



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

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

**FROM: Finance Department**

Report Number: F-42-21

Wards Affected: All

File Numbers: 100-01

Date to Committee: December 6, 2021

Date to Council: December 14, 2021

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**Recommendation:**

Receive and file finance department report F-42-21 providing a financial status report as at September 30, 2021.

**PURPOSE:**

**Vision to Focus Alignment:**

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

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**Background and Discussion:**

**PART A - FINANCIAL POSITION**

The COVID-19 pandemic hit North America significantly in 2020 causing 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 and 2021. Further complexities to the City's situation were fueled by the expectation of a sharp rebound in the economy. This has limited the ability of

capital gains to be recognized throughout 2021. The market has seen some stabilization in the last half of 2021 which has 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	3,245,003	3,633,200
Budget	5,300,000	5,300,000
Favourable/(Unfavourable) Variance	(2,054,997)	(1,666,800)
Capital Gains	2,054,997	4,179,178
Favourable/(Unfavourable) Variance	-	2,512,378

The attached Appendix A shows investment income (interest earned, and capital gains realized) to September 30, 2021 on the total investment portfolio. The overall investment portfolio has increased \$28.6M from the previous year. A large portion of this increase is attributed to the receipt of Safe Restart Funding, Canada Community Building fund (formerly Federal Gas Tax) top up funding, and funding from the City of Hamilton for the Waterdown Road project.

Investment income as of September 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 September 30, 2021, the City’s investment portfolio included \$15.2 million Region of Halton bonds.

As at September 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 September 30, 2021 compared to September 30, 2020. The 2021 total levy is \$443.4 million compared to \$432.9 million in 2020.

Collections for the current taxation year are 93.5%, which is consistent with 2019 and prior years. Collections in 2020 were affected by the temporary tax relief programs 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.

<b>As at September 30</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>
Current year Collections	93.5%	77.7%	93.6%	93.7%	93.6%	94.0%
Current year Outstanding*	6.5%	22.3%	6.4%	6.3%	6.4%	6.0%

\*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. 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 delayed and sent in July. Staff continue to work with property owners in arrears.

A property title search will be undertaken in January on accounts with three years of arrears and any lenders will be notified. This results in most accounts being paid.

For those properties that remain three years in arrears, the Municipal Act, 2001 allows for a tax sale process. The owner or any interested party has one year to pay out the tax arrears. If arrears remain after the one-year period, the City may proceed with a municipal tax sale.

To provide additional assistance to those that continued to be impacted financially by Covid-19, in spring 2021, the City offered an application based Covid-19 Property Tax Deferral Payment Plan for eligible property owners to apply between March and June. Eligible property owners were able to defer taxes under a pre-authorized monthly payment plan, with no penalty or interest charged. Property taxes are to be paid in full by December 1, 2021. Thirty 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 at the Environment, Infrastructure and Community Services Committee meeting on November 15, 2021.

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

As of September 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). This calculation is based on the 2019 Financial Information Return as provided from the Province. 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 year's debt issuance of \$6.7 million, total City principal debt outstanding at year end 2021 is forecasted at approximately \$93 million. The last 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>September 30, 2021 <i>Uncommitted Balance</i>: <b>\$23,396,618</b> → <b>Currently at 10.4% of Target</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 City is currently at 10.4% which is at the low end of the City's target range of 10-15%.

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>September 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.

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 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		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 2021 Asset Management Plan has total asset replacement value at approximately \$5.18 billion. Based on this amount the recommended balance is <b>\$104 million.</b>	\$38.2 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.

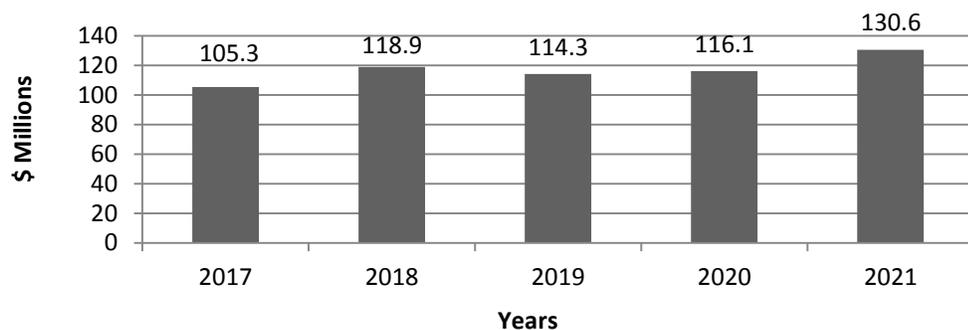
Corporate Reserve Funds	2020 Actuarial Valuation Liability	September 30 Uncommitted Balance
Employee Accident	\$8.5 million	\$5.6 million
Benefits	\$14.9 million	\$4.2 million

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

At September 30, 2021, the total of the reserve and reserve fund balances amounted to \$190.9 million, which is \$30.5 million higher than the corresponding figure of \$160.4 million at September 30, 2020. Contributing to the increase is the unspent Safe Restart funding, receipt of funding from the City of Hamilton and the Canada Community Building fund (formerly Federal Gas Tax) top up funding.

Of the total Reserves and Reserve Funds \$60.3 million is committed for various projects leaving an uncommitted balance of \$130.6 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 September 30:

### Uncommitted Reserve and Reserve Fund Balances as at September 30



**PART E - 2021 BUDGET MONITORING**

September 30<sup>th</sup> performance as well as year-end projections will be provided as part of the monthly COVID update to Environment, Infrastructure & Community Services Committee on November 15, 2021.

**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 30<sup>th</sup>**

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

	2021	2020
	\$	\$
Cash & temporary investments	97,872	120,515
Taxes receivable*	32,939	101,136
Long term investments	253,128	201,895
Investment in Burlington Hydro Electric**	137,693	136,291
Deferred revenue - obligatory reserve funds	43,309	33,061
Net long-term liabilities	88,667	95,632

**\* Reported net of allowance for write-offs and based on four installments for 2021 and three installments for 2020**

**\*\* 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 September 30, 2021, there was an increase in the deferred revenue for the obligatory reserve funds of approximately \$10.2 million. Other significant balance changes include:

- Decrease in taxes receivables, which are now more comparable to pre-pandemic values (\$30.1 million as at Q3 2019); and
  - Decrease 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 September 30, 2021.

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Respectfully submitted,

Greg Henderson

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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.