



The Corporation of the Town of Milton

Report To: Council

From: Glen Cowan, Chief Financial Officer / Treasurer

Date: July 17, 2023

Report No: CORS-034-23

Subject: Operating Budget Review - May 2023

Recommendation: **THAT the operating report for the five months ending May 2023 along with a projected year end deficit of \$1,300,952 be received for information.**

EXECUTIVE SUMMARY

This report provides a detailed review and update of the operating budget through May 2023 with the following information of note:

- Current forecasting suggests that the operating fund will be in a deficit of \$1,300,952 for year end, primarily related to a shift in the timing of planning applications and the Town's winter maintenance activities.
- Gross investment income is expected to be \$2.5 million greater than budget due to higher than budgeted portfolio balances combined with increasing interest rates.
- Reserve balances are expected to be \$9.5 million higher than anticipated, largely due timing of capital projects, higher than anticipated dividends from Milton Hydro and additional investment income.

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.

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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 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, 2023

The following table reflects forecasted variance to the 2023 budget by department based on expectations for program delivery for the remainder of the year.

Table with 4 columns: Department, 2023 Approved Budget \$, 2023 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 deficit to budget of \$1,300,952 for 2023.

A shortfall of \$1,263,894 is projected in planning application revenues, which is partially due to a market slowdown but also the recent enactment of the new Planning Act legislation Bill 109: More Homes for Everyone Act 2022. The new legislation has had an effect on the timing of applications submitted. In light of legislative changes, applications for Official Plan Amendments, Zoning By-law Amendments and Site Plan Control now require the completion of a Pre-Application Process before a formal Planning Act application is submitted. As a result, the technical review process is now essentially occurring prior to the submission of a complete application and associated fees which has resulted in a delay of revenues received. Furthermore, 3.2 million square feet of growth originally anticipated in 2024 has now been shifted to 2025 which has also led to a shift in the anticipated timing of the associated site plans.

Although not impacting the bottom line, a decrease in projected building permit applications and associated reduced revenue in the amount of \$5.4 million is being forecast. This is largely driven by a shift in the timing of anticipated residential units for 2023. As fluctuations in building permit activity are managed with the use of reserve

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funding, the shift in timing of these applications will result in an expected offsetting contribution from the Building Stabilization Reserve in 2023 with no net impact to the Town's operating fund balance.

A further \$357,079 unfavourable variance is expected related to winter maintenance associated with numerous winter thaw/freeze events.

Historical experience suggests that while the shortfalls become evident early in the year, areas of potential savings become more apparent as the year progresses and may include additional savings from staff vacancies and in administration costs. As a result, a \$500,000 provision has been reflected in the projected year-end position for 2023 with the expectation that yet-to-be identified savings or revenues will reduce the deficit otherwise being reported.

It is important to note that the growth related timing differences referenced above in the areas of Planning and Building will also impact the upcoming 2024 budget and forecast. Delays in growth can result in a shift in the required timing of certain capital projects and associated operating costs, and also affect the timing of property tax assessment growth revenues. The impact will be further analyzed through the budget development process and an updated operating forecast for 2024/2025 will be presented through the Budget Call Report scheduled to be presented to Council in September.

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

Balance Sheet Monitoring as at May 31, 2023

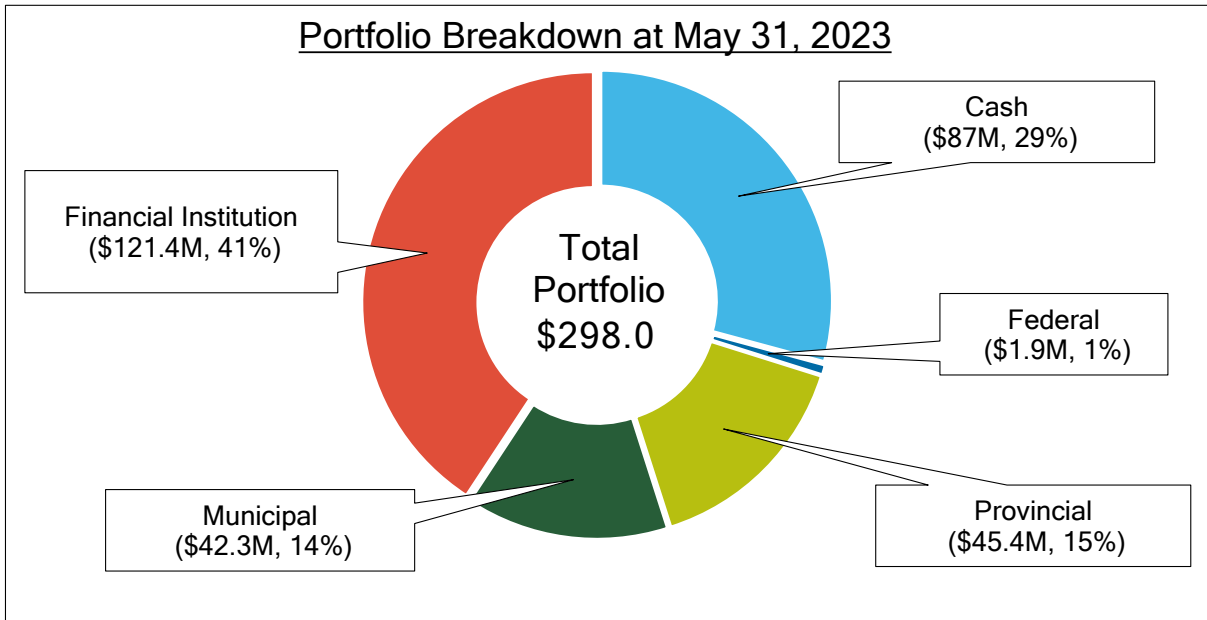
Investments and Cash Management

Economic Update

In January 2023 the Bank of Canada (BOC) raised the overnight rate by an additional 25 basis points to 4.50% followed by an additional 25 basis points increase in June as the economy was stronger than expected in the first quarter of 2023. Although inflation has declined compared to a year ago, it still remains at elevated levels based on the tighter job market and strong demand for goods and services. The BOC continues to monitor and evaluate monetary policy to help alleviate inflation levels while maintaining its commitment to restoring price stability. Current projections by the major Canadian banks have inflation returning to the BOC's 2% inflation levels by the end of 2024 however further monetary action by the BOC may be required. 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 the appropriate diversification is maintained.

Portfolio Summary / Cash and Investment Positions

A summary of the overall portfolio as of May 31, 2023 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 2023 satisfied the Town’s credit rating requirements.



The Town is currently carrying almost 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 recent increase in 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.

2023 Investment Income Forecast

Due to market conditions and a higher than expected portfolio balance, current projections show the gross investment income forecast will be approximately \$10.4 million which is \$2.5 million higher than what was incorporated into the 2023 budget. The additional investment income will have no impact on the operating budget in 2023 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 the end of May 2023. As shown, the 2023 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 7	Final Tax Levy ¹	Current Year Collections (as of June 7) ¹	Current Year Past Due ¹	Current Year % Paid
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, 2023 the Town has an estimated \$43.3 million in total debt outstanding, reflecting \$3.6 million in debenture repayments that have occurred to date. For the remainder of the year the Town will have \$2.0 million in debenture principal payments resulting in \$41.3 million in outstanding debt at the end of 2023. In addition to the debenture obligations outlined below, \$15.3 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, cash position and market conditions, it is expected that no additional debt will be issued by the Town during 2023.

Existing Debenture Obligation (\$000)	Debt at Dec 31, 2022	Principal Payments to May 31	Debt at May 31, 2023	2023 Principal Payments Outstanding	Forecast Dec 31, 2023
Tax Supported	\$26,047	\$(1,810)	\$24,237	\$(2,006)	\$22,231
Capital Provision (Hospital)	8,048	(1,533)	6,515	0	6,515
Hospital Expansion (see below)	12,881	(303)	12,578	0	12,578
Total	\$46,976	\$(3,646)	\$43,330	\$(2,006)	\$41,324

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, 2023 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

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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 2023 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, 2022	As at May 31, 2023	Forecasted Dec 31, 2023	Surplus/ (Deficit) to Budget
Stabilization	\$24,319	\$23,730	\$22,454	\$(4,330)
Corporate Use	13,413	13,874	14,219	(1,170)
Infrastructure Non Growth	79,964	74,705	83,724	9,485
Infrastructure Growth	60,856	67,482	96,009	6,681
Program Specific	17,583	16,436	17,073	(1,314)
Board, Committee & Other	2,657	3,748	2,162	124
Total	\$198,791	\$199,974	\$235,641	\$9,475

The forecasted 2023 balance includes projected 2023 activity as identified in the 2023 budget along with any forecasted adjustments that have been identified in 2023. Following is commentary on forecasted 2023 year end reserve balances that are expected to be significantly different than budget:

Stabilization Reserves & Reserve Funds

The Stabilization reserves are expected to be unfavourable to budget due to an unanticipated shift in timing of building permit activity which would result in the Building Stabilization Reserve balance being \$3.9 million lower than budget. The remainder of the expected deficit relates to year end transfers that occurred in 2022 (staff report CORS-010-23).

Corporate Use Reserves

The Corporate Use reserves are expected to be unfavourable to budget at the end of 2023 due to the timing of development activity resulting in lower than anticipated revenue transferred to the Per Unit Development Processing Fee reserve. A portion of the unfavourable variance is offset by the allocation of the 2022 year end surplus to the WSIB reserve (staff report CORS-010-23).

Infrastructure Non Growth

The Infrastructure Non Growth reserves are projecting a surplus to budget due to \$4.2 million in additional dividend income from Milton Hydro Holdings and \$1.9 million in additional investment income. The remainder of the expected surplus relates to favourable year end variances that occurred in 2022 (staff report CORS-010-23).



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Infrastructure Growth

The Infrastructure Growth reserves are forecasting a surplus primarily due to a shift in timing of spending on capital projects budgeted to be funded from the Post Period Capacity reserve fund. Furthermore, the beginning balance of the Payment-in-Lieu of Land Conveyance Parkland reserve was higher than expected due to additional funds received in 2022. A portion of the projected surplus is offset by a lower than anticipated balance in the Capital Provision reserve due to the timing of development activity.

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.

Program Specific

The Program Specific reserves are forecasting an unfavourable variance due to advancing funding from the capital forecast as outlined in report ES-003-23.

Financial Impact

The May 2023 variance review process suggests that the operating fund may be in a deficit position of \$1.3 million for 2023 related largely to a shift in timing of planning and building related activity. 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 2024 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 2023 Operating Financial Statements

Appendix 2 – May 2023 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.