

# Memo



**Date:** April 30, 2024  
**To:** Audit Committee  
**From:** Financial Services Divisional Director  
**Subject:** 2023 City of Kelowna Financial Health Indicators  
Report Prepared by: Lewis Isle, Financial Analyst

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**Purpose:**

To provide the Audit Committee with a report using key performance indicators that shows the overall financial health of the City for the year ended 2023. The report also provides comparative financial information for the year ended 2022 using Local Government data for Municipalities with greater than 100,000 population and for Local Governments in the region. Comparative financial information for 2023 will be available when the Local Government Data Entry (LGDE) statistics are published in the fall.

**Background:**

Along with the quarterly reports provided to council by Financial Services, we present our Yearly Financial Health Indicators based on information in our annual Financial Statements.

Principles and Strategies for Financial Strength and Stability are used to guide decision-making within the City and to help realize financial goals and, ultimately, the vision for Kelowna.

The principles and strategies guide the development of detailed policies, setting boundaries for budgeting and planning decisions. Performance measures and Financial Reporting are the essential communication tools that tell us how the City is performing year to year.

The City also compares our performance to other Municipalities and the Okanagan region. These comparative figures were taken from provincially provided LGDE reports. The ratio analysis focuses on the 10 BC Municipalities with a population of greater than 100,000 (Abbotsford, Burnaby, Coquitlam, Delta, Langley, North Vancouver, Richmond, Saanich, Surrey and Vancouver) and the Okanagan Region (Kamloops, Penticton, Vernon and West Kelowna).

2023 Comparative figures for other local governments will be available in the fall of 2024 and will be included at next year's Audit Committee meeting.

As mentioned above, the current financial health indicators provide the Audit Committee with an overall picture of the City of Kelowna's financial position relative to other municipalities of similar size, as well as to other municipalities in the Okanagan region. While these comparisons provide beneficial information, it is important to note that the comparison to these other municipalities is not without its challenges. The difference between municipalities can sometimes be significant based on the services each municipality provides. To provide further value as to how the City of Kelowna is performing financially, benchmarks

are included for certain financial indicators. There are no common benchmarks available due to the considerable differences in municipal services, therefore these benchmarks have been tailored for the City of Kelowna and are based on factors such as industry standards, trends, and commonly acceptable ratios. Future work in this area is being undertaken and the City has recently joined the Municipal Benchmarking Network in order to access additional levels of data to further compare ourselves to other municipalities.


The financial health indicators outlined in this report provide a way to measure how decisions made during the year have affected the sustainability and flexibility of the City, and how we compare to other municipalities. They also link the financial results to the overall economic and fiscal environment that the City operates in.

**Financial Health Indicators:**

**Financial Flexibility** – How much room we have to move in the short term

Indicator 1: Debt Service Ratio

This ratio measures the percentage of current revenues required to service debt incurred to fund past expenditures and the capacity for the City to incur additional debt. A smaller debt service to revenue ratio indicates that the City has greater flexibility in future borrowing decisions and more revenue to use for other opportunities. In 2022 3% of revenues were used to pay for debt service charges and that the amount remained relatively steady in 2023 at 2.5%. The decrease is due to increased revenues and the payment of long term debt. This shows that the City’s borrowing ratio is currently in line with other municipalities. It should be noted that while there is significant borrowing room within the Province’s legislative thresholds, upcoming authorized loans for the BSK and Airport Expansion projects will significantly impact this ratio.

| Debt Service Ratio |  | Kelowna | Benchmark | Pop >100k | Okanagan |
|--------------------|---|---------|-----------|-----------|----------|
|                    |   | 2%      | <5%       | 1%        | 3%       |

Indicator 2: Own Source Revenue to Total Revenue

Measures the extent to which own source revenues make up total revenues. This is a gauge for how much flexibility the City has to deal with changing revenue sources. In 2023 this ratio increased to 36%, which is in line with normal level over the past 5 years. 2023 saw increases in every source of revenue. An increase in Taxation revenue was offset with a significant increase in Grant revenue, as well as DCC revenue. Grant revenue increased almost \$40 Million dollars mostly related to a large Growing Communities Grant. There are also significant deferred grants received, providing some support for future years metrics.

| Own Source Revenue |  | Kelowna | Benchmark | Pop >100k | Okanagan |
|--------------------|---|---------|-----------|-----------|----------|
|                    |   | 36%     | >40%      | 30%       | 34%      |

Indicator 3: Government Transfers to Total Revenues

This ratio measures the dependence of the City on other levels of government for sources of funding. It is important to note that a balance needs to be achieved as a reduced dependence on government transfers may reduce vulnerability, but it could also impair sustainability if the City's tax base has to replace the revenues lost from a reduction in transfer payments. The City of Kelowna has a Grant strategy in place to create this balance.


Some government transfers are relatively consistent from year to year however, the City occasionally receives one-time funding typically for large infrastructure projects which will cause this ratio to fluctuate. This ratio has been fairly stable in the past 3 years but saw quite a large increase in 2023 due to the Growing Communities Grant mentioned above.

|                             |   |                       |                          |                           |                        |
|-----------------------------|---|-----------------------|--------------------------|---------------------------|------------------------|
| <b>Gov. Transfers Ratio</b> |  | <b>Kelowna</b><br>13% | <b>Benchmark</b><br><10% | <b>Pop &gt;100k</b><br>4% | <b>Okanagan</b><br>12% |
|-----------------------------|---|-----------------------|--------------------------|---------------------------|------------------------|

**Financial Sustainability** – The ability to maintain operations and services over the long term

Indicator 4: Financial Assets to Liabilities

Measures liquidity and the City's ability to meet financial obligations. A ratio > 1.0 indicates the City is well positioned to meet its financial obligations without the need to fund past expenditures with future revenues. This ratio has been trending upwards in recent years, with financial assets growing at a greater rate than that of financial liabilities. 2023 saw a slight decrease to this ratio as liabilities increased at a greater rate than assets. This is due to the new Asset Retirement Accounting standard, and a significant increase in Accounts Payable and Deferred Development Cost Charges.

|                                 |   |                        |                           |                             |                         |
|---------------------------------|---|------------------------|---------------------------|-----------------------------|-------------------------|
| <b>Fin. Assets/ Liabilities</b> |  | <b>Kelowna</b><br>1.98 | <b>Benchmark</b><br>>1.75 | <b>Pop &gt;100k</b><br>1.84 | <b>Okanagan</b><br>1.39 |
|---------------------------------|---|------------------------|---------------------------|-----------------------------|-------------------------|

Indicator 5: Net Financial Assets (Financial Assets-Liabilities) to Total Revenue

This ratio provides a measure of revenue that can be used to fund current and future expenditures. An increasing ratio normally indicates stability, and that the City is well positioned to meet its financial obligations now and in the future. This ratio has remained relatively stable in the past few years, decreasing slightly from 110% to 101% in 2023. In this case, this means that revenues increased at a slightly higher rate than Net Financial Assets in 2023.

|                                |   |                        |                          |                            |                        |
|--------------------------------|---|------------------------|--------------------------|----------------------------|------------------------|
| <b>Net Fin. Assets/Revenue</b> |  | <b>Kelowna</b><br>101% | <b>Benchmark</b><br>>70% | <b>Pop &gt;100k</b><br>75% | <b>Okanagan</b><br>27% |
|--------------------------------|---|------------------------|--------------------------|----------------------------|------------------------|

Indicator 6: Accumulated Surplus/Deficit to Expenses

Measures reserve balances as a percent of operating expenses. Reserves are monies set aside for planned future needs, to smooth expenses, or for unexpected costs. This metric indicates the amount of funds available that could be used to fund City operations. This measure has been trending up over time, indicating that we are setting more money aside to fund future expenses. In 2023 this measure has remained similar to 2022, as the surplus and expenses have increased at roughly the same rate.

| Accum Surplus & Reserves/Expenses |  | Kelowna | Benchmark | Pop >100k | Okanagan |
|-----------------------------------|---|---------|-----------|-----------|----------|
|                                   |   | 159%    | >100%     | 137%      | 63%      |

**Competitiveness** – How do we fare financially on a representative house and per capita basis


Indicator 7: Municipal Portion of Taxes on a Representative House

Measures the municipal amount of property taxation per average house within a municipality. This measure has been trending up over the last 5 years in line with other comparators. The focus as a municipality is to keep the tax burden to an acceptable level while providing services for citizens and growing and maintaining infrastructure. The stability of this measure is dependent on well thought out fiscal planning and financial funding strategies, this ensures our citizens are getting an adequate level of service for each tax dollar they pay. (This graph is based on the most recent LGDE data)

| Municipal portion on Representative House (LGDE) |  | Kelowna | Benchmark | Pop >100k | Okanagan |
|--|---|---------|-----------|-----------|----------|
|  |   | \$2,681 |           | \$2,902   | \$2,340  |

Indicator 8: Debt Per Capita

Measures the amount of debt a municipality has per citizen. This has been trending downwards over the past 5 years indicating that the city is holding less debt per citizen now compared to 5 years ago. This will follow the same trend as the debt servicing ratio unless a significant change happens with the population in the region. With The City of Kelowna not taking on a significant amount of new debt in 2023 and paying down old debt, the trend on this ratio is favorable.

| Debt per Capita |  | Kelowna | Benchmark | Pop >100k | Okanagan |
|-----------------|---|---------|-----------|-----------|----------|
|                 |   | \$439   |           | \$669     | \$630    |

Indicator 9: Annual Surplus Per Capita

Measures the amount of the City’s annual surplus per citizen. This metric indicates opportunity to add service capacity within existing taxation levels. This is trending up again after a downward trend from 2018 to 2021. While this indicator shows potential for additional service capacity within existing taxation levels, it is also important to note we do not want a significantly high annual surplus per capita as that means we are overtaxing our citizens.

|                           |   |         |           |           |          |
|---------------------------|---|---------|-----------|-----------|----------|
| Annual Surplus per capita |  | Kelowna | Benchmark | Pop >100k | Okanagan |
|                           |   | \$915   |           | \$836     | \$478    |

**Conclusion:**

It is important to note and consider when making decisions around the above financial information that we are not comparing apples to apples in services and products between comparative municipalities. If the City shows significant differences, it may warrant further investigation.

The City’s strong overall financial health played a key part in recent years after being challenged in many areas by the COVID-19 pandemic, and then a period of significant inflation. In particular, stability of the City’s flexibility position is a great strength moving forward. This is due to revenue increases across all segments. 2023 was once again a period of economic uncertainty with inflation and interest rate hikes being the leading factors in an ever-changing environment. Future infrastructure replacement and expansion demands are at the forefront of future planning and funding strategies are always ongoing. When making determinations on funding, the City will need to take the above factors into consideration along with the financial strategies already in place.

The sustainability ratios show that the City has remained stable in meeting current financial obligations without increasing the debt and that the Accumulated Surplus has remained at a similar level compared to expenses for 2023.

The City of Kelowna’s vulnerability regarding its dependence on sources of funding outside of its control is currently being managed through its Grant Strategy and has shown to be within an acceptable range.

The City of Kelowna’s Financial indicators show that 2023 was a somewhat stable year as the city continues to adapt to changing economic climates. Challenges such as inflation and supply chain issues have tested the city in recent years, however, the financial strategies in place have mitigated the effects and leave the city in a strong position going forward regardless of the challenges we face.