



SUBJECT: Financial status report as at December 31, 2023

TO: Committee of the Whole

FROM: Finance Department

Report Number: F-07-24

Wards Affected: All

Date to Committee: March 4, 2024

Date to Council: March 19, 2024

Recommendation:

Receive and file finance department report F-07-24 providing the financial status report as at December 31, 2023.

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 impact of the Covid-19 pandemic sparked considerable volatility in the global and Canadian economy that is still being experienced today. Initially, the Bank of Canada (BoC) cut interest rates drastically (down to 0.25%). For the City, these interest rate cuts had a negative impact on the ability to generate interest income. This required greater reliance on trading investments for capital gains to meet the budget for those years. In 2022, the economic recovery from the pandemic shifted dramatically. Record high inflation, supply chain issues and geopolitical tensions led to diminishing bond prices. The BoC responded by raising interest rates at a significant pace to 4.25% by the end 2022. This increasing interest rate environment persisted through 2023. The overnight rate was increased in January, June, and July 2023, taking the rate to 5.00% where it has been maintained. These interest rate increases restrict the ability of

consistent capital gains to be recognized. Staff have responded to this shift by repositioning the City’s investment holdings, focusing on short-term investments to take advantage of high interest rates. This has allowed the City to recognize higher interest income and put less reliance on trading investments for capital gains.

The BoC’s forward guidance indicates that rates have peaked at the current level. The 2024 rate decisions will be looking at the possibility of interest rate cuts, but timing is uncertain and will be based on market data. Geopolitical pressures including inflationary pressure from the US will also need to be factored into rate decisions going forward. Based on this information 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:

	Actual December 2023	Actual December 2022
Total Interest	6,789,498	4,669,311
Budget	5,300,000	5,300,000
Favourable/(Unfavourable) Variance	1,489,498	(630,689)
Capital Gains	694,334	671,540
Favourable/(Unfavourable) Variance	2,183,832	40,851

The attached Appendix A shows overall investment income (interest earned, and capital gains realized) to December 31, 2023, on the total investment portfolio. The portfolio has increased by \$78.2 million from the previous year. This increase is due to the timing of cash flows for significant capital projects, the issuance of debt and the collection of external recoveries for joint projects.

Overall investment income as of December 31, 2023, has increased compared to the prior year. As noted above, a rising interest rate environment that started in 2022 and continued through 2023 has enabled staff to leverage short term investments at a higher interest rate. Staff will continue to monitor market fluctuations and the interest rate

environment taking advantage of investment opportunities 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, 2023, the City’s investment portfolio included \$14.0 million Region of Halton bonds.

As at December 31, 2023, 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 December 2023 show that the City is expected to have adequate cash funding to meet its financial obligations into 2024. The below chart summarizes the City’s estimated cash holding for the first quarter of 2024 with a comparison to the actuals in previous year.

	2024	2023
January	34,456,129	10,908,020
February	38,873,525	47,763,580
March	18,204,682	32,334,176

Fluctuations in the cash balance between 2024 and 2023 are due to the timing of payments for commitments, cash inflows and short-term investments/maturities.

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, 2023 compared to December 31, 2022. The 2023 total levy is \$493.0 million compared to \$457.4 million in 2022.

Collections for the current taxation year are 97.1%, which is comparable with prior years as highlighted in the chart below and detailed in Appendix C.

As at December 31	2023	2022	2021	2020	2019	2018
Current year Collections	97.1%	97.8%	98.1%	97.6%	97.7%	98.0%
Current year Outstanding*	2.9%	2.2%	1.9%	2.4%	2.3%	2.0%

*includes installments not yet due

Overdue property tax notices are typically 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. Letters were sent in July and property owners were given a deadline of December 31 to pay the oldest year of arrears.

A property title search was undertaken in January 2024 on accounts that remained three years in 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. A lien will be registered against title, and the owner and any interested party is notified that they have 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 on the one property that had a tax arrears certificate registered against title in 2023.

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 (23,300) 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, 2023, the City's total debt charges as a percentage of own source revenue is estimated to be 10.85%, 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 \$73.8 million in total principal debt outstanding. Taking into consideration principal debt repayments of \$14.2 million, \$54.7 million in debt issued and \$47.7 million in debt which has been approved and not issued, total City principal debt outstanding and remaining to be issued at year end 2023 is \$162 million.

The reported debt capacity and forecasted principal debt outstanding are based on a snapshot on December 31st, 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 2023 budget for debt charges is \$9.2 million, and as of December 31st, this budget meets the planned needs of debt repayments in 2023.

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"> • Contingency • Severe Weather • Tax Rate Stabilization 	<ul style="list-style-type: none"> • Planning Fee Stabilization • Engineering Fee Stabilization • Commodity Stabilization
<p>Target Balance of consolidated stabilization reserves and reserve funds (excluding building permit) is 10-15% of the City’s own source revenues. Based on 2022 own source revenues of \$262 million the target range is: \$26.2 million to \$39.3 million</p>	
<p>December 31, 2023 <i>Uncommitted Balance</i>: \$19,897,888 → Currently at 7.6% of the City’s own source revenues</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 7.6% 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 \$1,287,549.</p> <p>Target balance equal to one year’s expenditure requirements (2023) = \$6,078,283.</p>	\$5,362,481

As per the policy the balance in the reserve fund exceeds the minimum balance requirement, however, is less than the target balance by approximately \$0.72 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		December 31 Uncommitted Balance
Building Permit Stabilization	The reserve fund is capped at 163% of direct costs.	Total direct costs for 2023 were approximately \$5.0 million. Based on this the upset balance for the reserve fund is \$8.15 million.	\$6.4 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 2023 Asset Management Plan has total asset replacement value at approximately \$6.3 billion. Based on this amount the minimum recommended balance is \$126 million.	\$31.0 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.

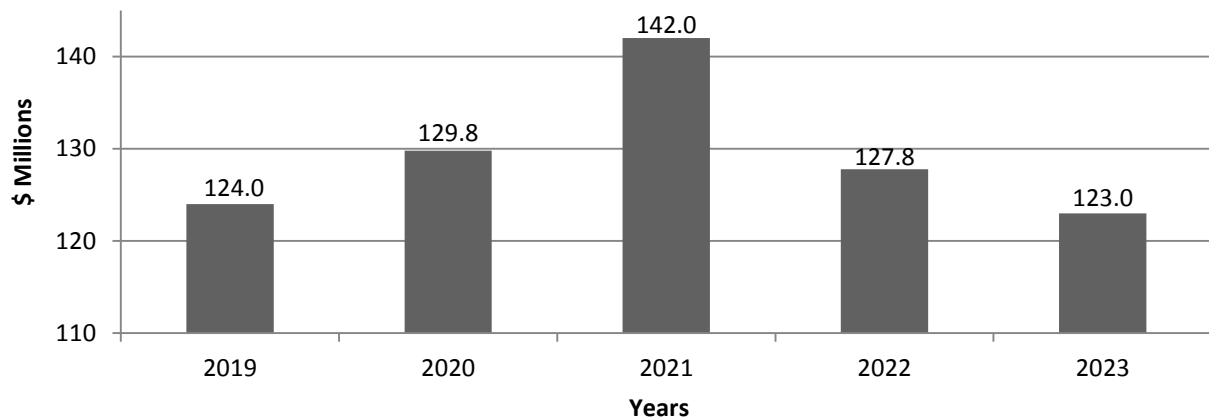
Corporate Reserve Funds	2023 Actuarial Valuation Liability	December 31 Uncommitted Balance
Employee Accident	\$13.1 million	\$6.6 million
Benefits	\$17.6 million	\$3.0 million

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

At December 31, 2023, the total of the reserve and reserve fund balances amounted to \$256.6 million, which is \$43.2 million higher than the corresponding figure of \$213.4 million at December 31, 2022. Contributing to the increase was the recovery from the City of Hamilton pertaining to the Waterdown Road cost sharing agreement.

Of the total Reserves and Reserve Funds \$133.6 million is committed for various projects leaving an uncommitted balance of \$123.0 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 December 31:

Uncommitted Reserve and Reserve Fund Balances as at December 31



The increase in the Uncommitted Reserve and Reserve Fund Balances in 2023 is primarily due to the recovery from the City of Hamilton related to Waterdown Road.

PART E - 2023 BUDGET MONITORING

Please refer to the report, Operating Budget Performance as of December 31, 2003 (F-15-24 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 31st

(Amounts are in thousands of dollars)

	2023	2022
	\$	\$
Cash & temporary investments	54,133	24,011
Taxes receivable*	16,810	12,262
Long term investments	321,661	273,537
Investment in Burlington Enterprises Corporation**	144,415	140,000
Deferred revenue - obligatory reserve funds	76,949	78,008
Net long-term liabilities	128,567	73,826

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

**** 2023 balance is as at December 31, 2022**

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, 2023, the significant balance changes include:

- Increase in 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.

Financial Matters:

Not applicable.

Conclusion:

To present the financial status of the City as at December 31, 2023.

Respectfully submitted,

Greg Henderson

Supervisor, Financial Reporting

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.