



The Corporation of the Town of Milton

Report To: Council

From: Glen Cowan, Chief Financial Officer / Treasurer

Date: November 4, 2024

Report No: ES-033-24

Subject: Operating Budget Review - September 2024

Recommendation: THAT the operating report for the nine months ending September 2024 along with a projected surplus of \$3.2 million be received for information.

THAT the Financial Management Policy No. 116 - Treasury be updated to re-classify the DBIA Reserve to the DBIA Reserve Fund, with an effective date of January 1, 2024 for the purpose of interest allocation, as described further in the report below.

EXECUTIVE SUMMARY

This report provides a detailed review and update of the operating budget through September 2024 with the following information of note:

- Current forecasting suggests that the operating fund will be in a surplus of \$3.2 million for year end, primarily related to increased transit ridership and revenues, staff gapping as well as savings in winter maintenance activities.
- Gross investment income is expected to be \$4.1 million greater than budget due largely to a higher than budgeted average portfolio balance.
- Reserve balances are expected to be \$39.5 million higher than anticipated due to shifts in timing of capital spending, savings on awards and re-financing of projects with grant funding received from other levels of government.

The financial position of the Town will continue to change throughout the balance of the year due to factors such as weather conditions, utility and fuel usage and rates, and position vacancies.



EXECUTIVE SUMMARY

A minor amendment is recommended to the Town’s Treasury Policy to restate the DBIA fund from a reserve to a reserve fund for the purpose of interest allocation.

REPORT

Background

Corporate Policy No. 113: Financial Management - Budget Management identifies that a comprehensive review of the Town’s operating budget will be undertaken in association with its September 30 balances. Corporate Policy No. 116: Financial Management - Treasury as well as Ontario Regulation 438/97 require that reporting to Council on the investment portfolio must be done at least annually. This report is to satisfy the requirements as set out in those policies.

Discussion

Operating Budget Monitoring for the period ending September 30, 2024

The following table reflects forecasted variances to the 2024 budget by department based on expectations for program delivery for the remainder of the year.

Table with 4 columns: Department, 2024 Approved Budget \$, Forecast Changes (Surplus)/Deficit \$, 2024 Forecast \$. Rows include Mayor & Council, Executive Services, Corporate Services, General Government, Community Services, Development Services, Library, Hospital Expansion, BIA, and Total Town of Milton.

Note 1 Figures include rounding and may result in minor variances to the Attached Financial Schedules

Staff are currently forecasting that the year end position of the Town will be a \$3.2 million surplus for 2024.

The surplus is largely driven by \$0.87 million in expected savings from staff vacancies combined with Transit savings of \$0.87 million, primarily due to increased ridership and associated GO Transit fare integration subsidies. Further contributing to the surplus are increased development application revenues of \$0.60 million due to timing of applications, anticipated savings in winter maintenance of \$0.55 million due to a lighter winter, and a



Discussion

higher than anticipated volume of recreation program activity resulting in an anticipated net revenue increase of \$0.5 million.

Detailed commentary on variances by department can be found in Appendix 2.

Balance Sheet Monitoring as at September 30, 2024

Investments and Cash Management

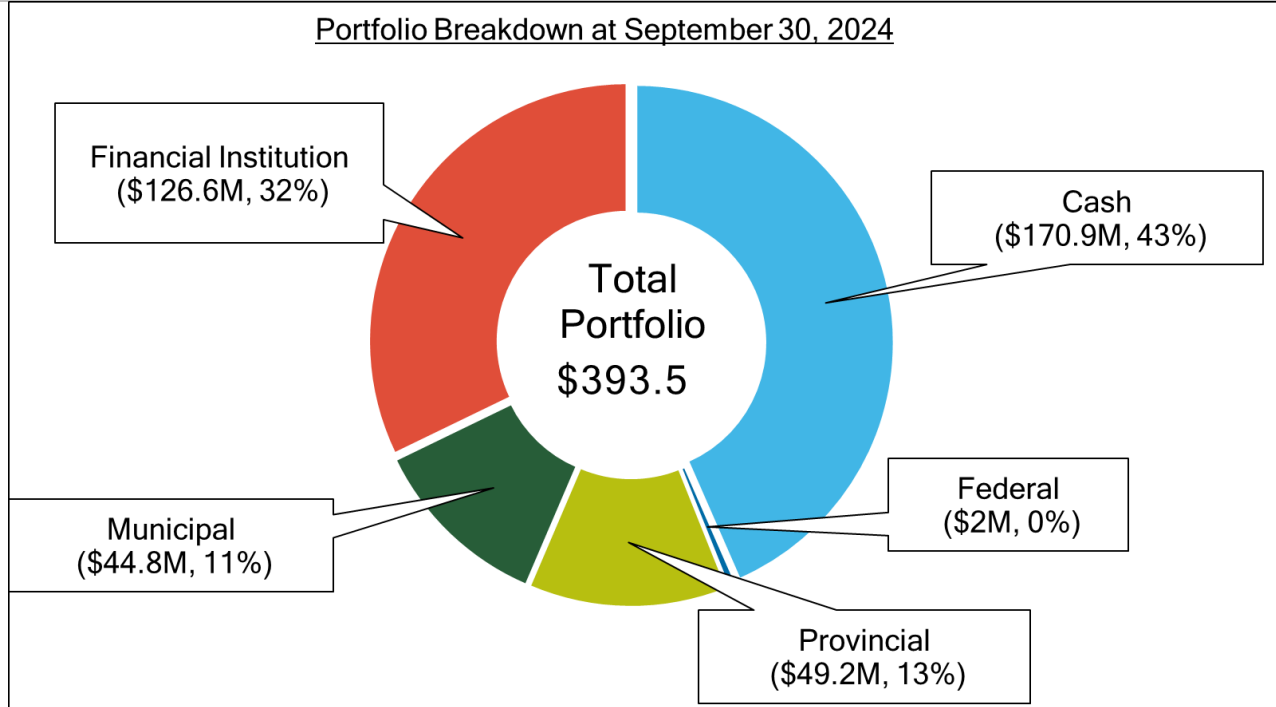
Economic Update

Throughout 2024, the Bank of Canada (BOC) started to move towards a less restrictive monetary policy by decreasing the overnight rate from 5.00% at the beginning of the year to 4.25% as of September 4, 2025. With inflation starting to cool economists are projecting further reductions in the overnight rate through 2025. As the BOC lowers the overnight rate the Town will receive lower interest returns on cash balances and fixed income products as future expectations get built in to the yield curve. Staff will continue to monitor market conditions for the purposes of making medium and longer term investments as opportunities become available while managing maturities to expected cash outflows and ensuring appropriate diversification is maintained.

Portfolio Summary / Cash and Investment Positions

A summary of the overall portfolio as of September 30, 2024 is shown in the chart below and a detailed comparison of the limitations on holdings, as set out in Financial Management - Treasury Policy No. 116, is included in Appendix 3. All securities held in the first nine months of 2024 satisfied the Town's credit rating requirements.

Discussion



The Town is currently carrying over 40% of its portfolio balance in cash due to upcoming capital project expenditures and timing of tax collections and payments. As market opportunities arise the Town continues to invest to take advantage of the elevated interest rates, compared to recent years, as illustrated in Appendix 4. Through report CORS-024-22, Council approved an expansion to the list of eligible investments for the Town that would allow for exposure to the equity market through the ONE equity fund. At this time, no investments have been made in that fund and it is expected that when the introduction of that investment product does occur, it will be undertaken on a phased basis.



2024 Investment Income Forecast

Due to market conditions and a higher than expected portfolio balance, current projections estimate gross investment income to be \$15.0 million for the year, which is \$4.1 million higher than what was incorporated into the 2024 budget. The additional investment income will have no impact on the operating budget in 2024 as it will be allocated to reserves at year end in accordance with the Town's Treasury Policy, where it will be available for future investment by Council. Changing market conditions may create forecast adjustments throughout the year.

Property Tax Collection

The Town of Milton collects property taxes for the Town, Region of Halton and the Halton Boards of Education as legislated under the Municipal Act, 2001. The following table provides an update on the Town's current year tax collection up to the end of September 2024. As shown, the 2024 collection rate to date is slightly positive to the Town's historical rate.

Tax Year	Total Billable Properties	Properties with Arrears as of Oct 3	Final Tax Levy ¹	Current Year Collections (as of Oct 3) ¹	Current Year Past Due ¹	Current Year % Paid
2024	43,389	8,935	\$266,160,764	\$225,669,742	\$18,406,816	84.8%
2023	42,788	8,264	\$246,649,259	\$194,952,451	\$14,945,333	79.0%
2022	41,825	8,043	\$231,220,799	\$187,534,824	\$12,768,825	81.1%

¹ Includes Town, Region and Educational shares

Debenture Obligations

As of September 30, 2024 the Town has an estimated \$46.8 million in total debt outstanding. In April the Town participated in the Regional debenture issuance. The Town of Milton accounted for \$10.5 million of the \$77.5 million overall debenture issuance, with an average borrowing yield of 4.445%. The proceeds will be used to fund previously approved capital projects such as road projects (asphalt overlay, expanded asphalt, bridgework) and park redevelopments (Chris Hadfield and Moorelands).

Debenture repayments in the amount of \$5.0 million will have occurred this year, resulting in \$46.8 million in outstanding debt at the end of 2024. In addition to the debenture obligations outlined below, \$7.0 million of debt that has been previously approved by Council remains yet to be issued. Based on the status of projects with unissued debt as a funding source, cash position and market conditions, it is expected that no additional debt will be issued by the Town during 2024.



The Corporation of the Town of Milton

Discussion

Existing Debenture Obligation (\$000)	Debt at Dec 31, 2023	Principal Payments to Sep 30	New Issue	Debt at Sep 30	2024 Principal Payments Outstanding	Forecast Dec 31, 2024
Tax Supported	\$22,231	\$(3,149)	\$10,475	\$29,557	\$0	\$29,557
Capital Provision (Hospital)	6,514	(1,568)		4,947	0	4,947
Hospital Expansion (see below)	12,578	(303)		12,275	0	12,275
Total	\$41,323	\$(5,019)	\$10,475	\$46,780	\$0	\$46,780

The Hospital sinking fund debenture is held and managed by the Region of Halton, for the purposes of retiring the debt at maturity. The annual \$302,726 sinking fund contribution and the interest income to be earned on the investments of the sinking fund over 30 years were projected at the outset to fully cover the principal payment due at maturity. The balance at December 31, 2024 as shown will be further reduced by the interest earned to date on the fund which will be reported by the Region to the Town for year end.

Reserves and Reserve Funds

Reserves and reserve funds are an important element of the Town's long-term financial plan. They allow the Town 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 Town assets, provide a contingency for one-time and unforeseeable events, and provide flexibility to manage debt levels and protect the Town's financial position.

The anticipated reserve and reserve fund balances for 2024 are outlined in the table below. Balances by individual reserve and reserve funds are shown in Appendix 5.

Reserves and Reserve Funds (\$000)	As at Dec 31, 2023	As at Sep 30, 2024	Forecasted Dec 31, 2024	Surplus/ (Deficit) to Budget
Stabilization	\$22,074	\$22,067	\$22,309	\$(275)
Corporate Use	14,679	15,254	15,991	848
Infrastructure Non Growth	87,556	87,679	98,351	13,679
Infrastructure Growth	55,468	83,066	110,754	18,988
Program Specific	17,774	16,098	16,647	670
Board, Committee & Other	2,426	13,026	7,383	5,572
Total	\$199,978	\$237,191	\$271,433	\$39,480

Discussion

The forecasted 2024 balance includes projected 2024 activity as identified in the 2024 budget along with any forecasted adjustments that have been identified in 2024. Following is commentary on forecasted 2024 year end reserve balances that are expected to be significantly different than budget:

Corporate Use Reserves

The Corporate Use reserves are expected to be favourable to budget at the end of 2024 due to the higher than expected Per Unit Development Processing Fee reserve at the end of 2023 (see staff report CORS-013-24).

Infrastructure Non Growth

The Infrastructure Non Growth reserves are projecting a surplus to budget due excess funds of \$7 million in the capital Project Variance Account being returned to reserve (see staff report ES-024-24), \$0.4 million in incremental dividend income from Milton Hydro Holdings, and the contribution of excess investment income earned in 2024.

Infrastructure Growth

The Infrastructure Growth reserves are forecasting a surplus primarily due shifts in timing of capital expenditures and DC revenue collections. The DC reserve balances include the approximate \$33.9 million in cash flow assistance that was received in 2024 (see staff report CORS-016-24).

Program Specific / Board, Committee & Other

The projected variances to budget are related to timing of spending of Housing Accelerator Fund revenue received in 2024.

Discussion

Policy Update - No. 116 Treasury

The Treasury policy provides guidance to staff in the management of debt, investments and the reserves. The reserves managed by the Town are differentiated between Reserves and Reserve Funds. Reserves represent funds set aside to assist in the maintenance of the financial position of the organization or future planned initiatives, and are often funded with general revenues such as the property tax levy. Reserve Funds are typically established through by-law of Council or by the requirement of federal or provincial legislation, and often are funded from a distinct funding source. An example of a Reserve Fund is the Canada Community-Building Fund, which represents funds received from the Federal Government that can only be spent in accordance with the guidelines of the program.

In accordance with the Town's Treasury Policy No. 116, reserves do not receive an annual interest allocation, and instead only receive an allocation through Council approval (either directly or delegated). In recognition of their distinct funding sources, and in some cases legislative or contractual requirements, Reserve Funds receive an annual interest allocation.

The DBIA fund currently is set up as a reserve and, as such, has not historically received an interest allocation. Given that the DBIA fund is managed separately by the DBIA Board and funded through a separate levy that is exclusive to DBIA properties, staff recommend a minor amendment to the Reserve and Reserve Fund definitions of the Treasury Policy. This amendment will re-classify the BIA fund as a reserve fund rather than a reserve, effective January 1, 2024. This change will result in interest income being allocated to this fund going forward. The allocations of interest income to reserves funds are completed at year end by applying the average annual return of the Town's portfolio to the average balance in each reserve fund. It is estimated that approximately \$10,000 of interest may be allocated to the DBIA fund for 2024.



Financial Impact

The September 2024 variance review process suggests that the operating fund may be in a surplus position of \$3.2 million for 2024. The financial position of the Town will continue to change throughout the balance of the year and may be impacted by factors including weather related activity, utility and fuel usage and rates, tax write-offs, the pace of growth and staff vacancies, among other items.

The results of variance review process will be used to inform the remainder of the Town's activities in 2024 as well as the 2025 Budget process. Council will have an opportunity to determine the allocation of the projected 2024 year end surplus as part of the year end operating report, which is typically presented around the end of the first quarter each year.

The adjustment to the Treasury Policy to reclassify the DBIA reserve to a reserve fund, if approved, will result in a reallocation of interest income from the Town to the BIA in an estimated amount of \$10,000 for 2024.

Respectfully submitted,

Glen Cowan
Chief Financial Officer / Treasurer

For questions, please contact: Jennifer Kloet 905-878-7252 x2216

Attachments

- Appendix 1 - September 2024 Operating Financial Statements
- Appendix 2 - September 2024 Operating Variance Commentary by Department
- Appendix 3 - Investment Portfolio Holdings and Limitations
- Appendix 4 - Interest Rates and Bond Yields
- Appendix 5 - Reserve and Reserve Fund Continuity Schedule

Approved by CAO
Andrew M. Siltala
Chief Administrative Officer

Recognition of Traditional Lands

The Town of Milton resides on the Treaty Lands and Territory of the Mississaugas of the Credit First Nation. We also recognize the traditional territory of the Huron-Wendat and



The Corporation of the Town of Milton

Report #:
ES-033-24
Page 10 of 10

Recognition of Traditional Lands

Haudenosaunee people. The Town of Milton shares this land and the responsibility for the water, food and resources. We stand as allies with the First Nations as stewards of these lands.