APPENDIX E

# Capital Regional District
# 2023 Financial Performance Measures

**British Columbia, Canada**
**Fiscal year ended December 31, 2023**

Making a difference...together

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## Introduction

The financial performance of the organization is illustrated in the financial indicators contained in this appendix. These indicators should be read in conjunction with the 2023 Audited Financial Statements and accompanying notes. These measures demonstrate a consistent, healthy financial position based on current operational needs, existing market conditions and debt servicing costs. The debt ratios using the Dominion Bond Rating Service (DBRS) rating methodology demonstrate the Capital Regional District (CRD) can meet its obligations and is unlikely to be adversely affected by future events.

The DBRS is Canada's largest and the world's fourth largest credit rating agency, respected for its independent, third-party evaluation of credit quality. They publish research whitepapers describing their methodology of rating Canadian municipal governments (Appendix D). Their methodology includes analyzing the economic environment within which the government operates. They also assess fiscal management by looking at revenue generation, program responsibilities and fiscal discipline, as well as coherence and appropriateness of strategies, policies and processes governing the planning and allocation of public funds. Other critical rating factors include financial management in terms of debt and liquidity, and relations with senior governments.

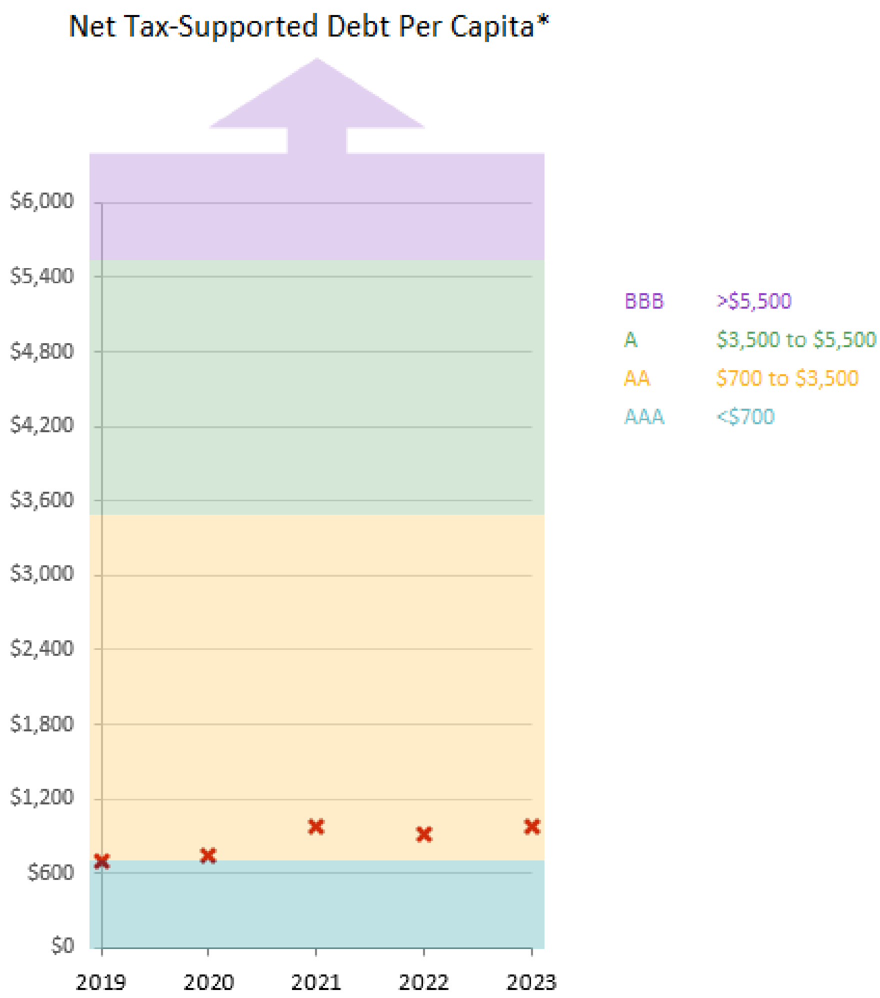
Although the final rating considers a blend of both operating risk and financial risk in their entirety, key ratios can provide a quick measure in assessing the government's financial strength— its ability to make timely payments on outstanding obligations (whether principal, interest or other expenditures) with respect to the terms of the obligation. The following pages outline CRD key ratios.

The four ratings, from exceptional to adequate credit quality, are:

1. 'AAA' – The capacity for the payment of financial obligations is exceptionally high and unlikely to be adversely affected by future events.
2. 'AA' – The capacity for the payment of financial obligations is considered high, differing from AAA only to a small degree. It is unlikely to be significantly vulnerable to future events.
3. 'A' – The capacity for the payment of financial obligations is substantial. May be vulnerable to future events but considered manageable.
4. 'BBB' – Adequate credit quality. The capacity for the payment of financial obligations is considered acceptable. May be vulnerable to future events.

## 1) Net Tax- Supported Debt Per Capita

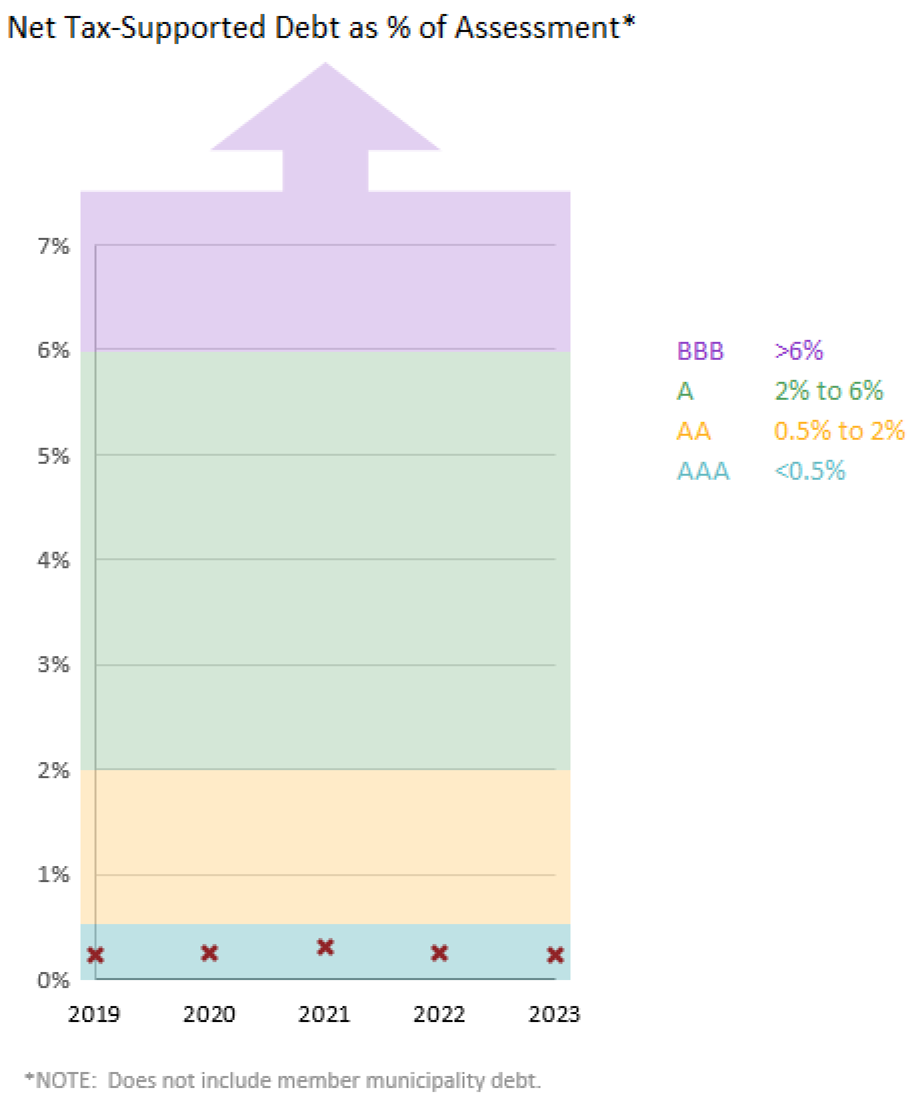
Tax-Supported Debt includes financial obligations for which taxpayers are directly accountable. Net Tax-Supported Debt per Capita is a measure of the CRD's debt, excluding member municipality debt, expressed in terms of the amount attributable to each citizen under the CRD's jurisdiction. This indicator is an important factor when analyzing the CRD's ability to continue paying its debt service costs through current levels of tax revenue. In 2023, there was a $39.6 million net increase in debt. The net tax-supported debt per capita is $973 as at fiscal end 2023 ($915 – 2022), within the AA rating threshold of $700 to $3,500. Decisions to fund investment through debt are managed through corporate guideline which considers ideal levels of reserve and debt based on asset life, aligning timing of cost recovery to timing of services benefit to community.




*NOTE: Does not include member municipality debt.
Ratings assessed using DBRS methodology issued in April 2023

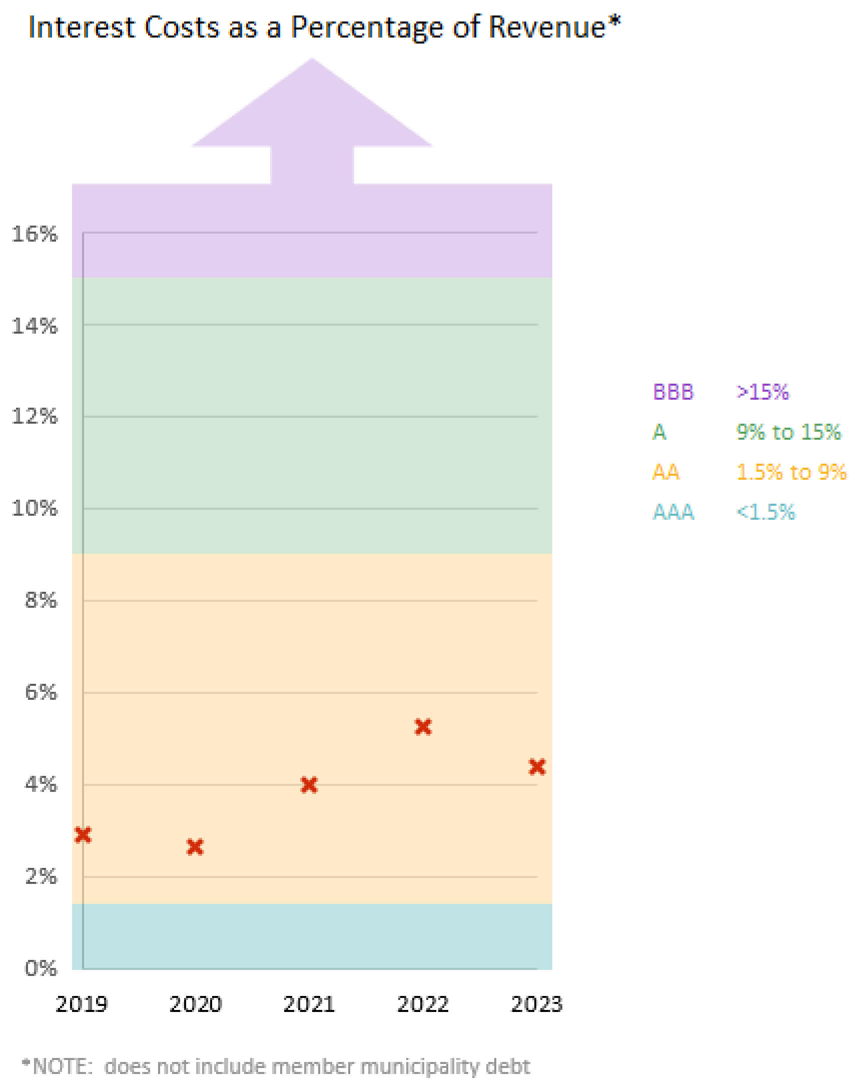
## 2) Net Tax-Supported Debt as a Percentage of Assessment

A second measure to assess debt affordability, this ratio takes the same net tax-supported debt as above and expresses it in terms of taxable assessment. This indicator is 0.24% in 2023 (0.25% - 2022), well below the AAA rating threshold of 0.5%.



## 3) Interest Costs / Total Revenue

This is the percentage of revenue committed to payment of interest on temporary and long-term debt (excluding municipal debt). A high percentage indicates greater use of revenues for servicing interest on outstanding debt, and less ability to adjust to unplanned events and changing circumstances. Interest as a percentage of total revenue was 4.37% in 2023 (5.23% - 2022), still within an AA rating. This decrease was driven by an increase in revenues from the prior year, including government transfers related to the Rapid Housing Initiative and improved investment returns, as well as a decrease in interest expense $0.4 million. The percentage of revenue committed to debt repayment is monitored through corporate guideline by service, limiting commitments to within performance indicator benchmarks.



## 4) Net Post-Capex Surplus (deficit) as a Share of Total Revenues (5-year average)

The net post-capex surplus (deficit) is the operating balance minus net capital expenditures and reflects overall fiscal sustainability in each year. Net post-capex surplus as a share of total revenue, 5-year average, for 2019-2023 is 25.1%, resulting in an AAA rating. During 2023, net surplus post-capex lowered due to an increase in capital expenditures of $47.1 million that was offset by the increase in capital revenues of $7.6 million.

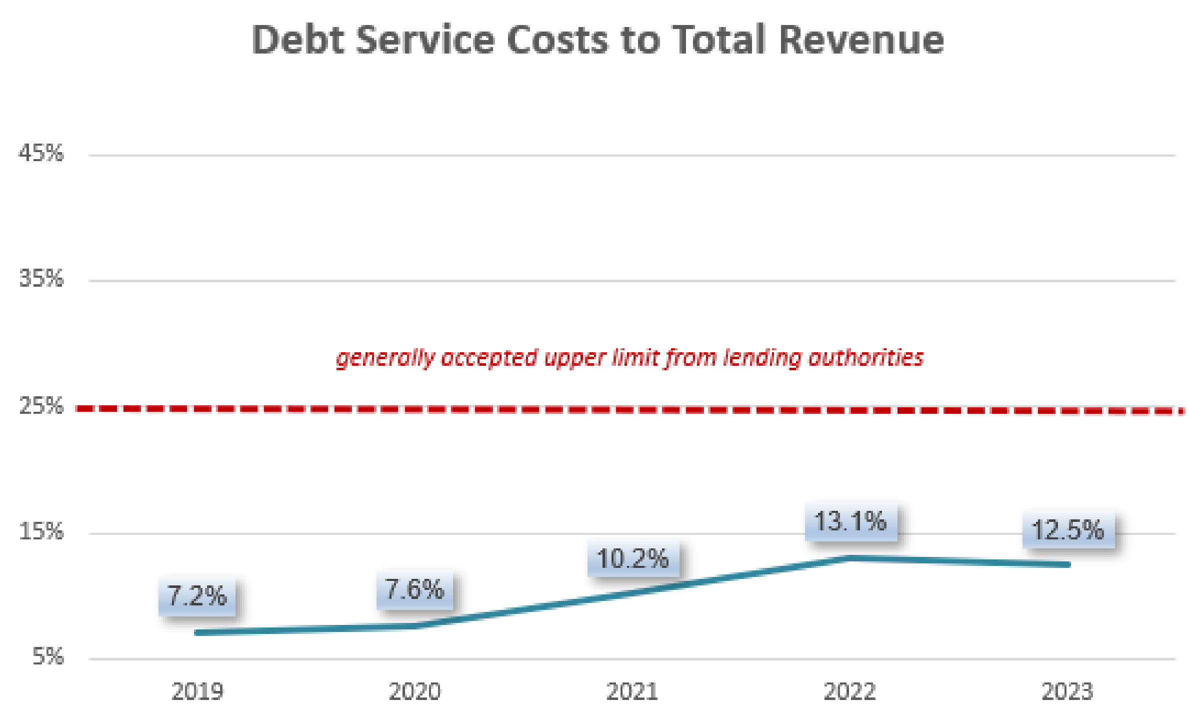
| | 2018-2022 Average | | 2019-2023 Average | |
|---|---|---|---|---|
| Surplus post-capex | 99,394,486 | **27.4%** | 95,249,885 | **25.1%** |
| Total Revenue | 362,871,505 | | 379,615,381 | |
| | | AAA | | AAA |

NOTE: does not include member municipality debt

| | |
|---|---|
| BBB | > -5.0% |
| A | 0.0% to -5.0% |
| AA | 5.0% to 0.0% |
| AAA | >5.0% |

## 5) Debt Service Costs / Total Revenue

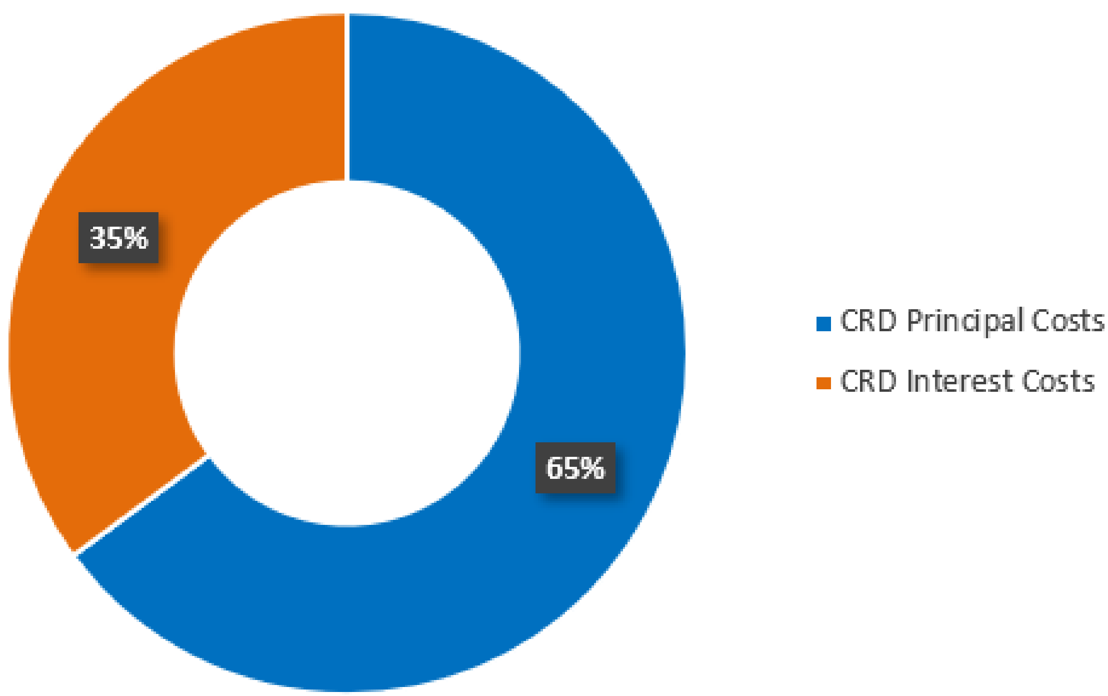
Related to indicator 3, this is the percentage of revenue committed to the payment of interest and principal on temporary and long-term debt. A high percentage indicates greater use of revenue for the repayment of debt, and less ability to adjust to unplanned events and changing circumstances. The CRD's average debt service cost (excluding municipal debt and normalized for short-term borrowing that was converted to long-term) to revenue for the last four years averages 9.5%, while the 2023 result is down from the prior year to 12.5%. The debt service cost to total revenue was lower in 2019 to 2021 as significant grant revenues were recognized related to the Wastewater Treatment Plant (WTP) project. Debt service costs were higher in 2023 due to the early payment of $4.3 million in long-term debt, however the indicator still improved due to the increase in total revenue over the prior.



## 6) Principal and Interest as Proportion of Debt Service Costs

Debt servicing costs for debt incurred, through Municipal Finance Authority (MFA) or otherwise, will at first be primarily interest, with a small amount of principal included. As debt moves closer to maturity, the principal portion of the payment will increase, and the interest portion will decrease. This is due to the interest charge being calculated off the present outstanding balance of the debt, which decreases as more principal is repaid. The smaller the debt principal, the less interest is charged. In 2023, CRD's debt servicing costs (excluding municipal and WTP debt) show more principal repayment than interest. A higher percentage was allocated to principal when compared to 2022 (60% principal costs) due to the early payment of $4.3 million in principal on long-term debt.

## 2023 Debt Servicing Costs



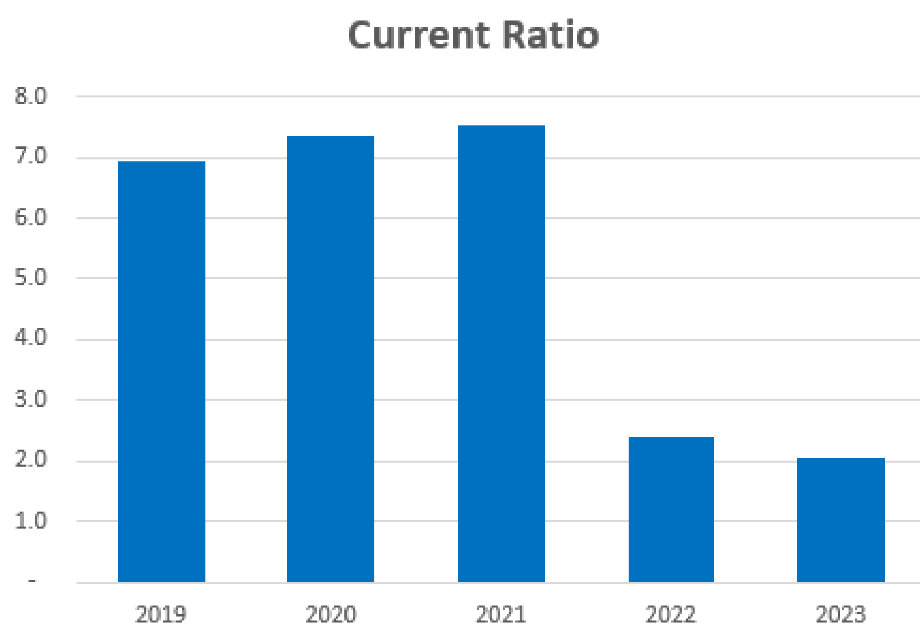
## 7) Current Ratio

The current ratio is a measure of the liquidity of an organization, meaning the CRD's ability to meet current obligations (accounts payable) through current assets (cash and accounts receivable) of the organization. A high ratio indicates a greater ability to meet budgeted and unexpected expenditures. The current ratio has decreased to 2.0 for 2023 (adjusted to exclude balances for WTP) which was primarily driven by the CRD's treasury management strategy of shifting working capital from cash accounts into investments to take advantage of favorable interest rates. Generally, a current ratio greater than one is considered healthy for a government entity.

(in 000s)

| | 2019 Actual | | 2020 Actual | | 2021 Actual | | 2022 Actual | | 2023 Actual | |
|---|---|---|---|---|---|---|---|---|---|---|
| Current Assets | 201,762 | **6.9 : 1** | 194,953 | **7.3 : 1** | 163,459 | **7.5 : 1** | 81,316 | **2.4 : 1** | 79,925 | **2 : 1** |
| Current Liabilities | 29,150 | | 26,614 | | 21,788 | | 34,022 | | 39,860 | |

NOTE: Actual excludes WTP

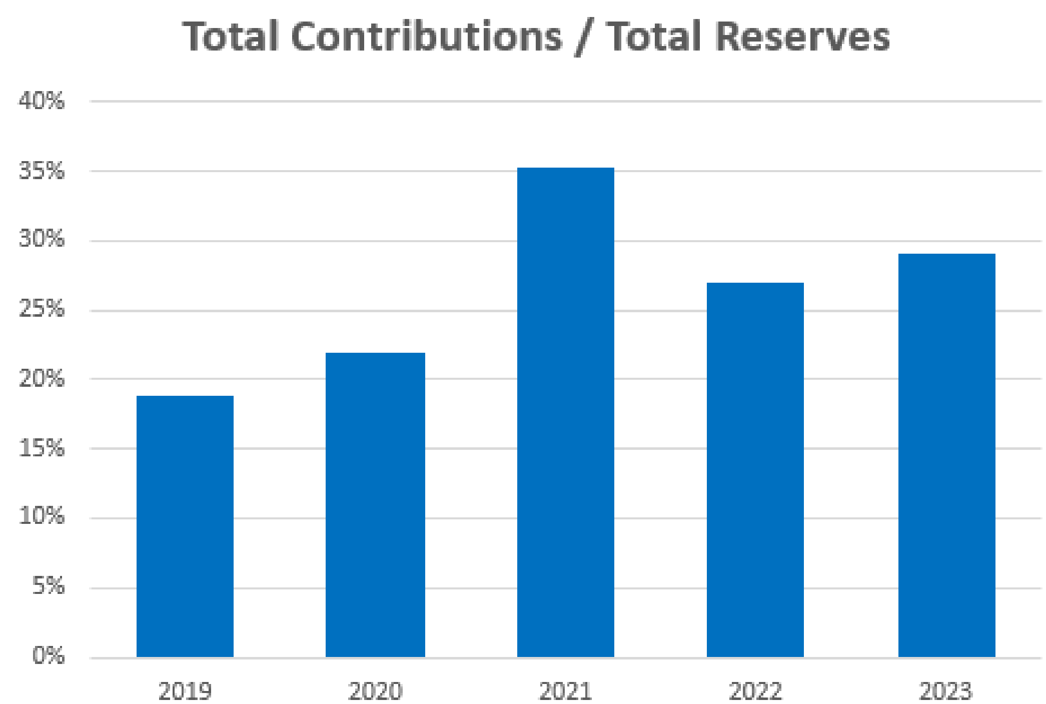


## 8) Contributions to Reserves / Total Reserves

The following graph shows the percentage of total reserve contributions to total reserve balances. For the previous four years, the CRD was contributing an average of 25.6% per year to reserves. The CRD continues to contribute to reserves to sustain the existing infrastructure, maintain consistent debt servicing levels, and leverage grant funding.

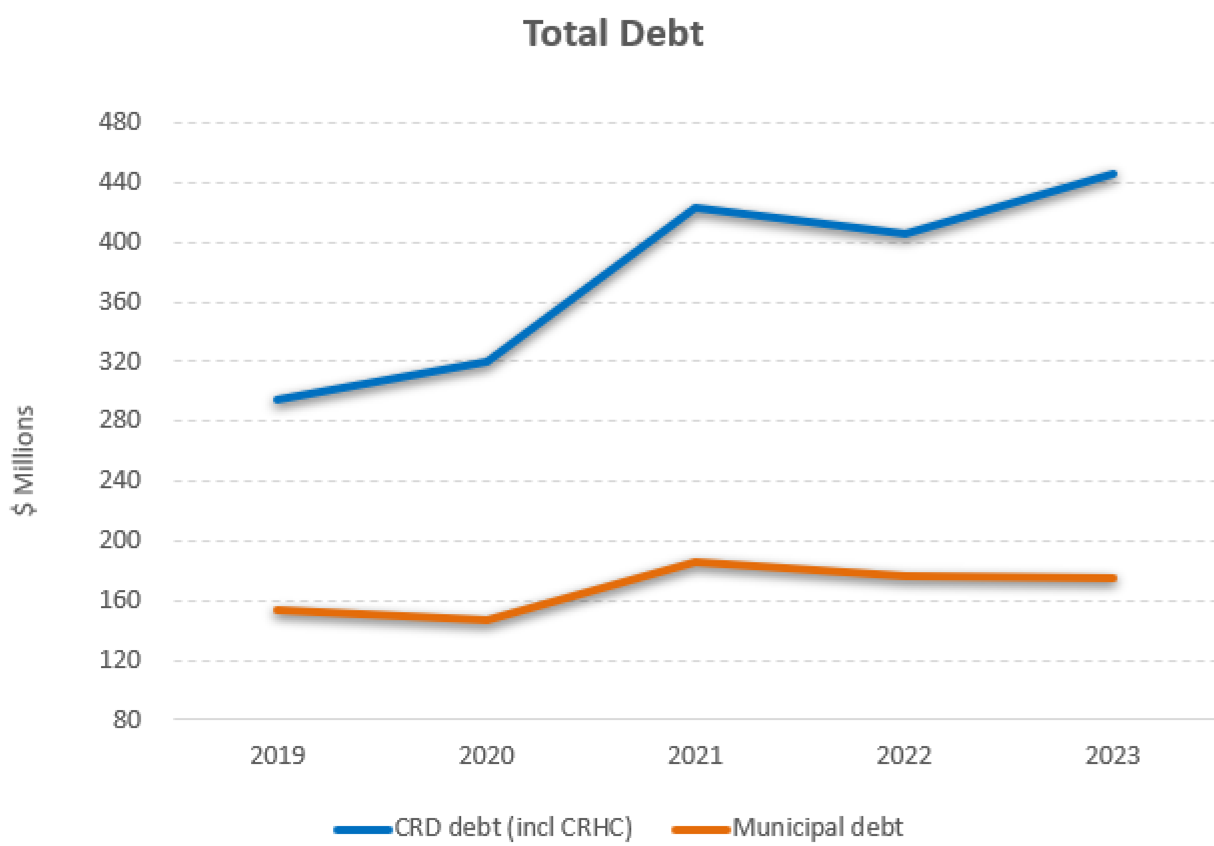
(in 000s)

| | 2019 Actual | | 2020 Actual | | 2021 Actual | | 2022 Actual | | 2023 Actual | |
|---|---|---|---|---|---|---|---|---|---|---|
| Reserve Contributions | 25,789 | **18.7%** | 30,785 | **21.8%** | 60,008 | **35.2%** | 46,825 | **26.8%** | 54,334 | **29.1%** |
| Total Reserves | 137,814 | | 141,413 | | 170,334 | | 174,511 | | 186,910 | |



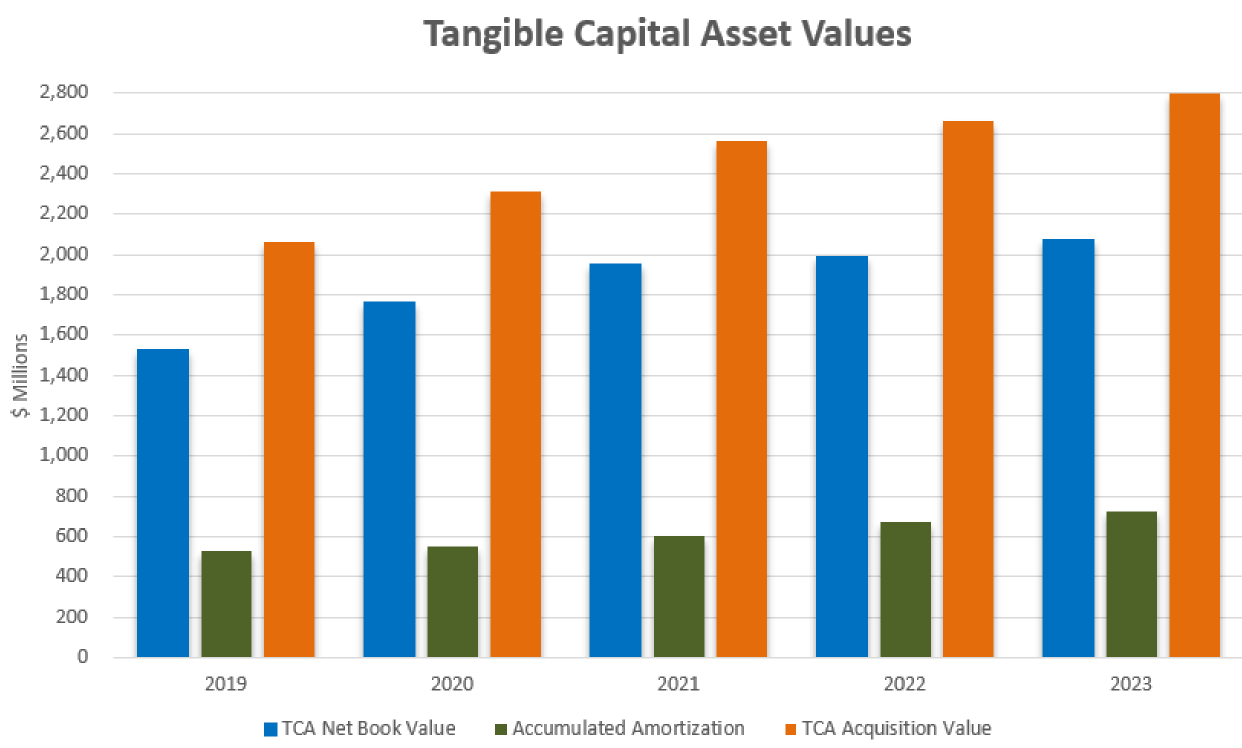
## 9) Total Debt

The CRD borrows long and short-term debt predominantly through the MFA that pools the borrowing and investment needs of communities to offer better rates through economies of scale. In addition to debt incurred directly, the CRD also incurs long-term debt on behalf of its member municipalities. The additional debt servicing costs are offset by corresponding receivables from municipalities. In 2023, there was a $39.6 million net increase in debt.



## 10) Tangible Capital Assets

CRD's tangible capital assets include land, engineering structures, buildings, equipment and vehicles. Where assets have an anticipated useful life of more than one year, the practice is to amortize or allocate part of the asset's expense each year through its useful life, instead of expensing the entire cost in the year the asset was purchased. Net book value approximates the remaining value of the assets that CRD uses in the provision of services. At the end of 2023, CRD has acquired a total $2.80 billion in assets. After accumulated amortization, CRD is left with assets totaling a net book value of $2.08 billion.




NOTE: Asset values for fiscal years 2021 to 2023 have been restated for ARO adoption impacts

## 11) Capital Investment versus Amortization

The amount spent on tangible capital assets or capital investment less amortization is net investment. If capital investment is consistently higher than amortization, net investment will be positive, indicating that productive capacity is increasing. Conversely, if capital investment is consistently lower than amortization, net investment will be negative, indicating that productive capacity is decreasing. On an annual basis, the CRD is acquiring assets at a faster rate than assets are amortizing. In 2023, the CRD was acquiring assets 2.32 times faster than amortization (an increase from 1.64 times in 2022), indicating that productive capacity is increasing. The WTP project, which was a significant portion of the District's total annual asset additions in 2019 to 2021, was substantially lower in 2022 and 2023 as the project was completed and the final costs were incurred.