Municipal Report

Town of Lunenburg

NOVA SCOTIA

Department of Municipal Affairs

Municipal Profile and
Financial Condition Indicators Results

2018

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1 – INTRODUCTION

The Department of Municipal Affairs, on behalf of the Nova Scotia Government and Association of Municipal Administrators of Nova Scotia (AMANS), compiles municipal indicators that focus on financial matters, administration of the municipality and characteristics of the community.

Prior to 2017, this information was structured into two separate reports – the Financial Condition Indicator and the Municipal Profile reports. This report brings together both sets of statistics (financial and demographic) to give an overall snapshot for each municipality.

You can use this report to:

- help community members better understand the municipality in which they live
- better understand the key characteristics about the municipality
- better understand financial risks, and
- help inform the decision-making process

For example

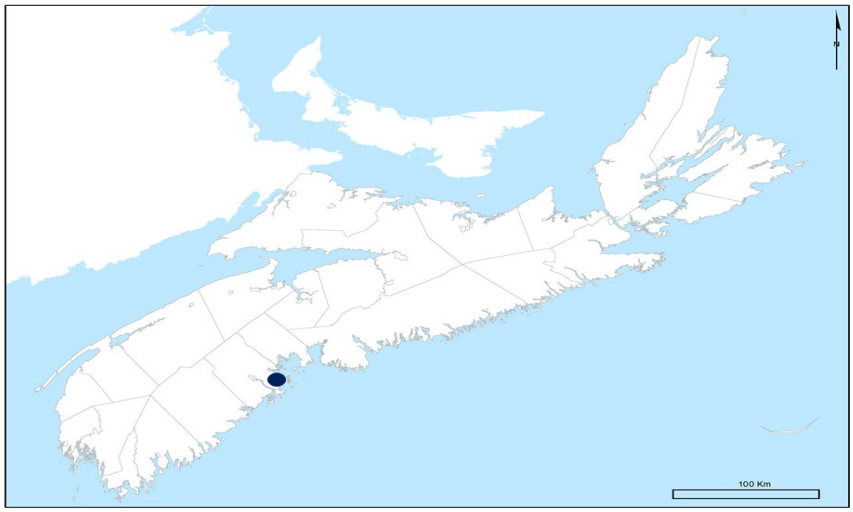
Council and Community members can:

- compare the Three-Year Change in Tax Base indicator to understand the municipality's revenue growth in comparison to cost of living, and
- use the change in population to understand whether their community's population is growing or declining and potential impact on municipal revenues and expenses.

2 – MUNICIPAL HIGHLIGHTS

2.1 General Information About the Municipality

The Town of Lunenburg ("the Municipality") is a town located in Lunenburg County. It is approximately 4km^2 with 1,296 dwellings.



2.2 Population Highlights

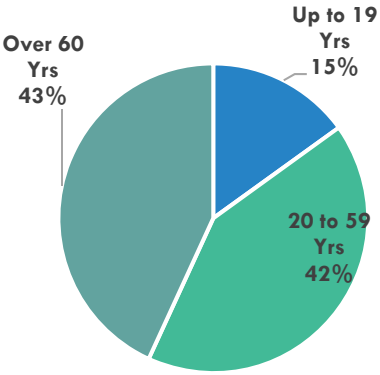
From 2011 to 2016, the population of Lunenburg County decreased by 0.4%. Similarly, the population of the Town of Lunenburg decreased by 2.3%. The Municipality's population is aging: currently, 42 % of residents are between 20 and 59 years of age.

2,260

Population

-2.3%

5 Year Change in Population

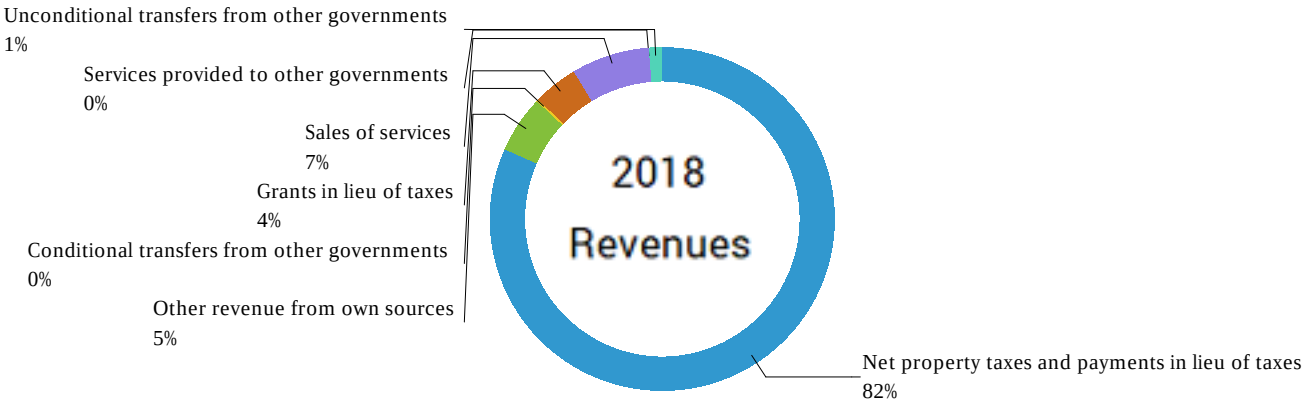


2.3 Financial Highlights

$5.5 M

2018 General Operating Budget

General Operating Revenue Sources per 2018 Financial Information Return [1]

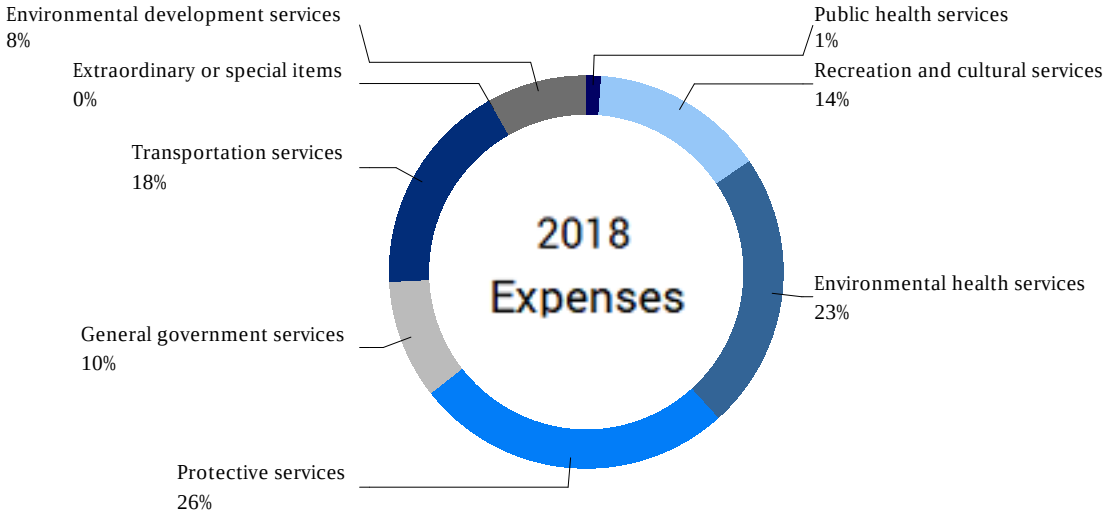


The total generating operating revenue for 2017-18 was $5.5 million. The Town of Lunenburg is self-financing, deriving most of their revenue from own source revenue instruments. As shown in the pie chart above, revenue sources for Lunenburg are comprised of:

- 4.5 million (82%) Net property taxes and payments in lieu of taxes
- 0.4 million (7%) Sales of services
- 0.3 million (5%) Other revenue from own sources
- 0.2 million (4%) Grants in lieu of taxes
- 0.1 million (1%) Unconditional transfers from other governments
- 0.0 million (0%) Conditional transfers from other governments
- 0.0 million (0%) Services provided to other governments

[1] Municipalities submit the Financial Information Return (FIR) to the Department of Municipal Affairs annually and this report contains financial information for the year ended March 31, 2018.

General Operating Expense Categories per 2018 Financial Information Return



The total generating operating expenses for 2017-18 was $4.8 million. As shown in the pie chart above, expenses for Lunenburg are comprised of:

- 1.3 million (26%) Protective services
- 1.1 million (23%) Environmental health services
- 0.8 million (18%) Transportation services
- 0.7 million (14%) Recreation and cultural services
- 0.5 million (10%) General government services
- 0.4 million (8%) Environmental development services
- 0.1 million (1%) Public health services
- 0.0 million (0%) Extraordinary or special items

2.4 Financial Condition Indicators

The Financial Condition Indicators (FCIs) were developed to help present a sense of municipal financial information by condensing multiple sources of information into a single 'House Format' graph. This visual focuses on key performance indicators, leading financial indicators and potential internal and external factors that could have an impact on a municipality's financial results. The House Model on the next page presents 13 indicators organized into three dimensions: base, structure and roof.

Each of a municipality's indicators is assessed against risk thresholds: low risk (green), moderate risk (yellow) and high risk (red). This provides a quick visual of a municipality's strengths and possible areas where a municipality may want to focus its attention.

The Town of Lunenburg has nine indicators assessed as low risk (well within the recommended threshold), two indicators assessed as moderate risk, and two indicators assessed as high risk.

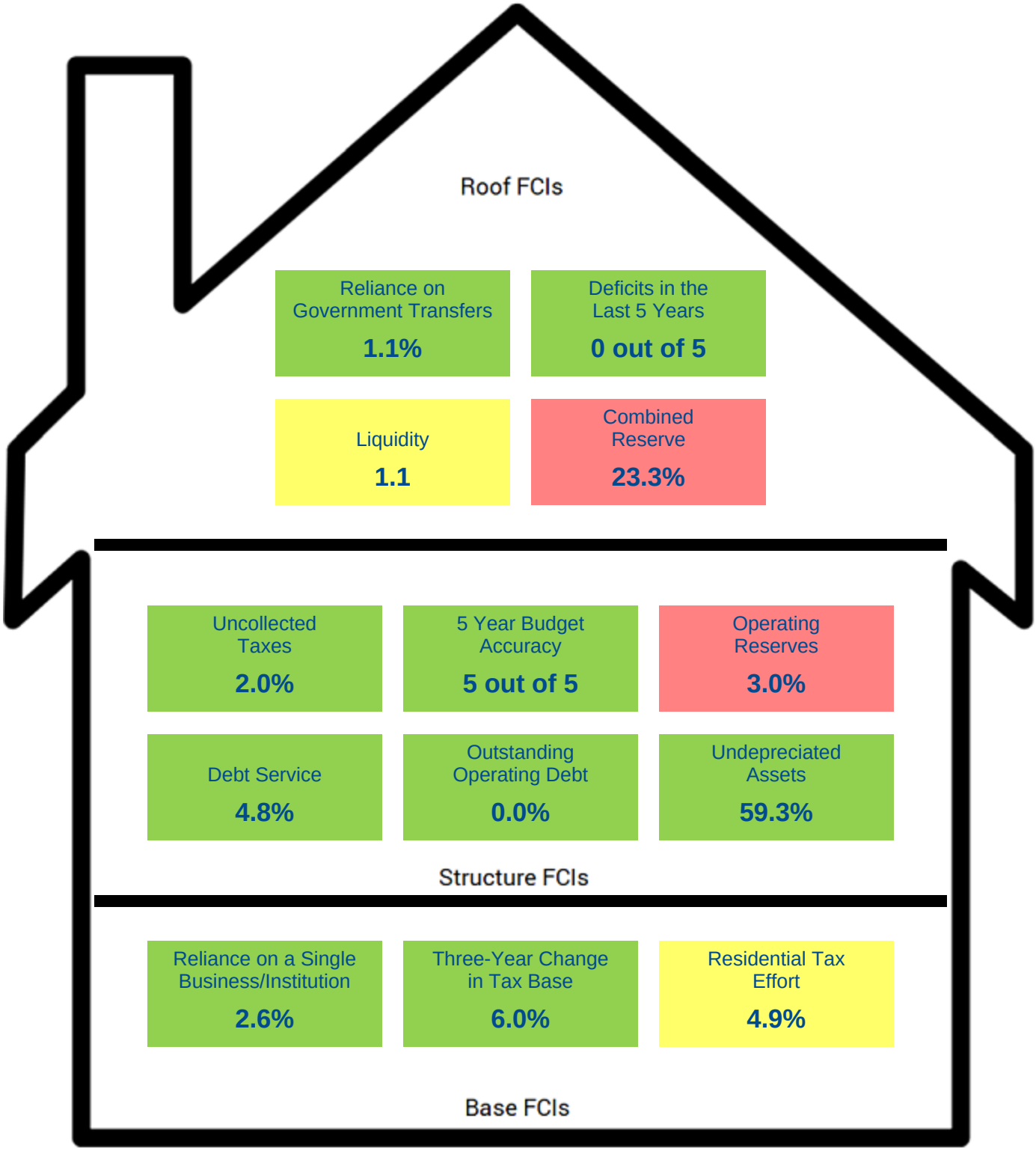
Reviewing the combined FCIs, the Department calculates an overall assessment for fiscal instability:

- High-risk (7 or less FCIs meets threshold)
- Moderate-risk (8-9 FCIs meets threshold)
- Low-risk (10-13 FCIs meets threshold)

The overall Financial Conditions Index assessment for the Town of Lunenburg is yellow (moderate risk). This means that the Municipality has a few challenges, and it is considered moderate risk for fiscal instability. Although, the Financial Condition Indicators are one tool, they serve as an early warning of potential risks and the need for additional inquiry and/or actions. It is important the Municipality assess their risks in relation to future actions and mitigating factors.

The following pages provide details on the individual FCI assessments and the Municipality's specific challenges. For more in-depth information on the FCIs, please refer to Section 5.

2.4.1 Financial Condition Indicators in House Format



2.4.2 Two-Year Comparison of Financial Condition Indicators

BASE	2018	2017	+/-	2018 Town Avg.
3-year Change in Tax Base	6.0%	6.6%	-0.6%	5.2%
Reliance on a Single Business or Institution	2.6%	2.7%	-0.1%	6.3%
Residential Tax Effort	4.9%	4.9%	0.0%	3.8%
STRUCTURE				
Uncollected Taxes	2.0%	6.9%	-5.0%	6.9%
5 Year Budget Accuracy	5/5	5/5	0	4.0/5
Operating Reserves	3.0%	6.2%	-3.2%	14.7%
Debt Service	4.8%	5.2%	-0.4%	7.1%
Outstanding Operating Debt	0.0%	0.0%	0.0%	2.5%
Undepreciated Assets	59.3%	54.5%	4.9%	53.1%
ROOF				
Deficits in the Last 5 Years	0/5	0/5	0	0.5/5
Liquidity	1.1	1.2	-0.1	2.3
Reliance on Government Transfers	1.1%	1.4%	-0.3%	9.7%
Combined Reserve	23.3%	32.5%	-9.2%	35.2%

3 – MUNICIPAL PROFILE INFORMATION

Municipalities are diverse and operate within unique demographic and economic characteristics. These characteristics have a significant impact on municipal performance and subsequent strategies required to ensure a sustainable environment. This chapter outlines the unique demographic and economic characteristics of the Municipality, specifically its composition, population trends, demographics, median household income levels, employment rates, and educational attainment.

3.1 Municipal Composition

Located in Lunenburg County, the Town of Lunenburg is a town[2] with seven elected councillors, including the Mayor.

In geographic area, the Municipality is approximately 4km^2 with 1,296 dwellings.

3.2 Population Trends

The Town of Lunenburg's population is 2,260, which makes up 0.3% of the provincial population. The graph below shows Lunenburg's 20-year trend compared to the provincial town average. The population of Lunenburg has been declining.

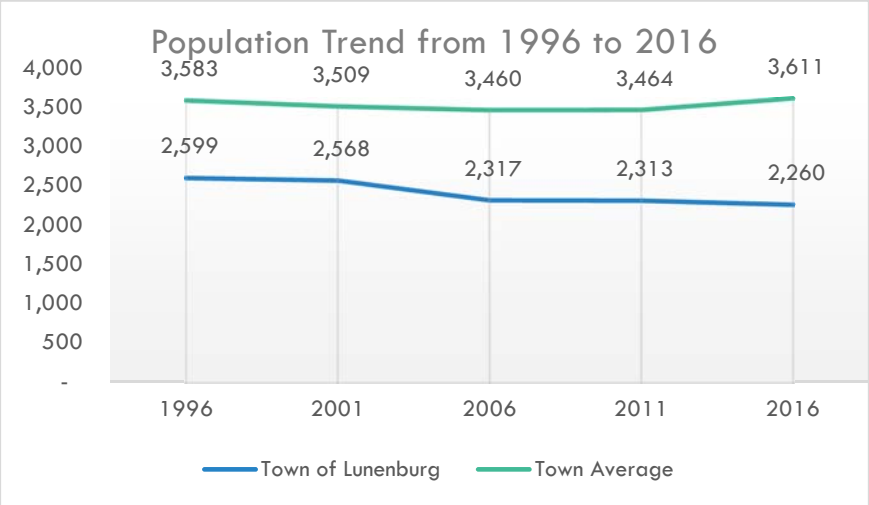


Figure 1 - Population from 1996-2016. Source: Statistics Canada.

[2] There are three categories of municipalities: regionals, towns and rurals. Rural municipalities are counties or districts.

Figure 2 shows Lunenburg's population is aging.

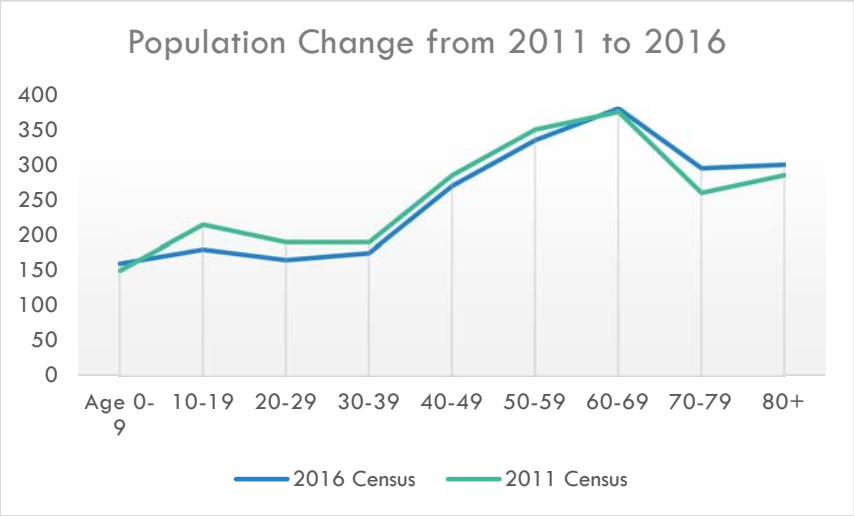


Figure 2 - Comparison of Population by Age for 2011 and 2016. Source: Statistics Canada.

According to the 2016 Census, the majority of Lunenburg's citizens are older than 50 years of age.

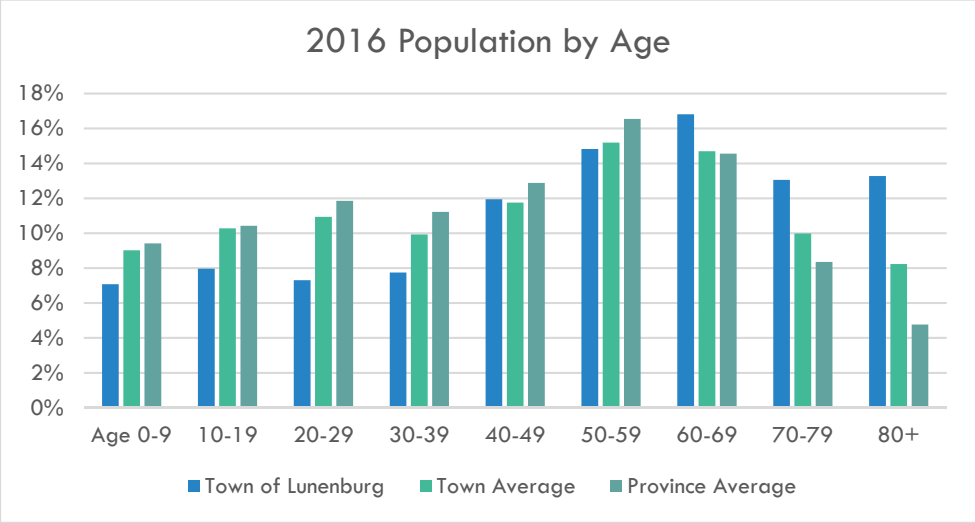


Figure 3 - 2016 Population by Age. Source: Statistics Canada.

These population trends could have impacts on the current and potential future tax base for the Town of Lunenburg, as 82% of Lunenburg's General Operating Revenue is derived from property taxes.

3.3 Economic Indicators

Along with population trends, it is important to understand employment rates and median household income. Education levels can also play a crucial role in economic and social progress and can help improve income distribution. These factors can provide an indication of the well-being of the economy and labour force.

	2016 Census	2011 Census	+/-	2016 Town Avg.
Median Household Income	$51,968	$39,529	$12,439	$48,934
Employment Rate	45.5%	50.8%	-5.3%	48.3%
Education Beyond High School	63.0%	62.6%	0.4%	52.0%

Source: 2011 and 2016 Statistics Canada Census

In a healthy economy, the unemployment rate is between 3% and 5%. The Town of Lunenburg's employment rate is below the provincial town average and it has declined since 2011

Lunenburg's education level is higher than the provincial town average and it has increased since 2011.

Lunenburg's median household income is higher than the provincial town average and has increased since 2011.

4 – FINANCIAL INFORMATION

4.1 Revenue

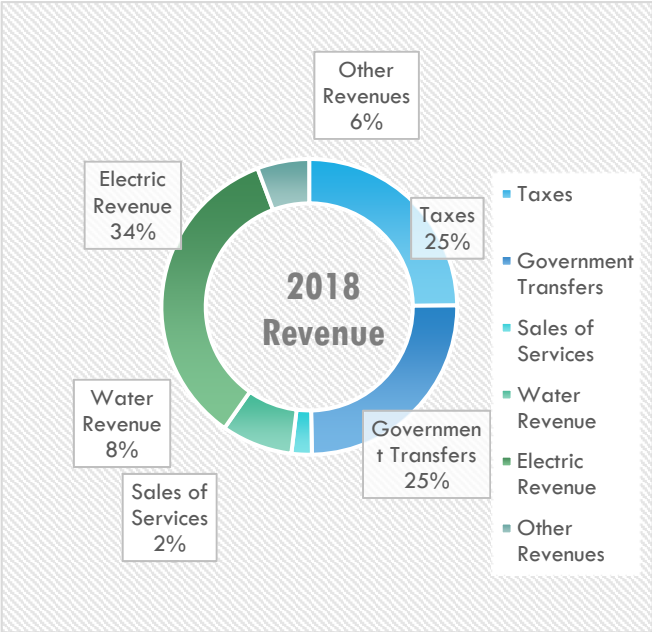
Audited financial statements are presented on a consolidated basis. Consolidated financial statements are comprised of all the individual funds managed by the municipality and any organization or enterprise the municipality owns or controls. Consolidated financial statements reflect all these entities as one single reporting entity.

The municipality's non-consolidated financial statements[3] present only the individual funds managed by the municipality such as the General Operating Fund, General Capital Fund, Water Operating Fund, Water Capital Fund, Non-operating Reserve Fund, and the Operating Reserve Fund.

As per the Consolidated Financial Statements of the Town of Lunenburg, the Municipality is accountable for the following entities, as well as general municipal operations:

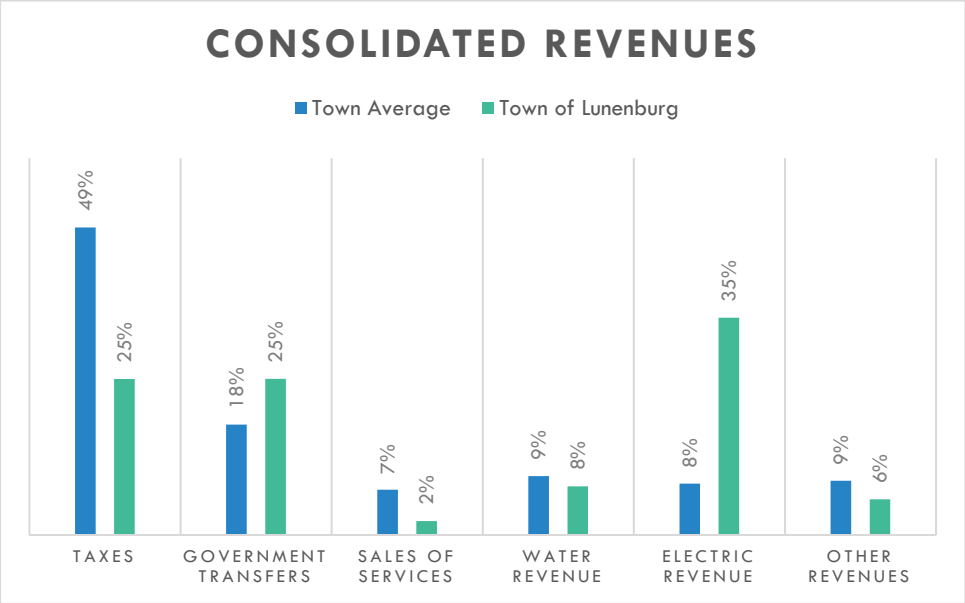
- Water Utility
- Electric Utility

Lunenburg's total consolidated revenue including those entities for 2017-18 was $18 million.



[3] Please be advised that, although the Department reconciles, at a high level, a municipality's non-consolidated financial statements to the consolidated financial statements, the non-consolidated financial statements are usually not audited nor presented in full accordance with Canadian public sector accounting standards.

As shown in graph below, the Municipality's revenue is divided into five categories on a consolidated basis and is compared to the provincial town average.

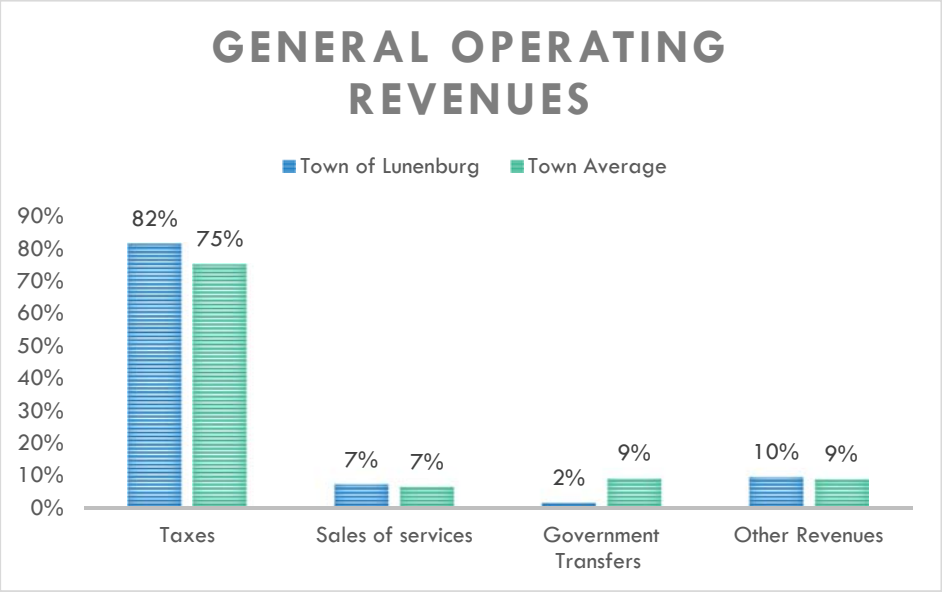


To fund its expenditure responsibilities, the Town of Lunenburg relies on taxes for 25 % of its revenue. In 2018, 75%[4] of municipal revenues was generated from Lunenburg's own sources, while 25%[5] was dependent on transfers from other levels of government.

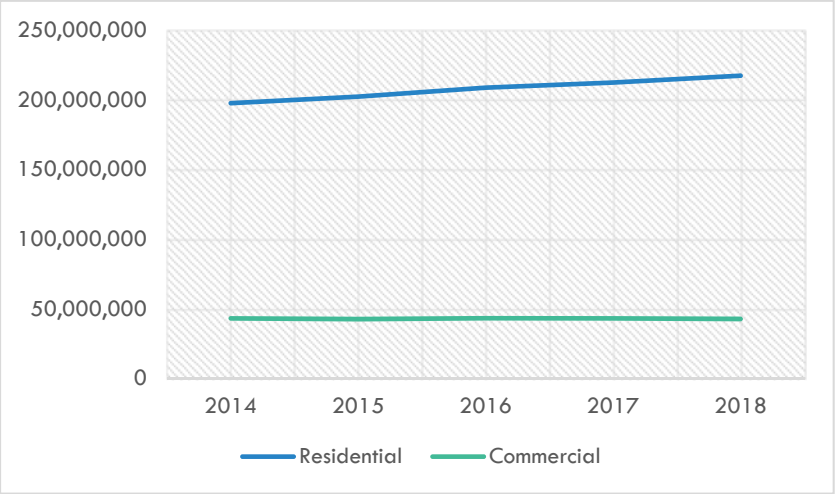
[4] Including Taxes, Sales of Services, Water (if applicable), and Other Revenues. Sales of Services include all sales of services provided to individuals, businesses and other governments. Other Revenues include grants in lieu of taxes, other revenues from own sources and net income from government business enterprises.

[5] Including unconditional and conditional transfers from federal, provincial and other local governments for municipal operations and capital infrastructure projects.

The graph below shows the Municipality's revenue from municipal operations only or from the Municipal General Operating Fund.



A municipality's ability to raise revenue through property tax is dependent on its taxable assessment base. Since property taxes are a primary source of revenue for most municipalities, special emphasis has been placed on reviewing assessment trends. The line graph below shows residential and commercial trends for the last five years.

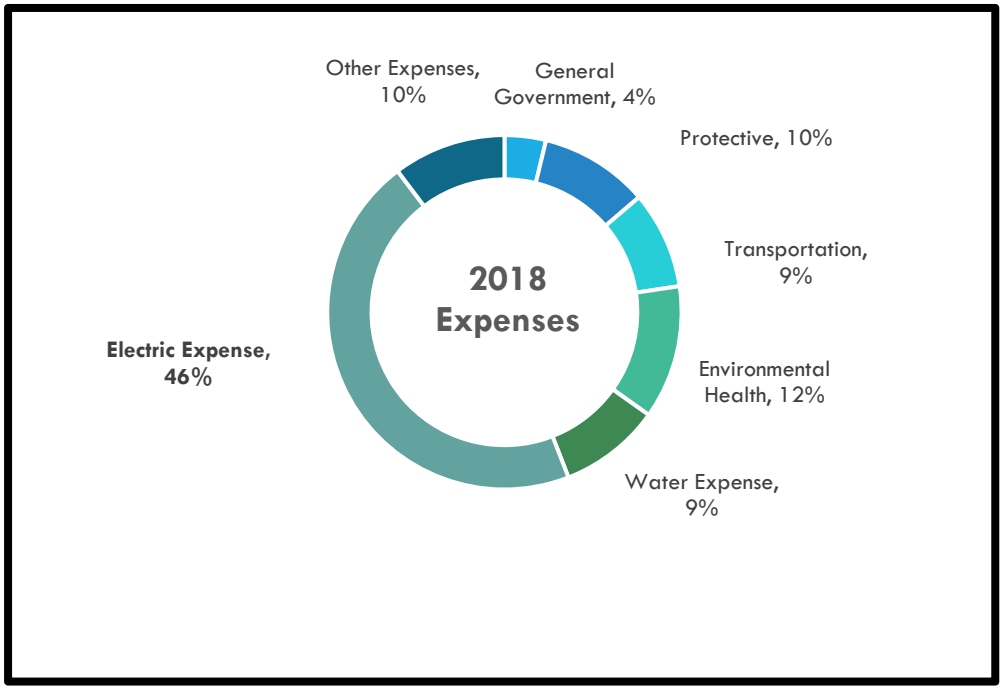


Based on 2018 Financial Condition Indicators related to municipal revenues, the Municipality's general operating revenue is stable. The Town of Lunenburg's tax assessment growth is above the Consumer Price Index (CPI). This indicates that the Municipality's tax base was able to cover the increasing cost of municipal services and programs.

- Since the Municipality's tax base is not dependent on one single business or institution, it is not showing a vulnerability in this area.
- The Municipality is managing tax revenue collection.
- The Residential Tax Effort Indicator, which can assess the affordability of the Municipality's taxes in relation to the current service levels, indicates that the Municipality may have limited flexibility to increase the taxes if required.

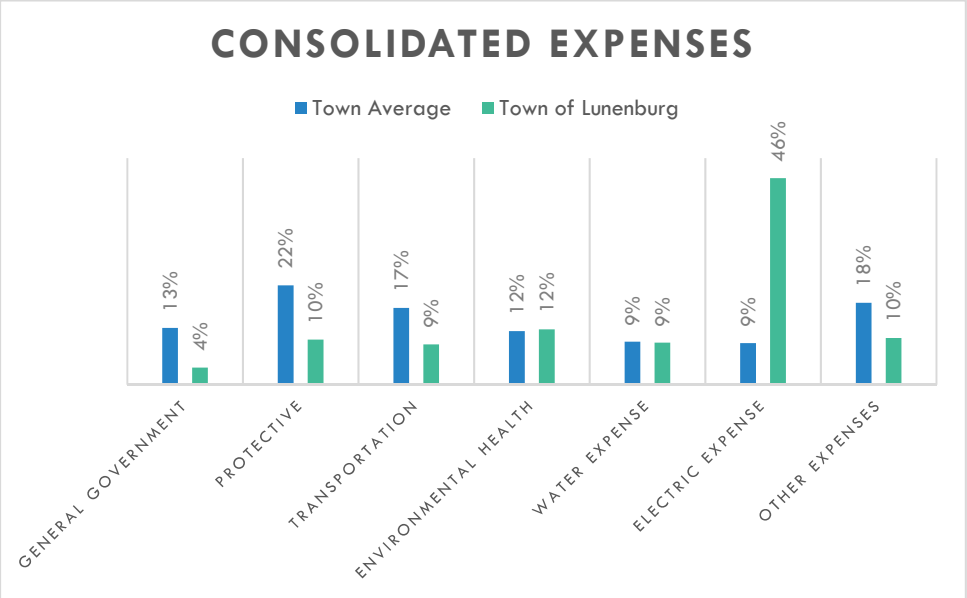
4.2 Expenses

Total consolidated expenses were $13.4 million. Electric Utility expenses make up 46% of total expenses.

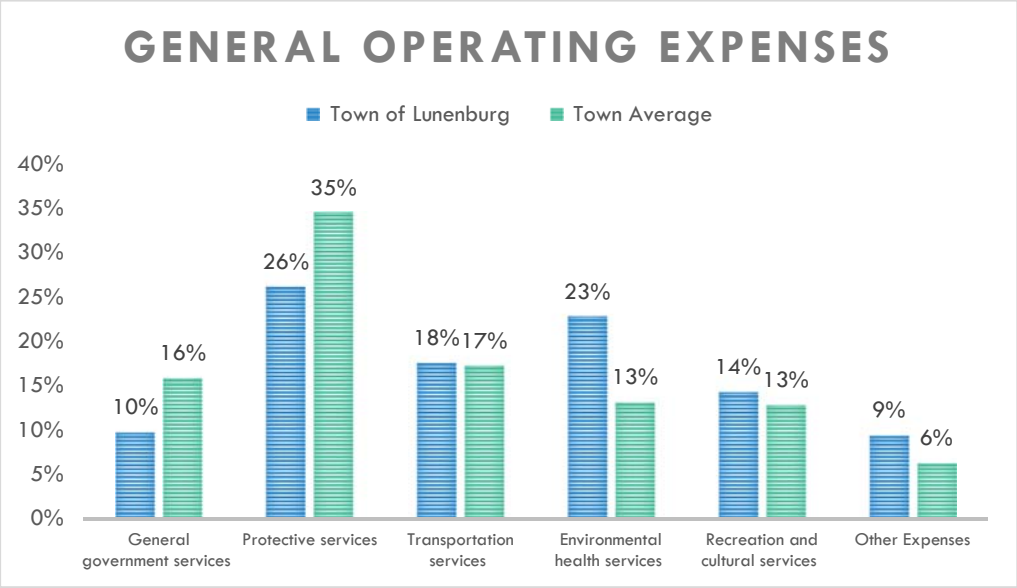


Please note Other Expenses include Environmental Development Services, Recreation and Cultural Services, Public Health Services (if applicable) and Extraordinary or Special Items.

The graph below shows the Town of Lunenburg's expense by function on a consolidated basis compared to the provincial town average.



The graph below shows the expenses by function for the municipal operations or General Operating Fund expenses compared to the provincial town average.

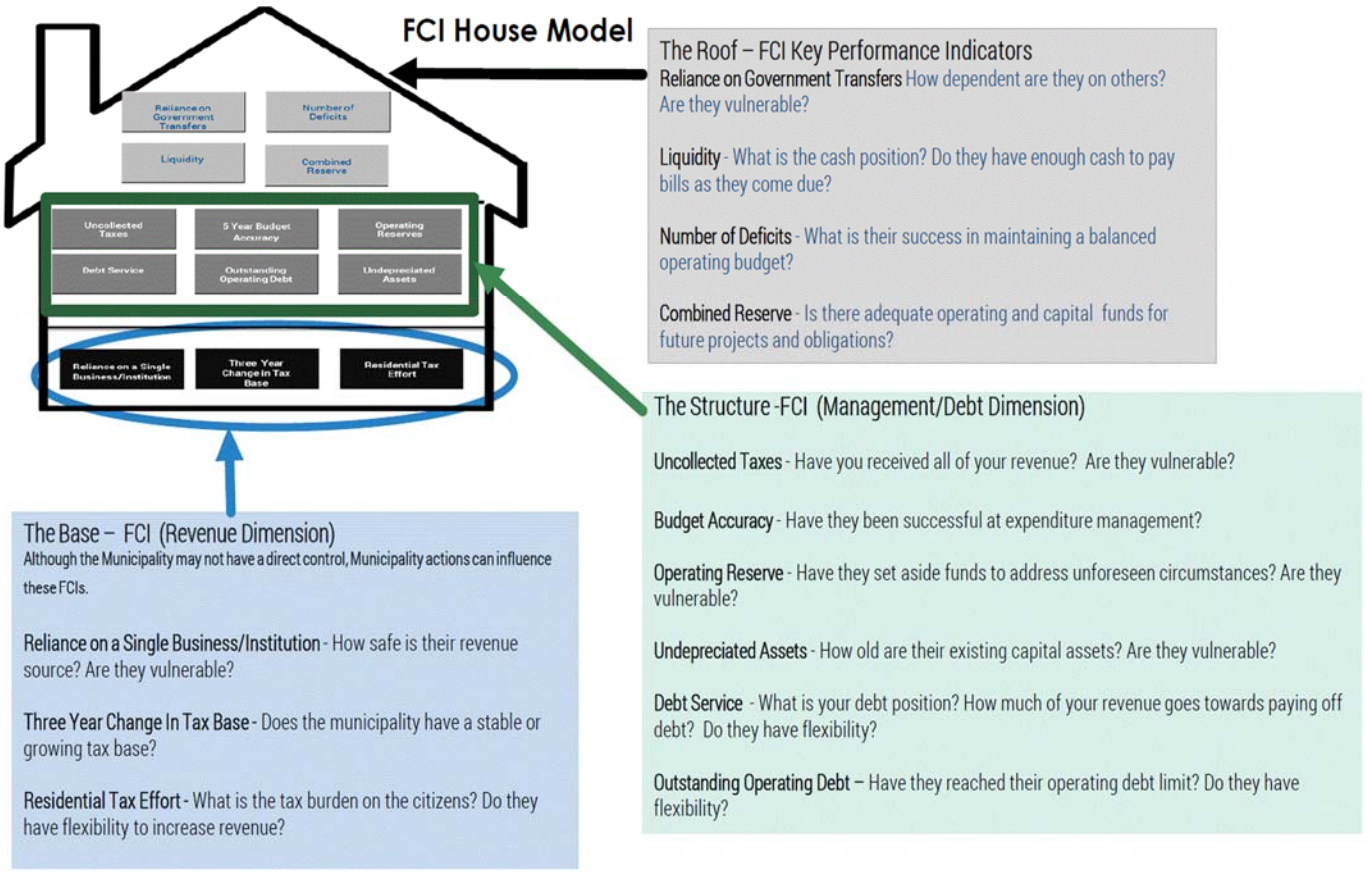


Based on the indicators related to municipal general operating expenses, the results show:

- The Municipality consistently maintained its expenditures within the budget limits.
- For the last five years, the Municipality has been able to meet its needs in a balanced manner and has maintained a balanced budget.
- The Municipality has preserved prudent debt levels while maintaining capital assets with 59.3% of useful life remaining.

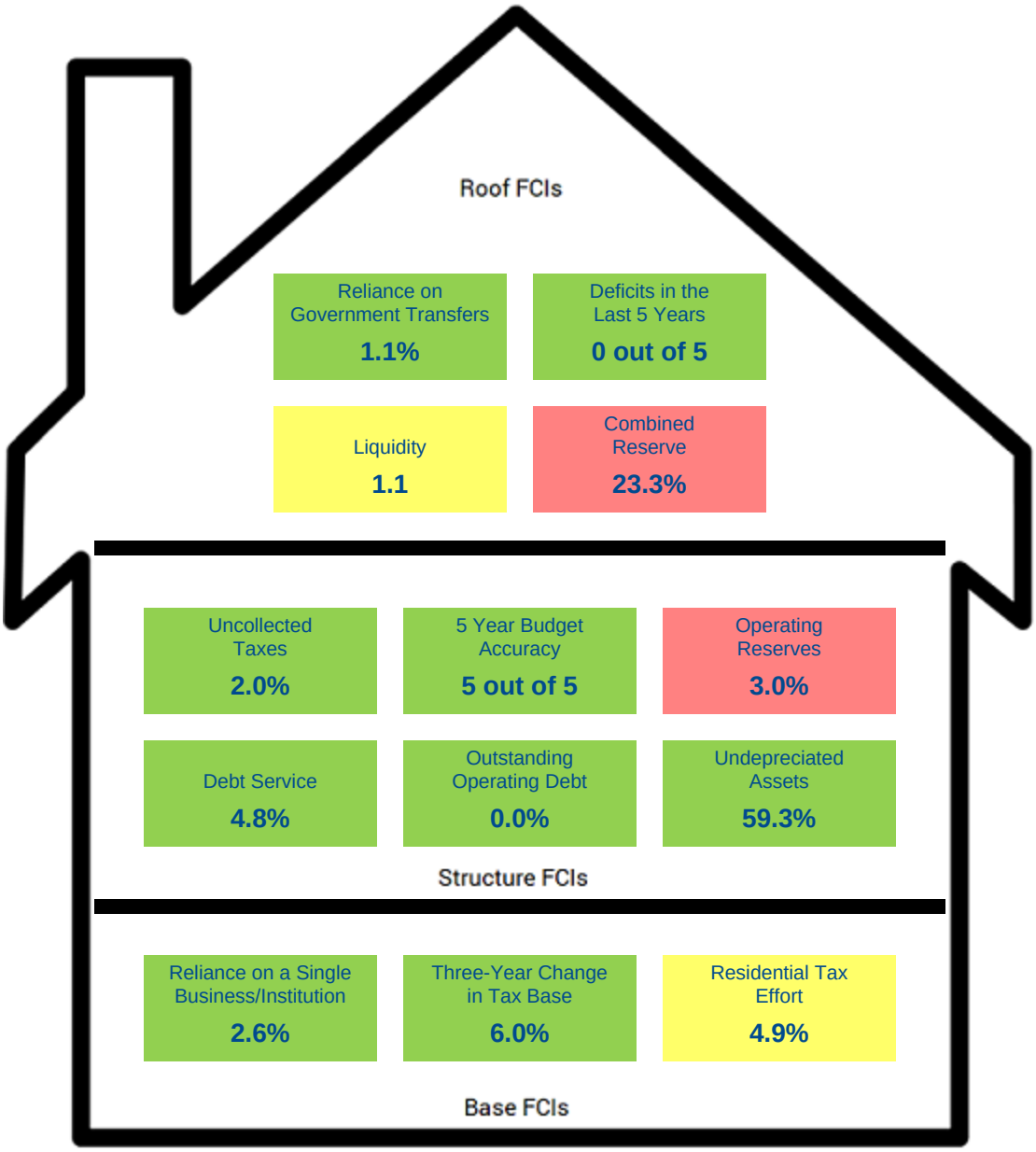
5 – FINANCIAL CONDITION INDICATORS

The Financial Condition Indicators (FCIs)[6] were developed jointly by the Province of Nova Scotia, the Nova Scotia Federation of Municipalities (NSFM), and the Association of Municipal Administrators (AMA) to help present municipal financial information by condensing multiple sources of information into a single visual graph. This visual focuses on key performance indicators, leading financial indicators and potential internal and external factors that could have an impact on a municipality's financial results. The House Model below presents 13 Indicators organized into three dimensions: base, structure and roof.



[6] FCIs are based on non-consolidated data.

Each of a municipality's indicators is assessed against risk thresholds: low risk (green), moderate risk(yellow) and high risk (red). This provides a quick visual of a municipality's strengths and possible areas where a municipality may want to focus its attention. The Town of Lunenburg has nine indicators assessed at low risk (well within the recommended threshold), two indicators assessed at moderate risk and two indicators assessed at high risk.



Before you can understand a municipality's situation, it is important to understand what the indicator is measuring and the potential risks identified. For example: for a municipality with a three-year change in tax base lower than the threshold, this could indicate that assessments are growing slower than inflation. A negative percentage for this indicator indicates a decrease in assessment value, which could indicate serious economic concerns in the region.

Please note that FCI results serve as an analytical tool to help identify the need for additional inquiry and/or action. Reviewing the direction, the FCI is moving can serve as an early warning. Assessing the results in relation to strategic decisions can also help an individual understand risk tolerance and potential mitigating factors.

It is important to understand that reaching or exceeding a threshold does not necessarily mean a municipality is in danger. The red colour indicates that a high risk has been identified. When this occurs, it is critical that this indicator is reviewed, along with additional inquiry or analysis. The additional analysis needs to consider mitigating factors that are causing the trend or other factors that could help neutralize the risk.

The next section provides more in-depth information.

The Base FCI Indicators

Reliance on a Single Business/Institution

Calculation	Risk Thresholds	
$\frac{\text{Taxable assessment value of the largest business or institution}}{\text{Uniform Assessment}}$	Low	Less than 10%
	Moderate	10% to 15%
	High	Greater than 15%

2018 Results: The largest single commercial or institutional account is only 2.6% of the Municipality's total Uniform Assessment. Assessed as a low risk.

What does it mean? The Municipality's tax base is not dependent on one single business or institution. The Municipality is not showing vulnerability in this area.

Three Year Change in Tax Base

Calculation	Risk Thresholds	
$\frac{\text{Current Uniform Assessment-Uniform Assessment 3 Years Prior}}{\text{Uniform Assessment 3 Years Prior}}$	Low	Equal or above CPI % Change
	Moderate	Below CPI % Change, but not negative growth
	High	Negative growth

2018 Results: 6.0% growth well above the CPI % change (4.4%). Assessed as a low risk.

What does it mean? Growth is above the CPI % change. The Municipality's tax base is strong to cover the cost of municipal services and programs.

Residential Tax Effort

Calculation	Risk Thresholds	
$\frac{\text{Total residential tax revenue per dwelling unit}}{\text{Median Household Income}}$	Low	Less than 4%
	Moderate	4% to 6%
	High	Greater than 6%

2018 Results: 4.9% of median household income is required to pay the average tax bill. Assessed at a moderate risk.

What does it mean? This result indicates the current affordability of the Municipality's taxes in relation to the current service levels shows a limited ability to raise tax revenues.

The Structure FCI Indicators –Management Dimension

Uncollected Taxes

Calculation	Risk Thresholds	
Total Cumulative Uncollected Taxes / Total Taxes Billed in Current Fiscal Year	Low	Less than 10%
	Moderate	10% to 15%
	High	Greater than 15%

2018 Results: 2.0% Assessed as a low risk.

What does it mean? The Municipality is effectively managing their tax revenue collection.

Undepreciated Assets

Calculation	Risk Thresholds	
Total Net Book Value of Capital Assets / Gross Costs of Capital Assets	Low	Greater than 50%
	Moderate	35% to 50%
	High	Less than 35%

2018 Results: 59.3% Assessed as a low risk.

What does it mean? Municipalities across Canada are facing sufficient infrastructure challenges. This indicator estimates 59.3% of useful life is remaining in the municipality's capital assets. The Municipality is experiencing less of an infrastructure challenge than other municipalities.

5 Year Budget Accuracy

Calculation	Risk Thresholds	
Total budget expenditures-Total actual expenditures / Total budget expenditures	Low	5 out of 5 years, expenditures within +/- 5% or expenditure and revenue variances within +/- 5% of each other
	Moderate	4 out of 5 years, expenditures within +/- 5%
	High	Less than 4 out of 5 years, expenditures within +/- 5%

2018 Results: For the last 5 years, the Municipality's actual expenditures were within +/- 5% of budget. Assessed at a low risk.

What does it mean? For the last five years, the Municipality consistently maintained their expenditure spending within the budget limits. This should instill confidence in the budget/expenditure management process.

The Structure FCI Indicators – Debt and Reserves

Debt Service

Calculation	Risk Thresholds	
Principal and Interest Paid on Long-term Debt / Total Own Source Operating Revenue	Low	Less than 10%
	Moderate	10% to 15%
	High	Greater than 15%

2018 Results: 4.8% Assessed as a low risk.

What does it mean? 4.8% of the Municipality's revenue is spent on principal and interest payments. Provided the municipality has adequate cash flow, it appears the Municipality has flexibility to increase borrowing levels to help finance future capital expenditures.

Outstanding Operating Debt

Calculation	Risk Thresholds	
Total Outstanding Operating Debt / Total Own Source Revenue	Low	Less than 25%
	Moderate	25% to 50%
	High	Greater than 50%

2018 Results: 0.0% Assessed as low risk.

What does it mean? The Municipality is not carrying operating debt.

Operating Reserve

Calculation	Risk Thresholds	
Total Operating Reserve Fund Balance / Total Operating Expenditures	Low	Greater than 20%
	Moderate	10% to 20%
	High	Less than 10%

2018 Results: 3.0% Assessed as a high risk.

What does it mean? This Indicator provides the value of funds set aside for planned future needs, to smooth expenses or for unexpected expenses. This result indicates the Municipality is not setting aside sufficient funds to help mitigate any unforeseen risks or future need.

FCI- Key Performance Indicators- the ability to meet current and future needs in a balanced and independent manner

Reliance on Government Transfers

Calculation	Risk Thresholds	
Total Government Transfers / Total Revenue	Low	Less than 15%
	Moderate	15% to 20%
	High	Greater than 20%

2018 Results: 1.1% Assessed as a low risk.

What does it mean? This Indicator implies the Municipality is not significantly dependent on another level of government to meet their service obligations.

Number of Deficits in the Last 5 Years

Calculation	Risk Thresholds	
The number of non-consolidated operating deficits in the last five years.	Low	None in the last 5 years
	Moderate	One or more in the last 5 years
	High	One or more in the last 2 years with one material (0.5% of operating expenses)

2018 Results: No deficits in the last five years. Assessed as a low risk.

What does it mean? Deficits are important indication of financial health. This result indicates the Municipality can meet their needs in a balance manner and maintain a balance budget.

Liquidity

Calculation	Risk Thresholds	
Total Current Financial Assets / Total Current Liabilities	Low	Greater than 1.5
	Moderate	1 to 1.5
	High	Less than 1

2018 Results: 1.1 Assessed as a moderate risk.

What does it mean? Liquidity is key to financial performance. Low liquidity can indicate a cash flow problem and may indicate a concern in other areas such as revenue collection.

Combined Reserves

Calculation	Risk Thresholds	
Total Operating and Capital Reserves / Total Operating Expenses plus Amortization Expense	Low	Greater than 40%
	Moderate	30% to 40%
	High	Less than 30%

2018 Results: 23.3% Assessed as a high risk.

What does it mean? Reserves are critical components of a municipality's long-term sustainability. The Combined Reserves Indicator shows the value of the funds held in the reserves compared to a single year's operation including amortization expenses. This result indicates the Municipality does not appear to have sufficient reserves needed to address unexpected events or provide flexibility to address future projects.

APPENDIX I – ADDITIONAL RESOURCES

Nova Scotia Government's Open Data Portal

Nova Scotia Government's Open Data Portal officially launched on February 5, 2016. This portal provides access to various government data in a free, accessible, machine-readable format. The financial datasets currently published through the Nova Scotia Government's Open Data Portal are:

- Financial Condition Indicators by Municipality;
- Municipal Contributions to Roads
- Municipal Fiscal Statistics- Consolidated Revenues and Expenses by Municipality;
- Municipal Fiscal Statistics- Operating Fund Summary of Revenue and Expenses by Municipality;
- Municipal Fiscal Statistics- Operating Fund Expenses -10 Year Summary;
- Municipal Fiscal Statistics- Operating Fund Revenue -10 Year Summary;
- Municipal Property Tax Rates;
- Nova Scotia Power Grant In Lieu; and
- Uniform Assessment.

Open Data Portal Link: **data.novascotia.ca**

Municipal Website

A municipality's website can be a helpful resource to access various financial information. Currently, most municipal websites provide:

- audited Financial Statements
- approved Operating Budget
- quarterly municipal expense report
- quarterly municipal hospitality expense report

Town of Lunenburg Website: explorelunenburg.ca

About Us

For more information, support in action plan development or to obtain a guide on action plan development, please contact:

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