



**SUBJECT:** Financial status report as at June 30, 2024

**TO:** Committee of the Whole

**FROM:** Finance Department

Report Number: F-17-24

Wards Affected: All

Date to Committee: October 7, 2024

Date to Council: October 15, 2024

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**Recommendation:**

Receive finance department report F-17-24, financial status report as at June 30, 2024.

**PURPOSE:**

**Vision to Focus Alignment:**

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

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**Executive Summary:**

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

- Investments & Cash Flow;
  - Property Tax Collection;
  - Debt & Financial Obligation Limit;
  - Reserves and Reserve Funds; and
  - Financial Position
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## **PART A – INVESTMENTS & CASH FLOW**

Since the Covid crisis of 2020, the Bank of Canada (BoC) has been navigating a complex economic environment. Following a recent period of high inflation, the BoC initially raised rates aggressively to combat rising prices. By Q2 2024, the central bank's focus shifted toward balancing inflation control with economic growth. On July 24th, the BoC lowered its benchmark overnight rate to 4.50%, citing the easing of inflationary pressures as a key reason for this decision. This marked the second reduction since the onset of the Covid crisis. The BoC emphasized that with continued evidence of declining inflation, further reductions in the overnight rate may be considered. Canada's annual inflation rate has slowed throughout 2024, trending towards the central bank's 2% target.

Looking ahead, the Bank of Canada remains cautious, signaling that future rate cuts will be gradual and dependent on incoming data. Economists are predicting the key rate could reach 3% by the end of next year. As of this writing, the Bank of Canada further lowered its benchmark overnight rate by 25 basis points to 4.25% at its September 4th meeting. Cuts are also expected for both the October and December meetings.

Given the recent higher interest rate environment and the City's investment objectives, staff have strategically diversified the investment portfolio to capitalize on elevated interest rates. This approach has allowed the portfolio to invest in bonds with higher yields over extended periods, resulting in increased interest income. However, as the economy cools and interest rates decrease, any new funds and maturing investments face the potential of being reinvested at lower rates.

By aligning the City's investment approach with the expected economic landscape, staff aim to maximize financial performance while staying within the limits of the City's investment policy. Staff will continue to closely monitor the bond market and economic conditions, adjusting the City's portfolio as needed to optimize investment returns.

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

	<b>Projected December 2024</b>	<b>Actual December 2023</b>
Total Interest	5,770,820	6,789,498
Budget	5,300,000	5,300,000
Favourable/(Unfavourable) Variance	470,820	1,489,498
Capital Gains	379,180	694,334
Favourable/(Unfavourable) Variance	850,000	2,183,832

The attached Appendix A shows overall interest earned to June 30, 2024, on the total investment portfolio. The overall portfolio balance is higher by \$81.5 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 June 30, 2024, has increased compared to the prior year. As noted above, a high interest rate environment that started in 2022 and continued through the first half 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 June 30, 2024, the City's investment portfolio included \$14.3 million Region of Halton bonds.

As at June 30, 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 third 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 third quarter of 2024 with a comparison to the actuals in the previous year.

	<b>2024 Projections</b>	<b>2023 Actual</b>
<b>July</b>	30,141,508	52,343,929
<b>August</b>	29,975,848	54,921,435
<b>September</b>	52,614,871	85,016,344

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 June 30, 2024 compared to June 30, 2023. The 2024 total levy is \$523.3 million compared to \$489.6 million in 2023.

Collections for the current taxation year are 67.3%, which is comparable 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).

<b>As at June 30</b>	<b>2024</b>	<b>2023</b>	<b>2022</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>
Current year Collections	67.3%	67.2%	69.1%	69.0%	46.9%	69.1%
Current year Outstanding*	32.7%	32.8%	30.9%	31.0%	53.1%	30.9%

\*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 the two previous years. 527 letters were sent in May 2024, compared to 360 in July 2023.

Three residential properties and one commercial property had a tax arrears certificate registered against title in the second quarter of 2024. Staff will continue to try to work with these property owners over the upcoming year to arrange payment or an extension agreement. Staff also 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 (23,900) 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, 2024, the City's total debt charges as a percentage of own source revenue is estimated to be 10.97%, 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, \$17 million in debt issued and \$36.7 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 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.

**Tax Supported Debt Charges:** The City's 2024 budget for tax supported debt charges is \$12.3 million, and as of June 30, 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>
<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 2023 own source revenues of \$301 million the target range is: <b>\$30.1 million to \$45.2 million</b></p>	
<p>June 30, 2024 <i>Uncommitted Balance</i>: <b>\$20,268,918 → Currently at 6.7% 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 6.7% 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	June 30 Uncommitted Balance
Severe Weather Reserve Fund	A minimum balance of 25% of the five-year average of winter maintenance costs, this equates to \$1,287,549.	\$5,362,481

	Target balance equal to one year's expenditure requirements (2023) = \$6,078,283.	
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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		June 30 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		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 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>	\$21.1 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.

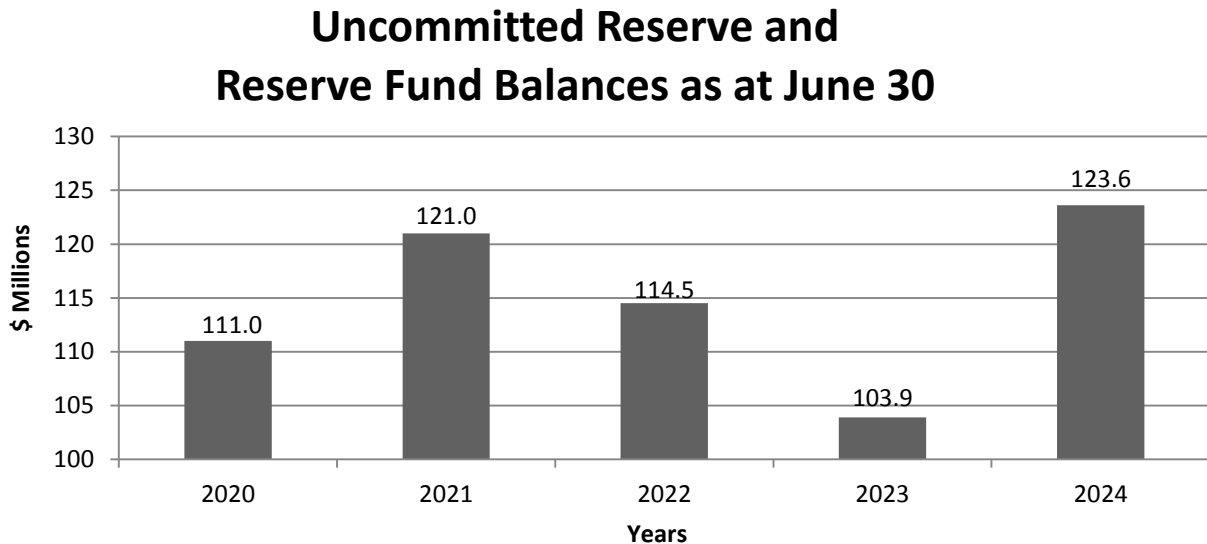
Corporate Reserve Funds	2023 Actuarial Valuation Liability	June 30 Uncommitted Balance
Employee Accident	\$13.1 million	\$6.5 million
Benefits	\$17.6 million	\$3.0 million

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

As at June 30, 2024, the total of the reserve and reserve fund balances amounted to \$228.5 million, which was \$60.3 million higher than the corresponding figure of \$168.2 million at June 30, 2023. Contributing to the increase was the recovery from the City of Hamilton pertaining to the Waterdown Road cost sharing agreement, receipt of funding for the Housing Accelerator Fund, a full year collection of the Municipal Accommodation Tax and provisions to the new Multi-Year Community Investment Plan reserve fund.



Of the total Reserves and Reserve Funds \$105.0 million is committed for various projects leaving an uncommitted balance of \$123.6 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 June 30:



The increase in the total uncommitted reserve and reserve fund balance in 2024 is due to the receipt of the first payment for the Housing Accelerator Fund, a full year collection of the Municipal Accommodation Tax, provision to the new Multi-Year Community Investment Plan reserve fund and collection of development charges.

## **PART E – 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)**

	2024	2023
	\$	\$
Cash & temporary investments	155,397	99,401
Taxes receivable*	179,748	166,547
Long term investments	324,022	298,556
Investment in Burlington Enterprises Corporation**	145,464	144,415
Deferred revenue - obligatory reserve funds	82,479	33,375
Net long-term liabilities	131,403	108,567

**\* Reported net of allowance for write-offs and based on three 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 June 30, 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 issuances in fall 2023 and spring 2024 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 June 30, 2024.

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Respectfully submitted,

Greg Henderson

Supervisor, Financial Reporting

**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.