



SUBJECT: Quarterly financial status as at September 30, 2018

TO: Committee of the Whole

FROM: Finance Department

Report Number: F-40-18

Wards Affected: all

File Numbers: 100-01

Date to Committee: December 10, 2018

Date to Council: December 17, 2018

Recommendation:

Receive and file finance department report F-40-18 providing a quarterly financial status as at September 30, 2018.

Purpose:

An Engaging City

- Good Governance

Background and Discussion:

PART A - INVESTMENTS

The Bank of Canada increased rates twice in 2017 and twice again in January and July of 2018 to take the overnight rate from 0.5% up to 1.50%. The Bank of Canada again raised rates in October 2018 to bring the current rate to 1.75%. Commentary is projecting to a more positive environment specifically after the resolution of the NAFTA negotiations. Rates are expected to increase into 2019.

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 leading into the end of 2018 beginning of 2019;

- Maintain investments in the City's long term portfolio but with reduced duration. Once the rising interest rate environment stabilizes 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. 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 increased interest rates at a shorter duration.

Investment income is projected to have a favourable variance of \$500K for year end based on the details below.

	Projected December 2018	Actual December 2017
Total Interest	4,100,000	4,109,342
Budget	5,300,000	5,300,000
Favourable/(Unfavourable) Variance	(1,200,000)	(1,190,658)
Capital Gains	1,700,000	2,253,608
Favourable/(Unfavourable) Variance	500,000	1,062,950

The attached Appendix A shows investment income (interest earned, and capital gain realized) to September 30, 2018 on the total investment portfolio.

Investment income has increased from \$7.8 million in 2017 to \$7.9 million in 2018. The current yield on the City's investments is 2.67% compared to 2.57% in 2017.

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 September 30, 2018, the City's investment portfolio included \$16.4 million Region of Halton bonds.

As at September 30, 2018 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 – PROPERTY TAX COLLECTION

The City of Burlington collects property taxes for the city, Region of Halton and the Halton Boards of Education as legislated under the Municipal Act, 2001. Appendix C reflects the property tax status at September 30, 2018 compared to September 30, 2017. The 2018 total levy is \$409.8 million compared to \$395.9 million in 2017.

Collections for the current taxation year are 93.7%, which is consistent with prior years as highlighted in the chart below and detailed in Appendix C.

As at September 30	2018	2017	2016	2015
Current year Collections	93.7%	93.6%	94.0%	93.1%
Current year Arrears	6.3%	6.4%	6.0%	6.9%

Arrears notices are sent four times per year to aid in collections. In addition to arrears notices, tax collection letters are sent to owners with arrears in both the current year and two previous years; business properties are sent letters in the first quarter and residential properties in the second quarter.

A property title search is undertaken in November on accounts with three years of arrears and any lenders are notified. This results in most accounts being paid.

For those properties that remain three years in arrears, the Municipal Act, 2001 allows for a tax sale process to begin in January. The owner or any interested party has one year to pay out the tax arrears. If arrears remain after the one year period, the city may proceed with a municipal tax sale. Since 2000 there have been seven tax sales in Burlington.

The city offers multiple payment options including three pre-authorized payment plans which provide a convenient and reliable payment method for property owners. Approximately one third (20,000) of all property accounts are enrolled in pre-authorized payment plans.

Property tax bills are available electronically via Canada Post's epost service. There are currently 1,962 accounts signed up for electronic bill presentment, representing 3.05% of all property tax accounts.

PART C - DEBT AND FINANCIAL OBLIGATION LIMIT

As of September 30, 2018, the City's total debt charges as a percentage of own source revenue is estimated to be 10.1%, which is below the council approved guideline of 12.5%, and below the provincial limit of 25%. (See Appendix D)

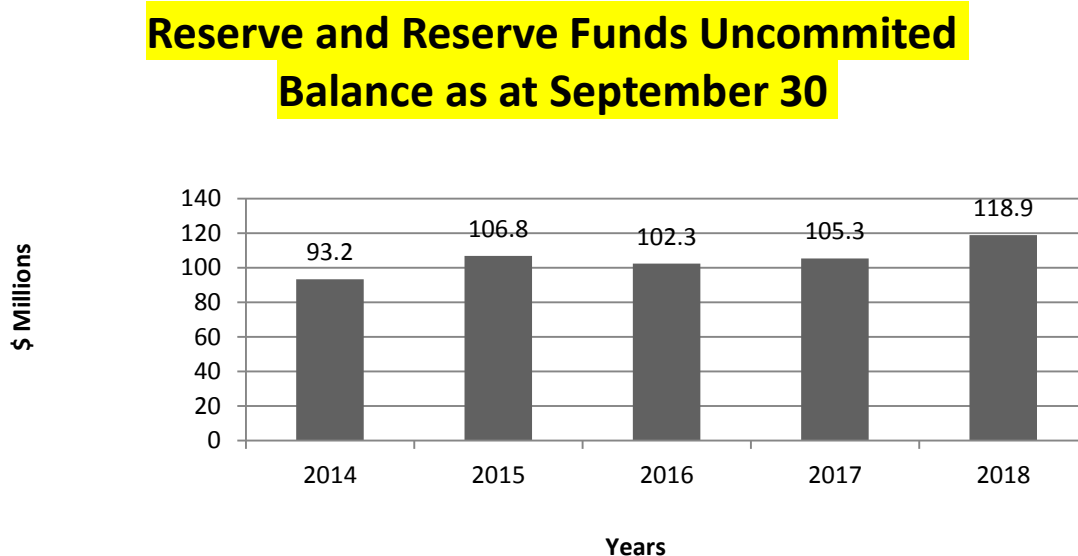
The city had an estimated \$88.9 million in total principal debt outstanding at December 31, 2017. In 2018 principal debt repayments are \$13.4 million and a debt issuance of \$20.2 million brings the total debt outstanding to \$95.7 million. A further \$19.7 million of debt has been approved and not yet issued which would bring this projected outstanding debt to \$115.4 million.

PART D - RESERVES AND RESERVE FUNDS

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

At September 30, 2018, the total of these balances amounted to \$178.1 million, which is \$6.6 million higher than the corresponding figure of \$171.5 million at September 30, 2017. This increase is due to the collection of development charges, the timing of transfers into the reserve funds and commitment pay outs. Of the total Reserves and Reserve Funds \$59.2 million is committed for various projects leaving an uncommitted balance of \$118.9 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 September 30:



PART E - 2018 BUDGET MONITORING

As of September 30, 2018, the operating budget shows a favourable variance of \$1.4 million with a year end projected favourable variance of \$1.6 million (Appendix F & G).

The year end projection is due to favourable human resource costs, lighter winter in Q1 and investment income offset by increased expenditures related to the Emerald Ash Borer program.

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 September 30th
(Amount are in thousands of dollars)

	2018	2017
	\$	\$
Cash & temporary investments	68,149	96,377
Taxes receivable*	28,450	28,969
Long term investments	233,163	208,676
Investment in Burlington Hydro Electric**	130,726	128,491
Deferred revenue - obligatory reserve funds	49,556	47,782
Net long term liabilities	109,079	102,157

*** Reported net of allowance for write-offs and based on four installments**

**** The balance is as at December 31st of the previous year.**

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 September 30, 2018, there was an increase in long term investments which was offset by a decrease in cash and temporary investments. These figures will fluctuate depending on market conditions and cash flow needs. 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 September 30, 2018.

Respectfully submitted,

Michelle Moore

Coordinator of Financial Reporting

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Appendices:

- A. Securities Position and Performance
- B. Investment Portfolio
- C. Property Tax Collection
- D. Debt and Financial Obligation Limit
- E. Reserve Funds and Reserve
- F. Budget Monitoring (be Service)
- G. Budget Monitoring (by Cost Element)

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.