

Appendix D

Indicators of Financial Condition 2024 Financial Statements

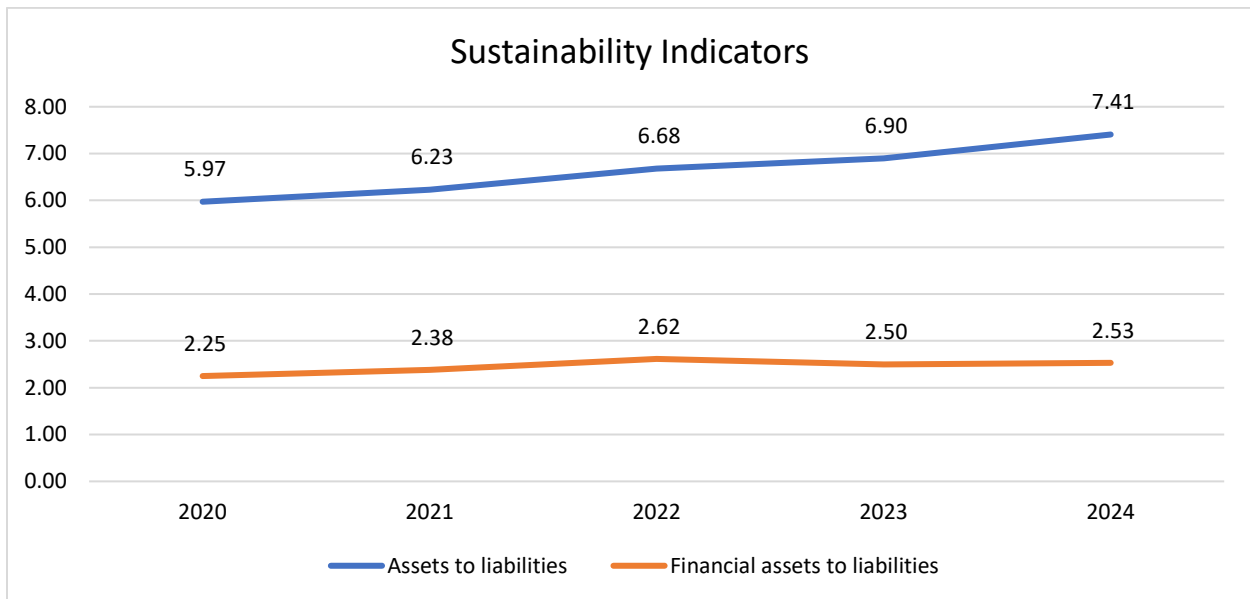
Assessing a government's financial condition using the elements of sustainability, flexibility, and vulnerability, at a minimum, provides a framework to support a variety of strategic and policy decisions.

Sustainability

Sustainability is the degree to which a government can maintain its existing financial obligations both in respect of the service commitment to the public and financial commitment to creditors, employees, and others without increasing the debt or tax burden. The ratio of assets to liabilities illustrates the extent to which a government finances its operations by issuing debt. A ratio of higher than one indicates that a government has accumulated surplus and has assets greater than debt. A ratio of less than one, or downward trending, may not be sustainable. For the ratio of financial assets to liabilities, a result of less than one indicates liabilities in excess of financial assets.

The City's ratio of assets to liabilities, and financial assets to liabilities, are positive and trending upward, which indicates strengthening sustainability. In other words, the current revenue is sufficient to cover operating costs and resources are on hand that can finance future operations.

Figure 2. Sustainability Indicators



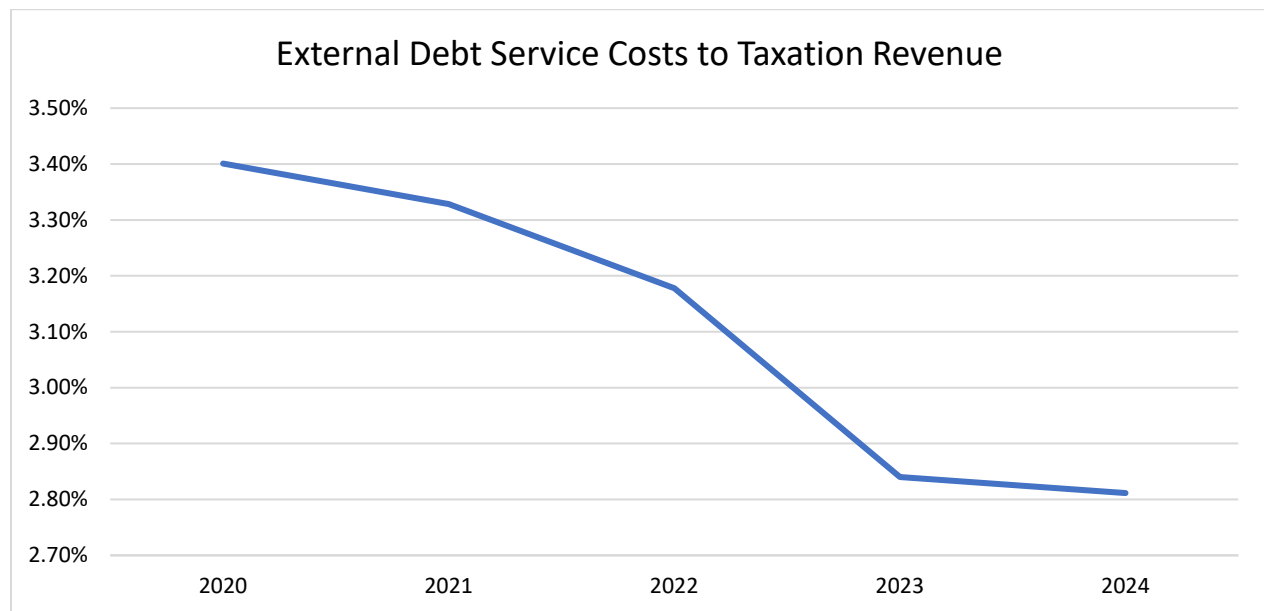
Flexibility

Flexibility refers to the degree to which a government can change its debt or tax burden in the economy within which it operates in order to meet its existing commitments. This provides insights into how a government manages its finances. For example, increasing current borrowing reduces future flexibility to respond when adverse economic circumstances develop; and increasing taxation or user fees reduces its ability to do so in the future as a government approaches the limit that residents and businesses are willing to bear.

Public debt charges to revenues illustrates the extent to which past borrowing decisions present a constraint on a government's ability to meet its financial and services commitment in the current period. The more a government uses revenues to meet the interest costs on past borrowing, the less will be available for program spending.

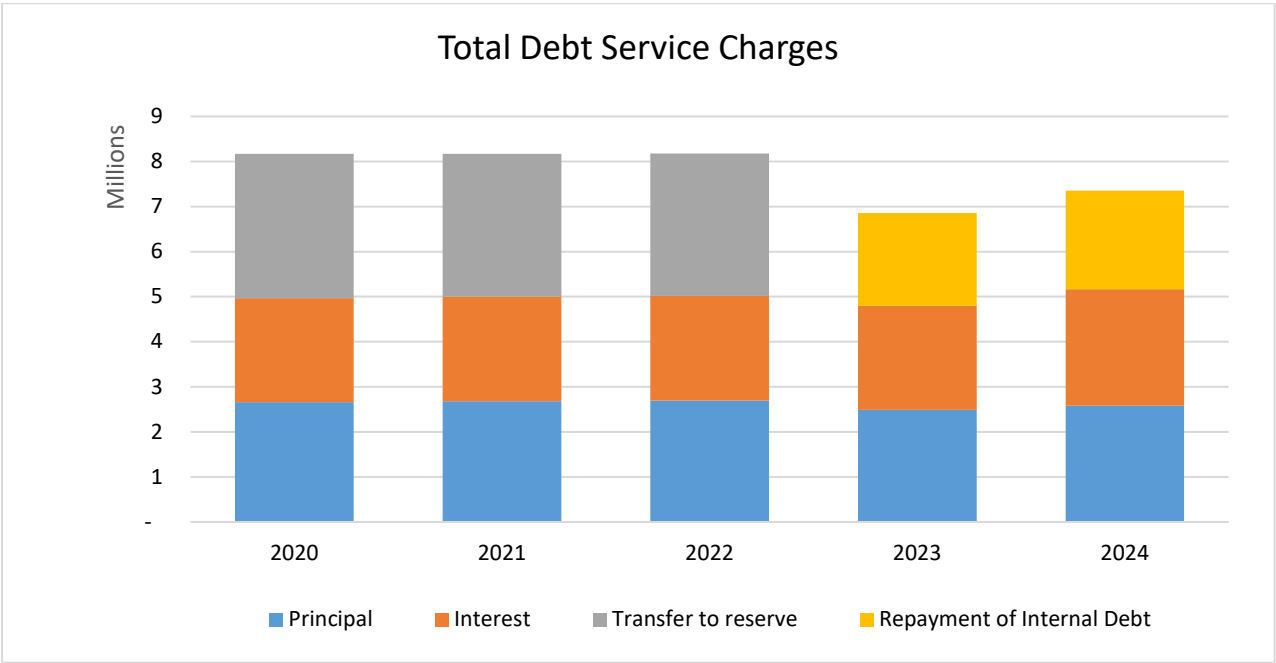
The City's external debt service costs include principal repayment and interest costs. The ratio of debt service costs to taxation revenue fluctuates in response to new debt issues, changes to interest rates, and debt issue maturity.

Figure 3. External Debt Service Costs (principal repayment and interest costs) to Taxation Revenue



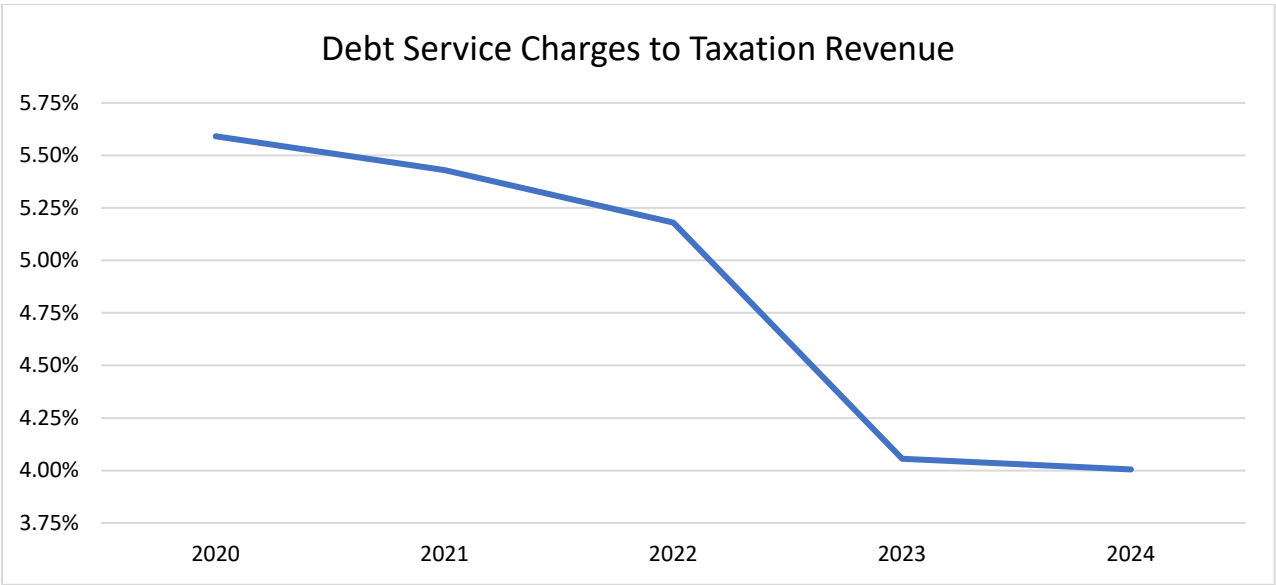
The City's Financial Sustainability Policy provides direction for debt management to maintain a constant threshold of debt service charges, which include external debt service costs and repayment of internal borrowing from the Debt Reduction Reserve, at a conservative ratio of total debt services charges to taxation revenue well below the legislated allowable maximum. The buffer of the internal transfer to reserve allows for debt service costs to fluctuate without having an impact on property taxes and enables the reserve to be built to allow internal borrowing as a lower cost alternative to external borrowing, both indicators of strength of flexibility. The financing of the new Fire Station #1 was done through internal borrowing, and 2023 was the first year of the repayment of that loan.

Figure 4. Total Debt Service Charges



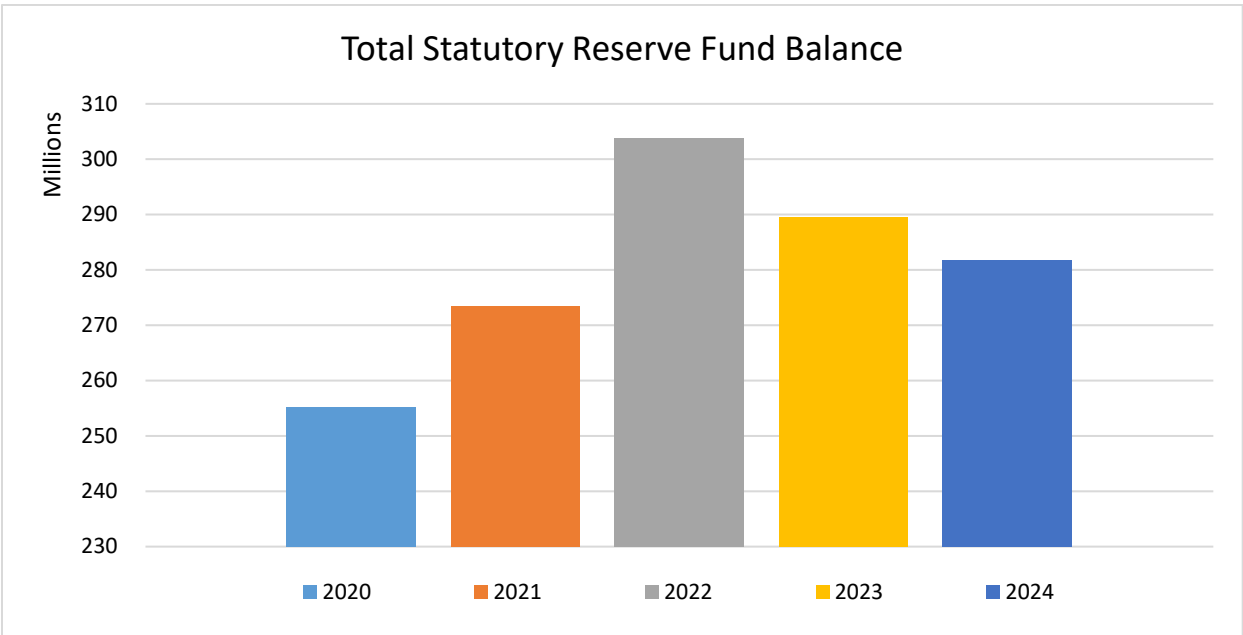
Maintaining the policy threshold level of total external debt charges results in a downward trend of the debt charges to taxation revenue indicator, adding further strength to flexibility.

Figure 5. Total Debt Service Charges to Taxation Revenue



The City’s Reserve Fund Policy guides the development and use of reserve funds. The City continues to use reserves and the balances (Figure 6) fluctuate in alignment with the City’s strategic objectives for services and asset replacement funding requirements. The decrease in 2024 is due to more capital projects being completed and funded from the reserves, most significantly are the work on underground infrastructure, multi-modal corridor improvements, and acquisition of future park land. The City does not yet have all master plans in place to determine asset replacement funding needs, however there is sufficient information to identify funding gaps for facilities, fleet and roads. These gaps are addressed through increases to annual capital funding and by continuing to contribute to reserve balances to support strengthening the City’s sustainability and flexibility in relation to capital funding decisions.

Figure 6. Statutory Reserve Fund Balance



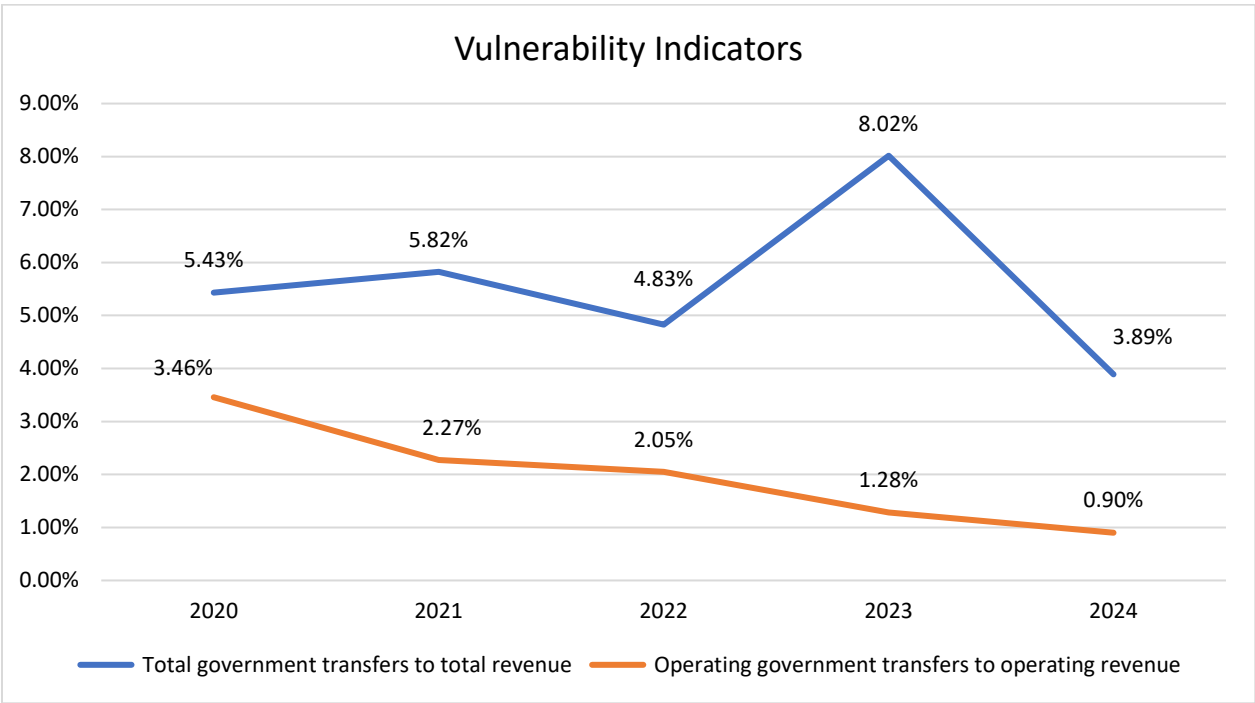
Vulnerability

Vulnerability is the degree to which a government is dependent on sources of funding outside its control or influence or is exposed to risks that could impair its ability to meet its existing financial obligations. A government whose vulnerability is relatively low has greater control over its financial condition.

The government transfers to total revenue indicator can provide insight into a government’s vulnerability as a result of dependency on another government. The City’s ratio of total government transfers to total revenue is impacted by grants received for capital projects. Considering only the operating government transfers received in relation to total operating revenue, the ratio is typically significantly lower and is relatively stable or trends downward. During the pandemic, additional operational one-time funding was provided to municipalities through programs such as the Strengthening Communities Services Grant resulting in a higher ratio in 2020-2022. For the total grant ratio, the sharp uptick in 2023 is related to the receipt of the one-

time Growing Communities Fund of \$12.8M from the Province to support infrastructure and amenities demands of local governments.

Figure 7. Vulnerability Indicators



The City’s Financial Sustainability Policy states in its Primary Objective that the “policies shall be designed and structured to develop principles that guide, support, and respect the direction of the community so that taxpayers can look forward to stable, equitable and affordable property taxation”. The indicators of financial condition illustrate that the application of these principles guide decisions that support building the City’s financial strengths in sustainability and flexibility, while considering the risk of vulnerability.