



REPORT

Council

Meeting Date: April 29, 2024

FROM: Finance Department

DATE: April 16, 2024

SUBJECT: 2023 Financial Results and Surplus Disposition

LOCATION:

WARD: Town-wide

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RECOMMENDATION:

1. That the transfers to and from the Reserves and Reserve Funds and transactions contained in the report dated April 16, 2024 from the Finance department be approved.
2. That the \$13.42 million surplus less any required adjustments be transferred to the Capital Reserve.
3. That a new discretionary reserve fund, titled Rental Housing Protection reserve fund, be established for cash-in-lieu contributions related to the Rental Housing Protection by-law.
4. That the 2024 capital budget be amended to add a new project with a budget of \$1,647,000 funded from the Capital Reserve for Lions Valley slope remediation.

KEY FACTS:

The following are key points for consideration with respect to this report:

- The Financial Results report presents the town's financial activities from January 1, 2023 to December 31, 2023.
- The total town variance after reserve transfers is \$13.42 million favourable or 5.6% of the tax levy.
- Total capital expenditures of \$112.3 million have been incurred year to date.
- A total of 54 capital projects have been identified for closure this period resulting in \$2.25 million being returned to reserves and reserve funds.
- A total of 10 tendered contracts and 3 single source awards in excess of \$100,000 were awarded during this period.
- Headline inflation in Canada has been easing since it hit a high of 8.1% in June 2022. Inflation ended 2022 at a 6.3% year over year, and declined to 3.4% in December 2023. The impact on capital projects has begun to

moderate as well, with the non-residential Construction Price Index rising 5.5% in 2023 compared to increases between 14%-15% in both 2021 and 2022. There remains uncertainty and upside risk, as inflation is taking longer than expected to come down to the target range of 1%-3%, resulting in the Bank of Canada holding interest rates at elevated levels.

BACKGROUND:

This report provides an update regarding the town's financial activities from January 1, 2023 to December 31, 2023 and covers all financial matters including operating budget, capital budget, reserve and reserve fund balances, investment and trust funds, and purchasing activities. Based on the unaudited financial results, most town programs have a favourable variance. This is primarily due to savings in personnel costs and higher revenues, though savings have been recognized in several other areas as well.

COMMENT/OPTIONS:**OPERATING BUDGET**

The total town variance after policy related and recommended reserve transfers is \$13.42 million favourable or 5.6% of the tax levy for this period.

(\$ Millions)	2023	2023	2023
	Annual Budget	Year-end Actuals	Variance to Budget (\$)
Emergency Services	43.20	44.23	(1.03)
Road Network	29.83	27.52	2.31
Oakville Transit	33.72	30.46	3.26
Recreation and Culture	21.05	16.85	4.20
Parks and Open Spaces (incl. Cemetery and Harbours)	21.90	20.93	0.97
Oakville Public Library	11.65	11.45	0.20
Community Development	4.36	5.16	(0.81)
Political Governance	4.20	4.04	0.16
Municipal Enforcement (incl. Parking)	2.41	1.36	1.06
Corporate Support Services	36.05	35.14	0.91
Total Program Variance	\$ 208.37	\$ 197.15	\$ 11.22
Corporate Hearings & Litigation	0.50	0.36	0.14
Corporate Revenue & Expenses	(208.87)	(212.49)	3.62
Town Variance before transfers	\$ -	\$ (14.98)	\$ 14.98
Policy Related and Recommended Transfers for Programs:			
Transfer Tax Appeal Allowance (to)/from Tax Stabilization Reserve			(0.75)
Transfer Oakville Public Library surplus (to)/from Tax Stabilization Reserve			(0.20)
Transfer (to)/from Storm Event Reserve			(0.05)
Transfer (to)/from Building Enterprise Reserve			1.45
Transfer (to)/from Cemetery Reserve			(0.22)
Transfer (to)/from Harbours Reserve fund			(0.73)
Transfer (to)/from Parking Reserve fund			(1.04)
Transfer (to)/from Election Reserve			(0.02)
Total Town Variance after transfers			\$ 13.42

Note: Totals and subtotals in this and subsequent charts and tables may not add exactly due to rounding.

As shown above, total Program Variance is \$11.22 million favourable primarily due to personnel savings and higher revenues in Transit and Recreation and Culture. The favourable variance in Corporate Revenue & Expenses is primarily attributed to higher investment income and supplementary taxes. Corporate Revenue & Expenses also includes an adjustment of \$0.75 million for a reduction in the tax appeal allowance. The province has not moved forward with a property reassessment as planned in 2021 and has continued to pause reassessment for 2022-2024. As a result, the town's estimate of future assessment appeal losses on existing assessment has been reduced, as any property that has already appealed their current value is not able to re-appeal, as per the Assessment Act legislation and the Assessment Review Board's (ARB) rules. Therefore, the majority of

challenges from the last assessment have been completed and, until there is a new reassessment, only properties that have not appealed their assessment prior, properties with changes, or new properties on the roll can appeal. If there are new appeals for 2024, they cannot be retroactive. Once the province recommences reassessments, town staff expect an increase in appeals and are therefore recommending that the savings experienced now should be set aside to be used, if needed, when the allowance will need to be increased.

The total Program variance combined with Corporate Hearings & Litigations and Corporate Revenues & Expenses shows a total town variance before transfers of \$14.98 million favourable.

Reserve Transfers

Further to the information provided in the previous section on the tax appeal allowance, staff recommend that \$0.75 million be transferred to the Tax Stabilization reserve to be available in future years for tax appeals, if needed.

Town staff are also recommending that the savings in winter control be transferred to the Storm Event reserve and the surplus for the Oakville Public Library be transferred to the Tax Stabilization reserve.

Legislation requires any surplus/shortfall generated from building permit revenues to be transferred to/from the Building Enterprise Reserve resulting in a transfer from the reserve of \$1.45 million given lower building permit revenues. Town policy is to balance any surplus/deficit for Cemeteries, Harbours, Parking, and Election to their own program specific reserves. Town staff are recommending that surpluses in Cemeteries, Harbours, Parking and Election be transferred to their respective reserves and reserve funds as normal at year-end. After all policy related and recommended transfers, the total Town variance after transfers is \$13.42 million favourable representing 5.6% of the tax levy.

Usual practice would be to recommend that the surplus be transferred to the Tax Stabilization Reserve; however, the balance in this reserve is healthy (\$70.8 million) and above the GFOA recommended levels. Therefore, town staff are recommending that the surplus be transferred to the General Capital Reserve given the size of the capital program. The 2024 capital program of \$188.2 million and the ten-year capital forecast of \$2.2 billion are substantial. Furthermore, inflation and rising costs have proved challenging for capital projects that are at the procurement stage as supply chain and commodity volatility have had a major impact on pricing. The recommendation to transfer the surplus to the General Capital Reserve will ensure that our capital program remains strong.

Program Variance – by revenue/expense type

The total program variance is \$11.22 million favourable and the most significant variances to budget by expense and revenue type are discussed below.

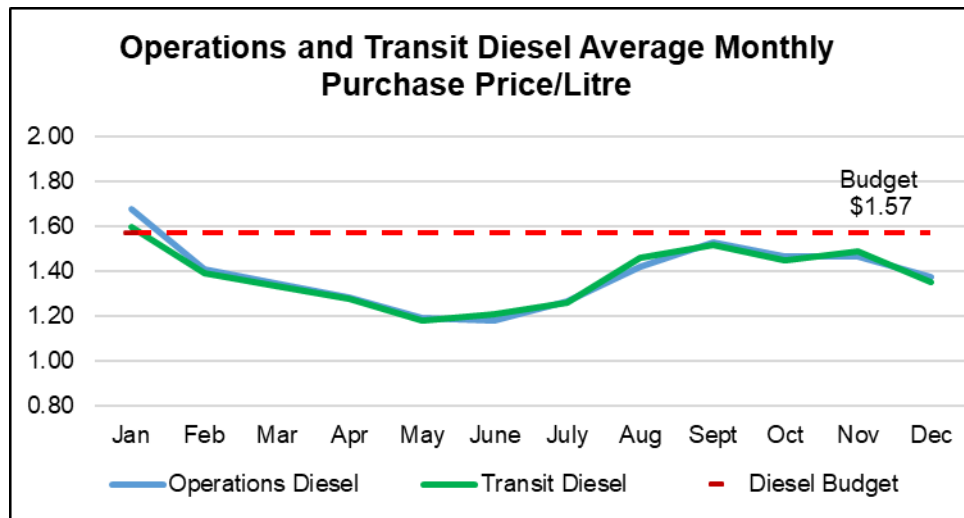
(\$ Millions)	2023 Annual Budget	2023 Year-end Actuals	2023 Variance to Budget (\$)
EXPENSES			
Personnel Services & Benefits	183.98	177.35	6.62
Materials & Supplies	27.33	25.87	1.46
Capital out of Operations	0.34	0.45	(0.11)
Purchased Services	44.49	42.63	1.86
Payments & Grants	6.27	6.46	(0.19)
Internal Expenses & Transfers	43.95	44.20	(0.25)
Total EXPENSES	\$ 306.36	\$ 296.97	\$ 9.39
REVENUES			
External Revenues	(71.53)	(76.47)	4.94
Internal Recovery & Fund Transfers	(26.46)	(23.35)	(3.11)
Total REVENUES	\$ (97.99)	\$ (99.82)	\$ 1.83
Total Programs	\$ 208.37	\$ 197.15	\$ 11.22

Personnel Services & Benefits - \$6.62 million favourable. The savings are higher than normal primarily due to vacancies in various programs. While the town continues to experience some areas of challenge in attracting talent due to the demand for skilled workers being much greater than the supply, the town’s HR team is noticing a trend towards stabilization. Pre-pandemic the town’s average turnover rate averaged about 3-5% and over the last few years that has increased to 7.6%, with last year at 9.7%.

The town’s turnover is beginning to trend downward. The 2023 turnover came in at 6.3% slightly lower than the Q3 projection of 7%. While higher than normal for Oakville, this is not nearly as high as reported in a recent Mercer and McLean and Company survey, which had turnover projecting between 15% and 18% for other companies. The town budgeted \$0.85 million for corporate gapping for staff turnover and vacancies, and this has been increased to \$1.82 million in the adopted 2024 budget to reflect expected trends.

Given the town’s staffing demographics, the retirement bubble has peaked. Part time positions also continue to be a challenge to fill but is improving over last year. Mitigation efforts, including marketing and branding initiatives to support a more active recruitment strategy, as well as increased staffing resources to keep up with recruitment administration and outreach are being rolled out in 2024. The recent changes in the CUPE collective agreements related to vacation service and market rates are expected to make an impact on recruitment and retention where talent is scarce.

Materials & Supplies - \$1.46 million favourable. This is primarily attributed to savings in fuel due to lower fuel rates. Staff continued to monitor fuel rates very closely during 2023, particularly diesel which is the primary fuel used by the town. As shown below, the Operations and Transit diesel rates trended below the budgeted rate for the majority of the year. In light of the province's extension of the gas and fuel tax cut, the Mayor's proposed 2024 budget included a \$0.31 million reduction to the fuel budget which was also included in the 2024 adopted budget to address the trend of lower fuel rates.



Note: The different rates between the two departments is due to changes in the rates based on the timing of the fuel purchases.

Purchased Services - \$1.86 million favourable. This is primarily attributed to savings associated with the Automated Speed Enforcement (ASE) program due to the delay in program implementation, as well as some savings in training and development and software maintenance.

External Revenue - \$4.94 million favourable. This is primarily attributed to higher Transit revenue with actual ridership figures being higher than budgeted, higher Recreation and Culture revenue from additional ice and room rentals, and higher Parking revenue from parking fees and fines.

Internal Recovery & Fund Transfers - \$3.11 million unfavourable. This is primarily attributed to Tax Stabilization funding budgeted for temporary items such as increased air handling volume and additional touchpoint cleaning at town facilities, funding for the Transit free ride program for youth and seniors, funding for the four temporary Mobile Compliance Officers and funding for the HR contract positions and the Talent Strategy initiative. Given the overall town surplus, the Tax Stabilization funding for these items was not needed resulting in this unfavourable variance.

Program Variance – by program

The most significant variances to budget by program area are discussed below. Appendix A provides more detail of the projected variance by program area.

Emergency Services - \$1.03 million unfavourable

The variance shown below is primarily due to personnel services for overtime and for early hire of new recruits to mitigate overtime and stand-in pay due to sick leaves. The Oakville Fire and Finance teams meet on a monthly basis to review the status and forecast of overtime, sick leave, WSIB and long-term disability to look for opportunities for cost containment and mitigation strategies.

(\$ Millions)	2023	2023	2023
	Annual Budget	Year-end Actuals	Variance to Budget (\$)
EXPENSES			
Personnel Services & Benefits	38.53	39.31	(0.78)
Materials & Supplies	0.86	1.06	(0.20)
Capital out of Operations	0.02	0.04	(0.03)
Purchased Services	1.93	2.05	(0.13)
Payments & Grants	0.05	0.04	0.01
Internal Expenses & Transfers	2.40	2.41	(0.01)
Total EXPENSES	\$ 43.78	\$ 44.92	\$ (1.14)
REVENUES			
External Revenues	(0.56)	(0.65)	0.10
Internal Recovery & Fund Transfers	(0.03)	(0.04)	0.01
Total REVENUES	\$ (0.59)	\$ (0.69)	\$ 0.10
Total Emergency Services	\$ 43.20	\$ 44.23	\$ (1.03)

Community Development - \$0.81 million unfavourable

The variance shown below is primarily due to lower building permit revenue partially offset by personnel savings as the town continues to look to fill vacant positions.

(\$ Millions)	2023	2023	2023
	Annual Budget	Year-end Actuals	Variance to Budget (\$)
EXPENSES			
Personnel Services & Benefits	15.13	14.18	0.94
Materials & Supplies	0.08	0.05	0.03
Capital out of Operations	0.01	0.00	0.01
Purchased Services	0.56	0.62	(0.06)
Payments & Grants	0.14	0.11	0.03
Internal Expenses & Transfers	13.08	13.08	0.00
Total EXPENSES	\$ 29.01	\$ 28.05	\$ 0.96
REVENUES			
External Revenues	(22.49)	(20.66)	(1.83)
Internal Recovery & Fund Transfers	(2.16)	(2.22)	0.06
Total REVENUES	\$ (24.65)	\$ (22.88)	\$ (1.76)
Total Community Development	\$ 4.36	\$ 5.16	\$ (0.81)

Corporate Support Services - \$0.91 million favourable

The variance shown below is primarily due to personnel savings for various vacancies as the town continues to look to fill vacant positions. The overall favourable variance also includes a \$0.62 million unfavourable variance for Facility Services given the advance implementation of 2024 recommendations from the Facility Management Review. In preparation for the new facility operating model in 2024, positions with an impact of \$0.76 million have been moved to Facility Services throughout 2023 and the offsetting savings reflected in the Recreation and Culture.

(\$ Millions)	2023	2023	2023
	Annual Budget	Year-end Actuals	Variance to Budget (\$)
EXPENSES			
Personnel Services & Benefits	30.65	29.64	1.01
Materials & Supplies	1.17	1.17	0.00
Capital out of Operations	0.04	0.06	(0.02)
Purchased Services	10.11	9.27	0.84
Payments & Grants	0.70	1.07	(0.37)
Internal Expenses & Transfers	0.60	1.04	(0.44)
Total EXPENSES	\$ 43.28	\$ 42.25	\$ 1.02
REVENUES			
External Revenues	(2.51)	(3.72)	1.20
Internal Recovery & Fund Transfers	(4.72)	(3.40)	(1.32)
Total REVENUES	\$ (7.23)	\$ (7.11)	\$ (0.12)
Total Corporate Support Services	\$ 36.05	\$ 35.14	\$ 0.91

Parks and Open Spaces (incl. Cemetery and Harbours) - \$0.97 million favourable

The variance shown below is primarily due to higher sportfields rental revenue, Harbours revenue, and savings on fuel due to lower than budgeted fuel rates.

(\$ Millions)	2023	2023	2023
	Annual Budget	Year-end Actuals	Variance to Budget (\$)
EXPENSES			
Personnel Services & Benefits	15.40	15.63	(0.22)
Materials & Supplies	3.38	2.94	0.44
Capital out of Operations	0.07	0.06	0.01
Purchased Services	5.61	5.83	(0.21)
Payments & Grants	0.72	0.71	0.01
Internal Expenses & Transfers	7.02	7.00	0.02
Total EXPENSES	\$ 32.21	\$ 32.16	\$ 0.05
REVENUES			
External Revenues	(7.85)	(8.50)	0.65
Internal Recovery & Fund Transfers	(2.46)	(2.73)	0.27
Total REVENUES	\$ (10.31)	\$ (11.23)	\$ 0.92
Total Parks and Open Spaces (incl. Cemet	\$ 21.90	\$ 20.93	\$ 0.97

Municipal Enforcement (incl. Parking) - \$1.06 million favourable

The variance shown below is primarily due to additional parking and fine revenue as well as savings associated with the ASE program (due to the delay in program implementation).

(\$ Millions)	2023	2023	2023
	Annual Budget	Year-end Actuals	Variance to Budget (\$)
EXPENSES			
Personnel Services & Benefits	4.75	4.88	(0.13)
Materials & Supplies	0.26	0.20	0.06
Capital out of Operations	0.02	(0.00)	0.03
Purchased Services	2.33	2.06	0.27
Payments & Grants	0.69	0.59	0.10
Internal Expenses & Transfers	2.03	2.19	(0.15)
Total EXPENSES	\$ 10.09	\$ 9.92	\$ 0.18
REVENUES			
External Revenues	(5.87)	(6.92)	1.05
Internal Recovery & Fund Transfers	(1.81)	(1.64)	(0.17)
Total REVENUES	\$ (7.68)	\$ (8.56)	\$ 0.88
Total Municipal Enforcement (incl. Parking)	\$ 2.41	\$ 1.36	\$ 1.06

Road Network - \$2.31 million favourable

The variance shown below is primarily due to personnel savings for various vacancies as the town continues to look to fill vacant positions and savings associated with the ASE program (due to the delay in program implementation).

(\$ Millions)	2023	2023	2023
	Annual Budget	Year-end Actuals	Variance to Budget (\$)
EXPENSES			
Personnel Services & Benefits	17.89	16.35	1.53
Materials & Supplies	7.44	7.38	0.06
Capital out of Operations	0.15	0.20	(0.05)
Purchased Services	11.87	11.29	0.58
Payments & Grants	1.35	1.33	0.02
Internal Expenses & Transfers	8.30	7.95	0.35
Total EXPENSES	\$ 46.98	\$ 44.50	\$ 2.48
REVENUES			
External Revenues	(5.67)	(6.18)	0.51
Internal Recovery & Fund Transfers	(11.49)	(10.80)	(0.69)
Total REVENUES	\$ (17.15)	\$ (16.98)	\$ (0.18)
Total Road Network	\$ 29.83	\$ 27.52	\$ 2.31

Oakville Transit - \$3.26 million favourable

The variance shown below is primarily due to higher fare revenue as ridership was higher than budgeted, savings on personnel, and savings on fuel due to lower than budgeted fuel rates.

(\$ Millions)	2023	2023	2023
	Annual Budget	Year-end Actuals	Variance to Budget (\$)
EXPENSES			
Personnel Services & Benefits	23.40	22.50	0.89
Materials & Supplies	7.08	6.63	0.45
Capital out of Operations	0.01	(0.00)	0.01
Purchased Services	4.74	4.35	0.39
Payments & Grants	0.95	1.07	(0.12)
Internal Expenses & Transfers	5.19	5.18	0.02
Total EXPENSES	\$ 41.37	\$ 39.73	\$ 1.64
REVENUES			
External Revenues	(4.91)	(7.28)	2.37
Internal Recovery & Fund Transfers	(2.74)	(1.99)	(0.75)
Total REVENUES	\$ (7.65)	\$ (9.27)	\$ 1.62
Total Oakville Transit	\$ 33.72	\$ 30.46	\$ 3.26

Recreation and Culture - \$4.20 million favourable

The variance shown below is primarily due to personnel savings for various vacancies as the town continues to look to fill vacant positions and higher revenue from additional ice and room rentals. This also includes an impact of \$0.76 million related to the advance implementation of 2024 recommendations from the Facility Management Review as positions have been moved from Recreation and Culture to Facility Services throughout 2023.

(\$ Millions)	2023	2023	2023
	Annual Budget	Year-end Actuals	Variance to Budget (\$)
EXPENSES			
Personnel Services & Benefits	25.98	23.23	2.75
Materials & Supplies	5.32	4.59	0.72
Capital out of Operations	-	0.06	(0.06)
Purchased Services	5.43	5.25	0.18
Payments & Grants	1.55	1.44	0.11
Internal Expenses & Transfers	4.73	4.72	0.01
Total EXPENSES	\$ 43.01	\$ 39.29	\$ 3.71
REVENUES			
External Revenues	(21.24)	(22.18)	0.94
Internal Recovery & Fund Transfers	(0.72)	(0.27)	(0.45)
Total REVENUES	\$ (21.96)	\$ (22.45)	\$ 0.49
Total Recreation and Culture	\$ 21.05	\$ 16.85	\$ 4.20

CAPITAL BUDGET

The total cumulative approved capital budget for active projects is \$809.9 million. Year to date, total expenditures of \$112.3 million have been incurred, bringing the total life-to-date or cumulative spending in active projects to \$381.5 million. Appendix B shows more information on total approved budget and expenditures by program. Some of the major projects underway with spending this year are shown below.

Capital Project	LTD Approved Budget	2023 Expenditures	Total LTD Expenditures (incl. Prior Years)
46602104 Sixteen Mile Sports Complex and Library	104,277,000	20,110,262	37,005,865
52212102 Sixteen Mile Sports Park - South Parcel	17,831,000	10,876,838	12,070,429
53332303 Road Resurfacing and Preservation Program	11,306,000	8,704,104	8,704,104
53311006 Sixth Line Urbanization and Widening w/AT - North Park to William Halton Parkway	35,812,700	5,171,955	18,146,599
53311502 North Service Rd Urbanization and Widening w/AT - Eighth Line to 1 km East of Invicta Dr	9,673,800	2,740,587	4,144,209
54412203 Specialized Electric Vehicle Replacement	3,342,000	2,714,372	2,744,211
54212301 Capital Lease for Charging Infrastructure	4,200,000	2,099,490	2,099,490
52272309 EAB Management Program	1,847,000	1,817,046	1,817,046
Total	\$ 188,289,500	\$ 54,234,654	\$ 86,731,953

Capital Budget Request

During the pandemic, Parks and Open Space staff reprioritized capital projects. Lions Valley Slope remediation was one of the projects that was determined could be delayed in lieu of other projects proceeding at that time. The delay was misinterpreted as a closure and the project was subsequently closed. The project is needed and is now ready to proceed to procurement but because it was inadvertently closed, the project requires Council approval to be re-opened. Staff recommend that the 2024 capital budget be amended to add the Lions Valley slope remediation project with a budget of \$1,647,000 funded from the Capital Reserve.

Capital Budget Transfers and Closures

Project consolidations involve reallocating the original funding and scope of work from one or more Council approved projects to another Council approved project. This is done in order to facilitate effective management of the project with no change to the original scope of work or funding requirements. The following project consolidations occurred during this period.

Project	Transfer To/ (From)
21112307 Corporate Wide Contract Management Standard	50,000
24102102 Contract Management Training	(50,000)
55102305 Storm Sewer Condition Assessments	280,000
53381901 Storm Sewer Inspection	(280,000)
51332302 Bridge and Culvert Minor Maintenance	187,000
53381807 Storm Sewer Maintenance & Replacement Program	(187,000)

In accordance with the Financial Control Policy, Commissioners are authorized to approve the transfer of funds between projects for any project where the costs exceed budget by the lesser of 10% or \$200,000. The following Commissioner approved transfers occurred during this period.

Project	Transfer To/ (From)
46402203 Wedgewood Pool Rehabilitation	75,000
42102205 Accessibility Improvements	(75,000)

In addition, the CAO has authority to authorize funds from reserves, reserve funds or other appropriate sources up to \$350,000 provided the expenditures are within the original scope of the project. The following required funding was approved by the CAO in this period.

Project No.	Project Title	Total Approved	Reserve, Reserve Fund or Other Financing Source	Note
36102309	Hardware - Endpoints	\$ 126,000	Election Reserve	Additional funding was requested for the lifecycle replacement of Council technology.
52232206	Argo West Morrison NHS Trail	\$ 120,000	52232205 NHS Trail	In North Oakville, a channel construction project is underway along the west side of Sixth Line involving multiple subdivision areas. Due to the closure of the original bridge supplier's business, an alternate supplier was required and they quoted increased costs for a crucial pedestrian bridge; the funding transfer of \$120,000 was recommended.
52272301	Stumper and Equipment Storage	\$ 18,000	52272307 Street Tree Planting	Additional funding was requested due to unforeseen cost inflation aiming to cover the lowest bid for the work and the final site visit by the consulting engineer.
36102219	Cellular Enablement	\$ 300,000	General Capital Reserve	The additional funding requested is to meet the paratransit call center requirements including Celrdo Desktop Client Licenses, microphones and accessories as well as the remaining monthly push to talk/voice/data plans until Dec 2023.
53311914	North Service Road Widening & AT-3rd Line to 4th Line	\$ 264,500	Developers Contributions of \$88,800 & Misc. Recoveries in the amount of \$175,700	Additional funding added to the project to reflect the Developers contribution and Misc. Recoveries that have already been received to better enable the project manager to account for all project costs.
21112310	Citizen Survey Project	\$ 20,000	General Capital Reserve	Additional funding due to price escalations related to longer than anticipated telephone survey calls to conduct the biennial citizen survey to gather information on residents' overall satisfaction with town programs and services, to identify emerging issues important to the community and to help guide strategic priorities and ensure continuous improvement in the town's service delivery.
54412301 54412304	54412301 On-Demand Supervisor Vehicle (growth) & 54412304 Supervisory Vehicle Replacement	\$ 20,000	Transit Residential and Non-Residential DC Reserve for \$10,000 and Transit Equipment Reserve for \$10,000	Additional funding was requested for price escalations due to supply chain constraints for the purchase of a supervisor support vehicle, project 54412301, and to replace an end-of-life Oakville Transit supervisor vehicle, project 54412304.
53312017	Chartwell Road Reconstruction - South Service Road to Cornwall Road	\$ 97,300	Replaced Roads DC Reserve and Misc Recoveries with General Capital Reserve funding	To correct the funding in capital project 53312107 (Chartwell Road Reconstruction - South Service Road to Cornwall Road) in order to maintain the correct split between Development Charges and Town funded sources. There is no impact on the gross budget for the project.

As part of ongoing capital project management, staff review the status of all active projects each quarter. This ensures that as projects are completed and an asset goes into service, the projects are closed. For this quarter, a total of 54 projects will be closed. These closures represent a net surplus of \$2.25 million, of which \$1.38 million will be returned to reserves and \$866 thousand will be returned to reserve funds. Appendix C provides more details of the project closures by program.

	Project Details				Impact on Reserves and Reserve Funds		
	LTD Budget	LTD Actuals	LTD External Revenues	LTD Variance	Reserves (Capital & Equipment)	Reserve Funds (DC & Dedicated)	Total to/(from) Reserve/R eserve Funds
Net Impact	\$ 37,540.8	\$ 35,558.6	\$ (267.4)	\$ 2,249.7	\$ 1,384.0	\$ 865.7	\$ 2,249.7

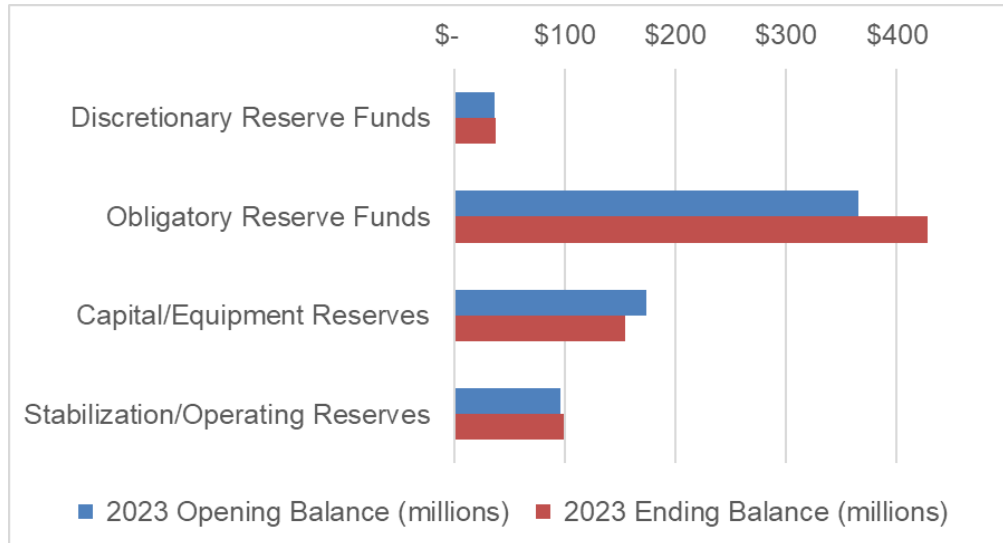
Two projects being closed this quarter exceeded budget by more than 10%; as the amount is less than \$350,000 the CAO has the authority to approve the required funding to close this project in accordance with town policy.

PROJECT TITLE	TOTAL APPROVED BUDGET	TOTAL ACTUAL EXPENSES	PROJECT SHORTFALL/ FUNDING REQUIRED	%	EXPLANATION
52292206 Parks Growth Vehicles and Equipment	\$477,100	\$546,813	(\$69,713)	15%	Capital reserve will cover shortfall
36102119 Hardware Evergreening	\$1,043,000	\$1,147,061	(\$104,061)	10%	Capital reserve will cover shortfall

RESERVES, RESERVE FUNDS AND TRUST FUNDS

Reserve and reserve funds are an integral part of the municipal budget planning process and long-term financing plan that contributes to the municipality’s sound financial position. Reserve Funds are established by Council for a specific purpose, and include funds that have been set aside in accordance with legislative requirements or at the discretion of Council. As such, the town has both obligatory reserve funds and discretionary reserve funds. Capital and Equipment reserves form an important component of the town’s long-term capital financing plan and are used to finance maintenance and replacement of existing infrastructure to maintain assets in a state of good repair, provide for community enhancements as well as fund the town’s share of new infrastructure to service the growing community. Stabilization and Operating reserves are used to offset extraordinary and unforeseen expenditure requirements, one-time expenditures, cyclical expenses, revenue shortfalls and help to minimize fluctuations in the tax levy. Trust funds are held by the town for the benefit of other agencies or entities in accordance with specific statutes or trust indenture.

The 2023 opening balances and 2023 ending balances are shown below with further details of individual reserve and reserve funds in Appendix D.



*Note: Obligatory reserve balances do not include approved funding for capital projects not transferred yet as funds can only be transferred to projects as spending occurs.

Reserves

Stabilization and Operating reserves are healthy and have remained relatively stable over the course of the year. Capital related reserves have decreased from \$157 million to \$143 million, primarily due to major projects such as Khalsa Gate Urbanization and Streetscape, Capital Lease for Transit Charging Infrastructure, and Sixteen Mile Sports Complex and Library. Equipment reserves decreased from \$15.8 million to \$10.7 million, mainly as a result of increased requirements from transit equipment reserve due to electric fleet.

Reserve Funds

Obligatory Reserve Funds increased from \$365.2 million to \$428.4 million over the course of 2023. While revenue collected from the town’s growth funding tools of development charges, community benefits charges, and parkland dedication was lower than anticipated due to slower development activity and legislative impacts, capital spending was also lower than expected. Legislation for these reserve funds requires that funding only be transferred to capital projects once spending has been incurred. Therefore, it is important to note that the fully committed balance, when considering all approved funding, is \$260.3 million at year end. Discretionary reserve funds remained stable throughout the year.

Through staff's annual review, the Building Enterprise reserve has been reclassified as an obligatory reserve fund in accordance with legislation. It is also recommended that a new reserve fund be established for cash-in-lieu contributions related to the town's new Rental Housing Protection By-law.

Building Enterprise: Staff have reclassified the Building Enterprise Reserve from an Operational Reserve to an Obligatory Reserve Fund. Through staff's review, it was determined that the purpose and activity of this reserve more accurately meets the definition of a reserve fund under the town's Reserve/Reserve Fund procedure. The purpose of the Building Enterprise Reserve Fund is for operating and capital expenditures associated with the Building department, including the retention of staff in period of low building activity. The Building Code Act (the Act) requires that the permit fees collected are to be solely used to administer the Act and that the delivery of building services should not affect the municipal budget. For this reason, collected funds cannot be used for other purposes due to legislation and should be segregated from general revenues. This reclassification is shown through the restatement of the existing reserve balance and related deferred revenue balance as part of 2023 year-end financial reporting process.

Rental Housing Protection: On July 10, 2023 council passed the town's Rental Housing Protection By-law 2023-102 and Demolition Control By-law 2023-101 under Section 99.1 of the Municipal Act as part of the implementation of the Housing Strategy and Action Plan. The purpose of the by-laws is to protect the present supply of rental housing units in town, while not discouraging the upgrade of older rental housing stock and the supply of new and modern purpose-built rental housing stock. The town has the ability to collect cash-in-lieu contributions for all or some of the units of a rental housing redevelopment where there are significant constraints associated with meeting the replacement or retention requirements outlined in the by-laws. Staff recommend that a Rental Housing Protection reserve fund be established to receive cash-in-lieu contributions and be set aside for future use. This reserve fund is interest bearing, with the purpose of supporting rental housing supply. To date, there has been no collections in this reserve fund. Withdrawals from the reserve fund should be in accordance with the Financial Control Policy.

Trust Funds

Funds segregated and held in trust in accordance with the specific terms of a statute or trust indenture total \$6.9 million at December 31, 2023 as detailed in the following table. Interest and investment earnings are allocated based on proportionate balance at year end in accordance with policy and procedures.

2023 Trust Funds (\$ Thousands)				
Trust Fund	2022 Ending Balance	2023 Activity		Balance at 12/31/2023
		Contributions	Transfers	
Cemetery Marker Care	382.3	35.1	15.3	402.0
Cemetery Perpetual Care	6,161.6	430.0	245.1	6,346.4
Library - Halton Information Providers	134.2	75.6	155.6	54.2
Burloak Canoe Club	37.4	1.5	-	38.9
Bronte Harbour Yacht Club	24.3	0.9	-	25.2
Oakville Power Boat Club	15.4	2.7	-	18.1
Bronte Community Tennis Club	24.6	1.0	-	25.6
Oakville Rugby Club	12.7	3.6	-	16.3
Oakville Yacht Squadron	8.5	2.4	-	10.9
Total	6,800.9	552.7	416.0	6,937.5

PURCHASING

In accordance with the town's Purchasing By-law 2017-095, a summary of the competitive bids, contract renewals and sole source awards in excess of \$100,000 are reported to Council quarterly. Appendix E provides details of the awards and contract renewals in excess of \$100,000 for this quarter.

CASH MANAGEMENT and INVESTMENTS

Cash flows are managed to ensure the funding requirements of the town are met while providing for a reasonable rate of return on invested funds not needed in current operations. The investment strategy follows a conservative approach in order to mitigate term and interest rate risk by maintaining a portfolio structure of high-quality, medium-term investments. For the period ended December 31, 2023, gross investment revenue from realized interest income and capital gains/losses, net of amortized premiums/discounts, was \$37 million, on a portfolio of cash and investments totaling \$943 million (book value). The annualized rate of return based on average cash and investment holdings was 3.93%, with an average maturity of 4.9 years.

Bank interest and investment earnings increased dramatically since 2023. The Bank of Canada (BOC) aggressively tightened monetary policy in response to increased heightened inflation raising the key interest rate by 4.75% since March 2022, from the effective lower bound of 0.25% to 5.00% in July 2023. The policy rate of 5.00% is the highest since 2001. Along with a corresponding increase to the town's bank

rate, fixed income yields have risen as a result of inflationary expectations, with a major rally in Q4 of 2023. The below chart displays the average yield for 5-10 year Government of Canada marketable bonds from January 2020 to January 2024, and illustrates the rise in yields for fixed income products, particularly since March 2022 when interest rate hikes began.



*Source: Bank of Canada (<https://www.bankofcanada.ca/rates/interest-rates/canadian-bonds/>)

The rise in yields and growing size of the town’s portfolio has resulted in a surplus for the town’s investment income budget in 2023. Appendix F provides details on the components of the town’s investment portfolio.

Inflation Outlook

Inflation has been easing since headline inflation in Canada hit a high of 8.1% in June 2022. Inflation ended 2022 at a 6.3% year over year, and declined to 3.4% in December 2023. The most recent read on inflation from February 2024 was 2.8%. The BOC’s interest rate measures are resulting in lower economic growth and inflation has been declining gradually; however, there remains uncertainty and upside risk.

Canadian real GDP has gotten off to a fast start in 2024, with a 0.6% rise in January, and early indications of a 0.4% rise in February. This combined 1% gain is as much as the economy grew in the entire 12 months of 2023. While this rise is partially driven by one-off factors such as the ending of the Quebec teachers’ strike, it remains a strong advance, much higher than estimated. There remain potential upside risks to inflation such as the increase to the carbon tax, wage increases, and global disruptions related to geopolitical conflicts. While projections are that the BOC may start to cut interest rates as early as June, key economic data could delay action, keeping interest costs elevated for longer than anticipated.

The impact of inflation on capital projects is beginning to moderate. While the non-residential Construction Price Index rose between 14%-15% in both 2021 and 2022, the index rose only 5.5% in 2023.

Debt

Debt financing complements the funding of capital works and is generally used for specific initiatives. Issuance of town debt is through Halton Region in compliance with provincial legislation.

There is \$65.7 million in outstanding approved debt not yet issued. Debt issuance is based on timing of the capital project spending, and when Halton Region plans to go to the market.

Total principal outstanding began the year at \$103.9 million and declined to \$98.5 million at year end. The town is in a strong financial position with total debt charges for the year at 3.1% of net own source revenue based on Ministry guidelines. When considering approved debt that is not yet issued, plus capital lease payments for transit electrification, total debt charges for approved debt are projected to rise to 6.6% of net own source revenue by 2027, which remains well within town policy of 12% and the Ministry limit of 25%. Further details are provided in Appendix G.

Development Related Securities

Securities are required to ensure performance to town standards of development related work done by third parties. Staff monitor the progress of the various projects to ensure that adequate security is held by the town relative to the value of the outstanding work, and releases of securities are contingent on satisfactory inspection. Securities are generally held for site plan and subdivision related residential and non-residential development as well as specific property related works. As of December 31st, the town held \$188 million in securities, which has increased from \$176 million in Q4 2022. \$149 million, or 79%, are secured by letters of credit and the remainder is cash.

CONSIDERATIONS:

(A) PUBLIC

This report provides information to the public regarding the town's financial performance. No specific groups have been notified directly regarding this report.

(B) FINANCIAL

This report and the information contained therein are in compliance with the town's financial policies.

(C) IMPACT ON OTHER DEPARTMENTS & USERS

Financial results have been estimated and reflected in consultation with the other departments.

(D) CORPORATE STRATEGIC GOALS

This report addresses Council's strategic priority: Accountable Government.

(E) CLIMATE CHANGE/ACTION

Climate change/action is a key priority of Council. The proposed budget will incorporate climate change initiatives in alignment with this strategic priority.

APPENDICES:

Appendix A – Operating Budget Variance Results

Appendix B – Capital Project Summary by Commission and Department

Appendix C – Summary of Capital Closures

Appendix D – Reserves and Reserve Funds

Appendix E – Purchasing Awards in excess of \$100,000

Appendix F – Investment Portfolio

Appendix G – Outstanding Debt

Appendix H – Municipal Act Reporting Requirements Report

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