



SUBJECT: Financial Status Report as at March 31, 2019

TO: Committee of the Whole

FROM: Finance Department

Report Number: F-14-19

Wards Affected: All

File Numbers: 100-01

Date to Committee: May 13, 2019

Date to Council: May 27, 2019

Recommendation:

Receive and file finance department report F-14-19 providing the financial status report as at March 31, 2019.

Purpose:

- An Engaging City
- Good Governance

Background and Discussion:

PART A - FINANCIAL POSITION

The Bank of Canada increased rates twice in 2017 and three times in 2018 to take the overnight rate from 0.5% up to 1.75%. Towards the end of 2018 commentary from the Bank of Canada began to shift towards a more neutral interest rate environment. This commentary has continued into the first quarter of 2019. The previous expectation for 1-2 additional rate hike(s) late into 2019 has shifted to the Bank of Canada putting these rate hikes on hold. Data that suggests we are entering a period of slow economic growth has driven this change in expectation.

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.

Investment income is projected to meet budget for year end based on the detailed below.

	Projected December 2019	Actual December 2018
Total Interest	4,300,000	4,142,978
Budget	5,300,000	5,300,000
Favourable/(Unfavourable) Variance	(1,000,000)	(1,157,022)
Capital Gains	1,000,000	1,805,832
Favourable/(Unfavourable) Variance	-	648,810

The attached Appendix A shows investment income (interest earned, and capital gains realized) to March 31, 2019 on the total investment portfolio. The net bank position as of March 31, 2018 has increased by \$42.8M. This increase is partially due to selling long term bonds for capital gains during a market rally. These funds will be reinvested when bond prices ease allowing the City to maximize it’s yield on the portfolio.

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 March 31, 2019, the City’s investment portfolio included \$14.4 million Region of Halton bonds.

As at March 31, 2019 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 March 31, 2019 compared to March 31, 2018. The 2019 total levy, which represents interim billing with due dates of February 22nd and April 23rd, is \$204.8 million compared to \$197.8 million in 2018.

Collections for the current taxation year are 55.5%, which is consistent with prior years as highlighted in the chart below and detailed in Appendix C.

As at March 31	2019	2018	2017	2016	2015
Current year Collections	55.5%	55.6%	56.1%	55.6%	55.1%
Current year Outstanding*	44.5%	44.4%	43.9%	44.4%	44.9%

*includes installments not yet due

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.

In February, collection letters were sent to seven business property owners that owed taxes back to 2017. Payment or payment arrangements have been made with six of the property owners.

Two residential properties have had a tax arrears certificate registered on title in the first quarter, compared to seven in 2018. First notices have been issued as per legislation. One property remains registered from 2018 and payment is expected shortly.

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 2,141 accounts signed up for electronic bill presentment, representing 3.33% of all property tax accounts.

PART C - DEBT AND FINANCIAL OBLIGATION LIMIT

As of March 31, 2019, the City's total debt charges as a percentage of own source revenue is estimated to be 10.3%, 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 \$14.6 million, a forecasted debt issuance of \$7.7 million, as well as \$17 million in debt which has been approved and not issued, total city principal debt outstanding at year end 2019 is approximately \$105.8 million.

PART D - RESERVES AND RESERVE FUNDS

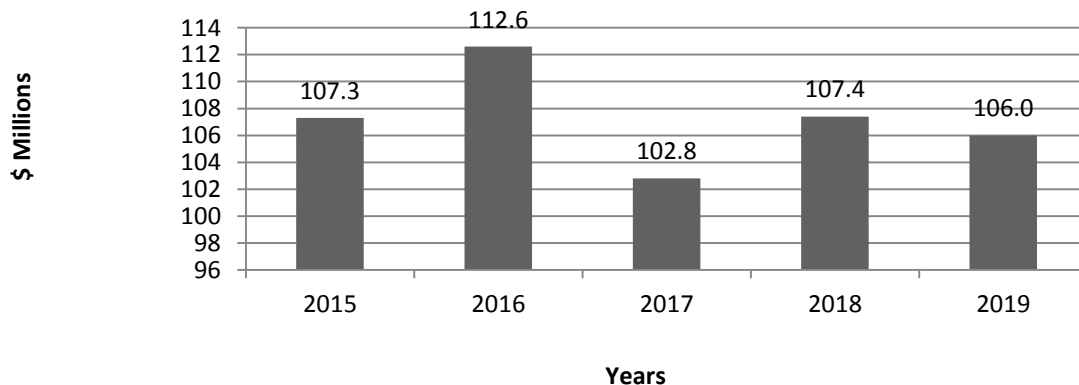
The status of the City's Reserves and Reserve Funds balances are disclosed in Appendix E.

At March 31, 2019, the total of these balances amounted to \$160.9 million, which is \$16.8 million lower than the corresponding figure of \$177.7 million at March 31, 2018. This decrease is due to the usage of the reserve funds and commitment pay outs.

Of the total Reserves and Reserve Funds \$54.9 million is committed for various projects leaving an uncommitted balance of \$106.0 million. The commitments represent expenditures approved by Council or funds held for specific future purposes.

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

Reserve and Reserve Funds Uncommitted Balance as at March 31



PART E - 2019 BUDGET MONITORING

As of March 31, 2019, the operating budget shows a favourable variance of \$741,494 with a year end projection favourable variance of \$873,196 (Appendix F & G).

Staff will continue to monitor and update the year-end projections as part of the 2019 budget review currently underway.

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 March 31st
(Amount are in thousands of dollars)

	2019	2018
	\$	\$
Cash & temporary investments	112,790	60,036
Taxes receivable*	96,547	93,922
Long term investments	171,516	191,675
Investment in Burlington Hydro Electric**	133,243	133,243
Deferred revenue - obligatory reserve funds	34,161	44,854
Net long term liabilities	95,702	88,925

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

** 2019 balance is as at December 31, 2018

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 March 31, 2019, there was an increase in cash and temporary investments which was partially offset with a decrease in long term investments. Staff utilized market conditions to sell investments in March to maximize capital gains in line with the strategies identified in Part A above. The remaining change was due to the utilization of cash in 2018 for the Sims Square property acquisition prior to receipt of funding from the issuance of debt. 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 March 31, 2019

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
- F. Budget monitoring (by 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.