

Capital Regional District Additional Financial Analysis

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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 2021 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 (DRBS) rating methodology demonstrate the CRD is able to meet its obligations and is unlikely to be adversely affected by future events.

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, and assessing fiscal management by looking at revenue generation, program responsibilities and fiscal discipline, as well as at the coherence and appropriateness of the 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.

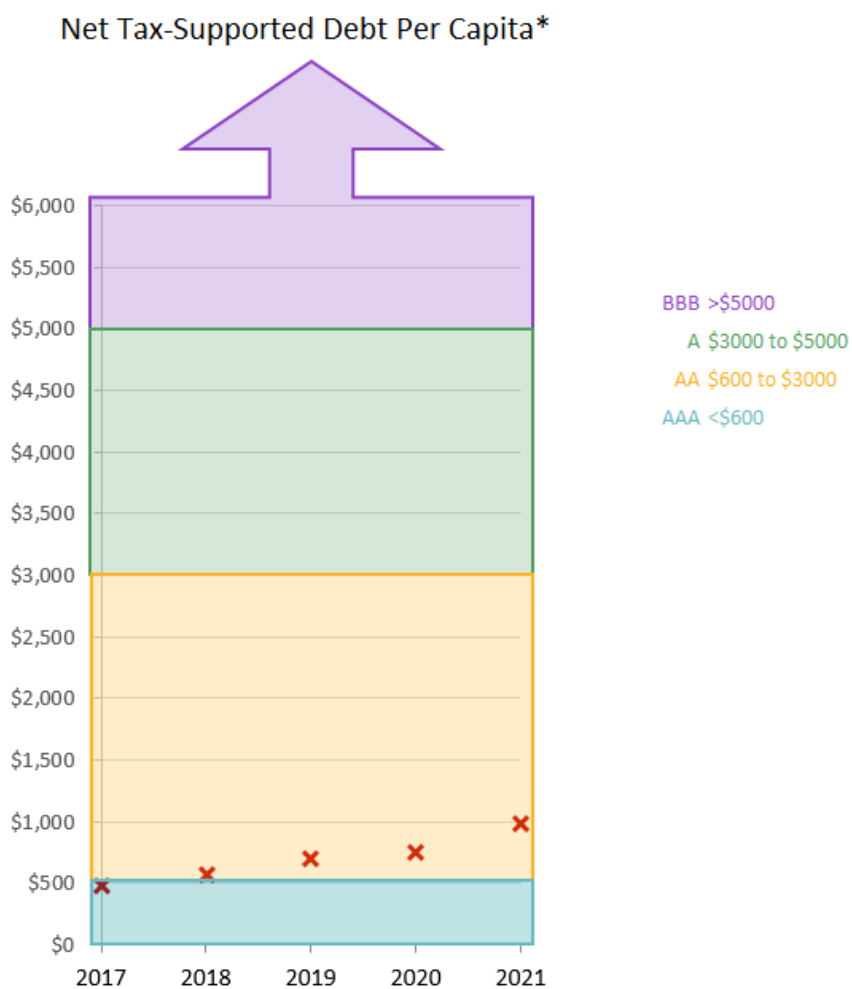
Although the final rating considers a blend of both operating risk and financial risk in their entirety, key ratios can provide a quick measure in assessing the government's financial strength— its ability to make timely payments on outstanding obligations (whether principal, interest, or other expenditures) 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. Differs from AAA only to a small degree. 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

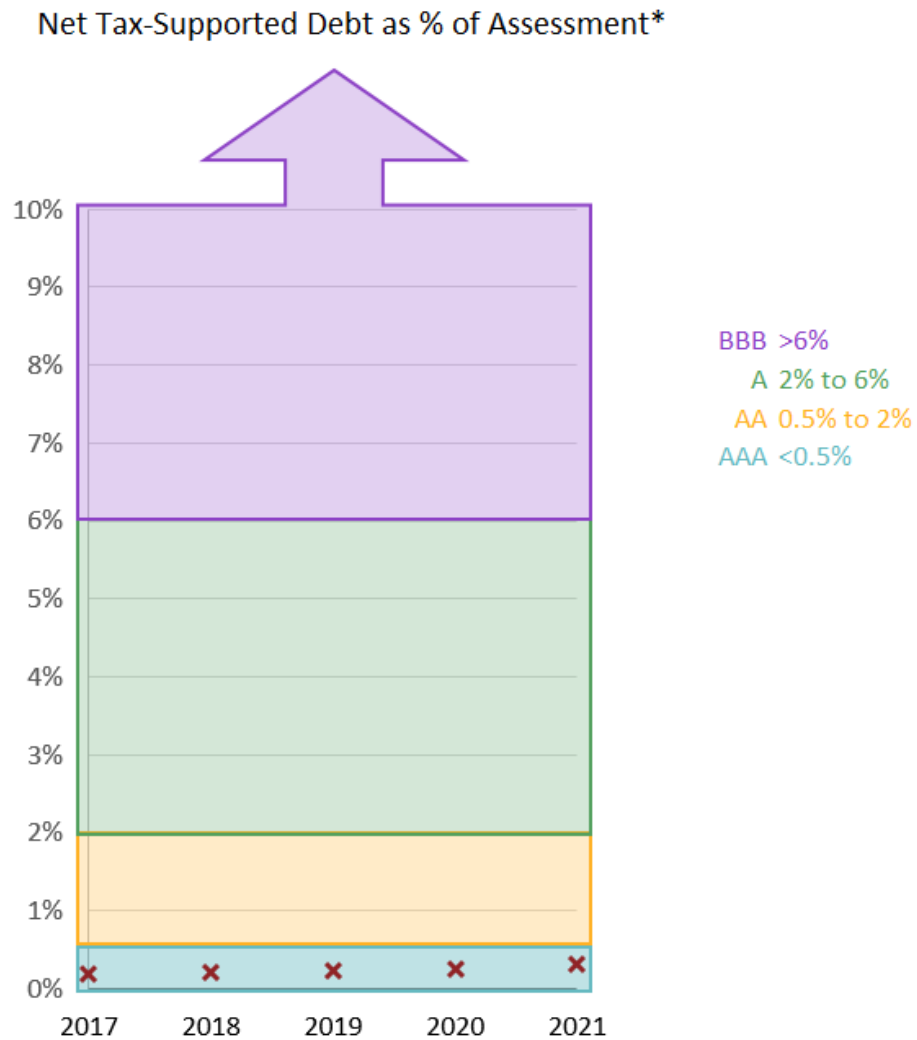
Tax-Supported Debt includes financial obligations for which taxpayers are directly accountable. Net Tax-Supported Debt per Capita is a measure of CRD’s debt, excluding member municipality debt, expressed in terms of the amount attributable to each citizen under CRD’s jurisdiction. This indicator is an important factor when analyzing CRD’s ability to continue paying its debt service costs through current levels of tax revenue. In 2021, there was a \$104 million net increase in borrowing. The net tax-supported debt per capita is \$979 as at fiscal end 2021 (\$750 – 2020), within the AA rating threshold of \$600 to \$3000. 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 May 2021

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

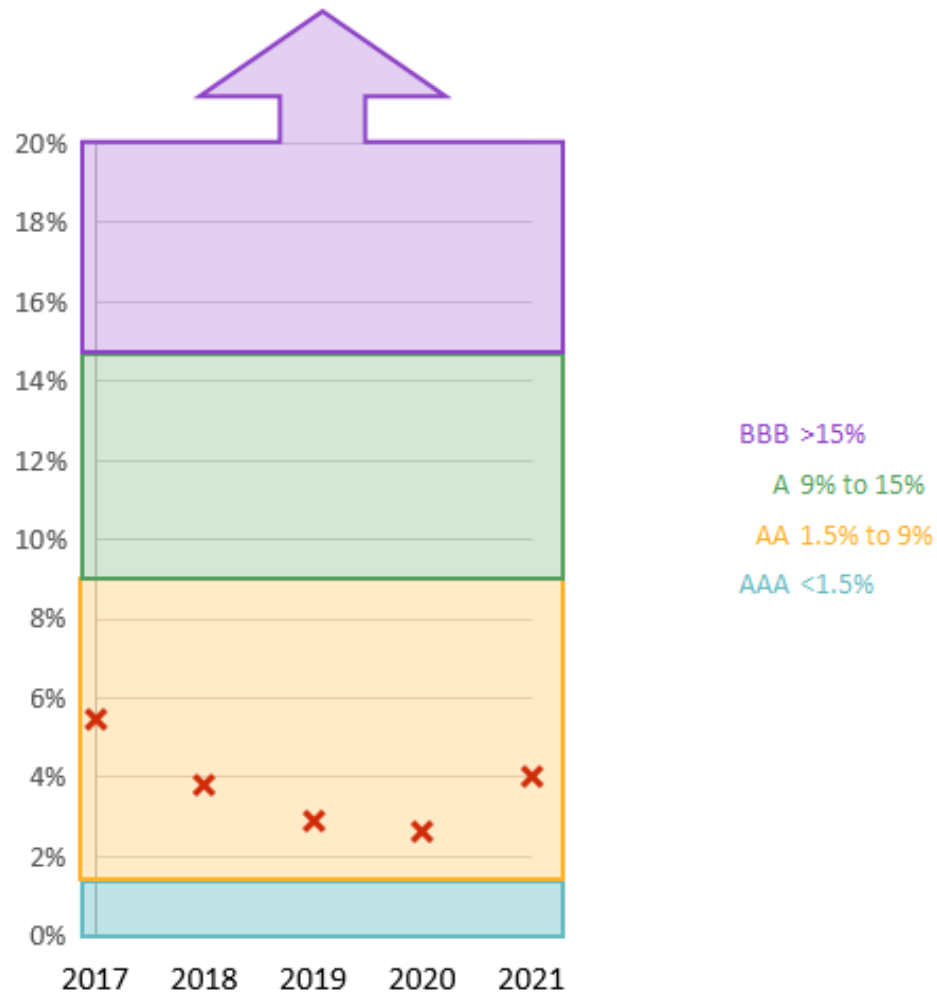
A second measure to assess debt affordability, this ratio takes the same net tax-supported debt as above and expresses it in terms of taxable assessment. This indicator is 0.32% in 2021 (0.25% - 2021), well within the AAA rating threshold of 0.5%.



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 4.0% in 2021 (2.62% - 2020), still within a AA rating. Interest expense increased by \$4.7M largely driven by the Residuals Treatment Facility P3 agreement. The percentage of revenue committed to debt repayment is monitored through corporate guideline by service, limiting commitments to within performance indicator benchmarks.

Interest Costs as a Percentage of Revenue*



*NOTE: does not include member municipality debt

4) Net Post-capex surplus (deficit) as a share of total revenues (5 year average)

The net post-capex surplus (deficit) (operating balance minus net capital expenditures) reflects overall fiscal sustainability in each year. Net Post-capex surplus as a share of total revenue, 5 year average, for 2017-2021 is (3.5%), resulting in an A rating. The decline in this ratio from 2020 is due to decline in grant revenue relating to WTP with substantial completion achieved in 2020.

	2016-2020 Average		2017-2021 Average	
<u>Surplus post-capex</u>	<u>1,817,225</u>	0.6%	<u>-12,132,122</u>	-3.5%
Total Revenue	307,647,812		344,722,440	

AA

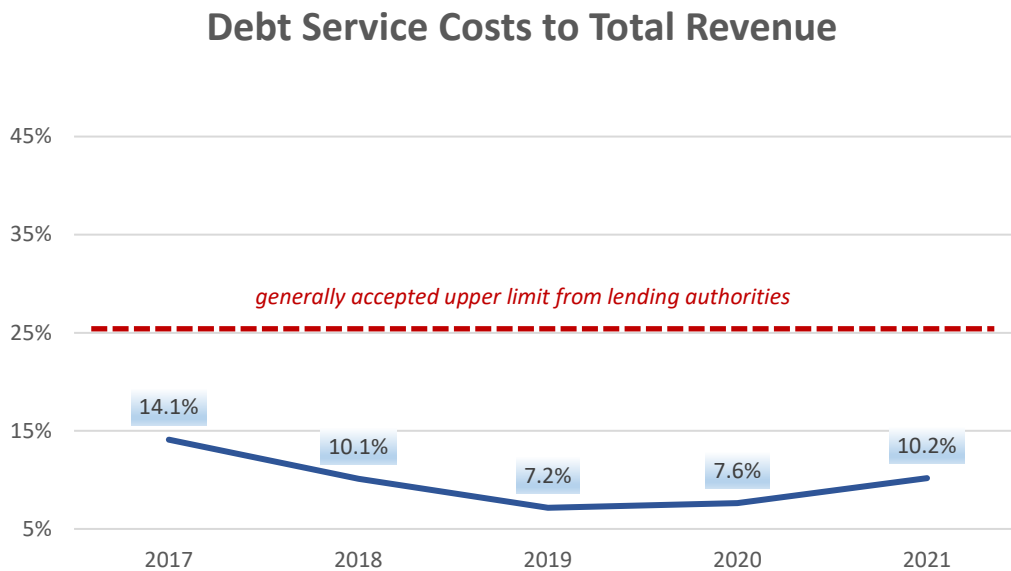
A

*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

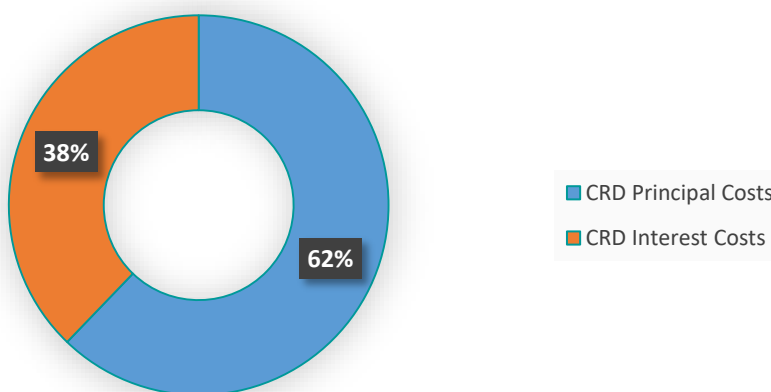
Related to indicator 3, this is the percentage of revenue committed to the payment of interest and principal on temporary and long-term debt. A high percentage indicates greater use of revenue for the repayment of debt, and less ability to adjust to unplanned events and changing circumstances. The CRD's average debt service cost (excluding municipal debt and normalized for WTP temporary financing transactions) to revenue for the last four years averages 9.7%, while the 2021 result is up to 10.2%. The increase in debt service cost over 2020 is due to \$63 million in additional long-term debt related to the Residuals Treatment Facility P3 agreement.



6) Principal and Interest as Proportion of Debt Service Costs

Debt servicing costs for debt incurred, through 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 2021, CRD's debt servicing costs (excluding municipal and WTP debt) show more principal repayment than interest when compared to 2020 (65% principal costs).

2021 Debt Servicing Costs



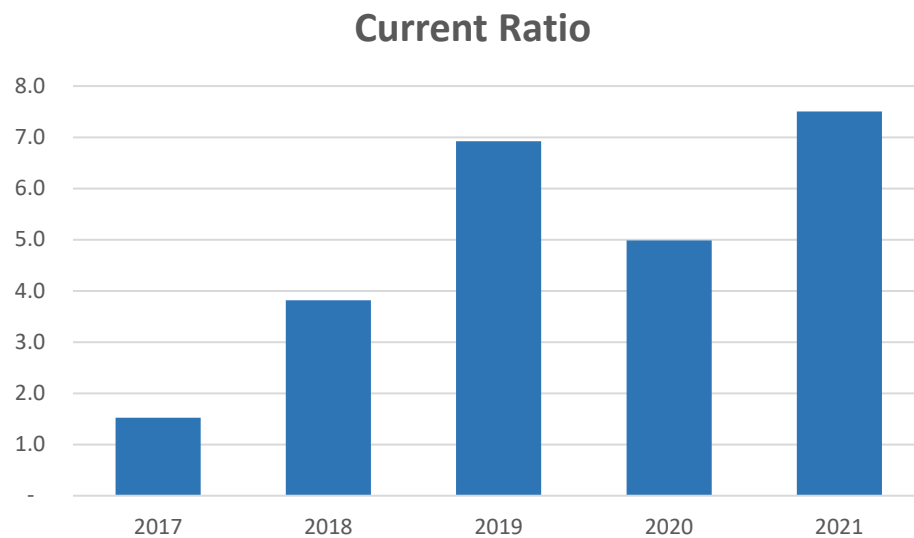
7) Current Ratio

The current ratio is a measure of the liquidity of an organization, meaning 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 increased to 7.5 for 2021 (adjusted to exclude balances for WTP) which was primarily driven by funding held on deposit at year end. Generally, a current ratio greater than one is considered healthy for a government entity.

(in 000s)

	2017 Actual	2018 Actual	2019 Actual	2020 Actual	2021 Actual
<u>Current Assets</u>	<u>45,350</u>	<u>88,199</u>	<u>201,762</u>	<u>194,953</u>	<u>163,459</u>
<u>Current Liabilities</u>	<u>29,744</u>	<u>23,126</u>	<u>29,150</u>	<u>39,114</u>	<u>21,788</u>
	1.5 : 1	3.8 : 1	6.9 : 1	5.0 : 1	7.5 : 1

*Actual excludes WTP



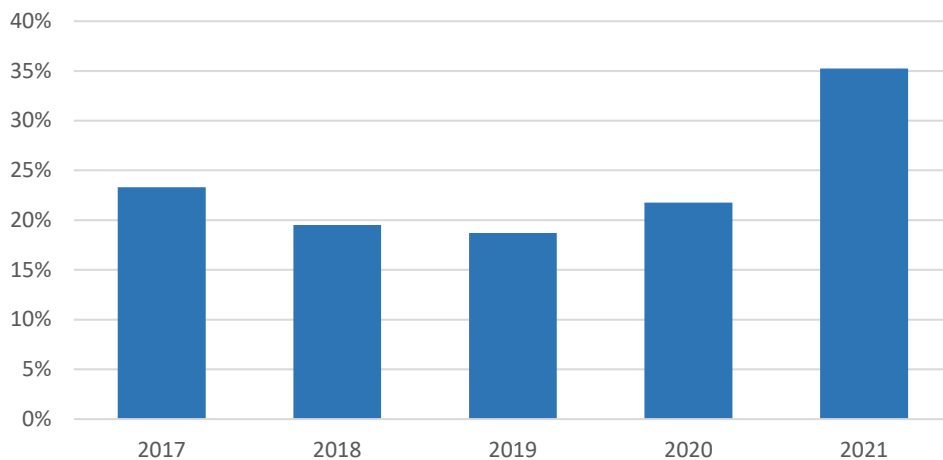
8) Contributions to Reserves / Total Reserves

The following graph shows the percentage of total reserve contributions to total reserve balances. For the last four years, the CRD has been contributing an average of 20.8% per year to reserves. The CRD continues to contribute to reserves in order to sustain the existing infrastructure, maintain consistent debt servicing levels, and leverage grant funding.

(in 000s)

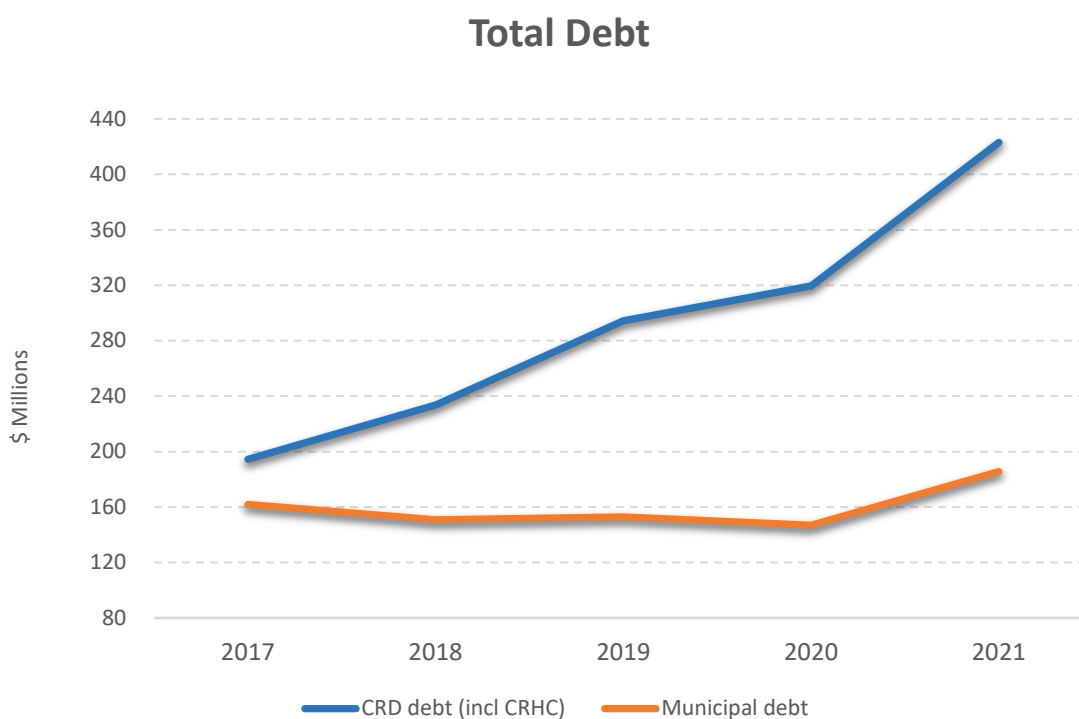
	2017 Actual		2018 Actual		2019 Actual		2020 Actual		2021 Actual	
<u>Reserve Contributions</u>	<u>27,995</u>	<u>23.3%</u>	<u>26,145</u>	<u>19.5%</u>	<u>25,789</u>	<u>18.7%</u>	<u>30,785</u>	<u>21.8%</u>	<u>60,008</u>	<u>35.2%</u>
<u>Total Reserves</u>	<u>120,179</u>		<u>134,029</u>		<u>137,814</u>		<u>141,413</u>		<u>170,334</u>	

Total Contributions / Total Reserves



9) Total Debt

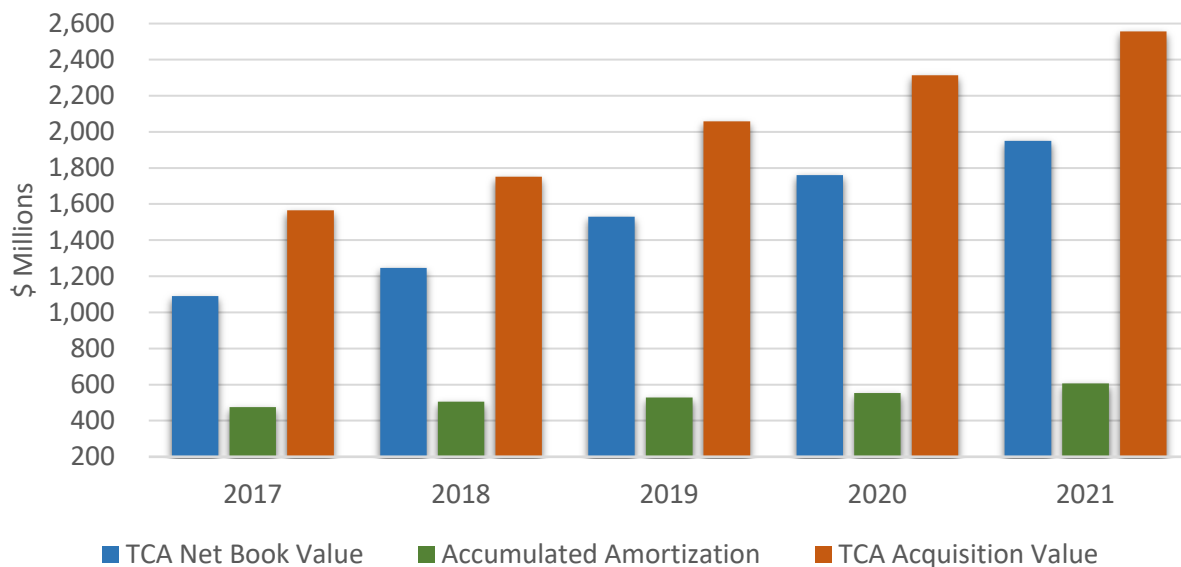
The CRD borrows long and short-term debt predominantly through the MFA that pools the borrowing and investment needs of BC communities to offer better rates of borrowing. In addition to debt incurred directly, the CRD also incurs long-term debt on behalf of its member municipalities and select other parties such as the Vancouver Island Regional Library. The additional debt servicing costs are offset by corresponding receivables from municipalities. In 2021, there was a \$104 million net increase in borrowing.



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 is an approximation of the remaining value of the assets that CRD uses in the provision of services. At the end of 2021, CRD has acquired a total \$2.56 billion in assets. After accumulated amortization, CRD is left with assets totaling a net book value of \$1.95 billion.

Tangible Capital Asset Values



11) Capital Investment vs. Amortization

The amount spent on tangible capital assets or capital investment, less amortization is called 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, CRD is acquiring assets at a faster rate than assets are amortizing. In 2021, CRD was acquiring assets 4.24 times faster than amortization (a decrease from 7.95 times in 2020), indicating that productive capacity is increasing. The WTP project still remained a significant portion of the District's total annual asset additions in 2021. The District expects the gap between acquisitions and amortization to decrease with the completion of WTP.

