



SUBJECT: Financial Status Report as at December 31, 2018

TO: Committee of the Whole

FROM: Finance Department

Report Number: F-05-19

Wards Affected: All

File Numbers: 100-01

Date to Committee: March 4, 2019

Date to Council: March 25, 2019

Recommendation:

Receive and file finance department report F-05-19 providing the financial status report as at December 31, 2018.

Purpose:

An Engaging City

- Good Governance

Background and Discussion:

PART A - FINANCIAL POSITION

The Bank of Canada increased rates twice in 2017 and twice again in January and July 2018 to take the overnight rate from 0.5% up to 1.50%. Rates were again raised in October 2018 to bring the current rate to 1.75%. Towards the end of 2018 commentary from the Bank of Canada began to shift towards a more neutral interest rate environment. While the expectation is for 1-2 additional rate hike(s) late into 2019 the Bank of Canada has showed signs of potentially putting these rate hikes on hold given data that suggests we are entering a period of slow economic growth.

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 2019;

- Maintain investments in the City's long-term portfolio taking the opportunity to invest in new bond issuances. Once the 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. Staff will focus on maximizing capital gains at the appropriate times and reinvest in the market taking advantage of higher interest rates at a longer duration.

Overall investment income for December 31, 2018 is detailed below.

	Actual December 2018	Actual December 2017
Total Interest	4,142,978	4,109,342
Budget	5,300,000	5,300,000
Favourable/(Unfavourable) Variance	(1,157,022)	(1,190,658)
Capital Gains	1,805,832	2,253,608
Favourable/(Unfavourable) Variance	648,810	1,062,950

The attached Appendix A shows investment income (interest earned, and capital gains realized) to December 31, 2018 on the total investment portfolio.

Investment income has remained consistent at \$10.3 million in 2017 and \$10.3 million in 2018. The current yield on the city investment portfolio is 2.86% compared to 2.83% 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 December 31, 2018, the City's investment portfolio included \$16.4 million Region of Halton bonds.

As at December 31, 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 December 31, 2018 compared to December 31, 2017. The 2018 total levy is \$410.5 million compared to \$396.7 million in 2017.

Collections for the current taxation year are 98.0%, which is consistent with prior years as highlighted in the chart below and detailed in Appendix C.

As at December 31	2018	2017	2016	2015
Current year Collections	98.0%	97.8%	97.7%	97.7%
Current year Arrears	2.0%	2.2%	2.3%	2.3%

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 was undertaken in November on 34 accounts with three years of arrears and lenders were notified. This resulted in 30 accounts being paid. For the 4 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 or enter into an extension agreement. 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.

Tax arrears certificates were registered on 7 residential properties in 2018 with 2 remaining. Final notices have been issued as per legislation. Over the next few months staff will continue to follow the collection policy attempting to obtain full payment or enter into extension agreements.

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 2,016 accounts signed up for electronic bill presentment, representing 3.14% of all property tax accounts.

PART C - DEBT AND FINANCIAL OBLIGATION LIMIT

As of December 31, 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 has an estimated \$95.7 million in total principal debt outstanding. Taking into consideration principal debt repayments of \$13.4 million, a recent debt issuance of \$20.2 million, as well as \$19.7 million in debt which has been approved and not issued, total city principal debt outstanding at year end 2018 is approximately \$115.3 million.

PART D - RESERVES AND RESERVE FUNDS

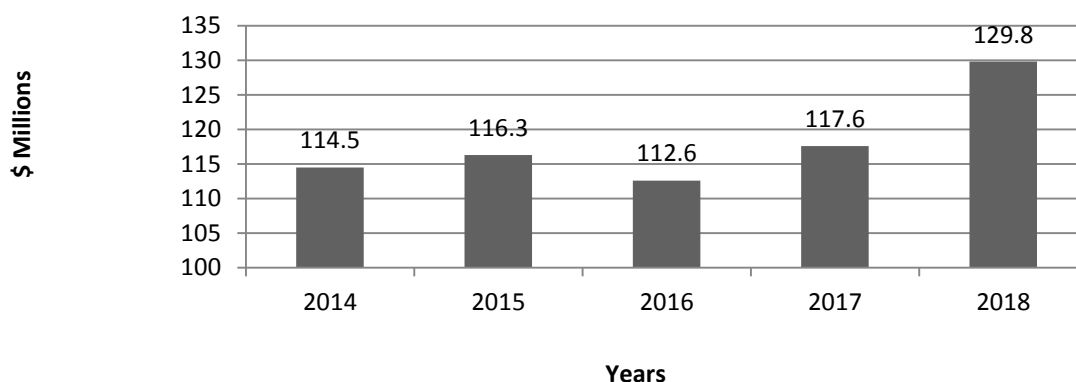
The status of the City's Reserves and Reserve Funds balances are disclosed in Appendix E.

At December 31, 2018, the total of these balances amounted to \$193.1 million, which is \$7.8 million lower than the corresponding figure of \$200.9 million at December 31, 2017. This decrease is due to the pay out of commitments throughout the year including those for Joseph Brant Hospital and employment contract negotiations. Uncommitted funds were also used in 2018 to purchase the building at 390 Brant Street (Sims Square). Counteracting the impact of these purchases were the collection of development charges and the sale of land parcels which had a positive impact on the reserve fund balances.

Of the total Reserves and Reserve Funds \$63.3 million is committed for various projects leaving an uncommitted balance of \$129.8 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



PART E - 2018 BUDGET MONITORING

As of December 31, 2018, the preliminary unaudited operating budget results in a favourable variance of \$1.9 million.

Please refer to 2018 Retained Savings Report (F-16-19, February 26, 2019 – Committee of the Whole - Budget) for high level factors which make up the favourable variance. A future report on the Final Current Budget Performance report 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.

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)

	2018	2017
	\$	\$
Cash & temporary investments	71,378	61,514
Taxes receivable*	9,549	10,497
Long term investments	177,177	197,039
Investment in Burlington Hydro Electric**	130,726	130,726
Deferred revenue - obligatory reserve funds	72,801	71,760
Net long term liabilities	95,703	88,925

*** Reported net of allowance for write-offs**

**** 2018 balance is as at December 31, 2017**

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, 2018, there was a decrease in long term investments which was partially offset by an increase in cash and temporary investments. The remaining decrease was due to expenditures paid out of the reserve funds in 2018 (see part D above). 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 December 31, 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 Reserves

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.