



**SUBJECT: Financial status report as at December 31, 2022**

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

**FROM: Finance Department**

Report Number: F-06-23

Wards Affected: All

File Numbers: 100-01

Date to Committee: March 29, 2023

Date to Council: April 18, 2023

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**Recommendation:**

Receive and file finance department report F-06-23, providing the financial status report as at December 31, 2022.

**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**

**Investments**

The impact of the Covid-19 pandemic in 2020 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 for those years. In 2022, the economic recovery from the pandemic shifted dramatically. Record high inflation, supply chain issues and geopolitical tensions have led to diminishing bond prices. The Bank of Canada has responded to the high levels of inflation by raising interest rates at a

significant pace. The overnight rate was increased from 0.25% to 4.25% as of December 31<sup>st</sup>. As of January 25th, the overnight rate was increased to 4.50%. These factors restricted the ability of consistent capital gains to be recognized during the year. Staff have responded to this shift in the market by working to reposition the City’s investment holdings to take advantage of rising interest rates. The Bank of Canada’s forward guidance indicates that rates will continue to stay high going into the first half of 2023, with the hope that markets will stabilize towards the end of the year. Based on this guidance staff continue to closely monitor the bond market and economic conditions, acting as needed to maximize investment returns.

Overall, the current budget investment income exceeded budget for year-end based on the details below:

	<b>December 2022</b>	<b>December 2021</b>
Total Interest	4,669,311	3,816,574
Budget	5,300,000	5,300,000
Favourable/(Unfavourable) Variance	(630,689)	(1,483,426)
Capital Gains	671,540	1,788,391
Favourable/(Unfavourable) Variance	40,851	304,965

The attached Appendix A shows overall investment income (interest earned, and capital gains realized) to December 31, 2022 on the total investment portfolio. The portfolio has decreased by \$12.6 million from the previous year. This decrease is mostly due to the timing of cash flow needs for capital projects and issuance of debt.

Overall investment income as of December 31, 2022, is consistent compared to prior year. As noted above, economic conditions in 2022 have significantly decreased prices in the bond market. This has limited the ability to achieve capital gains through active trading. Helping to offset the decrease in capital gains was the impact of rising interest rates. 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 December 31, 2022, the City’s investment portfolio included \$12.6 million Region of Halton bonds.

As at December 31, 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.

**Cash Flow**

Cash flow projections through to the end of March 2023 show that the City is expected to have adequate cash funding to meet its financial obligations. The below chart summarizes the City’s estimated cash holding for the first quarter of 2023 with a comparison to the previous year.

	<b>2023</b>	<b>2022</b>
<b>January</b>	10,908,020	19,183,021
<b>February</b>	47,763,580	54,938,591
<b>March</b>	12,157,181	22,735,286

Decrease in the cash balance from 2022 is due to additional cash being allocated to short term investments which offer higher interest rates.

**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, 2022 compared to December 31, 2021. The 2022 total levy is \$457.4 million compared to \$443.8 million in 2021.

Collections for the current taxation year are 97.8%, which is consistent with prior years as highlighted in the chart below and detailed in Appendix C.

<b>As at December 31</b>	<b>2022</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>
Current year Collections	97.8%	98.1%	97.6%	97.7%	98.0%	97.8%
Current year Outstanding*	2.2%	1.9%	2.4%	2.3%	2.0%	2.2%

\*includes installments not yet due

Late payment notices are sent four times per year to aid in collections. In addition, collection letters for accounts that have arrears in both the current year and two previous

years are typically sent in Q1 (for business properties) and Q2 (for residential properties). In 2022, due to the ongoing pandemic, these letters were sent in July. These property owners have been provided with a deadline to pay the oldest year of arrears by December 31, 2022 (normally the deadline would have been October 31, 2022).

A property title search was undertaken in January 2023 on accounts with three years of arrears and lenders were notified. This typically 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.

Staff continue to work with taxpayers, with only two properties requiring a tax arrears certificate to be registered in 2022.

The city continues to offer multiple payment options including three pre-authorized payment plans which provide a convenient and reliable payment method for property owners. Approximately one third (22,500) of all property accounts are enrolled in these pre-authorized payment plans.

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

**Debt Capacity:** As of December 31, 2022, the City's total debt charges as a percentage of own source revenue is estimated to be 13.64%, which is above the Council approved policy of 12.5%, and below the provincial limit of 25%. The City's debt policy includes a provision to temporarily exceed the limit to a maximum of 15% for a maximum period of three years for major capital projects. The city's current and forecasted estimate of debt limit remains within the provisions of the policy. (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 \$105.9 million in debt which has been approved and not issued, total city principal debt outstanding at year end 2022 is forecasted at approximately \$179.7 million.

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 December 31, 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 year. 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 2021 own source revenues of \$238 million the target range is: <b>\$23.8 million to \$35.7 million</b></p>	
<p>December 31, 2022 <i>Uncommitted Balance</i>: <b>\$22,892,169</b> → <b>Currently at 9.6% 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 9.6% which is below 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.

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 \$1,134,085.</p> <p>Target balance equal to one year's expenditure requirements (2022) = \$5,845,956.</p>	\$5,241,890

As per the policy the balance in the reserve fund exceeds the minimum balance requirement, however, is less than the target balance by approximately \$0.604 million.

As a result of the finance year-end review of the Reserve and Reserve Funds the remaining balance in the Randal Reef Reserve Fund (\$7K) was transferred to the Tax Rate Stabilization Revere Fund as the agreement was completed.

### 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		December 31 Uncommitted Balance
Building Permit Stabilization	The reserve fund is capped at 163% of direct costs.	Total direct costs for 2022 were approximately \$4.0 million. Based on this the upset balance for the reserve fund is <b>\$6.5 million.</b>	\$5.2 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		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 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> .	\$28.7 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.

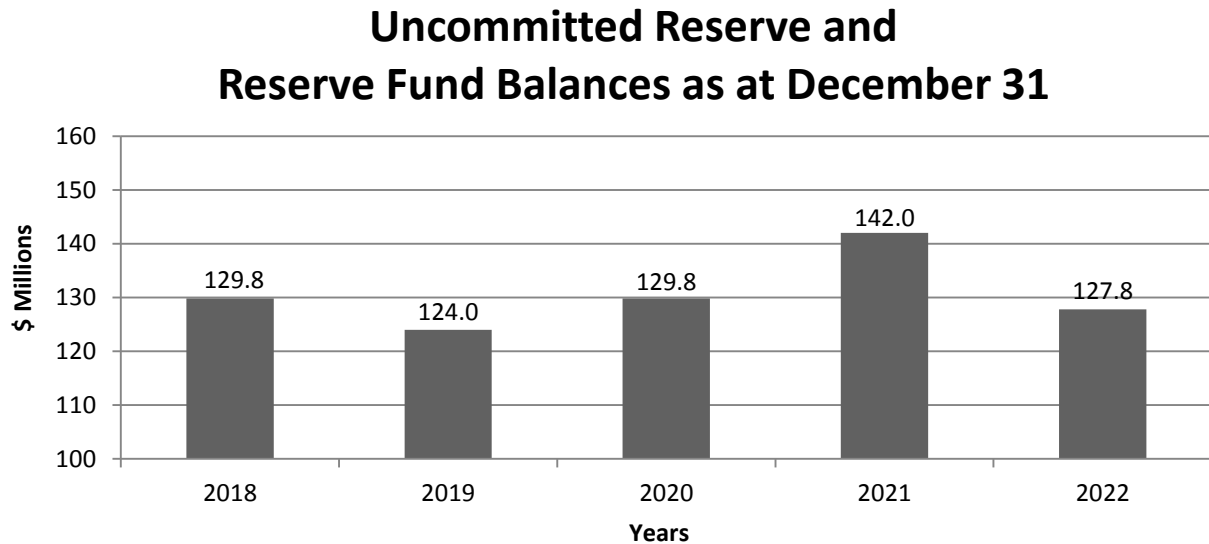
Corporate Reserve Funds	2022 Actuarial Valuation Liability	December 31 Uncommitted Balance
Employee Accident	\$12.8 million	\$6.0 million
Benefits	\$16.7 million	\$4.6 million

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

At December 31, 2022, the total of the reserve and reserve fund balances amounted to \$213.4 million, which is \$11.5 million lower than the corresponding figure of \$224.9 million at December 31, 2021. Contributing to this result is the decrease in the development charge revenue year over year.

Of the total Reserves and Reserve Funds \$85.6 million is committed for various projects leaving an uncommitted balance of \$127.8 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 December 31:



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

Please refer to the ***Operating Budget Performance Report as at December 31, 2022 and Summary of Year End Financial Position*** (F-13-23 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 31<sup>st</sup>**

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

	2022	2021
	\$	\$
Cash & temporary investments	24,011	63,322
Taxes receivable*	12,262	10,657
Long term investments	273,537	246,852
Investment in Burlington Hydro Electric**	140,000	137,693
Deferred revenue - obligatory reserve funds	78,008	85,356
Net long-term liabilities	73,826	74,826

**\* 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 December 31, 2022, the significant balance changes include:

- Decrease in the total cash and temporary investments and long-term investments 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.

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**Conclusion:**

To present the financial status of the City as at December 31, 2022.

Respectfully submitted,

Greg Henderson

Coordinator of Financial Reporting

[greg.henderson@burlington.ca](mailto:greg.henderson@burlington.ca)

**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.