



**SUBJECT: Financial status report as at June 30, 2022**

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

**FROM: Finance Department**

Report Number: F-29-22

Wards Affected: All

File Numbers: 100-1

Date to Committee: September 14, 2022

Date to Council: September 20, 2022

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**Recommendation:**

Receive and file finance department report F-29-22, financial status report as at June 30, 2022.

**PURPOSE:**

**Vision to Focus Alignment:**

Delete this line and the areas that do not apply.

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

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**Background and Discussion:**

**PART A - FINANCIAL POSITION**

Since 2020, the impact of the Covid-19 pandemic has created considerable volatility in both the global and Canadian economy. The Bank of Canada promptly cut interest rates from 1.75% to 0.25% in 2020 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. This required greater reliance on the ability to trade investments for capital gains to meet budget. In the first half of 2022, the economic recovery from the pandemic shifted dramatically. Record high inflation, supply chain issues and geopolitical tensions led to diminishing bond prices. The Bank of Canada responded to the high levels of inflation by raising interest rates at a significant pace.

The overnight rate was increased from 0.25% to 1.50% as of June 1<sup>st</sup> with additional hikes expected throughout the remainder of 2022. These factors have restricted the ability of consistent capital gains to be recognized during the first half of the year. Staff have responded to this shift in the market by repositioning the City's investment holdings to take advantage of rising interest rates. It is expected that these trends will continue through the remainder of 2022 and could potentially put a strain on the City's ability to meet its investment budget.

Given current market conditions, investment income could face a potential unfavourable position for year-end, in the range noted below:

	<b>Projected December 2022</b>	<b>Actual December 2021</b>
Total Interest	4,359,846	3,816,574
Budget	5,300,000	5,300,000
Favourable/(Unfavourable) Variance	(940,154)	(1,483,426)
Capital Gains	405,946	1,788,391
Favourable/(Unfavourable) Variance	(500,000)	304,965

The attached Appendix A shows investment income (interest earned, and capital gains realized) to June 30, 2022 on the total investment portfolio. The overall investment portfolio has increased \$2.0M from the previous year.

Investment income as of June 30, 2022, has decreased compared to prior year. As noted above, economic conditions in the first half of 2022 have significantly decreased prices in the bond market. This has limited the ability to achieve capital gains through active trading. Staff will continue to monitor market fluctuations taking advantage of trades for capital gains where prudent to do so in accordance with the City's investment policy.

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, 2022, the City's investment portfolio included \$16.2 million Region of Halton bonds.

As at June 30, 2022, 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, 2022 compared to June 30, 2021. The 2022 total levy is \$454.2 million compared to \$442.4 million in 2021.

Collections for the current taxation year are 69.1%, which is consistent with prior years. The exception was 2020, which was affected by the tax relief offered in response to the Covid-19 pandemic. (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	2022	2021	2020	2019	2018	2017
Current year Collections	69.1%	69.0%	46.9%	69.1%	69.3%	69.8%
Current year Outstanding*	30.9%	31.0%	53.1%	30.9%	30.7%	30.2%

\*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 2021, due to the ongoing pandemic, 334 collection letters were sent in July. In 2022 we chose to again send the letters in July and 315 were sent.

One residential property had a tax arrears certificate registered against title in 2021. Full payment was received in July 2022. In 2022, two properties required registration of a tax arrears certificate. Staff will continue to try to work with the property owners over the upcoming year to arrange payment or extension agreements.

On January 11, to provide additional assistance to those financially impacted by the on-going Covid-19 pandemic, City Council approved a new 2022 Covid-19 Property Tax Payment Plan. The program allows eligible property owners who are unable to pay their property taxes by the regularly scheduled due dates to make payments under a pre-

authorized payment plan, including arrears dating back to March 2020. The plan allows for a start date between March 1 and July 1 with property taxes being paid in full by December 1, 2022. Sixty-nine 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 (22,000) of all property accounts are enrolled in these pre-authorized payment plans.

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

**Debt Capacity:** As of June 30, 2022, the City's total debt charges as a percentage of own source revenue is estimated to be 10.8%, which is below the council approved guideline of 12.5%, and below the provincial limit of 25%. (See Appendix D). Further, the city has an estimated \$74.8 million in total principal debt outstanding. Taking into consideration principal debt repayments of \$14.1 million, 2022 debt issuance of \$13.1 million, as well as \$42 million in debt which has been approved and not issued, total city principal debt outstanding at year end 2022 is forecasted at approximately \$115.8 million.

The reported debt capacity and forecasted principal debt outstanding are based on a snapshot at June 30, as such debt approved by Council after this date, will impact these figures. Any changes will be reported within the next quarterly update.

The city's debt is monitored on a regular basis, and debt capacity is projected based on debt that is retiring, debt approved (issued and to be issued), as well the capital forecast debt requirements. Any in-year debt approvals beyond what is included in the city's capital program will be reflected in an updated debt capacity. It is important to note that debt capacity changes from one year to the next, and capacity in one year is not necessarily indicative of the forecasted trend.

**Debt Charges:** The city's budget for debt charges is \$8.5 million, and as of June 30, this budget meets the planned needs of debt repayments in 2022.

**2022 Debt Issuance:** In June, the region issued \$13.1 million in debt on behalf of the city at a rate of 3.53%. This is trending higher than prior years, the city will continue to monitor the interest rate market in forecasting future debt repayments.

**PART D - RESERVES AND RESERVE FUNDS**

Reserves and reserve funds are an essential 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, 2022 <i>Uncommitted Balance</i>: <b>\$21,710,050</b> → <b>Currently at 9.7% 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 9.7% which is below the City’s target range of 10-15%. The lower uncommitted balance is the result of the 2022 budgeted draw shown as a commitment given that additional Safe Restart Funding has not been announced by senior levels of government.

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	June 30 Uncommitted Balance
Severe Weather Reserve Fund	<p>A minimum balance of 25% of the five-year average of winter maintenance costs, this equates to \$1,134,085.</p> <p>Target balance equal to one year's expenditure requirements (2022) = \$5,845,956.</p>	\$5,339,363

As per the policy the balance in the reserve fund exceeds the minimum balance requirement, however, is less than the target balance by approximately \$0.507 million.

### Building Permit Stabilization Reserve Fund

The building permit stabilization reserve fund is used to 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		June 30 Uncommitted Balance
Building Permit Stabilization	The reserve fund is capped at 163% of direct costs.	Total direct costs for 2020 were approximately \$3.6 million. Based on this the upset balance for the reserve fund is <b>\$5.9 million.</b>	\$2.9 million

### Capital Reserve Funds

Capital reserve funds form a vital 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 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>	\$30.5 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	2021 Actuarial Valuation Liability	June 30 Uncommitted Balance
Employee Accident	\$12.4 million	\$6.5 million
Benefits	\$15.9 million	\$4.4 million

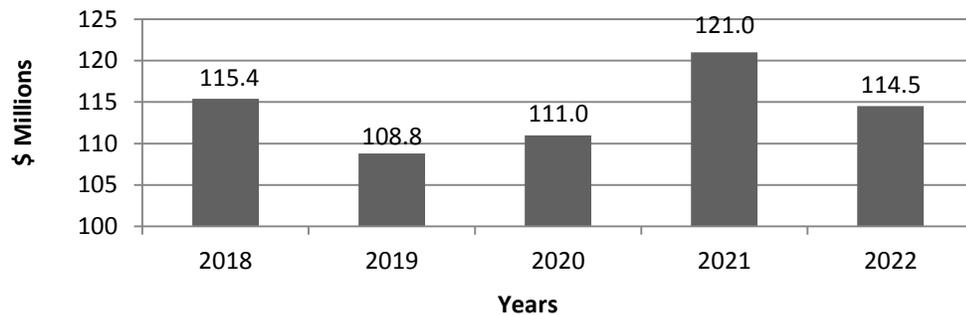
The status of the City's Reserves and Reserve Funds balances are disclosed in Appendix E.

At June 30, 2022, the total of the reserve and reserve fund balances amounted to \$178.3 million, which is \$2.9 million lower than the corresponding figure of \$181.2 million at June 30, 2021. Contributing to the decrease is the timing of capital project allocations and receipt of funding from Burlington Hydro.

Of the total Reserves and Reserve Funds \$63.8 million is committed for various projects leaving an uncommitted balance of \$114.5 million. The commitments represent expenditures approved by Council or funds held for specific future purposes. Additional commitments in 2022 are a result of Council approving the purchase of Lion's Club Park.

The following chart provides a historical perspective of uncommitted reserve and reserve fund balances as at June 30:

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



#### **PART E - 2022 BUDGET MONITORING**

The 2022 Current Budget Performance Report as of June 30, 2022, will be reported at the September Corporate Services, Strategy, Risk and Accountability Committee meeting.

Report reference: F-30-22

#### **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)**

	2022	2021
	\$	\$
Cash & temporary investments	67,038	124,139
Taxes receivable*	145,937	143,391
Long term investments	285,868	226,750
Investment in Burlington Hydro Electric**	140,000	137,693
Deferred revenue - obligatory reserve funds	36,568	33,260
Net long-term liabilities	74,826	88,667

**\* Reported net of allowance for write-offs**

**\*\* 2022 balance is as at December 31, 2021**

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, 2022, the significant balance changes include:

- 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 June 30, 2022.

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Respectfully submitted,

Greg Henderson

Coordinator of Financial Reporting

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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.