



SUBJECT: Financial Status Report as at March 31, 2021

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

FROM: Finance Department

Report Number: F-18-21

Wards Affected: All

File Numbers: 100-01

Date to Committee: May 5, 2021

Date to Council: May 18, 2021

Recommendation:

Receive and file finance department report F-18-21 providing the Financial Status as at March 31, 2021.

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 2020 and has continued to cause significant complications to daily life. COVID-19 also had a major impact on the stability of the global and Canadian economy in 2020. The Bank of Canada reacted in 2020 by lowering interest rates three times, 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. The impact of this low interest rate environment has continued to negatively impact the City interest income in the first quarter of 2021. Adding further complexities to the City's situation has been the

expectation of a sharp rebound in the economy. This expectation has limited the ability of capital gains to be recognized during the first quarter of 2021.

As markets stabilize staff will continue to monitor economic conditions daily and assess the resulting impact on the market while managing the risk to the City's portfolio.

Staff maintained the following investment and cash flow strategies for 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 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 expected to meet budget at year-end based on the detail below.

	Projected December 2021	Actual December 2020
Total Interest	3,159,921	3,633,200
Budget	5,300,000	5,300,000
Favourable/(Unfavourable) Variance	(2,140,079)	(1,666,800)
Capital Gains	2,140,079	4,179,178
Favourable/(Unfavourable) Variance	-	2,512,378

The attached Appendix A shows investment income (interest earned, and capital gains realized) to March 31, 2021 on the total investment portfolio. The overall investment portfolio has increased \$38.6M from the previous year. A portion of this increase is due to the receipt of significant development charges at the end of March (\$16M). The regional and school board portion of these development charges will be remitted in April. The remaining difference is attributed to the receipt of Safe Restart Funding, Provincial Gas Tax, and funding from the City of Hamilton for the Waterdown Road project.

Investment income as of March 31, 2021 has decreased compared to prior year. Unusually large capital gains were realized in the first quarter of 2020 when oil prices dropped and at the onset of the pandemic. This was an extraordinary situation that will not present itself under normal circumstances. Investment income will vary at different times of the year depending on economic conditions.

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, 2021, the City's investment portfolio included \$14.6 million Region of Halton bonds.

As at March 31, 2021 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, 2021 compared to March 31, 2020. The 2021 total levy, which represents interim billing with due dates of February 22 and April 22, is \$216.5 million compared to \$211.2 million in 2020.

Collections for the current taxation year are 56.5%, which is consistent with prior years as highlighted in the chart below and detailed in Appendix C.

As at March 31	2021	2020	2019	2018	2017	2016
Current year Collections	56.5%	55.7%	55.5%	55.6%	56.1%	55.6%
Current year Outstanding*	43.5%	44.3%	44.5%	44.4%	43.9%	44.4%

*includes installments not yet due

Overdue property tax notices are sent four times per year to aid in collections. In addition to the overdue notices, tax collection letters are sent to owners with arrears in both the current year and two previous years. Collection activities were delayed in 2020 due to COVID-19 and, as a result, collection letters were sent in November 2020 with a deadline to pay the arrears pertaining to taxes for the 2018 tax year and prior by March 31, 2021.

A property title search on approximately 30 accounts that remain three years in arrears will be conducted in April and any lenders will be notified. This step usually results in most accounts being paid.

For those properties that remain three years in arrears, a tax arrears certificate will be registered against title as permitted under the Municipal Act, 2001. The owner or any interested party has one year to pay out the tax arrears or enter into an Extension Agreement. If arrears remain after the one-year period, the city may proceed with a municipal tax sale.

On March 3, City Council approved a 2021 COVID-19 Property Tax Deferral Payment Plan to provide relief to residents and businesses that continue to face financial hardship as a result of the COVID-19 pandemic. The program will allow eligible property owners who are unable to pay property taxes by the regularly scheduled tax due dates, to defer taxes under a pre-authorized monthly payment plan. Arrears from March 2020 onward can be included in the payment plan. Penalty/interest is suspended for the duration of the deferral. As of March 31, seventeen applications have been received.

The city continues to offer its three regular pre-authorized payment plans which provide a convenient and reliable payment method for property owners. Approximately one third (21,000) of all property accounts are enrolled in these pre-authorized payment plans.

The Chief Financial Officer continues to provide council with monthly updates on financials and property tax collection, with the most recent update on April 8, 2021.

PART C - DEBT AND FINANCIAL OBLIGATION LIMIT

As of March 30, 2021, the City's total debt charges as a percentage of own source revenue is estimated to be 9.66%, which is below the council approved guideline of 12.5%, and below the provincial limit of 25%. (See Appendix D) Furthermore, the city's debt to reserve ratio is 0.69. This implies that for every \$1 of discretionary reserves the city has 0.70 of debt.

The city has an estimated \$82 million in total principal debt outstanding. Taking into consideration principal debt repayments of \$13.8 million, as well as \$25.6 million in debt which has been approved and not issued, total city principal debt outstanding at year end 2021 is forecasted at approximately \$93.8 million. The city will proceed with its annual debt issuance in Q2-2021, and it will be included within the June report on the city's debt position.

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
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	
March 31, 2021 <i>Uncommitted Balance</i> : \$22,717,601 → Target at 9.4%	

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 9.4% 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 15.4%, 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	March 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 \$1,121,386.</p> <p>Target balance equal to one year's expenditure requirements (2021) = \$5,985,770.</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 \$1.3 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 may be needed at year end due to reduced building permits because 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 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		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 .	\$30.4 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.

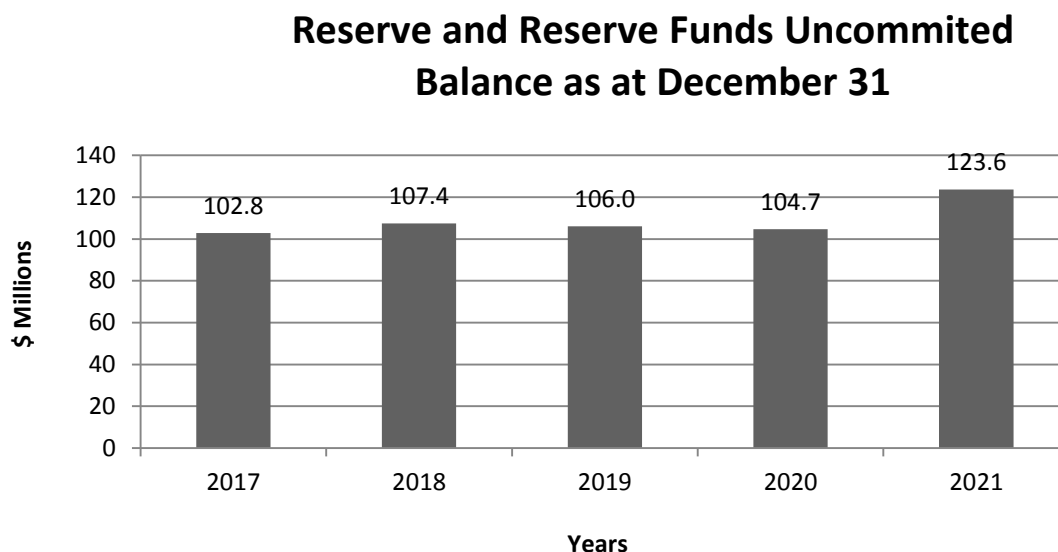
Corporate Reserve Funds	2020 Actuarial Valuation Liability	March 31 Uncommitted Balance
Employee Accident	\$8.5 million	\$5.6 million
Benefits	\$14.9 million	\$4.2 million

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

At March 31, 2021, the total of the reserve and reserve fund balances amounted to \$187.2 million, which is \$34.9 million higher than the corresponding figure of \$152.3 million at March 31, 2019. Contributing to the increase is the unspent Safe Restart funding, receipt of funding

from the City of Hamilton, collection of development charges and timing of disbursements to approved capital projects.

Of the total Reserves and Reserve Funds \$63.6 million is committed for various projects leaving an uncommitted balance of \$123.6 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 - 2021 BUDGET MONITORING

March 31st budget performance will be provided as part of the monthly COVID update to Corporate Services, Strategy, Risk and Accountability Committee on May 5th.

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
(Amounts are in thousands of dollars)

	2021	2020
	\$	\$
Cash & temporary investments	84,436	98,951
Taxes receivable*	101,476	100,378
Long term investments	230,015	176,951
Investment in Burlington Hydro Electric**	137,693	136,291
Deferred revenue - obligatory reserve funds	35,978	27,468
Net long-term liabilities	81,982	88,800

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

**** 2021 balance is as at December 31, 2020**

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, 2021, there was an increase in the deferred revenue for the obligatory reserve funds of approximately \$8.5M. This increase is a result of the receipt of development charges and funding received from the City of Hamilton. Other significant balance changes include the decreases in cash and temporary investments and increase in long-term investments which are addressed in Part A of the report. 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 March 31, 2021.

Respectfully submitted,

Michelle Moore

Controller and Manager of Financial Services

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.