



SUBJECT: Financial highlights as at September 30, 2020

TO: Audit Committee

FROM: Finance Department

Report Number: F-36-20

Wards Affected: not applicable

File Numbers: 440-01

Date to Committee: December 9, 2020

Date to Council: December 14, 2020

Recommendation:

Receive and file finance department report F-36-20 providing financial highlights as at September 30, 2020.

PURPOSE:

The purpose of the report is to assist Audit Committee in reviewing the quarterly performance of the City of Burlington.

Background and Discussion:

The Audit Committee terms of reference indicate that the Audit Committee will review and recommend for approval the annual audited consolidated financial statements and will review quarterly financial performance. To assist Audit Committee with its responsibility report F-36-20 presents some key financial highlights for the quarter ended September 30, 2020. During this unprecedented situation with the Covid 19 pandemic, that has included closure of City facilities and cancellation of programs, monitoring of financial performance will be of concern to committee.

On an annual basis the Consolidated Financial Statements of the City of Burlington are presented to the Audit Committee for their recommendation to Council to approve the statements. The City's financial statements are prepared in accordance with Canadian public sector accounting standards for local government. These standards do not always correspond with the way the City records and reports on its daily operations which can make approval of the statements more difficult. This report will present

financial results from an operational perspective for the period ended September 30, 2020.

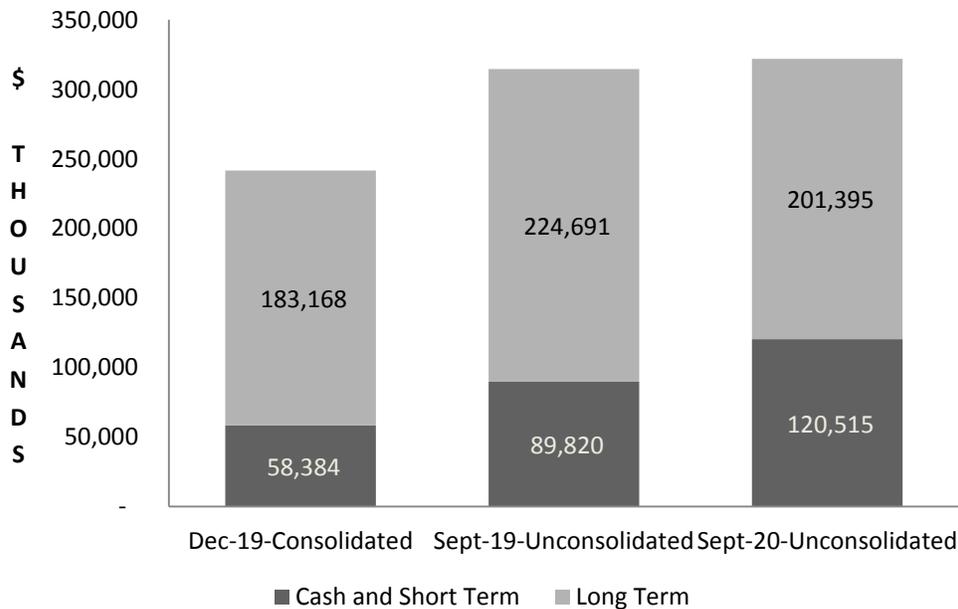
Statement of Financial Position

The statement of financial position is the City’s balance sheet. It presents information on the assets, liabilities and accumulated surplus of the City.

Assets

Key components of the asset section are cash, short term investments and long-term investments. These categories together reflect the City’s investment strategy given current market conditions. Funds are allocated amongst them to maximize investment income, retain an appropriate level of liquidity and respond to economic forces that influence the investment environment while maintaining a portfolio compliant with the City’s investment policy. Committee will note a change in the composition of the portfolio with a larger percentage of cash and short-term investments. This is as a result of the pressures presented by the Covid 19 pandemic and the need to manage cashflow. The following chart compares the balances of these categories as at December 31, 2019, Sept 30, 2019 and Sept 30,2020:

Cash and Long Term Investment Comparison



Another key component of the statement of financial position is taxes receivable. Taxes represent the key revenue source the City uses to fund its service delivery. Taxes receivable are recorded when billed. The City issues bills twice a year, in January and May. These bills represent four installments which are due in February, April, June and

September. In response to the Covid pandemic and in order to provide some relief to taxpayers, the installments were delayed with the June installment due in August and the September installment due in October. Taxes receivable due at Sept 30, 2020 were \$101.1 million as compared to \$30.1 million reported at Sept 30, 2019. The deferral of due dates as well as a further relief measure that allowed taxpayers to enroll in a pre-authorized payment plan which spread the payment of remaining taxes over the months August through December have impacted collections. The collection rate is reflected as 77.7%.

Accounts receivable as at Sept 30, 2020 of \$10.0 million excludes accrued gas tax of \$5.6 million which was received in June. The equivalent accounts receivable balance as at Sept 30, 2019 was \$11.5 million. As a measure of support for municipalities, the federal government released the gas tax funding early. Typically, it is received in installments in July and November.

Liabilities

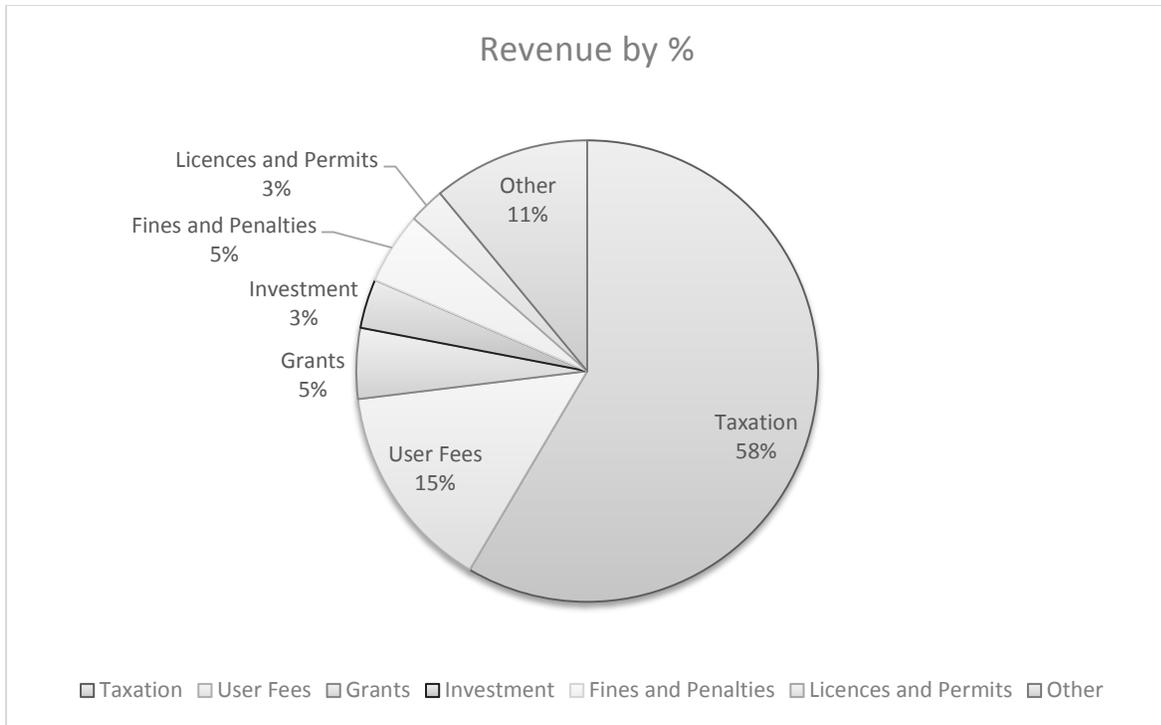
The balance of accounts payable and accrued liabilities at Sept 30, 2020 is \$14.1 million and is compared to the unconsolidated balance at Sept 30, 2019 of \$13.1 million. The consolidated balance at December 31, 2019 of \$32.9 million includes accruals including certain payroll accruals only recorded at year end.

One of the City's greatest liabilities is derived from the issuance of long-term debt. The balance as at December 31, 2019 was \$88.8 million. Debt principal payments in 2019 were \$14.6 million while new debt approved and issued by December 31, 2019 was \$7.7 million. A further debt issue was approved in June 2020 in the amount of \$6.8 million. Debt is used to fund capital expenditures. The new debt issued was primarily for road works.

Statement of Operations

Revenues

The Statement of Operations provides information on the City's revenues and expenses. Although taxation revenue is the largest component of the City's revenues, user fees and charges, investment income and funds from senior levels of government all contribute to enabling the City to deliver services to the community. The following chart is provided as a reference point and provides information of the various components of the City's revenues based on revenues reported in the consolidated financial statements as at December 31, 2019:



Due to the impacts of Covid 19 and the closure of City facilities and cancellation of programs, revenues at the end of 2020 are likely to vary from this distribution. The balances reported in the 2019 Financial Statements are as follows:

| | Revenues from the Consolidated Financial Statements As at December 31 2019 Actual \$000 |
|---|---|
| Taxation | 171,371 |
| User fees and charges | 42,661 |
| Grants | 14,516 |
| Contributions from developers | 13,619 |
| Investment income | 10,095 |
| Sale of land and other capital assets | (188) |
| Penalties and interest on taxes | 2,284 |
| Donations | 670 |
| Fines and penalties | 12,445 |
| Rents and concessions | 6,261 |
| Licenses and permits | 7,362 |
| Other | 2,796 |
| Hydro dividends and interest | 4,936 |
| Contributed tangible capital assets | 1,079 |
| Burlington Hydro Electric Inc, net increase in equity | 3,048 |
| Total Revenues | <u>292,955</u> |

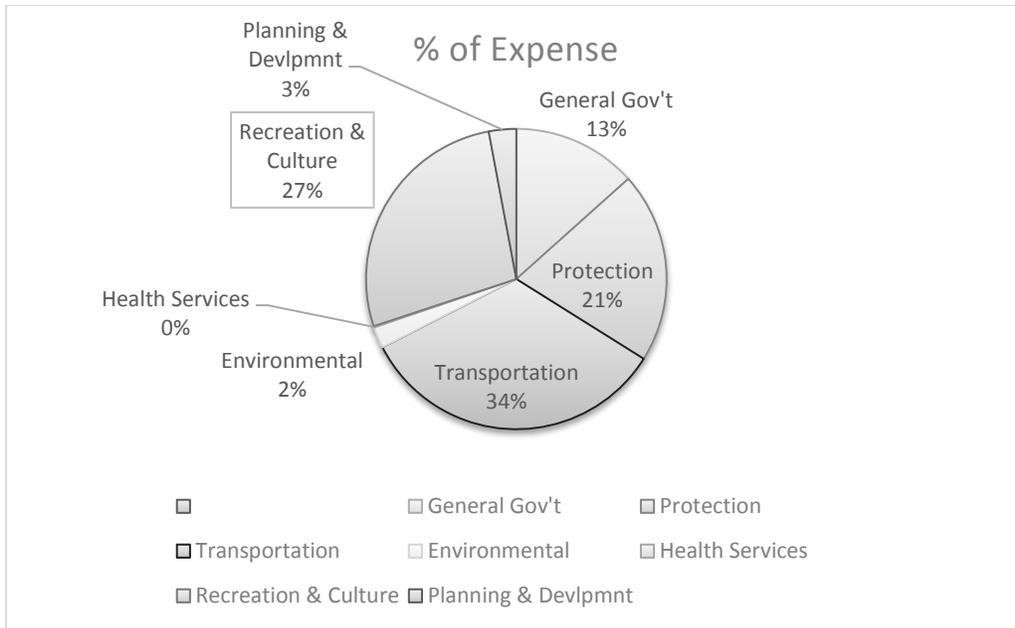
Although a meaningful comparison cannot be made between current operations and the financial statements due to the adjustments that are made for financial statement purposes, some revenue items as compared between current year and prior year are presented for information:

| | 30-Sep-20 | 30-Sep-19 |
|---------------------------------|-----------|-----------|
| General Tax Levy | 267,919 | 218,384 |
| User fees and charges | 12,114 | 17,819 |
| Grants | 9,790 | 14,185 |
| Investment income | 6,682 | 5,590 |
| Penalties and interest on taxes | 896 | 1,833 |
| Hydro dividends and interest | 2,399 | 2,398 |

It should be noted that tax revenue includes taxes billed but not yet due. The variance between the years begins to illustrate the impact of the shut down of City services due to Covid 19. The higher levy reflects the granted deferral of payments to the Region and School Boards for their portion of the levy. The decline in user fees is because programming was cancelled and the decline in penalties and interest on taxes is the result of Council approved waiving of these fees.

Expenses

The City’s operations are reported during the year on a cash basis categorized by service while the financial statements report expenses on a category basis. Certain components that are not part of operational reporting such as post employment benefit expense are added to the expenses reported in the financial statements. The following chart shows the breakdown of expense attributed to the categories as reported in the 2019 financial statements:



The Expense balances as reported in the 2019 financial statements are as follows:

Expenses from the Consolidated Financial
Statements
As at December 31

2019 Actual \$000

| | |
|------------------------------------|---------|
| General Government | 33,409 |
| Protection to persons and property | 51,302 |
| Transportation services | 83,871 |
| Environmental services | 5,715 |
| Health services | 354 |
| Recreation and cultural services | 67,796 |
| Planning and development | 7,359 |
| Total Expenses | 249,806 |

The adjustments needed to report expenses in the financial statements are extensive including allocating post-employment benefit expense, interest expense on debt, depreciation expense and non-capital information captured in capital projects. Information extracted from the City's financial system provides a comparison between 2020 and 2019 with the noted adjustments excluded:

| | 30-Sep-20 | 30-Sep-19 |
|------------------------------------|----------------|----------------|
| General Government | 28,734 | 26,472 |
| Protection to persons and property | 30,941 | 31,957 |
| Transportation services | 34,085 | 36,099 |
| Environmental services | 462 | 464 |
| Health services | 245 | 247 |
| Recreation and cultural services | 32,457 | 37,340 |
| Planning and development | 4,507 | 4,524 |
| Total Expenses | <u>131,431</u> | <u>137,103</u> |

In April 2020 in response to the Covid 19 pandemic, the City introduced an expenditure restraint program. The effects of the program will become more evident as the year progresses. The decline in recreation services is as the result of the cancellation of programming.

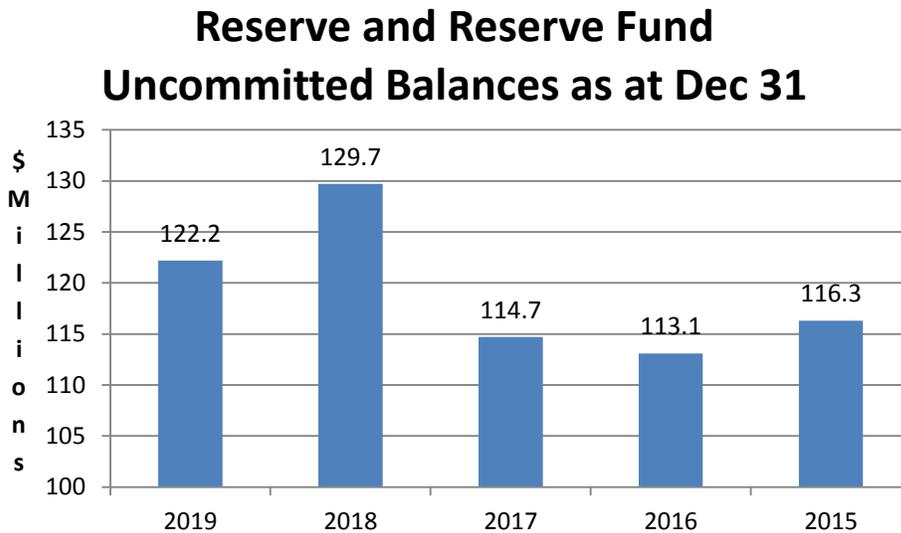
Other Financial Information

Reserve Funds

Reserve funds are a critical component of a municipality's long-term financing plan. They provide:

- Stability to the tax rate in the face of variable circumstances
- Funding for one-time expenses
- The ability to make provisions for the replacement and/or acquisition of infrastructure and
- Flexibility to manage debt levels to protect the municipality's financial position.

The uncommitted balance of the City's reserve and reserve funds are presented for the last five years:



Financial Matters:

The impact of the current pandemic on the City's financial results for 2020 is becoming evident in the financial information presented here. The City continues to monitor and adjust as the situation persists. Among the actions expected to mitigate the impacts are:

- Introduction of an expenditure restraint program
- Reduction of human resource costs as a result of layoff of part-time employees and freeze on hiring of contract staff and students.
- Delay of capital spending as appropriate
- Delay of funding of one-time expenditures approved in the 2020 budget.
- Use of reserve funds as appropriate
- Funding from senior levels of government under Phase 1 of the Safe Restart Program and enhanced cleaning program (approx. \$6.1 million)
- Application for additional support under Phase 2 of the Safe Restart Program

Conclusion:

A report of financial highlights is presented for Audit Committee's information.

Respectfully submitted,

Sandy O'Reilly

Controller and Manager of Financial Services

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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.