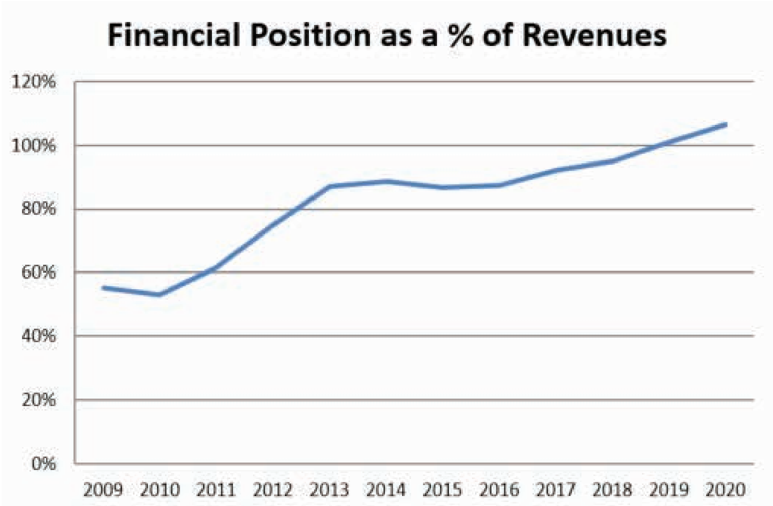
   ACTUAL RESULTS: This ratio remained steady compared to prior year.



3. NET FINANCIAL ASSETS AS % OF REVENUES compares the city's net financial asset position to current revenue. This calculation tells us if the city is growing net financial assets faster than operating revenues.

TARGET: Waterloo aims to show a positive trend over several years.

ACTUAL RESULTS: The ten-year trend is positive and indicates that the city is growing net financial assets faster than operating revenues.

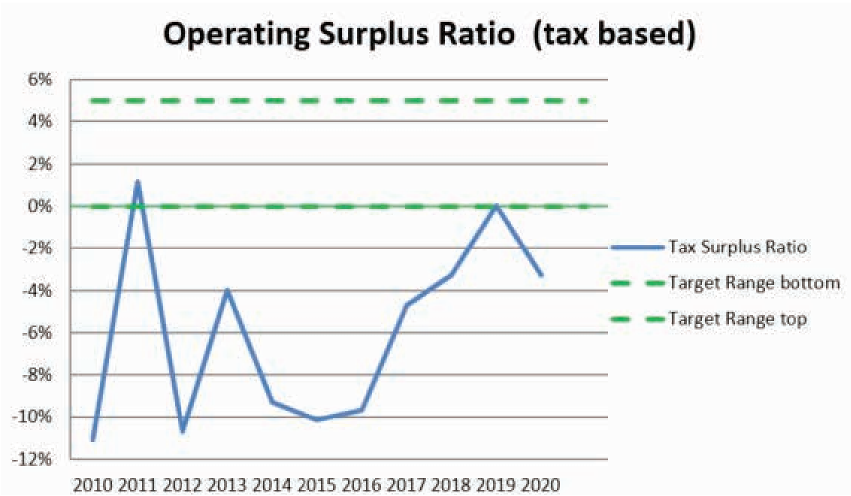


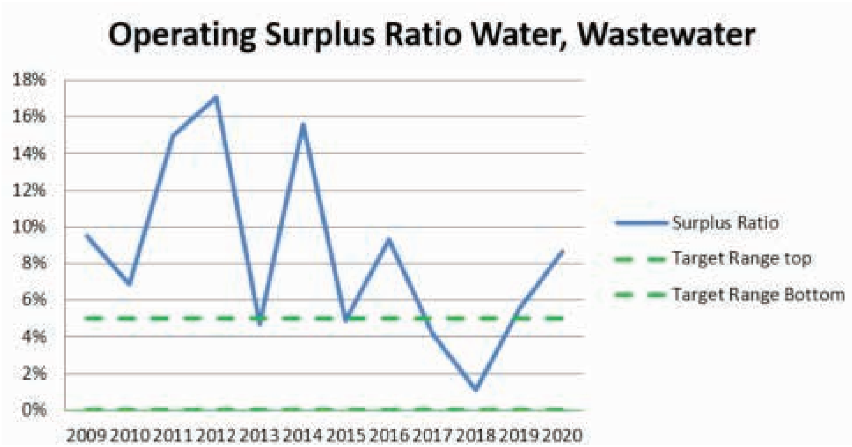
4. OPERATING SURPLUS RATIO provides perspective on how much of the city's own sources of revenue remain after normal operating expenses (including amortization) that could be used to fund reserves, pay down debt and invest in capital projects. This ratio indicates if the city is setting aside enough money for the long-term. If the ratio is below zero, the city is not setting aside enough money to fund the annual amortization expense, included in this ratio on a historical cost basis. Amortization cost is based on historic cost of assets, and not replacement cost, and do not reflect the true cost of replacing tangible capital assets.

TARGET: The ratio should be at least positive, with a target ratio of zero to 5%.

ACTUAL RESULTS, TAX BASED: The city's ratio was below zero for the majority of the last ten years. This indicates that the city is currently not able to cover the cost of annual amortization from its own funds, which is a major contributing factor to the infrastructure deficit. Since municipalities traditionally have not budgeted for amortization but instead budget for capital reserve contributions, this is a common issue.

ACTUAL RESULTS, WATER/WASTEWATER: The surplus ratio exceeded the target of 5%, as well as the provincial median for the majority of the last ten years. The surplus funds will address capital replacement needs based on current replacement value (versus historic cost used to calculate amortization).



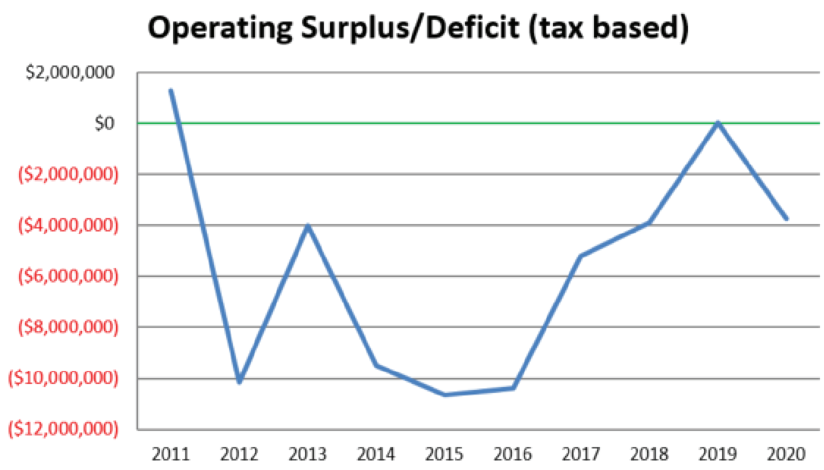


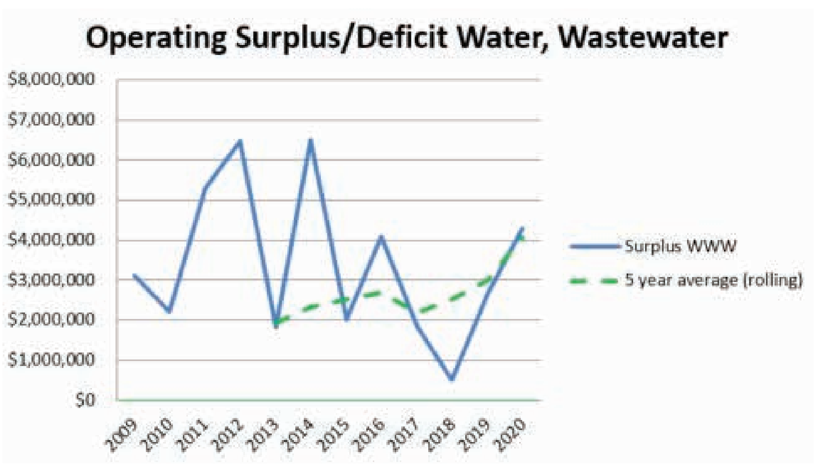
5. **OPERATING SURPLUS/DEFICIT** provides perspective on how much of the city's own sources of revenue remain after normal operating expenses (including amortization) that could be used to fund reserves, pay down debt and invest in capital projects. This indicates if the city is setting aside enough money for the long-term. If the measure is below zero, the city is not setting aside enough money to fund the annual amortization expense, included in this measure on a historical cost basis. Amortization cost is based on historic cost of assets, and not replacement cost, and do not reflect the true cost of replacing tangible capital assets.

   TARGET: The measure should be at least above zero (in a surplus).

   ACTUAL RESULTS, TAX BASED: The city had an operating deficit the majority of the last 10 years. This indicates that the city is currently not able to cover the cost of annual amortization from its own funds, which is a major contributing factor to the infrastructure deficit. Since municipalities traditionally have not budgeted for amortization but instead budget for capital reserve contributions, this is common issue for municipalities.

ACTUAL RESULTS, WATER/WASTEWATER: There was an operating surplus for each of the last ten years. The surplus funds will address capital replacement needs based on current replacement value (versus historic cost used to calculate amortization).

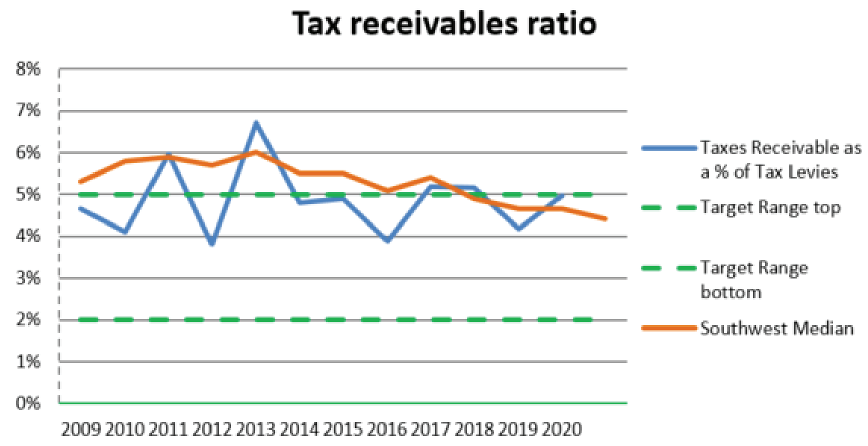




6. **TAX RECEIVABLES RATIO.** Uncollected property taxes as a percentage of total taxes charged is a strong indication of the strength of the local economy and the ability of the community to pay their annual tax billings.

   TARGET: The target range is between 2% and 5%.

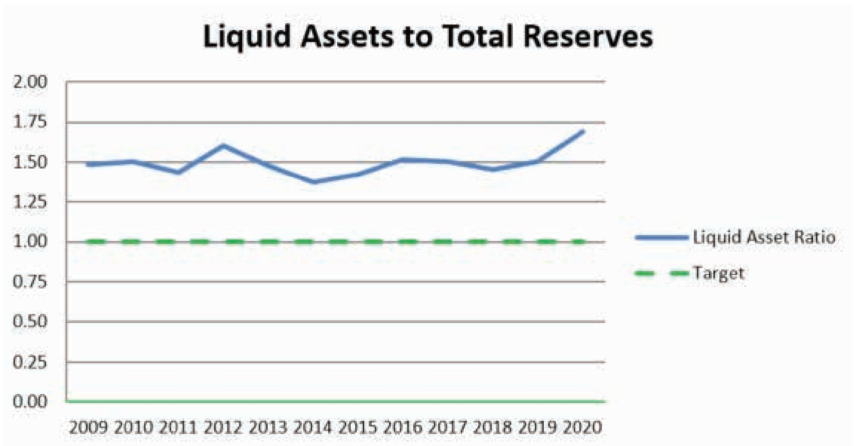
   ACTUAL RESULTS: The city is in the top end of the target range. The city has limited risk in not collecting tax receivables outstanding since tax debt has priority lien on the property.



7. **LIQUID ASSETS TO TOTAL RESERVES.** Reserves are a critical component of the city's long-term sustainability. Reserves should be liquid and available for use when required. This ratio compares cash and investment balances to the balance in all reserves (including reserve funds and obligatory reserves).

   TARGET: The ratio should be higher than one, which would indicate that reserve balances are available when required.

   ACTUAL RESULTS: The city has met its target for each of the last ten years, which indicates proper management of cash and investment levels.



ECONOMIC GROWTH

Waterloo offers a high quality of life, strong tradition of industry, entrepreneurship and is internationally recognized in the fields of research, science, technology and innovation.

Economic development is one of the city's six pillars guiding Waterloo's strategic plan. As the city has reached its boundaries, the city relies on in-fill intensification for much of its assessment growth. The city has experienced steady overall economic growth, however, non-residential growth is slower than residential growth. This is likely an impact of the LRT project and development of multi residential buildings along the LRT route. However, this trend improved in the last two years. Council had made Economic Development a top priority and staff and Council have increased the focus and resources spent in this area.

	2020 RESULTS	2019 RESULTS
Assessment growth of tax base	POSITIVE	POSITIVE
Non-residential portion of tax base (assessment)	POSITIVE	POSITIVE
Non-residential % of taxes (levies) collected	POSITIVE	POSITIVE

LEGEND

- POSITIVE: indicates to stay the course
- CAUTION: multi-year trend is deteriorating
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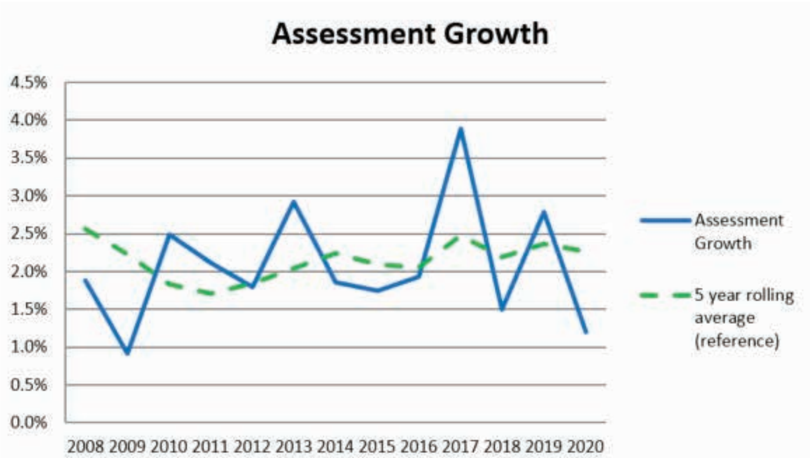
DASHBOARD FACTS

1. **ASSESSMENT GROWTH** is a measure of the economic health of the municipality, and a source of additional tax revenue that also indicates additional pressures on expenditures (operating and capital).

   TARGET: There is no specific target, but the city should monitor the trend over time.

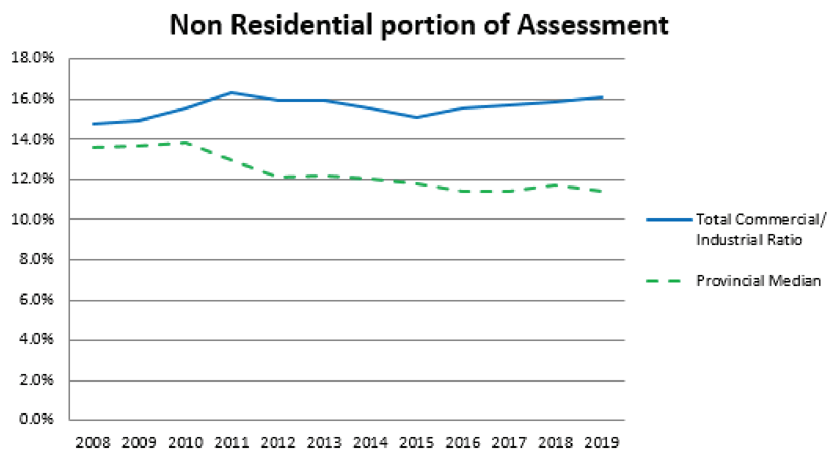
   ACTUAL RESULTS: As the city has reached its boundaries, assessment growth has slowed from single detached homes in subdivisions and is now reliant on in-filling projects. There was a large increase in assessment growth in 2017 from large multi residential buildings and staff's proactive management of assessment. In 2020 the 5 year rolling average for growth was 2.26%.



2. **NON-RESIDENTIAL PORTION OF TAX BASE (ASSESSMENT)** shows the composition of unweighted assessment over time. It indicates what percentage of assessment comes from the commercial and industrial component, which should grow proportionately over time.

   TARGET: The commercial and industrial component should grow proportionately over time.

   ACTUAL RESULTS: This ratio has improved steadily, reversing a deteriorating trend, as the growth in the commercial and industrial tax base exceeded growth in the residential and multi-residential tax base. Assessment results are based on prior years data.

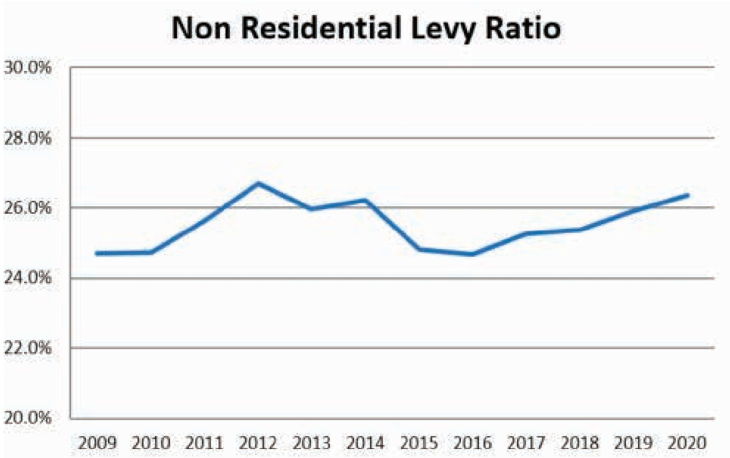


3. **NON-RESIDENTIAL PERCENTAGE OF TAXES (LEVIES) COLLECTED** shows the composition of levies collected over time. It indicates what percentage of levies comes from the commercial and industrial component and is an indicator of economic growth.

TARGET: The commercial and industrial component should grow proportionately over time.

ACTUAL RESULTS: This ratio has improved, reversing a deteriorating trend, as the growth in the commercial and industrial tax base exceeded growth in the residential and multi-residential tax base.

Council has made economic development a top priority and staff and council have increased the focus and resources spent in this area.



RESERVE LEVELS/ASSETS

Reserves are a critical component of a municipality's long-term financial plan.

Reserve funds provide stability to tax rates in the face of variable factors, provide funding for one-time expenses, make provisions for the replacement and/or acquisition of infrastructure and provide flexibility to manage debt levels to protect the municipality's financial position.

Reserve levels decreased in 2017 and 2020 due to funding large infrastructure projects. While the long term trend has been positive for the tax base, reserves potentially are not sufficient to replace tangible capital assets on a timely basis. This is contributing to the infrastructure deficit. Reserve levels on the water/wastewater side rate more favourably. However, the asset consumption ratio is deteriorating for both, indicating again, that assets are not replaced or maintained to extend their useful life on a timely basis. The long-term asset management plan provides recommendations for long-term funding for the capital budget.

	2020 RESULTS	2019 RESULTS
Tax-based reserves and reserve funds		
Operating reserves ratio to revenues	POSITIVE	POSITIVE
Discretionary reserves as a ratio of revenue	CAUTION	CAUTION
Capital reserve contributions as a ratio to capital assets value	POSITIVE	POSITIVE
Capital reserve contributions as % of amortization	POSITIVE	POSITIVE
Asset Consumption	POSITIVE	NEGATIVE
Enterprise reserve and reserve funds		
Capital reserve contribution as a ratio to capital asset value	POSITIVE	POSITIVE
Capital reserve contribution as % of amortization	POSITIVE	POSITIVE
Asset consumption	NEGATIVE	NEGATIVE

LEGEND

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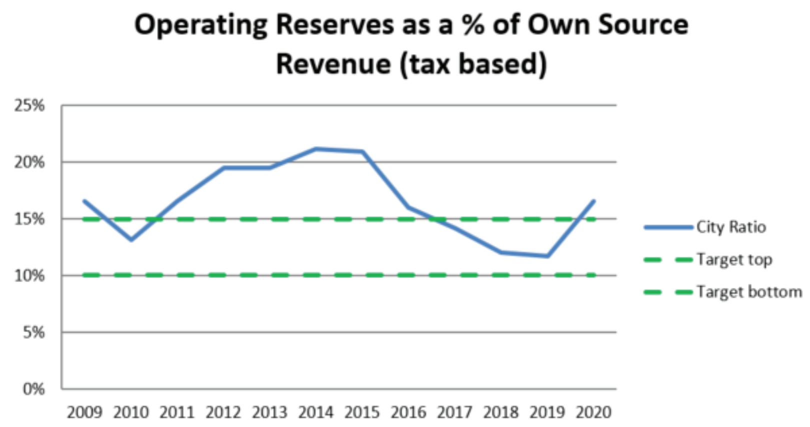
DASHBOARD FACTS

1. **OPERATING RESERVES RATIO TO REVENUES (TAX BASED)** is an indicator that analyzes the total tax-based reserves by focusing specifically on the stabilization and contingency reserves compared to revenues.

   TARGET: The benchmark is 10-15%, which would allow the city some flexibility to have contingency funds for unforeseen circumstances..

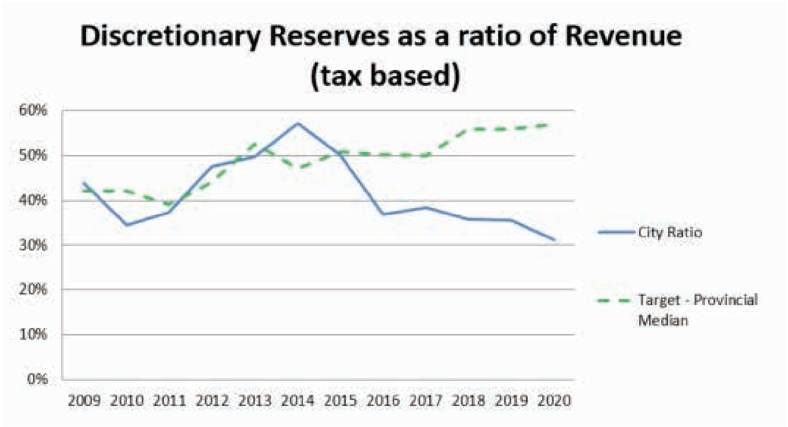
   ACTUAL RESULTS: The city has met or exceeded this benchmark in each of the previous ten years.



2. **RESERVES AS A RATIO OF REVENUE (TAX BASED)** Discretionary reserves provide sources of funding in the face of variable and uncontrollable factors and allow municipalities to set aside funds for future capital requirements.

   TARGET: The goal is to be above the provincial median.

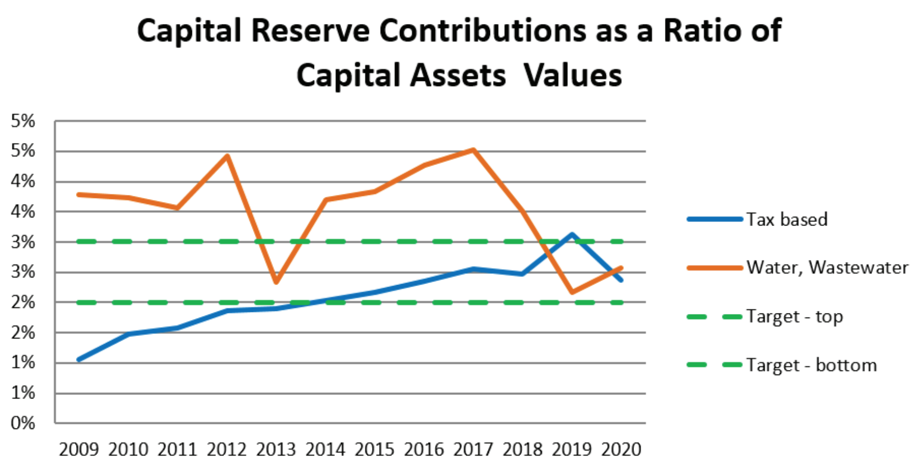
   ACTUAL RESULTS: The city has been below the provincial median for the last five years. The decrease in this ratio is due to investments in Capital Assets.



3. **CAPITAL RESERVE CONTRIBUTIONS AS A RATIO TO CAPITAL ASSET** value is a ratio that provides insight on the level of reserve funding for future capital purposes compared to the gross book value (historic cost) of capital assets. Cities need to set aside sufficient funds to replace assets as required and to spread out the cost over many years in order to prevent sudden increases in taxes. The city also requires contingency funds for unforeseen expenses.

   TARGET: The target should be to set aside annually in capital reserves between 2-3% of the historic gross book value.

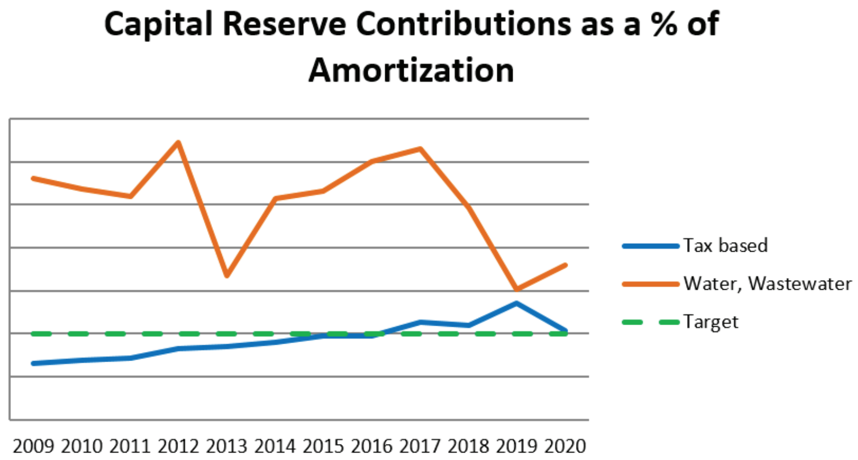
   ACTUAL RESULTS: The city has met that goal for water and wastewater. The ratio for tax-funded assets has been improving. (Around 80% of internal capital contributions and government grants are used to fund rehabilitation projects. Therefore, the ratio is likely somewhat overstated.) The cumulative shortfall over the years impacts the city's infrastructure deficit. (An accounting change in 2019 now allows us to track the reserve contributions for water/wastewater more accurately, this resulted in a drop in the ratio.)



4. **CAPITAL RESERVE CONTRIBUTIONS AS % OF AMORTIZATION** provides insight on the level of reserve funding for future capital purposes compared to the total amortization in the current year. Cities need to set aside sufficient funds to replace assets as required and to spread out the cost over many years in order to prevent sudden increases in taxes. The city also requires contingency funds for unforeseen expenses.

   TARGET: The target should be to set aside at least as much as the annual amortization amount in contributions to capital reserves. Ideally, the amount set should be higher than that, since amortization is based on historic cost and assets need to be replaced at current cost (and the city has a lot of long lived assets such as underground pipes.)

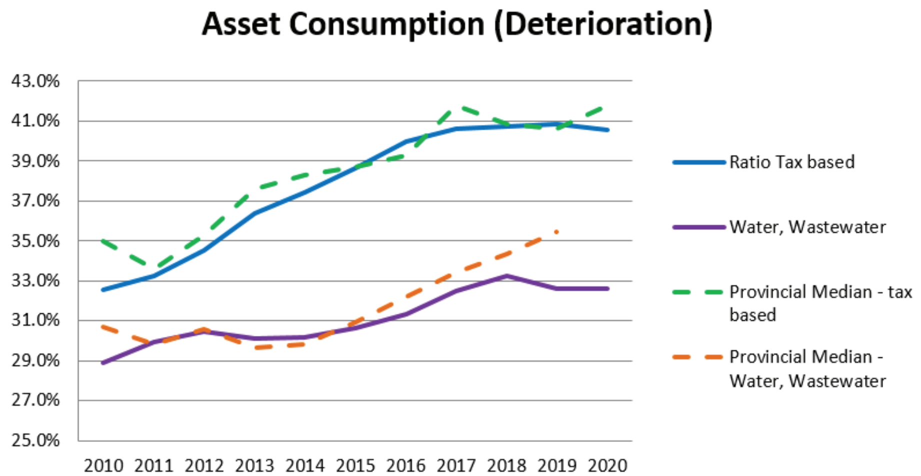
   ACTUAL RESULTS: On the water and wastewater side, the city has been able to achieve this goal, however, on the tax rate side, the city's contributions to capital reserves fell significantly short of the annual amortization amount for eight out of the last twelve years, with the ratio improving over time and now meeting target. (Around 80% of internal capital contributions and government grants are used to fund rehabilitation projects. Therefore, the ratio is likely somewhat overstated.) The cumulative shortfall over the years impacts the city's infrastructure deficit. (An accounting change in 2019 now allows us to track the reserve contributions for water/wastewater more accurately, this resulted in a drop in the ratio.)



5. **ASSET CONSUMPTION** shows the write-down value of tangible capital assets to their historical cost (amortization as a % of net book value). This ratio seeks to highlight the aged condition of assets and potential asset replacement needs.

   TARGET: This ratio should stay consistent or improve over time, which would mean that new assets are created and/or assets are replaced at a quicker pace than existing assets are amortizing.

   ACTUAL RESULTS: Asset consumption for the tax base is around the provincial median in 2020. The ratio for water/wastewater is slightly better than our comparator group. Our ratio has been stabilizing for both the tax base and water/wastewater due to significant investment in tangible capital assets.



DEBT

There are several ratios to assess the level of debt and the financial impact on the city.

Our debt to reserves ratio is above the target level and our debt interest as a percentage of "own source revenue" is much higher than our provincial comparator groups. The city ranks well for water/wastewater debt compared to the provincial median. The overall trend for tax-funded debt is improving since the city has shown discipline in minimizing additional debt issues, but it needs to stay the course.

The city plans to continue fiscal discipline. As a result, the 2020 approved ten-year capital budget includes no new tax-funded debt.

	2020 RESULTS	2019 RESULTS
Debt to total reserves		
Tax-based	CAUTION	CAUTION
Enterprise (water, wastewater)	POSITIVE	POSITIVE
Debt per capita	NEGATIVE	NEGATIVE
Debt interest as a ratio of revenues		
Tax-based	NEGATIVE	NEGATIVE
Enterprise (water, wastewater)	POSITIVE	POSITIVE

LEGEND

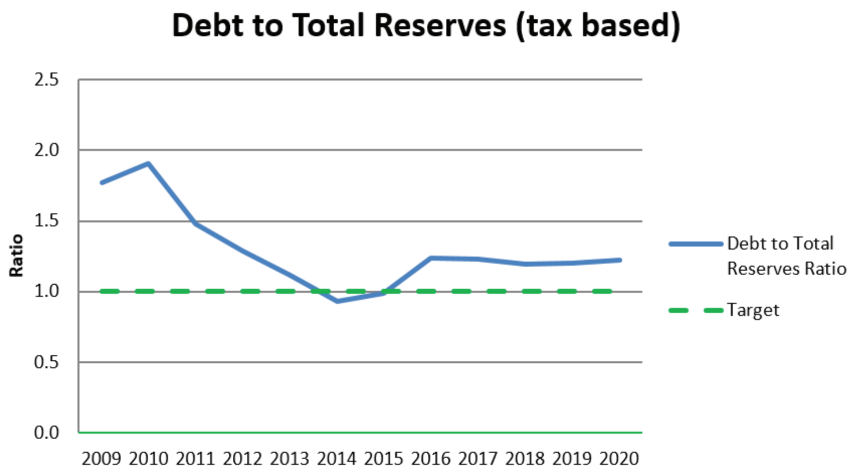
- POSITIVE: indicates to stay the course
- CAUTION: multi-year trend is deteriorating
- NEGATIVE: below target for several consecutive years, requires continuation of previous attention or that corrective action is now necessary

DASHBOARD FACTS

1. **DEBT TO TOTAL RESERVES** provides a measure for financial prudence by comparing total debt to the total reserve balances. Debt funded by obligatory reserves (such as development-charges funded debt) and obligatory reserve balances are excluded from this calculation.

   TARGET: The ratio should be less than one, which means that debt outstanding, should not exceed reserve balances.

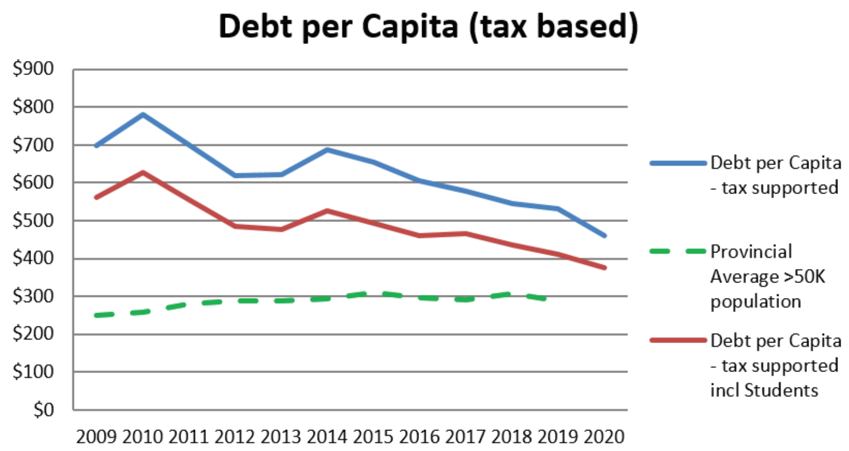
   ACTUAL RESULTS: The ratio deteriorated since new debt was issued in 2017 and 2018 that will be funded through the storm water rate (which is included under tax based debt in order to be comparable to other municipalities). Additionally, the annual debt repayment is factored into our base budget. There is no water/wastewater debt outstanding.



2. **DEBT OUTSTANDING PER CAPITA** shows total tax funded debt per capita and is a useful trending tool.

   TARGET: The trend should be decreasing over time as existing debt is paid off and the population grows. New debt issued should be less than existing debt that is paid off and should not exceed the rate of population growth. The city should not exceed its provincial comparator group in the long term.

   ACTUAL RESULTS: This debt per capita has been consistently improving throughout the years. Due to existing debt, the city exceeds the provincial average for municipalities with over 50,000 people. As a result, the city needs to continue minimizing new debt issues.



3. **DEBT INTEREST AS A RATIO OF REVENUE** indicates the extent to which the city's own source revenues are committed to debt charges and again is a useful tool when comparing to other municipalities.

   TARGET: The city should compare favourably to the provincial median.

   ACTUAL RESULTS TAX BASED: The city's ten-year trend is improving since the city has been diligent to minimize issuing new debt, but due to material long-term debt that the city carries at a high interest rate, it continues to materially exceed the provincial median.

   ACTUAL RESULTS WATER/WASTEWATER: There currently is no debt outstanding.

   The 2020 approved ten-year capital budget includes no new tax funded debt.