



**SUBJECT: Financial status report as at March 31, 2024**

**TO: Committee of the Whole**

**FROM: Finance Department**

Report Number: F-26-24

Wards Affected: All

Date to Committee: July 8, 2024

Date to Council: July 16, 2024

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**Recommendation:**

Receive finance department report F-26-24, providing the Financial Status Report as at March 31, 2024.

**PURPOSE:**

**Vision to Focus Alignment:**

- Designing and delivering complete communities
- Providing the best services and experiences
- Protecting and improving the natural environment and taking action on climate change
- Driving organizational performance

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**Executive Summary:**

A financial update highlighting the City's first quarter of 2024 in the following areas:

- Investments & Cash Flow;
- Property Tax Collection;
- Debt & Financial Obligation Limit;
- Reserves and Reserve Funds;
- 2024 Budget Monitoring; and
- Financial Position

## Background and Discussion:

### **PART A – INVESTMENTS & CASH FLOW**

During the first quarter of 2024, the Canadian economy continued to navigate a complex economic environment shaped by various global and domestic factors. Notably, economic conditions have been characterized by a sustained high interest rate environment, with the overnight rate maintaining a heightened level of 5.00%. In response to this monetary policy stance, staff have continued to strategically adjust the City's investment portfolio, prioritizing short-term investments to capitalize on the high interest rate environment. This approach has resulted in increased interest income, thereby reducing the reliance on trading investments for generating capital gains. By aligning the City's investment strategy with prevailing economic conditions, staff aim to maximize financial performance.

Looking ahead, the Bank of Canada's interest rate policy remains pivotal in balancing inflationary pressures and supporting economic growth. 2024 rate decisions will be looking at the possibility of interest rate cuts 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. Staff will continue to closely monitor the bond market and economic conditions, acting as needed to maximize investment returns.

Given current market conditions, investment income is expected to meet budget at year-end based on the details below:

	<b>Projected December 2024</b>	<b>Actual December 2023</b>
Total Interest	5,835,330	6,789,498
Budget	5,300,000	5,300,000
Favourable/(Unfavourable) Variance	535,330	1,489,498
Capital Gains	535,330	694,334
Favourable/(Unfavourable) Variance	-	2,183,832

The attached Appendix A shows overall interest earned to March 31, 2024, on the total investment portfolio. The overall portfolio balance is higher by \$88 million when compared to the same date for 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 March 31, 2024, has increased compared to the prior year. As noted above, a rising interest rate environment that started in 2022 and continued through the first quarter of 2024 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 March 31, 2024, the City’s investment portfolio included \$14.0 million Region of Halton bonds.

As at March 31, 2024, 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 the second quarter of 2024 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 second quarter of 2024 with a comparison to the actuals in the previous year.

	<b>2024 Projections</b>	<b>2023 Actual</b>
<b>April</b>	76,802,542	50,199,873
<b>May</b>	27,487,286	66,559,284
<b>June</b>	40,840,616	58,400,909

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 March 31, 2024 compared to March 31, 2023. The 2024 total levy, which represents interim billing with due dates of February 22 and April 22, is \$246.2 million compared to \$228.1 million in 2023.

Collections for the current taxation year are 56.0%, which is comparable with prior years as highlighted in the chart below and detailed in Appendix C.

<b>As at March 31</b>	<b>2024</b>	<b>2023</b>	<b>2022</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>
Current year Collections	56.0%	56.9%	56.3%	56.5%	55.7%	55.5%
Current year Outstanding*	44.0%	43.1%	43.7%	43.5%	44.3%	44.5%

\*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. In July 2023, 360 letters were sent, compared to 315 in July 2022. Property owners were given a deadline of December 31 to pay at least the oldest year of arrears.

Property title searches were conducted in January and February on 26 accounts that remained three years in arrears and lenders were notified. This resulted in 21 accounts being paid. For the 5 properties that remain three years in arrears, tax arrears certificates are being registered against title in the second quarter, as permitted under the *Municipal Act, 2001*. Staff will continue to try and work with the property owners over the upcoming year to arrange payment or extension agreements.

Staff continue to work on the one property that had a tax arrears certificate registered against title in 2023.

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 (23,750) of all property accounts are enrolled in these pre-authorized payment plans.

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

**Debt Capacity:** As of March 31, 2024, the City’s total debt charges as a percentage of own source revenue is estimated to be 11.61%, 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 \$114.4 million in total principal debt outstanding. Taking into consideration principal debt repayments of \$16.4 million, and \$53.7 million in debt which has been approved and not issued, total City principal debt outstanding and remaining to be issued at year end 2024 is \$151.7 million.

The reported debt capacity and forecasted principal debt outstanding are based on a snapshot on March 31, 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.

**Tax Supported Debt Charges:** The City's 2024 budget for tax supported debt charges is \$12.3 million, and as of March 31, this budget meets the planned needs of tax supported debt repayments in 2024

#### **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>
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<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: <b>\$26.2 million to \$39.3 million</b></p>
<p>March 31, 2024 <i>Uncommitted Balance</i>: <b>\$21,423,007</b> → <b>Currently at 8.2% of the City’s own source revenues</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 8.2% 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.

<b>Stabilization Reserve Fund</b>	<b>Recommended Balance</b>	<b>March 31 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 \$1,287,549.</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		March 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 <b>\$8.15 million.</b>	\$6.0 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		March 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 <b>\$126 million.</b>	\$29.3 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

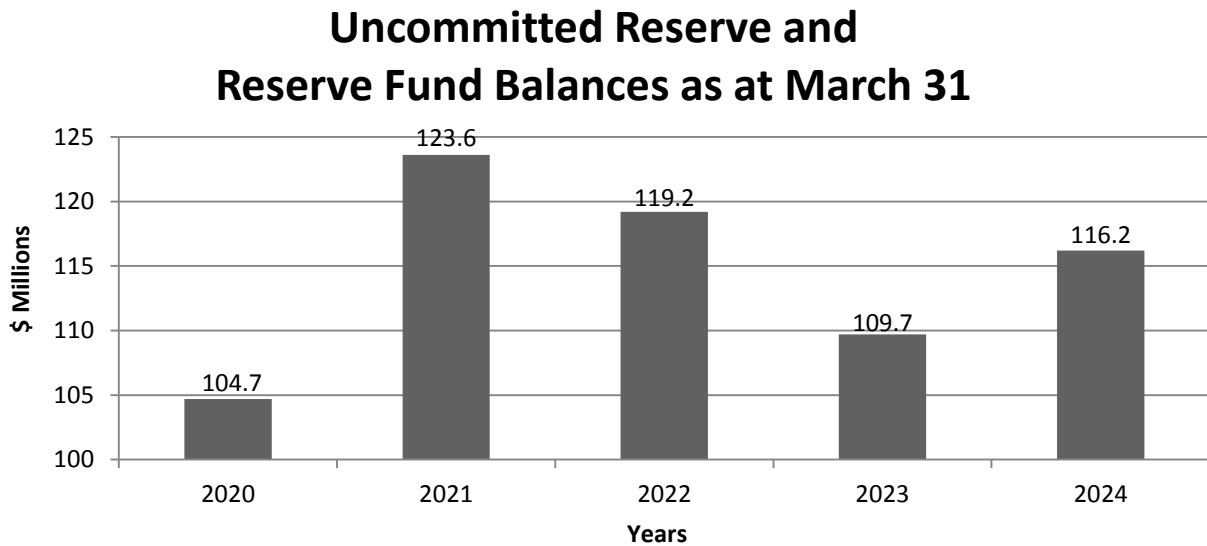
liabilities but does not budget for the estimated future liability. The impact of post-employment benefit expenses is communicated annually as part of the financial statements.

Corporate Reserve Funds	2023 Actuarial Valuation Liability	March 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.

As at March 31, 2024, the total of the reserve and reserve fund balances amounted to \$286.7 million, which was \$121.9 million higher than the corresponding figure of \$164.8 million at March 31, 2023. The total reserves were higher as at March 31, 2024 as the allocation of the 2024 capital budget was delayed due to the timing of the “go live” for the corporate ERP system.

Of the total Reserves and Reserve Funds \$170.5 million is committed for various projects leaving an uncommitted balance of \$116.2 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 March 31:





The increase in the Uncommitted Reserve and Reserve Fund Balances in 2023 is primarily due to the timing of Federal Gas Tax payments and capital budget allocation along with the first year’s receipt of the Housing Accelerator Fund in Q1-24.

**PART E - 2024 BUDGET MONITORING**

As of March 31, 2024, the operating budget shows a favourable year-end projection variance of \$852,645 (Appendix F). This variance is primarily driven by savings in winter control as a result of the mild spring conditions and staff gapping from vacant positions.

Staff will continue to monitor and update the year-end projections as part of the 2024 budget review.

**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 March 31<sup>st</sup>**

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

	2024	2023
	\$	\$
Cash & temporary investments	96,146	58,334
Taxes receivable*	120,220	105,774
Long term investments	322,707	272,557
Investment in Burlington Enterprises Corporation**	145,464	144,415
Deferred revenue - obligatory reserve funds	86,323	29,561
Net long-term liabilities	114,403	73,829

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

**\*\* 2024 balance is as at December 31, 2023**

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 March 31, 2024, 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.
- Increase in net long-term liabilities is due to debt issuance in spring and fall 2023 for capital projects.
- Increase in deferred revenue – obligatory reserve funds are related to an advance payment from the City of Hamilton connected to the Waterdown Road project.

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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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### **Conclusion:**

To present the financial status of the City as at March 31, 2024.

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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
- F. Operating Budget Variances

**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.