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Financial Condition Index Report 2020

Audit & Finance Standing Committee
October 19, 20222

Overview

- Financial Condition Index (FCI) began in 2002 as a joint project between:
  - Province of NS
  - Nova Scotia Federation of Municipalities (NSFM)
  - Association of Municipal Administrators Nova Scotia (AMANS)

- Key priority was the development of a monitoring system to:
  - Evaluate the fiscal health of municipalities
  - Understand the short-term risks (if any) associated with a municipality's financial framework/fundamentals

- 13 Indicators were assessed and included measures of net financial position (balance sheet approach), annual cash flow, reserve balances, debt costs, and budget accuracy.

- Municipalities submitted financial information returns along with audited financial statements to Municipal Affairs.

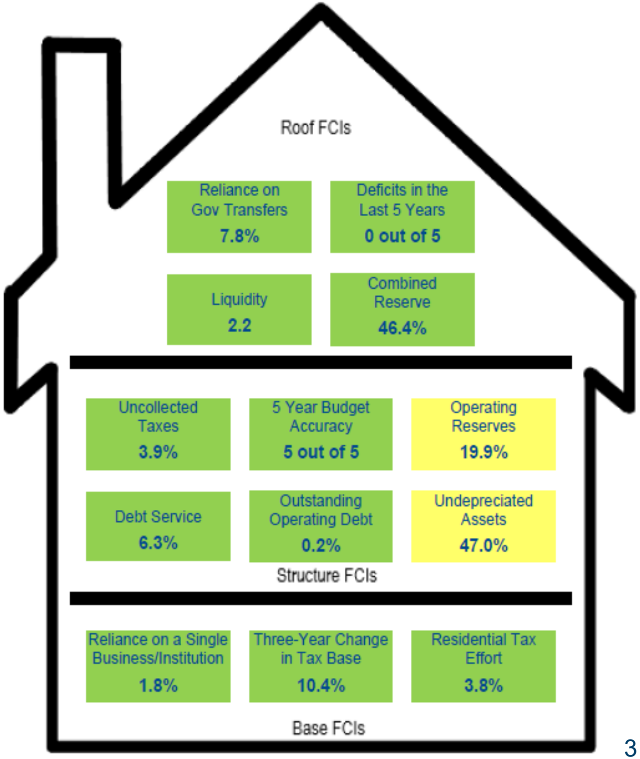
Summary of FCI Indicators

- HRM's indicators have indicated a healthy fiscal position since 2012.
- Demographic trends in HRM have strengthened noticeably.
- Overall FCI assessment for HRM is green, considered low risk for fiscal instability.
  - 11 of 13 Indicators are low risk (green)
  - 2 of 13 Indicators are moderate risk (yellow)

Indicator	Risk (Low, Medium, High)
Deficits in the Last 5 Years	Low
Liquidity	Low
Reliance on Government Transfers	Low
Combined Reserve	Low
Uncollected Taxes	Low
5 Year Budget Accuracy	Low
Operating Reserves	Medium
Debt Service	Low
Outstanding Operating Debt	Low
Undepreciated Assets	Medium
Reliance on a Single Business/Institution	Low
Three-Year Change in Tax Base	Low
Residential Tax Effort	Low

FCI Highlights 2020-21

- HRM scored well on **tax effort, debt servicing levels, liquidity, and budget accuracy.**
- Low risk scores indicate sound fiscal policy, strong liquidity, and broad tax base.
- HRM's financial management practices are comparatively sound.



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Two Moderate Risk Indicators

Undepreciated Assets:

- Estimates that the Municipality's capital assets have over 47% of their useful life remaining; may indicate growing deferred maintenance on existing assets. HRM is actively addressing through increasing capital budget capacity resources (financial and staff); staff view this risk as manageable in the medium term.

Operating Reserve:

- HRM is currently at 19.9%, considered medium risk; low risk is above 20%. This indicator measures the level of operating reserve resources relative to total expenditures. Staff view operating reserve balances as appropriate given current operating commitments.

Two-Year Comparison of FCI

BASE	2020-21	2019-20	+/-
3-year Change in Tax Base	10.4%	8.9%	1.5%
Reliance on a Single Business or Institution	1.8%	1.7%	0.1%
Residential Tax Effort	3.8%	3.7%	0.1%
STRUCTURE			
Uncollected Taxes	3.9%	3.9%	0.0%
5 Year Budget Accuracy	5/5	5/5	0
Operating Reserves	19.9%	11.0%	8.9%
Debt Service	6.3%	5.7%	0.6%
Outstanding Operating Debt	0.2%	0.2%	0.0%
Undepreciated Assets	47.0%	48.4%	-1.4%
ROOF			
Deficits in the Last 5 Years	0/5	0/5	0
Liquidity	2.2	1.6	0.6
Reliance on Government Transfers	7.8%	1.4%	6.4%
Combined Reserve	46.4%	34.0%	12.4%

* For 3-year Change in Tax Base, CPI % change for 2020-21 is 6.7% and for 2019-20 is 3.2%

Conclusions

FCIs are one methodology to understand HRM's fiscal health **relative to other NS municipalities:**

- A deeper analysis would involve a **formal credit rating** from S&P, Moody's etc. However, HRM issues debt through NS Finance, not through our own capital markets group.
- HRM is in sound fiscal health and has a relatively wide tax-base.
- **Prioritizing** expenditures and reserve commitments into the future will be key to ensuring reserve balances are **appropriate.**