



CITY of MOOSE JAW

Peer Comparison of Key Ratios

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FOREWORD by JON BARTH - Vice President RBC Commercial Banking



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RBC values the opportunity to work with your business and play our small part in seeing you prosper. My strategy at RBC is to provide the best expertise and advice in our industry and the communities we serve. In commercial banking we strive to continually enhance the value we provide to you and your business. We hope you find this financial review and benchmark discussion useful. Please feel free to provide your Commercial Banking team with feedback on what you found helpful and what you'd like to know more about.

Thank-you for choosing RBC.

Your RBC Commercial Banking Team:



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Greg McIntyre has worked in the Financial Services Industry for nearly 16 years, the last 8 years in Commercial Banking. Greg's experience has made him one of our industry's best bankers to work on complex credit structures across a variety of sectors, notably: Retail, Agriculture, Construction, Oil & Gas, Transportation and Municipal Government.

Greg represents the bank in a variety of capacities such as a Director on the Board of the Saskatchewan Chamber of Commerce. He is the past President of the Moose Jaw & District Chamber of Commerce and has been involved in supporting a variety of community activities across Southern Saskatchewan.

At RBC Royal Bank, we are proud of the quality of our people and trust that Greg will provide you with the best advice and experience possible.

PURPOSE & DISCLOSURE:

The following discussion of your city and your peer's financial performance is based on historical numbers available to the public. The benchmarks reviewed and analysis performed in no way implies an approval for any financing scenario that may have been suggested or hypothesized. The ratios and benchmarks have been researched to compare against similar peers in your sector and industry, however are not guaranteed to be exact comparisons to the uniqueness of your City.

The City of Moose Jaw operates in a region with common economic exposures to the majority of the sample peers. However, to mute the potential impacts from varying geographic peers, I have focused on the key benchmark ratios that are significant and common to the public sector--regardless of the community's economic exposures. These Ratios are as follows:

- Operating Surplus to Operating Revenue
- Debt Burden
- Reserves to Operating Revenue

In conclusion, the content and discussion included in this report is sufficiently thorough and relevant to support a conversation about how your community has been operating relative to its peers and provide meaningful benchmark comparisons. I hope you'll be better able to satisfy the question, "How is my City doing?"

Sincerely,



Greg McIntyre

Senior Commercial Account Manager

OPERATING SURPLUS (DEFICIT) AS A % OF OPERATING REVENUE

One of the simplest concepts of managing a viable operation is that revenue should exceed expenses! Operating surplus funds drive a city's ability to: pay down debt, self-finance capital projects or simply add to reserves. Operating Deficits at times may be unavoidable and should be interpreted in conjunction with other metrics like Reserves as a % of Revenue. Likewise, one must make sure to adjust any extraordinary revenue or expense that may overstate or understate revenue and operating surplus (deficit). Anything above 10% of your annual Operating Revenue is considered strong and over 20% is considered very strong. (Note: a municipality with consistent deficits would be reliant on reserves. This trend may be a leading indicator of vulnerability.)

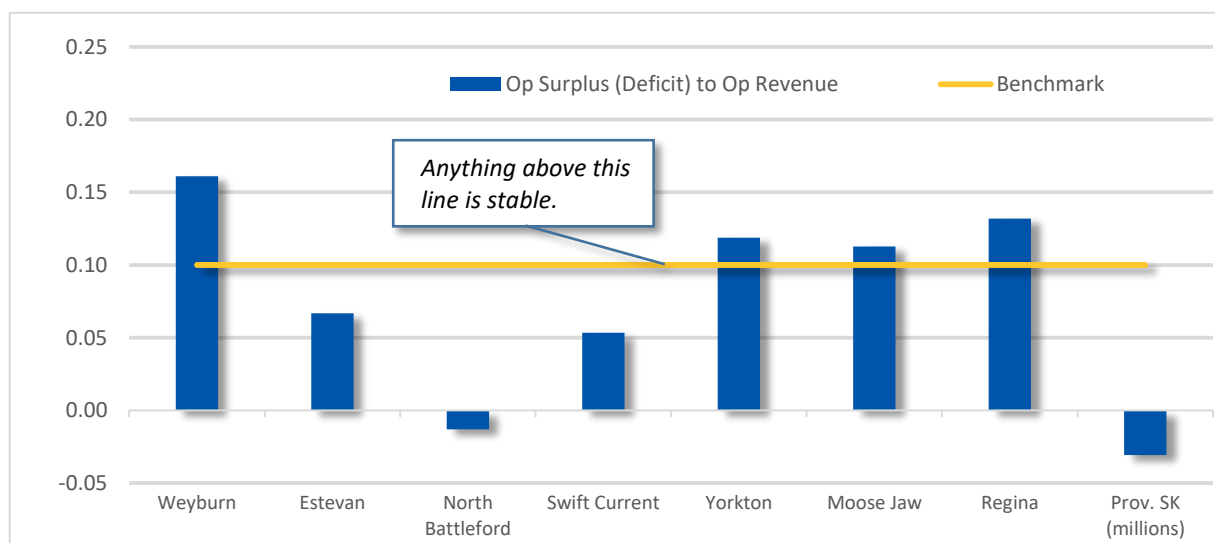
Calculated using the following formula:

$$\frac{\text{Operating Surplus (Deficit)}}{\text{Operating Revenue}} \times 100\% = \text{Operating Surplus (Deficit) as a \% Operating Revenue}$$

Note: The 2018 ratios below are considered accurate. However, budgeted adjustments to account for 2019 or 2020 financing intentions have not been included in ALL peer ratios.

Results:

	Weyburn	Estevan	North Battleford	Swift Current	Yorkton	Moose Jaw	Regina	Prov. SK (millions)
Population (Approx.)	10,679	11,258	13,567	16,022	16,041	32,724	214,631	1,174,000
Operating Surplus (Deficit)	\$ 4,595	\$ 2,213	\$ (513)	\$ 3,327	\$ 5,900	\$ 9,935	\$ 90,925	\$ (439)
Operating Revenue	\$ 28,544	\$ 33,169	\$ 39,670	\$ 62,179	\$ 49,676	\$ 88,108	\$ 689,976	\$ 14,278
Op Surplus (Deficit) to Op Revenue	16.1%	6.7%	-1.3%	5.4%	11.9%	11.3%	13.2%	-3.1%
Benchmark	10%	10%	10%	10%	10%	10%	10%	10%



ANALYSIS:

Operating Surplus (Deficit) as a % of Operating Revenue is tested using the following:

- 2018 Annual Financial Statement
 - Operating Revenues are adjusted to remove extraordinary items like Land Sales & Investment Revenue. Also adjusted to recognize Revenue from Prov / Fed Capital Grants to offset related expenses.
 - Operating Surplus (Deficit) becomes *adjusted* Operating Revenue less Operating Expenses.



- 2019 Annual Budget
 - The next year's annual budget is consulted for guidance on capital expenditure intentions for the next year and how much will be financed vs. supported by reserves.
 - *Note: I did not undertake any material adjustments from the 2019 nor Pending 2020 budget(s).*

DISCUSSION & SUGGESTIONS FOR IMPROVEMENT:

The City of Moose Jaw's Surplus to Operating Revenue is strong--and is likely to improve with changes made to reserve investments earlier in 2019. It's anticipated the additional interest revenue from these changes will further reduce pressures on Operating Surplus.

It is not always well understood that "Operating Surplus" doesn't mean "Left over money." Operating Surplus is what services principal repayment of loans and feeds some general reserves. When we consider the City of Moose Jaw's annual obligations, the Annual Surplus needs to still cover Principal. That means that if Expenses equalled Revenue that once debt was repaid, it would be considered a loss!

Likewise, if there was JUST enough surplus to cover the annual principal repayment obligations, there wouldn't be any extra surplus to cover the unexpected or fund general reserves. This means that one would be supplementing operations or renewing assets from saving / reserves.

For the above reasons, this is why this ratio is interpreted in conjunction with the Debt Burden Ratio & Reserves as a % of Operating Revenues. (See following ratios)

INTERESTING INSIGHTS FOR SURPLUS to OPERATING REVENUE

- The City of Moose Jaw has exceeded the 10% benchmark by more than \$1,024,000.00
- The City of Moose Jaw had \$4,476,000 Debt Service Surplus. (funds in excess of expenses and principal repayment)
- Amortization expense for 2018 was approximately \$12,751,000. This is typically a non-cash expense, but this helps a city to organize reserves to refresh capital assets / Infrastructure etc.
- Accumulated Amortization was \$214,000,000 in 2018. That is a close estimate of what it would cost to bring the City up to "Brand New" condition.

Debt Burden

A municipality's ability to repay its debt and associated interest is crucial to the longevity and stability of a community. The debt burden ratio is a measurement tool that reveals the portion of operating revenue required to service its annual financing obligations. This ratio's should be reviewed along side the annual surplus ratio and the Reserves to Operating Revenue Ratio. A higher ratio implies a greater ability to repay creditors with out putting undue burden to meet operating expenses. A Strong ratio is <15%. (Above 25% could indicate a municipality is vulnerable to economic shocks and distress)

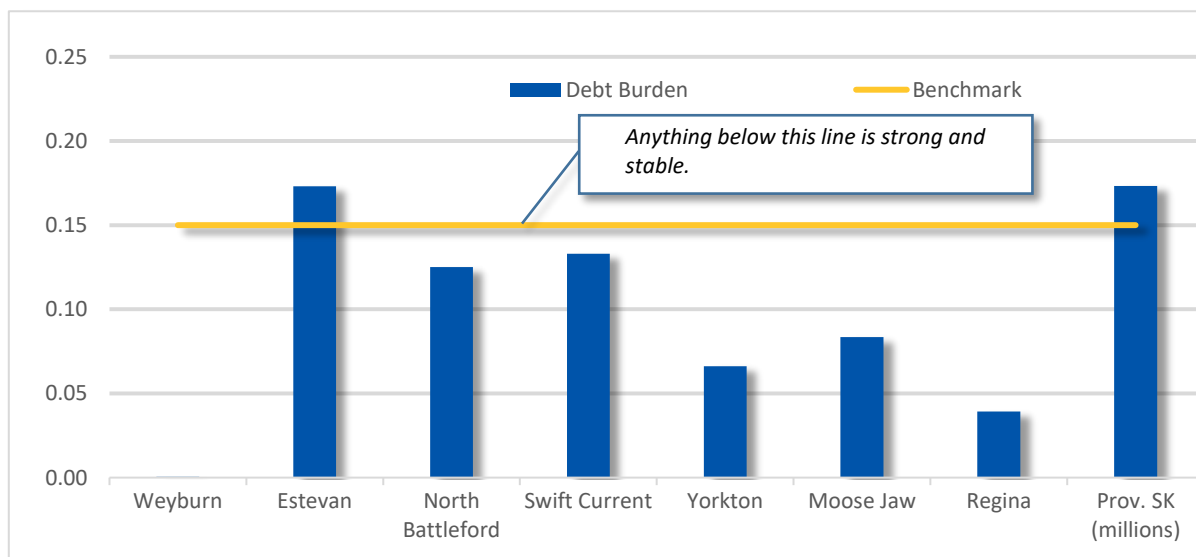
Calculated using the following formula:

$$\frac{\text{Principal} + \text{Interest} + \text{Lease Payments} + \text{Sinking Fund Obligations}}{\text{Operating Revenue}} = \text{Debt Burden}$$

Note: The 2018 ratios below are considered accurate. However, budgeted adjustments to account for 2019 or 2020 financing intentions have not been included in ALL peer ratios.

Results:

	Weyburn	Estevan	North Battleford	Swift Current	Yorkton	Moose Jaw	Regina	Prov. SK (millions)
Population (Approx)	10,679	11,258	13,567	16,022	16,041	32,724	214,631	1.174 Mil
Annual Debt Obligations	\$ 16	\$ 5,739	\$ 4,950	\$ 8,268	\$ 3,291	\$ 7,354	\$ 27,102	\$ 2,430
Operating Revenue	\$ 28,544	\$ 33,169	\$ 39,565	\$ 62,179	\$ 49,676	\$ 88,108	\$ 689,976	\$ 14,019
Debt Burden	0.1%	17.3%	12.5%	13.3%	6.6%	8.3%	3.9%	17.3%
Benchmark	15%	15%	15%	15%	15%	15%	15%	15%



ANALYSIS:

Debt Burden is tested using the following:

- 2018 Annual Financial Statement
 - Operating Funds are adjusted to remove extraordinary items like Land Sales & Investment Revenue.
- 2019 Annual Budget
 - The next year's annual budget is consulted to determine financing intentions for the next year.
 - The City of Moose Jaw's additional \$15,000,000 loan has been included in the above annual debt obligation.



DISCUSSION & SUGGESTIONS FOR IMPROVEMENT:

The City of Moose Jaw is comfortably under the Debt Burden Benchmark at 8.3% (including 2020 budgeted \$15MM loan over 15 years). This is very comfortable position to be in. It gives the city lots of excess capacity in the event of a financial shock.

The City of Moose Jaw has done very well to take advantage of some of the lowest borrowing rates available in a century.

While the rural communities across southern Saskatchewan have been suffering a recession for the last 24 months or more, the future outlook for Moose Jaw has remained stable.

Based on additional availability of surplus Debt Burden, the City of Moose Jaw may consider additional financing while rate remain low¹ vs. using reserve funds. Reserve funds may be more effectively deployed through investment vs. avoiding debt. There could be a time in the future where reserves are relied upon, if interest rates become a barrier to borrow.

CONSIDERATIONS FOR THE CITY OF MOOSE JAW:

- If we account for the 2010 Multiplex Interim Financing loan, being retired in June 2020, the Debt Burden is likely only 7.9%:
- The City of Moose Jaw would have to borrow approximately another \$75,000,000.00 over 15 years and current rates to find its Debt Burden at the <15% Benchmark.
- Conversely if the City's annual obligations were to remain constant, it would have to suffer a financial shock resulting in a 44% (\$39,000,000.00) drop in annual revenue to find its Debt Burden at the <15% Benchmark.

¹ Current borrowing rates on 15 year money is < 3.00% as of December 2019.

RBC is not expressing direction that you should attempt to alter your debt strategy nor increase taxes. This is simply an exercise in understanding Debt

Reserves as a % of Operating Revenue

Reserves or accumulated surplus funds provide a municipality some much needed ballast to be able to absorb economic shocks. These funds can help a community weather a regional recession or to be relied upon to fund capital projects when lending rates may be a barrier to borrow. It is important to manage the surplus to optimize the community's return on the funds until they need to be relied upon. Anything above 30% of your annual Operating Revenue is considered strong and over 50% is considered very strong. (Note: a municipality with less than a 10% ratio would potentially be vulnerable to economic shocks and may be on the verge of distress.)

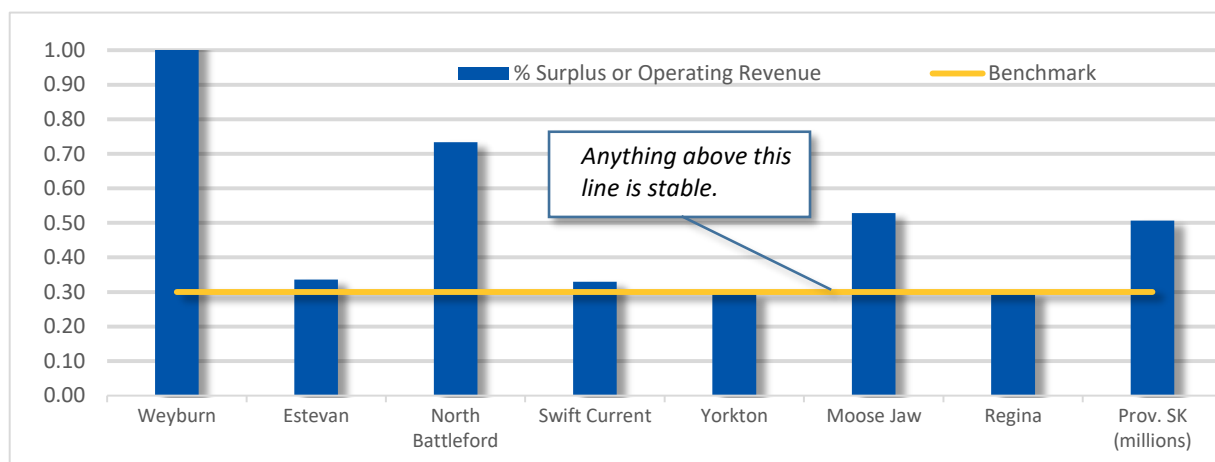
Calculated using the following formula:

$$\frac{\text{Unrestricted Surplus} + \text{Internally Restricted Surplus}}{\text{Operating Revenue}} \times 100\% = \text{Unrestricted Reserves as \% Operating Revenue}$$

Note: The 2018 ratios below are considered accurate. However, budgeted adjustments to account for 2019 or 2020 reliance on cash reserves have not been undertaken for all peer ratios.

Results:

	Weyburn	Estevan	North Battleford	Swift Current	Yorkton	Moose Jaw	Regina	Prov. SK (millions)
Population (Approx.)	10,679	11,258	13,567	16,022	16,041	32,724	214,631	1.174 Mil
Unrestricted Reserves	\$ 29,492	\$ 11,131	\$ 29,016	\$ 20,478	\$ 14,660	\$ 46,568	\$ 206,364	\$ 7,108
Operating Revenue	\$ 28,544	\$ 33,169	\$ 39,565	\$ 62,179	\$ 49,676	\$ 88,108	\$ 689,976	\$ 14,019
% Surplus or Operating Revenue	103.3%	33.6%	73.3%	32.9%	29.5%	52.9%	29.9%	50.7%
Benchmark	30%	30%	30%	30%	30%	30%	30%	30%



ANALYSIS:

Reserve Fund Balance as a % of Operating Revenue is tested using the following:

- 2018 Annual Financial Statement
 - Operating Funds are adjusted to remove extraordinary items like Land Sales & Investment Revenue.
 - Reserve Fund balance is often comprised of Unappropriated Surplus & Appropriate Reserves.
- 2019 Annual Budget
 - The next year's annual budget is consulted for guidance on capital expenditure intentions for the next year and how much will be financed vs. supported by reserves.
 - I did not adjust unrestricted reserves from the 2019 budget for the City of Moose Jaw.

DISCUSSION & SUGGESTIONS FOR IMPROVEMENT:

Southern Saskatchewan has been experiencing economic headwinds due to poor conditions in Agriculture and Energy. Currently the City of Moose Jaw has admirably managed to maintain their reserves above 50%. Should the duration of an economic downturn last too long we could anticipate a shrinking tax base and more pressure on surplus, exacerbated by an inability to replenish reserves. The City of Moose Jaw is very well positioned for this!

Over most of the last several years, returns on cash reserve funds were relatively minimal and interest revenue was limited. Over the last couple of years, prime lending rates have increased in response to a generally healthy national & global economic outlook; and the ability to access better returns on surplus are once again more attainable. The City of Moose Jaw has done some great work ensuring reserves are productively invested.

At the moment returns on surplus have increased while borrowing rates have remaining very attractive, the conditions are still favourable to borrow vs. using cash reserves¹.

INTERESTING INSIGHTS FOR SURPLUS to OPERATING REVENUE

- The City of Moose Jaw has exceeded the 30% benchmark by more than \$20,000,000.00
- At 10% Reserves to Operating Revenue, the City's reserves would have to be depleted by nearly \$38,000,000.
- Tax arrears can be leading indicator of pressures on Reserves.
2018: 1.87% (2017: 1.63%)
- Of course, the nature of this ratio needs to be kept in context with the i) *Debt Burden* and ii) *Operating Surplus (Deficit) to Operating Revenue* ratios. A declining Tax Base / Revenue could improve this measurement--while in fact the city's situation is deteriorating.

¹ Current borrowing rates on 15 year money is < 3.00% as of December 2019.

RBC is not expressing direction that you should attempt to alter your debt strategy nor increase taxes. This is simply an exercise in understanding Debt Burden.

CONCLUSION:

Aside from some yearly maintenance to review and rebalance strategy for reserves vs. financing, The City of Moose Jaw is in great shape! By taking advantage of the affordable borrowing rates and productively investing reserves, the citizen of Moose Jaw are competitively positioned to endure financial shocks. Better still the City of Moose Jaw has some surplus horse power to support future growth.

The city of Moose Jaw should continue to monitor the financial climate to determine opportunities to borrow at exceptionally low rates as weighed against productivity of invested surplus. Reserves can be very important in an event of economic headwinds with high interest rates, which may be a barrier to borrow.

The City of Moose Jaw is in above average condition with both its financial structure and its treatment of invested reserves. There are many cities that would love to have Moose Jaw's debt capacity and war chest of reserves. The future looks bright for this City!

Sincerely,



Greg McIntyre

Senior Commercial Account Manager

Other topics you may find interesting are:

- **RBC Group Advantage** – Provide Matching contribution pensions and employee banking benefits through RBC Group Advantage. Many of my other clients have enjoyed increased employee retention and loyalty-- even out of their seasonal employees.



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