



TO: Budget and Corporate Services Committee

SUBJECT: City of Burlington 2010 Financial Health Report

Report Number: F-24-11

File Number(s): 401-01

Report Date: May 30, 2011

Ward(s) Affected: 1 2 3 4 5 6 All

Date to Committee: July 12, 2011

Date to Council: July 18, 2011

Recommendation: Direct the Executive Director of Finance to undertake an update to the City of Burlington Financial Health Report every four years with the new term of council; and

Direct the Executive Director of Finance to report back on updating the financial policies, including any phase-in recommendations and the associated financial impacts.

Purpose:

- Address goal, action or initiative in strategic plan
- Establish new or revised policy or service standard
- Respond to legislation
- Respond to staff direction
- Address other area of responsibility

The purpose of this report is to provide Committee and Council with a summary of the '2010 Financial Conditions Assessment and Financial Policy Update Report' for the City of Burlington prepared by BMA Management Consulting Inc. (copy provided under separate cover). The consultants will be providing a presentation to the Budget and Corporate Services Committee on July 12, 2011.

Reference to Strategic Plan:

N/A

Background:

F-20/07 City of Burlington Financial Health Report

Discussion:

BMA Management Consulting Inc. (BMA) was retained by the City to undertake a financial condition assessment and to make recommendations to update the City's financial policy framework. BMA has provided a detailed report (BMA report) which is provided under separate cover which presents an analysis of the city's current financial position, as well as observations and an analysis of the city's existing financial policies.

Summarized under the "Financial Condition Assessment" section of this report (F-24-11) are highlights of BMA's evaluation of the City's financial condition. The remainder of the report provides a summary of the financial policies proposed by BMA for inclusion in the City's existing policy framework.

FINANCIAL CONDITIONS ASSESSMENT

The intent of the BMA report is to provide a systematic process to monitor and evaluate a municipality's financial outlook and performance. The BMA report provides an analysis of the city's financial position using a number of recognized financial indicators, which are structured into the following three key sections:

- Growth related indicators
- Reserve, reserve funds and debt indicators
- Financial position and taxation indicators

The BMA report also includes an analysis of Burlington against recognized industry standard benchmarks, provides historical trend information, as well as a comparison to six other municipal comparators (Oakville, Markham, Oshawa, Kitchener, St. Catharines, and Whitby). In the previous study (2007), Richmond Hill was also used as a comparator; however, their financial data was not available at the time of preparing the report.

For each of the three key sections noted above this report summarizes in a table the recognized financial indicators for Burlington based on the consultants review. In addition, a comparison to the 2007 results is provided to denote changes. The summary tables reflect the City's financial position as follows:

- **Positive:** an alignment with the City's goals, policies and industry standards
- **Negative:** a negative trend or a misalignment with the goals, policies, and industry standards
- **Neutral:** a situation where the City is outperforming its municipal comparators but is not yet fully aligned with the City's goals, policies and industry standards or where detailed information is not available
- **Warning:** indicates that a trend has changed from a positive direction and is going in a direction that may have an adverse effect on the City's financial condition. This is also used to indicate that, although a trend may appear to be positive, it is not yet in conformance with the City's goals, policies or industry standards

Growth Related Indicators – Summary

Growth related indicators encompass various economic and demographic characteristics including population, employment, personal income, assessment and business activity. Overall, the City of Burlington has a number of positive growth related indicators as follows:

Indicator	2010 Result	Comments	2007 Result
Labour force	Neutral	Negative trend but higher level of employment than Ontario average	Positive
Household income	Positive	Increasing at a faster pace than municipal comparators	Positive
Building activity	Positive	Good balance between residential/ non-residential development	Positive
Assessment growth	Positive	Exceeded the survey average of municipal comparators in three of the four periods	Positive
Assessment per capita	Positive	Indication of richness of assessment base to raise taxes	Positive
Unweighted assessment composition	Positive	Growth in commercial assessment and good balance in development	Positive

Highlights

- Over the last five years the City experienced slightly lower than average building permit activity in comparison to the other municipalities in the comparator group
- Residential / non-residential construction activity is a 60/40 split (over the last five years) representing a good balance between residential and non-residential development and the city is consistent with the average across the municipal comparators
- The City's weighted assessment is the second highest in the survey, an indicator of the community's ability to pay for services and support municipal programs

Reserves & Debt Indicator - Summary

Reserves and debt policies are a critical component of a municipality's long term financial plan and health. The City's reserves and reserve funds have increased 73% since 2006 (prior to commitments). As a result indicators in some of the following areas have improved when compared to the 2007 BMA financial health report.

Indicator	2010 Result	Comments	2007 Result
Consolidated Reserves & Reserve Funds	Warning	Upward trend, however a number of areas are not fully funded	Neutral
Stabilization Reserves & Reserve Funds	Positive	Within benchmark range (10-15%) but towards the lower end	Negative
Capital Reserves & Reserve Funds	Warning	Improving	Warning
Vehicle & Equipment Reserve Funds	Positive	All vehicles are depreciated and contributions are made to reserves	TBD
Transit related Reserve Funds	Warning	Total reserve fund balance has decreased 46% since 2006	TBD
Corporate Reserves & Reserve Funds	Warning	Employee Accident and the Benefits Reserve Funds are underfunded, but improving	Warning
Program Specific Reserves & Reserve Funds	Neutral	Each reserve needs to have a policy developed to identify uses and funding sources	Neutral
Local Boards Reserve Funds	Neutral	N/A	Neutral
Debt Outstanding per \$100,000 of Assessment	Positive	Close to the survey median	N/A
Debt to reserve ratio	Positive	Within industry benchmarks	Positive

Highlights

- Reserves as a percentage of taxation is at the survey average
- Unfunded liabilities exist in the city's corporate reserves, similar to a number of municipalities. Need to ensure that the liability is gradually addressed to ensure it does not continue to grow

Financial Position and Taxation Indicators - Summary

A municipality's financial position is defined as the total fund balances less the amount to be recovered in future years associated with long term liabilities.

Indicator	2010 Result	Comments	2007 Result
Financial position per capita	Positive	Higher than municipal comparator average Continue to review trend	Positive
Operating Surplus (Accounting)	Warning	Not sufficient to fully address capital requirements	N/A
Taxes Receivable as a % of Taxes Levied	Positive	Significantly lower than municipal comparators average	Positive
Total Tax Burden – Residential (bungalow)	Positive	Below the comparator average	Positive
Total Tax Burden – Residential (executive)	Positive	Close to comparator average	Neutral
Total Tax Burden – Multi-Residential High Rise	Warning	Driven by higher tax ratio	Warning
Total Tax Burden – Neighbourhood Shopping	Warning	Higher than comparator average	Positive
Total Tax Burden – Standard Industrial	Positive	Below the comparator average	Neutral
Taxes as a % of Income	Positive	Below the comparator average	N/A

Highlights

- The City of Burlington's financial position per capita increased 14% over the last five years
- The tax burden tends to be low-mid for all property classes with the exception of multi-residential and neighbourhood shopping
- Property taxes as a percentage of household income in Burlington are the second lowest in the survey of municipal comparators
- Tax receivables as a percentage of taxes levied is the lowest among municipal comparators

FINANCIAL POLICY FRAMEWORK

The City of Burlington has extensive financial policies and procedures. The BMA report provides recommendations to build upon the policies already in place in order to ensure fiscal sustainability and maintain flexibility to address changing conditions. The following is a summary of BMA's proposed financial policy updates. These policies are recommended to either formalize existing policies and practices or to introduce new parameters into existing policies.

PROPOSED POLICIES

Stabilization Reserves & Reserve Funds

Recommended target balances for the following reserve funds:

Reserve Fund	Recommended Target	Policy Recommendations
Tax Stabilization Reserve & Reserve Funds	10% to 15% of the City's own source revenues	<ul style="list-style-type: none"> Excludes Building Permit Stabilization Reserve Fund balance & building permit revenues
The Building Fee Stabilization Reserve Fund	163% of total direct operating expenditures	<ul style="list-style-type: none"> When the reserve fund exceeds the target and remains above the ceiling for two years or more undertake an analysis of forecasted construction activity If reserve fund balance is forecast to remain above target, undertake a fee review with an overall objective of adjusting the fees accordingly
The Severe Weather Reserve Fund	Equal to one year's expenditure requirements	<ul style="list-style-type: none"> Maintain a minimum balance of 25% of the five year average of winter maintenance costs (adjusted for inflation)

With the exception of the Building Permit Stabilization Reserve Fund, all stabilization reserve funds will only be used for extraordinary one-time or temporary expenditures including previous years operating deficits.

Capital Reserves & Reserve Funds and Asset Management

Policy Recommendations	
Asset Maintenance	<ul style="list-style-type: none"> Maintain all infrastructure in a state of good repair by implementing life cycle costing Provide annual contributions to the replacement reserves to fund the future rehabilitation/ replacement of assets
Use	<ul style="list-style-type: none"> To fund the replacement or refurbishment of <u>existing assets</u> New assets related to growth or program enhancements will be budgeted for and financed separately
Funding	<ul style="list-style-type: none"> Capital Reserves and Reserve Funds for asset replacement will be funded through calculated annual contributions from the operating budget based on capital replacement costs A phase-in strategy should be developed for inclusion in the annual preparation of the operating and capital budgets (subject to affordability)

Policy Recommendations	
New Assets	<ul style="list-style-type: none"> Continue to prepare a multi-year operating forecast to identify the impact of new facilities and infrastructure, including a contribution for the replacement of the assets in the future using lifecycle costing If new assets are funded through debt, annual contributions to the reserve and reserve funds will be made once the debt repayments are complete
Repayment to Capital Reserve Funds	<ul style="list-style-type: none"> New assets financed from the Capital Reserves and Reserve Funds will be repaid, including interest, to the reserve from future operating budgets over the life of the asset to help ensure that sufficient funds are available for the replacement and refurbishment of all existing assets As new assets are acquired by the city, an annual contribution to the reserve and reserve funds will be made based on the annual amortization and lifecycle costing

Corporate Reserves & Reserve Funds

Contributions to the Corporate Reserves and Reserve Fund should take into consideration the liability associated with the reserves and reserve fund. A sufficient budget allocation is required to fund the WSIB costs and benefits so that the Employee Accident Reserve Fund and Benefits Reserve Fund can eventually be replenished to cover the liabilities.

Reserve & Reserve Fund	Policy Recommendations
Corporate Reserves/Reserve Funds	<ul style="list-style-type: none"> Prepare a financial plan to ensure that there are adequate funds to sustain the operation Review plans annually in conjunction with the budget process
Employee Accident Reserve Fund	<ul style="list-style-type: none"> An actuarial valuation will be prepared every three years The contributions from the operating budget will be based on the average of the prior three year WSIB expenditure history including claims resulting from fire fighter presumptive legislation (adjusted for inflation) Ensure that the Employee Accident Reserve Fund target balance will be maintained at a minimum of 30% of the liability
Insurance Reserve	<ul style="list-style-type: none"> Overall target of maintaining a balance of two years claims expense (based on a five year history) Annual contribution will be at least equal to the annual premium

Program Specific Reserves & Reserve Funds

Program Specific Reserves and Reserve Funds should be reviewed annually and have an associated financial plan to ensure that the reserve/ reserve fund continues to be required. Financial plans have not been prepared and/or updated for all Program Specific Reserves/Reserve Funds.

Policy Recommendations	
Need and Funding	<ul style="list-style-type: none"> • A financial plan will be prepared for all Program Specific Reserves/Reserve Funds to ensure that there are adequate funds to sustain the program requirements • Plans will be reviewed annually in conjunction with the budget process or as conditions change
Use	<ul style="list-style-type: none"> • Spending from any Program Specific Reserves/Reserve Funds in any one year will not exceed the uncommitted balance in the reserve fund at the end of the preceding year
Closure	<ul style="list-style-type: none"> • Upon conclusion of program specific projects, recommendations will be made to close the Program Specific Reserves/Reserve Funds and transfer any remaining balance to a Reserve(s) with the greatest need or as permitted by legislation

Development Charge Reserve Funds

In addition to the Development Charge (DC) debt borrowing provisions in the existing policy, the following additions are recommended:

- Development charges will be applied to the full extent permitted by the legislation
- Multi-year cash flows for DC Reserve Funds will be provided to Council as part of the Capital Budget deliberations
- On a consolidated basis, Development Charge Reserve Funds must maintain a positive balance
- Where debentures are issued on behalf of development charges, the City will separately track the repayments to be recovered from future DC revenues (including interest)

Debt Management

A debt management policy improves the quality of decisions, identifies policy goals and demonstrates a commitment to long-term financial planning, including a multi-year plan. Burlington's debt outstanding to reserve ratio in 2009 was 0.9:1, considered good by industry standards. Also, Burlington's debt outstanding per \$100,000 of assessment is close to the survey median.

Policy Recommendations	
Uses	<ul style="list-style-type: none"> • Debt funding for lifecycle projects should be reduced and ultimately eliminated • Long term debt financing should be restricted to specific project types • Debt financing should be employed as a means of financing projects related to: <ul style="list-style-type: none"> ○ New Initiatives ○ New infrastructure requirements (non-recurring) ○ Project costs not recovered from development charges
Term of Debt (Length)	<ul style="list-style-type: none"> • The term will not exceed the useful life of the underlying asset • Debt will be structured for the shortest period consistent with a fair allocation of costs to current and future beneficiaries or users • The preferred term of debt is 10 years to the extent possible, taking into consideration debt charge affordability
Debt Capacity	<ul style="list-style-type: none"> • The City's debt to reserve ratio will be 1:1 or better
Monitoring	<ul style="list-style-type: none"> • The City will monitor all forms of debt annually and include an analysis in the City's Financial Plan • Concerns and recommended remedies will be reported to Council as necessary
Retirement of Debt	<ul style="list-style-type: none"> • As debt charges decline the City will apply savings to accelerate achievement of full lifecycle costing of the City's infrastructure (pay-as-you-go).

Financial Planning

Other Policy recommendations;

- The City will maintain a financial plan to assess the long-term financial implications of current and proposed policies.
- The Operating and Capital Budgets will be aligned with the City's Strategic Plan
- Financial trends will be monitored closely through the use of key financial indicators which will be reported to Council on an annual basis as part of the budget and financial planning process

Financial Matters:

The cost of the Financial Health Report was \$18,500. Funding for this report was provided by the professional and consulting services budget within the Finance Departments budget. The financial impact of implementing the BMA recommended policies have not been fully determined, however will be reported to Committee as part of budget deliberations.

Communication Matters:

For informational purposes, the results of this study will be shared with the Treasurer's from each of the six comparator municipalities (Oakville, Markham, Oshawa, Kitchener, St. Catharines, and Whitby) as well as the Region of Halton.

Conclusion:

Overall, the City has made progress on the results in the 2007 financial health report. Specific reserve and reserve fund trends continue to reflect a warning indication, however the City's overall financial position is still positive. A key area that the City will need to monitor is the ability to maintain and replace the city's capital assets. As per the BMA report, the City is not providing a contribution to a replacement reserve for new assets, which may widen the infrastructure gap. Furthermore, once the financial condition assessment is carried out over all major existing assets, additional funding requirements may be identified.

The report provides an overview of the BMA City of Burlington '2010 Financial Conditions Assessment & Financial Policy Update Report.' It summarizes the City's financial condition using a number of recognized financial indicators to monitor and evaluate the City's financial outlook and performance. As well as providing proposed financial policy updates in order to build on the framework already in place.

Respectfully submitted,

Joan Ford
Acting Executive Director of Finance
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Appendices:

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Notifications:
(after Council decision)

Name	Mailing or E-mail Address

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Approvals:

*required

*Department

City Treasurer

General Manager

City Manager

	To be completed by the Clerks Department
Committee Disposition & Comments	
	01-Approved 02-Not Approved 03-Amended 04-Referred 06-Received & Filed 07-Withdrawn
Council Disposition & Comments	
	01-Approved 02-Not Approved 03-Amended 04-Referred 06-Received & Filed 07-Withdrawn