Appendix D

Indicators of Financial Condition

2022 Financial Statements

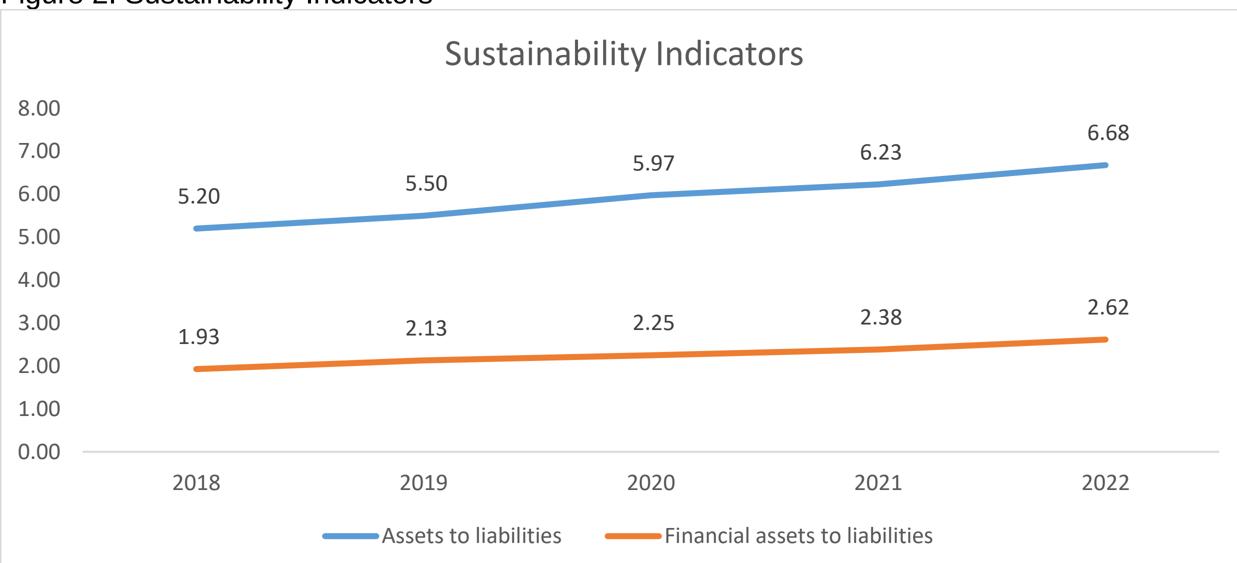
Assessing a government's financial condition using the elements of sustainability, flexibility, and vulnerability, at a minimum, provides a framework to support a variety of strategic and policy decisions.

<u>Sustainability</u>

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 by 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



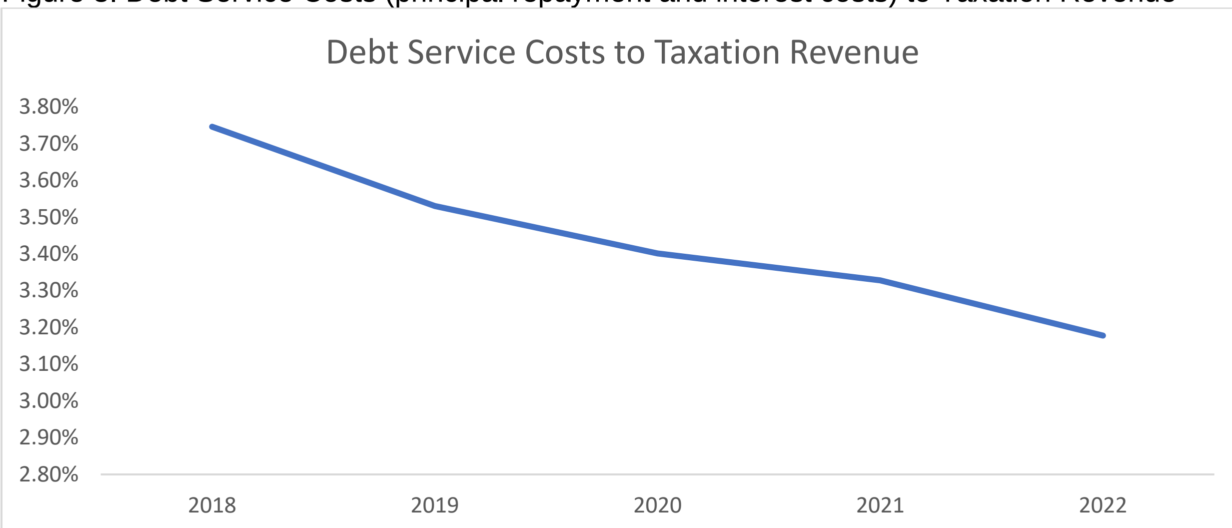
<u>Flexibility</u>

Flexibility refers to the degree to which a government can change its debt or tax burden on 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 citizens 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.

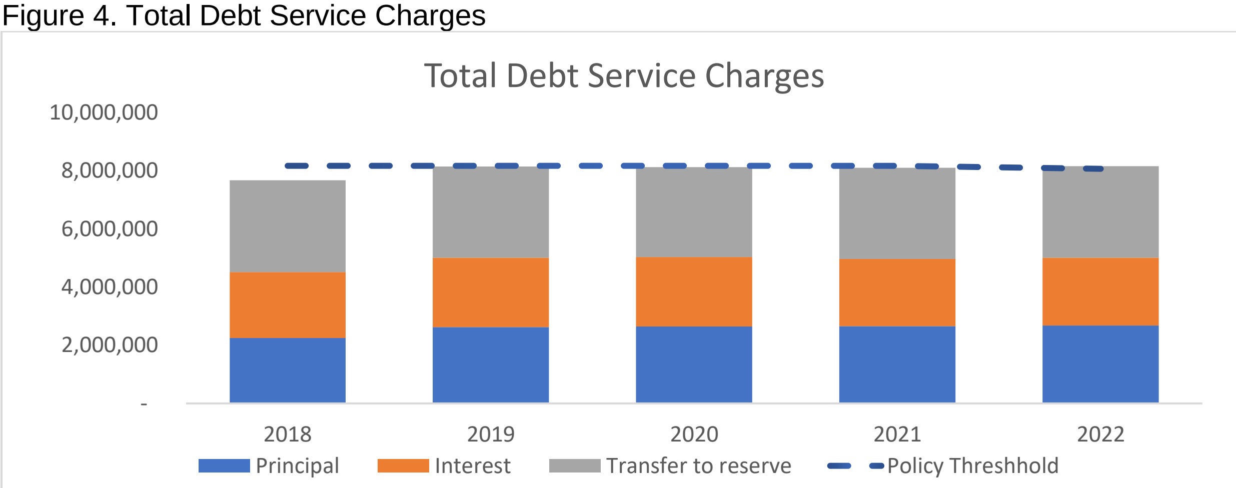
The City's external debt service costs include principal repayment and interest costs. The ratio of debt service costs to taxation revenue fluctuates in response to new debt issues, changes to interest rates, and debt issue maturity.

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



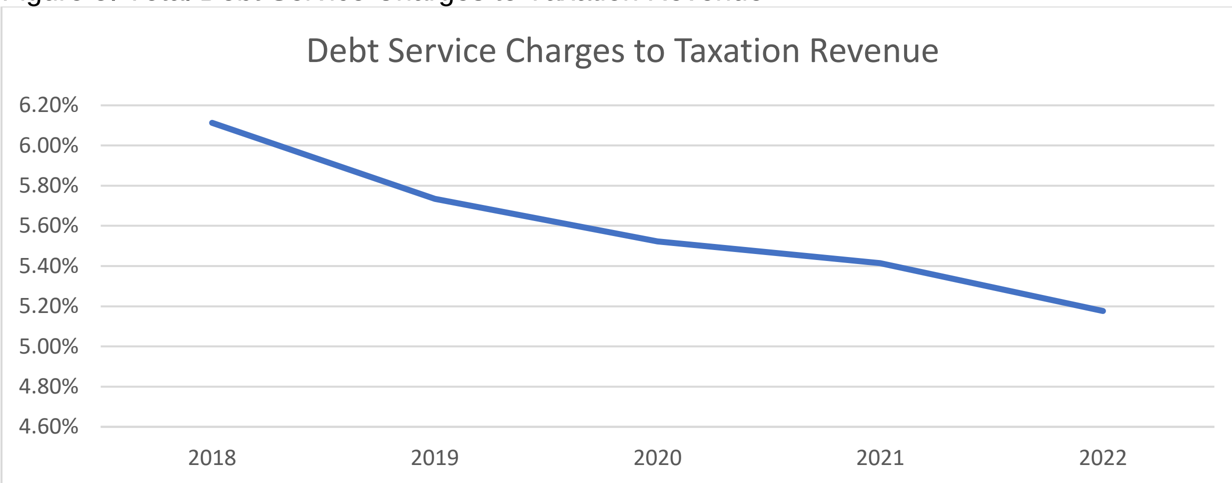
The City's Financial Sustainability Policy provides direction for debt management to maintain a constant threshold of debt service charges, which include external debt service costs and internal transfers to the Debt Reduction Reserve, at a conservative ratio of total debt services charges to taxation revenue well below the legislated allowable maximum. The buffer of the 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.

Figure 4. Total Debt Service Charges



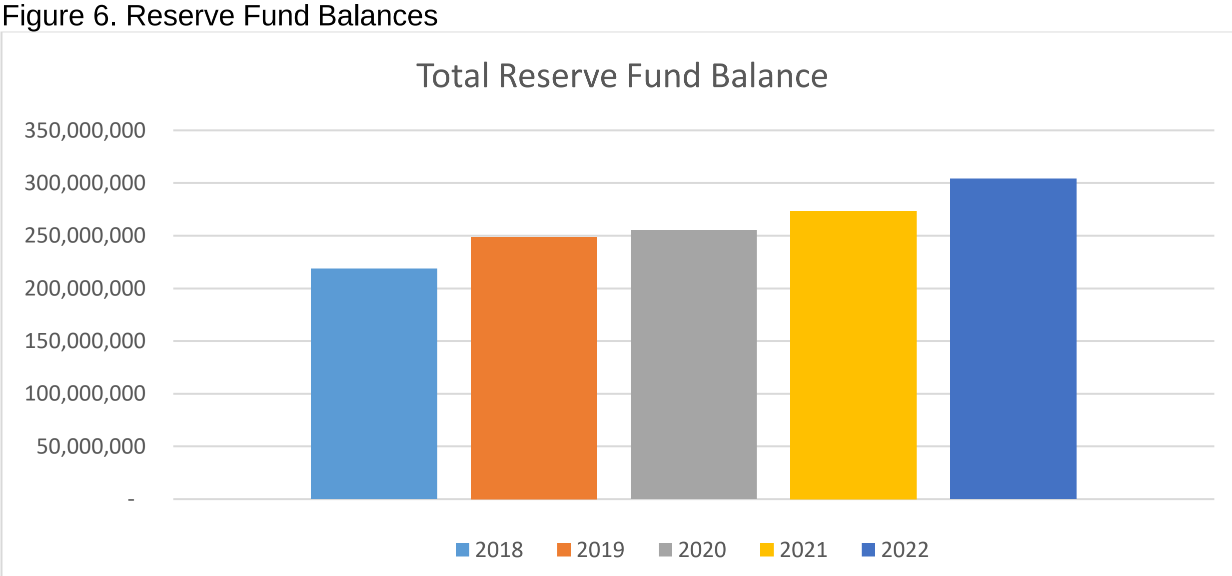
Maintaining the policy threshold level of total debt charges results in a downward trend of the debt charges to taxation revenue indicator, adding further strength to flexibility.

Figure 5. Total Debt Service Charges to Taxation Revenue



The City's Reserve Fund Policy, which was most recently reviewed and updated in 2020, guides the development and use of reserve funds. The City continues to grow reserve balances (Figure 6) in alignment with the City's strategic objectives for services and asset replacement funding requirements. 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 by continuing to grow reserve balances to support strengthening the City's sustainability and flexibility in relation to capital funding decisions.

Figure 6. Reserve Fund Balances

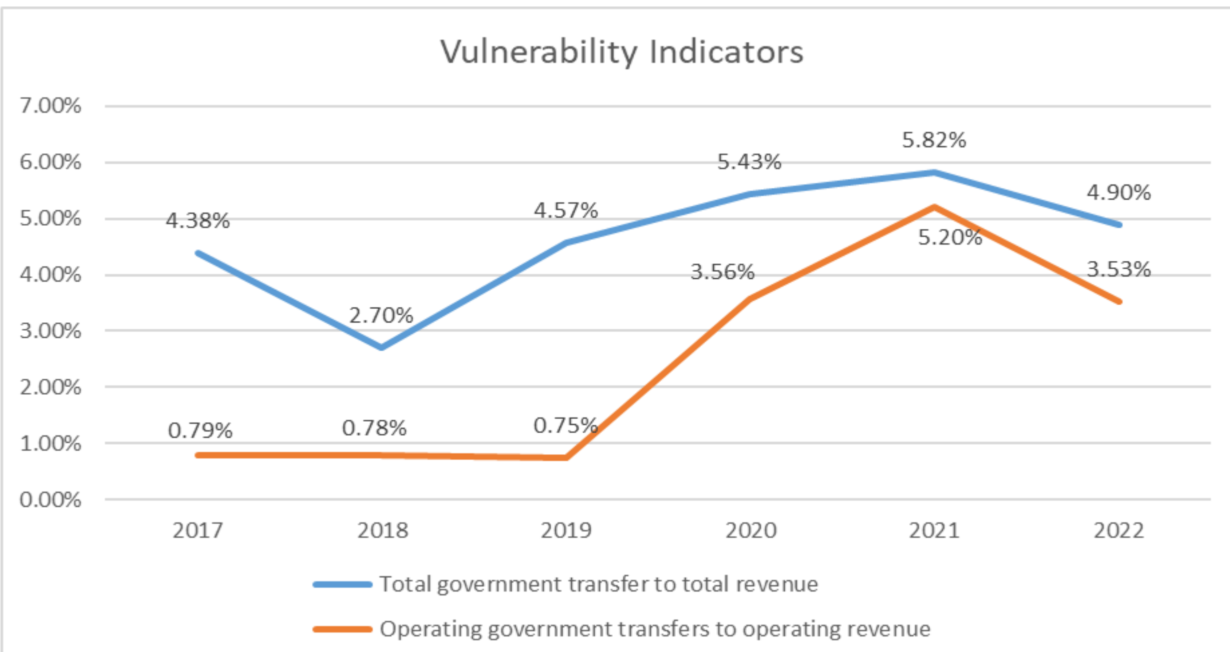


Vulnerability

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 large grants received for large capital projects. Considering only the operating government transfers received in relation to total operating revenue, the ratio is significantly lower and normally trends downward. The uptick in 2021 is related to the receipt of a portion of the Strengthening Communities grant, additional Canada Community-Building payment (formerly Gas Tax fund) which is transferred to reserve, as well as Municipal and Regional District Tax Online Accommodation Platform (MRDT OAP) revenues which are transferred to the Housing Reserve.

Figure 7. Vulnerability Indicators



The City's Financial Sustainability Policy states in its Primary Objective that the "polices shall be designed and structured to develop principles that guide, support, and respect the direction of the community so that tax payers 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.