



The Corporation of the Town of Milton

Report To: Council

From: Glen Cowan, Chief Financial Officer / Treasurer

Date: November 13, 2023

Report No: CORS-054-23

Subject: Operating Budget Review - September 2023

Recommendation: THAT the operating report for the nine months ending September 2023 along with a projected year end deficit of \$123,523 be received for information.

EXECUTIVE SUMMARY

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

- Current forecasting suggests that the operating fund will be in a deficit of \$123,523 for year end, primarily resulting from a deferral in the timing of planning applications combined with higher than anticipated winter maintenance costs.
- Gross investment income is expected to be \$3.0 million greater than budget due to higher than budgeted portfolio balances combined with increasing interest rates.
- Reserve balances are expected to be \$41.7 million lower than anticipated, largely due to a deferral of cashflow assistance from Developers that was originally budgeted to occur in late 2022/2023 but is now expected for 2024.

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 September 30 balances. Corporate Policy No. 116: Financial Management - Treasury as



Background

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.

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 September 30, 2023

The following table reflects forecasted variances 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 \$123,523 for 2023.

A shortfall of \$1.6 million is projected in planning application revenues, which is due an expected deferral in the timing of planning applications partially related to current market conditions.

Although not impacting the bottom line, a decrease in projected building permit applications and associated revenue in the amount of \$6.6 million is also 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 funding, the shift in timing of these applications will result in an expected contribution from the Building Stabilization Reserve in 2023 with no net impact to the Town's operating fund balance.

Additional pressures are resulting from increased winter maintenance costs of \$0.5 million due to numerous winter thaw/freeze events, net lost revenue of \$0.33 million (before insurance recoveries) related to the transfer of the Indoor Turf facility to a third party provider, unexpected costs of \$0.18 million associated with managing a fuel spill within Sunny Mount Park, and \$0.13 million in increased tax write offs.

Discussion

Savings in various areas are largely expected to offset the unplanned financial pressure including: staff vacancy savings exceeding budget of \$1.1 million, savings from reduced utility consumption of \$0.28 million, savings in IT related to deferred service agreements and unrequired software maintenance of \$0.3 million, unbudgeted grant revenue of \$0.16 million, increased transit ridership resulting in additional revenues of \$0.1 million, increased recoveries from developers for winter maintenance and streetlights due to a shift in timing of subdivision assumptions of \$0.1 million, a deferral of the Consolidated Linear Infrastructure Environmental Compliance Approval (CLI ECA) program resulting in contract savings of \$0.1 million, savings of \$0.1 million in the annual crack sealing program, along with various other projected savings in part time staffing, contracts, materials and administration costs.

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

Balance Sheet Monitoring as at September 30, 2023

Investments and Cash Management

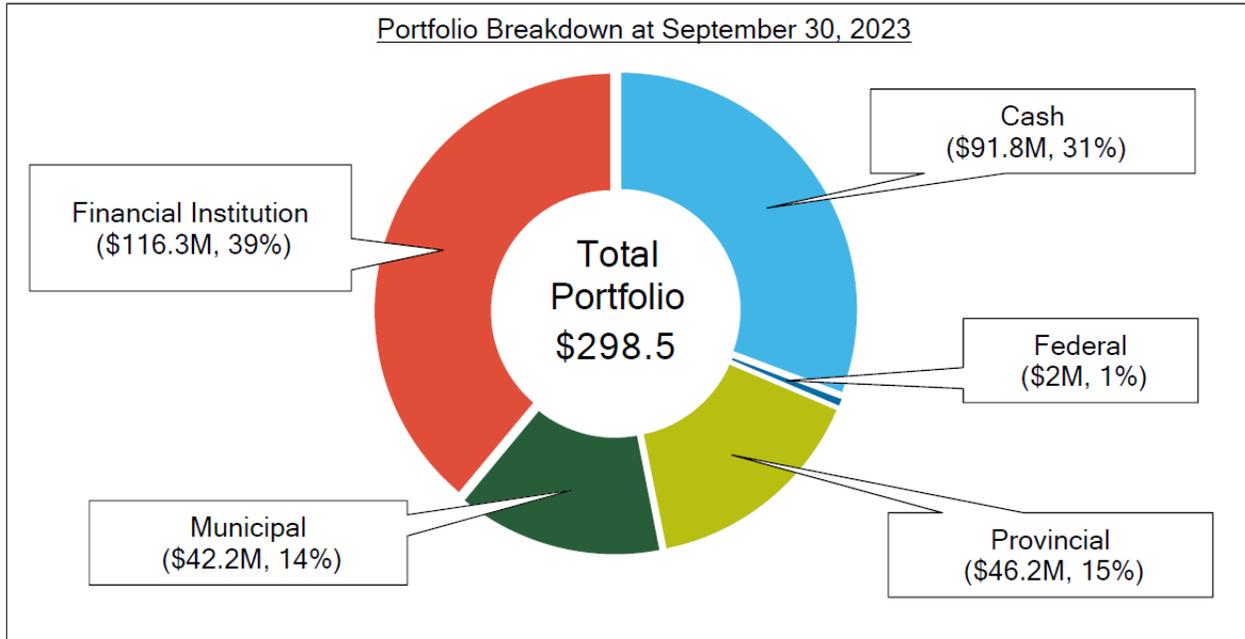
Economic Update

Since January 2023 the Bank of Canada (BOC) has raised the overnight rate by 75 basis points to 5.00% as the economy continues to remain strong throughout 2023 and inflation remaining elevated. Recently the Canadian economy has entered a period of consumption growth weakening and a decline in housing activity. 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 BOCs 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 September 30, 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 nine months of 2023 satisfied the Town's credit rating requirements.

Discussion



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. Given current market conditions including higher than historical interest rates, no investments have been made in that fund. 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 \$10.9 million which is \$3.0 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 September



Discussion

2023. As shown, the 2023 collection rate to date is relatively consistent with the Town’s historical rate.

Tax Year	Total Billable Properties	Properties with Arrears as of Oct 4 ¹	Final Tax Levy ¹	Current Year Collections (as of Oct 4) ¹	Current Year Past Due ¹	Current Year % Paid
2023	42,788	8,264	\$246,649,259	\$194,952,421	\$14,945,333	79.0%
2022	41,825	8,043	\$231,220,799	\$187,534,824	\$12,768,825	81.1%
2021	40,589	7,174	\$220,793,440	\$183,843,363	\$11,588,014	83.3%

¹ Includes Town, Region and Educational shares

Debenture Obligations

As of September 30, 2023 the Town has an estimated \$41.3 million in total debt outstanding, reflecting \$5.7 million in debenture repayments that have occurred to date. 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, \$15.0 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 2023.

Existing Debenture Obligation (\$000)	Debt at Dec 31, 2022	Principal Payments to Sept 30	Debt at Sept 30, 2023	2023 Principal Payments Outstanding	Forecast Dec 31, 2023
Tax Supported	\$26,047	\$(3,816)	\$22,230	\$0	\$22,231
Capital Provision (Hospital)	8,048	(1,533)	6,515	0	6,515
Hospital Expansion (see below)	12,880	(303)	12,578	0	12,578
Total	\$46,976	\$(5,652)	\$41,324	\$0	\$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 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.

Discussion

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 Sept 30, 2023	Forecasted Dec 31, 2023	Surplus/ (Deficit) to Budget
Stabilization	\$24,319	\$23,966	\$21,914	\$(4,869)
Corporate Use	13,413	14,124	14,193	(1,197)
Infrastructure Non Growth	79,964	76,229	83,686	9,447
Infrastructure Growth	60,856	65,012	45,329	(44,000)
Program Specific	17,583	17,071	17,180	(1,207)
Board, Committee & Other	2,657	2,880	2,162	124
Total	\$198,791	\$199,282	\$184,464	\$(41,702)

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 \$4.5 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).

Infrastructure Growth

The Infrastructure Growth reserves are forecasting a deficit due to the deferral of cashflow assistance from Developers that was originally budgeted to occur in late 2022/2023 but is not anticipated for 2024. Also influencing the Development Charge (DC) and Capital Provision reserves is the impact of lower than budgeted revenue due to the timing of



Discussion

development activity. Offsetting a portion of the decrease is a shift in timing of spending on capital projects budgeted to be funded from the Post Period Capacity reserve fund and higher than expected beginning balance in the Payment-in-Lieu of Land Conveyance Parkland reserve due to additional funds that were received in 2022. Shifts in timing of capital expenditures and revenue collections could still impact the DC reserves throughout the balance of the year.

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 September 2023 variance review process suggests that the operating fund may be in a deficit position of \$0.1 million for 2023. 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 September variance review process, as well as the on-going monitoring of the Town's financial position, will be used to inform the anticipated pressures going into 2024.

Respectfully submitted,

Glen Cowan
Chief Financial Officer / Treasurer

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



Attachments

Appendix 1 - September 2023 Operating Financial Statements

Appendix 2 - September 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.