



The Corporation of the Town of Milton

Report To: Council

From: Glen Cowan, Chief Financial Officer / Treasurer

Date: July 15, 2024

Report No: ES-015-24

Subject: Operating Budget Review - May 2024

Recommendation: THAT the operating report for the five months ending May 2024 along with a projected year end surplus of \$1,302,622 be received for information.

EXECUTIVE SUMMARY

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

- Current forecasting suggests that the operating fund will be in a surplus of \$1,302,622 for year end, primarily related to increased transit ridership and revenues as well as savings in winter maintenance activities.
- Gross investment income is expected to be \$3.1 million greater than budget due largely to higher than budgeted portfolio balances.
- Reserve balances are expected to be \$2.9 million higher than anticipated, largely due to a reinvestment of excess investment income into infrastructure renewal reserves.

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.

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 May 31 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.



REPORT

Background

The revenue and expenditures that are shown in the financial statements within Appendix 1 are presented on a cash basis, and therefore exclude accruals.

Discussion

Operating Budget Monitoring for the period ending May 31, 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. It is worth noting that the departments that are presented in this table and report have been updated to reflect the organizational re-alignment that was announced earlier in 2024.

Table with 4 columns: Department, 2024 Approved Budget \$, 2024 Forecast \$, Over/(Under) Budget \$. 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 a surplus to budget of \$1,302,622 for 2024.

The expected surplus is largely driven by increased GO Transit fare integration subsidies of \$500,000, reflecting increased ridership as well as savings in winter maintenance contracts of \$318,142 due to a lighter winter. Further contributing to the surplus is increased demand for recreation programs, largely within the area of Aquatics, resulting in expected increased fee revenue of \$368,000. A shift in the timing of subdivision assumptions is expected to result in increased revenue of \$250,263 associated with the recovery of winter maintenance and streetlight costs. Increased planning application fees are contributing a further \$160,000 which is also reflective of a shift in expected timing of development activity.

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

Balance Sheet Monitoring as at May 31, 2024

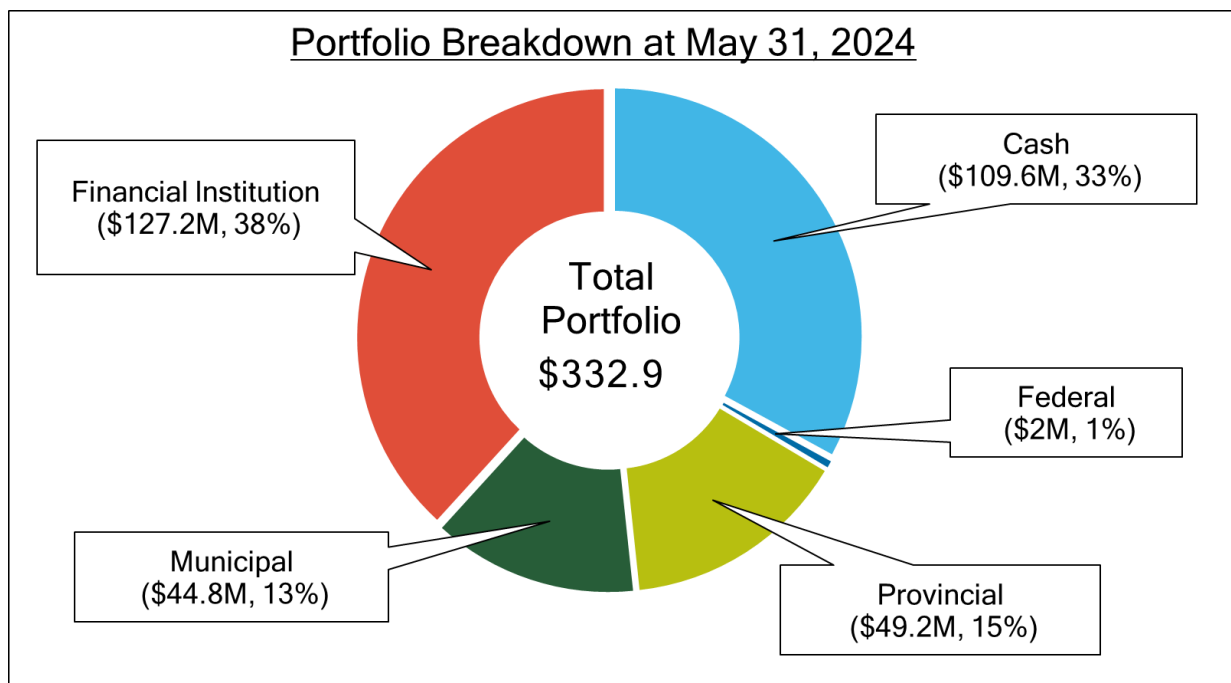
Investments and Cash Management

Economic Update

In June 2024 the Bank of Canada (BOC) started its move towards a less restrictive monetary policy by decreasing the overnight rate by 25 basis points to 4.75%. With inflation starting to cool economists are projecting a further 50 to 75 basis point reduction in the overnight rate for the remainder of 2024. Key areas of the economy the BOC continues to monitor as further interest rate decisions are made include the labour market, GDP, supply/demand and productivity. 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 May 31, 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 five months of 2024 satisfied the Town's credit rating requirements.





Discussion

The Town is currently carrying approximately 30% 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 \$14.0 million for the year, which is \$3.15 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 May 2024. As shown, the 2024 collection rate to date is generally aligned with the Town’s historical rate as we approach the third regular installment date in late June.

Tax Year	Total Billable Properties	Properties with Arrears as of Jun 3	Final Tax Levy ¹	Current Year Collections (as of June 3) ¹	Current Year Past Due ¹	Current Year % Paid
2024	43,389	5,114	\$264,549,379	\$120,539,201	\$7,738,605	45.6%
2023	42,788	4,563	\$244,413,915	\$109,972,208	\$6,508,690	45.0%
2022	41,825	4,283	\$229,583,318	\$107,111,969	\$4,946,683	46.7%
2021	40,589	4,068	\$219,102,350	\$103,299,797	\$4,692,643	47.1%

¹ Includes Town, Region and Educational shares

Debenture Obligations

As of May 31, 2024 the Town has an estimated \$48.1 million in total debt outstanding. To date, \$3.7 million in debenture repayments have occurred this year. In April the Town participated in the 1-10 year portion of a Regional debenture issuance. The Town of Milton accounted for \$10.5 million of the \$77.5 million overall debenture issuance by the Region where Milton’s portion was issued via a 1-15 year serial debenture at an all-in



Discussion

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).

For the remainder of the year the Town will have \$1.3 million in debenture principal payments 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.

Existing Debenture Obligation (\$000)	Debt at Dec 31, 2023	Principal Payments to May 31	New Issue	Debt at May 31	2024 Principal Payments Outstanding	Forecast Dec 31, 2024
Tax Supported	\$22,231	\$(1,828)	\$10,475	\$30,878	\$(1,321)	\$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	\$(3,698)	\$10,475	\$48,100	\$(1,321)	\$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.



Discussion

Reserves and Reserve Funds (\$000)	As at Dec 31, 2023	As at May 31, 2024	Forecasted Dec 31, 2024	Surplus/ (Deficit) to Budget
Stabilization	\$22,074	\$20,911	\$21,691	\$(893)
Corporate Use	14,679	15,405	16,016	873
Infrastructure Non Growth	87,556	75,352	87,951	3,279
Infrastructure Growth	55,468	87,557	91,086	(680)
Program Specific	17,774	14,554	16,204	227
Board, Committee & Other	2,426	7,969	1,891	80
Total	\$199,978	\$221,747	\$234,839	\$2,887

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:

Stabilization Reserves & Reserve Funds

Although transfers to the Building Stabilization Reserve are expected to be \$0.8 million higher than budget in 2024, the overall balance in the Stabilization Reserves shows a deficit to budget due to a lower than expected balance in the Building Stabilization Reserve at the end of 2023 (see staff report CORS-013-14).

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 largely due to an additional \$3.7 million in investment income and \$0.4 million in incremental dividend income from Milton Hydro Holdings.

Infrastructure Growth

The Infrastructure Growth reserves are forecasting a deficit primarily due to the lower than expected Capital Provision reserve balance at the end of 2023 due to the timing of development activity (see staff report CORS-013-24). While Development Charge (DC) reserves are currently projecting to be in line with budget, shifts in timing of capital expenditures and revenue collections could change as the year progresses. 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).



Discussion

Program Specific / Board, Committee & Other

The projected variances to budget are related to year end transfers that occurred in 2023 (see staff report CORS-013-24).

Financial Impact

The May 2024 variance review process suggests that the operating fund may be in a surplus position of \$1.3 million for 2024 related largely to increased GO transit fare integration subsidies as well as saving in winter maintenance. 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 the May variance review process, as well as the on-going monitoring of the Town's financial position, will be used to inform the preparation of the Town's 2025 Budget.

Respectfully submitted,

Glen Cowan
Chief Financial Officer / Treasurer

For questions, please contact: Jennifer Kloet, CPA, CA

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Attachments

Appendix 1 – May 2024 Operating Financial Statements

Appendix 2 – May 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 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.