



OAKVILLE

## REPORT

ADMINISTRATIVE SERVICES COMMITTEE

MEETING DATE: DECEMBER 11, 2018

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**FROM:** Finance Department

**DATE:** November 12, 2018

**SUBJECT:** September 30, 2018 Financial Progress Report

**LOCATION:**

**WARD:**

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### RECOMMENDATION:

1. That the September 30<sup>th</sup>, 2018 Financial Progress report be received;
2. That the transfers to and from the Reserves and Reserve Funds and transactions contained in the November 12, 2018 Finance department report be approved; and
3. That the Transit Fare Card Reserve Fund be closed and any remaining funds be transferred to the Gas Tax Reserve Fund.

### KEY FACTS:

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

- The Financial Progress Report presents the Town's financial activities from January 1, 2018 to September 30, 2018.
- The projected net operating budget variance as of September 30<sup>th</sup>, 2018 for Town programs is \$0.69 million favourable after projected year-end transfer to/from reserves .
- The overall town variance is projected to be \$1.34 million favourable including Corporate Revenue and Expenditures and Corporate Hearings and Litigation which represents 0.7% on the 2018 tax levy of \$189,688,000.
- As of September 30<sup>th</sup>, total capital expenditures of \$87.2 million have been incurred and a further \$83.0 million is committed.
- A total of 67 capital projects have been identified for closure resulting in \$8.07 million being returned to respective reserves and reserve funds.
- At September 30, 2018, the town held cash and investments totaling \$465 million, achieving an annualized rate of return of 2.96% based on average portfolio balances.

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- A total of 19 tendered contracts and 3 single source awards in excess of \$100,000 were awarded during the third quarter of 2018.

### BACKGROUND:

This report provides an update regarding the Town's financial activities from January 1, 2018 to September 30, 2018 and covers all financial matters including: operating budget, capital budget, reserve and reserve fund balances, investment and trust funds and purchasing activities. Based on September 30th results, many programs are projected to be on budget, however some programs are expecting significant variances based on spending and trends to date.

### COMMENT/OPTIONS:

Based on the September 30th results, the total program variance before policy related transfers to/from reserves results in an unfavourable variance of \$1.66 million as illustrated in the table below. The primary drivers of the unfavourable program variance is higher than anticipated expenditures in Oakville Transit and lower than average Planning and Building revenues.

(in \$ Millions)

| Program   | 2018<br>Net Approved<br>Budget | 2018<br>Actuals as of<br>Sept. 30th | 2018<br>Projected<br>Year-End<br>Actuals | 2018<br>Projected<br>Variance | %<br>Variance |
|---|--------------------------------|-------------------------------------|--|-------------------------------|---------------|
| Recreation Services                               | 17.00                          | 13.06                               | 16.32                                    | 0.68                          |               |
| Parks and Open Spaces (incl. Cemetery & Harbours) | 16.85                          | 13.89                               | 16.85                                    | (0.00)                        |               |
| Library   | 8.89                           | 6.81                                | 8.81                                     | 0.08                          |               |
| Emergency Services                                | 36.30                          | 26.97                               | 35.94                                    | 0.36                          |               |
| Oakville Transit                                  | 22.03                          | 18.91                               | 24.18                                    | (2.14)                        |               |
| Road Network                                      | 24.54                          | 16.80                               | 23.43                                    | 1.11                          |               |
| Municipal Enforcement (incl. Parking)             | 2.12                           | 1.38                                | 1.64                                     | 0.48                          |               |
| Community Development                             | 4.30                           | 5.63                                | 7.13                                     | (2.83)                        |               |
| Political Governance                              | 3.69                           | 2.09                                | 3.57                                     | 0.12                          |               |
| Corporate Support Services                        | 27.86                          | 18.82                               | 27.37                                    | 0.48                          |               |
| <b>Total Program Variance</b>                     | <b>163.58</b>                  | <b>124.38</b>                       | <b>165.24</b>                            | <b>(1.66)</b>                 | <b>-1.02%</b> |

Legislation requires any surplus or shortfall generated from building permit revenues to be transferred to/from the Building Enterprise reserve, therefore \$1.78 million will be transferred from reserve to offset the projected shortfall at year end. In addition, town policy is to balance any surplus/deficit for Parking, Cemetery Harbours and Elections to their own program specific reserves. Currently, Parking, Cemetery and Elections are projecting a favourable variance, while Harbours is projecting a deficit. The combined transfers to/from reserve result in \$40,000 transfer from reserves. In

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addition, in accordance with town procedure, the \$530,000 variance in fuel costs as a result of higher than expected rates will be funded from the Tax Stabilization reserve. These year-end adjustments to/from reserves would adjust the net program variance identified above to be \$0.69 million favourable, which represents a 0.4% variance from the 2018 approved program budget of \$163.6 million.

(in \$ Millions)

| Program   | 2018<br>Net Approved<br>Budget | 2018<br>Actuals as of<br>Sept. 30th | 2018<br>Projected<br>Year-End<br>Actuals | 2018<br>Projected<br>Variance | %<br>Variance |
|---|--------------------------------|-------------------------------------|--|-------------------------------|---------------|
| <b>Total Program Variance</b>                                     | <b>163.58</b>                  | <b>124.38</b>                       | <b>165.24</b>                            | <b>(1.66)</b>                 | <b>-1.02%</b> |
| <b>Policy Related Transfers for Programs:</b>                     |                                |                                     |  |                               |               |
| Transfer from Building Enterprise Reserve                         |                                |                                     |  | 1.78                          |               |
| Net Transfer to/from Parking, Cemetery and Harbours Reserve funds |                                |                                     |  | 0.14                          |               |
| Transfer to the Election reserve                                  |                                |                                     |  | (0.09)                        |               |
| Transfer from Tax Stabilization Reserve for fuel costs            |                                |                                     |  | 0.53                          |               |
| <b>Net Program Variance after Transfers</b>                       |                                |                                     |  | <b>\$ 0.69</b>                | <b>0.42%</b>  |

In the Corporate section, Corporate Hearings and Litigation is projected to incur total expenditures of \$6.47 million by year end which exceeds the average budget allocation of \$500,000 by \$5.97 million. Corporate Revenue and Expenditures is projecting a favourable variance of \$6.61 million primarily as a result of higher than anticipated supplementary tax revenue of \$3.5 million, fines and penalties of \$0.6 million and interest earnings of \$2.0 million. This favourable variance helps to offset the Corporate Litigation expenditures. Therefore, when the program variance of \$0.69 million is combined with the corporate section, the overall net town surplus is projected to be \$1.34 million which represents 0.7% of the total net tax levy of \$189.7 million as shown below.

(in \$ Millions)

| Program                                     | 2018<br>Net Approved<br>Budget | 2018<br>Actuals as of<br>Sept. 30th | 2018<br>Projected<br>Year-End<br>Actuals | 2018<br>Projected<br>Variance | %<br>Variance |
|---|--------------------------------|-------------------------------------|--|-------------------------------|---------------|
| <b>Net Program Variance after Transfers</b> |                                |                                     |  | <b>\$ 0.69</b>                | <b>0.42%</b>  |
| Corporate Hearings and Litigations          | 0.50                           | 3.99                                | 6.47                                     | (5.97)                        |               |
| Corporate Revenue & Expenses                | (164.08)                       | (163.85)                            | (170.69)                                 | 6.61                          |               |
| <b>Net Surplus</b>                          |                                |                                     |  | <b>\$ 1.34</b>                | <b>0.7%</b>   |

### Significant Program Variances

As illustrated in the charts above, the program variance is projected to be \$1.66 million unfavourable before policy related transfers. This is primarily a result of

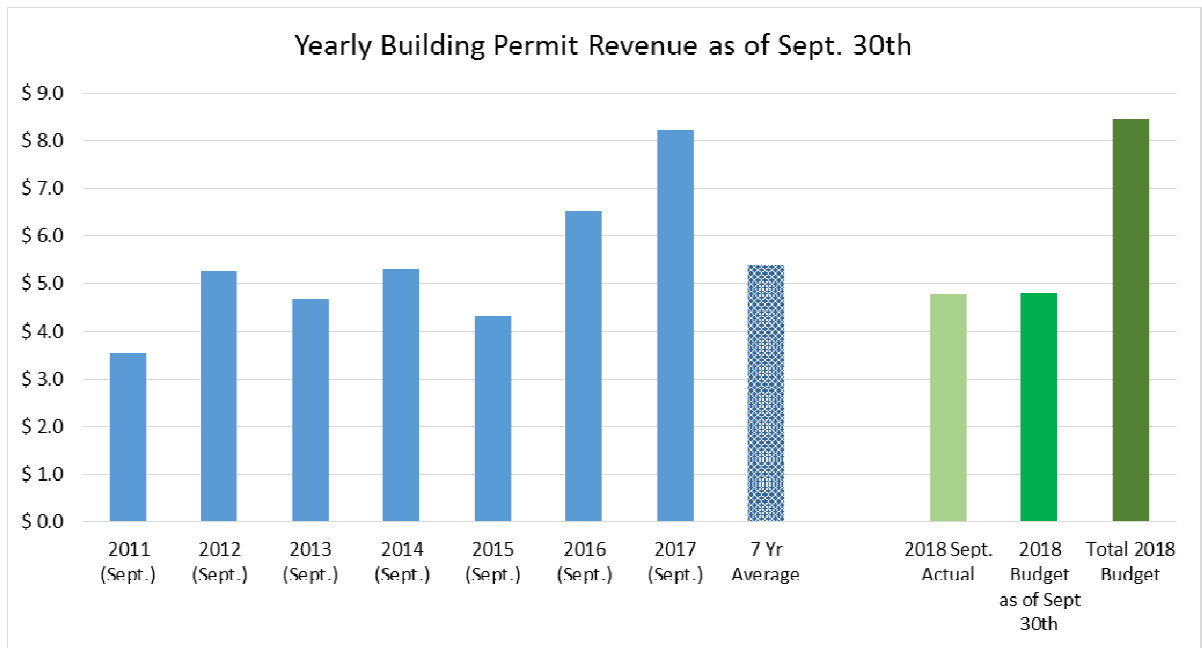
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increased expenditures combined with lower revenues in Oakville Transit which is projecting a \$2.1 million unfavourable variance; and lower than average revenues in Building and Planning. Most other programs are expecting to be on budget or have slight variances with the exception of the Road Network which is projecting savings of \$1.1 million and Recreation with projected savings of \$0.68 million. Details on individual program variances are provided in Appendix A.

- **Oakville Transit (\$2.1M) U before transfers, (\$1.6M) U Net**– Based on Sept 30th results, Transit is projecting an unfavourable variance as a result of higher than anticipated expenditures of \$1.6 million combined with \$0.5 million shortfall in revenues. Ridership volumes are currently trending close to budget, however, fare revenue is projected to be below budget by \$850,000 due to a lower average fare than anticipated. Advertising revenue is currently trending higher than budget by approximately \$260,000 which helps offset the unfavourable fee revenue. Expenditures are expected to be \$1.6 million unfavourable primarily as a result of increased personnel costs of approximately \$500,000 due to higher use of casual drivers and overtime to cover sick occurrences and vacation. Another main driver is fuel. To date the cost per litre for Transit type 2 diesel has averaged higher than budget which accounts for \$440,000 of the unfavourable variance. Other factors contributing to the unfavourable variance are higher than anticipated vehicle repairs/parts (\$310k), utilities (\$100k), presto fees (\$100k) and various contracted services (\$100k). The use of taxis to provide transportation to meet AODA requirements has been partially mitigated by undergoing an internal scheduling process review which has shifted rides to Oakville Transit's specialized service thereby reducing the projected variance to \$80,000 from the previously projected \$150,000. At the end of the year, the net variance for Oakville Transit is projected to be \$1.6 million unfavourable. In accordance with town procedure, unfavourable variances in fuel costs due to significant fluctuation in rates will be offset by a transfer from the Tax Stabilization reserve at year end.
- **Building Services (\$2.0M) U before transfers, (\$0.2) Net** – based on current results, building services is projecting a total unfavourable variance of \$2.0 million. Building permit & inspection revenue is earned over a period of 4 years as inspections are completed throughout the construction process. As a result revenues are made up partly from new building permits issued in the current year, and a portion from previous year permits. This process, in combination with unpredictable market conditions makes it difficult to predict or budget revenue in any given year. As part of the 2018 budget, analysis was completed to prepare the revenue budget based on average historic permit volumes as opposed to trying to predict upcoming year activity in attempt to help mitigate the large fluctuations in revenue variances from year to year. As a result, the portion of new revenue for the 2018 budget was based on an average permit volume of

1,270 residential units for the year. As of September 30<sup>th</sup>, a total of 930 units has been received which is lower than average volumes anticipated for the year. In addition, revenue earned from inspections is also trending lower than anticipated. As a result, the total revenue expected to be earned in permits and inspections is \$1.7 million lower than budget.

The following chart illustrates the historical building permit revenue earned as of September 30<sup>th</sup> and the 7 year average compared to the 2018 earned revenue to date. Although September 30<sup>th</sup> actual revenue is on target with the estimated budget to be achieved by September, it is below the average. Generally, the last quarter of the year brings in a large portion of deferred inspection revenue, which is why the Total 2018 Budget column shows a large difference from the September Budget column. In order to meet budget, \$3.6 million would need to be achieved in the final quarter.



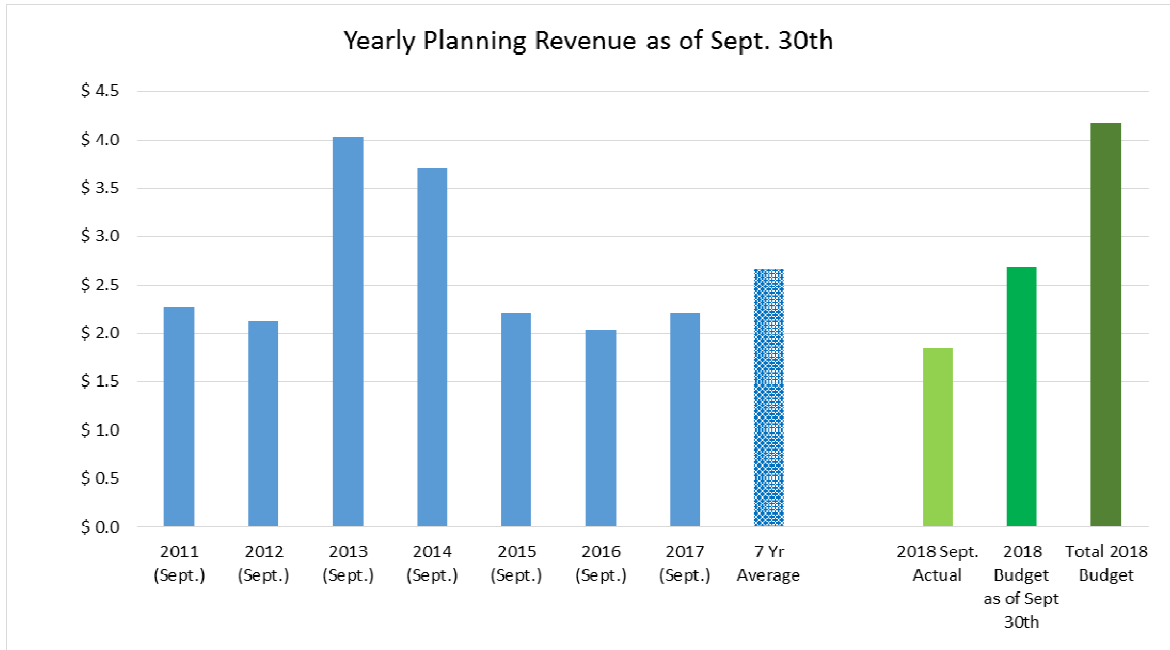
Also included in Building Services is Committee of Adjustment (COA) services. COA is currently projecting an unfavourable variance of \$230,000, which is primarily due to lower than anticipated revenues. At year end, any shortfall in the Building permit revenues will be funded from the Building Enterprise reserve, resulting in the COA variance of \$0.2 million as the net variance to the town.

- Planning Services (\$1.5M) U** – Based on September results, Planning services is projecting to have a \$1.5 million unfavourable variance which is primarily a result of lower than budgeted revenues. Similar to Building Services, planning revenues such as site plans, zoning reviews and subdivision plans are earned

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over a period of time as the work takes place. In addition, fees are also based on the size or number of housing units in a particular application which can vary from 10 to 1,000. The number and size of applications in any given year can fluctuate and are quite subjective to changes in economic conditions. As such, the 2018 revenue budget for planning was also prepared using average historic application volumes. In 2018 the revenue was based on receiving a total of 116 applications with the residential plans averaging between 88 to 285 housing units. As of September 30<sup>th</sup>, the total number of applications received to date is 72 which is much lower than the average volumes, with the largest difference being in site plans and subdivisions. As a result, the total revenue expected to be earned by year end is \$1.6 million lower than budget.

The following chart illustrates the historical revenue earned as of September 30<sup>th</sup> compared to the 2018 earned revenue to date. September 30<sup>th</sup> actual revenue is trending below the average and is lower than the estimated budget to be achieved by September. In addition, the September actuals are well below the total 2018 budget, with approximately \$2.3 million required in the final quarter in order to meet budget.



Savings in personnel costs in planning are anticipated as a result of staff turnover which helps to offset the unfavourable variance, resulting in a net variance to the town of \$1.5 million.

- **Infrastructure Maintenance \$0.96 M F before transfers, \$1.0M F Net** – is projecting a favourable variance of \$960,000 primarily a result of savings in

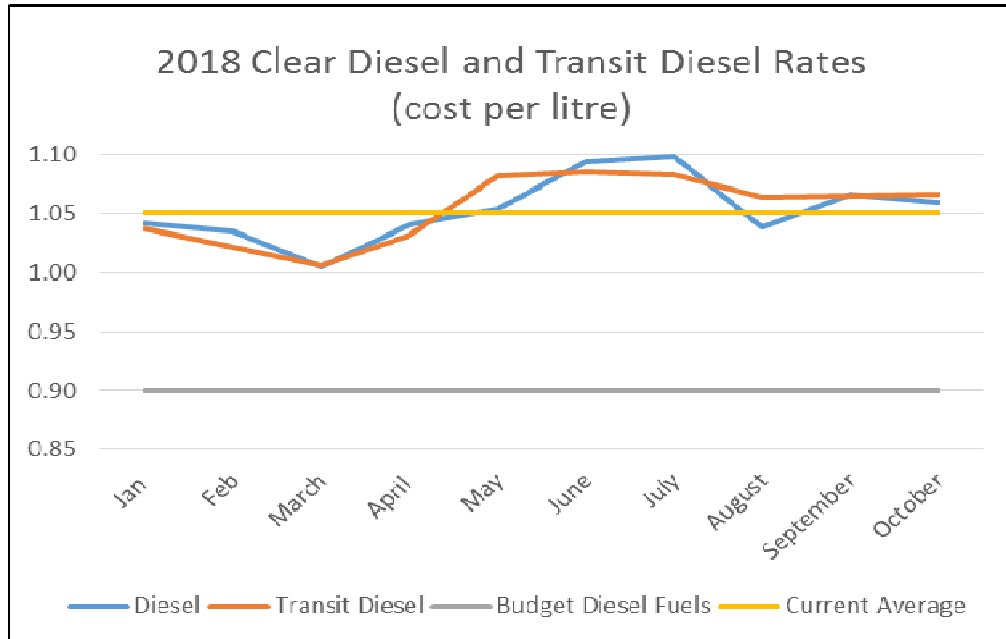
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Streetlight costs. Beginning in 2016, the town began implementing a project to convert all streetlights to LED which was to be debt financed and funded through the savings achieved in hydro costs. As of March 2018 all but the downtown lights have been converted and as a result, the town has seen a steady decrease in hydro costs over the past year and a half. As of September, 2018 hydro costs are projected to be \$330,000 less than budget and debt charges are \$150,000 lower than projected resulting in overall savings in Streetlight services of \$450,000 when considering cost in contracted maintenance. In addition to these savings lower costs in traffic control maintenance of (\$240k), crossing guards (\$220k) and roadside maintenance activities (\$215k) also contribute to the overall favourable variance. This is offset by a projected shortfall in Fleet and Stores services of \$260,000 of which, \$94,000 is due to additional fuel costs. As noted above, the shortfall in fuel costs as a result of fluctuations in rates will be funded from the Tax Stabilization reserve, therefore the net overall variance for Infrastructure Maintenance will be \$1.0 million to the town.

- **Recreation & Culture Services \$0.7M F** – is projecting a \$680,000 favourable variance mainly as a result of higher than anticipated revenues primarily in the areas of program registrations, memberships and rentals. As of September 30<sup>th</sup> overall program enrollment is 2,912 higher than this time in 2017 where memberships have been 2,095 higher and registrations 817 higher. Growth in program enrollment was anticipated for the 2018 budget, however revenues to date exceed budget by \$349,000 and are expected to continue to exceed budget at year by \$520,000. Rental revenues which include ice and pool rental are also exceeding budget to date and are expected to end the year with a favourable variance of \$96,000. In addition to revenues, savings in personnel costs of approximately \$180,000 as a result of staff turnover and temporary backfills for full-time staff also contribute to the overall favourable variance.

### **Fuel Rates**

As previously reported in June, staff continue to monitor fuel rates very closely. As shown below; Diesel fuel rates; which is the primary fuel used by town vehicles, were on a steady upward trend since March and then have dropped the past few months, but overall are still averaging \$1.05 per litre to date. This represents a 15 cents per litre increase over the rate used to prepare the 2018 budget.



Based on these rates it is projected that fuel costs will be over budget by \$530,000 at the end of the year with the majority of the variance in Transit. As a result, it is procedure that the Tax Stabilization reserve would be used to offset the unexpected costs. In addition, fuel rates have been adjusted for the 2019 budget to be in line with current average rates.

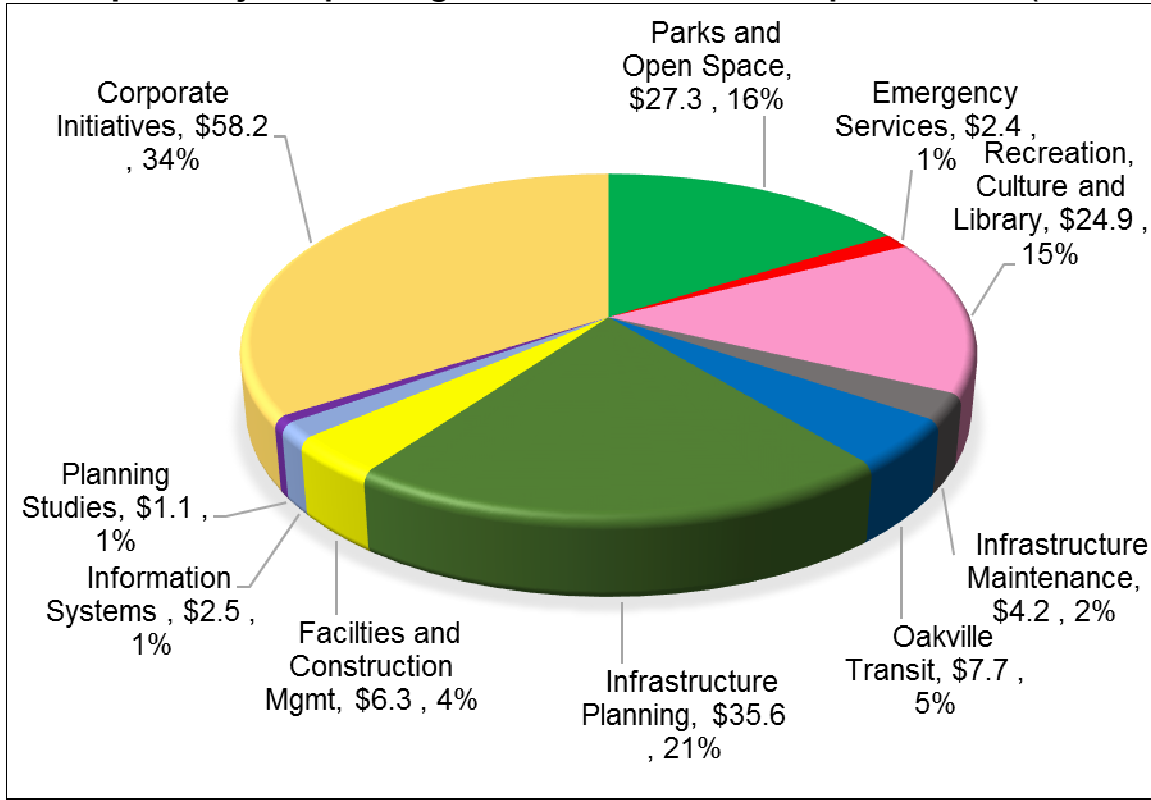
**CAPITAL BUDGET**

As of September 30<sup>th</sup>, total capital expenditures of \$87.2 million have been incurred and a further \$83.0 million have been committed for a total of \$170.2 million in 2018, bringing the total life to date or cumulative spending in open projects to \$361.1 million. Appendix B shows more information on total approved budget and expenditures by program.

As illustrated in the chart below, Corporate Initiatives represent the largest portion of 2018 expenditures to date with \$58.2 million (34%) which includes the Southeast Community Centre project. Followed by Infrastructure Planning at \$35.6 million (21%), Parks and Open Space at \$27.3 million (16%) and Recreation, Culture and Library at \$24.9 million (15%).



**2018 Capital Project Spending + Commitments as at September 30<sup>th</sup> (\$170.2M)**



The following projects represent 65% of the 2018 spending to date:

| Capital Project  | LTD Approved Budget   | 2018 Expenditures + Commitments | Total LTD Expenditures (incl. Prior Yrs) |
|--|-----------------------|---------------------------------|--|
| 46601701 South East Community Centre                       | 48,277,300            | 35,347,916                      | 36,046,551                               |
| 46311301 Trafalgar Park Revitalization                     | 41,294,500            | 19,396,540                      | 40,337,200                               |
| 35201801 Deerfield GC Acquisition                          | 16,300,000            | 16,673,844                      | 16,673,844                               |
| 53331801 Road Resurfacing and Preservation Program         | 9,643,000             | 9,342,497                       | 9,342,497                                |
| 53310601 Cornwall Rd-Chartwell to Morrison                 | 9,057,300             | 7,581,458                       | 9,066,372                                |
| 52241602 Waterfront Trail Improvement - Tannery Waterworks | 4,558,000             | 4,513,519                       | 4,561,789                                |
| 42101401 OTM Hospital Demolition                           | 11,860,000            | 3,961,363                       | 7,528,471                                |
| 54411703 Expansion Buses - New 30 ft Conventional          | 4,301,000             | 3,851,978                       | 4,056,864                                |
| 52211603 Seawall Rehabilitation - Oakville Harbour         | 3,911,000             | 3,553,181                       | 4,022,314                                |
| 52271805 EAB Management Program                            | 3,802,300             | 3,345,128                       | 3,345,128                                |
| 54411808 Replacement Buses                                 | 2,964,000             | 2,834,808                       | 2,834,808                                |
| <b>Total</b>   | <b>\$ 155,968,400</b> | <b>\$ 110,402,231</b>           | <b>\$ 137,815,837</b>                    |

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## Capital Budget Transfers and Closures

In accordance with the revised Financial Control Policy approved in November 2016, Commissioners are authorized to approve the transfer of funds between projects for any project where the costs exceed budget by the lessor of 10% or \$200,000. Appendix C provides a summary of the approved transfers during Q3 2018. In addition, the CAO has authority to authorize funds from reserves or reserve funds up to \$350,000 provided the expenditures are within the original scope of the project. The following are projects which required additional funding as approved by the CAO during Q3 2018.

| Project No. | Project Title                     | Total Approved | Financing                 | Note  |
|-------------|-----------------------------------|----------------|---------------------------|---|
| 46631804    | River Oaks - Capital Replacements | \$ 141,500     | Building Maintenance Res. | Additional budget to remove the ammonia contaminated brine from the rink floors, flush out these floors and recharge with new brine, and rent a portable refrigeration system.  |
| 52901601    | Rehab Boat Launch - Bronte Har    | \$ 250,000     | Harbours Reserve Fund     | Additional budget due to increased tariffs on steel and the timing window of work imposed on this project by the Ministry of Natural Resources & Forestry (MNRF) limiting the number of contractors who can complete this work in a short window. |
| 52211815    | Glenashton Park Bocce Court       | \$ 21,000      | Parkland Reserve Fund     | Additional budget required for higher base construction cost based on lowest tender bid   |

As part of our ongoing capital project management, staff review the status of all open projects each quarter to ensure that as projects are completed and an asset goes into service that the projects are closed. As a result of the September 30th review, a total of 67 projects will be closed. These closures represent a net savings of \$8.07 million that will be returned to reserves and reserve funds.

| Authority         | Project Budget vs Actual |                       |                       | Impact on Reserves (in \$1,000s)<br>(Positive = surplus, negative = add'l funds required/received) |  |                          |
|-------------------|--------------------------|-----------------------|-----------------------|--|--|--------------------------|
|                   | TOTAL APPROVED BUDGET    | TOTAL ACTUAL EXPENSES | PROJECT LIFE VARIANCE | Town Capital & Equipment Reserves  | Dev. Charge & Prog. Specific Reserve Funds | Total to/(from) Reserves |
| Commissioner      | 40,389.6                 | 32,318.0              | 8,071.6               | 2,179.7  | 5,891.9                                    | 8,071.6                  |
| CAO Authority     | -                        | -                     | -                     | -  | -  | -                        |
| <b>Net Impact</b> | <b>\$ 40,389.6</b>       | <b>\$ 32,318.0</b>    | <b>\$ 8,071.6</b>     | <b>\$ 2,179.7</b>  | <b>\$ 5,891.9</b>                          | <b>\$ 8,071.6</b>        |

Of the \$8.07 million, \$2.18 million will be returned to town capital and equipment reserves and \$5.89 million to development charge and program specific reserve funds. Appendix D provides more details of the project closures by program. Included within the list of closures are projects that meet the Financial Control Policy criteria that "Capital projects have had little or no expenditures with 18 months of approval will be closed by Finance staff in consultation with related staff. As a result of this review the following are the projects that met this criteria:

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| Project Description  | Project Budget vs Actual |                       |                 | Comment   |
|--|--------------------------|-----------------------|-----------------|---|
|  | TOTAL APPROVED BUDGET    | TOTAL ACTUAL EXPENSES | PROJECT BALANCE |   |
| 53341605 Sidewalks on Regional Roads                       | \$ 5,151,706             | \$ 34,958             | \$ 5,116,748    | Final invoices to Halton have been paid. Future sidewalks and trails on Regional Roads are now Halton's responsibility to budget, design and construct. |
| 53311806 Khalsa Gate Streetscape - Pine Glen to Cul-de-Sac | \$ 187,000               | \$ 2,000              | \$ 185,000      | Project construction is now planned for 2021, design has been rebudgeted for 2020.  |
| 53371603 Arkendo Park- Shoreline Protection                | \$ 158,000               | \$ 11,112             | \$ 146,888      | Project construction is now planned for 2021, design has been rebudgeted for 2020.  |
| 53381706 Storm Sewer Maintenance & Replacement Program     | \$ 353,000               | \$ 10,760             | \$ 342,240      | Annual budget allocation not utilized, additional allocation approved for 2018  |
| 63101001 Land Development Model                            | \$ 100,000               | \$ -                  | \$ 100,000      | Work was completed by internal staff, project not needed  |

**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 Q3 of 2018.

**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. Annual budgeted transfers to these funds ensure funding levels are sufficient to support future needs, providing financing for capital projects and program operations, such as refurbishment and replacement of the town’s capital assets. Reserve Funds and Trust funds are held by the town for the benefit of other agencies or entities in accordance with specific statutes or trust indenture. Details of individual reserve and reserve funds can be found in Appendix F.

**Reserves**

Based on the September 30<sup>th</sup> results, the 2018 ending reserve balance for Stabilization/Operating reserves is projected to be \$2.1 higher than the 2017 balance as illustrated in the chart below. The higher balance is primarily due to the projected overall net town surplus of \$1.34 million.

Reserve/Reserve Fund Balances as of Sept. 30th

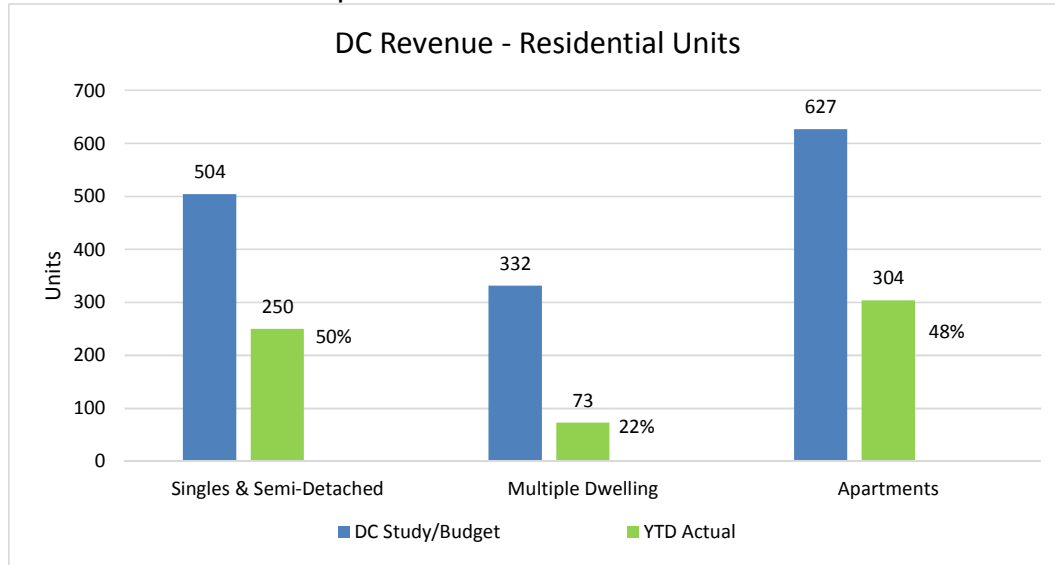


Capital/Equipment reserves are projected to be \$49.4 million which is a reduction of \$29.1 million from the 2017 balance. The reduction is primarily due to budgeted transfers to capital projects of \$54.2 million for various projects including Trafalgar Park Revitalization and South East Community Centre. Expenditures are partially offset by net annual contributions to reserves from operating of \$21.8 million. Based on policy, the allocation of interest earnings to specified capital and equipment reserves is expected to be \$1.3 million. Capital gains recognized during the year of \$1.7 million are transferred to the tax stabilization reserve.

**Reserve Funds**

At September 30<sup>th</sup>, the projected year-end obligatory reserve fund balances total \$106.6 million including projected year-end interest allocations of \$3.1 million. This revised projected balance is \$21.3 million lower than the projected ending balance at the time of the 2018 budget. One of the drivers of the lower than anticipated balance is the \$13.8 million approved by council from the Parkland reserve fund for the recent land purchased for the Deerfield Golf course and St. Anne’s Catholic school surplus lands. In addition, Development Charge reserve funds are expected to be \$10 million less than projected primarily as a result of lower than anticipated Development Charge (DC) revenues. The 2018 budget was based on projected residential housing and non-residential units identified in the recently approved 2018 Development Charge Background Study which projected approximately \$30.9

million in revenue. However, building activity to date has been much lower than the projected levels therefore DC revenue is now estimated to be \$22 million at year end. The following table illustrates the projected residential units per the DC Study vs actual units as of September 30<sup>th</sup>:



It is important to note that in accordance with legislation, funding from obligatory reserve funds can only be made once spending has occurred, effectively matching funding with expenditures. Therefore, the projected ending balances do not account for previously approved works that have been committed from these reserve funds.

In 2006, Council approved the opening of the Transit Fare Card Reserve Fund, to finance the operating and capital costs associated with the implementation of a GTA wide fare card. Contributions to this reserve fund were made over a period of 10 years from Provincial Gas Tax revenues in accordance with By-law 2006-152. The purpose for which this reserve fund was established has been completed and in accordance with town policy approval is now requested to close the reserve fund and transfer any residual funds back to the Provincial Gas Tax Reserve Fund.

The Discretionary reserve funds balance remains in line with the 2018 budgeted ending balance at \$35.2 million.

**Trust Funds**

Funds segregated and held in trust in accordance with the specific terms of a statute or trust indenture total \$6.1 million at September 30<sup>th</sup>, as detailed in the following table. With the exception of the Library Trust, which is a local board, interest earnings are allocated to these funds at year-end.

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| 2018 Trust Funds<br>(\$ Thousands)     |                           |               |           |                            |
|--|---------------------------|---------------|-----------|----------------------------|
| Trust Fund                             | 2017<br>Ending<br>Balance | 2018 Activity |           | Balance<br>at<br>9/30/2018 |
|  |                           | Contributions | Transfers |                            |
| Cemetery Marker Care                   | 326.7                     | 7.6           | -         | 334.3                      |
| Cemetery Perpetual Care                | 5,055.3                   | 224.9         | -         | 5,280.2                    |
| Library - Halton Information Providers | 335.1                     | 61.6          | -         | 396.7                      |
| Burloak Canoe Club                     | 33.3                      | -             | -         | 33.3                       |
| Bronte Harbour Yacht Club              | 15.8                      | 2.0           | -         | 17.8                       |
| Oakville Power Boat Club               | 4.2                       | 2.0           | -         | 6.2                        |
| Bronte Community Tennis Club           | -                         | 7.0           | -         | 7.0                        |
| Oakville Rugby Club                    | -                         | -             | -         | -                          |
| <b>Total</b>                           | <b>5,770.4</b>            | <b>305.1</b>  | <b>-</b>  | <b>6,075.4</b>             |

## CASH MANAGEMENT AND INVESTMENTS

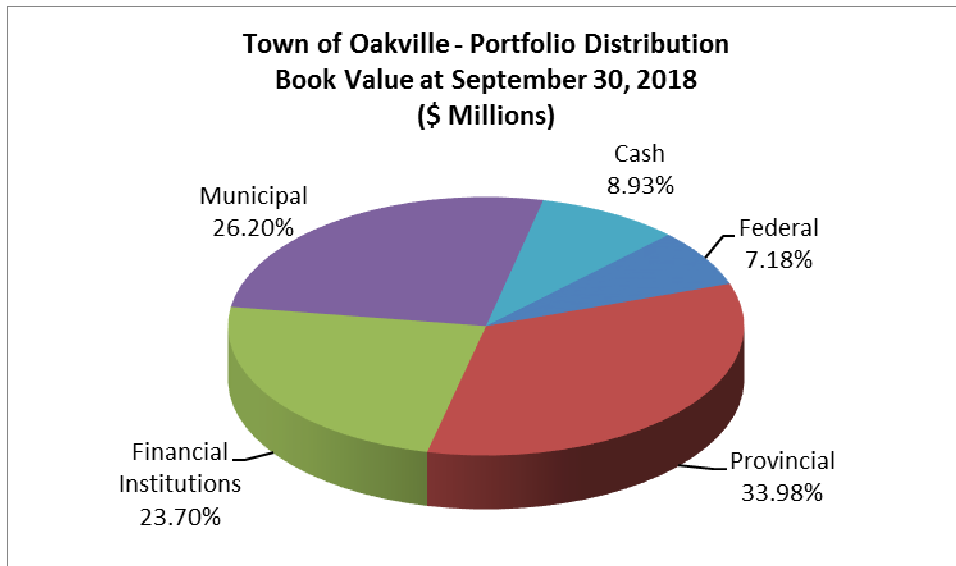
Cash flows are managed as part of the investment program to ensure the funding requirements of the town are met while providing for a reasonable rate of return on invested funds not needed in current operations. Investment strategy follows a conservative approach which mitigates term and interest rate risk by maintaining a portfolio structure of high-quality medium term investments. When market conditions are favourable to do so, certain investments are sold which realize capital gains. Capital gains, in accordance with town policy, are used to enhance the tax rate stabilization reserve rather than utilized in operations.

The town's financial control policy and reserve/reserve fund procedure sets out the allocation of investment earnings and capital gains/losses. At year-end, interest and investment earnings will be distributed to eligible funds and, capital gains/losses will be distributed to the corporate tax stabilization reserve.

For the period ended September 30<sup>th</sup>, gross investment revenue from realized interest income and capital gains/losses, net of amortized premiums/discounts was \$10.3 million, on a portfolio of cash and investments totaling \$465 million (book value). The annualized rate of return based on average cash and investment holdings was 2.96%, with an average maturity of 6.13 years.

General Fund-budgeted earnings are currently forecast to be \$2 million over budget at year-end. This is largely attributable to adjustments made to the portfolio to take advantage of the higher interest rate environment, and reduced reserve and reserve fund balances resulting from budgeted transfers which contribute to higher proportionate balances receiving a greater share of investment earnings.

The following chart illustrates the town’s portfolio holdings by security sector type at September 30<sup>th</sup>.



Further details relating to the town’s investment program and the required disclosures in accordance with O. Reg. 438/97 as amended, of the *Municipal Act, 2001*, are contained in Appendixes G and I.

**DEVELOPMENT RELATED SECURITIES**

Securities are required to ensure performance to town standards of development related work done by third parties. They are governed by a Council approved policy and procedure, and taken in the form of cash deposits or letters of credit. 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. Releases of securities are contingent on satisfactory inspection. The town draws on securities when deficiencies identified through the inspection process are not corrected.

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Unclaimed securities are advertised in accordance with the town's security policy and procedure. Should a claim not be received in the specified time constraints, the security value is transferred to the town's general funds.

Site plan and subdivision securities primarily relate to large scale residential and non-residential developments within the town and are predominantly secured by letter of credit. Property related securities are predominantly cash securities which safeguard development that requires permits i.e. site alteration, road cut, tree preservation etc. Other securities relate to miscellaneous cash security requirements relating to special events, temporary structures, election signage etc.

A review of securities and deposits has recently been completed. Approved recommendations coming out of this review will be incorporated into the town's security policy and procedure.

At September 30<sup>th</sup> the town held \$176.2 million in securities of which \$149.6 million was secured by letters of credit and \$26.6 million was secured by cash. The following table details holdings by type of agreement secured and their age.

**Securities as of September 30, 2018**

|                         | Letter of Credit |                         | Under 5 Years |                         | Over 5 Years |                        |
|-------------------------|------------------|-------------------------|---------------|-------------------------|--------------|------------------------|
|                         | Total #          | Total Value             | #             | Value                   | #            | Value                  |
| Site Plan               | 230              | \$53,693,555.56         | 103           | \$37,502,321.35         | 127          | \$16,191,234.21        |
| Subdivision             | 94               | \$90,838,469.08         | 68            | \$82,532,591.16         | 26           | \$8,305,877.92         |
| Property Related        | 25               | \$1,219,210.60          | 8             | \$939,776.60            | 17           | \$279,434.00           |
| Other                   | 17               | \$3,891,436.12          | 11            | \$3,665,618.34          | 6            | \$225,817.78           |
| Subtotal                | 366              | \$149,642,671.36        | 190           | \$124,640,307.45        | 176          | \$25,002,363.91        |
|                         |                  |                         |               |                         |              |                        |
|                         | Cash             |                         | Under 5 Years |                         | Over 5 Years |                        |
|                         | Total #          | Total Value             | #             | Value                   | #            | Value                  |
| Site Plan               | 136              | \$10,945,424.13         | 49            | \$7,352,969.31          | 87           | \$3,592,454.82         |
| Subdivision             | 27               | \$2,091,041.41          | 12            | \$616,316.79            | 15           | \$1,474,724.62         |
| Property Related        | 3,224            | \$12,811,914.82         | 2,125         | \$9,504,436.22          | 1,099        | \$3,307,478.60         |
| Other                   | 19               | \$721,944.35            | 17            | \$681,944.35            | 2            | \$40,000.00            |
| Subtotal                | 3,406            | \$26,570,324.71         | 2,203         | \$18,155,666.67         | 1,203        | \$8,414,658.04         |
| <b>Total Securities</b> | <b>3,772</b>     | <b>\$176,212,996.07</b> | <b>2,393</b>  | <b>\$142,795,974.12</b> | <b>1,379</b> | <b>\$33,417,021.95</b> |

## DEBT

Debt financing complements the funding of capital works and ensures those who benefit contribute to the cost. Issuance of the town's external debt is through the Region of Halton in compliance with provincial legislation which states that where there is a two-tier government structure, debt must be issued through the upper tier.

During the second quarter, \$6.1 million in new debt for the LED street lighting project was issued. It is not anticipated that further debt will be necessary for this



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project based on savings achieved to date. Overall, the projected outstanding debt principal at year end is projected to be \$117.8 million which is well within town policy, further details are provided in Appendix H.

## **CONSIDERATIONS:**

### **(A) PUBLIC**

This report provides information to the public regarding the town's financial performance for 2018 as of June 30, 2018. 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 AND/OR DEPARTMENT STRATEGIC GOALS**

This report addresses the corporate strategic goal to:

- be accountable in everything we do
- be fiscally sustainable

### **(E) COMMUNITY SUSTAINABILITY**

This report addresses the economic sustainability of the community.

## **APPENDICES:**

- Appendix A – 2018 Operating Budget Variance Results
- Appendix B – Capital Project Summary by Commission and Department
- Appendix C – Commissioner Approved Capital Transfers
- Appendix D – Summary of Capital Closures
- Appendix E – Purchasing Activity Greater than \$100,000
- Appendix F – Reserves and Reserve Funds
- Appendix G – 2018 Investment Portfolio
- Appendix H – 2018 Outstanding Debt
- Appendix I – Municipal Act Reporting Requirements Report

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