



**SUBJECT: Financial status report as at June 30, 2020**

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

**FROM: Finance Department**

Report Number: F-29-20

Wards Affected: All

File Numbers: 100-01

Date to Committee: August 13, 2020

Date to Council: August 24, 2020

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**Recommendation:**

Receive and file finance department report F-29-20 providing the financial status as at June 30, 2020.

**PURPOSE:**

**Vision to Focus Alignment:**

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

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**Background and Discussion:**

**PART A - FINANCIAL POSITION**

The COVID-19 pandemic hit North America drastically in the first quarter of 2020 and has continued to cause significant disruption to daily life through the second quarter. The pandemic has also had a major impact on the global and Canadian economy. Reacting to the economic impact of COVID-19 the Bank of Canada lowered interest rates three times in March 2020 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 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 remainder 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 maximize 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 exceed budget for year-end based on the detail below.

	<b>Projected December 2020</b>	<b>Actual December 2019</b>
Total Interest	2,526,583	4,308,362
Budget	5,300,000	5,300,000
Favourable/(Unfavourable) Variance	(2,773,417)	(991,638)
Capital Gains	3,273,417	2,728,321
Favourable/(Unfavourable) Variance	500,000	1,736,683

The attached Appendix A shows investment income (interest earned, and capital gains realized) to June 30, 2020 on the total investment portfolio. The overall investment portfolio decreased \$32.7M from the previous year. This decrease is mainly due to the deferral of property tax payments because of COVID-19 (see Part B for additional details). Investment income as of June 30, 2020 has remained stable compared to prior

year as unusually large capital gains were realized earlier on in the year when oil prices dropped. 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 June 30, 2020, the City's investment portfolio included \$14.6 million Region of Halton bonds.

As at June 30, 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 Jun 30, 2020 compared to June 30, 2019. The 2020 total levy is \$433.4 million compared to \$419.6 million in 2019.

Collections as of June 30 are quite different from past years given the tax relief that has been offered in response to the Covid-19 pandemic. On June 22, City council approved an extension to the temporary relief of penalty and interest to August 31, thereby allowing residents and businesses to defer payment of the April installment to August 31. As well, the final billing due dates have been extended to August 20 and October 20. Typically, final billing due dates are in June and September so in past years, the April installment and half of the final billing would have been collected at June 30. Collections for the current taxation year are 46.9% which includes the final tax payment installments which are not yet due.

<b>As at June 30</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>
Current year Collections	46.9%	69.1%	69.3%	69.8%	69.5%
Current year Outstanding*	53.1%	30.9%	30.7%	30.2%	30.5%

\*includes final installments not yet due

Tax sale proceedings for those properties that have a tax arrears certificate registered against title have been suspended as of March 16, in accordance with O. Reg. 73/20. The emergency legislation is in effect until Sept 11, subject to further extension.

We have also opted to temporarily suspend collection activities that fall under our internal Tax Billing and Collection Policy. Collections letters for accounts that are two years in arrears are typically sent in May and August. Arrears notices are typically sent in the

months of March, July, October, and December on any accounts that have a balance of \$10 or more. Staff will review a plan to resume these activities after the August due date. Staff continue to monitor the arrears and work with taxpayers to discuss repayment plans.

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.

To provide additional assistance to those impacted financially by Covid-19, the city is offering enrollment in a new deferred pre-authorized payment plan. This plan provides withdrawals from August 1 to December 1 to pay the remaining 2020 taxes (April, August and October installments). We have seen a positive uptake in the new deferral preauthorized payment program, with 274 accounts already registered for the program.

The Chief Financial Officer continues to provide council with monthly updates on financials and property tax collection at the Corporate Service Strategy, Risk and Accountability Committee, with the most recent update on July 9.

### **PART C - DEBT AND FINANCIAL OBLIGATION LIMIT**

As of June 30, 2020, the City's total debt charges as a percentage of own source revenue is estimated to be 10.5%, 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, 2020 debt issuance of \$6.8 million as well as \$17.8 million in debt which has been approved and not issued, total city principal debt outstanding at year end 2020 is forecasted at approximately \$99.8 million.

This year's debt issuance of \$6.8 million was all ten-year debt issued at a rate of 1.63%, predominantly towards the city's capital road program.

On June 22, 2020 Council approved the City's revised debt policy. As part of the changes, the city's debt to reserve ratio will be reported on as an annual measure to provide a comparison of the amount of debt in relation to discretionary reserves. As of year-end 2019, the city's debt to reserve ratio is 0.83. This implies that for every \$1 of discretionary reserves the city has 0.83 of debt. The financial impact of Covid-19 is continually assessed and reported to Council, it is expected that reserve funds will be used to offset the financial impact to the city, which will result in an unfavourable shift in the city's 2020 year end debt to reserve ratio.

## **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.

<b>Stabilization Reserves/Reserve Funds</b>	<b>Recommended Balance</b>		<b>June 30 Uncommitted Balance</b>
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 <b>\$23.7 - \$35.6 million.</b>	\$22.5 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 <b>\$5.4 million.</b>	\$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		June 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 <b>\$60 million.</b>	\$24.3 million
Parks & Recreation Infrastructure Reserve Funds			
Transit Related Reserve Funds			
Other Capital Reserve Funds			

### Corporate Reserve Funds

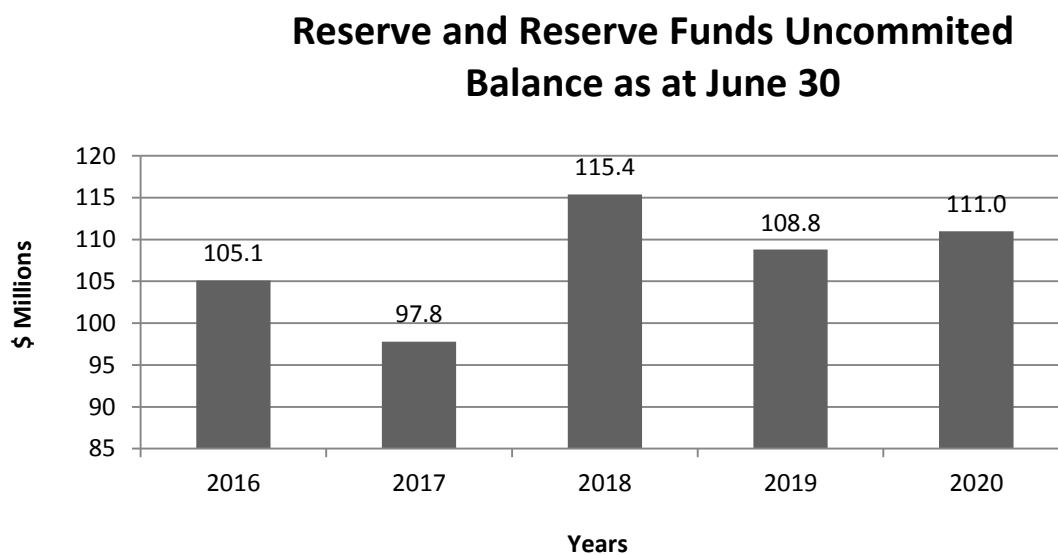
Corporate reserve funds provide for various contingent and potential future liabilities. The City budgets annually for the current year costs expected to be incurred from these liabilities but does not budget for the estimated future liability. The impact of post-employment benefit expenses is communicated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

Corporate Reserve Funds	2020 Actuarial Valuation Liability	June 30 Uncommitted Balance
Employee Accident	\$8.5 million	\$5.7 million
Benefits	\$14.9 million	\$2.8 million

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

At June 30, 2020, the total of the reserve and reserve fund balances amounted to \$153.7 million, which is \$1.1 million lower than the corresponding figure of \$154.8 million at June 30, 2019.

Of the total Reserves and Reserve Funds \$42.7 million is committed for various projects leaving an uncommitted balance of \$111.0 million. The commitments represent expenditures approved by Council or funds held for specific future purposes. The following chart provides an historical perspective of uncommitted reserve and reserve fund balances as at June 30:



## **PART E - 2020 BUDGET MONITORING**

The 2020 Current Budget Performance Report as of June 30, 2019, will be reported at the September Corporate Services, Strategy, Risk and Accountability Committee meeting.

**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 June 30<sup>th</sup>**

**(Amount are in thousands of dollars)**

	2020	2019
	\$	\$
Cash & temporary investments	93,975	109,406
Taxes receivable*	235,753	133,813
Long term investments	191,569	208,792
Investment in Burlington Hydro Electric**	136,291	133,243
Deferred revenue - obligatory reserve funds	29,494	37,880
Net long term liabilities	95,632	103,429

**\* 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 June 30, 2020, there was a decrease in the deferred revenue for the obligatory reserve funds of approximately \$8.3M. This decrease is a result of a delay in the receipt of Provincial Gas Tax funding for 2020, lower development charges collected for the first half of 2020 and allocation of funding to capital projects based on the approved 2020 capital budget. Other significant balance changes include the decreases in cash and temporary investments and decrease in long term investments which are addressed in Part A of this report. As well the substantial increase in taxes receivable which is addressed in



Part B of this report. The balances as of June 30<sup>th</sup> are reflective of the implications of the Covid-19 pandemic. Staff continue to monitor these balances daily and will report to Council on a regular basis.

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**Financial Matters:**

Not applicable.

**Total Financial Impact**

Not applicable.

**Source of Funding**

Not applicable.

**Other Resource Impacts**

Not applicable.

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**Climate Implications**

Not applicable.

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**Conclusion:**

To present the financial status of the City as at June 30, 2020.

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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 Reserves

**Report Approval:**

All reports are reviewed and/or approved by Department Director, the Chief Financial Officer and the Executive Director of Legal Services & Corporation Counsel.