



SUBJECT: Financial status report as at September 30, 2019

TO: Committee of the Whole

FROM: Finance Department

Report Number: F-44-19

Wards Affected: all

File Numbers: 100-01

Date to Committee: December 2, 2019

Date to Council: December 16, 2019

Recommendation:

Receive and file finance department report F-44-19 providing the financial status as at September 30, 2019.

Purpose:

- An Engaging City
- Good Governance
-

Background and Discussion:

PART A - FINANCIAL POSITION

The Bank of Canada increased rates twice in 2017 and three times in 2018 to take the overnight rate from 0.5% up to 1.75%. Towards the end of 2018 commentary from the Bank of Canada began to shift towards a more neutral interest rate environment. This commentary has continued throughout 2019 with a slight shift towards a more negative economic outlook. The Bank of Canada has continued to assert that it will make its decision based on economic data but also that it must consider geopolitical circumstances, such as ongoing trade wars. Currently, market expectation is forecasting for rates to be on hold for the remainder of 2019 with a chance that rates could be cut in 2020.

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

Based on the economics of the market, staff will maintain the following investment strategies leading into 2020;

- Maintain investments in the City's long-term portfolio taking the opportunity to invest in new bond issuances. Once the interest rate environment stabilizes, invest in longer durations to maximize rate of return while managing risk to ensure there will not be a liquidity issue to meet commitments.
- Trade bonds for capital gains by taking advantage of market fluctuations generated by economic data. Staff will focus on maximizing capital gains at the appropriate times and reinvest in the market taking advantage of higher interest rates at a longer duration.

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

	Projected December 2019	Actual December 2018
Total Interest	4,100,000	4,142,978
Budget	5,300,000	5,300,000
Favourable/(Unfavourable) Variance	(1,200,000)	(1,157,022)
Capital Gains	1,450,000	1,805,832
Favourable/(Unfavourable) Variance	250,000	648,810

The attached Appendix A shows investment income (interest earned, and capital gains realized) to September 30, 2019 on the total investment portfolio. The net bank position as of September 30, 2019 has increased by \$21.7M. This increase is slightly offset by a decrease in the long term portfolio. The remaining increase is attributed to the receipt of \$5.6M from the Federal Government for the one-time top up payment related to the Gas Tax as well as unexpended capital funds allocated to capital projects.

Appendix B provides a listing of the current portfolio by type of investment, and weighted average yield, in accordance with the Ontario Regulation 438/97. In following the City of

Burlington's investment policy, the City can purchase Region of Halton bonds, up to but not greater than, the amount of the debenture issued on behalf of the City. As of September 30, 2019, the City's investment portfolio included \$15.6 million Region of Halton bonds.

As at September 30, 2019 the City's investment portfolio is compliant with the guidelines set out in the City's investment policy and goals adopted by the City.

PART B – PROPERTY TAX COLLECTION

The City of Burlington collects property taxes for the city, Region of Halton and the Halton Boards of Education as legislated under the Municipal Act, 2001. Appendix C reflects the property tax status at September 30, 2019 compared to September 30, 2018. The 2019 total levy is \$420.6 million compared to \$409.8 million in 2018.

Collections for the current taxation year are 93.6%, which is consistent with prior years as highlighted in the chart below and detailed in Appendix C.

As at September 30	2019	2018	2017	2016	2015
Current year Collections	93.6%	93.7%	93.6%	94.0%	93.1%
Current year Outstanding*	6.4%	6.3%	6.4%	6.0%	6.9%

*includes installments not yet due

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

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

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

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

Property tax bills are available electronically via Canada Post’s epost service. There are currently 2,211 accounts signed up for electronic bill presentment, representing 3.42% of all property tax accounts.

PART C - DEBT AND FINANCIAL OBLIGATION LIMIT

As of September 30, 2019, the City’s total debt charges as a percentage of own source revenue is estimated to be 10.3%, which is below the council approved guideline of 12.5%, and below the provincial limit of 25%. (See Appendix D)

The city has an estimated \$95.7 million in total principal debt outstanding. Taking into consideration principal debt repayments of \$14.6 million, a debt issuance of \$7.7 million, as well as \$19.6 million in debt which has been approved and not issued, total city principal debt outstanding at year end 2019 is approximately \$108.4 million.

PART D - RESERVES AND RESERVE FUNDS

Reserves and reserve funds are an important element of the City’s long-term financial plan. They allow the City to set aside funds for a future purpose and fulfill a critical financial need for the municipality. They make provisions for the replacement and rehabilitation of existing City assets, provide a contingency for one-time and unforeseeable events and provide flexibility to manage debt levels and protect the City’s financial position.

Stabilization Reserves and Reserve Funds

Stabilization reserves are used to offset extraordinary and unforeseen expenditure requirements, one-time expenditures, cyclical expenses, revenue shortfalls and they help to minimize fluctuations in the tax levy.

Stabilization Reserves/Reserve Funds	Recommended Balance		September 30 Uncommitted Balance
Contingency	The target balance for the consolidated stabilization reserves/reserve funds is 10%-15% of the City's own source revenues.	Based on the City's 2018 own source revenues of \$237 million the recommended balance is \$23.7 - \$35.6 million.	\$19.7 million
Severe Weather			
Tax Rate Stabilization			
Planning Fee Stabilization			
Engineering Fee Stabilization			
Commodity Stabilization			

Building Permit Stabilization Reserve Fund

The building permit stabilization reserve fund is used stabilize building permit revenues and expenditures, which can vary from year to year based on development activity levels in accordance with Bill 124.

Corporate Reserve Funds	Recommended Balance		September 30 Uncommitted Balance
Building Permit Stabilization	The reserve fund is capped at 163% of direct costs.	Total direct costs for 2018 were approximately \$3.3 million. Based on this the upset balance for the reserve fund is \$5.4 million.	\$2.8 million (0.85 times the 2018 direct costs)

Capital Reserve Funds

Capital 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 existing infrastructure to maintain assets in a state of good repair and the construction/purchase of infrastructure to service the growing community.

Capital Reserve Funds	Recommended Balance		September 30 Uncommitted Balance
Vehicle and Equipment Reserve Funds	The target balance for the consolidated capital reserve fund balance is a minimum of 2% of the asset replacement value.	The City's 2016 Asset Management Plan has total asset replacement value at approximately \$3 billion. Based on this amount the recommended balance is \$60 million.	\$29.2 million
Parks & Recreation Infrastructure Reserve Funds			
Transit Related Reserve Funds			
Other Capital Reserve Funds			

Corporate Reserve Funds

Corporate reserve funds provide for various contingent and potential future liabilities. The City budgets annually for the current year costs expected to be incurred from these liabilities but does not budget for the estimated future liability. The impact of post-employment benefit expenses is communicated annually as part of the financial statements.

Corporate Reserve Funds	2019 Actuarial Valuation Liability	September 30 Uncommitted Balance
Employee Accident	\$8.0 million	\$4.8 million
Benefits	\$14.0 million	\$2.5 million

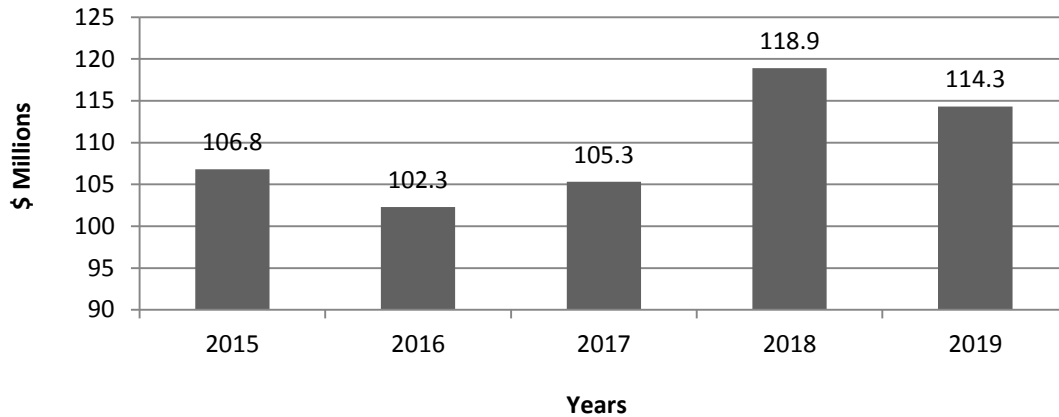
The status of the City’s Reserves and Reserve Funds balances are disclosed in Appendix E. Finance staff will be completing a full review of the Reserve and Reserve Funds in Q1 of 2020 to ensure reserve and reserve funds continue to be relevant, adequately funded and utilized at the appropriate time. A report on any changes will be brought to Council.

At September 30, 2019, the total of the reserve and reserve fund balances amounted to \$166.8 million, which is \$11.3 million lower than the corresponding figure of \$178.1 million at September 30, 2018. This decrease is due to the usage of the reserve funds and commitment pay outs.

Of the total Reserves and Reserve Funds \$52.5 million is committed for various projects leaving an uncommitted balance of \$114.3 million. The commitments represent expenditures approved by Council or funds held for specific future purposes.

The following chart provides an historical perspective of uncommitted reserve and reserve fund balances as at September 30:

Reserve and Reserve Funds Uncommitted Balance as at September 30



PART E - 2019 BUDGET MONITORING

As of September 30, 2019, the operating budget shows a favourable variance of \$509K with a year end projected favourable variance of \$902K (Appendix F & G). The favourable year end projection is due to supplementary tax revenue and investment income.

PART F – Financial Position

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

As at September 30th
(Amount are in thousands of dollars)

	2019	2018
	\$	\$
Cash & temporary investments	89,820	68,149
Taxes receivable*	30,103	28,450
Long term investments	224,691	233,163
Investment in Burlington Hydro Electric**	133,243	130,726
Deferred revenue - obligatory reserve funds	45,780	49,556
Net long term liabilities	103,429	109,079

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

**** 2019 balance is as at December 31, 2018**

The City's statement of financial position provides a long-term view of the City's financial health. A year over year comparison helps to identify indicators that may be of concern or interest. As of September 30, 2019, there was a decrease in deferred revenue for the obligatory reserve funds as well as a decrease in net long term liabilities. The decrease in deferred revenue is due to the usage of funding for 2019 approved capital projects. While the decrease in net long term liabilities is due to 2018 principal repayments being higher than the 2019 debt issuance. These indicators currently do not reflect any concern for the municipality it is important that they continue to be monitored on a regular basis.

Financial Matters:

Not applicable.

Conclusion:

To present the financial status of the City as at September 30, 2019.

Respectfully submitted,

Michelle Moore

Coordinator of Financial Reporting

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Appendices:

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

Report Approval:

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