

## Financial Indicators – Reference Material – (BMA Study)

### Net Financial Position Indicators:

*Financial position* is a key indicator of a municipality's financial health. Two key financial position indicators have been included to illustrate a municipality's financial position. The net financial position is a broader measure of a municipality's indebtedness than debenture debt as it includes all of a municipality's financial assets and liabilities.

*Net Financial Liabilities Ratio* is the total liabilities minus assets as a percentage of own source revenues. This ratio indicates the extent to which financial liabilities could be met by its operating revenue. A ratio greater than zero indicates that total liabilities exceed the total assets, while a ratio less than zero indicates that total assets exceed the total liabilities.

*Formula* - Schedule 70 in the Financial Information Return is used in these calculations of Financial Position as well as Own Source Revenues which is taken from Schedule 81.

$$\text{Net Position per Capita} = \frac{\text{Net Financial Position}}{\text{Population}} = \frac{\text{FIR Schedule 70 line 9945}}{\text{Manifold Data Mining Population}}$$

$$\text{Net Financial Liabilities Ratio} = \frac{\text{Net Financial Position}}{\text{Own Source Revenue}} = \frac{\text{FIR Schedule 70 line 9945}}{\text{FIR Schedule 81 line 2610}}$$

*Target* - There is no optimal number or range for these indicators, as it varies according to a municipality's financial position.

### Debt Indicators:

#### Tax Debt Interest as % of Own Source Revenues

This ratio indicates the extent to which the municipality's own source revenues are committed to debt interest charges. This is calculated using Schedule 40 of the Financial Information Returns and the Own Source Revenues in Schedule 81 less Water/WW revenues in Schedule 12 and Schedule 22D.

Formula

$$\frac{\text{Tax Debt Int.}}{\text{Own Source Rev.}} = \frac{\text{FIR Sch 40 col 2 lines(9910 - 0811 - 0812 - 0831 - 0832)}}{\text{FIR Sch 81 line 2610 - Sch 12 col 3 + 4 lines(0811 + 0812 + 0831 + 0832) - Sch 22D lines(8010 + 8015)}}$$

**Debt Charges as a % of Own Source Revenues (Debt Service Ratio)**

Debt Service is the amount of principal and interest that a municipality must pay each year to service the debt (principal and interest expenses). As debt service increases it reduces expenditure flexibility. This shows the % of total debt expenditures, including interest as a % of own source revenue. It is a measure of the municipality's ability to service its debt payments. Schedule 74C has been used for the total debt charges (line 3099) and the tax debt charges (line 3012).

Formula

$$\frac{\text{Total Debt Principal + Interest}}{\text{Total Own Source Revenues}} = \frac{\text{FIR Schedule 74C col 1 + 2 line 3099}}{\text{FIR Schedule 81 line 2610}}$$

*Target* - Credit rating agencies consider that principal and interest should be below 10% of Own Source Revenues.

*Interpretations* - This indicator will trigger a warning if the increase in debt service consistently exceeds the increase in own source revenues.

**Debt Outstanding per Capita**

This provides the debt outstanding divided per population.

Formula

$$\frac{\text{Total Debt Outstanding}}{\text{Population}} = \frac{\text{FIR Schedule 74A line 9930}}{\text{Manifold Data Mining Population}}$$

### **Debt Outstanding Per Own Source Revenues**

This provides the debt outstanding as reflected on Schedule 74A divided by the municipality's own source revenues as reflected in Schedule 81.

*Formula*

$$\frac{\text{Total Debt Outstanding}}{\text{Own Source Revenue}} = \frac{\text{FIR Schedule 74A line 9930}}{\text{FIR Schedule 81 line 2610}}$$

### **Debt to Reserve Ratio**

*Formula*

$$\frac{\text{Debt Outstanding}}{\text{Res. and Reserve Funds (excl Oblig. Reserve Funds)}} = \frac{\text{FIR Schedule 74A line 9930}}{\text{FIR Schedule 60 col 2 + 3 line 9930}}$$

### **Debt Outstanding as a % of Unweighted Assessment**

This provides the debt outstanding as reflected on Schedule 74A divided by the municipality's unweighted assessment as reflected in Municipality's by-laws.

*Formula*

$$\frac{\text{Total Debt Outstanding}}{\text{Unweighted Assessment}} = \frac{\text{FIR Schedule 74A line 9930}}{\text{Municipality's bylaws Assessment}}$$

*Target* - This indicator provides a measure for financial prudence by comparing total debt to the total reserve balances. Generally, the benchmark suggested by credit rating agencies for this ratio is 1:1 or in other words, debt should not exceed total reserve and reserve fund balances. A 1:1 ratio reflects that for every dollar of debt there is a dollar of reserves.