



OAKVILLE

REPORT

Council

Meeting Date: June 17, 2024

FROM: Finance Department

DATE: June 4, 2024

SUBJECT: **March 31, 2024 Financial Results**

LOCATION:

WARD: Town-wide

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RECOMMENDATION:

1. That the information contained in the staff report dated June 4, 2024, entitled *March 31, 2024 Financial Results* from the Finance Department, be received.
2. That project 36102219 Cellular Enablement be amended to add \$106,000 from the Capital Reserve to fund additional equipment for the Transit fleet and to decommission the old infrastructure.
3. That the 2024 capital budget be amended to add a new project with a budget of \$65,000 funded from the Bloomberg Philanthropies Youth Climate Action Fund.

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, 2024 to March 31, 2024.
- The total projected town variance after reserve transfers is \$0.57 million favourable or 0.2% of the tax levy.
- Total capital expenditures of \$185.4 million have been incurred year to date.
- A total of 37 capital projects have been identified for closure this period resulting in \$7.06 million being returned to reserves and reserve funds.
- A total of 15 tendered contracts and 10 single source awards in excess of \$100,000 were awarded during this period.
- Inflation continues to run above the Bank of Canada's 2% target but has declined to just below 3% year over year through the first quarter of 2024. While many core components have eased, energy and shelter prices may keep inflation elevated in the near term.

BACKGROUND:

This report provides an update regarding the town's financial activities from January 1, 2024 to March 31, 2024 and covers all financial matters including operating budget, capital budget, reserve and reserve fund balances, investment and trust funds, and purchasing activities.

COMMENT/OPTIONS:**OPERATING BUDGET**

The total projected town variance after policy related and recommended reserve transfers is \$0.57 million favourable or 0.2% of the tax levy for this period.

\$ Millions	2024	2024	2024	2024
	Annual	Q1 Actuals+	Q1 Year-end	Variance to
	Budget	Commitments	Projection	Budget
Emergency Services	46.31	9.34	46.27	0.04
Road Network	33.04	9.89	30.75	2.29
Oakville Transit	38.95	7.75	38.64	0.31
Recreation and Culture	21.42	2.98	20.51	0.91
Parks and Open Spaces (incl. Cemetery and Harbours)	23.84	7.93	24.05	(0.20)
Oakville Public Library	12.18	2.89	12.09	0.09
Community Development	4.77	2.98	3.39	1.39
Political Governance	4.22	1.11	4.19	0.02
Municipal Enforcement (incl. Parking)	2.79	(0.16)	1.98	0.82
Corporate Support Services	40.29	9.40	39.46	0.83
Total Program Variance	\$ 227.81	\$ 54.12	\$ 221.32	\$ 6.50
Corporate Hearings & Litigation	0.50	0.15	0.50	(0.00)
Corporate Revenue & Expenses	(228.31)	(320.88)	(222.94)	(5.37)
Town Variance before transfers	\$ -	\$ (266.61)	\$ (1.13)	\$ 1.13
Policy Related and Recommended Transfers for Programs:				
Transfer (to)/from Building Enterprise Reserve				(0.55)
Transfer (to)/from Cemetery Reserve				(0.06)
Transfer (to)/from Harbours Reserve fund				0.10
Transfer (to)/from Parking Reserve fund				(0.04)
Total Town Variance after transfers				\$ 0.57

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

As shown above, the total projected Program Variance is \$6.50 million favourable primarily due to personnel savings for various vacancies, revenue for film rentals at Centennial pool and higher revenue for aquatic program registrations.

The variance projected in Corporate Revenue & Expenses is primarily attributed to the following:

- (i) \$1.82 million in corporate gapping budgeted for staff turnover with the offsetting savings found in the individual programs.
- (ii) \$1.00 million higher cost in benefits for retirees. The town does have a post-employment reserve that could be utilized to offset some of this variance at year end.

- (iii) \$1.76 million in revenue loss for the Automated Speed Enforcement (ASE) program as the start date is now expected to be late Q4 2024; savings in expenses associated with the ASE program are reflected in the Infrastructure Planning and Municipal Enforcement programs.
- (iv) \$1.20 million in Tax Stabilization funding was budgeted as an interim measure to offset the Transit net revenue impact given the slower recovery of ridership that was anticipated during the 2024 budget process; given the overall town surplus, it is projected that the Tax Stabilization funding will not be required.

The total Program variance combined with Corporate Hearings & Litigations and Corporate Revenues & Expenses shows a total town variance before transfers of \$1.13 million favourable.

Reserve Transfers

Legislation requires any surplus/shortfall generated from building permit revenues to be transferred to/from the Building Enterprise Reserve. A transfer of \$0.55 million to the Building Enterprise Reserve is projected. Town policy is to balance any surplus/deficit for Cemeteries, Harbours, Parking, and Election with their respective reserves and reserve funds which town staff is recommending be completed at year-end. After all policy related and recommended transfers, the total projected town variance after transfers is \$0.57 million favourable representing 0.2% of the tax levy.

Program Variance – by revenue/expense type

The total projected program variance is \$6.50 million favourable and the most significant variances to budget by expense and revenue type are discussed below.

\$ Millions	2024	2024	2024	2024
	Annual Budget	Q1 Actuals+ Commitments	Q1 Year-end Projection	Variance to Budget
EXPENSES				
Personnel Services & Benefits	195.50	42.58	191.84	3.66
Materials & Supplies	27.43	10.56	27.05	0.38
Capital out of Operations	0.35	0.09	0.34	0.02
Purchased Services	51.12	18.14	49.89	1.22
Payments & Grants	7.10	1.59	6.96	0.14
Internal Expenses & Transfers	58.69	6.72	58.65	0.04
Total EXPENSES	\$ 340.18	\$ 79.68	\$ 334.72	\$ 5.46
REVENUES				
External Revenues	(77.39)	(18.07)	(78.86)	1.47
Internal Recovery & Fund Transfers	(34.98)	(7.49)	(34.55)	(0.43)
Total REVENUES	\$ (112.37)	\$ (25.56)	\$ (113.41)	\$ 1.04
Total Programs	\$ 227.81	\$ 54.12	\$ 221.32	\$ 6.50

Personnel Services & Benefits - \$3.66 million favourable

The projected savings are higher than normal primarily due to vacancies in various programs. We continue to observe a trend towards stabilization in staff turnover approaching pre-pandemic levels. Gapping also continues to be notably less year-over-year since 2020 however given the increase in labour market pressure for skilled workers, attracting talent remains challenging in some areas, reflecting a 'new normal'. Gapping has also been influenced by a rise in the need to backfill full time staff taking sick leaves, some of which is related to post pandemic delays in surgeries and referrals to specialists or to mental health issues stemming from the pandemic.

Additionally, there has been an increase in staff taking legislative leaves such as maternity, parental, and family caregiver leaves. The town's reliance on temporary contract positions to meet capital project and supplemental staffing needs continues to prove difficult at times to fill given the current labour market. Lastly, while filling part time positions has improved over the past few years with robust applicant pools returning, there are still some pockets where finding qualified staff can be challenging. Overall, our active recruitment strategy is proving to be effective, and we will continue these efforts throughout 2024.

Purchased Services - \$1.22 million favourable

This is primarily attributed to savings for winter control given fewer snow events during this period as well as savings related to the ASE program as the start date is now expected to be late Q4 2024. These savings are partially offset by additional tree replacement contracted services costs, funded by tree replacement deferred revenue and recognized in External Revenue.

External Revenue - \$1.47 million favourable

This is primarily attributed to revenue for film rentals at Centennial pool and higher revenue for aquatic program registrations. As well, additional tree replacement deferred revenue has been recognized to offset additional tree replacement contracted services costs.

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.

Municipal Enforcement (incl. Parking) - \$0.82 million favourable

The projected variance shown below is primarily due to savings for the Automated Speed Enforcement (ASE) program which is expected to start in late Q4 2024.

\$ Millions	2024	2024	2024	2024
	Annual Budget	Q1 Actuals+ Commitments	Q1 Year-end Projection	Variance to Budget
EXPENSES				
Personnel Services & Benefits	4.85	1.10	4.92	(0.08)
Materials & Supplies	0.26	0.06	0.24	0.03
Capital out of Operations	0.02	0.01	0.02	0.00
Purchased Services	2.48	0.46	1.87	0.61
Payments & Grants	0.88	0.10	0.66	0.23
Internal Expenses & Transfers	1.69	0.37	1.78	(0.09)
Total EXPENSES	\$ 10.19	\$ 2.11	\$ 9.49	\$ 0.70
REVENUES				
External Revenues	(6.77)	(2.13)	(6.88)	0.11
Internal Recovery & Fund Transfers	(0.63)	(0.14)	(0.63)	0.00
Total REVENUES	\$ (7.40)	\$ (2.27)	\$ (7.51)	\$ 0.11
Total Municipal Enforcement (incl. Parking)	\$ 2.79	\$ (0.16)	\$ 1.98	\$ 0.82

Corporate Support Services - \$0.83 million favourable

The projected variance shown below is primarily due to personnel savings for various vacancies as the town continues to look to fill vacant positions.

\$ Millions	2024	2024	2024	2024
	Annual Budget	Q1 Actuals+ Commitments	Q1 Year-end Projection	Variance to Budget
EXPENSES				
Personnel Services & Benefits	41.47	9.06	40.23	1.25
Materials & Supplies	1.22	0.40	1.22	(0.00)
Capital out of Operations	0.04	0.05	0.04	0.00
Purchased Services	11.47	4.11	11.60	(0.13)
Payments & Grants	0.85	0.15	0.85	(0.01)
Internal Expenses & Transfers	1.12	0.20	1.11	0.01
Total EXPENSES	\$ 56.17	\$ 13.96	\$ 55.05	\$ 1.12
REVENUES				
External Revenues	(2.90)	(0.63)	(2.94)	0.04
Internal Recovery & Fund Transfers	(12.98)	(3.93)	(12.65)	(0.33)
Total REVENUES	\$ (15.88)	\$ (4.56)	\$ (15.59)	\$ (0.29)
Total Corporate Support Services	\$ 40.29	\$ 9.40	\$ 39.46	\$ 0.83

Recreation and Culture - \$0.91 million favourable

The projected variance shown below is primarily due to revenue for film rentals at Centennial pool and higher revenue for aquatic program registrations.

\$ Millions	2024	2024	2024	2024
	Annual Budget	Q1 Actuals+ Commitments	Q1 Year-end Projection	Variance to Budget
EXPENSES				
Personnel Services & Benefits	19.17	4.00	18.92	0.25
Materials & Supplies	5.05	1.32	5.07	(0.02)
Capital out of Operations	-	0.01	(0.00)	0.00
Purchased Services	5.44	1.36	5.55	(0.12)
Payments & Grants	1.77	0.58	1.84	(0.07)
Internal Expenses & Transfers	12.19	1.95	12.00	0.19
Total EXPENSES	\$ 43.63	\$ 9.22	\$ 43.39	\$ 0.24
REVENUES				
External Revenues	(21.91)	(6.20)	(22.67)	0.76
Internal Recovery & Fund Transfers	(0.30)	(0.04)	(0.21)	(0.09)
Total REVENUES	\$ (22.21)	\$ (6.24)	\$ (22.88)	\$ 0.67
Total Recreation and Culture	\$ 21.42	\$ 2.98	\$ 20.51	\$ 0.91

Community Development - \$1.39 million favourable

The projected variance shown below is primarily due to personnel savings for various vacancies as the town continues to look to fill vacant positions.

\$ Millions	2024	2024	2024	2024
	Annual Budget	Q1 Actuals+ Commitments	Q1 Year-end Projection	Variance to Budget
EXPENSES				
Personnel Services & Benefits	16.63	3.50	15.29	1.35
Materials & Supplies	0.08	0.02	0.08	0.00
Capital out of Operations	0.01	0.00	0.01	0.00
Purchased Services	0.61	0.21	0.60	0.01
Payments & Grants	0.15	0.02	0.15	(0.00)
Internal Expenses & Transfers	12.75	2.03	12.75	(0.00)
Total EXPENSES	\$ 30.23	\$ 5.79	\$ 28.88	\$ 1.36
REVENUES				
External Revenues	(23.22)	(2.28)	(23.25)	0.03
Internal Recovery & Fund Transfers	(2.24)	(0.52)	(2.24)	-
Total REVENUES	\$ (25.46)	\$ (2.81)	\$ (25.49)	\$ 0.03
Total Community Development	\$ 4.77	\$ 2.98	\$ 3.39	\$ 1.39

Road Network - \$2.29 million favourable

The projected variance shown below is primarily due to savings for winter control given fewer snow events during this period and personnel savings for various vacancies as the town continues to look to fill vacant positions. The town has established the Storm Event reserve to assist in balancing the fluctuations in winter

control costs as needed. Staff will monitor and make a recommendation to Council in the 2024 year-end report on the transfer needed to balance winter control.

\$ Millions	2024	2024	2024	2024
	Annual Budget	Q1 Actuals+ Commitments	Q1 Year-end Projection	Variance to Budget
EXPENSES				
Personnel Services & Benefits	19.06	4.40	18.40	0.66
Materials & Supplies	7.80	1.93	7.47	0.33
Capital out of Operations	0.15	(0.00)	0.14	0.01
Purchased Services	14.74	6.39	12.87	1.86
Payments & Grants	1.35	0.29	1.35	0.00
Internal Expenses & Transfers	9.53	1.01	9.54	(0.01)
Total EXPENSES	\$ 52.63	\$ 14.02	\$ 49.78	\$ 2.85
REVENUES				
External Revenues	(6.42)	(1.55)	(5.86)	(0.57)
Internal Recovery & Fund Transfers	(13.17)	(2.57)	(13.17)	0.00
Total REVENUES	\$ (19.60)	\$ (4.12)	\$ (19.03)	\$ (0.56)
Total Road Network	\$ 33.04	\$ 9.89	\$ 30.75	\$ 2.29

CAPITAL BUDGET

The total cumulative approved capital budget for active projects is \$962.0 million. Year to date, total expenditures of \$185.4 million have been incurred, bringing the total life-to-date or cumulative spending in active projects to \$531.4 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	2024 Expenditures and Commitments	Total LTD Expenditures (incl. Prior Years)
46602104 Sixteen Mile Sports Complex and Library	104,862,000	58,476,863	95,482,727
54212307 Transit Facility Expansion	18,000,000	14,838,226	15,633,735
54412206 Electric Replacement Buses	12,733,000	12,236,494	12,255,494
54412104 Electric Replacement Buses	11,099,000	10,754,233	10,794,352
53361902 RWD Bridge Rehab over Metrolinx Rail	9,217,400	7,979,148	9,222,299
52212007 Wallace Park Redev and Washroom Exp/Reno	7,521,700	6,131,561	6,658,981
52212102 Sixteen Mile Sports Park - South Parcel	20,754,300	5,785,989	17,856,418
43302203 Emergency Response Vehicles & Equipment	3,920,000	3,903,669	3,911,669
Total	\$ 188,107,400	\$ 120,106,182	\$ 171,815,675

51322401 Roads and Works Growth Equipment

Staff are amending the details for project 51322401 Roads and Works Growth Equipment to purchase two non-electric pick-up trucks instead of two electric pick-up trucks as a result of delays to the installation of charging stations at the Central Operations Depot. It is anticipated that the installation of charging stations will not be

completed in 2024. These pick-up trucks will provide staff the equipment required for operational needs for plowing in growth areas for the upcoming winter season.

Capital Budget Requests

36102219 Cellular Enablement

Staff are requesting that project 36102219 Cellular Enablement be amended to add \$106,000 from the Capital Reserve to fund additional equipment for the Transit fleet and to decommission the old infrastructure. As part of this project, voice communication of the Transit fleet is being migrated to Clever Devices' cellular-based solution as the old radio network infrastructure is no longer being support. Additional funding is required given an increase in the number of vehicles from the initial design as well as for decommissioning charges of the old radio network.

New Project

The Office of Mayor and Council applied for the Bloomberg Philanthropies Youth Climate Action Fund ("BPYCAF") and Oakville was chosen as one of six Canadian cities and one of 100 municipalities from across the globe as a recipient. The funds provided by the BPYCAF are to empower young people aged 15 to 24 to lead the charge in addressing urgent climate challenges. Through this partnership, Oakville will receive \$50,000 USD (approximately \$65,000 CAD) to distribute as microgrants, ranging from \$1,000 to \$5,000, to fund youth-led climate initiatives. The Office of Mayor and Council will work with local partners to distribute the micro-grants to youth organizations, youth-led groups, or youth applicants. The BPYCAF programs aligns with the Town's Strategic Priority of Environmental Sustainability.

Capital Budget Transfers and Closures

Project consolidations involve reallocating the original funding and scope of work between Council approved projects to facilitate effective management of the projects with no change to the original scope of work or funding requirements. The following project consolidations occurred during this period.

Project	Transfer To/ (From)
46602305 Sir John Colborne - Interiors	229,700
46602301 Sir John Colborne - Facility Capital Replacements	(25,200)
46602304 Sir John Colborne - Furniture, Equipment Replacement	(75,500)
42102412 Properties under 12,000 SF Maintenance and Repair	(129,000)
42102108 - HVAC - Various Locations	66,400
46312304 - GACC - Blue Rink	314,500
42102210 - HVAC - Various Locations	(11,500)
42102317 - HVAC - Various Locations	(39,300)
42102411 - HVAC - Various Locations	(330,100)
42102320 - Facility Repairs	70,000
42102214 - Facility Repairs	(70,000)
46402203 - Wedgewood Pool Rehabilitation	9,000
42102416 - Sitework - Various Facilities	(9,000)

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. There were no Commissioner approved transfers during this period.

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
54212202	Oakville Transit Lighting System	\$ 70,000	Building Maintenance Reserve Fund	Additional funding requested due to increased LED fixture prices, supply chain disruptions for computer chips, delays caused by the electrification of the bus fleet, and higher-than-anticipated labor costs.
46602206	Events Strategy	\$ 40,000	46602101 Recreation Planning Studies	Additional funding requested as the original budget is insufficient to complete the study. The additional funding is from savings in project 46602101 Recreation Planning Studies.
62102001	Plan-It E Services	\$ 202,500	Building Enterprise Reserve	Additional funding requested due to increased cost to cover several critical projects aimed at enhancing the town's planning and development process.
63102202	Midtown Implementation	\$ 350,000	General Capital Reserve	The Official Plan Amendment (OPA) finalization was planned to be completed by December 2023. Additional analyses, consultation, and Committee of the Whole meetings now move the planned completion to June 2024. The additional funding is to support the extension of the OPA finalization work to June 2024.

As part of ongoing capital project management, staff review the status of all active projects each quarter to ensure that as projects are completed and an asset goes into service, projects are closed. For this quarter, a total of 37 projects will be

closed. These closures represent a net surplus of \$7.06 million, of which \$5.33 million will be returned to reserves and \$1.73 million will be returned to reserve funds (subject to minor adjustments at final project close out). 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/ Reserve Funds
Net Impact	\$ 52,567.2	\$ 45,527.3	\$ (18.2)	\$ 7,058.1	\$ 5,324.5	\$ 1,733.6	\$ 7,058.1

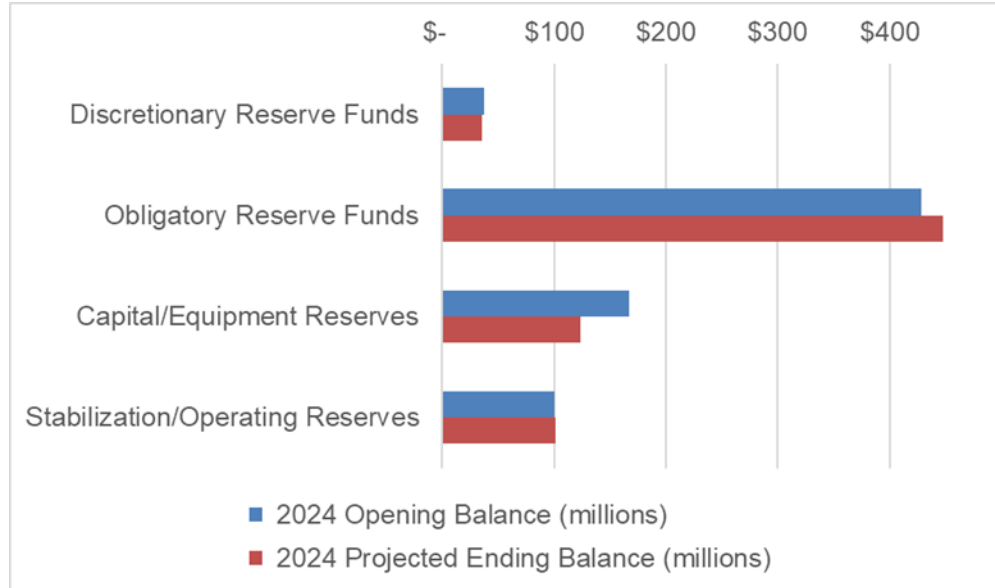
One project being closed this quarter exceeded budget more than 10%; as the amount is less than \$350,000 the CAO has the authority to approve the required funding to close this project in accordance with town policy.

PROJECT TITLE	TOTAL APPROVED BUDGET	TOTAL ACTUAL EXPENSES	PROJECT SHORTFALL/ FUNDING REQUIRED	%	EXPLANATION
52292305 Park Signage	\$78,500	\$124,264	(\$45,764)	58%	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 2024 opening balances and 2024 projected 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 are expected to remain relatively stable over the course of the year. Capital related reserves are expected to decrease during the year, as capital expenditures are projected to be higher than transfers to these reserves due to major projects such as design for Fire station #9, replacement of Glen Abbey blue rink, Downtown Cultural Hub, Wallace Parks redevelopment and washroom expansion/renovation, Road resurfacing, and Electric buses replacement. Equipment reserves are expected to decrease as capital outlay is exceeding transfers from operating budget.

Reserve Funds

Obligatory Reserve Funds are expected to increase from \$428.4 million to \$447.7 million, as expected revenue exceeds current year capital needs. While revenue collected from development charges has experience an uptick in first quarter of the year, collections for community benefits charges and parkland dedication were still lower than anticipated, primarily due to the legislative impacts and slower development activity. 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 projected to be \$277.1 million at year end. Discretionary Reserve funds are expected to remain stable throughout the year.

Trust Funds

Funds segregated and held in trust in accordance with the specific terms of a statute or trust indenture total \$7 million at March 31, 2024 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.

2024 Trust Funds (\$ Thousands)				
Trust Fund	2024 Opening Balance	2024 Activity		Balance at 3/31/2024
		Contributions	Transfers	
Cemetery Marker Care	402.0	1.5	-	403.5
Cemetery Perpetual Care	6,346.4	30.7	-	6,377.1
Library - Halton Information Providers	54.2	50.9	-	105.1
Burloak Canoe Club	38.9	-	-	38.9
Bronte Harbour Yacht Club	25.2	-	-	25.2
Oakville Power Boat Club	18.1	2.0	-	20.1
Bronte Community Tennis Club	25.6	-	-	25.6
Oakville Rugby Club	16.3	3.0	-	19.3
Oakville Yacht Squadron	10.9	2.0	-	12.9
Total	6,937.5	90.1	-	7,027.6

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 March 31, 2024, gross investment revenue from realized interest income and capital gains/losses, net of amortized premiums/discounts, was \$10.5 million, on a portfolio of cash and investments totaling \$1.0 billion (book value). The annualized rate of return based on average cash and investment holdings was 4.19%, with an average maturity of 4.4 years.

Bank interest and investment earnings increased dramatically over the past year. 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% 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. Appendix F provides details on the components of the town's investment portfolio.

Economic Outlook

Inflation has been easing since headline inflation in Canada hit a high of 8.1% in June 2022. Through monetary policy, the BOC aims to target inflation at the 2% mid-point of its 1%-3% target range, with the goal of providing price stability and maximum sustainable employment. Higher interest rates have been working their way through the economy, resulting in lower economic growth and inflation. Inflation declined to 3.4% in December 2023, and has been slightly below 3% year over year throughout the first quarter of 2024. This recent string of lower inflation levels has confirmed that broad-based easing in inflation is underway, and that the BOC may lower interest rates as early as June. While most major categories are easing, it is expected that energy and shelter prices (rents and mortgage interest) will keep inflation close to 3%, before easing below 2.5% in the second half of 2024. The BOC is anticipating a return to the 2% inflationary target by the end of 2025.

The economy has rebounded from essentially no growth in the latter half of 2023, with real GDP growth on track to rise to roughly 2% over the first half of 2024. Real GDP is forecast to average 1.5% for 2024 and 2.2% in 2025. Canada's population growth in 2023 and 2024, driven by larger than expected non-permanent residents, has supported GDP through an increased supply of workers and household spending. This strong economic activity has reduced the risk of a sharp slowing in the economy due to the tighter financial conditions. Following the period of excess demand and tight labour markets spurred by the pandemic, there are signs that the economy has reached over supply, with the unemployment rate rising to 6.1% in April along with job vacancy rates near pre-pandemic levels.

Overall, the economy is stabilizing, and economists are projecting the BOC to begin cutting interest rates in June. It is expected that the BOC will ease into rate cuts and monitor the economy to continue on the path towards the 2% inflation target. Heightened inflation experienced over the past years, as well as expectations for continued inflation above the 2% target, have applied significant pressure to the town's operating and capital budgets for goods and services. There remains uncertainty and upside risk to inflation due to factors such as the carbon tax, ongoing wage increases to catch up with prior years of high inflation, and global disruptions related to geopolitical conflicts.

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.

Total principal outstanding at the beginning of the year was \$98.5 million and will increase to \$143.3 million at year end. To begin the year, the town had \$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. The region completed a debt issuance in April 2024, with \$50 million being issued for town capital projects. Further details are provided in Appendix G.

The town is in a strong financial position with total debt charges in 2024 at 2.97% of net own source revenue. Full annual debt charges are not incurred in the year of issuance. When considering full debt charges for newly issued debt, and approved debt that is not yet issued, 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%.

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 March 31st, the town held \$190 million in securities, which has increased from \$183 million in Q1 2023. \$151 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

Prepared by:

Dalibor Stancovici

Manager of Financial Planning & Policy

Matt Day

Manager of Development Financing & Investments

Recommended by:

Jonathan van der Heiden

Deputy Treasurer and Director of Finance

Submitted by:

Nancy Sully

Commissioner of Corporate Services and Treasurer