Appendix E

Capital Regional District

Additional Financial Analysis

British Columbia, Canada

Fiscal year ended December 31, 2020

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 2020 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. Net debt decreased by $20.0 million and the debt ratios using the DBRS 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 C). 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.

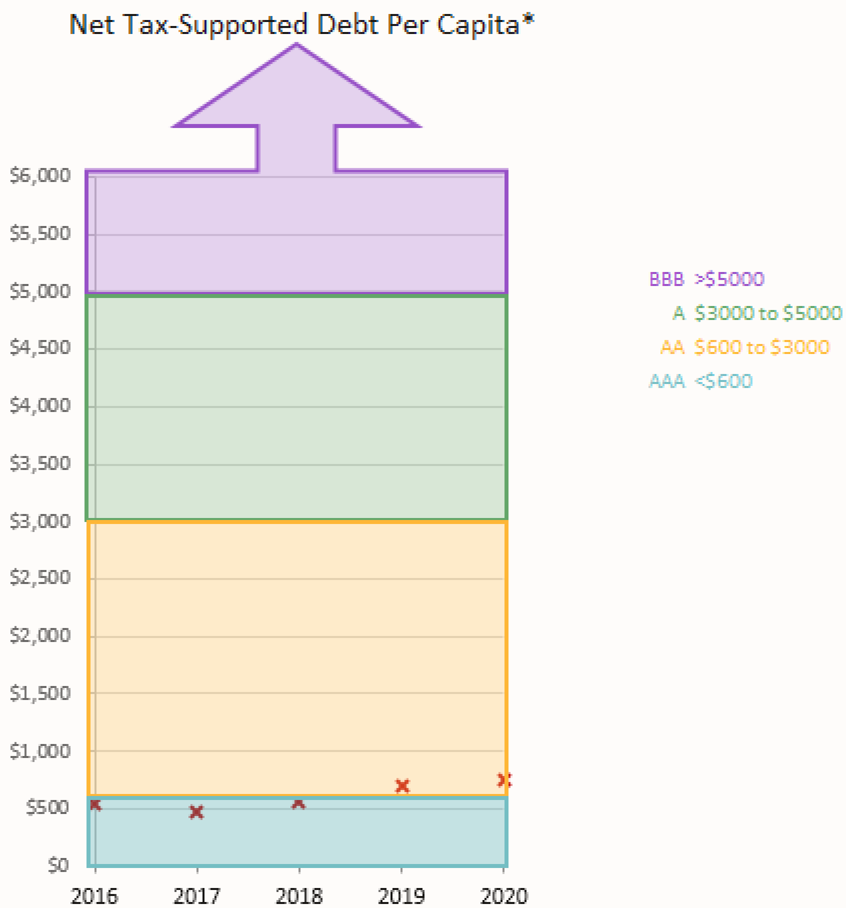
Although the final rating considers a blend of both operating risk and financial risk in their entirety, key ratios can provide a quick measure in assessing the government's financial strength— its ability to make timely payments on outstanding obligations (whether principal, interest, or other expenditures) 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. This indicator had been trending downwards as CRD reduced its net debt obligations through to 2017. However, in 2019 and 2020 the metric trended upwards. In 2020, there was a $25 million net increase in borrowing mainly due to $61 million increase related to the Regional Housing First Program and a pay down of $30 million related to Core Area Wastewater Program as construction nears completion. The net tax-supported debt per capita is $751 as at fiscal end 2020 ($703 – 2019), within the AA rating threshold of $600 to $3000.

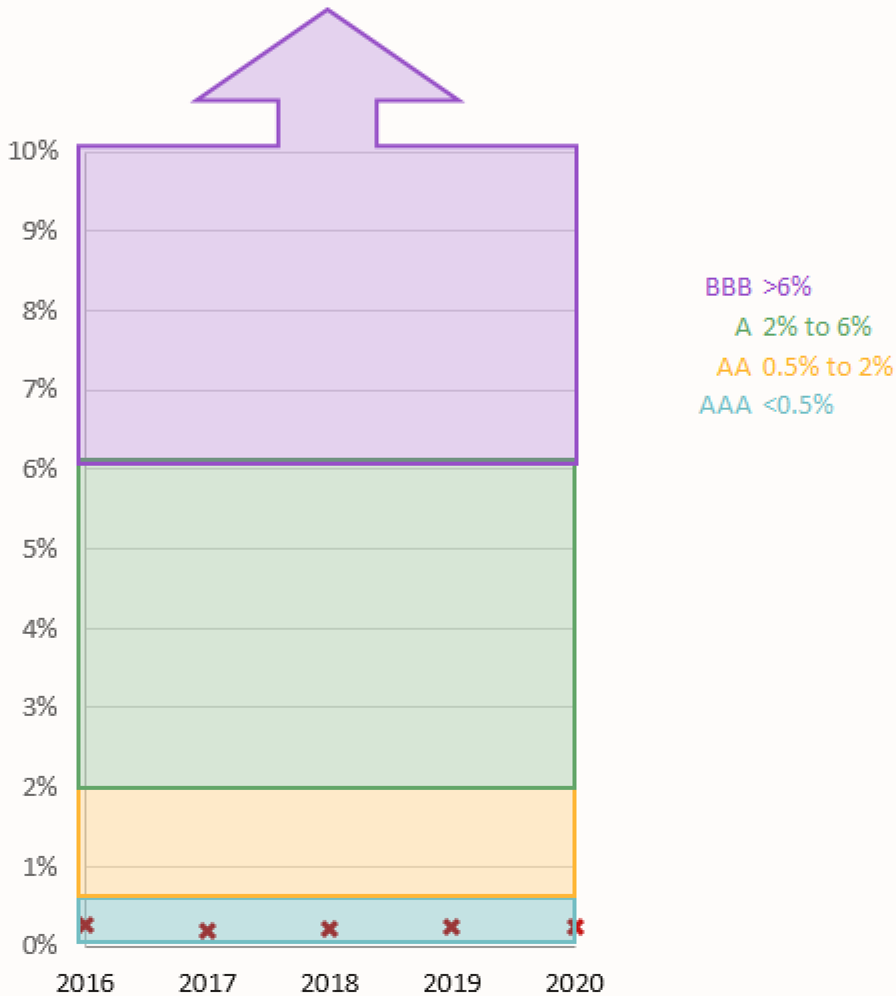


*NOTE: Does not include member municipality debt.
Ratings assessed using DBRS methodology issued in May 2020

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 0.25% in 2020 (0.24% - 2019), well within the AAA rating threshold of 0.5%.

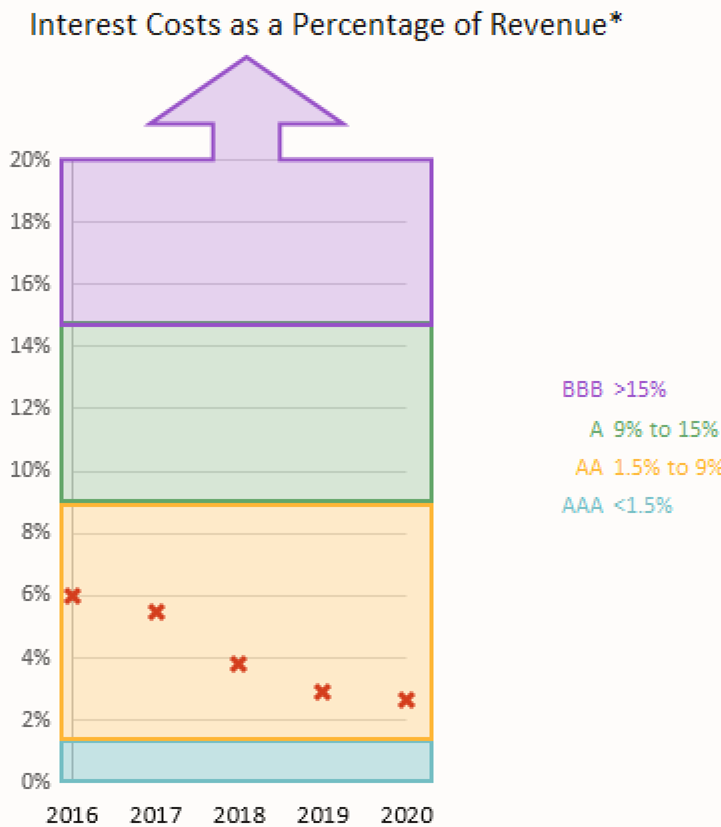
Net Tax-Supported Debt as % of Assessment*



*NOTE: Does not include member municipality debt.

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) for CRD services. 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 2.62% in 2020 (2.90% - 2019), resulting in an AA rating.



*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 2016-2020 is 1.4%, resulting in an AA rating. The decline in this ratio from 2019 (1.5%) is due to the continued increase in capital expenditures relating to CAWTP in 2020. The expenditure levels for CAWTP were expected to peak in 2019 and will decline through 2021.

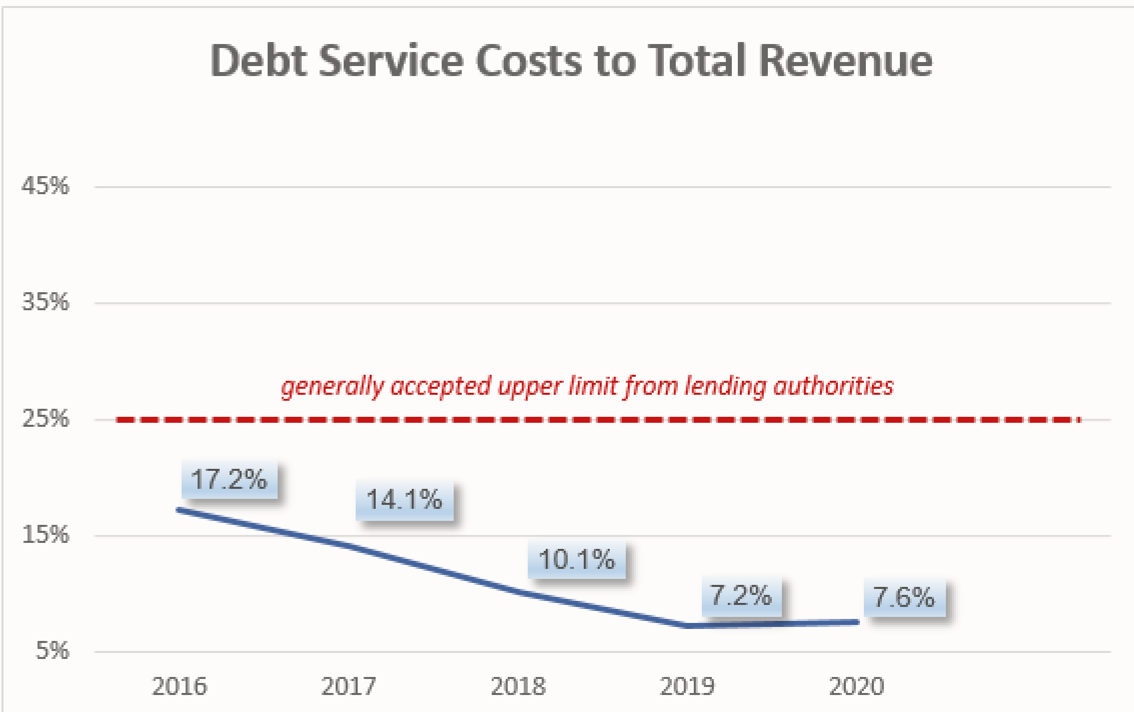
	2015-2019 Average		2016-2020 Average	
Surplus post-capex	4,033,360	**1.5%**	4,317,225	**1.4%**
Total Revenue	262,945,692		307,647,812	
		AA		**AA**

*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%

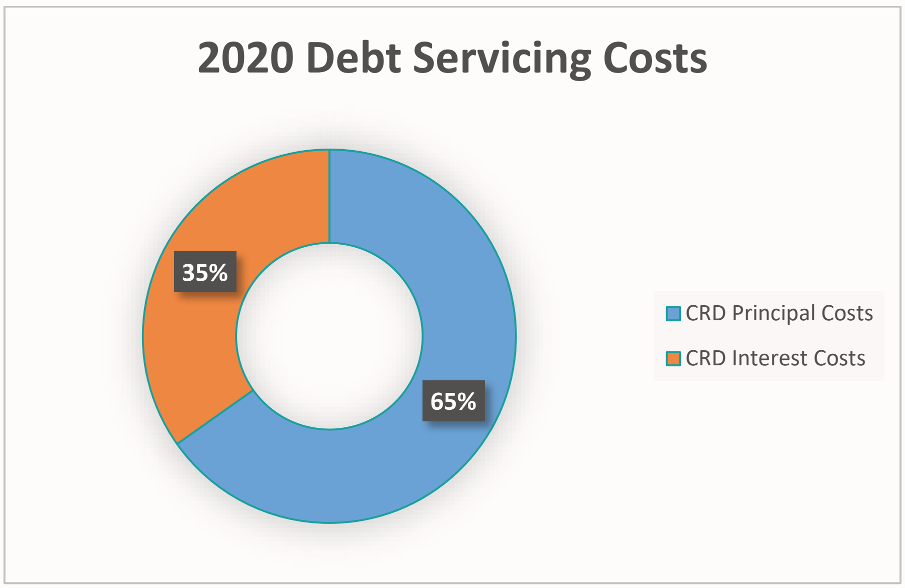
5) Debt Service Costs / Total Revenue

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) over revenue for the last four years averages 12.1%, while the 2020 result is down to 7.6%. This decline from 2017 onwards is the result of increased total revenues from government grants received for CAWTP combined with a 6.9% increase in debt service costs. Interest rates on long-term debt have also been decreasing which attributes to a lower percentage.



6) Principal and Interest as Proportion of Debt Service Costs

This measure indicates how much of the debt service payments are repaying principal amounts borrowed versus paying interest costs. The split between interest and principal will change when interest rates change and when longer or shorter terms to maturity are selected. In 2020, CRD debt service payments repaid principal of 65% (2019: 59%) and interest of 35% (2019: 41%). The decrease in interest costs is consistent with the declining Bank of Canada overnight rate in response to the economic impacts of COVID-19.



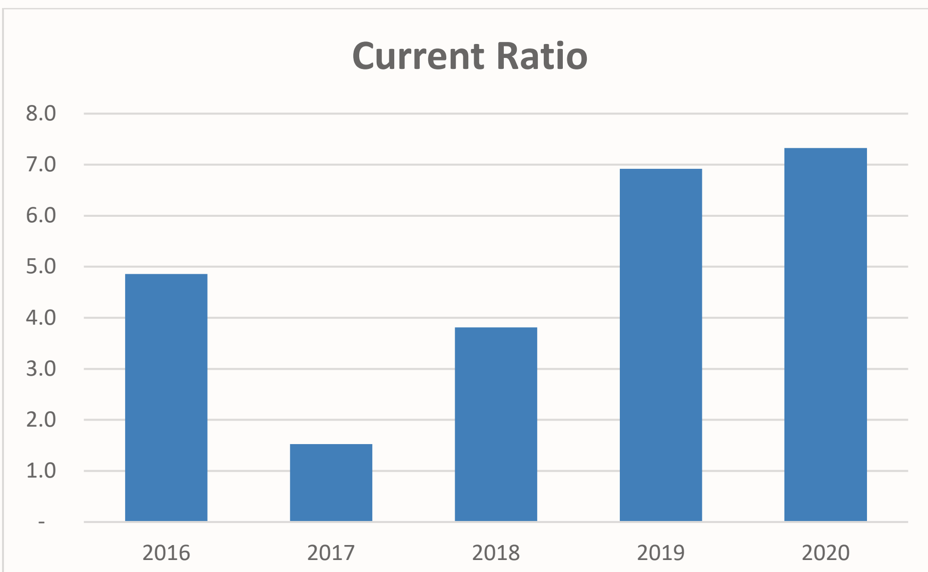
7) Current Ratio

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 7.3 for 2020 (adjusted to exclude balances for CAWTP) 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)

	2016 Actual		2017 Actual		2018 Actual		2019 Actual		2020 Actual	
Current Assets	102,667	**4.9 : 1**	45,350	**1.5 : 1**	88,199	**3.8 : 1**	201,762	**6.9 : 1**	194,953	**7.3 : 1**
Current Liabilities	21,129		29,744		23,126		29,150		26,614	

*Actual excludes CAWTP

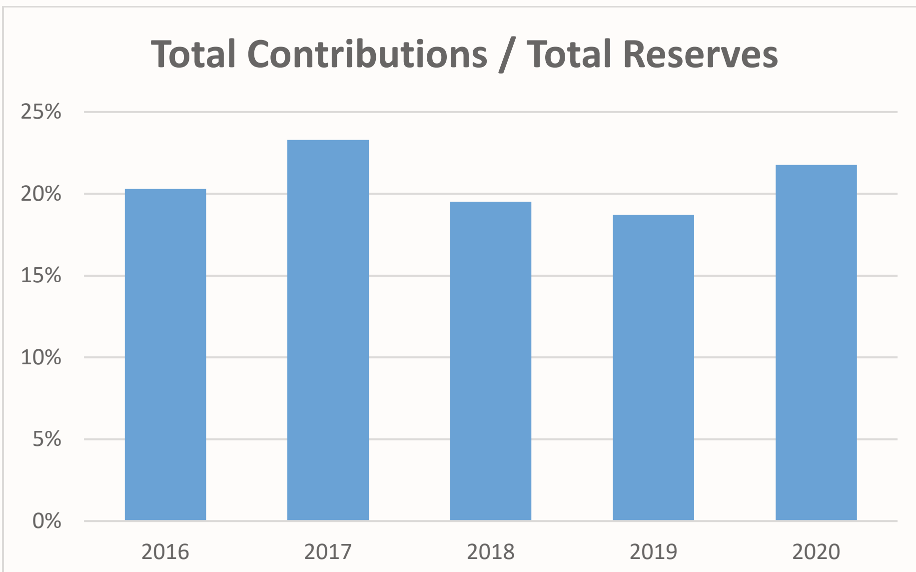


8) Contributions to Reserves / Total Reserves

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.

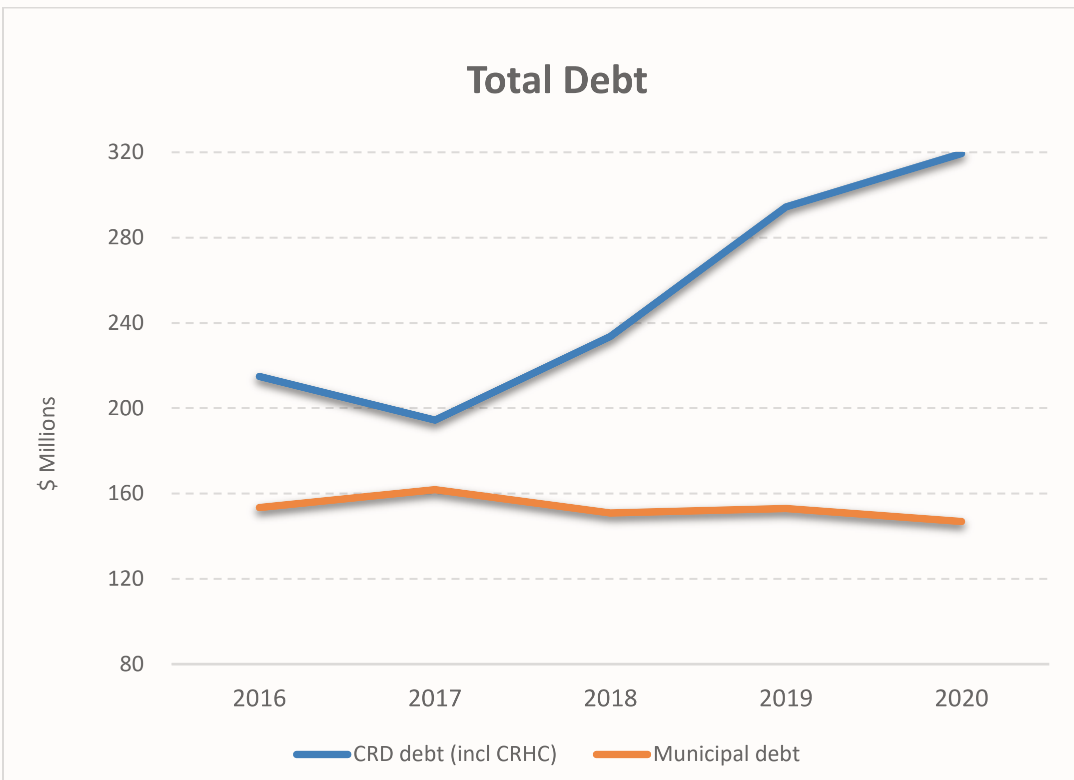
(in 000s)

	2016 Actual		2017 Actual		2018 Actual		2019 Actual		2020 Actual	
Reserve Contributions	21,890	**20.3%**	27,995	**23.3%**	26,145	**19.5%**	25,789	**18.7%**	30,785	**21.8%**
Total Reserves	107,817		120,179		134,029		137,814		141,413	



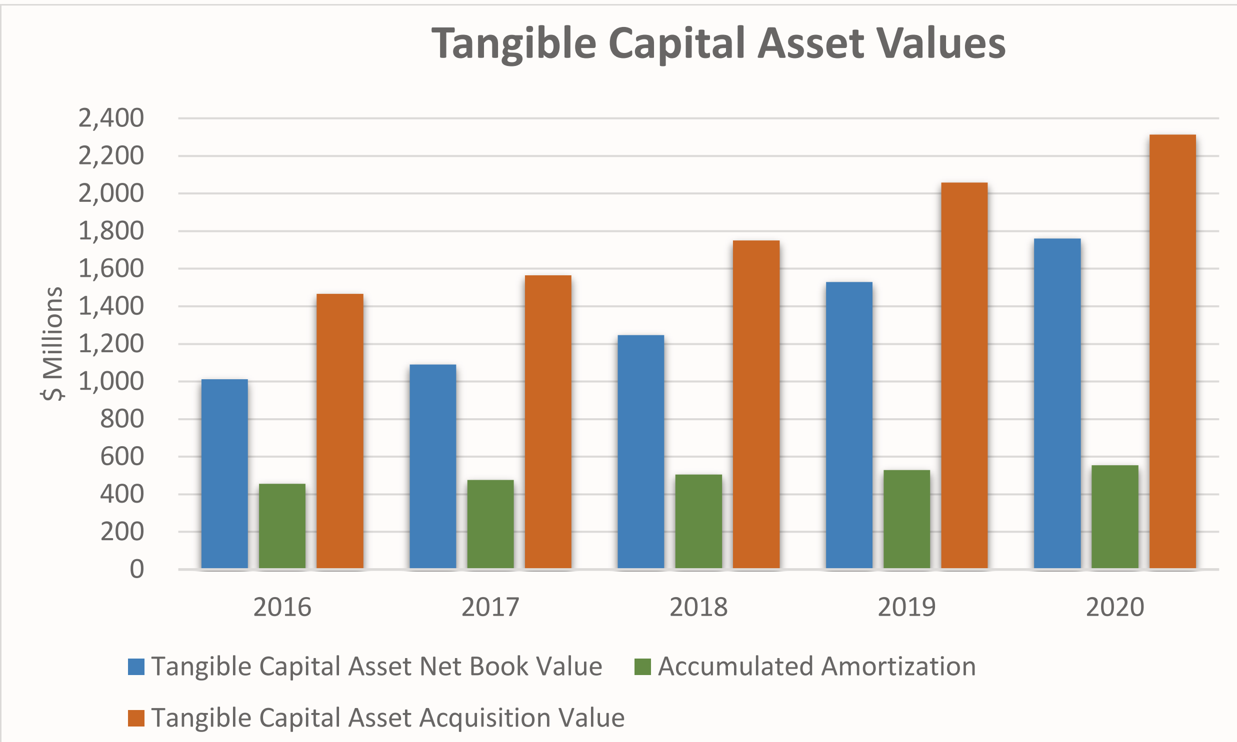
9) Total Debt

The CRD borrows long and short-term debt through the Municipal Finance Authority (MFA), who 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. The additional debt servicing costs are offset by corresponding receivables from municipalities. In 2020, CRD's direct debt increased by 8.5% to $319 million (2019 – 294 million), while municipal debt decreased 4.0% to $147 million (2019 – 153 million). The increase for CRD is attributable to: (1) $62 million in short-term borrowing related to CRHC Regional Housing First program, offset by a $30 million paydown of short-term debt and long-term debt related to CAWTP.



11) 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 2020, CRD is responsible for a total asset base of $2.30 billion. After accumulated amortization, the net book value of assets totals $1.76 billion.



12) 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 2020, CRD was acquiring assets 7.95 times faster than amortization (increased from 10.01 times faster in 2019), indicating that productive capacity is increasing.