

Report to Council



Date: March 31, 2025
To: Council
From: City Manager
Subject: 2024 Financial Performance and Health Indicators Update
Department: Financial Services

Recommendation:

THAT Council receives, for information, the 2024 Financial Performance Report and Financial Health Dashboard from Financial Services.

Purpose:

To receive information summarizing the City of Kelowna's 2024 financial performance and a corresponding update on the Financial Health Dashboard.

Background:

This report presents the 2024 year end (unaudited) financial performance against budget and prior year activity as well as an update to our yearly Financial Health Indicators to assist council with its governance and financial oversight responsibility of the City.

Discussion:

2024 Financial Performance:

Consolidated revenue finished off 11% over budget due to the gain on sale of Fortis shares, which was not budgeted, and interest revenue earned on our investments exceeded budget targets.

Consolidated spending activity finished off 1% over budget at year end.

In 2024, capital activity saw a notable increase compared to 2023. The expenditure for 2024 amounted to \$249 million, up from \$160 million in 2023. By the end of the year, 75% of our capital budget had been utilized, indicating a capital burn rate of 75%.

End of year budget variance projections follow the table below:

Activity Ratio	Description	Third Quarter Performance
Revenue to Budget	This ratio measures revenue performance against budget. It allows management and Council to identify revenue gaps or surpluses, and to adjust where required to reach financial goals.	Group: Revenue <ul style="list-style-type: none"> ➤ \$501M (111%) <ul style="list-style-type: none"> ○ Top Source: Property & Parcel Tax (\$198M)
Spending to Budget	This ratio measures performance against budget, providing an indication of progress toward planned outcomes.	Group: Spending <ul style="list-style-type: none"> ➤ \$382M (101%) <ul style="list-style-type: none"> ○ Top Source: Salaries & Wages (\$134M)
Capital Spending Burn Rate	This ratio measures the percentage of annual capital budget utilized, reflecting the City's capacity to deliver on its capital program.	Group: Capital Projects <ul style="list-style-type: none"> ➤ \$249M (75%)

Financial Health indicators

This portion of the report presents key annual financial health indicators and compares them to benchmarks as well as other municipalities throughout the province, specifically those with populations over 100K as well as within the Okanagan. The comparative data is provided by the province and is updated to 2023. The ratios presented for Kelowna are based on 2024 financial data.

Financial Flexibility Ratios: Measure the degree to which a municipality can change its financial structure while still meeting its existing financial obligations 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 2024 2.2% (2023 - 2.5%) of revenues were used to pay for debt service charges. The decrease is due to increased revenues and the payment of long-term debt. The City's borrowing ratio is currently in line with other municipalities. There is significant borrowing room within the Province's legislative thresholds and the upcoming authorized loans for the Building a Stronger Kelowna Initiative and Airport Expansion projects will significantly impact this ratio.

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

Indicator 2: Own Source Revenue to Total Revenue

This ratio 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 2024 this ratio decreased from 36% to 33%, which is in line with normal levels over the past five years. 2024 saw large increases in total revenue while own source revenue remained relatively stagnant. This is due to a significant increase related to the gain on portfolio investments.



Indicator 3: Government Transfers to Total Revenues

This ratio measures the dependence of the City on other levels of government 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 mostly stable in the past five years. In 2023 this ratio increased due to the large Growing Communities Fund. In 2024 we saw a slight decrease back down to 11% from 13%.



Financial Sustainability Ratios: Measures the ability of a municipality to meet its existing financial obligations and maintain operations and services over the long term

Indicator 4: Financial Assets to Liabilities

This ratio 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. In recent years, this ratio has remained stable, as financial assets have grown at a rate comparable to that of financial liabilities. In 2024, the ratio decreased slightly from 1.98 in 2023 to 1.87 due to increased liabilities and decreased assets.



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 decreased slightly from 101% to 84% in 2024. In this case, this is due to large revenue increases and a slight decrease in Net Financial Assets in 2024.

Net Fin. Assets/Revenue	Kelowna	Benchmark	Pop >100k	Okanagan
 84%	84%	>70%	83%	21%

Indicator 6: Accumulated Surplus/Deficit to Expenses

This ratio represents reserve balances as a percentage of operating expenses. Reserves are funds allocated to planned future needs, to smooth expenses, or to cover unexpected costs. This metric reflects the amount of funds available that could be used to support City operations. Over time, this measure has been trending up, indicating that we are setting more money aside to fund future expenses. In 2024 this measure decreased slightly from 160% in 2023 due to increased expenses in 2024.

Accum Surplus & Reserves/Expenses	Kelowna	Benchmark	Pop >100k	Okanagan
 134%	134%	>100%	148%	61%

Competitiveness Ratios: Measures how well a municipality fares financially on a per capita basis relative to similar municipalities and to the region.

Indicator 7: Municipal Portion of Taxes on a Representative House

This ratio measures the municipal amount of property taxation per average house within a municipality. This measure has been trending up over the last five 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 to ensure our citizens are getting an adequate level of service for each tax dollar they pay.

Municipal portion on Representative House (LGDE)	Kelowna	Benchmark	Pop >100k	Okanagan
 \$2,807	\$2,807	TBD	\$3,119	\$2,547

Indicator 8: Debt Per Capita

This ratio measures a municipality's debt per citizen. In 2024, the debt per capita decreased from \$440 in 2023 to \$371, continuing a five-year downward trend. Unless the population changes significantly, this ratio will follow the same trend as the debt servicing ratio. With Kelowna not taking on much new debt and paying down old debt in 2024, this continues a favourable trend.

Debt per Capita	Kelowna	Benchmark	Pop >100k	Okanagan
	\$371	TBD	\$635	\$622

Indicator 9: Annual Surplus Per Capita

This ratio measures the City's annual surplus per citizen. It indicates the opportunity to add service capacity within existing taxation levels. This ratio is increasing 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
	\$998	TBD	\$817	\$519

Conclusion:

The City's strong overall financial health played a key part in recent years after being challenged in many areas by the ever-changing economic environment. The stability of the City's financial flexibility ratios remains a significant strength moving forward. This is due to revenue increases across all segments. 2024 was once again a period of economic uncertainty with inflation and interest rate uncertainty 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.

Internal Circulation:**Considerations applicable to this report:****Considerations not applicable to this report:*****Legal/Statutory Authority:******Legal/Statutory Procedural Requirements:******Existing Policy:******Financial/Budgetary Considerations:******Consultation and Engagement:******Communications Comments:***

Submitted by: M. Friesen, Controller, Financial Services

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Attachments:

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