



The Corporation of the Town of Milton

Report To: Council

From: Glen Cowan, Chief Financial Officer / Treasurer

Date: April 15, 2024

Report No: CORS-013-24

Subject: 2023 Year End Operating Variance and Journal Entries

Recommendation: **THAT the 2023 Financial Statements be prepared on the basis of the year-end transactions set out in report CORS-013-24;**
THAT staff be directed to fund the 2023 deficit, estimated at \$227,189, through a transfer of funds from the Tax Rate Stabilization Reserve.

EXECUTIVE SUMMARY

This report provides a detailed review of the preliminary unaudited 2023 financial position of the Town with the following information of note:

- An estimated deficit in the amount of \$227,189 is largely due to a deferral in the timing of planning applications and is recommended to be funded from the Tax Rate Stabilization Reserve.
- The audit of the 2023 financial position is scheduled to begin April 15, 2024 and final results will be confirmed in the 2023 Financial Report scheduled to be presented at the June 3, 2024 Council meeting

REPORT

Background

In accordance with Corporate Policies No. 113: Financial Management - Budget Management and No. 115: Accounting, this report explains the significant variances in the actuals compared to the approved 2023 operating budget as well as the allocation of the surplus. The information presented herein has been developed based on reviews that were



Background

held with operating budget managers to identify key variances as well as to finalize 2022 accounts payable and accounts receivable accruals.

This report also satisfies the requirements of Ontario Regulation 332/12 which states that the Town must make available to the public annual reports with respect to Building Fees imposed under the Building Code Act. Included in this report is information on the total amount of fees collected, the direct and indirect costs of delivering the services related to the administration and enforcement of the Act and the amount of the reserve fund established for the purpose of administration and enforcement of the Act.

Discussion

The final year end position of the Operating Fund is an estimated deficit of \$227,192 for the Town (excluding library). This represents a variance of (0.3)% on net budgeted expenditures of \$88.0 million and (0.1)% on the gross expenditures of \$184.3 million. This variance is comparable to the Town's five year average as outlined in the table below.

	2019	2020	2021	2022	2023	Average
Variance (\$Millions)	\$1.22	\$1.85	\$4.45	\$0.45	\$(0.23)	\$1.9
% Variance to Net Budget	1.9%	2.7%	6.0%	0.6%	(0.3)%	2.7%
% Variance to Gross Budget	0.9%	1.3%	3.0%	0.3%	(0.1)%	1.3%

For consistency with prior years, the variance amounts above exclude the final positions of the library and BIA. If the final position of the BIA and library were reflected in the 2023 year end figures, the net and gross percentages would be (0.2)% and (0.1)%, respectively.

The estimated Town position at the end of 2023 by department is as follows:

Department	Net Budget	Actuals	Variance F/(U)	Percent
Mayor & Council	\$643,301	\$629,779	\$13,522	98%
Executive Services	1,558,658	1,499,256	59,402	96%
Corporate Services	12,782,738	11,797,075	985,663	92%
General Government	(64,469,399)	(63,569,981)	(889,418)	99%
Community Services	47,145,210	46,041,976	1,103,234	98%
Development Services	2,339,493	3,829,084	(1,489,591)	164%
Library	-	5,384	(5,384)	
Hospital Expansion	-	-	-	
BIA	-	(85,796)	85,796	



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Gross Deficit	-	\$(146,777)	(\$146,777)	
Less: Library Board Deficit (Note 2)		(5,384)	5,384	
Less: BIA Surplus (Note 3)		85,796	(85,796)	
Net Town Deficit		\$(227,189)	\$(227,189)	

Note 1 - Figures include rounding and may result in minor variances to the attached Financial Schedules.

Note 2 - Library deficit will be funded from the Library Tax Rate Stabilization Reserve in accordance with the Town's Treasury Policy No. 116.

Note 3 - BIA surplus will be transferred to the DBIA Surplus Reserve in accordance with the Town's Treasury Policy No. 116.

Variance Overview

An estimated deficit of \$227,189 is anticipated for 2023. The deficit is largely the result of a deferral in the timing of planning application activity resulting in a shortfall of \$2.0 million in revenue for 2023, an unexpected WSIB claim of \$0.87 million, increased costs associated with fleet maintenance of \$0.42 million and increased costs associated with contracts and materials within the Operations and Infrastructure areas in the amount of \$0.59 million.

Largely offsetting these unexpected areas of pressure were savings due to staff vacancies in the amount of \$1.3 million, savings in utilities of \$0.84 million, lower costs associated with IT software maintenance and service agreements in the amount of \$0.4 million, penalty and interest payments exceeding budget by \$0.47 million, increased insurance claim recoveries of \$0.51 million and savings in Transit in the amount of \$0.65 million related to GO Transit fare integration revenue subsidies and fare media sales combined with savings in fleet costs.

Additional details regarding the significant variances within each department can be found through the 2023 Year End Operating Statements as shown in Appendix 1 with commentary in Appendix 2.

Reserve and Reserve Funds

Reserves and reserve funds are an important element of the Town's long-term financial plan. 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.

A summary of reserve and reserve fund balances by type is outlined in the table below. A detailed continuity schedule by each reserve and reserve fund comparing ending 2023 balances to target balances is provided in Appendix 3.

Reserves and Reserve Funds (\$000)	Dec 31, 2022 Balance	In Year Activity	Dec 31, 2023 Balance
Stabilization	\$24,319	\$(2,018)	\$22,302
Corporate Use	13,413	1,266	14,679
Infrastructure Non Growth	79,964	10,593	90,556
Infrastructure Growth	60,856	(5,374)	55,482



Discussion

Program Specific	17,583	191	17,774
Board, Committee & Other	2,657	(311)	2,346
Total	\$198,791	\$4,347	\$203,138

The in-year activity includes transfers to/from the operating budget, and a number of those transfers are driven by external revenues and do not impact the operating surplus. It is important to understand where operating transfers deviate from budget as it will have resulting implications on reserve balances.

The following table presents a summary view of variances between budgeted and actual operating transfers to/from reserve and reserve fund by category.

Reserve/Reserve Funds (\$000)	Budgeted Transfer to/(from) Operating	Actual Transfer to/(from) Operating	Surplus/ (Deficit)
Stabilization	\$3,031	\$(2,472)	\$(5,503)
Corporate Use	2,219	1,266	(953)
Infrastructure Non Growth	35,140	44,975	9,835
Infrastructure Growth	9,340	5,348	(3,992)
Program Specific	(295)	(263)	33
Board, Committee & Other	649	545	(105)
Total	\$50,083	\$49,399	\$(685)

Transfers to Stabilization reserves are in a deficit position primarily due to a deferral in the timing of building permit activity. Corporate Use reserve transfers are unfavourable to budget also due to timing differences in development activity.

Transfers to Infrastructure Non Growth related reserves were higher than anticipated largely due to additional dividends received from Milton Hydro, higher than expected investment income and proceeds from the Ontario Lottery and Gaming Corporation (OLG). Infrastructure Growth transfers were unfavourable to budget due to lower than anticipated Capital Provision revenues being collected through financial agreements resulting from the timing of development activity.

Transfers to Program Specific Reserves were higher than budget primarily due to higher than anticipated revenue from the Ministry of Natural Resources for extracted aggregates. Board, Committee & Other are showing as a deficit due to unplanned grant funding received in 2023 that was transferred to the operating fund.

A detailed commentary on other significant variances in reserve and reserve fund transfers within the operating fund is presented in Appendix 4.



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Debenture Obligations

The Town ended 2023 with \$41.3 million in total debt outstanding reflecting \$5.7 million in debenture repayments that occurred during the year.

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, it is expected that a debt issuance will take place in 2024.

Existing Debenture Obligations (\$'000)	Debt at Dec 31, 2022	2023 New Issuance	Principal Payments for 2023	Debt at Dec 31, 2023
Tax Supported	\$26,047	\$0	\$(3,816)	\$22,231
Capital Provision (Hospital)	8,048	0	(1,533)	\$6,515
Hospital Expansion (see below)	12,881	0	(303)	12,578
Total	\$46,976	\$0	\$(5,652)	\$41,324

The Hospital sinking fund debenture is held and managed by the Region of Halton for the purpose 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 are projected to fully cover the principal payment due at maturity.

Hospital Expansion Sinking Fund Debenture	Amount
Sinking Fund Debt (payable on Apr 6, 2045)	\$15,000,000
Annual Contributions to date to the Region of Halton (\$302,726 per year)	(2,421,808)
Sub-total	\$12,578,192
Interest Earned to Date by Region of Halton	394,910
Dec 31, 2023 Balance per the Region of Halton Performance Indicator Report	\$12,183,282

Recommendations for the Year End Surplus/Deficit

As part of the year-end process, staff consider the distribution of the year-end surplus or funding of deficit based on Council approved policies.

It is recommended that the deficit, estimated to be \$227,192, be funded from the Town’s Tax Rate Stabilization Reserve.

The year end balance in the Tax Rate Stabilization reserve is \$7.6 million relative to a 2023 target of \$7.4 million. The 2024 Capital and Operating budget forecasted this reserve to decline to \$4.9 million by 2025 as a result of tax rate mitigation funding utilized in the 2024 operating budget. The use of the Tax Rate Stabilization Reserve to fund the year end deficit



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will not materially change the forecasted balance and is in line with the intended use of that reserve.

Financial Impact

The estimated final year-end position of the operating fund is an estimated deficit of \$227,189 million for the Town. This report is providing information as to the funding of the deficit necessary to facilitate the completion of the 2023 year-end accounting entries.

The variances discussed herein as well as the final reserve and reserve fund balances will also inform the management of the 2024 budget and the development of the 2025 budget.

Respectfully submitted,

Glen Cowan
Chief Financial Officer / Treasurer

For questions, please contact: Jennifer Kloet, CPA, CA Phone: x2216

Attachments

Appendix 1 – 2023 Year End Operating Financial Statements

Appendix 2 – 2023 Year End Operating Variance Commentary by Department

Appendix 3 – Reserve and Reserve Fund Continuity Schedule

Appendix 4 – Reserve and Reserve Fund Transfer to/from Operating Variance and Commentary

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.