



SUBJECT: Financial status report as at September 30, 2020

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

FROM: Finance Department

Report Number: F-37-20

Wards Affected: All

File Numbers: 100-01

Date to Committee: November 12, 2020

Date to Council: November 23, 2020

Recommendation:

Receive and file finance department report F-37-20 providing the financial status as at September 30, 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 and has continued to cause significant complications to daily life through the third quarter. COVID-19 has also had a major impact on the global and Canadian economy. The Bank of Canada reacted by lowering 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 have had a negative impact on the ability to generate interest income throughout 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 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 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 exceed budget for year-end based on the detail below.

	Projected December 2020	Actual December 2019
Total Interest	3,013,913	4,308,362
Budget	5,300,000	5,300,000
Favourable/(Unfavourable) Variance	(2,286,087)	(991,638)
Capital Gains	3,786,087	2,728,321
Favourable/(Unfavourable) Variance	1,500,000	1,736,683

At year-end, the net favourable variance will be distributed to the reserve funds in accordance with the interest allocation policy.

The attached Appendix A shows investment income (interest earned, and capital gains realized) to September 30, 2020 on the total investment portfolio. The overall investment portfolio has increased \$7.4M from the previous year. This increase is a timing difference due to the deferral of requisition payments to the region and school boards for 2020. Investment income as of September 30, 2020 has increased

compared to the 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 September 30, 2020, the City's investment portfolio included \$14.6 million Region of Halton bonds.

As at September 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 September 30, 2020 compared to September 30, 2019. The 2020 total levy is \$432.8 million compared to \$420.6 million in 2019.

Collections as of September 30 are quite different from past years given the tax relief that was 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 were extended to August 20 and October 20. Typically, final billing due dates are in June and September so in past years, all installments would have been due and for the most part collected at September 30. Another relief measure the city offered was enrollment in a new deferred pre-authorized payment plan. This plan provided 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 249 accounts registered for the program.

Given the final due date was in October as well as additional relief provided for those enrolled in the new deferral pre-authorized payment plan, collections for the current taxation year as at September 30th are 77.7% as compared to traditional years of 93-94% current year collections.

Tax sale proceedings for those properties that have a tax arrears certificate registered against title were suspended as of March 16, 2020, in accordance with O. Reg. 73/20. Ontario lifted the suspension order effective September 14, 2020, pursuant to O. Reg. 457/20.

Other collection activities were temporarily suspended that fall under our internal Tax Billing and Collection Policy. 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. Arrears notices were sent in September (after the August installment) and were well received. They will be sent again in November after the October installment due date. Collection letters for accounts that are two years in arrears are typically sent in May and August with a deadline to pay the oldest year of arrears by October 31. Staff have reviewed a plan to resume these activities to work with property owners in arrears. Collection letters will be sent in November with a deadline to pay the oldest year of arrears by March 31, 2021.

In addition to the new deferral pre-authorized payment plan, 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.

The Chief Financial Officer continues to provide council with monthly updates on financials and property tax collection activities at the Corporate Services Strategy, Risk and Accountability Committee.

PART C - DEBT AND FINANCIAL OBLIGATION LIMIT

As of September 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 roads capital 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. Should there be a need to use reserve funds at year end to offset the financial impact of Covid-19, this could 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 funds 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.

<ul style="list-style-type: none"> • Contingency • Severe Weather • Tax Rate Stabilization 	<ul style="list-style-type: none"> • Planning Fee Stabilization • Engineering Fee Stabilization • Commodity Stabilization
<p>Target Balance of consolidated stabilization reserves and reserve funds (excluding building permit) is 10-15% of city’s own source revenues. Based on 2019 own source revenues of \$241 million the target range is: \$24.1 million to \$36.1 million</p>	
<p>September 30, 2020 <i>Uncommitted Balance</i>: \$21,118,861 → Target at 8.8%</p>	

As part of the city’s reserve and reserve fund policies the city’s target balance for consolidated stabilization reserve funds (excluding Building Permit) is 10-15% of the city’s own source revenues. It is important to note that the target is based on the city’s uncommitted balance as an accurate depiction of funding available for future use. The cash balance includes funds approved by council to be spent on specific initiatives and therefore are not available for future spending. The target is currently at 8.8% which is below the city’s recommended range of 10-15%. Based on a request from Committee for an understanding of the cash balance in relation to the target, this would translate to 10.7%, however, council has already approved some of the cash balance to be spent – as such those committed funds are no longer available for future use.

The severe weather reserve fund which is included in the city’s target balance for consolidated reserve funds, is used to alleviate the impact of unforeseen fluctuations in costs associated with severe weather events. The city’s policy with respect to this reserve fund is highlighted below.

Stabilization Reserve Fund	Recommended Balance	September 30, uncommitted balance
Severe Weather Reserve Fund	Target balance equal to one year’s expenditure requirements (2020) = \$5,750,443 . A minimum balance of 25% of the five-year average of winter maintenance costs	\$4,017,264

As per the policy the balance in this reserve fund is less than the target balance by approximately \$1.7 million.

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 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		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 .	\$32.6 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.

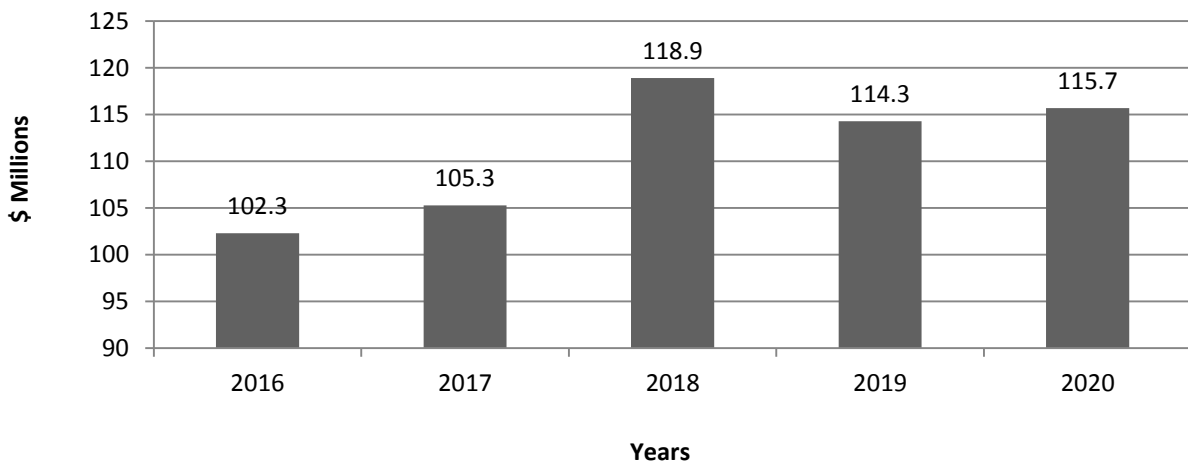
Corporate Reserve Funds	2020 Actuarial Valuation Liability	September 30 Uncommitted Balance
Employee Accident	\$8.5 million	\$5.6 million
Benefits	\$14.9 million	\$2.8 million

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

At September 30, 2020, the total of the reserve and reserve fund balances amounted to \$160.4 million, which is \$6.4 million lower than the corresponding figure of \$166.8 million at September 30, 2019. This decrease is due to the usage of the reserve funds and commitment pay outs.

Of the total Reserves and Reserve Funds \$44.7 million is committed for various projects leaving an uncommitted balance of \$115.7 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 September 30:

Reserve and Reserve Funds Uncommitted Balance as at September 30



PART E - 2020 BUDGET MONITORING

September 30th performance as well as year-end projections will be provided as part of the monthly COVID update to Corporate Services, Strategy, Risk and Accountability Committee on November 12th.

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)

	2020	2019
	\$	\$
Cash & temporary investments	120,515	89,820
Taxes receivable*	101,136	30,103
Long term investments	201,395	224,691
Investment in Burlington Hydro Electric**	136,291	133,243
Deferred revenue - obligatory reserve funds	33,061	45,780
Net long term liabilities	95,632	103,429

*** Reported net of allowance for write-offs and based on three installments for 2020 and four installments for 2019**

**** 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 September 30, 2020, there was a decrease in the deferred revenue for the obligatory reserve funds of approximately \$12.7M. This decrease is a result of lower development charges collected for 2020 and the allocation of funding to capital projects based on the approved 2020 capital budget. Other significant balance changes include the increases 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 September 30th 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.

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 September 30, 2020.

Respectfully submitted,

Michelle Moore

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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

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.