



**SUBJECT: Financial status report as at June 30, 2021**

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

**FROM: Finance Department**

Report Number: F-29-21

Wards Affected: All

File Numbers: 100-01

Date to Committee: September 9, 2021

Date to Council: September 21, 2021

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**Recommendation:**

Receive and file finance department report F-29-21, providing the financial status report as at June 30, 2021.

**PURPOSE:**

**Vision to Focus Alignment:**

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

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**PART A - FINANCIAL POSITION**

The COVID-19 pandemic hit North America significantly in 2020 and has continued to cause substantial complications across the globe. One major impact of the pandemic was on the stability of the global and Canadian economy in 2020 which has continued throughout 2021. Initial reaction by the Bank of Canada in 2020 saw the lowering of 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 negative impact of this low interest rate environment has continued to impact the interest income in the first half of 2021. Further complexities to the City's situation were fueled by the expectation of a sharp rebound in the economy. This limited the ability of capital gains to be recognized during the first quarter of 2021. During the second quarter the market saw some stabilization

which allowed staff to realize needed capital gains. Staff continue to monitor economic conditions daily and assess the 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 final half of 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 is expected to meet budget year-end based on the detail below.

	<b>Projected December 2021</b>	<b>Actual December 2020</b>
Total Interest	3,132,453	3,633,200
Budget	5,300,000	5,300,000
Favourable/(Unfavourable) Variance	(2,167,547)	(1,666,800)
Capital Gains	2,167,547	4,179,178
Favourable/(Unfavourable) Variance	-	2,512,378

The attached Appendix A shows investment income (interest earned, and capital gains realized) to June 30, 2021 on the total investment portfolio. The overall investment portfolio has increased \$65.3M from the previous year. A large portion of this increase is the result of a significantly lower cash balance as at June 30, 2020. The 2020 cash balance was lower due to the property tax deferral program. The remaining difference is attributed to the receipt of Safe Restart Funding, the full amount of Federal Gas Tax funding, and funding from the City of Hamilton for the Waterdown Road project.

Investment income as of June 30, 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 June 30, 2021, the City's investment portfolio included \$16.7 million Region of Halton bonds.

As at June 30, 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 June 30, 2021 compared to June 30, 2020. The 2021 total levy is \$442.4 million compared to \$433.4 million in 2020.

Collections for the current taxation year are 69.0%, which is consistent with 2019 and prior years. Collections in 2020 were affected by the tax relief offered in response to the Covid-19 pandemic. In 2020 City council approved the waiving of penalties from April to August 31 as well as the final billing due dates were extended from June and September to August and October.

As at June 30	2021	2020	2019	2018	2017	2016
Current year Collections	69.0%	46.9%	69.1%	69.3%	69.8%	69.5%
Current year Outstanding*	31.0%	53.1%	30.9%	30.7%	30.2%	30.5%

\*includes final 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. Typically, letters are sent to business properties in the first quarter and residential properties in the second quarter. In 2020 254 collection letters were sent in November as we opted to delay collection activities due to Covid-19. In 2021, due to the ongoing pandemic, 334 collection letters were sent in July.

Four residential properties had a tax arrears certificate registered against title in 2020 prior to the beginning of the pandemic. Full payment was received for three of the properties in 2020. Staff opted to cancel the lien on the fourth property as an acceptable payment arrangement was established with the property owner. In 2021 staff continue

to work with taxpayers, with only one property requiring a tax arrears certificate to be registered.

To provide additional assistance to those that continue to be impacted financially by Covid-19, in spring 2021 the city offered enrollment in a Covid-19 Property Tax Deferral Payment Plan. Eligible property owners could apply between March and June to defer taxes under a pre-authorized monthly payment plan, including arrears dating back to March 2020. The plan allowed for a start date between April 1 and July 1 with property taxes to be paid in full by Dec 1, 2021. Thirty-three applications were 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 July 5.

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

As of June 30, 2021, the City's total debt charges as a percentage of own source revenue is estimated to be 9.3%, 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 0.67. This implies that for every \$1 of discretionary reserves the city has 0.67 of debt.

The city has an estimated \$82 million in total principal debt outstanding. Taking into consideration principal debt repayments of \$13.8 million, \$18.1 million in debt which has been approved and not issued, and this years' debt issuance of \$6.69 million, total city principal debt outstanding at year end 2021 is forecasted at approximately \$93 million. The debt issuance was at a rate of 1.83%.

### **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.

<ul style="list-style-type: none"> <li>• Contingency</li> <li>• Severe Weather</li> <li>• Tax Rate Stabilization</li> </ul>	<ul style="list-style-type: none"> <li>• Planning Fee Stabilization</li> <li>• Engineering Fee Stabilization</li> <li>• Commodity Stabilization</li> </ul>
<p>Target Balance of consolidated stabilization reserves and reserve funds (excluding building permit) is 10-15% of city's own source revenues. Based on 2020 own source revenues of \$224 million the target range is: <b>\$22.4 million to \$33.6 million</b></p>	
<p>June 30, 2021 <i>Uncommitted Balance</i>: <b>\$22,645,415 → Target at 10.1%</b></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 10.1% which is at the low end of 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 16.9%, 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.

<b>Stabilization Reserve Fund</b>	<b>Recommended Balance</b>	<b>June 30, Uncommitted Balance</b>
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) = \$5,785,770.</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 \$1.0 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 may be needed at year end due to reduced building permits because of COVID-19.

Corporate Reserve Funds	Recommended Balance		June 30 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 <b>\$5.4 million.</b>	\$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		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>	\$31.5 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.

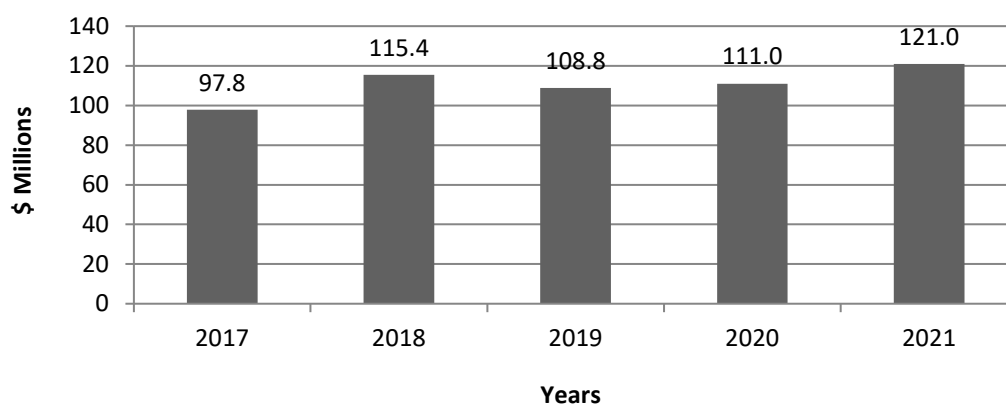
Corporate Reserve Funds	2020 Actuarial Valuation Liability	June 30 Uncommitted Balance
Employee Accident	\$8.5 million	\$5.9 million
Benefits	\$14.9 million	\$4.2 million

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

At June 30, 2021, the total of the reserve and reserve fund balances amounted to \$181.2 million, which is \$27.5 million higher than the corresponding figure of \$153.7 million at June 30, 2020. 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 \$60.2 million is committed for various projects leaving an uncommitted balance of \$121.0 million. The commitments represent expenditures approved by Council or funds held for specific future purposes. The following chart provides a historical perspective of uncommitted reserve and reserve fund balances as at June 30:

**Reserve and Reserve Funds Uncommitted  
Balance as at June 30**



## **PART E - 2021 BUDGET MONITORING**

The 2021 Current Budget Performance Report as of June 30, 2021, will be reported at the September Corporate Services, Strategy, Risk and Accountability Committee meeting.

Report reference: F-27-21

## **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>**

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

	2021	2020
	\$	\$
Cash & temporary investments	124,139	93,975
Taxes receivable*	143,391	235,753
Long term investments	226,750	191,569
Investment in Burlington Hydro Electric**	137,693	136,291
Deferred revenue - obligatory reserve funds	33,260	29,494
Net long-term liabilities	88,667	95,632

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

**\*\* 2021 balance is as at December 31, 2020 and comparative 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, 2021, there was an increase in the deferred revenue



for the obligatory reserve funds of approximately \$3.8M. 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 increase 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.

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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, 2021.

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Respectfully submitted,

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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 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.