SUBJECT: Financial Status Report as at December 31, 2017

TO: Committee of the Whole

FROM: Finance Department

Report Number: F-06-18
Wards Affected: All
File Numbers: 100-01
Date to Committee: February 26, 2018
Date to Council: March 19, 2018

Recommendation:

Receive and file finance department report F-06-18 providing the financial status as at December 31, 2017.

Purpose:

An Engaging City
- Good Governance

Background and Discussion:

PART A - FINANCIAL POSITION

On December 31, 2017, the investment portfolio for the City totaled $258.6 million which represents an increase of $23.2 million from the comparative figure of $235.4 million at December 31, 2016.

The attached Appendix A shows investment income (interest earned and capital gain realized) to December 31, 2017 on the total investment portfolio.

Investment income has decreased from $10.5 million in 2016 to $10.3 million in 2017. The current yield on the city investment is 2.83% compared to 2.93% in 2016.
The Bank of Canada increased rates twice in 2017, first on July 12th and again on September 6th. These hikes took the rate from 0.5% to 1% where it was held steady through December 31st. In early January the bank again, increased rates by 0.25% to 1.25% but offered cautious commentary for the future specifically on the risk surrounding NAFTA negotiations.

Staff will continue to follow current events and their resulting impact on the market while managing the risk to the City’s portfolio.

Based on the economics of the market, staff will maintain the following investment strategies in 2017;

- Maintain investments in the City’s long-term portfolio but with reduced duration. As interest rate rise invest in longer durations to maximize rate of return while managing risk to ensure there will not be a liquidity issue to meet commitments.

- Trade bonds for capital gains by taking advantage of market fluctuations generated by economic data. This practice resulted in realized capital gains of $2.3 million for 2017 compared to $2.8 million realized for 2016. As interest rates rise the ability to realize capital gains will diminish. Staff will focus on maximizing capital gains at the appropriate times and reinvest in the market taking advantage of increasing interest rates.

Appendix B provides a listing of the current portfolio by type of investment, and weighted average yield, in accordance with the Ontario Regulation 438/97. In following the City of Burlington’s investment policy, the City can purchase Region of Halton bonds, up to but not greater than, the amount of the debenture issued on behalf of the City. As of December 31, 2017, the City’s investment portfolio included $22.4 million Region of Halton bonds.

As at December 31, 2017 the City’s investment portfolio is compliant with the guidelines set out in the City’s investment policy and goals adopted by the City.

**PART B - TAX COLLECTION**

The schedule in Appendix C reflects property tax status at Dec. 31, 2017 compared to Dec. 31, 2016. The total current levy has increased to $396.7 million from $382.9 million, an increase of $13.8 million. Collections have increased by $13.8 million. Collections have traditionally been 96% - 98% of the current year levy for this period and they are currently at 97.78% compared to $97.71% at year-end 2016.
The total current and prior years’ arrears have decreased to $11.5 million from $11.8 million. The total arrears as a percentage of the current year levy are currently 2.9% compared to 3.07% in 2016.

Six residential properties had a tax arrears certificate registered on title in 2017. Three of these have been paid up to date. Final notices are being sent to the interested parties on the remaining three in the hopes of receiving full payment or negotiating an extension agreement. There are 4 vacant land properties that were registered with a tax arrears certificate prior to 2016 that are currently under review.

Title searches to determine mortgagee on properties that were approaching 3 years of tax arrears for which payment arrangements had not been received were completed in November and December on 47 properties. Letters were sent to advise the owners and the mortgage companies of the tax arrears; this step is taken prior to a tax arrears certificate being registered on title. These letters have resulted in 70% of the accounts being paid in full or part by either the mortgage company or the owner(s). Accounts that have made payment arrangements will continue to be monitored. Over the next three months the Tax Collector will commence tax arrears certificate registrations on properties where no contact or payment arrangements have been made.

Staff continues to promote preauthorized payment plans. The year-to-year comparisons on the plans are detailed below.

<table>
<thead>
<tr>
<th></th>
<th>Dec 2017</th>
<th>Dec 2016</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Monthly Pre-Authorized Payment</td>
<td>16,494</td>
<td>16,397</td>
<td>0.59%</td>
</tr>
<tr>
<td>Due Date Pre-Authorized Payment Plan</td>
<td>3,643</td>
<td>3,619</td>
<td>0.66%</td>
</tr>
<tr>
<td>Ratepayer Defined Payment Plan</td>
<td>79</td>
<td>98</td>
<td>-19.39%</td>
</tr>
<tr>
<td>Total</td>
<td>20,216</td>
<td>20,114</td>
<td>0.51%</td>
</tr>
</tbody>
</table>

Property tax bills can be received electronically via Canada Post’s epost service. This service has continued to grow and we have 1,863 accounts signed up for electronic bill presentment. This represents 2.91% of all property tax accounts.

**PART C - DEBT AND FINANCIAL OBLIGATION LIMIT**

As of December 31, 2017, the City’s total debt charges as a percentage of own source revenue is estimated to be 10.5%, which is within the council approved guideline of 12.5%, and regulation of 25%. (See Appendix D)
The city has an estimated $102.2 million in total principal debt outstanding. Taking into consideration principal debt repayments of $13.2 million, as well as $35.1 million in debt which has been approved and not issued, total city principal debt projected to be outstanding at year end 2017 is approximately $124 million.

PART D - RESERVES AND RESERVE FUNDS

The status of the City’s Reserves and Reserve Funds balances are disclosed in Appendix E.

At December 31, 2017, the total of these balances amounted to $200.9 million, which is $17.1 million higher than the corresponding figure of $183.8 million at December 31, 2016. This increase is due to the timing of transfers into the reserve funds and timing of commitment pay outs. Of the total Reserves and Reserve Funds $82.6 million is committed for various projects leaving an uncommitted balance of $118.3 million. The commitments represent expenditures approved by Council in previous years’ capital budgets or funds held for specific future purposes.

The following chart provides an historical perspective of uncommitted reserve and reserve fund balances as at December 31:

![Reserve and Reserve Funds Uncommitted Balance as at December 31](chart)

PART E - 2017 BUDGET MONITORING

As of December 31, 2017, the preliminary unaudited operating budget results in a favourable variance of $2.9 million.
Please refer to 2017 Retained Savings Report (F-09-18, February 26, 2018 - Committee of the Whole) for high level factors which make up the favourable variance. Further to this report will be the Final Current Budget Performance report which will explain in greater detail the primary drivers for the retained savings as well as provide explanations for favourable and unfavourable yearend variances greater than $100,000 at the net service level. Staff will continue to monitor and update the year-end projections as part of the 2018 budget.

PART F – Financial Position

The financial status report provides information on significant balances on the City’s statement of financial position. Information is provided on the City’s short and long-term investments and cash balances. Information is also provided on taxes receivable. The reserve fund balances contain obligatory reserve funds which are shown as deferred revenue on the City’s statement of financial position. Our net long-term liabilities are discussed in the section on debt and financial obligation limits. Significant balances are as follows:

As at December 31st
(Amount are in thousands of dollars)

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash &amp; temporary investments</td>
<td>61,514</td>
<td>48,159</td>
</tr>
<tr>
<td>Taxes receivable*</td>
<td>11,497</td>
<td>11,770</td>
</tr>
<tr>
<td>Long term investments</td>
<td>197,039</td>
<td>187,227</td>
</tr>
<tr>
<td>Investment in Burlington Hydro Electric**</td>
<td>127,142</td>
<td>127,142</td>
</tr>
<tr>
<td>Deferred revenue - obligatory reserve funds</td>
<td>71,760</td>
<td>61,281</td>
</tr>
<tr>
<td>Net long-term liabilities</td>
<td>88,925</td>
<td>94,709</td>
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</tbody>
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* Reported net of allowance for write-offs

** 2017 balance is as at December 31, 2016
The City’s statement of financial position provides a long-term view of the City’s financial health. A year over year comparison helps to identify indicators that may be of concern or interest. As of December 31, 2017, there was an increase in the cash and temporary investments balance of approximately $13.4 million. This increase from the prior year is primarily driven by the collection of Development Charges. While these indicators currently do not reflect any concern for the municipality it is important that they continue to be monitored on a regular basis.

**Financial Matters:**
Not applicable.

**Conclusion:**
To present the financial status of the City as at December 31, 2017.

Respectfully submitted,

Michelle Moore
Coordinator of Financial Reporting
(905)335-7600 ext.7535

**Appendices:**
- a. Securities Position and Performance
- b. Investment Portfolio
- c. Property Tax Collection
- d. Debt and Financial Obligation Limit
- e. Reserve Funds and Reserve

**Report Approval:**
All reports are reviewed and/or approved by Department Director, Director of Finance and Director of Legal. Final approval is by the City Manager.