



SUBJECT: Financial status report as at December 31, 2020

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

FROM: Finance Department

Report Number: F-03-21

Wards Affected: All

File Numbers: 100-01

Date to Committee: March 3, 2021

Date to Council: March 23, 2021

Recommendation:

Receive and file finance department report F-03-21, provide the financial status of the city as at December 31, 2020; and

Approve the establishment of the Federal and Provincial Grant Reserve Fund as outlined in F-03-21; and

Amend the interest allocation policy as outlined in F-03-21.

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 since that time has continued to cause significant complications to daily life. COVID-19 also had a major impact on the global and Canadian economy in 2020 causing substantial instability. 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 had a negative impact on the ability to generate interest income throughout 2020. Adding further complexities to the City's situation was 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 economic repercussion from the pandemic are expected to continue into 2021. 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 maintained the following investment and cash flow strategies for 2020 and will continue to do so into 2021;

- 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 exceeded budget for year-end based on the detail below.

	Actual December 2020	Actual December 2019
Total Interest	3,633,200	4,308,362
Budget	5,300,000	5,300,000
Favourable/(Unfavourable) Variance	(1,666,800)	(991,638)
Capital Gains	4,179,178	2,728,321
Favourable/(Unfavourable) Variance	2,512,378	1,736,683

The attached Appendix A shows investment income (interest earned, and capital gains realized) to December 31, 2020 on the total investment portfolio. The overall investment portfolio has increased \$16.3M from the previous year. This increase is largely attributed to the receipt of Safe Restart - Municipal Operating Pressures (Phase 1 & 2) funding of \$11.8M and Safe Restart - Public Transit funding (Phase 1) of \$1.6M

in the last quarter of 2020. Investment income as of December 31, 2020 has increased compared to prior year as unusually large capital gains were realized in the first half of 2020 when oil prices dropped. This was an extraordinary situation that is not likely to present itself under normal circumstances.

In October 2020 Council approved the Interest Allocation Policy (F-48-20). Under this policy capital gains in excess of budgeted investment income are to be allocated equally between the Tax Rate Stabilization Reserve Fund and the Infrastructure Renewal Reserve Fund at year end. As an amendment to this policy, retroactive to December 31, 2020, staff are recommending the first \$250,000 of capital gains over the investment income budget be allocated to the Green Initiatives Reserve Fund with the balance of the excess being allocated equally between the Tax Rate Stabilization and the Infrastructure Renewal Reserve Funds. Under this amendment the following allocations to the reserve funds would be realized for December 31, 2020.

Green Initiatives Reserve Fund	\$ 250,000
Tax Rate Stabilization Reserve Fund	1,131,189
Infrastructure Renewal Reserve Fund	1,131,189
Total allocation to Reserve Funds	\$2,512,378

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 December 31, 2020, the City’s investment portfolio included \$14.6 million Region of Halton bonds.

As at December 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 December 31, 2020 compared to December 31, 2019. The 2020 total levy is \$433.5 million compared to \$422.9 million in 2019.

Collections for the current taxation year are 97.6%, which is consistent with prior years as highlighted in the chart below and detailed in Appendix C.

As at December 31	2020	2019	2018	2017	2016
Current year Collections	97.6%	97.7%	98.0%	97.8%	97.7%
Current year Outstanding*	2.4%	2.3%	2.0%	2.2%	2.3%

*includes installments not yet due.

Collections activities were delayed in 2020 due to Covid-19. Late payment notices are typically sent four times per year to aid in collections. In 2020, due to deferred installment due dates, late payment notices were sent three times, in March, September and November. In addition, collection letters for accounts that are three years in arrears were sent in November (instead of May). These property owners have been provided with a deadline to pay the oldest year of arrears by March 31, 2021 (normally the deadline would have been October 31, 2020). These adjustments to our 2020 collection activities have contributed to an increase in the year over year prior year arrears from \$2.7 million in 2019 to \$4.1 million in 2020.

Penalty and Interest revenue to December 31 is approx. \$1.5 million compared to \$2.3 million at year-end 2019. The reduction is the result of penalty relief provided during the months of April through to the end of August. Revenue losses of \$647,498 against the annual budgeted revenues of \$2,125,000 was realized in order to provide the penalty relief.

Three tax arrears certificates that were registered on residential properties in early 2020 were paid in full and tax arrears certificate liens were discharged in 2020.

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 (20,900) 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 at the Corporate Service Strategy, Risk and Accountability Committee, with the most recent update on February 3.

PART C - DEBT AND FINANCIAL OBLIGATION LIMIT

As of December 31, 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.

The 2020 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 2020, the city’s debt to reserve ratio is 0.69. This implies that for every \$1 of discretionary reserves the city has 0.69 of debt.

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 from the Planning & Engineering Fee Stabilization Reserve Funds was needed at year end due to lower planning applications this year because of COVID-19.

<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>December 31, 2020 <i>Uncommitted Balance</i>: \$22,244,813 → Target at 9.2%</p>	

As part of the city’s reserve and reserve fund policies the city sets a target balance for consolidated stabilization reserve funds (excluding Building Permit) at 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 9.2% 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 13.2%, 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 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	December 31, uncommitted balance
Severe Weather Reserve Fund	<p>A minimum balance of 25% of the five-year average of winter maintenance costs, this equates to \$1,159,890.</p> <p>Target balance equal to one year’s expenditure requirements (2020) = \$5,750,443.</p>	\$4,724,521

As per the policy the balance in the reserve fund exceeds the minimum balance requirement, however, is less than the target balance by approximately \$1.0 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. A draw from this reserve fund was needed at year end due to reduced building permits because of COVID-19.

Corporate Reserve Funds	Recommended Balance		December 31 Uncommitted Balance
Building Permit Stabilization	The reserve fund is capped at 163% of direct costs.	Total direct costs for 2020 were approximately \$3.3 million. Based on this the upset balance for the reserve fund is \$5.4 million.	\$2.4 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		December 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 .	\$35.9 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	December 31 Uncommitted Balance
Employee Accident	\$8.5 million	\$5.5 million
Benefits	\$14.9 million	\$2.9 million

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

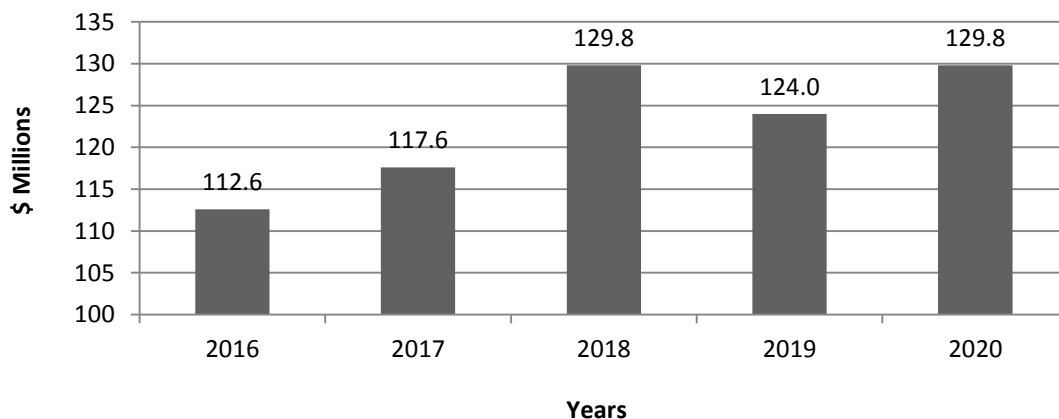
At December 31, 2020, the total of the reserve and reserve fund balances amounted to \$212.2 million, which is \$18.4 million higher than the corresponding figure of \$193.8

million at December 31, 2019. A large portion of this increase is due to unspent Safe Restart funding amounting to \$9.7M.

As outlined in the communication received from the Province, unspent funding is to be placed in an interest-bearing reserve fund to be used in 2021 to address continuing COVID-19 pressures. As such, it is recommended that a new reserve fund for Federal and Provincial Grants be created to segregate and track usage of these funds accordingly (see Appendix F for by-law).

Of the total Reserves and Reserve Funds \$82.4 million is committed for various projects leaving an uncommitted balance of \$129.8 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 December 31:

Reserve and Reserve Funds Uncommitted Balance as at December 31



PART E - 2020 BUDGET MONITORING

Please refer to the 2020 Operating Budget Performance Report (F-07-21 on this agenda) for the major drivers contributing to the balanced year end financial position.

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 December 31st
(Amounts are in thousands of dollars)

	2020	2019
	\$	\$
Cash & temporary investments	77,828	72,573
Taxes receivable*	13,295	10,830
Long term investments	194,178	183,123
Investment in Burlington Hydro Electric**	136,291	136,291
Deferred revenue - obligatory reserve funds	74,469	70,729
Net long-term liabilities	81,982	88,800

* Reported net of allowance for write-offs

** 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 December 31, 2020, there was an increase in the deferred revenue for the obligatory reserve funds of approximately \$3.7M. This increase is a result of unspent Safe Restart funding being allocated to the obligatory reserve funds so that it may be appropriately used to support COVID-19 related expenses in 2021. Other significant balance changes include the increases in cash and temporary investments and long-term investments which are addressed in Part A of the report. The balances as of December 31st 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 December 31, 2020.

Respectfully submitted,

Michelle Moore
Coordinator of Financial Reporting
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
- F. By-law XX-21 – Federal and Provincial Grant Reserve Fund

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.