

City of Hamilton
2019 Consolidated Financial Statements
Analysis – June 2020

General

The City of Hamilton’s 2019 consolidated financial statements have been prepared by management and staff of the City of Hamilton in accordance with Canadian Generally Accepted Accounting Principles (GAAP) for local governments as recommended by the Public Sector Accounting Board (PSAB) of the Chartered Professional Accountants of Canada (CPA).

These financial statements, Appendix “B” to Report FCS20052, are based on the full accrual basis of accounting under the CPA Public Sector Accounting Handbook sections PS1201 Financial Statement Presentation. The consolidated statement of financial position provides a summary of the City’s financial position as of the end of the year while the consolidated statement of operations provides a summary of the financial activity during the year.

Under the full accrual basis, expenditures related to the purchase and acquisition of tangible capital assets are reported as non-financial assets on the statement of financial position rather than as expenses in the statement of operations. Amounts received that relate to expenditures of future periods are recorded as deferred revenue and reported as liabilities on the statement of financial position.

Expenses are reported on the statement of operations by functional area. Expenses are also broken out by salaries and benefits, interest on long-term debt, materials and supplies, contracted services, rents and financial expenses, external transfers, and amortization of tangible capital assets over the useful life of the assets in the Schedule of Operations for Business Segments. Expenses include the change in liabilities for post-employment, retirement and pension benefits, contaminated sites, and solid waste landfill closure and post closure care costs.

In addition to taxation and investment income, reported revenues include government grants and development charges recognized in the period as well as tangible capital assets donated to the City.

The operating and capital budgets are prepared on the modified accrual basis of accounting. Proceeds from the issuance of long term debt that are included as a source of funding in the capital budget and debt principal repayments that are included as expenditures in the operating budget are not reported in the consolidated statement of operations.

The consolidated financial statements report the financial transactions and estimates made by management during 2019. The consolidated financial statements report the City's municipal operations including all departments, Hamilton Police Services, Hamilton Library, CityHousing, Hamilton Street Railway, Hamilton Business Improvement Areas and Government Business Enterprises (Hamilton Utilities Corporation, Hamilton Renewable Power Inc. and Hamilton Enterprises Holding Corporation), Flamborough Recreation Sub-Committees, Confederation Park and Hamilton Farmer's Market.

The Consolidated Financial Statements consist of:

- Consolidated Statement of Financial Position
- Consolidated Statement of Operations
- Consolidated Statement of Changes in Net Financial Assets
- Consolidated Statement of Cash Flows
- Notes to the Consolidated Financial Statements

Consolidated Statement of Financial Position

The Consolidated Statement of Financial Position consists of financial assets, liabilities, non-financial assets and accumulated surplus.

Financial Assets

The City's total financial asset position increased in 2019 by \$66.8M to \$1.848B and is reported in the consolidated financial statements as:

	<u>2019</u> \$000's	<u>2018</u> \$000's
Financial Assets		
Cash and cash equivalents	\$ 187,704	\$ 130,292
Taxes receivable	86,309	80,972
Accounts receivable	131,232	119,048
Other assets	1,473	1,418
Long term receivables	47,379	63,573
Portfolio investments	1,069,908	1,056,507
Investment in Government Business Enterprises	<u>323,851</u>	<u>329,237</u>
Total financial assets	<u>\$ 1,847,856</u>	<u>\$ 1,781,047</u>

Cash and cash equivalents \$187.7M (2019) \$130.3M (2018)

The total represents the balance in City's bank accounts, deposits held and CityHousing short term investments. The bank accounts mainly consists of the City's operating bank, accounts payable bank, payroll bank, Ontario Works bank, and CityHousing Hamilton bank. The balance increased in 2019 from 2018 as more money was held in the bank at year end.

Taxes Receivable \$86.3M (2019) \$81M (2018)

Taxes receivable represent unpaid property tax bills net of estimates for allowances for uncollectible accounts. Taxes receivable represent 7.7% of current year's tax levies (2018 – 7.3%). The 2019 balance includes an allowance for doubtful accounts of \$1.9M (2018 - \$2.9M).

Accounts Receivable \$131.2M (2019) \$119M (2018)

Accounts receivable represents revenues earned by the City but not received at year end net of estimates of allowances for uncollectible accounts. The 2019 balance primarily consists of water and wastewater receivables (\$51.1M), general receivables & accruals (\$20.1M), HST receivables (\$9.9M), provincial and federal grants receivable (\$14.5M) and interest receivable (\$4.7M).

Long Term Receivables \$47.4M (2019) \$63.6M (2018)

Long term receivables represent the balance of loans and deferral agreements with agencies and organizations net of the provision for loans with concessionary terms. The long term receivables include:

	<u>2019</u> \$000's	<u>2018</u> \$000's
Development charge deferral agreements	\$30,012	\$37,253
Mortgages receivable:		
Downtown convert to rent program	5,425	13,043
Hamilton Utilities Corporation	6,480	6,804
Hamilton Renewable Power Inc.	0	278
Sheraton Hotel loan	755	868
Other City loan programs	3,764	3,987
Loans to other agencies and organizations	3,632	4,211
Less: Provision for loans with concessionary terms	<u>(2,689)</u>	<u>(2,871)</u>
	<u>\$47,379</u>	<u>\$63,573</u>

Portfolio Investments \$1.07B (2019) \$1.057B (2018)

Portfolio investments represent the City's holdings, as prescribed by the Municipal Act, in short and long term fixed income securities. The investments earn various interest rates with different premiums, discounts and maturities. Portfolio investments have a market value of \$1.097B.

Investment in Government Business Enterprises \$323.9M (2019) \$329.2M (2018)

Investment in Government Business Enterprises represents net equity of the consolidation of the City's subsidiary corporations, Hamilton Utilities Corporation (HUC), Hamilton Renewable Power Inc. (HRPI) and Hamilton Enterprises Holding Corporation (HEHCO). The consolidation of subsidiary corporations under the modified equity basis of accounting is required by the generally accepted accounting principles of the Public Sector Accounting Board (PSAB) of the Chartered Professional Accountants of Canada (CPA). This PSAB recommendation was instituted in 2000. This also affects the reporting of the accumulated surplus and net municipal position in the consolidated financial

Liabilities

	<u>2019</u>	<u>2018</u>
	\$000's	\$000's
Liabilities		
Accounts payable and accrued liabilities	\$ 339,830	\$ 323,521
Deferred revenue - general	42,542	45,196
Deferred revenue - obligatory reserve funds	331,278	237,055
Long term liabilities – municipal operations	385,742	432,088
Long term liabilities – CityHousing Corporation	46,967	52,803
Employee future benefits and other obligations	372,695	373,177
Solid waste landfill liabilities	<u>71,420</u>	<u>71,559</u>
Total liabilities	\$ 1,590,474	\$ 1,535,399

Accounts payable and accrued liabilities represent obligations owing by the City to third parties and employees at year end. The balance primarily consists of amounts payable to vendors and contractors (\$202.8M), payroll accruals (\$22.6M), security deposits (\$41.5M), amounts for insurance claims (\$18.3M), and the present value of the City's commitment to the Randle Reef remediation project (\$1.9M).

Deferred revenue represents amounts received that will be recorded as revenue in future years to match expenditures incurred for goods received and services performed. The balance primarily consists of federal and provincial government grants and subsidies (\$5.9M), future urban roads (\$14.9M), CityHousing (\$4.2M), general deferred (\$4.2M), and forestry (\$5.2M).

Deferred revenue – Obligatory reserve funds represents amounts received that will be recorded as revenues in future years to match expenditures incurred for goods received and services performed. The balance includes:

	2019	2018
	\$000's	\$000's
Development charge reserve funds	\$186,994	\$128,146
Recreational land dedicated under the Planning Act	56,154	42,763
Gasoline tax revenue: Provincial	9,699	17,332
Federal	54,846	27,604
Building Permit Revenue	23,493	20,700
Other (Main Street Revitalization)	92	510
	<u>\$331,278</u>	<u>\$237,055</u>

Development charge and special area reserve fund balances increased in 2019. The increase is made up of \$116.4 million in collections less transfers to finance capital projects of \$49.4 million and transfers to operating of \$11.3 million. During 2019 the City received and accrued federal gas tax transfers of \$66.3 million and provincial gas tax transfers of \$2.9 million. Federal gas tax was allocated for capital upgrades to roads and bridges for \$38.2 million and to transit for \$2 million. The provincial gas tax was allocated to transit related projects for \$0.03M and transit operating budget \$10.9M. During 2019 the City received parkland dedication fees of \$15.4 million and \$3.7 million was allocated to capital projects for future development of city parks. Approximately \$2.3 million of the surplus building permit revenue in 2019 was transferred to the building permit revenue reserve fund. "Other (Main Street Revitalization)" refers to a reserve established with one-time funding from the provincial government to support revitalization activities within Main street areas.

Long Term Liabilities – Municipal Operations \$385.7M (2019) \$432.1M (2018)

Long term liabilities – Municipal operations represents the outstanding principal for long term debt issued to finance capital expenditures and obligations for leased tangible capital assets. In 2019, the City made principal repayments on long term debt of \$45.7M (2018 - \$37.7M) and principal repayments on leased tangible capital assets of \$0.6M (2018 - \$0.6M). No new debt was issued in 2019 for capital projects (2018 – \$110.8M).

Long Term Liabilities – CityHousing Operations \$47M (2019) \$52.8M (2018)

Long term liabilities – CityHousing Operations represents the outstanding principal for loans and mortgages obtained to finance certain CityHousing capital expenditures and asset purchases. In 2019, CityHousing made principal repayments on long term debt of \$5.8M (2018 - \$5.7M).

CityHousing debenture debt issued by the Ontario Housing Corporation remains the obligation of the Province of Ontario as a result debenture debt of \$8.3M (2018 - \$11.0M) is not reported in the consolidated financial statements.

Employee Future Benefits and Other Obligations \$372.7M (2019) \$373.2M (2018)

These estimates represent the liabilities associated with employee post-employment, retirement and pension benefits. The Generally Accepted Accounting Principles recognize the liabilities in the year in which the employees provide the services associated with the benefits.

The 2019 estimates are provided by independent actuaries from actuarial valuations performed for 2019 or performed for earlier years and extrapolated for 2019. The estimates use assumptions for inflationary increases of 2% annually, a discount rate of 3% to 4.9%, payroll increases of 3%, and increases in pension plan assets of 4.4% to 4.9%. Projections for retirement benefits assumed that drug costs would increase by 8.2% in 2017 with future annual increases grading down linearly by 0.20% to an ultimate rate of 4.0% and dental costs will increase

by 4.0% annually. These liabilities are not reported net of any reserves already setup on the balance sheet in the Statement of Financial Position.

The employee future benefits and other obligations are summarized in the consolidated financial statements as:

	<u>2019</u> \$000's	<u>2018</u> \$000's
Accrued Benefit Obligation		
Sick leave benefit plan	\$ 58,789	\$ 57,470
Long term disability plan	33,431	27,869
Workplace safety and insurance board liabilities (WSIB)	97,787	93,436
Retirement benefits	153,571	151,311
Vacation benefits	26,806	26,906
Pension benefit plans	<u>(2,196)</u>	<u>9,917</u>
	368,188	366,909
Net unamortized actuarial gain (loss)	<u>4,507</u>	<u>6,268</u>
Accrued Liability	\$ 372,695	\$ 373,177
Less: Provisions in Reserves	<u>(67,885)</u>	<u>(66,073)</u>
Unfunded Liability	\$ <u>304,810</u>	\$ <u>307,104</u>

PSAB's disclosure requirements for employee benefits and other obligations are quite extensive. Notes 10 and 11 to the Consolidated Financial Statements provide the details of the actuarial valuations, the actuarial gains and losses, payments and expenses related to these liabilities.

Actuarial gains and losses, permitted in the PSAB accounting standards, result from changes in valuation assumptions used for the current valuations versus previous valuations. The net unamortized actuarial gain of \$4.5M represents a loss in long term disability of \$5.9M, a loss in retirement benefits of \$13.5M, a loss in WSIB liabilities of \$8.5M, a loss in sick leave obligations of \$3.6M and a gain in the pension plans of \$36M. These actuarial gains and losses will be spread over future periods and recognized as expenses under the category of salaries and benefits in the Statement of Operations.

Provisions have been made in the reserves for \$67.9M (2018 - \$66.1M) to fund a portion of these liabilities. These liabilities are approximately 18% funded (2018 – 18.0%) and there is no PSAB requirement to fund the net unfunded liability portion of these employee benefits of \$304.8M from reserves or taxation at this time. These unfunded liabilities can be funded in future years as amounts are expensed in the operating budget for actual payments.

Solid Waste Landfill Liabilities \$71.4M (2019) \$71.6M (2018)

This amount represents the estimate of the liability for closure and post closure costs of the City's twelve closed and one open landfill sites. The liability is calculated by discounting the future years' expected cash outflows for the spending on eligible activities on the landfill sites. For liability calculation purposes, the open landfill site has been divided into three phases. Phase 1 closed in 2018, phase 2 has begun accepting fill and is expected to close in

2046. Construction of Phase 3 has not been initiated. It is estimated that the site will reach full capacity and close in 2055. Expenses for the post-closure care of the open landfill site are estimated for 50 years after each phase is expected to close. The City's expenses related to spending on capital projects and the change in the estimated liability are reflected in the Statement of Operations.

Waste diversion rates, waste initiatives such as the green cart program and composting, new waste technologies and ongoing assessments of the closed sites impact the landfill liabilities. The City's waste diversion rate for 2019 was 41% (2018 – 30%).

Provisions have been made in a reserve of \$1.2M (2018 - \$1.1M) to fund a portion of this liability. There is no PSAB requirement to fund the liability at this time.

Non-Financial Assets

The City's total non-financial assets position increased in 2019 by \$253.6M to \$5.954B and is reported in the consolidated financial statements as:

	<u>2019</u> \$000's	<u>2018</u> \$000's
Non-Financial Assets		
Tangible capital assets	\$5,930,788	\$ 5,676,581
Inventories	15,672	15,174
Prepaid expenses	<u>7,361</u>	<u>8,425</u>
	<u>\$ 5,953,821</u>	<u>\$ 5,700,180</u>

Tangible Capital Assets (TCAs) \$5.95B (2019) \$5.7B (2018)

The City's general and infrastructure tangible capital assets include land, land improvements, buildings, vehicles, computer, other machinery and equipment, roads, bridges and structures, water and wastewater, facilities and underground infrastructure networks. The net book value of \$5.95B represents the cost of the tangible capital assets less accumulated amortization over the life of the assets. The TCA total includes amounts spent to the end of the year on tangible capital assets under construction.

A summary of the tangible capital assets valued as at Dec. 31, 2019 include:

	<u>2019</u> \$000's	<u>2018</u> \$000's
General		
Land	\$ 387,321	\$ 357,211
Land improvements	167,237	157,312
Buildings	815,472	817,598
Vehicles	148,259	137,501
Computer hardware and software	19,499	13,572
Other	93,335	95,871

Infrastructure		
Roads	1,310,342	1,293,193
Bridges and structures	181,896	184,387
Water and wastewater facilities	395,495	398,743
Underground and other networks	<u>1,986,865</u>	<u>1,861,011</u>
Net Book Value	\$ 5,505,721	\$ 5,316,399
Assets under construction	<u>425,067</u>	<u>360,182</u>
Total	\$ <u>5,930,788</u>	\$ <u>5,676,581</u>

The Schedule of Tangible Capital Assets in the Consolidated Financial Statements contains additional information on these non-financial assets. The replacement cost of assets valued as at Dec. 31, 2019 is estimated at \$23.1B.

Inventories	\$15.7M (2019)	\$15.2M (2018)
Prepaid expenses	\$7.4M (2019)	\$8.4M (2018)

Two other categories of non-financial assets are inventories of goods for use in the delivery of services and prepaid expenses for purchases made in 2019 for expenses to be incurred in 2020 and beyond.

Accumulated Surplus

Net Municipal Financial Position **\$6.211B (2019)** **\$5.946B (2018)**

The City's accumulated surplus represents the net municipal financial position in PSAB's financial statement presentation requirements for 2019. The balance is comprised of the following:

	<u>2019</u> \$000's	<u>2018</u> \$000's
Accumulated surplus (Net municipal financial position)		
Operating surplus of BIA, Flamborough Recreation sub-committee, Confederation Park	\$ 1,775	\$ 1,933
Operating surplus – CityHousing	72,343	86,500
Capital surplus – Municipal	113,897	119,822
Capital surplus – CityHousing	59,960	17,072
Reserves and Reserve Funds	665,476	709,015
Unfunded liabilities – Employee benefits	(348,328)	(348,832)
Unfunded liabilities – Landfill sites	(71,420)	(71,559)
Investment in Government Business Enterprises	323,851	329,237
Investment in tangible capital assets	<u>5,393,649</u>	<u>5,102,640</u>
Total accumulated surplus	\$ <u>6,211,203</u>	\$ <u>5,945,828</u>

Consolidated Statement of Operations

The Consolidated Statement of Operations represents the revenue and expenses under the PSAB format for financial statements introduced in 2009. The budget and actual revenues and expenses reported in the Consolidated Statement of Operations will not match amounts reported to Council for several reasons. The consolidated financial statements include revenues from donated capital assets, expenses from the amortization of tangible capital assets and change in unfunded liabilities which are not included in the budget. Proceeds from the issuance of long-term debt that are included as a source of funding in the capital budget and debt principal repayments that are included as expenditures in the operating budget are not reported in the consolidated statement of operations.

These financial statements reflect the transfers to reserves of the City's municipal tax and rate operating budget surplus of \$25M as reported in report FCS19055.

The annual surplus in the Consolidated Statement of Operations of \$267.9M represents the excess of revenue over expenses for 2019 under PSAB's full accrual basis of accounting and, therefore, is a different surplus than the operating budget surplus reported to Council.

Revenue decreased by \$53M to \$1.997B in 2019 from \$2.05B in 2018 and is reported in the Consolidated Statement of Operations as:

	Budget <u>2019</u> \$000's	Actual <u>2019</u> \$000's	Actual <u>2018</u> \$000's
Revenue			
Taxation	\$ 915,412	\$ 917,126	\$ 888,229
Government grants and contributions	441,934	447,833	454,774
User charges	350,781	372,145	347,637
Developer contributions earned	62,359	60,646	119,703
Donated tangible capital assets	21,715	21,715	46,862
Investment and dividend income	43,610	37,598	31,101
Net income from Government Business Enterprises	-	11,262	24,285
Other	<u>105,020</u>	<u>128,764</u>	<u>137,476</u>
Total revenue	\$ <u>1,940,831</u>	\$ <u>1,997,089</u>	\$ <u>2,050,067</u>

The increase in taxation revenue includes the 2019 Operating Budget property tax increase of 3.15%.

Government grants and contributions revenues decreased by \$6.941M in 2019 from 2018. Significant government grants and contributions for operating budget programs and capital projects include:

	<u>2019</u> \$ 000's	<u>2018</u> \$ 000's
General government	\$1,697	\$ 2,062
Protection services	9,751	8,743
Transportation services	52,898	58,980
Environmental services	40,645	27,356
Health services	58,785	57,898
Social and family services	234,556	245,885
Social housing (after consolidations)	40,356	48,728
Recreation and cultural services	4,767	3,397
Planning and development	<u>4,378</u>	<u>1,725</u>
Total Funding	<u>\$447,833</u>	<u>\$ 454,774</u>

User charges of \$372.1M primarily consist of water and wastewater revenues of \$235.4M (\$210.8M in 2018) and transit fares and fees of \$66M (\$59.4M in 2018). Other user fees are recorded in recreation & cultural services of \$24.2M (\$23.3M in 2018), Social and family services of \$16.9M (\$16.3M in 2018), Waste diversion & disposal of \$8.6M (\$9.8M in 2018), planning and development of \$10.7M (\$12.2M in 2018) and protection services of \$6.2M (\$5.9M in 2018).

Development charges and sub-dividers contributions of \$60.6M was recognized as revenue in 2019 while unearned revenue is recorded as deferred revenue on the Statement of Financial Position.

Donated tangible capital assets of \$21.7M represent assets that were donated or contributed to the City by developers and recorded as revenue as per PSAB accounting standards.

Investment and dividend income consist of investment income of \$37.6M from City municipal and CityHousing operations from fixed income securities, bank balances and deposits.

Net income from Government Business Enterprises represents net income of \$11.3M from HUC, HRPI and HEHCO for 2019 (\$24.3M in 2018). This includes dividends to the City in 2019 of \$14M from HUC (\$11.4M in 2018) and \$0.1M from HRPI (\$0.1M in 2018). The other comprehensive income (loss) from Government Business Enterprises was a loss of \$2.6M in 2019 (2018 - \$39.7M loss) and represents the re-measurement gains and losses arising from HUC.

Other Revenue of \$128.8M represents revenue from licenses and permits of \$23M (\$21.1M in 2018), rents of \$45.4M (\$44.3M in 2018), fines and penalties of \$29.9M (\$30.7M in 2018) and other miscellaneous revenue of \$30.5M (\$41.4M in 2018).

Expenses decreased by \$34.7M to \$1.729B in 2019 from \$1.764B in 2018 and are reported in the Consolidated Statement of Operations as:

	Budget <u>2019</u> \$000's	Actual <u>2019</u> \$000's	Actual <u>2018</u> \$000's
Expenses			
General government	\$ 70,503	\$ 66,626	\$ 80,025
Protection services	325,029	330,258	324,227
Transportation services	344,165	337,719	320,005
Environmental services	257,790	252,778	284,271
Health services	105,749	106,057	102,868
Social and family services	320,347	309,361	316,819
Social housing	118,229	97,131	105,893
Recreation and cultural services	172,605	176,949	172,965
Planning and development	<u>57,510</u>	<u>52,263</u>	<u>56,785</u>
Total expenses	<u>\$1,771,927</u>	<u>\$ 1,729,142</u>	<u>\$ 1,763,858</u>

Expenses are summarized by the functional categories above in the Statement of Operations and by object of expenses in the schedule of operations for business segments in the notes to the Consolidated Financial Statements. Expenses include salaries and benefits, interest on long term debt, material and supplies, contracted services, rents and financial expenses, external transfers, amortization of tangible capital assets and inter-functional transfers. Expenses include expenses in the operating budget programs and expenses from specific projects in the capital budget that are not tangible capital assets. Expenses exclude principal repayments on long term debt recorded as reductions of long term debt and capital expenditures recorded as acquisitions and construction of tangible capital assets.

Expenses are summarized in the following categories as:

	<u>2019</u> \$ millions	<u>2018</u> \$ millions
Salaries and benefits	\$ 797.6	\$ 780.1
Interest on long term debt	13.8	12.7
Materials and supplies	203.3	207.7
Contracted services	309.6	342.0
Rents and financial expenses	31.1	34.5
External transfers	168.5	190.5
Amortization	<u>205.2</u>	<u>196.4</u>
Total	<u>\$1,729.1</u>	<u>\$1,763.9</u>

Primary drivers for the decrease in expenses relate to the increase of \$17.5M in salaries, decrease of (4.4M) in materials, decrease of (\$32.4M) in contractual services, decrease of (\$3.4M) in rents and financials, decrease of (\$22M) in external transfers, increase of \$8.8M related to amortization.