



The Corporation of the Town of Milton

Report To:	Council
From:	Glen Cowan, Chief Financial Officer / Treasurer
Date:	December 12, 2022
Report No:	CORS-064-22
Subject:	CORS-064-22 Operating Budget Review Report - October 2022

Recommendation: THAT the operating report for the ten months ending October 2022 along with a projected year end surplus position of \$43,476 be received for information.

EXECUTIVE SUMMARY

This report provides a detailed review and update of the operating budget through October 2022 with the following information of note:

- A projected net favourable variance of \$43,476 for the year is being forecast.
- Gross investment income is expected to be \$3.7 million greater than budget due to higher than budgeted portfolio balances combined with increasing interest rates.
- Reserve balances are expected to be \$44.0 million higher than anticipated, including the Milton Hydro promissory note refinancing and return of funds to the Town in the amount of \$13.9 million.

Significant inflationary pressures have been prevalent within the economy in 2022, however the degree of impact to the Town's operating budget has been lessened as existing rates were reflected in the cost of many contracts and agreements that were in effect for most of the year. Instead the Town will incur the budget impact of many of these price escalations in 2023.

The financial position of the Town for 2022 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



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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. Due to the timing of the election in 2022 and the resulting Council meeting schedule, this report has been prepared on the basis of the most recently completed month end being October 31, 2022. Further, Corporate Policy No. 116: Financial Management - Treasury as well as Ontario Regulation 438/97 identify that reporting to Council on the investment portfolio must be done at least annually. As such updates are provided on the Town's investments concurrently with operating budget results.

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 October 31, 2022

The following table reflects forecasted variances to the 2022 budget by department based on expectations for program delivery for the remainder of the year.

Department	2022 Approved Budget \$	2022 Forecast \$	Over/(Under) Budget \$
Mayor & Council	625,712	622,055	(3,657)
Executive Services	14,570,670	14,536,746	(33,924)
Corporate Services	11,018,602	10,871,248	(147,354)
General Government	(60,256,113)	(59,102,852)	1,153,261
Community Services	29,991,062	29,760,969	(230,093)
Development Services	4,050,068	3,268,360	(781,709)
Library		-	-
Hospital Expansion		-	-
BIA		-	-
Total Town of Milton	\$	\$ (43,476)	\$ (43,476)

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

Staff are currently forecasting the Town's 2022 position will fairly close to the net budget by year end. In 2022 the Town continued to be impacted by the pandemic, largely in the area of recreation services, through the provincially mandated facility closures in early 2022 combined with a longer than anticipated recovery in service demand. Revenue losses of \$4.04 million are anticipated in the areas of recreation programs and facility rentals. These are partially offset by associated savings in the areas of part time staffing, materials and contracts in the amount of \$2.94 million. Additional grant funding totaling \$0.35 million from a combination of COVID-19 Recovery Funding, Safe Restart Transit -



Discussion

Phase 3 Funding, as well as additional funding from the Canadian Arts Presentation and Legacy Fund further mitigate the revenue losses.

Additional pressures identified that will negatively impact the Town's year end position in 2022 include a high number of winter events earlier in the year resulting in costs greater than budget of \$0.36 million, higher than anticipated costs of fuel \$0.23 million, insurance premium increases of \$0.16 million, reductions in parking ticket revenues of \$0.37 million, higher than anticipated tax write offs of \$0.61 million and reduced Provincial Offences Act revenues of \$0.14 million.

The additional pressures have been offset by savings due to staff vacancies of \$0.75 million, projected savings from reduction in hydro consumption of \$0.70 million, savings in crack sealing of \$0.35 million, additional winter maintenance and streetlight recoveries from developers due to a shift in timing of subdivision assumptions in the amount of \$0.17 million, property tax capping recoveries of \$0.12 million, savings in software maintenance of \$0.15 million, increased planning and development fee revenues of \$0.09 million, savings in corporate training and administration costs of \$0.19 million and contractual savings within the Infrastructure division of \$0.14 million.

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

Balance Sheet Monitoring as at October 31, 2022

Investments and Cash Management

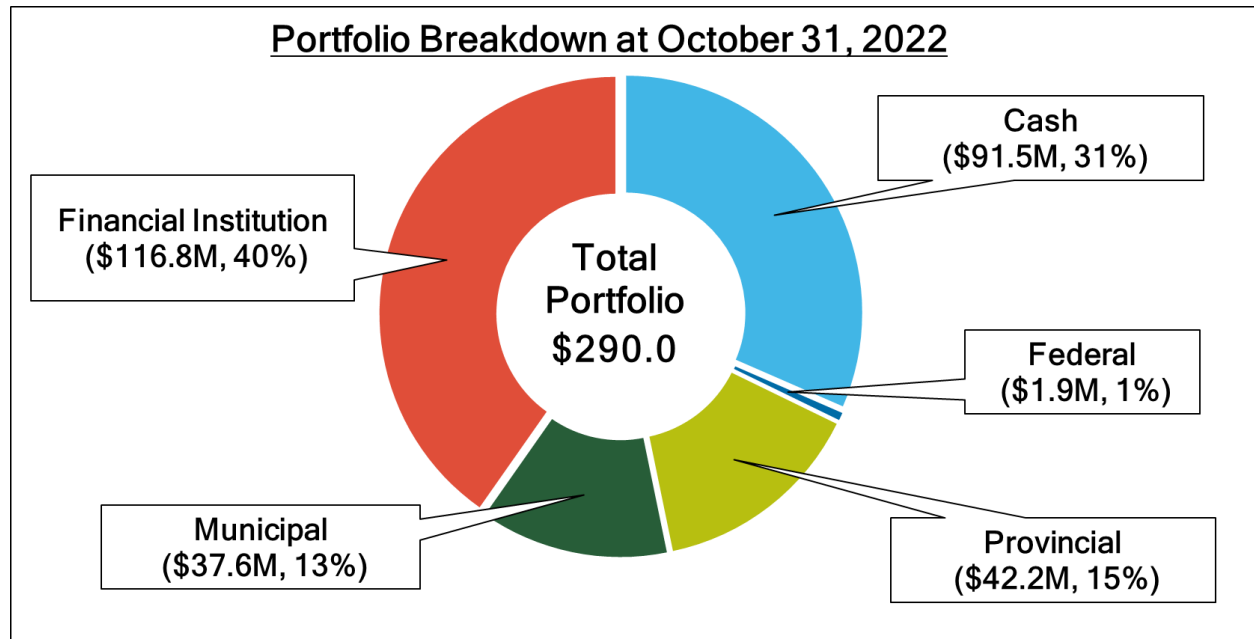
Economic Update

Throughout 2022 the Bank of Canada (BOC), along with other central banks have pursued one of the most aggressive rate-hiking cycles in history in attempts to manage elevated inflation and future inflation expectations. As shown in Appendix 3, since March of 2022 the BOC has increased the overnight rate from 0.25% to 3.75% (as of October 31, 2022) with expectations that the rate will increase further however how much further will depend on how well monetary policy is working to slow demand, how supply challenges are resolving and how inflation and inflation expectations are responding. With cracks starting to appear in the economy including a cooling housing market, inflationary pressures and high interest rates, the BOC predicts overall GDP growth for 2023 of 0.9% including a potential recession forecasted early in the year. It is also expected that inflation will gradually slow through 2023. Staff will continue to monitor the impacts of the inflationary pressures, fluctuating interest rates and the housing market slowdown throughout 2023.

Portfolio Summary / Cash and Investment Positions

Discussion

A summary of the overall portfolio as of October 31, 2022 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 4. All securities held in the first ten months of 2022 satisfied the Town's credit rating requirements. The Municipal category includes \$2.0 million of Region of Halton debentures that were purchased in June 2022.



The Town is currently carrying a high cash balance due to market conditions, upcoming capital project expenditures and timing of tax collections and payments. As market opportunities arise the Town will continue to invest to take advantage of the recent increase in rates, compared to recent years.

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.

2022 Investment Income Forecast

Due to market conditions, the rapid increase in yields since the beginning of the year and a higher than expected portfolio balance (related to the timing of capital inflows/outflows and the funds received from the Milton Hydro promissory note per CORS-006-22), current projections show the gross investment income forecast will be approximately \$6.5 million.

Discussion

This amount is \$3.7 million higher than what was incorporated into the 2022 budget. The additional investment income will have no impact on the operating budget in 2022 as it will be allocated to reserves at year end in accordance with the Town's Treasury Policy. 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 October 4, 2022. As shown, the 2022 collection rate to date is aligned with the prior year rate.

Tax Year	Total Billable Properties	Properties with Arrears as of Oct 4	Final Tax Levy ¹	Current Year Collections (as of Oct 4) ¹	Current Year Past Due ¹	Current Year % Paid
2022	41,825	8,043	\$231,220,779	\$220,025,015	\$15,226,934	86.5%
2021	40,589	7,174	\$220,493,487	\$191,244,743	\$14,329,865	86.7%
2020	39,458	4,559	\$212,617,287	\$157,998,973	\$10,393,037	74.3%

¹ Includes Town, Region and Educational shares

Debenture Obligations

As of October 31, 2022 the Town has an estimated \$47.0 million in total debt outstanding, reflecting both \$5.2 million in debenture repayments that have occurred to date in 2022 as well as a participation in the Regional debenture issuance in June 2022. As all principal payments have been completed there will be no change in the outstanding balance until year end. In addition to the debenture obligations outlined below, \$8.3 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, it is expected that no additional debt will be issued by the Town during 2022.

Existing Debenture Obligation (\$000)	Debt at Dec 31, 2021	New Issue	Principal Payments to Oct 31	Debt at Oct 31, 2022	Forecast Dec 31, 2022
Tax Supported	\$21,684	\$7,500	\$(3,138)	\$26,047	\$26,047
Reserve Fund	23	0	(23)	0	0
Development Charge	196	0	(196)	0	0
Capital Provision (Hospital)	9,551	0	(1,503)	8,048	8,048
Hospital Sinking Fund Debt - Capital Provision (see below)	13,184	0	(303)	12,881	12,881
Total	\$44,638	\$7,500	\$(5,162)	\$46,976	\$46,976

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, 2022 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.

Through staff report DS-054-22 an update to the Town's land conveyance policy and By-law was approved. To align with the updates referenced through that report the name of the Town's current Cash-in-Lieu of Parkland reserve has been updated to Payment-in-Lieu of Land Conveyance. No fundamental alteration to the purpose of the fund, funding source or intended use were made to the reserve definition other than minor housekeeping amendments to add clarity.

The anticipated reserve and reserve fund balances for 2022 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, 2021	As at Oct 30, 2022	Forecasted Dec 31, 2022	Surplus/ (Deficit) to Budget
Stabilization	\$15,126	\$26,289	\$24,287	\$7,301
Corporate Use	12,298	13,026	13,171	2,507
Infrastructure Non Growth	52,919	73,340	74,152	19,115
Infrastructure Growth	51,904	74,333	68,146	8,747
Program Specific	9,767	11,885	17,326	6,064
Board, Committee & Other	2,195	2,549	2,101	279
Total	\$144,208	\$201,423	\$199,183	\$44,014

The forecasted 2022 balance includes projected 2022 activity as identified in the 2022 budget along with any forecasted adjustments that have been identified in 2022. Following is commentary on forecasted 2022 year end reserve balances that are expected to be significantly different than budget:

Stabilization Reserves & Reserve Funds

The Stabilization reserves are expected to be favourable to budget due to higher than anticipated building permit activity, resulting in the Building Stabilization Reserve having a higher than budgeted year-end balance of \$6.4 million. The remainder of the expected surplus relates to favourable year end variances that occurred in 2021 (staff report CORS-021-22).

Corporate Use Reserves

The Corporate Use reserves are expected to be favourable to budget at the end of 2022 due to the allocation of the 2021 year end surplus (staff reports CORS-021-22 and CORS-043-22). \$3.4 million was allocated to the Legal and Insurance reserve and \$1.0 million to the WSIB reserve. Both allocations were done to help manage any future financial risks, potential liabilities and increased future costs.

Infrastructure Non Growth

The Infrastructure Non Growth reserves are projecting a \$19.1 million surplus to budget due in large part to the re-financing of the promissory note to Milton Hydro (staff report CORS-006-22) where it is expected the impact of this change will account for \$13.9 million of the surplus in the Infrastructure Roads reserve at the end of 2022. In addition, investment income is currently projecting a surplus to budget and expected to account for an additional \$1.5 million transfer to the Infrastructure Facilities reserve and an additional \$0.5 million to the Infrastructure Roads reserve. Finally, the Ontario Lottery Corporation Proceeds reserve is projecting a surplus of \$3.0 million due to higher than expected funding received at the end of 2021 and an increase of \$1.0 million in forecasted proceeds in 2022 based on current trends.

Infrastructure Growth

The Infrastructure Growth reserves are forecasting a surplus of \$8.8 million primarily due to a shift in timing of spending on capital projects budgeted to be funded from the Post Period Capacity reserve fund.

While the Development Charge (DC) Reserves are currently projecting to be \$2.5 million lower than expected due to the transfer of the Parking Development Charge Reserve funds to the Property Transactions Reserve Fund (staff report CORS-062-22) shifts in timing of capital expenditures and revenue collections could change as the year progresses.

A portion of the projected surplus compared to the 2022 budget is offset due to variances in the starting balances from what was originally anticipated along with activity throughout



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the year. The Payment-in-Lieu of Land Conveyance reserve is projected to be \$6.1 higher due to additional funds received in 2021 and in 2022 while the Capital Provision reserve is projecting a \$4.5 million lower balance due to the timing of revenue received.

Program Specific

The Program Specific reserves are forecasting a surplus of \$6.1 million primarily due the projected \$5.3 million transfer of the Parking Development Charge Reserve funds to the Property Transactions Reserve Fund that were previously mentioned along with a higher than anticipated balance in the Provincial Gas Tax reserve at the beginning of the year.

Financial Impact

The October 2022 variance review process suggests that the Town's year end position is expected to be in a surplus position of \$43,476. 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 and staff vacancies among other items.

The results of the October variance review process, as well as the on-going monitoring of the Town's financial position, was used to inform the preparation of the Town's 2023 budget.

Respectfully submitted,

Glen Cowan
Chief Financial Officer / Treasurer

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

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Attachments

Appendix 1 - October 2022 Operating Financial Statements

Appendix 2 - October 2022 Operating Variance Commentary by Department

Appendix 3 - Interest Rates and Bond Yields

Appendix 4 - Investment Portfolio Holdings and Limitations

Appendix 5 - Reserve and Reserve Fund Continuity Schedule



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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.