



SUBJECT: Financial status report as at March 31, 2020

TO: Corporate Services, Strategy, Risk & Accountability Cttee.

FROM: Finance Department

Report Number: F-22-20

Wards Affected: All

File Numbers: 100-01

Date to Committee: May 14, 2020

Date to Council: May 25, 2020

Recommendation:

Receive and file finance department report F-22-20 providing a financial status report as at March 31, 2020.

PURPOSE:

Vision to Focus Alignment:

- Deliver customer centric services with a focus on efficiency and technology transformation

Background and Discussion:

PART A - FINANCIAL POSITION

The COVID-19 pandemic hit North America significantly in the first quarter of 2020. The pandemic is a serious health threat to people around the world and has brought significant disruption to daily life. COVID-19 is also having a major impact on the global and Canadian economy. As markets reacted to the economic impacts of the pandemic, other existing economic tensions (i.e. oil price wars) escalated which took an additional toll on the market. The Bank of Canada reacted swiftly to these significant events by lowering interest rates three times in March 2020. The cuts were delivered on March 4th, 13th and 27th taking the overnight rate from 1.75% down to 0.25%. The interest rate cuts were delivered to support economic activity and keep inflation low and stable. For

the City, these interest rate cuts will have a negative impact on the ability to generate interest income for 2020. Adding further complexities to the City's situation is the anticipated decrease in cash flows arising from the City's essential actions taken to respond to the pandemic (loss of revenues due to facility closures, property tax deferrals and emergency expenses).

The instability of the economy and unknown economic repercussion from the pandemic are expected to continue through the second quarter of 2020. Staff will continue to monitor economic conditions daily and their resulting impact on the market while managing the risk to the City's portfolio.

Staff will maintain the following investment and cash flow strategies for the remainder of 2020;

- Monitor daily cash balances to manage the risk surrounding diminishing cash flows to ensure the City can continue to meet its financial obligations.
- Maintain investments in the City's long-term portfolio to maximizes interest income and support cash flow.
- Trade bonds for capital gains by taking advantage of market fluctuations generated by economic data.

Overall, investment income is projected to meet budget for year-end based on the detail below.

	Projected December 2020	Actual December 2019
Total Interest	3,072,585	4,308,362
Budget	5,300,000	5,300,000
Favourable/(Unfavourable) Variance	(2,227,415)	(991,638)
Capital Gains	2,227,415	2,728,321
Favourable/(Unfavourable) Variance	-	1,736,683

The attached Appendix A shows investment income (interest earned, and capital gains realized) to March 31, 2020 on the total investment portfolio. The overall investment

portfolio decreased \$8.4M from the previous year. This decrease is due to several factors including; delay in receipt of the Provincial Gas Tax funding, timing difference for Burlington Hydro dividends/interest, purchase of two new fire trucks and the loss of revenue as a result of COVID-19. The investment income as of March 31, 2020 increased by \$1.76M. When oil prices dropped in March there was an opportunity to take advantage in the market which resulted in unusually large capital gains leading to this increase. This was an extraordinary situation that is not likely to present itself under normal circumstances.

Appendix B provides a listing of the current portfolio by type of investment, and weighted average yield, in accordance with the Ontario Regulation 438/97. In following the City of Burlington’s investment policy, the City can purchase Region of Halton bonds, up to but not greater than, the amount of the debenture issued on behalf of the City. As of March 31, 2020, the City’s investment portfolio included \$15.6 million Region of Halton bonds.

As at March 31, 2020 the City’s investment portfolio is compliant with the guidelines set out in the City’s investment policy and goals adopted by the City.

PART B – PROPERTY TAX COLLECTION

The City of Burlington collects property taxes for the city, Region of Halton and the Halton Boards of Education as legislated under the *Municipal Act, 2001*. Appendix C reflects the property tax status at March 31, 2020 compared to March 31, 2019. The 2020 total levy, which represents interim billing with due dates of February 21 and April 21, is \$211.2 million compared to \$204.8 million in 2019.

Collections for the current taxation year are 55.7%, which is consistent with prior years as highlighted in the chart below and detailed in Appendix C.

As at March 31	2020	2019	2018	2017	2016
Current year Collections	55.7%	55.5%	55.6%	56.1%	55.6%
Current year Outstanding*	44.3%	44.5%	44.4%	43.9%	44.4%

*includes installments not yet due

In February, collection letters were sent to seven business property owners that owed taxes back to 2018. Payment or payment arrangements have been made with five of the property owners.

Prior to the COVID-19 state of emergency, four residential properties had a tax arrears certificate registered on title, compared to two in 2019. In accordance with the emergency regulation O. Reg 73/20 municipal tax sale deadlines are suspended for the duration of the emergency.

Businesses and residents may be experiencing financial hardship during the COVID-19 outbreak. City council has approved a temporary relief of penalty and interest related to the April 21 installment, essentially extending the due date until June 30. All collection activities (arrears notices, collection letters) will be put on hold until the state of emergency is lifted. This may affect our property tax collections moving forward.

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. As of April 23, 2020, the city has received 275 requests from taxpayers to temporarily suspend their automatic withdrawal due to the COVID-19 crisis.

Property tax bills are available electronically via Canada Post's epost service. There are currently 2,331 accounts signed up for electronic bill presentment, representing 3.6% of all property tax accounts.

PART C - DEBT AND FINANCIAL OBLIGATION LIMIT

As of March 31, 2020, the City's total debt charges as a percentage of own source revenue is estimated to be 10.6%, 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 \$88.8 million in total principal debt outstanding. Taking into consideration principal debt repayments of \$13.6 million, as well as \$24.3 million in debt which has been approved and not issued, total city principal debt outstanding at year end 2020 is forecasted at approximately \$99.5 million.

Due to COVID-19, the spring debt issuance is being deferred and the city along with the Region and other local municipalities are in discussions to determine timing of the 2020 issuance given market conditions.

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 fulfil 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. A draw on the Planning & Engineering Fee Stabilization Reserve Funds may be needed at year end due to anticipated lower planning applications this year as a result of COVID-19.

Stabilization Reserves/Reserve Funds	Recommended Balance		March 31 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.	\$21.0 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. A draw from this reserve fund may be needed at year end due to reduced building permits anticipated this year as a result of COVID-19.

Corporate Reserve Funds	Recommended Balance		March 31 Uncommitted Balance
Building Permit Stabilization	The reserve fund is capped at 163% of direct costs.	Total direct costs for 2019 were approximately \$3.3 million. Based on this the upset balance for the reserve fund is \$5.4 million.	\$3.3 million

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		March 31 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 .	\$21.6 million
Parks & Recreation Infrastructure Reserve Funds			
Transit Related Reserve Funds			
Other Capital Reserve Funds			

Corporate Reserve Funds

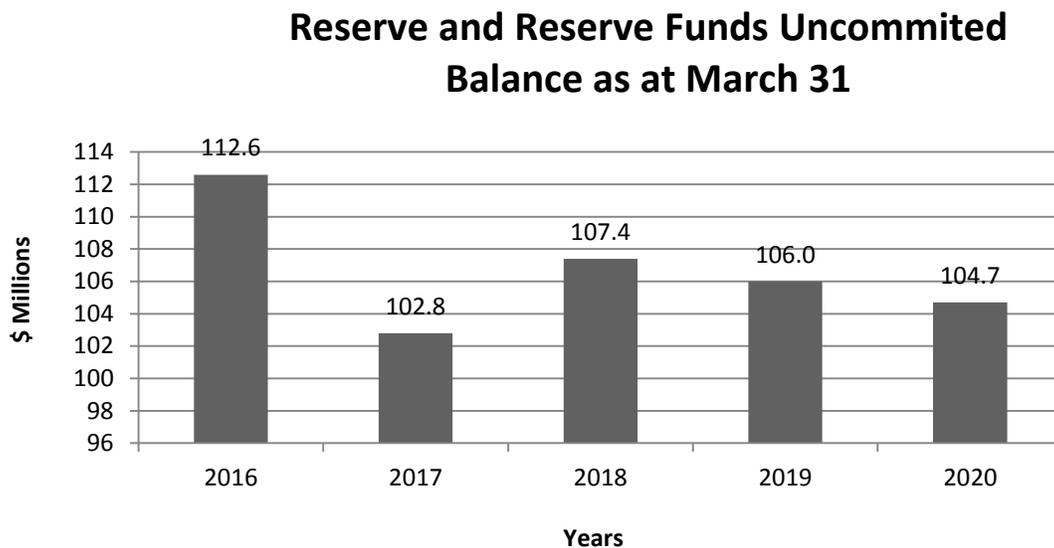
Corporate reserve funds provide for various contingent and potential future liabilities. The City budgets annually for the current year costs expected to be incurred from these liabilities but does not budget for the estimated future liability. The impact of post-employment benefit expenses is communicated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

Corporate Reserve Funds	2020 Actuarial Valuation Liability	March 31 Uncommitted Balance
Employee Accident	\$8.5 million	\$4.5 million
Benefits	\$14.9 million	\$2.8 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 Q2 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 in June.

At March 31, 2020, the total of the reserve and reserve fund balances amounted to \$152.3 million, which is \$8.6 million lower than the corresponding figure of \$160.9 million at March 31, 2019. This decrease is due to the usage of the reserve funds and commitment pay outs.

Of the total Reserves and Reserve Funds \$47.6 million is committed for various projects leaving an uncommitted balance of \$104.7 million. The commitments represent expenditures approved by Council or funds held for specific future purposes. The following chart provides an historical perspective of uncommitted reserve and reserve fund balances as at March 31:



PART E - 2020 BUDGET MONITORING

As of March 31, 2020, the operating budget shows a favourable variance of \$1,341,599 with a yearend projection of an unfavourable variance of \$268,945 (Appendix F & G).

Staff will continue to monitor and update the year-end projections as part of the City's COVID- 19 response. Report F-25-20 on this same agenda provides a more detailed outline of the City's financial strategies in dealing with the COVID-19 pandemic including the delay of some 2020 Operating Business Cases and Capital Projects.

PART F – Financial Position

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

As at March 31st

(Amount are in thousands of dollars)

	2020	2019
	\$	\$
Cash & temporary investments	98,951	112,790
Taxes receivable*	100,378	96,547
Long term investments	176,951	171,516
Investment in Burlington Hydro Electric**	136,291	133,243
Deferred revenue - obligatory reserve funds	27,468	34,161
Net long term liabilities	88,800	95,702

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

**** 2020 balance is as at December 31, 2019**

The City's statement of financial position provides a long-term view of the City's financial health. A year over year comparison helps to identify indicators that may be of concern or interest. As of March 31, 2020, there was a decrease in the deferred revenue for the obligatory reserve funds of approximately \$6.7M. This decrease is a result of a delay in the receipt of Provincial Gas Tax funding for 2020, lower development charges collected for the beginning of 2020 and allocation of funding to capital projects based on the approved 2020 capital budget. The remaining balances are consistent with prior year and reflect expectations. Though these balances at March 31st do not reflect any concern for the City the implications of the Covid-19 pandemic would not yet have had a measurable effect. Staff will continue to monitor and report on these balances on a regular basis.

Financial Matters:

Not applicable.

Total Financial Impact

Not applicable.

Source of Funding

Not applicable.

Other Resource Impacts

Not applicable.

Climate Implications

Not applicable.

Conclusion:

To present the financial status of the City as at March 31, 2020.

Respectfully submitted,

Michelle Moore

Coordinator of Financial Reporting

(905) 335-7600 ext. 7535

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 (by Service)
- G. Budget monitoring (by Cost Element)

Report Approval:

All reports are reviewed and/or approved by Department Director, the Chief Financial Officer and the Executive Director of Legal Services & Corporation Council. Final approval is by the City Manager.