

Appendix A of F-29-19



Financial Condition Assessment

June 2019



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Executive Summary

Executive Summary

BMA Management Consulting Inc. (BMA) was engaged by the City of Burlington to undertake an update to the **Financial Condition Assessment**. As described by CPA Canada the intent of providing an evaluation of a municipality's financial condition is to evaluate a municipality's financial outlook and past performance. The Financial Condition Assessment was evaluated using the CPA Canada guidelines which recommend consideration of the following:



The report is structured to include three main sections as follows:

Growth and Socio-Economic Indicators

Municipal Levy, Property Taxes & Affordability Indicators

Financial Position Indicators

The report includes trend analysis to consider how the City of Burlington's financial and socio-economic conditions have changed over time. It also includes a comparison to peer municipalities and the average of the GTA municipalities.



At the conclusion of each section, a performance dashboard has been included to summarize the results of the key metrics. This includes the rating from the 2015 study and the updated rating for 2018.




Summary—Growth and Socio-Economic Indicators

Growth and socio-economic indicators:


- describe and quantify a community's wealth and economic condition; and
- provide insight into the community's collective ability to generate revenue relative to the community's demand for public services.
- **Population growth** from 2001 to 2018 was a 23.3% total increase, with an average annual increase of 1.4% which has resulted in substantial new capital infrastructure which ultimately has to be replaced.
- Population is forecast to exceed 193,401 by 2031 which is equivalent to approximately a 0.3% annual growth rate (from 2018-2031). This reflects a planned and manageable level of growth.
- Much of the new growth is through intensification which can have implications on the way services are delivered.
- The **age profile** of a population has an impact on spending plans, especially around the type and level of service required. The number of residents that are ages 65+ has increased 23.3% over the 5-year period, compared with the Ontario average increase of 18.3%. Conversely, the number of residents age 0-19 has increased by only 2%.
- These demographic changes may exert pressure on the City to provide new or increased services to reflect the changing needs of the residents while still keeping taxes affordable.
- Monitoring assessment is important because taxation is the largest source of revenues to support City programs, services and the replacement of assets. A strong assessment base provides a stable long-term funding source.
- The City's property **assessment** base is strong and is well diversified which helps support the delivery of municipal programs and services. However, assessment growth has been slower in the past several years, due, in part, to a decline in available greenfield land. Assessment growth has also been below the peer and GTA average from 2013-2018. Future low assessment growth may be an ongoing challenge.
- Burlington's weighted assessment per capita is above the survey average and median of the peer municipal comparison, reflecting a strong base upon which to raise taxes.
- Average **household income** in Burlington is above the peer municipal average, reflective of a diverse and skilled labour force.
- The City has experienced an excellent balance in **construction growth** between residential and non-residential development over the past 10 years.
- **Employment rates** are only available at the Halton Region level. Labour market conditions in the Halton Region reflect a lower level of unemployment than the Ontario average. At the end of 2018, the unemployment rate was 4.8% compared with Ontario average of 6.4%.

- Low **commercial and industrial vacancy rates** are a sign that market conditions for business are good. Businesses have the confidence to invest in expanding and upgrading, and new businesses are starting up. The industrial vacancy rate has declined from 6.8% in 2014 to 3.0% in 2018. The office vacancy rate also declined from 16.6% in 2014 to 14.3% in 2018.

Legend

 Positive	 Caution	 Neutral
At or above targeted performance indicator and/or trending positively	below targeted performance indicator and/or trending negatively	No target indicator and/or stable trend

The following table provides a summary overview of the findings from the 2015 study and the 2018 update:

<i>Socio-Economic Indicator</i>	<i>2015 Rating</i>	<i>2018 Rating</i>
<i>Population Growth</i>		
<i>Population Density</i>		
<i>Demographics</i>		
<i>Unemployment Rate</i>		
<i>Commercial Office Vacancy Rate</i>		
<i>Industrial Vacancy Rate</i>		
<i>Construction Activity</i>		
<i>Assessment Composition</i>		
<i>Richness of the Assessment Base</i>		
<i>Assessment Growth</i>		
<i>Household Income</i>		

Summary—Municipal Levy, Property Taxes and Affordability

- This section provides an overview of the 2018 municipal tax levy in Burlington and in relation to peer municipalities.
- The 2018 municipal levy in relation to the assessment base reflects positively for the City of Burlington in relation to the peer average.
- Taxes paid by residents in Burlington are lower for similar properties in other jurisdictions. However, Multi-Residential taxes are above the survey average, due in part to a higher Multi-Residential tax ratio.
- Commercial and Industrial taxes are above the survey average.
- The average municipal property taxes paid in relation to household income in Burlington are below the survey average, reflecting affordable taxes.



The following table provides a summary overview of the findings from the 2015 study and the 2018 update:

<i>Indicator</i>	<i>2015 Rating</i>	<i>2018 Rating</i>
<i>Municipal Levy Per Capita</i>	⚠	✓
<i>Municipal Levy Per \$100,000 of Weighted Assessment</i>	✓	✓
<i>Property Taxes on a Residential House (Bungalow)</i>	✓	✓
<i>Property Taxes on a Two Storey Residential House</i>	✓	✓
<i>Property Taxes on a Multi-Residential High Rise</i>	⊖	⚠
<i>Property Taxes on a Commercial Shopping Centre</i>	⚠	⚠
<i>Property Taxes on an Industrial Building</i>	⚠	⚠
<i>Multi-Residential Tax Ratio</i>	⚠	⚠
<i>Commercial Tax Ratio</i>	✓	✓
<i>Industrial Tax Ratio</i>	⚠	⚠
<i>Residential Affordability</i>	✓	✓

Summary—Financial Position

This section of the report includes an assessment of reserves, debt and the City's overall financial position.

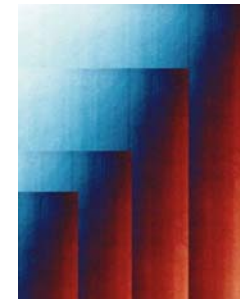
Reserves/Reserve Funds assist with long term financial stability and financial planning. By maintaining reserves, the City can accumulate funds for future or contingent liabilities; a key link to long-term financial planning practices. They also provide a cushion to absorb unexpected shifts in revenues and expenditures.

- The City of Burlington's discretionary reserves as a percentage of taxation are above the peer survey average but growth in the reserves has been less than inflation and trending downward in relation to taxation.
- Burlington has established a number of targets and policies for **Stabilization Reserves**. On a consolidated basis, these reserves have not met targets.

Capital Reserve Funds (Excluding Growth Reserve Funds) decreased by 11% (\$5 million) from 2013 to 2018. The City has an estimated unfunded infrastructure gap of \$126.5 million (2016). Strategies have been put in place to increase the contribution to capital replacement needs including special infrastructure levies.

- The City has a Dedicated Infrastructure Levy of 1.25% with reductions planned.
- Additional 0.2% levy to address the renewal needs of a growing asset inventory.
- An annual increase of 4% to the Vehicle Depreciation Reserve Fund to sustain the City's fleet and equipment inventory.

- Planned repurposing of the hospital levy to infrastructure renewal.
- **Debt** is an important indicator of the City's financial health and is an appropriate way of financing longer life capital infrastructure. Based on the current debt outstanding the City has flexibility to issue additional debt in accordance with the City's debt policy. Debt to reserve ratio is well within industry standards.
- **Financial Position** of the City is important to consider as this takes into consideration the City's total assets and liabilities. Burlington's financial position has been trending up since 2013 and is above the peer average.
- **Taxes Receivable** is well below the peer municipal average and has continued to reflect a downward trend since 2014.



The following table provides a summary overview of the findings from the 2015 study and the 2018 update:

Indicator	2015 Rating	2018 Rating
Discretionary Reserves as a % of Taxation		
Asset Consumption Ratio		
Stabilization Reserve Funds		
Other Capital Reserve Funds		
Vehicle and Equipment Reserve Funds		
Transit Related Reserve Funds		
Corporate Reserve and Reserve Funds		
Program Specific Reserve and Reserve Funds		
Local Boards Reserve Funds		
Debt as % of Own Source Revenues		
Debt Outstanding per \$100,000 of Weighted Assessment		
Debt to Reserve Ratio		
Financial Position		
Taxes Receivable		

Introduction—Financial Condition Assessment

Ongoing evaluation of the City’s financial health is imperative. It provides an assessment of how the City is performing and provides valuable information on the current and future state of the City’s finances.

Regular and timely financial condition assessments can provide an early warning of potential fiscal problems and provide information necessary for timely corrective action. To this end, BMA Management Consulting Inc. (BMA) was engaged by the City of Burlington to undertake a financial condition assessment in 2011 and 2015. BMA was engaged in 2019 to provide an update on the results and to provide observations in terms of overall trends, comparison to leading practices and peer municipalities.



As described by CPA Canada, a municipality’s financial condition considers an evaluation of the following elements:

Financial Condition

Sustainability

The ability to provide and maintain existing programs without resorting to unplanned tax increases or cuts to services.

Flexibility

The ability to issue debt responsibly without impacting the Region’s credit rating which takes into consideration the financial health of the area municipalities. Flexibility is also, the ability to generate required revenues.

Vulnerability

Focuses on minimizing the level of risk that could impact its ability to meet financial obligations and commitments including the delivery of services.

Source Materials Used to Prepare the Financial Condition Assessment

Numerous reports and sources of data were used to undertake an assessment of the City's financial condition and continued commitment to financial sustainability including:

- *2019 Approved Operating Budget*
- *2016 and 2017 Financial Reports*
- *Burlington's Strategic Plan 2015-2040*
- *Burlington Economic Development Corporation—Burlington Economic Indicators—2018*
- *Reserve/Reserve Fund Year End Reports 2013-2018*
- *Existing Debt Schedules*
- *Financial Information Returns 2013-2017*
- *Building Construction Year End Reports*
- *Financial Policies*
- *Asset Management Plan*



Burlington's Policies and Practices Contribute to its Strong Financial Position

The following provides highlights that reflect the City's strong commitment to financial sustainability and the provision of services in the most efficient and effective way.

AAA Credit Rating

Halton's AAA credit rating, praising Halton's superior budgetary performance, low exposure to risks and high-quality financial plans, policies and reports. Earning the highest possible credit rating provides the Region, the City of Burlington and the Towns of Halton Hills, Milton and Oakville with access to the best capital financing rates available.



To support its decision, Standard and Poor's Credit Rating Agency provided the following rationale:

- very strong and well-diversified economy integrated within the GTA with consistent growth;
- very strong financial management with well-defined prudent and conservative financial policies, well-documented financial plan, and stable and well-qualified management team;
- very strong and stable budget performance, very low debt burden and very low contingent liabilities; and
- exceptional internal liquidity support, access to external liquidity for refinancing needs and very robust internal cash flow generation capability.

Positive Financial Trends and Prudent Financial Policies

As will be shown in this report, the City tracks numerous financial and economic indicators. Analysis of trends over the past 10 years reflects *improvements on the majority of financial indicators*. Further, the City tracks performance on an ongoing basis and incorporates new strategies into the budget.



Strategic Plan



A City that Grows

>> The City of Burlington attracts talent, good jobs and economic opportunity while having achieved intensification and balanced, targeted population growth for youth, families, newcomers and seniors.



A City that Moves

>> People and goods move throughout the city more efficiently and safely. A variety of convenient, affordable and green forms of transportation that align with regional patterns are the norm. Walkability within new/transitioning neighbourhoods and the downtown are a reality.



A Healthy and Greener City

>> The City of Burlington is a leader in the stewardship of the environment while encouraging healthy lifestyles.



An Engaging City

>> Community members are engaged, empowered, welcomed and well-served by their city. Culture and community activities thrive, creating a positive sense of place, inclusivity and community.

Trend Analysis

The problems that create fiscal challenges seldom emerge overnight, rather they develop slowly, thus making potential problems less obvious. Analyzing the trends of the City's key financial performance and socio-economic indicators offer several benefits including:

- Information on changes in the City's financial health, revealing the most current trends;
- How quickly a trend is changing;
- Forms the basis for future forecasting; and
- Builds awareness and helps identify the potential need to modify existing policies or develop new strategies.

Better Information = Better Decisions



Peer Analysis

Peer analysis has also been included to gain perspective on the City's financial health in relation to other municipalities. Figure 1 summarizes the peer municipalities selected. This is the same peer group used in the previous study.

Figure 1—Peer Municipal Comparator Group

Municipality	Estimate 2016 Population	Land Area (sq. km.)	Density per sq. km.
Kitchener	233,222	137	1,705
Markham	328,966	212	1,549
Milton	110,128	363	303
Oakville	193,832	139	1,396
Oshawa	159,458	146	1,095
St. Catharines	133,113	96	1,385
Whitby	128,377	147	875
Average	183,871	177	1,187
Median	159,458	146	1,385
Burlington	183,314	186	987

Source: Stats Canada (2016),
excluding Census undercount



Financial Condition Assessment—Key Indicators

The Financial Condition Assessment includes the following:

Growth and Socio-Economic Indicators

These are largely external to the City's control but important to understand from a planning and forecasting perspective.

Population
Employment Statistics
Building Construction Activity
Commercial and Industrial Vacancy Rates
Property Assessment
Household Income

Municipal Levy, Property Taxes & Affordability Indicators

Evaluation of the cost of municipal programs and services and how these costs translate into municipal property taxes.

Municipal Levy
Comparison of Relative Taxes
Municipal Property Taxes as a % of Income
Tax Ratios

Financial Position Indicators

Evaluation of the City's financial framework helps determine if modifications are needed to the City's existing financial policies and strategies.

Reserves & Reserve Funds
Debt
Municipal Financial Position
Asset and Liabilities
Taxes Receivable



Section 1: Growth and Socio-Economic Indicators

Growth and Socio-Economic Indicators

Growth and socio-economic indicators:

- describe and quantify a community's wealth and economic condition; and
- provide insight into the community's collective ability to generate revenue relative to the community's demand for public services.

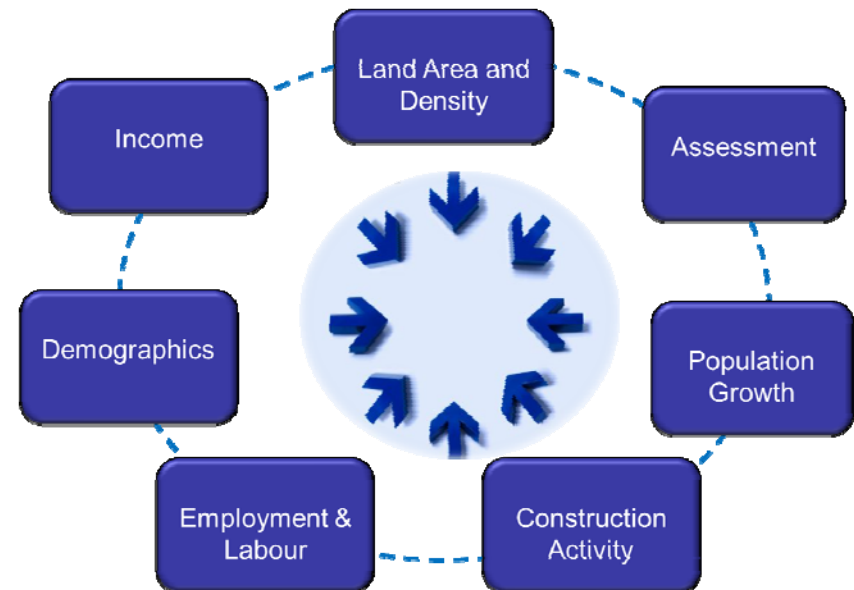
As noted by Standard & Poor's bond rating agency, "demographic characteristics factor heavily into economic analysis". An examination of economic and demographic characteristics can identify, for example, the following types of situations:

- An inclining tax base and correspondingly, the community's ability to pay for public services;
- A need to shift public service priorities because of demographic changes in the community; and
- A need to shift public policies because of changes in economic and legislative conditions.



Growth and Socio-Economic Indicators

Growth and socio-economic indicators are closely inter-related and affect each other in a continuous cycle of cause and effect. Also important are the City's plans and potential for future development.

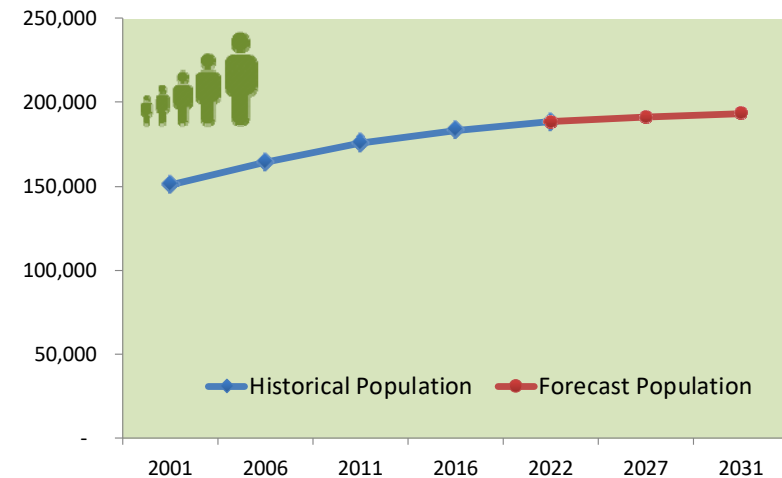


Population Changes

Strong population growth drives the economic health of a municipality and creates an environment that supports business. Also, it provides an evolving and vibrant labour force that the business community relies on to produce goods and services. Changes in population directly impact both revenues (assessment base) and expenditures (service demand). The following summarizes key findings related to the City's population growth:

- With a population of approximately 185,911, the City of Burlington is the 12th largest municipality in Ontario.
- Burlington has grown from a population of 150,836 in 2001 to over 185,911 in 2018 (23.3% increase), with an average annual increase of 1.4%.
- Population is forecast to exceed 193,401 by 2031 which is equivalent to approximately a 0.3% annual growth rate (from 2018-2031). This reflects a planned and manageable level of growth.
- The continued population growth will lead to increased demand for services and new capital infrastructure. While the majority of growth related capital expenditures are funded through development charges, there are mandatory exemptions and discounts not eligible under the *Development Charges Act* and therefore must be funded from the tax base. Funding new infrastructure increases operating expenditures and places pressure on the tax base.
- The continued need for additional infrastructure to accommodate further growth will take place at the same time that the existing assets are reaching an age where their renewal/replacement is becoming critical and more costly.

Figure 2—City of Burlington—Population Changes



Source: Stats Canada (Historical), Watson and Associates DC Background Study

Note: Excludes Census undercount

Excerpts—2015-2040 Strategic Plan

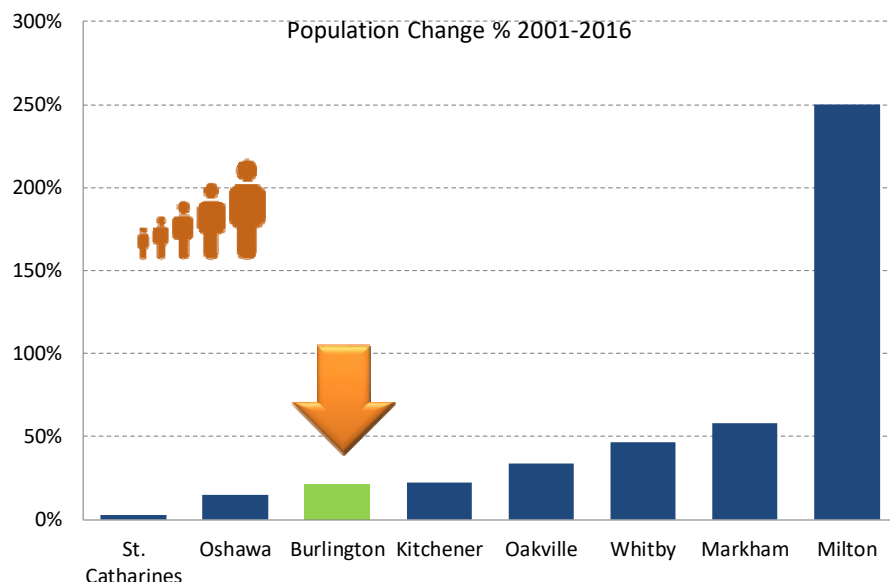
Focused and directed population growth that will lay the foundation for a larger economy, more jobs, fiscal sustainability, better infrastructure and public transportation.

- The City of Burlington has decided to maintain its urban boundary and recognize the role and function of the Urban Area, Rural Area and North Aldershot. Population and employment growth will be accommodated through development and intensification within targeted areas in the city's urban area, which will support the protection and enhancement of the rural area and natural environment. This is in keeping with the provincial policy direction in the Growth Plan for the Greater Golden Horseshoe and the Greenbelt Plan.

Peer Municipal Comparisons—Population Growth

- Milton, Markham, Whitby, Oakville, Kitchener have experienced higher percentage increases in population growth since 2001 in comparison to Burlington.

Figure 3—Population Changes—Peer Municipalities



Source: Stats Canada

Excerpts—2015-2040 Strategic Plan

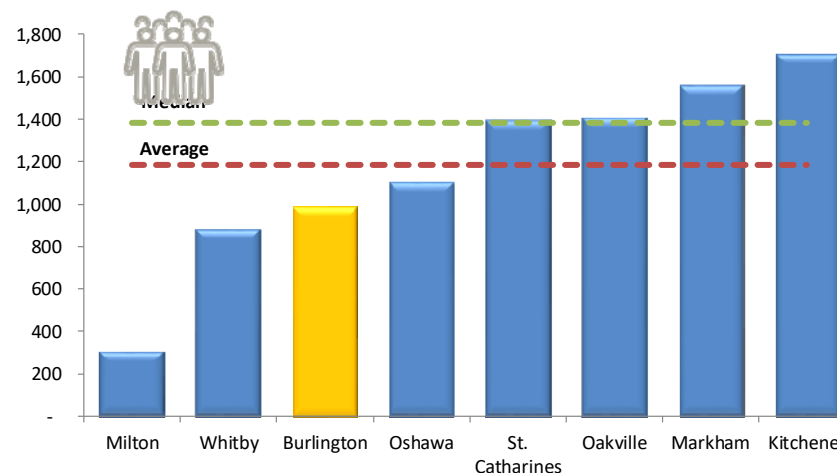
“Higher densities in key intensification areas (including mobility hubs, downtown, uptown, along major roads and commercial plazas) that will build neighbourhoods that are environmentally friendly, infrastructure-efficient, walkable, bikeable and transit-oriented.”

Much of the new growth is through intensification which can have implications on the way services are delivered. Intensification has a number of benefits, including, reducing carbon footprint, improving access to public transit, using resources such as land, buildings and infrastructure effectively, enhancing community identity and creating active streets that promote healthier patterns of activity.

Population Density

Population density indicates the number of residents living in an area (usually measured by square kilometre). Density readings can lend insight into the age of a city, growth patterns, zoning practices, new development opportunities and the level of multi-family unit housing. Of 186 km², only approximately 89 kms² is within the urban boundary. The remainder is environmentally sensitive and agricultural land which is protected by the *Greenbelt Act*, 2005 from urban development and sprawl. As illustrated in Figure 4, Burlington has the third lowest population density per km.

Figure 4—Population Density per km² —Peer Municipalities



Source: Stats Canada

Age Demographics

The age profile of a population has an impact on spending plans, especially around the type and level of service required. The needs of residents shift over the course of their lives.

An analysis was undertaken of the five year trend in Burlington in relation to the Ontario average.

- In the City of Burlington, the number of residents that are age 65+ has increased 23% over the five year period, compared with the Ontario average increase of 18.3%. This cohort is expected to continue to grow.
- Conversely, the number of residents age 0-19 has increased by 2% compared with a reduction of 2.2% across Ontario.

Figure 5—Age Profile Trend

Age Profile	Burlington			Ontario		
	2011	2016	% change	2011	2016	% change
Age 0-19	40,605	41,400	↑ 2.0%	3,167,813	3,096,780	↓ -2.2%
Age 20-44	54,850	54,890	↑ 0.1%	4,410,879	4,458,936	↑ 1.1%
Age 45-64	51,672	51,710	↓ 0.1%	3,836,128	3,927,160	↑ 2.4%
Age 65+	28,652	35,315	↑ 23.3%	1,951,480	2,309,176	↑ 18.3%
Total	175,779	183,314		13,366,300	13,792,052	

Source: Stats Canada, excluding Census undercount

- These demographic changes may put pressure on the City to provide different services that reflect the changing demographic needs while still keeping taxes affordable.

Figure 6—2016 Age Profile Comparison

Age Profile	Burlington	Ontario
	2016	2016
Age 0-19	22.6%	22.5%
Age 20-44	29.9%	32.3%
Age 45-64	28.2%	28.5%
Age 65+	19.3%	16.7%
Total	100.0%	100.0%

- As shown in figure 6, the City of Burlington has a higher proportion of residents 65+ than the Ontario average and a lower proportion of residents ages 20-44.

Excerpts—City of Burlington Strategic Plan 2015-2040

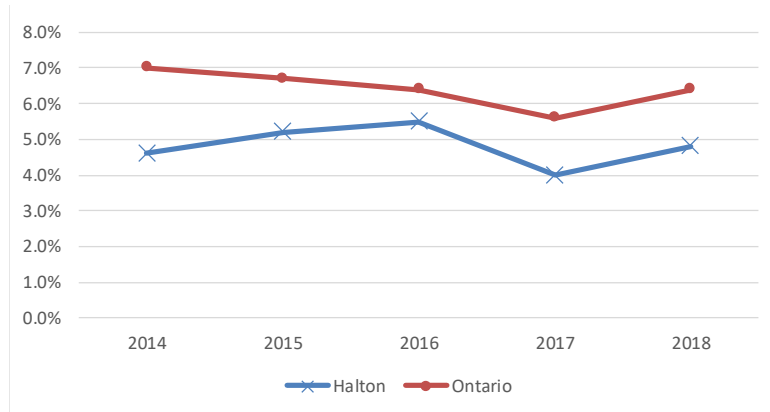
“Attraction of younger people and newcomers to help sustain the fiscal, social, environmental and cultural fabric of the city.”



Labour Force Indicators

Labour force statistics are an important measure of the economy's potential. The larger the percentage of the population that enters the labour force; the larger the potential output and standard of living. Growth in the labour force implies expanding potential.

Figure 7—Unemployment Rates



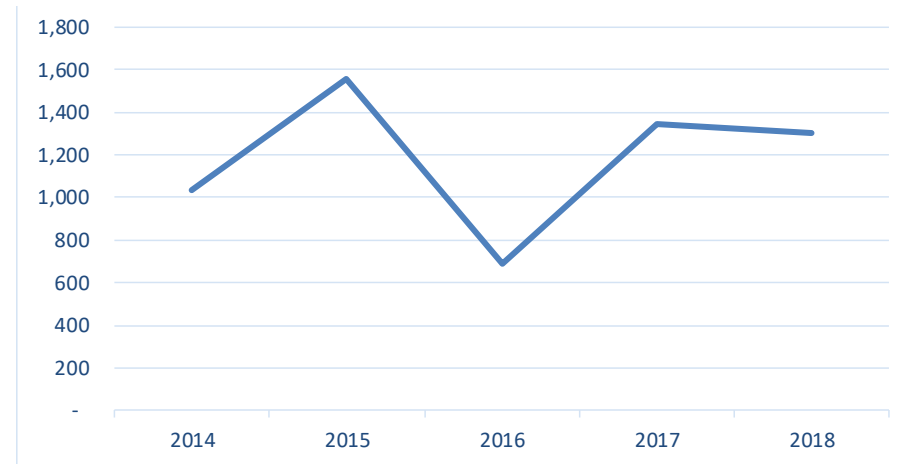
Source: Stats Canada, Labour Force Survey

- As shown in figure 7, from 2014-2018, the unemployment rate in Halton Region is consistently well below the Ontario unemployment rates. In 2018, the unemployment was 4.8% compared with Ontario average of 6.4%. Full employment is reached when unemployment is at 6% or less according to the Conference Board of Canada. Halton Region was below 6% throughout the past five years.

Excerpts—BEDC

“In Burlington, there are six jobs for every 10 people. This is amongst the highest ratio in Ontario and demonstrates Burlington’s strong business base”

Figure 8—New Jobs



Source: BEDC Calculation

- From 2014-2018 there was an estimated **5,900 new jobs created**.

Excerpts—City of Burlington Strategic Plan 2015-2040

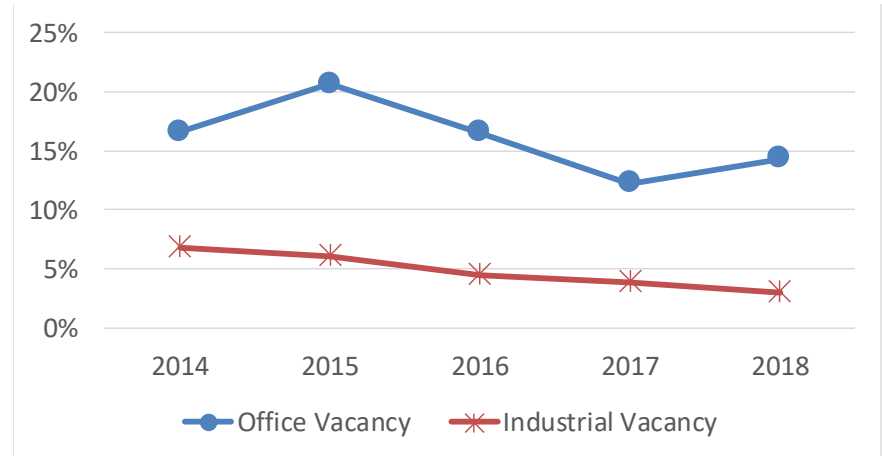
“The City of Burlington attracts talent, good jobs and economic opportunity while having achieved intensification and balanced, targeted population growth for youth, families, newcomers and seniors.”

Commercial and Industrial Vacancy Rates

- Vacancy rates, the ratio of vacant space to the total amount of space available, are indicators of business demand. This provides signals to the commercial real estate sector regarding price and is an indication to developers of future demand.
- Vacancy rates are also a leading indicator of business activity. Declining vacancy rates suggest business is growing which increases the demand for non-residential space.
- Low vacancy rates are a sign that market conditions for business are good. Businesses have the confidence to invest in expanding and upgrading, and new businesses are starting up.
- Trends are also important to consider as a reflection of the overall economy.



Figure 9—Commercial Office & Industrial Vacancy Rate Trends



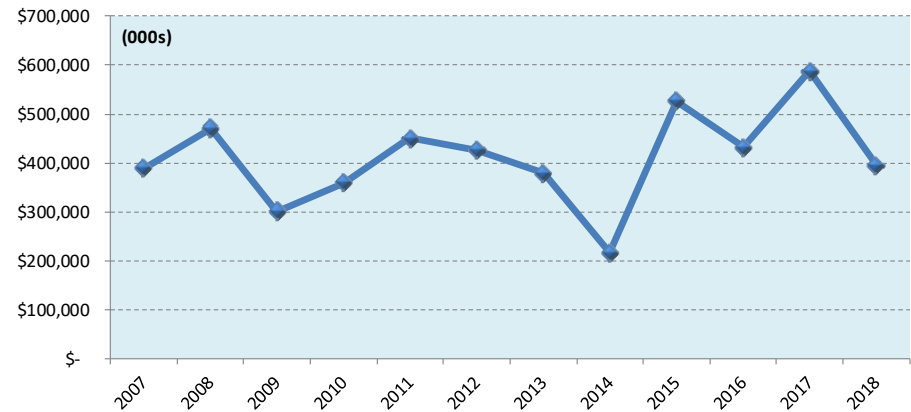
Source: Cushman & Wakefield Market Overview

- As shown in figure 9, the industrial vacancy rate has declined from 6.8% in 2014 to 3.0% in 2018. The office vacancy rate also declined from 16.6% in 2014 to 14.3% in 2018.

Construction Activity

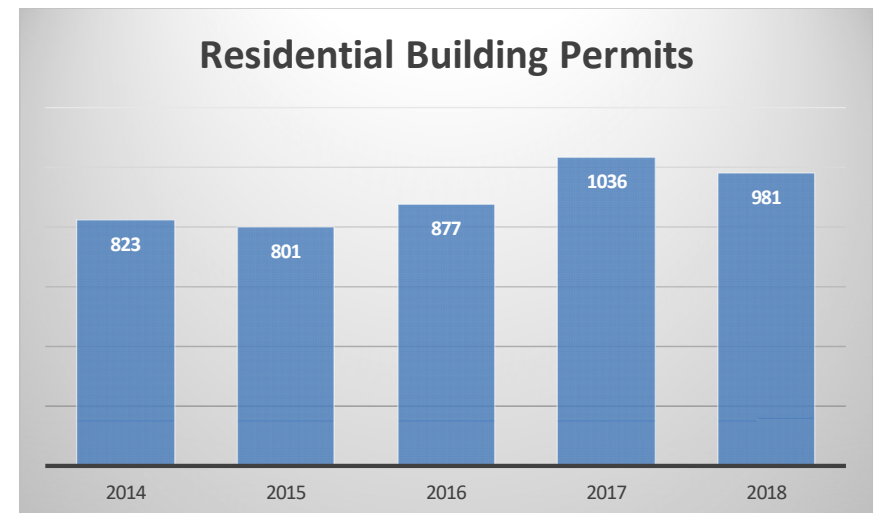
- Another growth related indicator is the construction activity within a municipality which provides information on both residential and non-residential development. Changes in building activity impact other factors such as the employment base, income and property values.
- It is important to look at building cycles over a relatively long period of time to identify trends in construction activity.
- Figure 10 provides the trends experienced in the City of Burlington for the past 12 years.
- Building construction activity is cyclical. Construction activity was at its peak in 2017. There was a notable increase in construction activity from 2014-2017.
- Construction activity in 2017 was \$573 million compared with \$395 million in 2018.
- As shown in figure 11, from 2014 to 2018, there have been in excess of 4,500 new residential permits issued, reflecting a strong housing market.

Figure 10—Total Construction Activity—City of Burlington (000's)



Source: City of Burlington Building year end reports

Figure 11—Total # of New Residential Permits Issued

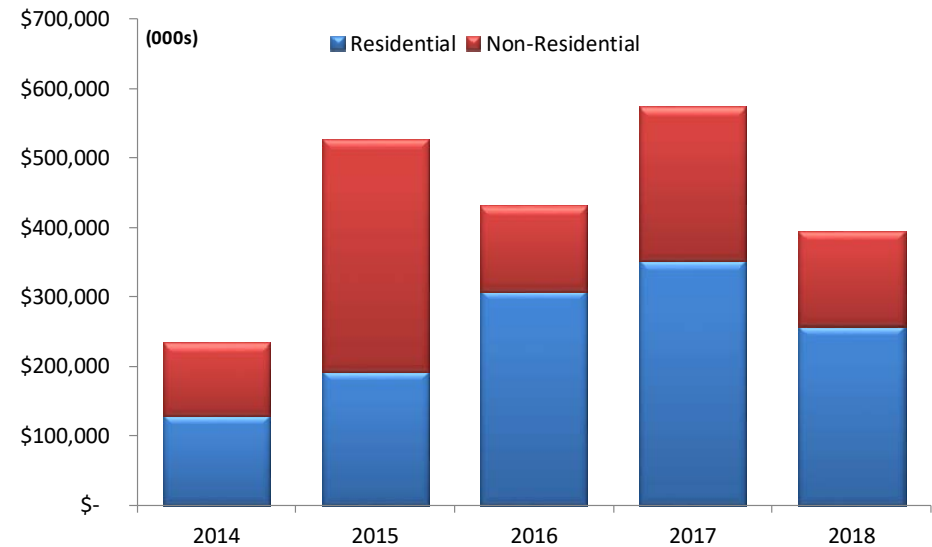


Source: City of Burlington Building year end reports

- Generally, a municipality's net operating costs to service residential development is higher than the net operating cost of servicing commercial or industrial development because many services such as recreation, libraries and parks are provided mainly for use by residents and the tax ratios are higher in non-residential properties which generates additional assessment.
- The ideal condition is to have sufficient commercial and industrial development to offset the net increase in operating costs associated with residential development. Non-residential development is desirable in terms of developing a strong assessment base upon which to raise taxes and in providing employment opportunities.
- Over the past five years, residential/non-residential construction activity (on a \$ of construction) is a 58/42 split in the City of Burlington, representing a good balance between residential and non-residential development.



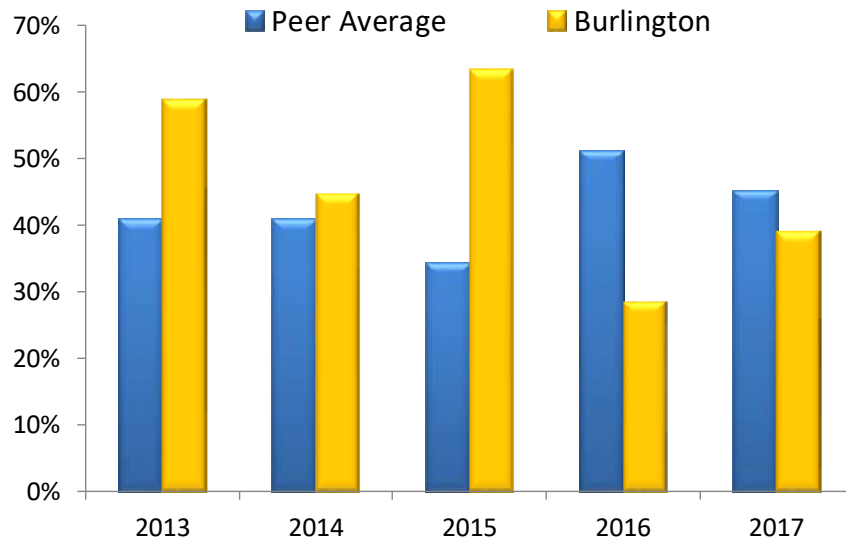
Figure 12—Residential and Non-Residential Construction Activity



Source: City of Burlington Building year end reports

- It is important to look at trends over time as well as the type of construction being undertaken.
- One large project in any year can have a significant impact of the overall construction activity.
- Industrial and Commercial activity has been very consistent and strong over the past five years, averaging over \$183 million annually.

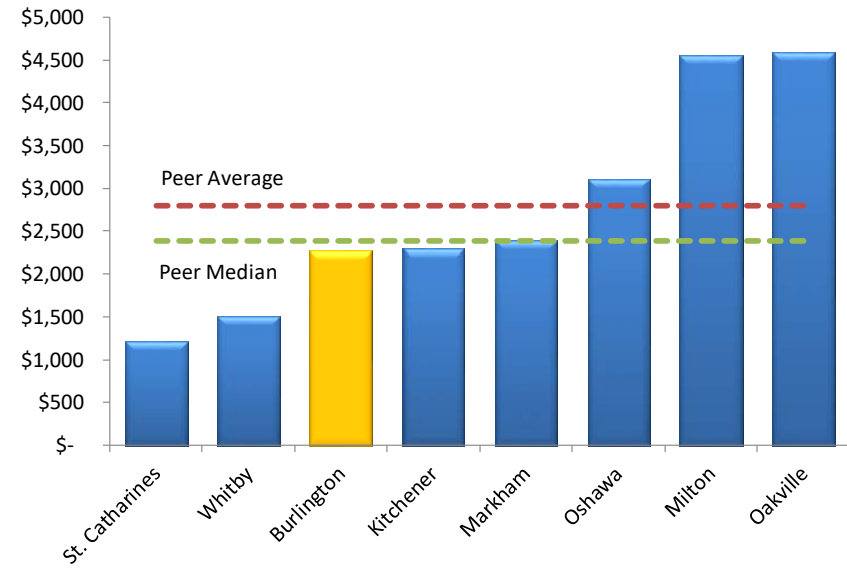
Figure 13—% Non-Residential Construction Activity—Peer Municipal Comparators



Source: BMA Municipal Studies

- A comparison was undertaken of the type of construction across the peer municipalities from 2013-2017 (note 2018 was not available for all comparators).
- As shown in figure 13, Burlington's proportion of non-residential construction activity exceeded the peer survey average from 2013-2015 but was lower than the peer average in 2016 and 2017. As explained previously, it is more beneficial to have a higher proportion of non-residential development.

Figure 14—Construction Activity Per Capita—Peer Municipal Comparators—5 Year Average



Source: City of Burlington year end construction reports

- To put building activity into context, building permit value per capita is used as an indicator of the relative construction activity within each community.
- As shown in figure 14, the average building permit value per capita from 2013-2017 in Burlington was below the peer municipal average but close to the peer median.

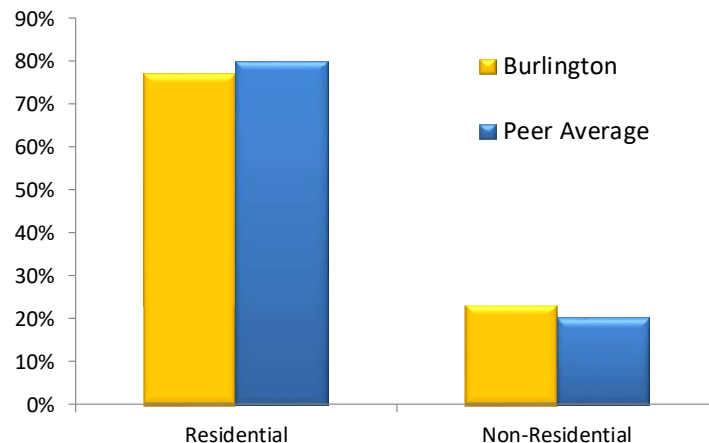
Assessment

Monitoring assessment is important because taxation is the largest source of revenues to support City programs, services and the replacement of assets. A strong assessment base provides a stable long-term funding source.

Assessment Composition

- As previously mentioned, it is more desirable to have a larger share of non-residential assessment as the municipal cost of service is generally lower than residential.
- In comparison to the peer municipalities, Burlington's assessment composition represents a good balance between residential and non-residential.
- As shown in figure 15, the 2018 combined weighted assessment in the non-residential assessment is 23.1% in Burlington compared with the peer average of 20%.

Figure 15—2018 Assessment Composition

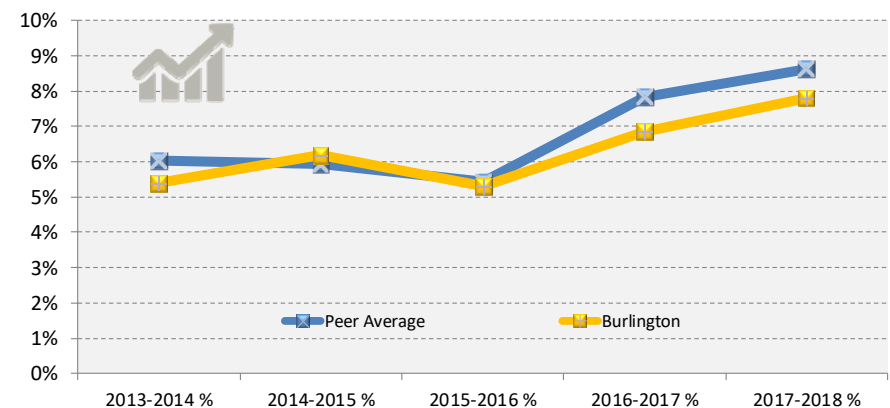


Changes in Assessment

Assessment growth, the richness of the assessment base and assessment composition are important indicators of fiscal strength.

- Assessment increases include changes in assessment related to growth as well as changes in market value of existing properties (which does not generate additional revenues).
- As shown in figure 16, from 2015-2018, the assessment increase in Burlington was lower than the peer average. This is consistent with the trends identified in the relative growth in construction activity.
- Limited future assessment growth may be an ongoing challenge.

Figure 16—Changes in Unweighted Assessment



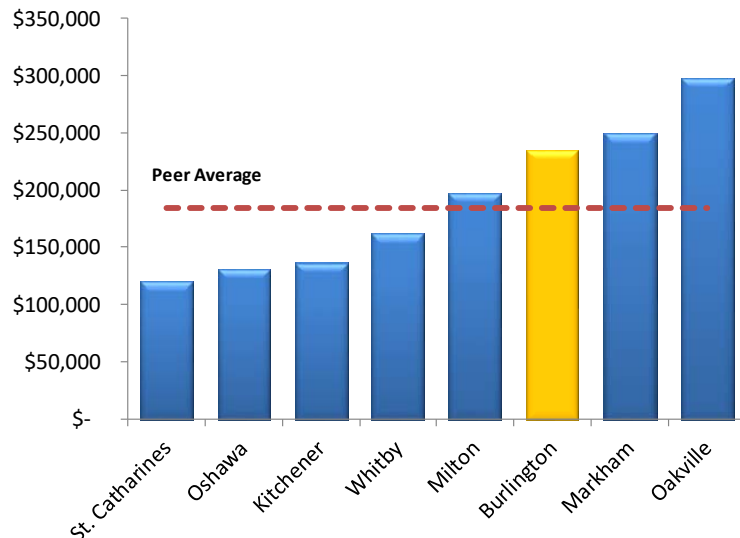
Source: BMA Municipal Studies using CVA

Richness of the Assessment Base

Assessment per capita statistics have been compared to provide an indication of the “richness” of the assessment base in each municipality.

- Weighted assessment reflects the basis upon which property taxes are levied after applying the tax ratios to the unweighted assessment.
- Burlington’s weighted assessment per capita is above the survey average and median of the peer municipal comparison, reflecting a strong base upon which to raise taxes.

Figure 17—2018 Weighted Assessment Per Capita



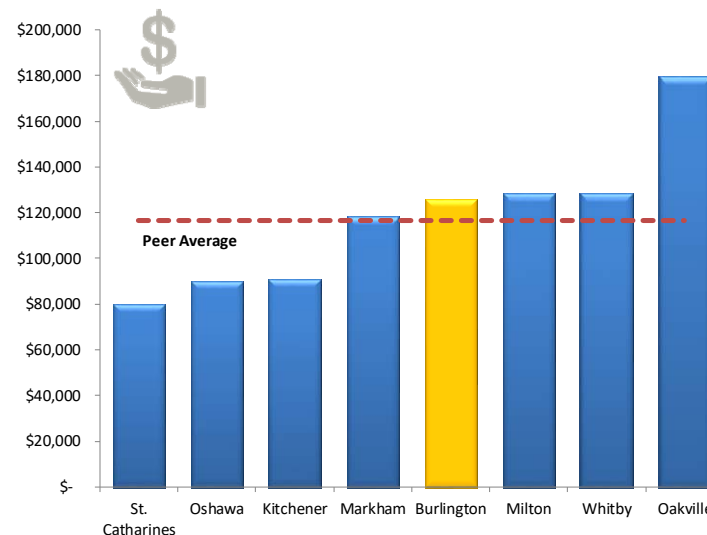
Source: BMA Municipal Studies using CVA

Household Income

Household income is one measure of a community’s ability to pay and is an indicator of the financial well-being of residents. Credit rating agencies use household income as an important measure of a municipality’s ability to repay debt. This indicator is also important to the economic health of businesses operating in Burlington.

- As shown in figure 18, in 2018, average household income in the City of Burlington is higher than the peer municipal average (\$116,531).
- While a higher relative household income is a positive indicator of the overall local economy, a higher household income tends to lead to greater expectations for quality programs and can lead to additional challenges in balancing desired levels of service with a willingness to pay for services.

Figure 18—2018 Gross Household Income



Source: Manifold Data Mining

Summary—Socio-Economic Indicators

<i>Socio-Economic Indicator</i>	<i>2015 Rating</i>	<i>2018 Rating</i>	<i>Comments</i>
<i>Population Growth</i>			Population growing but at a slower rate than peer municipalities.
<i>Population Density</i>			Population density is lower than peer average but this is impacted by urban area and environmentally sensitive land area.
<i>Demographics</i>			Higher proportion of seniors and this cohort is growing at a faster pace than the Provincial average.
<i>Unemployment Rate</i>			Continues to be below the Provincial average from 2014-2018 and aligned with full employment targets of 6% or less.
<i>Commercial Office Vacancy Rate</i>			Trending down from 2014-2017, with increase in 2018, consistent with Ontario provincial trend.
<i>Industrial Vacancy Rate</i>			Downward trend to 3% in 2018.
<i>Construction Activity</i>			Generally trending up with a good mix of residential/non-residential construction but lower than the peer average on a per capita basis.
<i>Assessment Composition</i>			Good mix of residential and non-residential assessment and the proportions have remained consistent over time.
<i>Richness of the Assessment Base</i>			Higher than the peer average over the past five years reflecting a strong assessment base upon which to raise taxes.
<i>Assessment Growth</i>			Growth in Burlington is lower than peer average.
<i>Household Income</i>			Higher than the peer average.



Section 2: Municipal Levy, Property Taxes and Affordability

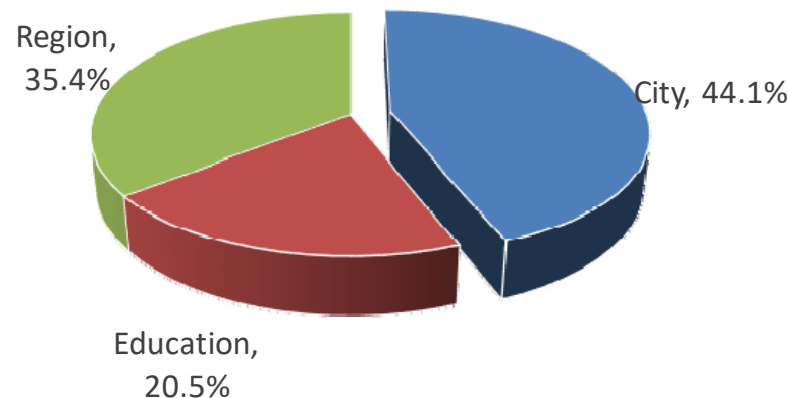
Municipal Levy, Property Taxes and Affordability

This section of the Financial Condition Assessment provides an overview of the cost of municipal services in the City of Burlington and in relation to peer municipalities. In addition, property taxes are reviewed in relation to household income to provide an indication of the affordability of services in Burlington in comparison to other municipalities. Finally, this section of the report compares the competitiveness of non-residential property taxes.

Municipal and Education Residential Property Taxes

Property taxpayers in the City of Burlington receive municipal programs and services through a two-tiered government structure: City and Regional. As shown in the following pie charts, in 2019 approximately 35.4% are related to the Regional cost of services, another 20.5% are related to education taxes, with the remaining 44.1% related to programs and services delivered by the City of Burlington.

Figure 19—2019 City of Burlington Property Tax Split



Excerpts - 2019 Operating Budget

The Budget includes the following recommendations:

- Enhanced focus on corporate strategic planning, management and strategy execution including ongoing implementation and reporting on City Council's 4 Year Workplan.
- Establishment of Corporate Innovation and Performance Improvement function including but not limited to an ongoing continuous improvement program (e.g. Lean Six Sigma).
- Development and Implementation of a City Manager led multi-year City Service Review Process focused on identifying and recommending for Council consideration in conjunction with the annual budget process, proposed changes to City services resulting in sustainable operational efficiencies and annual net budget savings.
- Establishment of an Organizational Transformation Function focused on strategic oversight and execution of major strategic initiatives and projects including citizen-centered digital service delivery.
- Development and implementation of regular corporate performance reporting on measurable outcomes related to major strategic initiatives and projects and ongoing service review efficiencies including cumulative net budget savings.



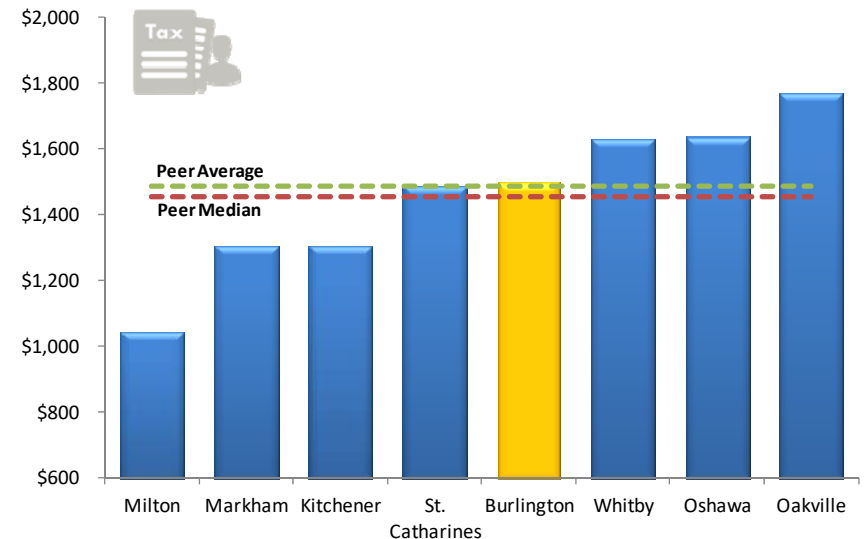
Municipal Levy Per Capita and Per \$100,000 of Assessment Comparison

In order to better understand the relative municipal tax position for the City, a comparison of net municipal levies was calculated based on a per \$100,000 of assessment as well as on a per capita levy basis. This analysis does not indicate value for money or the effectiveness in meeting community objectives as net municipal expenditures may vary as a result of:

- Different service levels;
- Variations in the types of services;
- Different methods of providing services;
- Different residential/non-residential assessment composition;
- Varying demand for services;
- Locational factors;
- Demographic differences;
- Socio-economic differences;
- Urban/rural composition differences;
- User fee policies;
- Age of infrastructure; and
- Use of reserves.

Note: These measures indicate the total net municipal levy (Regional and City) to provide services to the municipality. The City levy was not isolated for comparative purposes because there are differences in which level of government delivers the service (e.g. transit, solid waste) and includes one-tier municipalities.

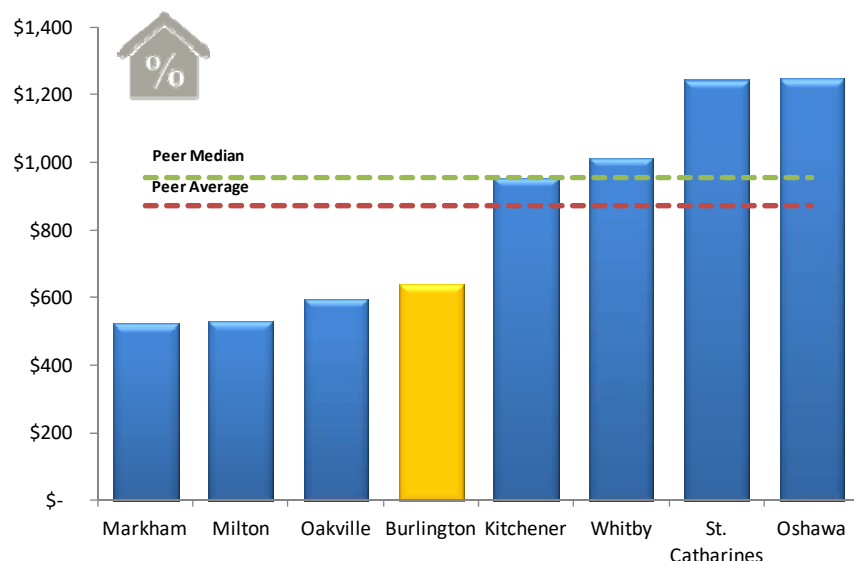
Figure 20—2018 Levy Per Capita Analysis



Source: BMA Municipal Study using 2018 Levy By-laws for each municipality

- The City of Burlington has approximately same level of spending as the peer average on a per capita basis.

Figure 21—2018 Levy Per \$100,000 of Weighted Assessment



Source: BMA Municipal Study using 2018 Levy By-laws for each municipality

- A comparison of the 2018 levy per \$100,000 of weighted assessment provides an indication of the levy in relation to the assessment base upon which taxes are raised.
- As shown in figure 21, the City of Burlington has a lower levy than average per \$100,000 of assessment. This results in lower property tax rates. This reflects a lower level of municipal spending in relation to the assessment base.

Municipal Tax Ratios

Tax ratios are set by the Region and define each property classes' rate of taxation in relation to the rate of the residential property class. The tax ratio for the residential class is set by the province at 1.00. The different relative burdens are reflected in the tax ratios. These relative burdens are used to calculate the municipal tax rate of each property class in relation to the residential class.

As shown in figure 22, the Multi-Residential tax ratio in the City of Burlington is average for peer municipalities. Efforts have been made to reduce the Multi-Residential ratio over the past several years (from 2.2619 in 2014 to 2.00 in 2018). A low commercial and industrial ratio supports economic development by providing a low property tax environment for non-residential properties. The commercial ratio is below the peer average but the industrial ratio is higher than the peer average.

Figure 22—2018 Tax Ratios

Municipality	Multi-Residential	Commercial	Industrial
York	1.00	1.23	1.50
Durham	1.87	1.45	2.19
Waterloo	1.95	1.95	1.95
Niagara	1.97	1.73	2.63
Peer Average	1.70	1.59	2.07
Median	1.91	1.59	2.07
Halton	2.00	1.46	2.36

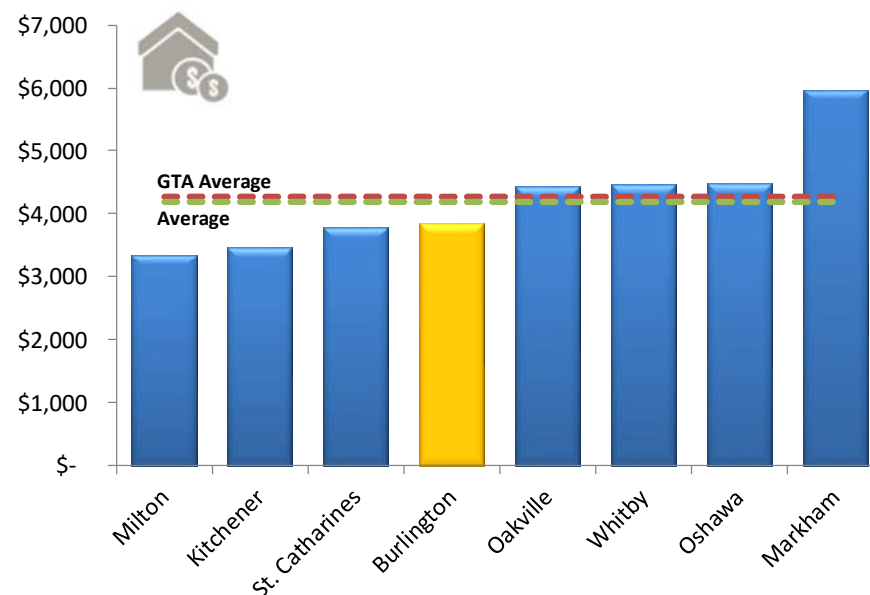
Source: 2018 BMA Municipal Study using Tax by-laws

Comparison of Relative Tax Burden

A “like” property comparison across each municipality and across various property types was undertaken. Annually BMA provides comparisons as part of a larger study which currently includes 108 Ontario municipalities. This study compares the tax burden in the Residential, Multi-Residential, Commercial and Industrial classes.

In order to calculate the relative tax burden of “like” properties, every effort is made to hold constant those factors deemed to be most critical in determining a property’s assessed value. However, given the number of factors used to calculate the assessed value for each property, and the inability to quantify each of these factors, the results should be used to provide the reader with **overall trends rather than exact differences in relative tax burdens between municipalities.**

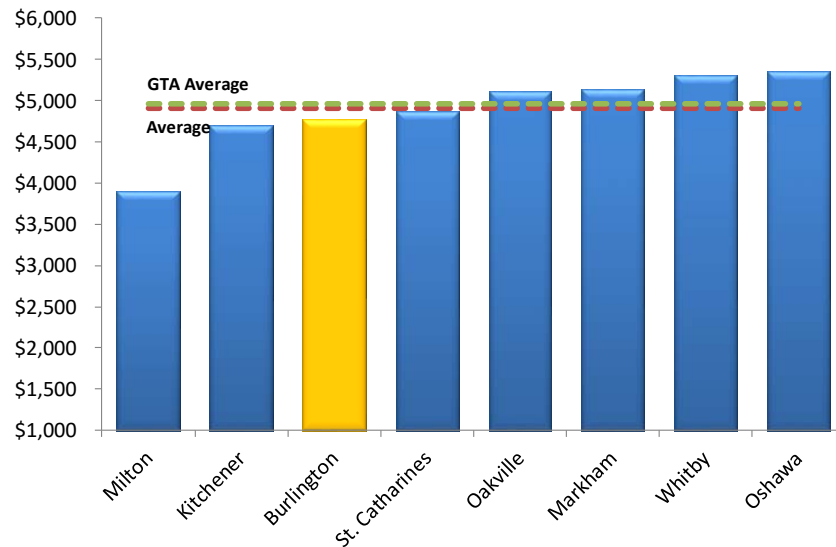
Figure 23—Tax Burden—Residential Bungalow Comparison (2018)



Source: BMA Municipal Study

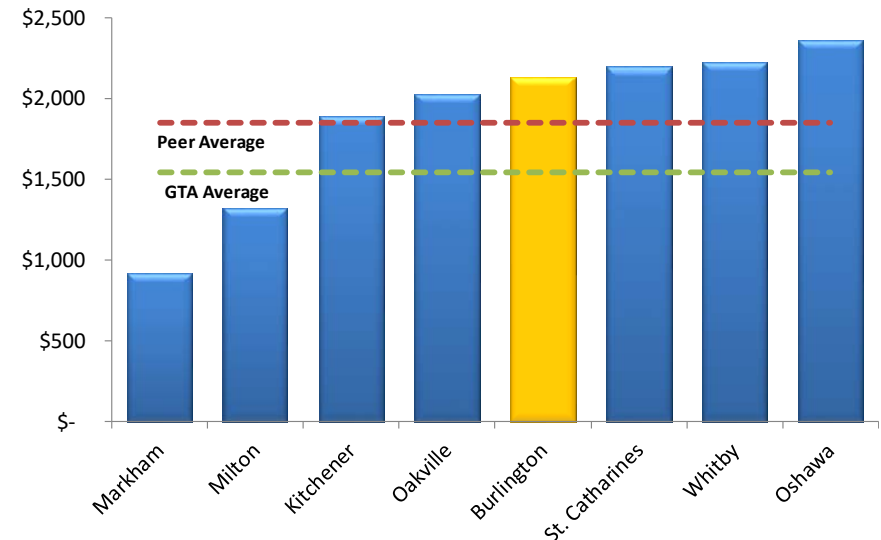
- A comparison was made of a detached three-bedroom single storey home with 1.5 bathrooms and a one car garage. Total area of the house is approximately 1,200 sq. ft. and the property is situated on a lot that is approximately 5,500 sq. ft.
- The tax burden is lower in Burlington compared with the municipal comparator group and the GTA average.

Figure 24—Tax Burden—Two Storey Residential Comparison (2018)



Source: BMA Municipal Study

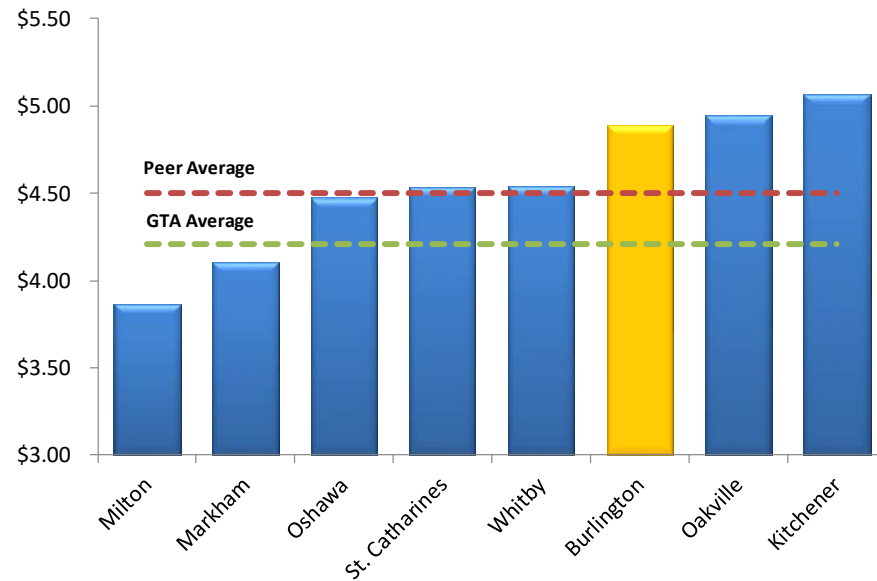
Figure 25—Tax Burden—Multi-Residential High-Rise Comparison—per unit (2018)



Source: BMA Municipal Study

- A comparison was made of the property taxes on a sample of properties in each municipality with a 2,000 square foot home on a lot of approximately 4,000-5,000 sq.ft. with an attached garage, 3 bedrooms and 2.5 bathrooms to understand the relative taxes in each community for “like properties”.
- As shown in figure 24, property taxes based on this property type in Burlington are below the survey average and GTA average.
- As shown above, taxes on a typical high-rise rental unit in Burlington is above the peer and GTA average. This is partly due to higher than average multi-residential tax ratios and higher per unit assessed values.

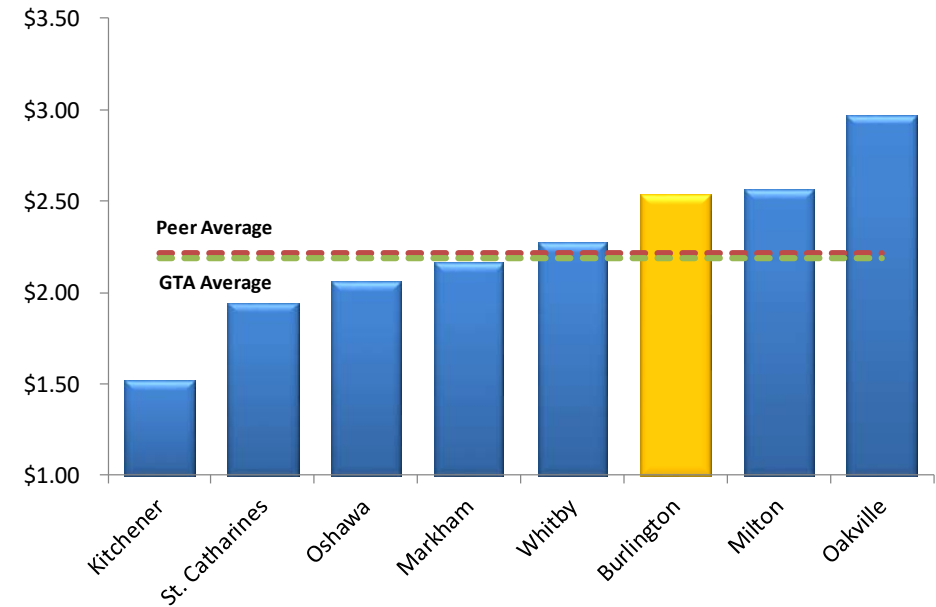
Figure 26—Tax Burden—Neighbourhood Shopping Comparison—per sq. ft. (2018)



Source: BMA Municipal Study

- As shown above, taxes on a typical neighbourhood shopping centre of a per square footage basis in Burlington is above the peer and GTA average.

Figure 27—Tax Burden—Standard Industrial Comparison (2018) - per sq.ft.



Source: BMA Municipal Study

- As shown above, taxes on a standard industrial building of a per square footage basis in Burlington is above the peer and GTA average.

Affordability

The following table compares total property taxes based on a median valued house in each of the municipalities using the MPAC database as well as the average household income to get an appreciation of the tax burden on a typical home in each municipality.

Figure 28—Affordability Comparisons



Municipality	2018 Median Value of Dwelling	2018 Total Taxes on an Average Dwelling Value	2018 Average Household Income	Property Taxes as a % of Income
Milton	\$ 502,387	\$ 3,506	\$ 128,664	2.7%
Oakville	\$ 735,956	\$ 5,636	\$ 179,132	3.1%
Kitchener	\$ 310,307	\$ 3,506	\$ 90,901	3.9%
Whitby	\$ 430,550	\$ 5,084	\$ 128,665	4.0%
Markham	\$ 709,375	\$ 4,922	\$ 118,152	4.2%
St. Catharines	\$ 240,834	\$ 3,450	\$ 80,012	4.3%
Oshawa	\$ 306,269	\$ 4,309	\$ 90,192	4.8%
Peer Average	\$ 462,240	\$ 4,345	\$ 116,531	3.8%
Median	\$ 430,550	\$ 4,309	\$ 118,152	4.0%
Burlington	\$ 507,123	\$ 4,134	\$ 125,873	3.3%

Source: MPAC (dwelling value), BMA Municipal Study (Property Taxes)

- The median dwelling value in the City of Burlington is above the average of peer municipalities.
- Property taxes on an average dwelling in Burlington are below the peer average and median.
- Municipal property taxes in relation to average household income are 3.3% in Burlington compared with the peer average of 3.8% and median of 4.0%.



Summary—Municipal Levy, Property Taxes and Affordability

Indicator	2015 Rating	2018 Rating	Comments
<i>Municipal Levy Per Capita</i>			Levy per capita is at peer average
<i>Municipal Levy Per \$100,000 of Weighted Assessment</i>			Levy per \$100,000 of assessment is lower than peer average
<i>Property Taxes on a Residential House (Bungalow)</i>			Taxes are below the comparator average
<i>Property Taxes on a Two Storey Residential House</i>			Taxes are below the comparator average
<i>Property Taxes on a Multi-Residential High Rise</i>			Taxes are above the comparator average
<i>Property Taxes on a Commercial Shopping Centre</i>			Taxes are above the comparator average
<i>Property Taxes on an Industrial Building</i>			Taxes are above the comparator average
<i>Multi-Residential Tax Ratio</i>			Ratio is above peer average but improvements have been made since 2015
<i>Commercial Tax Ratio</i>			Ratio is below the peer average
<i>Industrial Tax Ratio</i>			Ratio is above peer average. No change has been made since 2015
<i>Residential Affordability</i>			Property taxes as a percentage of household income is below the peer average, third lowest of peer municipalities



Section 3: Financial Position

Burlington's Financial Position

Reserves/Reserve Funds are established by Council to assist with long term financial stability and financial planning. Credit rating agencies consider municipalities with higher reserves more advanced in their financial planning.

Asset Consumption Ratio highlights the relative age of the assets and the potential timing of asset replacements.

Debt is an important indicator of the City's financial health. Debt is an appropriate way of financing longer life items, especially new assets or new corporate initiatives that are not fully recovered through DCs since future taxpayers, that receive the benefit, will also pay through future debt charges. However, when debt levels get too high, it compromises the City's flexibility to fund programs and services.

Financial Position of the City is important to consider as this takes into consideration the City's total financial assets and liabilities.

Taxes Receivable, as a percentage of taxes levied, is an indicator of the economic health of the community.



Summary of Financial Policies

As will be described in this section of the report, the City of Burlington has extensive financial policies including but not limited to:

- **Debt Management**
- **New/Enhanced Assets**
- **Infrastructure Renewal Assets**
- **Growth Assets**
- **Infrastructure Renewal Reserve Fund (IRRF)**
- **One-Time Funding Usage**
- **Capital from Operating Financing**
- **Development Charges Borrowing**
- **Stabilization Reserves**
- **Asset Management**

Introduction to Reserves and Reserve Funds

Maintaining sufficient reserves and reserve funds are a critical component of sound financial planning and management. The purposes for maintaining reserves are:

- ✓ To provide **stabilization** in the face of variable and uncontrollable factors and to ensure adequate and **sustainable cash flows**;
- ✓ To provide financing for **one-time** or short term requirements without permanently impacting the tax rates thereby reducing reliance on long-term debt;
- ✓ To make provisions for **replacement of capital assets** to sustain infrastructure;
- ✓ To provide **flexibility** to manage debt levels and protect the City's financial position; and
- ✓ To provide for **future liabilities** incurred in the current year, but paid for in the future.



Reserves and Reserve Funds

Authority

Funds held in a reserve can be utilized at the discretion of a Municipality, subject to the parameters defined for the reserve when it was established. By using reserves and reserve funds, municipalities retain the capability to designate funds that will be deployed for specific purposes in the future. Municipalities also retain the flexibility to allocate funds beyond the current year, which is a key link to longer-term financial planning practices.

Definitions

A Reserve and Reserve Fund is a financial provision or amount that is designated for a future purpose that extends beyond the current fiscal year. While the balance may vary over the course of a year, the funds are carried forward from one fiscal year to the next to facilitate multi-year financial planning. Reserves can be established to meet specific liabilities such as the replacement/acquisition of capital assets or to protect against known risks or unforeseen circumstances that may create financial difficulties.

Reserves

A reserve is an appropriation from net revenue, after the provision for all known expenditures. It has no reference to any specific asset and does not require the physical segregation of money or assets as is the case of a reserve fund and does not earn interest.

Reserve Funds

A reserve fund differs from a reserve in that reserve fund assets are segregated and restricted to meet the purpose of the reserve fund and it earns interest. There are two types of reserve funds: obligatory reserve funds and discretionary reserve funds.

Obligatory reserve funds are created whenever a statute requires revenue received for special purposes to be segregated from the general revenues of the municipality. Examples include:

- moneys received in lieu of land for park purposes and under a subdivision agreement as set out under Subsection 42(6), (15) and 51.1(5) respectively of the Planning Act; and
- moneys received as development charges as set out under Sections 33 to 37 of the Development Charges Act.

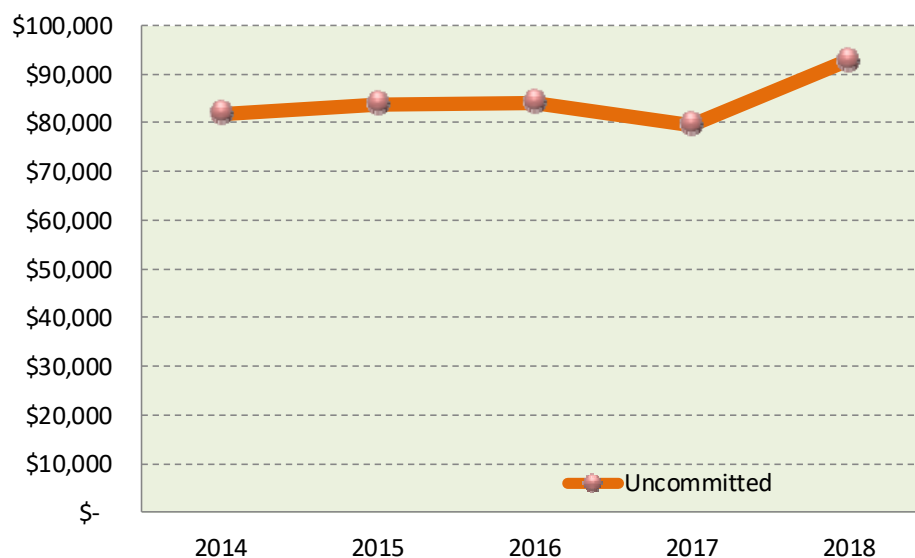
Discretionary reserve funds are created under Section 417 of the *Municipal Act*. Discretionary reserve funds are established whenever a municipal council, local board or other entity wishes to earmark revenues to finance a future expenditure for which it has the authority to spend money, and physically set aside a certain portion of any year's revenues so that the funds are available as required. The Ministry of Municipal Affairs and Housing suggests that municipalities, local boards or other entities create new reserve funds or additional allocations to a reserve fund through the budget process, including, defining the purpose for which the reserve fund is being created.



Reserves/RF (Excluding Obligatory Reserves/Reserve Funds)

- As shown in Figure 29, on a consolidated basis, the City's Reserves/Reserve Funds have experienced an upward trend from 2014–2018. The graph below reflects reserve balances (excluding DCs and Park Dedication Funds) taking into consideration commitments.
- From 2014-2018 the consolidated balance increased 15%. This is primarily driven by increases in Stabilization Reserves, Corporate Reserves, Program Specific and Local Boards and Agencies Reserves/Reserve Funds. Over the same period, all major classifications of Capital Reserves have declined which will be discussed in further detail later in the report.

Figure 29—Reserves/RF (Excluding Obligatory Reserves/Reserve Funds) (000's)

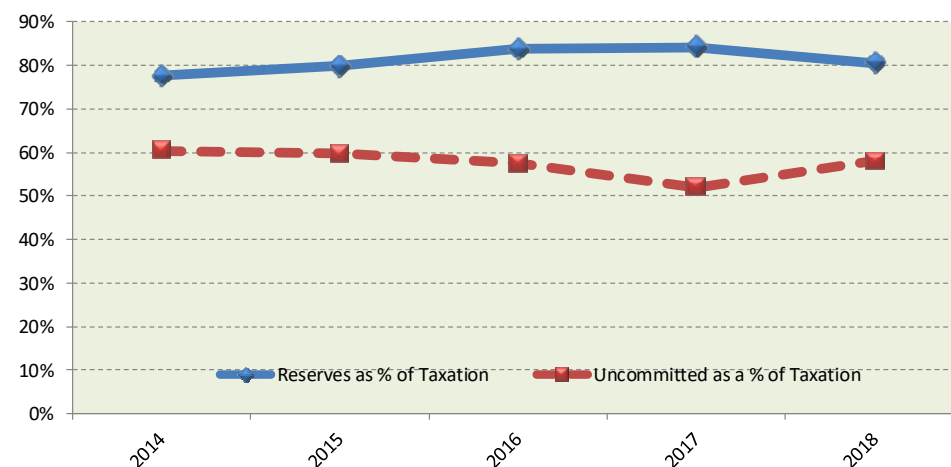


Source: Reserve Statements uncommitted balances

Reserves as a % of Taxation

- The discretionary reserves/reserve funds as a percentage of taxation was evaluated, both the trends, as well as in relation to other peer municipalities. Note that this analysis excludes obligatory reserve funds (e.g. Development Charges).
- Reserves as a % of taxation provide a measure of the financial health of a municipality. Figure 30 provides an historical representation of the City's reserves (excluding obligatory reserves) as a percentage of taxation, both the total year end balances and the uncommitted reserve balances.
- Low levels of reserves are indicative of a limited capacity to deal with cost increases or revenue losses, requiring the City to revert to taxation or user fee increases or the issuance of debt.
- As shown below, the reserves as a percentage of taxation has been relatively flat over the past five years.

Figure 30—Reserves as a % of Taxation

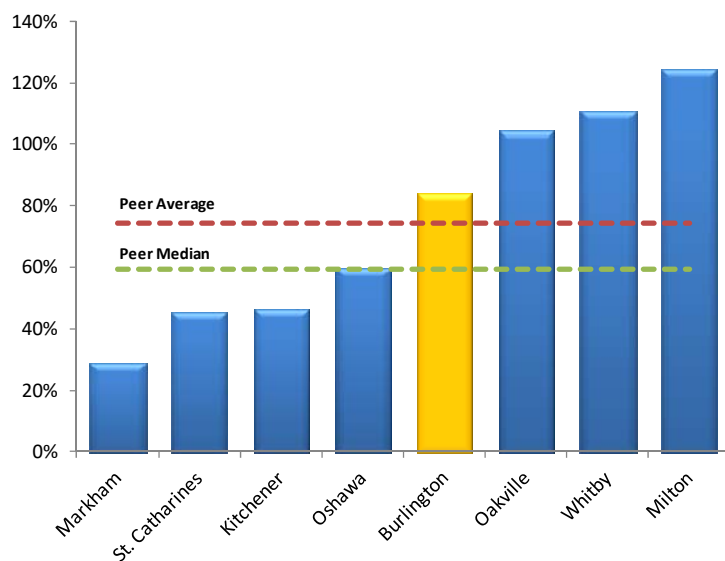


Source: Reserve Statements, year end balances and uncommitted balances

Reserves/Reserve Funds as a % of Taxation

- As shown in figure 31, the City of Burlington's discretionary reserves as a percentage of taxation are above the peer survey average and median.

Figure 31—2017 Reserves/RF as a % of Taxation

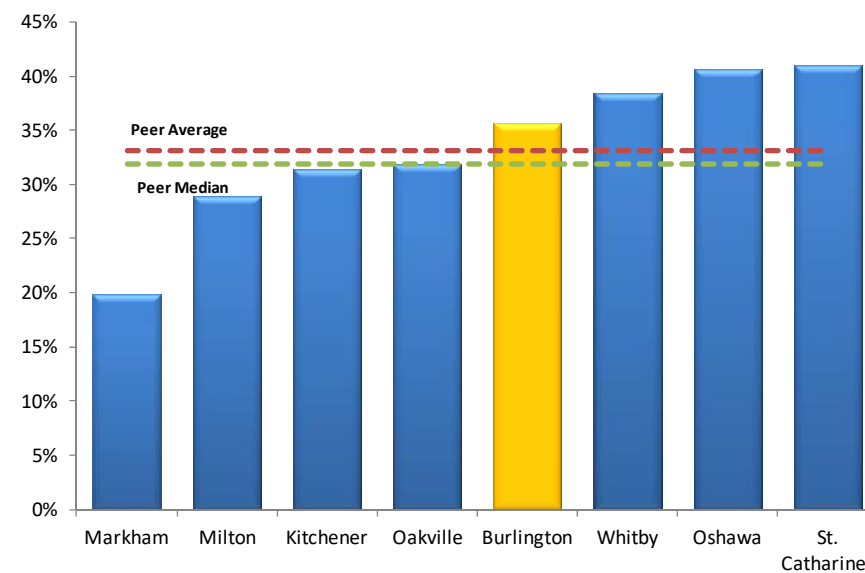


Source: FIRs

Asset Consumption Ratio

- The asset consumption ratio (see Figure 32) shows the written down value of the tangible capital assets relative to their historical costs. This ratio highlights the relative age of the assets and the potential timing of asset replacements.
- As shown below, the City's asset consumption ratio is higher than the peer average and median, reflecting potentially greater replacement needs in the short to mid term than other municipalities such as Markham, Milton, Kitchener and Oakville with a lower asset consumption ratio. This indicates a need for healthier capital replacement reserves.

Figure 32—2017 Asset Consumption Ratio



Source: FIRs

Summary of Tax Reserves and Reserve Funds 2014-2018

Figure 33—Tax Reserves/Reserve Funds 2014-2018 Balances—Major Classifications

TOTAL Reserves and Reserve Funds (excluding DCs)							
TOTAL Reserves and Reserve Funds (000s) (excluding DCs)	2014	2015	2016	2017	2018		5 Year Change
Stabilization Reserves and Reserve Funds	\$ 16,764	\$ 16,763	\$ 17,668	\$ 20,863	\$ 23,391	\$	6,628
Capital Reserve funds	\$ 45,772	\$ 46,709	\$ 41,114	\$ 32,924	\$ 40,766	\$	(5,006)
Other Capital Reserve Funds	\$ 37,846	\$ 38,818	\$ 32,100	\$ 27,012	\$ 33,140	\$	(4,706)
Vehicle and Equipment Reserve Funds	\$ 5,107	\$ 6,263	\$ 6,527	\$ 4,061	\$ 4,715	\$	(391)
Transit Related Reserve Funds	\$ 2,819	\$ 1,628	\$ 2,487	\$ 1,851	\$ 2,911	\$	92
Corporate Reserves and Reserve Funds	\$ 5,051	\$ 4,621	\$ 5,618	\$ 6,182	\$ 7,025	\$	1,975
Program Specific Reserves and Reserve Funds	\$ 3,841	\$ 5,117	\$ 7,563	\$ 6,431	\$ 6,738	\$	2,897
Local Boards Reserve Funds	\$ 9,311	\$ 10,357	\$ 12,056	\$ 13,031	\$ 14,995	\$	5,684
TOTAL Reserves and Reserve Funds (excluding DCs)	\$ 80,738	\$ 83,567	\$ 84,019	\$ 79,431	\$ 92,916	\$	12,178

Source: City's year end reserve report less commitments.

Figure 33 provides a summary of the City's reserves and reserve funds (excluding Development Charges and Park Dedication Funds). **The City's total reserves and reserve funds (excluding growth and development related reserves) have increased by 15% (\$12.2 million) since 2014.**

- **Stabilization Reserves and Reserve Funds** have increased 40% (\$6.6 million) since 2014. This category includes General Contingencies, Tax Stabilization, Severe Weather and Building, Planning and Engineering Stabilization Reserves.
- **Capital and Related Reserve Funds** have decreased 11% (\$5.0 million) since 2014. This category includes reductions in Vehicle and Equipment Reserves, Transit and Other Capital Reserves/Reserve Funds.
- **Corporate Reserve/Reserve Funds** have increased 39% (\$2.0 million) since 2014. This is primarily as a result of increases in the Employee Accident Reserve and Benefits Reserve, which are unfunded contingent liabilities.
- **Program Specific Reserves/Reserve Funds** have increased 75% (\$2.9 million) since 2014.
- **Local Boards Reserve Funds** have increased 61% (\$5.7 million) since 2014.

Figure 34—Summary of Stabilization Reserves/Reserve Funds

Stabilization Reserves and Reserve Funds							
Stabilization Reserves and Reserve Funds (000s)	2014	2015	2016	2017	2018	5 Year Change	
Contingency	\$ 6,044	\$ 3,617	\$ 4,538	\$ 5,033	\$ 6,273	\$ 228	
Severe Weather	\$ 784	\$ 2,936	\$ 3,275	\$ 3,811	\$ 3,913	\$ 3,129	
Tax Rate Stabilization	\$ 5,224	\$ 5,126	\$ 4,678	\$ 4,113	\$ 5,866	\$ 642	
Building Permit Stabilization	\$ 3,147	\$ 2,986	\$ 3,191	\$ 3,625	\$ 2,774	\$ (374)	
Planning Fee Stabilization	\$ 1,195	\$ 1,812	\$ 1,751	\$ 3,279	\$ 3,706	\$ 2,511	
Engineering Fee Stabilization	\$ 370	\$ 286	\$ 201	\$ 813	\$ 665	\$ 295	
Commodity Stabilization Reserve Fund	\$ -	\$ -	\$ 35	\$ 190	\$ 195	\$ 195	
Stabilization Reserves and Reserve Funds	\$ 16,764	\$ 16,763	\$ 17,668	\$ 20,863	\$ 23,391	\$ 6,628	

Purpose

The City holds stabilization reserves to offset extraordinary and unforeseen expenditure requirements, one-time expenditures, revenue shortfalls, to avoid wide fluctuations on the General Levy and to manage cash flows. This includes reserves and reserve funds for severe weather, tax stabilization, contingency and development application reserve funds.

Guiding Principles - Stabilization Reserves/Reserve Funds

- A prudent level of Stabilization Reserves/Reserve Funds will be maintained to protect against reducing service levels or raising taxes because of temporary revenue shortfalls or unanticipated expenditures.
- The use of Stabilization Reserves/Reserve Funds will be restricted to extraordinary or unforeseen events and will not be used to balance Operating Budgets.
- The City will segment Stabilization Reserves/Reserve Funds for those programs that are funded by user fees and permit revenues where there is significant fluctuation in activity from year to year to ensure that the funds are available to address any future revenue shortfalls.
- Minimum balances, ceilings and targets will be established, where appropriate, to provide a guideline for Stabilization Reserve balances and to balance the needs for Stabilization Reserves against Capital Reserves.

Stabilization Reserve and Reserve Fund Targets

The City has a number of Stabilization Targets that have been incorporated into their financial policies. The next several pages summarize the targets, year end uncommitted balances and trends.


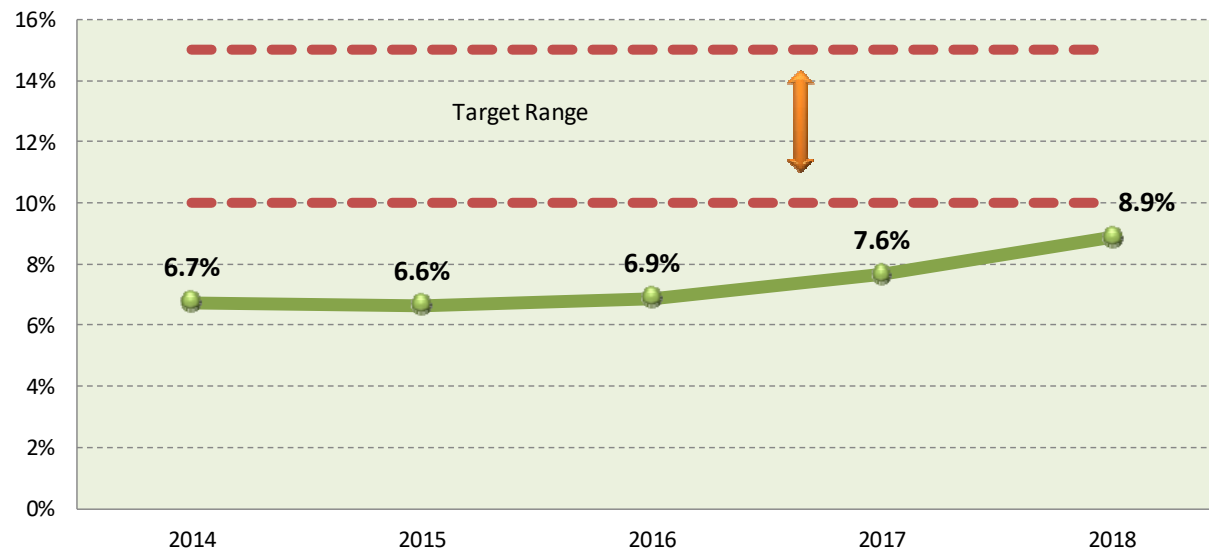




	Target/Description	2018 Available Reserves	2018 Target	Target Evaluation
Consolidated Tax Stabilization Reserves	The target balance for the consolidated Tax Stabilization Reserves/ Reserve Funds (excluding Building Permit Stabilization Reserve Fund) will be set at 10%-15% of the City's own source revenues.	\$20.6 million	\$23.2—\$34.8 million	

Figure 35—Burlington's Stabilization Reserves/Reserve Funds as a % of Own Source Revenues (2014-2018)






As shown in figure 35, the existing balance in the consolidated Tax Stabilization Reserves is below the policy target of 10%-15% of own source revenues. Note that in the 2019 Budget, there was \$2.4 million of commitment approved from the tax rate stabilization reserve fund which was partially offset with a provision amount of \$1.6 million from the 2018 operations.

Stabilization Reserve and Reserve Fund Targets

	<i>Target/Description</i>	<i>2018 Available Reserves</i>	<i>2018 Target</i>	<i>Target Evaluation</i>
Contingency	This Reserve is used to address confidential legal and human resource matters.	\$6.3 million	N/A part of consolidated target	
Severe Weather	The Severe Weather Reserve Fund target balance is equal to one year's expenditure requirements. A minimum balance of 25% of the five year average of winter maintenance costs (adjusted for inflation) should be maintained at all times. During years where the Severe Weather Reserve Fund is below the minimum balance, a budgeted transfer will be made.	\$3.9 million	\$1.5 million	
Tax Stabilization	Reserve Fund is used to address tax stability, to fund operating deficits and one-time expenditures. This Reserve has been used for such items as funding contract positions and special events and studies. This Reserve is funded through operating surpluses. See Consolidated Tax Stabilization Reserve/Reserve Fund target.	\$5.9 million	N/A part of consolidated target	
Building Permit Stabilization	The Building Fee Stabilization Reserve Fund will have a target of 163% of total direct operating expenditures. If the target is exceeded and remains above the ceiling for two years or more, the city will undertake a review to determine whether the balance should remain above the target.	\$2.8 million	\$2.9 million	

Stabilization Reserve and Reserve Fund Targets

	<i>Target/Description</i>	<i>2018 Available Reserves</i>	<i>2018 Target</i>	<i>Target Evaluation</i>
Planning Fee Stabilization	Established to stabilize program revenues and expenditures which can vary from year to year based on the level of development activity in the City. This is a sound and fiscally responsible strategy to avoid impacts on the general tax base and to avoid spikes in fees. In years where revenue surpluses occur, the balance is transferred to the respective Reserve Fund which is, in turn, used to fund revenue shortfalls in deficit years.	\$3.7 million	N/A part of consolidated target	
Engineering Fee Stabilization		\$0.6 million	N/A part of consolidated target	
Commodity Stabilization		\$0.2 million	N/A part of consolidated target	

Asset Management and Capital Reserves/Reserve Funds

Purpose

Capital Reserves/Reserve Funds are used to assist in financing the capital program. They provide flexibility and liquidity as well as enhancing the City's capacity to handle current and future capital infrastructure needs. Capital assets must be supported by contributions to Reserves/Reserve Funds to address their eventual rehabilitation and/or replacement.

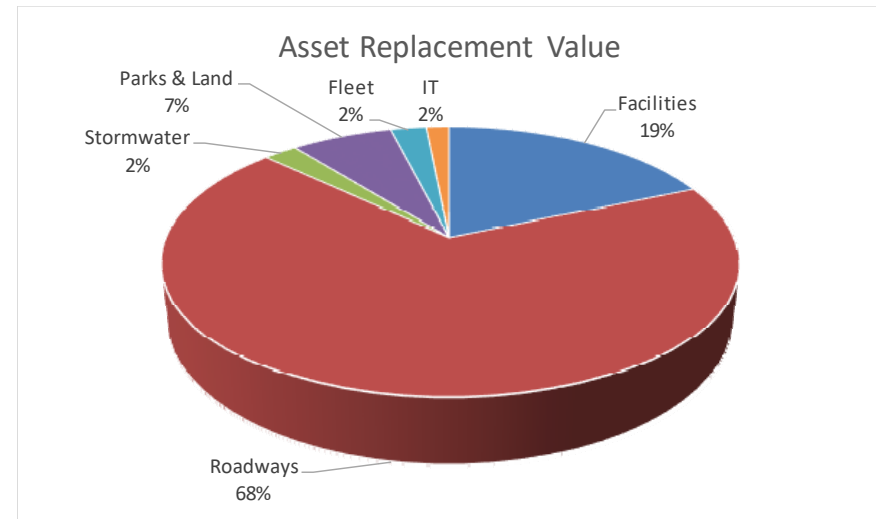
Asset Management and Capital Reserves/Reserve Funds includes the following main classifications:

Capital General

Transit

Vehicles & Equipment

Figure 36—Replacement Values by Asset Category (2016)



- The total replacement value of the City's capital assets is approximately \$3 billion. Figure 36 provides the breakdown by asset type.

Guiding Principles—Capital Reserve and Reserve Funds

- The City's infrastructure is aging, and funds must be committed to ensure it is properly maintained and renewed. The infrastructure is subject to time-varying pressures such as aging, deterioration, increasing demand, and climate that affect the current state and overall long term performance. The City has an obligation to protect its investment and strike a balance between new/enhanced facilities and the proper maintenance of existing infrastructure.
- Asset acquisition and construction will be subject to a cost-benefit analysis that considers lifecycle costing and ongoing operating costs. All assets will be maintained at a level that protects capital investment and minimizes future maintenance and replacement costs. The City will consider the cost of delaying repairs/replacement compared to the cost to restore at the appropriate time.
- Capital Reserves and Reserve Funds form an important component of any Capital Financing Plan and are used extensively by the City in financing the capital program for maintenance and replacement of capital assets. Planned contributions to Capital Reserves/ Reserve Funds have contributed to the success of the City's financial management program. The City will determine future capital reserve requirements based on the inventory of tangible capital assets, the condition of the assets, the useful life of the assets and their disposal value.
- Best practice is to contribute to Capital Reserves and Reserve Funds for the replacement/refurbishment of capital assets. This will reduce the reliance on debt financing.
- Capital is scarce and as a result, the City will seek to extend the life of assets where possible. For example, on road rebuild projects, sidewalks are not completely replaced. Typically, only damaged sections are replaced. Similarly, vehicles and computers are not replaced when their planned lifetime is up; their condition is evaluated and extended where possible.
- A focus on renewal could consume every available dollar. While recognizing the priority of renewal, some resources will be allocated for capacity additions reflecting the highest priority needs of the community.

Excerpts—Asset Management Program Report CW-02-19

Based on the 2016 AMP, the estimated Unfunded Renewal Need (URN) totals \$126.5M, of which roadways represents the largest backlog. Tackling the URN is a short-term objective of the financing strategy. Doing so in a timely manner will minimize total long-term renewal costs by providing the right treatment, to the right asset, at the right time. This is the optimal way of minimizing the escalating deterioration of our assets.

The **annual average renewal need is estimated to be \$67.5M**, which is the amount the City requires to sustain its existing asset inventory.

The URN has accumulated due to historical under-funding in a period of rapid and extensive growth. **Growth in assets contributes to a greater need to re-invest in City assets** and that was not occurring. The URN grows each time we do not renew an asset at the right time. This increases the likelihood of increased cost to do the same work or increased costs due to further deterioration. With the approval of the recent financing strategy, staff is correcting for the past and working towards sustainability to achieve timely renewal of assets.



Existing Policies and Capital Strategies

The following details the present day financing plan and funding the city's proposed (2019) ten-year capital renewal program;

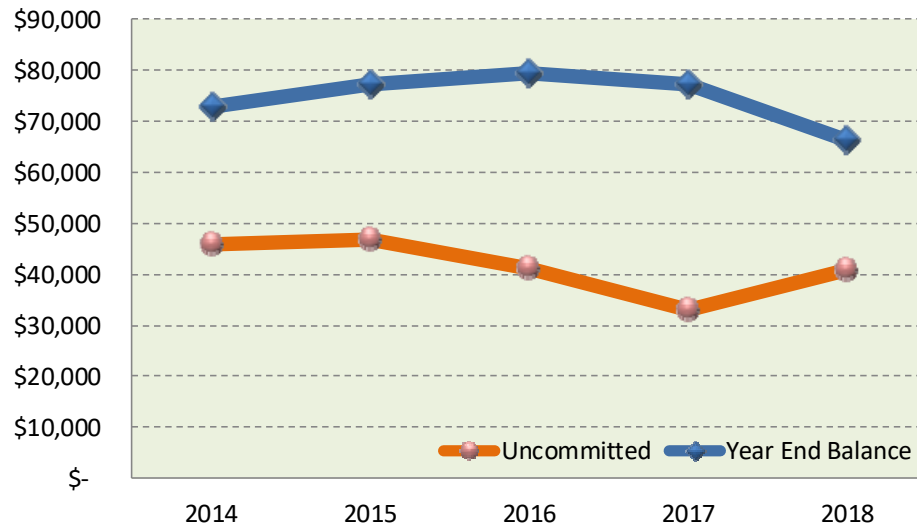
- Dedicated infrastructure levy of 1.25% with reductions planned.
- Additional 0.2% levy to address renewal needs of a growing asset inventory.
- An annual increase of 4% to the Vehicle Depreciation Reserve Fund to sustain the City's fleet and equipment inventory.
- Planned repurposing of the hospital levy.
- To ensure sustainability of the conventional bus renewal program, minimize the use of provincial gas tax revenues in the Operating Budget.
- Hydro Reserve Fund is the funding source for the Infrastructure Renewal Reserve Fund on an annual basis.

Figure 37—Total Capital Reserves/Reserve Funds (000's)

TOTAL Capital Reserves and Reserve Funds (000s)	2014	2015	2016	2017	2018	5 Year Change
Other Capital Reserve Funds	\$ 37,846	\$ 38,818	\$ 32,100	\$ 27,012	\$ 33,140	\$ (4,706)
Vehicle and Equipment Reserve Funds	\$ 5,107	\$ 6,263	\$ 6,527	\$ 4,061	\$ 4,715	\$ (391)
Transit Related Reserve Funds	\$ 2,819	\$ 1,628	\$ 2,487	\$ 1,851	\$ 2,911	\$ 92
Total Capital	\$ 45,772	\$ 46,709	\$ 41,114	\$ 32,924	\$ 40,766	\$ (5,006)

Reserve ending balance less commitments

Total Capital Reserves and Reserve Funds (000's)



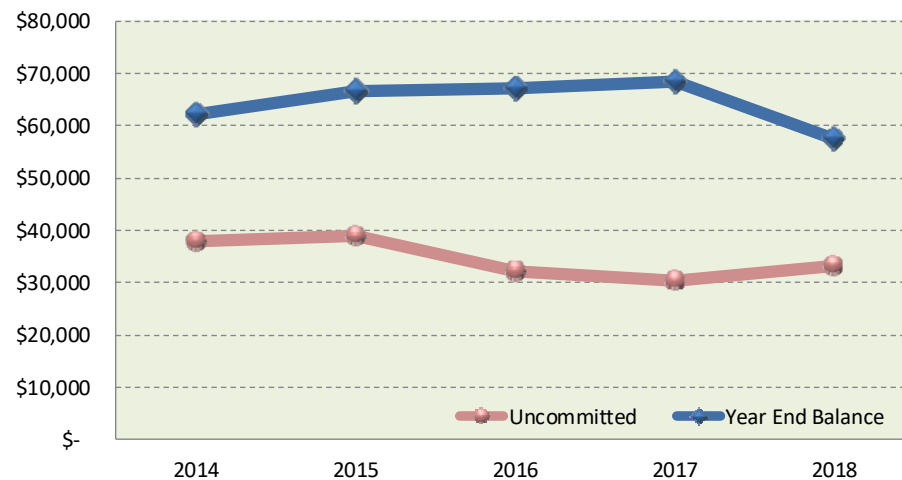
- As shown in the figure 37, the year end balance and the uncommitted balanced have declined from 2014-2018.
- Reductions have occurred in the three classifications of capital asset reserves since 2014.
- A general rule is for a municipality to maintain a minimum balance in the consolidated capital reserves of 2% of the asset replacement value to address any emergency unplanned capital replacement requirements. Based on this standard, the City should have an uncommitted balance of approximately \$60 million (\$3 billion replacement value) and the existing balance is \$40.7 million.
- **It is recommended that the City target a minimum balance of 2% of asset replacement value to be maintained in the consolidated Capital Reserves and Reserve Funds.**

Figure 38—Summary of Capital Reserves and Reserve Funds (Excluding Vehicles and Transit)

Capital Reserve Funds							
Capital Reserve Funds (000s)	2014	2015	2016	2017	2018	5 Year Change	
Burlington Hydro Proceeds	\$ 22,775	\$ 22,089	\$ 20,761	\$ 14,406	\$ 8,475	\$	(14,300)
Capital Purposes	\$ 7,066	\$ 8,861	\$ 3,866	\$ 1,767	\$ 4,842	\$	(2,224)
Infrastructure Renewal	\$ 1,534	\$ 2,558	\$ 1,240	\$ 2,577	\$ 6,628	\$	5,094
Information Technology Renewal	\$ -	\$ -	\$ 830	\$ 764	\$ 1,198	\$	1,198
Federal Gas Tax	\$ 2,782	\$ 3,858	\$ 2,761	\$ 4,573	\$ 3,530	\$	749
Public Art Reserve Fund	\$ 663	\$ 684	\$ 590	\$ 555	\$ 627	\$	(36)
Railway Crossing	\$ -	\$ -	\$ -	\$ -	\$ -	\$	-
Joseph Brant Hospital	\$ -	\$ -	\$ -	\$ -	\$ -	\$	-
Strategic Plan	\$ -	\$ -	\$ -	\$ 737	\$ 708	\$	708
Strategic Land Acquisition	\$ 3,026	\$ 768	\$ 2,053	\$ 1,634	\$ 7,133	\$	4,107
Capital Reserve Funds	\$ 37,846	\$ 38,818	\$ 32,100	\$ 27,012	\$ 33,140	\$	(4,706)

Reserve ending balance less commitments

- As shown in figure 38, the year end balance and the uncommitted balanced have declined over the past 5 years.



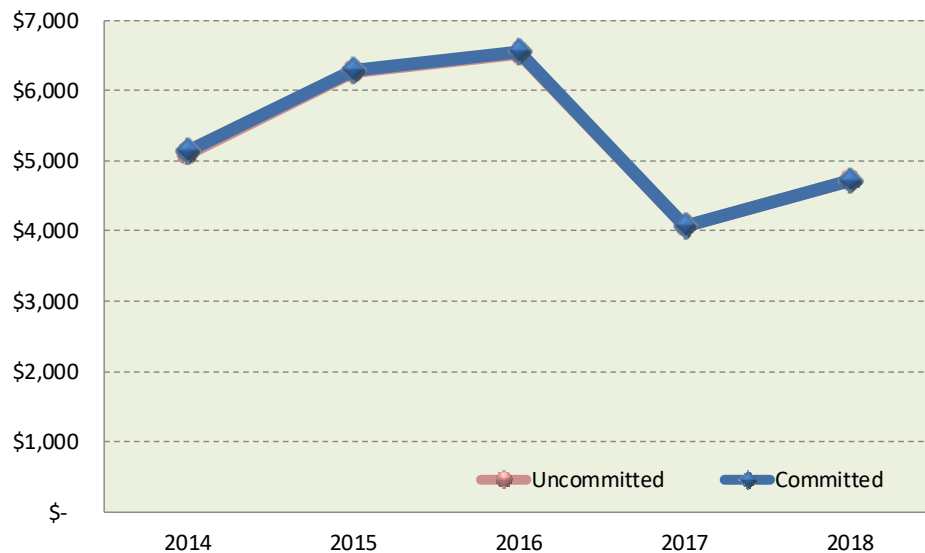
- Hydro Proceeds Reserve has been declining over the past 5 years as this reserve is being used to fund infrastructure deficits. The reserve captures the interest and dividend payments to the City as the sole shareholder.
- The infrastructure Renewal has increased significant as a result of prudent financial policies to build this reserve to support the timely replacement of assets.
- The Strategic Land Acquisition Reserve increased significantly in 2018 due to the sale of City land.
- The Railway Crossing Reserve Fund is dedicated funding for the long term construction of grade separations at level crossings. The balance is fully committed towards future planned crossings.
- The Joseph Brant Hospital Reserve Fund is dedicated funding for the expansion of the Hospital. The balance is fully committed towards future planned payments.

Figure 39—Burlington's Vehicles & Equipment Reserves & Reserve Funds

Vehicles and Equipment Reserves and Reserve Funds							
Vehicles and Equipment Reserves and Reserve Funds (000s)	2014	2015	2016	2017	2018		5 Year Change
Vehicle Replacements - Fire	\$ 1,687	\$ 2,410	\$ 2,053	\$ 1,521	\$ 1,593	\$	(95)
Vehicle Replacements - RPM & PR	\$ 3,022	\$ 3,455	\$ 4,126	\$ 2,207	\$ 2,803	\$	(219)
Vehicle Replacements - Tyandaga	\$ 397	\$ 398	\$ 348	\$ 333	\$ 319	\$	(78)
Vehicles and Equipment Reserves and Reserve Funds	\$ 5,107	\$ 6,263	\$ 6,527	\$ 4,061	\$ 4,715	\$	(391)

Reserve ending balance less commitments

Vehicle and Equipment Reserves and Reserve Funds (000's)



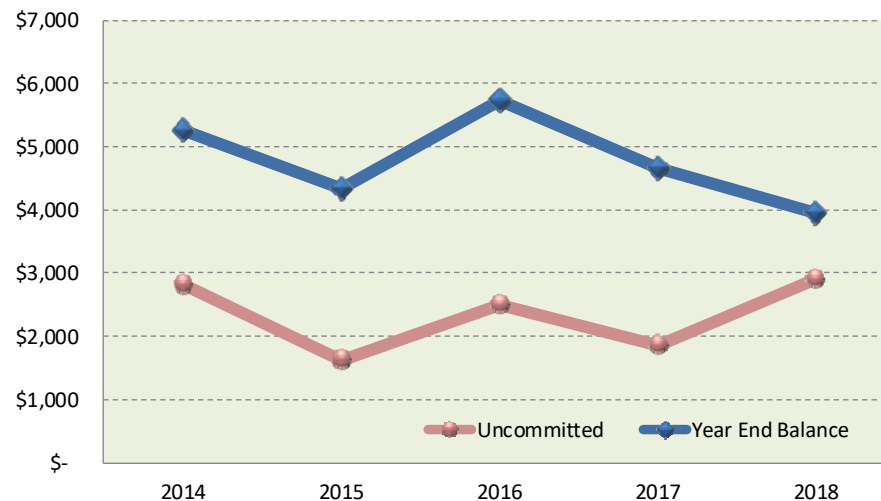
- As shown in figure 39, the year end balance and the un-committed balance have declined from 2014-2018.
- An annual increase of 4% to the Vehicle Depreciation Reserve Fund to sustain the City's fleet and equipment inventory was implemented in 2018 to address the need for additional funds to ensure that vehicles and equipment are replaced on a timely basis.

Figure 40—Burlington's Transit Reserves & Reserve Funds

Transit Related Reserves Funds						
Transit Related Reserves Funds (000s)	2014	2015	2016	2017	2018	5 Year Change
Transit Inter-Regional/Capital	\$ -	\$ 275	\$ 215	\$ 6	\$ 0	\$ 0
Transit Capital	\$ -	\$ 1,054	\$ 534	\$ 181	\$ 117	\$ 117
Provincial Gas Tax	\$ 1,465	\$ 164	\$ 1,395	\$ 607	\$ 1,822	\$ 358
Federal Gas Tax - Transit Dedicated	\$ 1,353	\$ 133	\$ 340	\$ 1,055	\$ 970	\$ (383)
Transit Shelters	\$ 1	\$ 1	\$ 1	\$ 1	\$ 1	\$ 0
Transit Related Reserves Funds	\$ 2,819	\$ 1,628	\$ 2,487	\$ 1,851	\$ 2,911	\$ 92

Reserve ending balance less commitments

Transit Reserves and Reserve Funds (000's)



- As shown in figure 40, the uncommitted balance have remained relatively flat when comparing 2014 to 2018.
- The Provincial Gas Tax Reserve is funded through the accumulation of monies received from the Provincial Government under the Dedicated Gas Tax Funds for Public Transportation Programs.

Corporate Reserves and Reserve Funds

Purpose

One of the measures of financial sustainability is that future generations are not forced to pay for services provided to the current generation. The City incurs liabilities that do not have to be paid immediately. For instance, the City will face future budget pressures as the City's workforce ages and post-retirement or post-employment benefits start to be paid out in larger quantities. Prudent and sustainable financial management strategies are needed to ensure future generations are not required to absorb a disproportionate share of these costs. As such, the City has a number of Corporate Reserves to protect against the consequences of certain risks, liabilities and corporate programs in such areas as insurance, WSIB and employee benefits.

Guiding Principles - Corporate Reserves/Reserve Funds

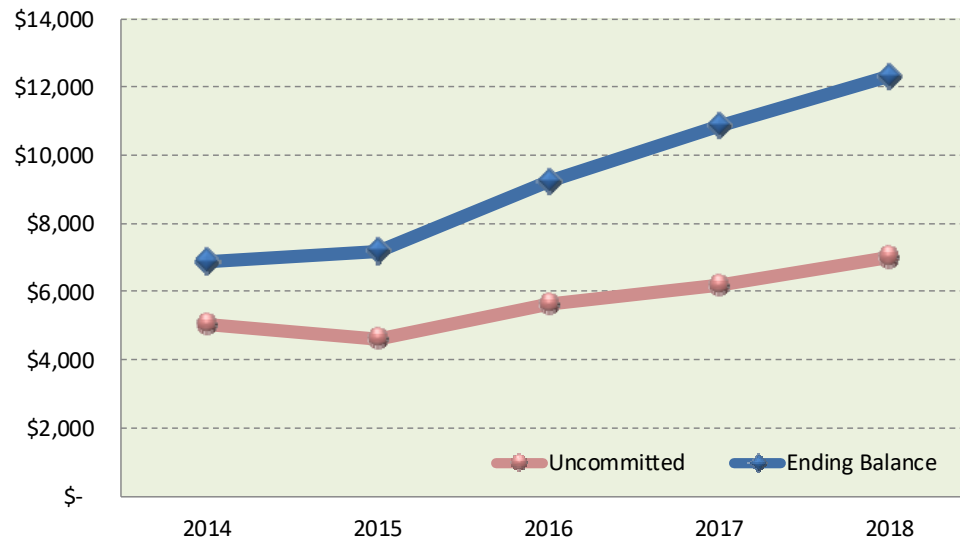
- Contributions to the Corporate Reserves/Reserve Fund will take into consideration the liability associated with the Reserves/Reserve Fund.
- A sufficient budget allocation is required to fund the WSIB costs and benefits so that the Employee Accident Reserve Fund and Benefits Reserve Fund can eventually be replenished to cover the liabilities.

Figure 41—Corporate Reserves and Reserve Funds

Corporate Reserves and Reserve Funds						
Corporate Reserves and Reserve Funds (000s)	2014	2015	2016	2017	2018	5 Year Change
Employee Accident	\$ 2,416	\$ 2,582	\$ 3,051	\$ 3,472	\$ 3,919	\$ 1,503
Benefits	\$ 1,273	\$ 1,246	\$ 1,738	\$ 1,813	\$ 2,106	\$ 833
Other Corporate Reserves	\$ 1,362	\$ 793	\$ 829	\$ 897	\$ 1,000	\$ (362)
Corporate Reserves and Reserve Funds	\$ 5,051	\$ 4,621	\$ 5,618	\$ 6,182	\$ 7,025	\$ 1,975

Reserve ending balance less commitments

Corporate Reserves and Reserve Funds (000's)



- As shown in figure 41, the year end balance and the uncommitted balance have consistently increased from 2014-2018. This increase in reserve balances helps to reduce the City's liability exposure.
- Consistent with the practice in the City of Burlington, it is common for municipalities to establish Corporate Reserve Funds to provide for employee accident and benefit liabilities.

- In accordance with industry practices recommended by credit rating agencies, actuarial valuations have been undertaken to determine the amount of contingent liabilities associated with the Corporate Reserve Funds.
- The Employee Accident Reserve Fund is used to fund WSIB claims and related expenses incurred by the City as a Schedule II employer. As a schedule II employer, under the Workplace Safety & Insurance Act, the City assumes the liability for any award under the Act. As of December 31, 2018, the estimated liability was \$7.5 million, with a current reserve balance of \$3.9 million.
- The liability associated with the Benefits Reserve Fund as of December 31, 2018 was \$13.2 million, with a balance currently estimated at \$2.1 million.
- The following table summarizes the reserves and actuarial valuation of liabilities in 2013 (last study) compared with 2018 (most current information available):
- It is financially prudent to have sufficient Corporate Reserve Funds to cover associated liabilities. However, based on a review of municipal Corporate Reserve Funds, this is an area where unfunded liabilities exist in a number of municipalities, including Burlington.
- Because the liabilities do not come due at the same time, it is reasonable to have some unfunded liabilities, however, the challenge is to identify what a reasonable level is. An approach undertaken by a number of municipalities has been to gradually address the unfunded liability over a period of 5-10 years and by ensuring that annual contributions are made reflective of historical and forecast requirements to ensure that the liability does not continue to grow.

	2013	2018	\$ Change
<u>Employee Accident</u>			
Actuarial Valuation Liability	\$ 5,100,000	\$ 7,480,000	\$ 2,380,000
Reserve Balance	\$ 3,700,000	\$ 3,900,000	\$ 200,000
<u>Benefits</u>			
Actuarial Valuation Liability	\$ 10,300,000	\$ 13,200,000	\$ 2,900,000
Reserve Balance	\$ 1,300,000	\$ 2,100,000	\$ 800,000

Figure 42—Summary of Program Specific Reserves and Reserve Funds

Program Specific							5 Year Change
Program Specific Reserve Funds (000s)	2014	2015	2016	2017	2018		
Economic Development	\$ 39	\$ 40	\$ 42	\$ 43	\$ 44	\$ 4	
Parks & Recreation - Paletta Mansion	\$ 275	\$ 323	\$ 401	\$ 458	\$ 587	\$ 312	
Parks & Recreation - Waterfront Centre	\$ 848	\$ 984	\$ 458	\$ 365	\$ 397	\$ (451)	
Parks & Recreation - Senior's Centre	\$ 376	\$ 433	\$ 483	\$ 531	\$ 502	\$ 126	
Parks & Recreation - Tyandaga Facility	\$ 224	\$ 292	\$ 334	\$ 203	\$ 129	\$ (96)	
Parks & Recreation - LaSalle Park Pavilion	\$ 793	\$ 683	\$ 560	\$ 429	\$ 415	\$ (378)	
Parks & Recreation - Sports Fields	\$ 54	\$ 51	\$ 75	\$ 101	\$ 137	\$ 83	
Parks & Recreation - Haber Community Centre	\$ 130	\$ 170	\$ 244	\$ 321	\$ 398	\$ 269	
Parks & Recreation - Recreation Centre	\$ 210	\$ 343	\$ 339	\$ 138	\$ 203	\$ (6)	
Parks & Recreation - Pools	\$ -	\$ 615	\$ 779	\$ 931	\$ 425	\$ 425	
Parks & Recreation - Arenas	\$ -	\$ 298	\$ 329	\$ 408	\$ 434	\$ 434	
Parks & Recreation - Culture	\$ 125	\$ 133	\$ 143	\$ 72	\$ 138	\$ 13	
Downtown Streetscape	\$ 45	\$ 47	\$ 48	\$ 49	\$ 51	\$ 5	
Community Heritage	\$ 172	\$ 163	\$ 170	\$ 273	\$ 265	\$ 93	
Mundialization Committee	\$ 163	\$ 170	\$ 180	\$ 189	\$ 198	\$ 34	
Naval Memorial	\$ 37	\$ 38	\$ 39	\$ 40	\$ 41	\$ 4	
LaSalle Marina	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Policy Initiatives	\$ -	\$ 101	\$ 2,620	\$ 1,450	\$ 1,090	\$ 1,090	
Culture Initiatives	\$ -	\$ 101	\$ 104	\$ 108	\$ 119	\$ 119	
Energy Initiatives	\$ -	\$ 7	\$ 15	\$ 44	\$ 50	\$ 50	
Community Investment	\$ -	\$ 36	\$ 100	\$ 170	\$ 194	\$ 194	
Sims Square Reserve Fund	\$ -	\$ -	\$ -	\$ -	\$ 800	\$ 800	
Forestry Reserve Fund	\$ -	\$ -	\$ 12	\$ 19	\$ 30	\$ 30	
Crime Prevention	\$ 27	\$ 27	\$ 27	\$ 27	\$ 27	\$ -	
Burlington International Games	\$ 64	\$ 64	\$ 64	\$ 64	\$ 64	\$ -	
Ice Users	\$ 257	\$ -	\$ -	\$ -	\$ -	\$ (257)	
Program Specific Reserve Funds	\$ 3,841	\$ 5,117	\$ 7,563	\$ 6,431	\$ 6,738	\$ 2,897	

Purpose

Program Specific Reserves/Reserve Funds are set aside for specific purposes. These reserves and reserve funds are restricted funds only to be used for their identified purpose. These types of reserves and reserve funds may also include special one time purchases or activities approved by Council.

Figure 43—Summary of Local Boards Reserve Funds

Local Boards							
Local Boards Reserves & Reserve Funds (000s)	2014	2015	2016	2017	2018	5 Year Change	
Parking District	\$ 6,152	\$ 6,499	\$ 7,620	\$ 7,773	\$ 9,259	\$ 3,108	
Downtown BIA	\$ 42	\$ 95	\$ 200	\$ 230	\$ 290	\$ 248	
BEDC Operations	\$ 111	\$ 234	\$ 321	\$ 375	\$ 295	\$ 184	
BEDC Marketing	\$ 80	\$ 83	\$ 277	\$ 228	\$ 217	\$ 137	
BEDC Innovation Centre	\$ -	\$ -	\$ -	\$ -	\$ 162	\$ 162	
Library Board	\$ 1,165	\$ 1,021	\$ 1,762	\$ 2,192	\$ 1,885	\$ 720	
Tourism Burlington	\$ 79	\$ 81	\$ 83	\$ 85	\$ 88	\$ 9	
Museums Board - Joseph Brant General	\$ 31	\$ 32	\$ 33	\$ 109	\$ 132	\$ 100	
Museums Board - Joseph Brant Project	\$ 178	\$ 153	\$ 152	\$ 152	\$ 156	\$ (23)	
Museums Board - Ireland House General	\$ 8	\$ 8	\$ 8	\$ 100	\$ 176	\$ 168	
Museums Board - Ireland House Project	\$ 113	\$ 116	\$ 114	\$ 113	\$ 93	\$ (20)	
Museum Board - Joseph Brant Transformation Project	\$ 918	\$ 1,279	\$ 873	\$ 895	\$ 919	\$ 1	
PAC	\$ 433	\$ 333	\$ 61	\$ 144	\$ 613	\$ 180	
PAC - Infrastructure	\$ -	\$ 407	\$ 543	\$ 626	\$ 701	\$ 701	
PAC Donations	\$ -	\$ 17	\$ 7	\$ 8	\$ 8	\$ 8	
Local Boards Reserve Funds	\$ 9,311	\$ 10,357	\$ 12,056	\$ 13,031	\$ 14,995	\$ 5,684	

Purpose

These reserves have been established in response to specific programs to support Boards.

Development Related Reserve Funds

- The Development Charge By-law will be used to recover the costs of growth to the full extent permitted by legislation.
- Growth projects will be undertaken as development charges are collected and available.
- Before borrowing for growth related capital projects, all developer related advanced financing arrangements in accordance with the Development Charges regulations will be exhausted.
- Development charges are based on a growth forecast and growth related capital programs. Growth and resulting development charge receipts over the term of the by-law may not proceed as anticipated. It is therefore prudent to establish general guidelines for borrowing for growth related projects.
- Cash flows should be closely monitored to ensure that there are sufficient funds to fund planned growth-related projects.

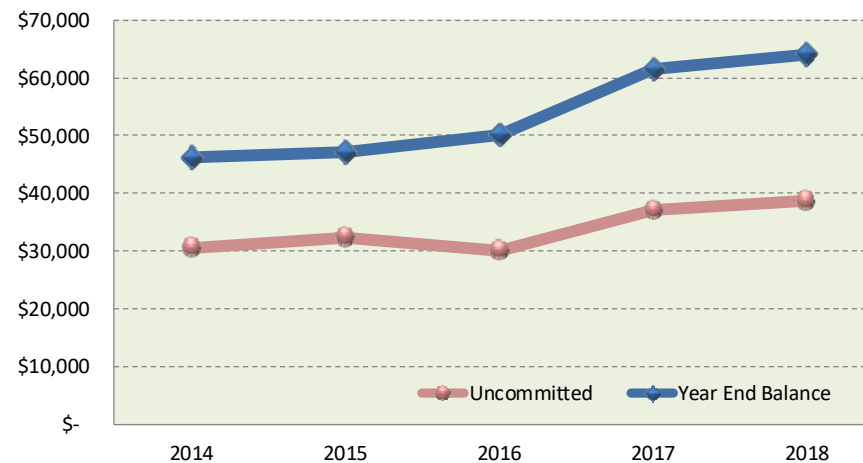
Existing Policies

Based on research conducted across Ontario municipalities, the City of Burlington has one of the most extensive DC debt borrowing policies, which includes detailed provisions and criteria that must be met before borrowing will be considered. This includes, but is not limited to, the following requirements:

- All developer related advanced financing arrangements that are in accordance with the development charges legislation have been exhausted (i.e. front ending agreement);
- All growth related financing is consistent with the Development Charges By-law in effect at that time;
- Growth is required to pay for all costs associated with the borrowing in accordance with the current Development Charges Act and associated legislation;
- Maximum term for borrowing would not exceed the life of the asset to a maximum of 10 years; and
- Development Charges debt servicing costs will not exceed 10% of the forecast reserve funds deposits and a total of all debt charges for the Development Charges borrowing as a percentage of own source revenues will be less than 1% (of the 12.5% Council approved debt limit).

Figure 44—Summary of Development Related Reserve Funds (000's)

DCs							
Development Related Reserve Funds (000s)	2014	2015	2016	2017	2018		5 Year Change
Growth Studies	\$ (44)	\$ (18)	\$ 8	\$ 59	\$ 118	\$	161
Library	\$ 500	\$ -	\$ 35	\$ (15)	\$ 57	\$	(443)
Transit	\$ 1,464	\$ 1,207	\$ 1,096	\$ 992	\$ 1,202	\$	(262)
Transportation	\$ 2,089	\$ 2,718	\$ 1,638	\$ 6,840	\$ 10,035	\$	7,946
Storm Drainage	\$ 7,115	\$ 7,012	\$ 6,540	\$ 5,860	\$ 4,888	\$	(2,228)
Fire Protection	\$ (1,061)	\$ (1,053)	\$ (1,052)	\$ (1,037)	\$ (1,009)	\$	52
Parks & Recreation	\$ 544	\$ 969	\$ 1,620	\$ 665	\$ 1,257	\$	713
Park Dedication	\$ 13,026	\$ 12,788	\$ 12,992	\$ 17,460	\$ 15,062	\$	2,036
Public Benefits	\$ -	\$ -	\$ -	\$ 17	\$ -	\$	-
Future Services	\$ 6,033	\$ 7,864	\$ 6,221	\$ 6,366	\$ 6,300	\$	268
Future Services Signs & Barricades	\$ 383	\$ 393	\$ 404	\$ 467	\$ 482	\$	99
Future Services Trees	\$ 329	\$ 376	\$ 415	\$ 365	\$ 195	\$	(134)
Development Related Reserve Funds	\$ 30,378	\$ 32,257	\$ 29,917	\$ 38,040	\$ 38,587	\$	8,208



Purpose

The Development Charges By-law imposes development charges on new development in the City to pay for growth related net capital costs of servicing new development.

Debt Management

When local governments issue debentures, they enter into a long-term commitment that requires them to make principal and interest payments over the life of the debentures. Hence, they need to ensure that:

- future debt service payments to bondholders can be made in full and on time, without jeopardizing the provision of essential services;
- outstanding debt obligations will not threaten long-term financial stability of the municipality; and
- the amount of outstanding debt will not place undue burden on residents and businesses.

A debt management policy improves the quality of decisions, identifies policy goals and demonstrates a commitment to long-term financial planning, including a multi year plan. Adherence to a debt management plan signals to rating agencies and capital markets that the municipality is well managed and should meet its obligations in a timely manner.

The Province regulates the amount of debt that municipalities issue by setting an annual repayment limit for each municipality. This is the maximum amount by which a municipality may increase its debt. The repayment limit is set at 25% of a municipality's own source revenues. This is the upper limit. If the City were to reach the limit, future operating budgets would be severely constrained or tax and other revenues would have to increase significantly.

Debt is frequently issued and considered a standard practice in municipalities for new capital projects that are long term in nature that benefit future taxpayers, thereby spreading the costs across future years.

Under the most favorable circumstances, the City's debt should be proportionate in size and growth to the City's tax base; should not extend past the useful life of the facilities which it finances; should not be used to balance the operating budget; should not require repayment schedules that put excessive burdens on operating expenditures and should not be so high as to jeopardize credit ratings. In order to be an effective management tool, provisions of the debt policy must be compatible with the municipality's goals pertaining to the capital program and budget, the financial plan, and the operating budget. To this end, the City of Burlington has established a number of debt policies.

Guiding Principles - Debt Management

- Outstanding and planned debt levels will not exceed an amount that can be supported by the existing and projected tax revenue base. Debt policies will focus on:
 - projected debt requirement;
 - limits and benchmarks;
 - impact on credit rating; and
 - term and structure of debt.
- Long term debt for the replacement and refurbishment of existing capital assets will be reduced and a planned process will be developed whereby an annual contribution will be made to meet lifecycle needs of all assets.

Debt Management Policies

The City has an extensive debt management set of policies. The following provides excerpts from the comprehensive policy statements:

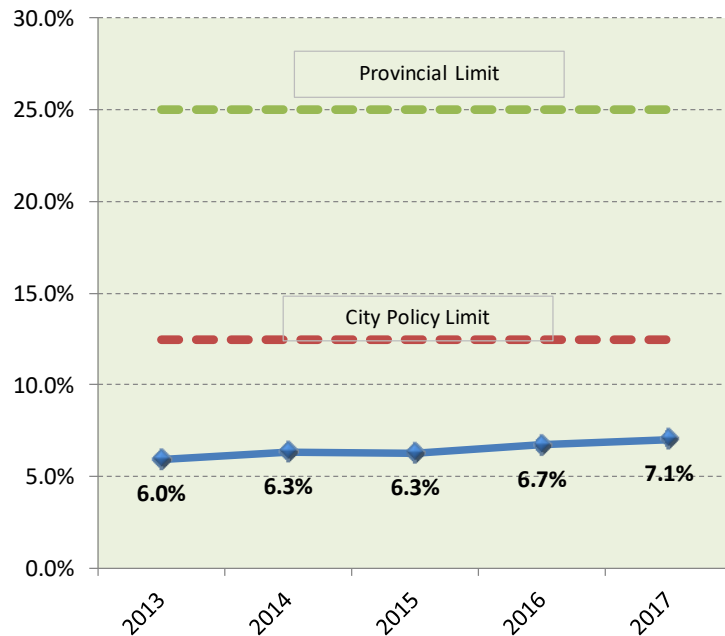
- The following items are to be considered to use debt efficiently:
 - As debt charges decline through the retirement of debt, the City will apply savings toward the achievement of full lifecycle costing of the city's infrastructure
 - The term of debt will be structured for the shortest period to reduce overall financing costs while considering current and future taxpayer benefit. The preferred term is 10 or 15 years to the extent possible
 - The current and forecasted interest rate environment
- Debt Policy - The City will prepare a comprehensive long-term capital-financing plan that combines smart debt and pay-as-you-go capital financing. Total City debt charges as a percentage of own source revenues shall not exceed 12.5%, representing 50% of the Provincial maximum limit for municipalities (all debt financing incl.). Tax supported debt charges shall not exceed 10%.



- Non-Tax Supported Debt - The City will issue debt on behalf of itself or community/stakeholders when the debt and any associated charges are to be repaid by non-tax revenues such as user fees or charges. Debenture financing shall be utilized only for capital projects where the expected life of the asset exceeds the term of the debenture with a minimum debenture amount of \$100,000.
- Special Circumstances Debt - Any special circumstances debt shall be excluded from the overall City tax-supported debt guideline. Special Circumstances Debt is permitted based on all of the following criteria:
 1. Project initiated from the corporate strategic plan
 2. Facilitates or develops a landmark feature in the community
 3. A community need exists for the capital project and is supported by a feasibility plan

All special circumstances debt charges will be repaid annually from the Hydro Reserve Fund.
- Debt financing should be considered for:
 - Increased/ new capital projects providing services to residents
 - Projects tied to third party matching funds
 - Project costs not recoverable from Development Charges
 - Projects where the cost of deferring expenditures exceeds debt servicing costs
 - Projects that have a useful life greater than ten years

Figure 45—Debt Charges as a % of Own Source Revenues



Note: Excludes long term liabilities and commitments

Debt Service is the amount of principal and interest that a municipality must pay each year to service the debt (principal and interest expenses). As debt service increases it reduces expenditure flexibility.

As shown in Figure 45, the City of Burlington's debt service ratio at 7.1% is below the Ministry threshold of 25% and has remained relatively consistent over the five year period. The City has an internal policy which states that all City debt charges as a percentage of own source revenues should not exceed 12.5%, representing 50% of the Provincial maximum limit for municipalities, with tax supported debt charges not to exceed 80% of this limit (or 10% of total own source revenues).

Figure 46—Debt Outstanding as a % of Own Source Revenues

Tax Debt Charges as % of Own Source Revenue	
Municipality	
St. Catharines	9.8%
Oshawa	5.7%
Kitchener	4.2%
Whitby	0.0%
Oakville	2.5%
Markham	0.0%
Milton	4.3%
Average	3.8%
Median	4.2%
Burlington	7.1%

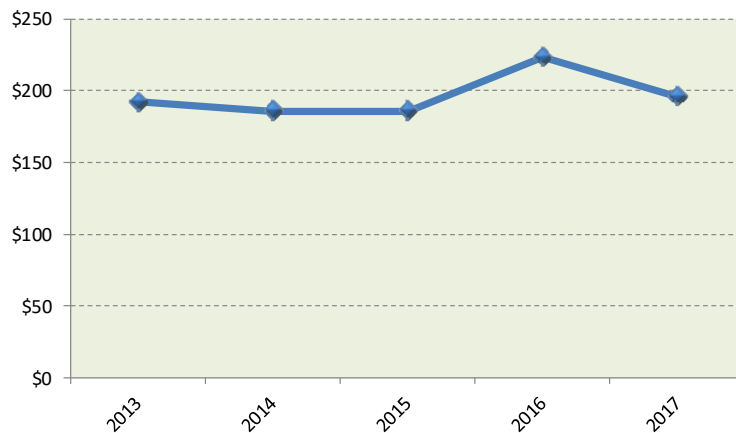
Source: 2017 FIRs

- While the City's debt charges as a percentage of own source revenues is low, it is higher than the peer municipal average of 3.8%. However, the City's debt is well below the Provincial limit and the City's policy.

Debt Outstanding per \$100,000 of Weighted Assessment

As shown in Figure 47, the debt outstanding per \$100,000 of assessment has been relatively flat from 2013-2015, with an increase in 2016.

Figure 47—Debt Outstanding Per \$100,000 Weighted Assessment



Source: FIRs and BMA Municipal Study

Figure 48—Debt Outstanding per \$100,000 of Weighted Assessment—Municipal Comparisons (2017)

Municipality	Outstanding per \$100,000 of Weighted
St. Catharines	\$ 654
Oshawa	\$ 360
Kitchener	\$ 230
Whitby	\$ -
Oakville	\$ 195
Markham	\$ 14
Milton	\$ 208
Average	\$ 237
Median	\$ 208
Burlington	\$ 196

Source: FIRs and BMA Municipal Study

Figure 48 reflects the total debt outstanding per \$100,000 of weighted assessment in 2017. Burlington's debt outstanding per \$100,000 of assessment is lower than the group average and the survey median.

Debt to Reserve Ratio

This indicator provides a comparison of the amount of debt in relation to discretionary reserves (excludes obligatory reserve funds). A ratio of 1:1 or lower reflects that the City has more reserves in relation to debt which is a positive indicator. As shown below, the City's ratio is well below the suggested target of 1.0. For every dollar of reserves, the City has \$0.68 of debt.

Figure 49—Debt to Reserve Ratio

	Debt to Reserve Ratio
2013	0.66
2014	0.66
2015	0.63
2016	0.76
2017	0.68

Source: FIRs and BMA Municipal Study

Figure 50—Debt to Reserve Ratio Comparison

Municipality	Debt to Reserve Ratio
St. Catharines	1.88
Oshawa	1.02
Kitchener	1.28
Whitby	-
Oakville	0.61
Markham	0.11
Milton	0.72
Average	0.80
Median	0.72
Burlington	0.68

Source: FIRs and BMA Municipal Study

- As shown above, the City's ratio is below the survey average.

Financial Position

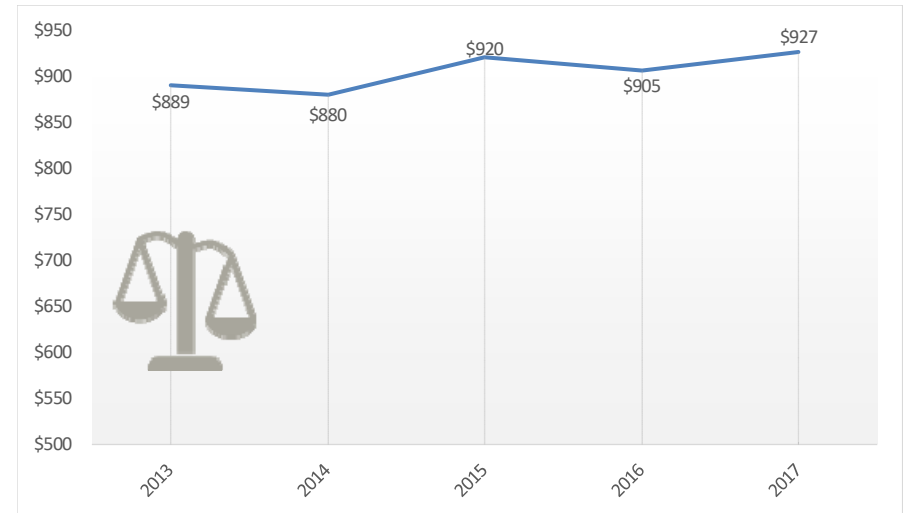
A municipality's financial position is defined as the total fund balances including equity in business government enterprises less the amount to be recovered in future years associated with long term liabilities. A comparison was made of the City's overall financial position (financial assets less liabilities) from 2013 to 2017.

- Burlington's financial position has trended up since 2013 with an increase over the five year period of 9%. Figure 51 helps to explain the City's change in financial position from 2013-2017.
- The City's financial assets increased by \$52.4 million from 2013-2017 while during the same time liabilities increased \$37.3 million for a net increase in the financial position of \$15.1 million.

Figure 51– City of Burlington—Financial Position

Financial Position (000's)					
(000's)	2013		2017		% change
Assets					
Cash & Investments	\$	318,781,933	\$	373,542,046	17.2%
Receivables	\$	31,376,149	\$	29,017,775	-7.5%
Other	\$	-	\$	-	0.0%
Total Assets	\$	350,158,082	\$	402,559,821	15.0%
Liabilities					
Accounts payable	\$	27,432,621	\$	26,605,132	-3.0%
Deferred Revenue	\$	67,946,480	\$	80,424,792	18.4%
Long Term Liabilities	\$	68,345,033	\$	88,925,373	30.1%
Post Employment Benefits	\$	21,942,266	\$	26,994,371	23.0%
Total Liabilities	\$	185,666,400	\$	222,949,668	20.1%
Net Financial Position	\$	164,491,682	\$	179,610,153	9.2%

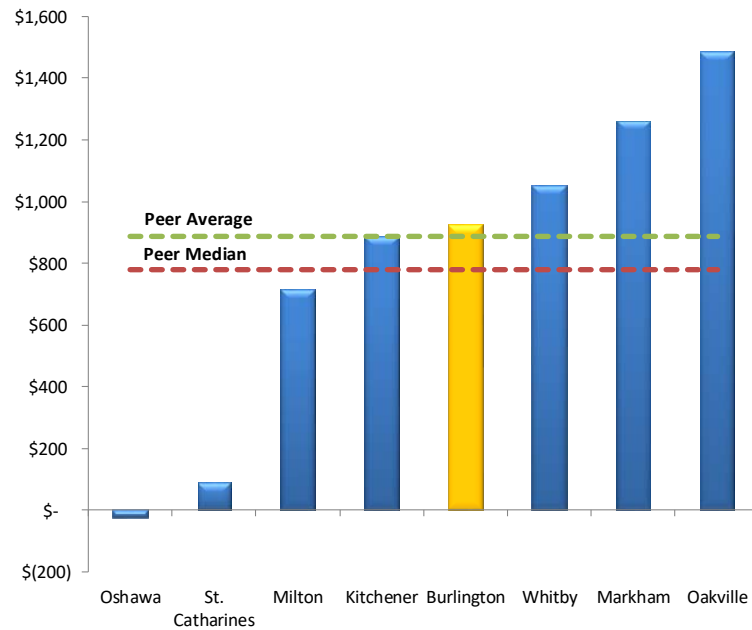
Figure 52– City of Burlington—Financial Position Per Capita



Source: 2017 FIRs

- On a per capita basis, the City's financial position increased from \$889 in 2013 to \$927 in 2017.
- It important to monitor the trend of this indicator. A declining trend signals financial liabilities are exceeding financial assets.
- It is important for a municipality to understand the factors that are driving the trend.

Figure 53 - Financial Position Per Capita



- To provide a comparison with other municipality's financial position, a per capita analysis was undertaken. As shown in figure 53, the City of Burlington's financial position per capita exceeds the survey average.

Taxes Receivable

Every year, a percentage of property owners are unable to pay property taxes. If this percentage increases over time, it may indicate an overall decline in the municipality's economic health. Credit rating agencies assume that municipalities normally will be unable to collect 2 - 5% of its property taxes within the year that taxes are due. If uncollected property taxes rise to more than 8%, credit rating firms consider this a negative factor because it may signal potential instability in the property tax base. The City of Burlington is within the range considered to be acceptable.

- Burlington's ratio has remained at or below the credit rating limit in every year.
- Taxes receivable have been trending downward since 2014 reflecting a strong and stable property tax base.

Figure 54—Taxes Receivable as a % of Taxes Levied

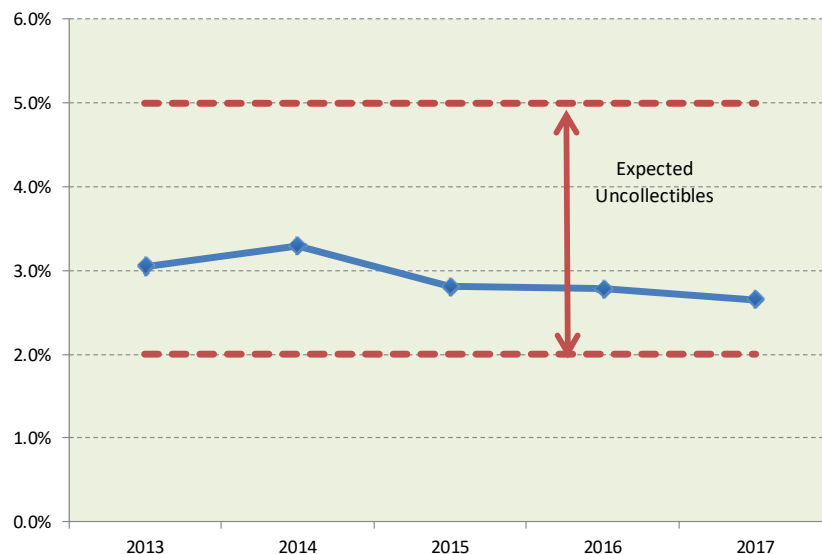
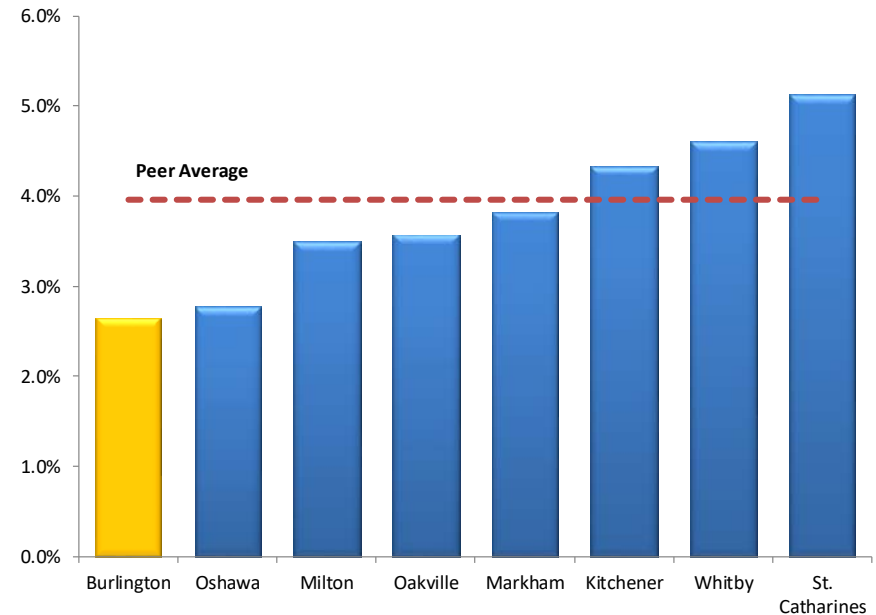
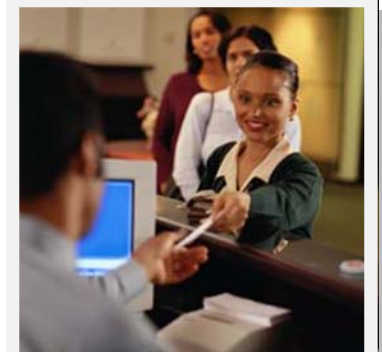


Figure 55—2017 Taxes Receivable as a % of Taxes Levied



Source: 2017 FIRs

- It should be noted that in the 2017 BMA Municipal Study, Burlington's ratio is 10th lowest in over 100 municipalities surveyed and 3rd lowest in the GTA.



Summary—Financial Position

Indicator	2015 Rating	2018 Rating	Comments
<i>Discretionary Reserves as a % of Taxation</i>			Total Reserves as a % of Taxation continue to be lower than targets and are growing at a rate lower than inflation
<i>Asset Consumption Ratio</i>			Higher than average asset consumption ratio reflects older assets and hence the need for Capital Reserves
<i>Stabilization Reserve Funds</i>			Below the target policy levels
<i>Other Capital Reserve Funds</i>			Policies are in place to address the infrastructure gap as well as dedicated funding sources
<i>Vehicle and Equipment Reserve Funds</i>			After several years of declining reserve balances, 2018 the reserves increased and a policy has been put in place to increase contributions by 4% annually
<i>Transit Related Reserve Funds</i>			There is no target indicator
<i>Corporate Reserve and Reserve Funds</i>			Liabilities are increasing at a faster rate than reserve balances
<i>Program Specific Reserve and Reserve Funds</i>			Several new reserves including Policy Initiatives, Cultural Initiatives, Energy Initiatives which align with the City's Strategic Directives
<i>Local Boards Reserve Funds</i>			Available to support Local Boards such as Library, Museums, BEDC
<i>Debt as % of Own Source Revenues</i>			Below the City's policy limit of 12.5%
<i>Debt Outstanding per \$100,000 of Weighted Assessment</i>			Relatively low levels of debt and below the peer comparator group
<i>Debt to Reserve Ratio</i>			Ratio reflects healthy ratio between debt and reserves and is better positioned than the peer average of comparable municipalities
<i>Financial Position</i>			Relatively flat positive position and exceeding peer municipal average
<i>Taxes Receivable</i>			Well within the recommended range and the lowest in the survey of peer municipalities surveyed