REPORT

ADMINISTRATIVE SERVICES COMMITTEE

MEETING DATE: DECEMBER 5, 2016

FROM: Finance Department

DATE: October 4, 2016

SUBJECT: **September 30th 2016 Financial Progress Report**

LOCATION:
WARD:

RECOMMENDATION:

1. That the Progress Report and Financial Results as at September 30th, 2016, be received;

2. That the transfers to and from Reserves and Reserve Funds and transactions contained in this report be approved;

3. That the Treasurer be authorized to fund and close the capital projects as identified in the report;

4. That capital project budget adjustments and required transfers from reserves/reserve funds as outlined in this report be approved;

5. That proposed reserve consolidations/closures as outlined in this report be approved; and

6. That fuel savings resulting from the rate differential in 2016 be transferred to the Tax Stabilization reserve; and that any savings/shortfalls in fuel budgets in future years be offset by transfer to or from the stabilization reserve to mitigate volatility in the fuel pricing.

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

- Report presents the town's financial activities from January 1, 2016 to September 30, 2016.
- The projected net operating budget variance as of September 30, 2016 for town programs is $55,600 unfavourable <u>before</u> projected year end transfers to/from reserves to balance self-funded programs.

- The projected variance in Corporate Revenue and Expenses as of September 30th 2016 is $1.8 million favourable
- The overall projected town surplus after transfers to/from reserves is $0.83 million.
- The total approved budget for open capital projects is $318.0 million of which $98.2 million remains available for work in progress.
- A total of 39 capital projects have been identified for closure resulting in $684 thousand being returned to respective reserves and reserve funds.
- At September 30, 2016, the town held cash and investments totaling $412.6 million with an annualized rate of return of 3.0%
- Nine tendered contracts, three contract renewals in excess of $250,000 were awarded between July 1st and September 30th 2016.

BACKGROUND:
This report provides an update regarding the Town’s financial activities from January 1, 2016 to September 30, 2016 and covers all financial matters. Based on September 30th results, many programs are projected to be on budget, however some programs are expecting significant variances based on spending and revenue trends to date. For the most part the unfavourable program variances have been offset by savings in other programs resulting in a projected net program variance of $0.06 million unfavourable overall.

COMMENT/OPTIONS:

Overall, staff is projecting an unfavourable variance of $55,600 or $0.06 million for town programs as illustrated in the table below. Corporate Revenue and Expenses is projected to have a favourable variance of $1.8 million which results in an overall town variance of $1.75 million before approved transfers to/from reserves. After transfers to/from reserves to balance enterprise and self-funded programs, the net overall variance is projected to be $828,000 or $0.83 million as illustrated in the following chart. Appendix A provides details for each individual program.

(in $ Millions)

Program	2016 Net Approved Budget	2016 Actuals as of June 30th	2016 Projected Year-End Actuals	Projected Variance
Road Network	$ 23.0	$ 15.2	$ 21.5	$ 1.46
Emergency Services	34.5	25.1	34.0	$ 0.45
Recreation Services	12.0	9.5	11.8	$ 0.25
Culture	3.8	1.9	3.8	$ 0.02
Political Governance	3.6	2.7	3.5	$ 0.08
Parks and Open Spaces	15.8	11.7	15.9	$ (0.18)
Oakville Transit	21.4	17.5	22.9	$ (1.51)
Library	8.4	6.7	8.7	$ (0.31)
Corporate Support	26.9	19.4	27.3	$ (0.38)
Community Development	3.7	1.7	3.7	$ 0.06
Total Programs	$ 153.1	$ 111.3	$ 153.2	$ (0.06)
Corporate Revenue & Expenses	(153.1)	(141.2)	(154.9)	$ 1.80
NET TAX LEVY	**$ (0.0)**	**$ (29.9)**	**$ (1.8)**	**$ 1.75**
Transfer to Building Enterprise Reserve				$ (0.68)
Transfer to Storm Event Reserve				$ (0.62)
Transfer from Election Reserve				$ 0.10
Transfer from Parking, Cemetery and Harbours Reserve funds				$ 0.28
Net Program Variance after Transfers				**$ 0.83**

The majority of the favourable program variances are attributed to anticipated savings in personnel costs due to vacant positions being filled later in the year than planned, and savings in winter control costs. Revenues in some programs such as Transit, Planning, Cemeteries and Harbours are not expected to achieve budget based on September 30th results, while other program areas such as Building and Recreation are expected to exceed budget. The following provides more detail on the significant variances to date:

- **Road Network $1,460,000 F** – Primarily due to a mild winter in Q1, infrastructure maintenance is projecting a favourable variance by year-end. Overall, the Infrastructure Maintenance program is projecting a net surplus of $1,250,000, of which $620,000 is due to savings in winter control. It is recommended that savings in winter control at year-end be transferred to the Storm Event Reserve. In addition to savings in winter control, savings have been realized in personnel costs due to staff turnover and recruitment challenges with crossing guards, and savings in fuel due to lower than anticipated rates. It is recommended that the fuel savings be transferred to reserve to offset fluctuations in future budget years.

The Infrastructure Planning program is expected to have savings of $250,000 primarily due to utility permit revenue which is expected to exceed budget by $190,000. Finally, the Parking Program is anticipating to be unfavourable by $40,000 mainly due to the slow start of the alternative monetary penalty (AMP) program. Any net shortfall in the Parking program will be offset by a transfer from the Parking reserve fund at year end.

- **Emergency Services $450,000 F -** primarily a result of savings in personnel costs due to position gapping and position movements related to recent retirements. There are additional savings as a result of the delay in contract settlement for OPFFA. It is recommended that these savings be transferred to the stabilization reserve and transferred out in 2017 if needed once the contract has been finalized.

- **Recreation Services $250,000 F –** primarily a result of savings in personnel costs due to position vacancies and retirements as well as savings in utility costs. Overall, revenues are projected to be $130,000 over budget due to higher program registrations, memberships and private swim lessons. This surplus revenue has been partially offset by lower than anticipated revenues from ice rental, sponsorships and snack bar revenue from concessions in the arenas.

- **Parks and Open Spaces ($175,000) U** – Although Harbours revenue is expected to meet budget, contract services and equipment rentals exceed budget, resulting in an anticipated unfavourable variance of $55,000. In addition, Cemetery revenue is currently anticipated to be lower than budget due to less than anticipated plot and marker sales resulting in an overall unfavourable variance of $184,000. Any unfavourable variance in the Harbours and Cemeteries program will be offset by a transfer from the Harbour Reserve Fund and Cemetery Reserve at year-end. Otherwise, Parks Administration, Parks Maintenance and Forestry are projecting favourable year-end results of approximately $60,000 mainly due to staff savings because of staff turnover and recruitment challenges for forestry arborists.

- **Oakville Transit ($1,500,000) U** – Similar to trends elsewhere, transit ridership in Oakville has been on a downward trend. To reverse this trend, Transit completed its 5 Year Service Delivery plan. The service plan identified enhancements to service that are expected to increased ridership over the coming years. Phase 1 of the service delivery plan was implemented on September 1st 2016, and as a result ridership has experienced a modest increase above 2015 levels. Despite the recent increases over the past two months, it is anticipated that overall ridership for 2016 will be lower than budgeted, resulting in a shortfall in revenue. In addition, higher than anticipated taxi utilization required to meet para-transit demand and higher vehicle parts and maintenance costs have contributed to the unfavourable variance. The unfavourable variance has been partially offset by savings in fuel due to the lower average cost per litre, however, it is recommended that the fuel savings be transferred to the tax stabilization reserve to offset potential shortfalls in future years.

- **Oakville Public Library ($310,000) U** – is projecting to be unfavourable by year-end mainly due to unanticipated personnel costs and a decline in revenue. Fine revenue has decreased due to improved notification to the card holder advising them of pending due dates. Program and registration revenue is under budget, but off set by ticket/event sales, event revenue and photocopier revenue. Additionally, the savings anticipated in the RFID project will not be fully realized due to the deferral of the full project implementation to early 2017. These variances have been partially mitigated by staff gapping, due to retirements and savings for facility and equipment repairs. The Library Board are fully aware of the unfavourable variance, and staff continue to mitigate where possible.

- **Corporate Support ($380,000) U -** It is anticipated that litigation costs will exceed budget by $900,000 due to the number of complex hearings underway this year. In addition, Human Resources is anticipating an unfavourable variance due to union mediation costs for Fire. Favourable variances in other support functions such as Finance, ServiceOakville, Regulatory Services, Strategic Policy and Communications and Information Systems have reduced the overall unfavourable variance to $380,000 for Corporate Support.

- **Community Development $60,000 F** – Overall, Planning is projecting a $650,000 unfavourable variance in revenue due to Plan of Condominiums and Site Plan application volumes being much lower than anticipated this year. While Zoning by-law amendments and Development Agreement fee revenues are expected to exceed budget, Plan of Subdivision/Condominium revenue has been significantly lower than expected, achieving only 16% of budget as of September 30th. The shortfall in revenue is partially offset by savings in personnel costs as a result of a delay in filling vacant positions. Alternatively, Building is projecting a favourable variance of $680,000 overall. Building permit revenue has been higher than anticipated over the course of the year as higher volumes of alterations and new construction permits have been received than anticipated. Total permits received as of September 30th exceed the budgeted amount for the year. Overall revenue is expected to exceed budgeted by $640,000. Any net surplus in the Building program at year end will be transferred to the Enterprise reserve.

- **Corporate Revenue/Expenses $1,800,000 F** – Based on results to date, supplementary taxes, payments in lieu of taxes (PILs) and penalties and fines are expected to exceed budget by $1.9 million combined, but have been offset by higher than anticipated tax write offs of $1.0 million, reducing the favourable variance impact to $0.9 million. The balance of the variance is attributed to savings in corporate contingency and higher than anticipated staff gapping as a result of vacancies booked to Corporate.

Fuel Analysis

During the preparation of the 2016 budget there was significant volatility in fuel prices. As a result, it was felt that it was best to base the budget using conservative fuel rates and monitor the variance throughout the year. Based on results to date, fuel rates have remained below budgeted rates by $.14 - $.22 per litre, on average, depending on the type of fuel. Rates are expected to continue to be lower for the remainder of the year. Therefore based on expected volumes, Oakville Transit may have savings up to $900,000, as well as $75,000 for Fleet Operations and $25,000 for Fire resulting in total anticipated savings of $1.0 million. As a result of the consistently lower fuel rate seen over the past year, staff reduced the cost per litre rate used to prepare the 2017 budget from $0.95 per litre to $0.85 per litre, which helped to mitigate increasing costs in other program areas. In order to mitigate fluctuations in fuel rates in the event they begin to rise, it is recommended that the $1.0 million in fuel savings projected for 2016 be transferred to the Tax Stabilization reserve to be used to offset any volatility in the fuel pricing. The anticipated transfer to Tax Stabilization reserve has been reflected in the program variances noted above.

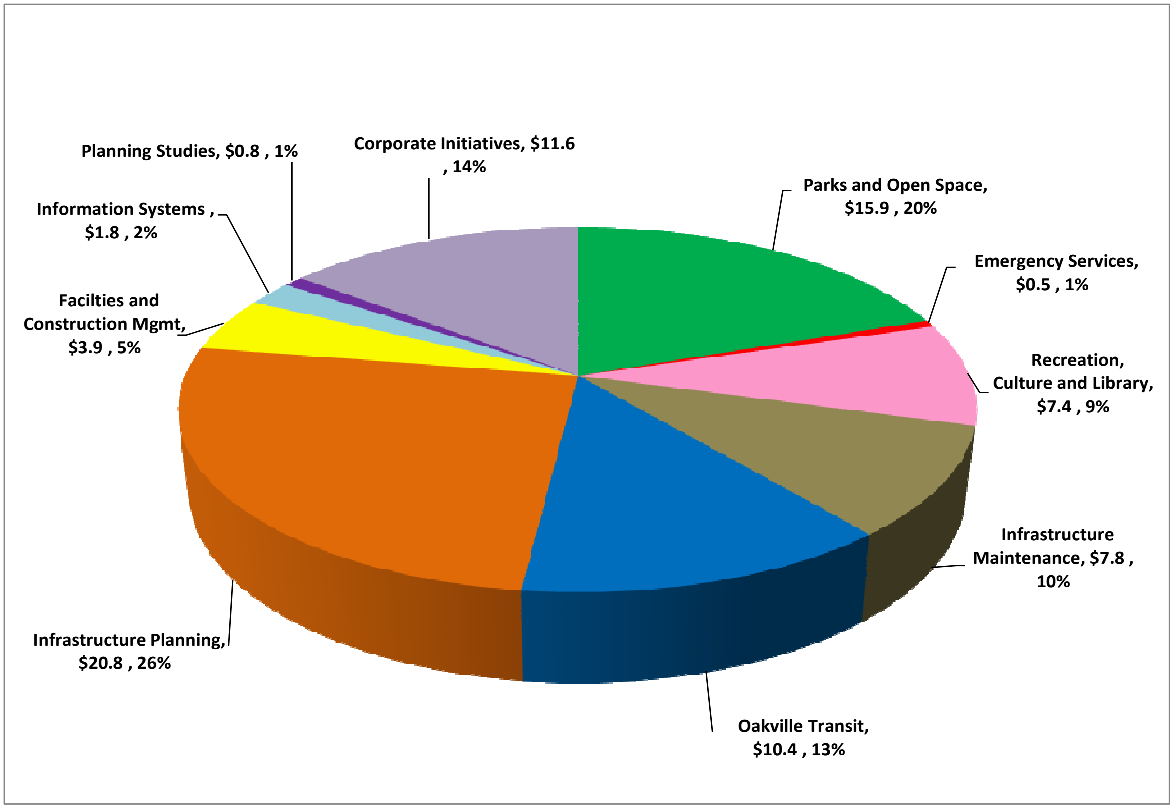
CAPITAL BUDGET

As illustrated in the table below, the cumulative total or life to date (LTD) approved capital budget for open projects as of September 30th is $317.6 million. Capital expenditures including commitments total $80.8 million as of September 30th, bringing the cumulative total expenditures to $219.4 million. This results in a remaining capital budget of $98.2 million in open projects.

$000's

Commission/Department	LTD Approved Budget	Prior Yr Expenses	2016 Expenses + Commitments	Total LTD Expenses	Funds Remaining
Community Services	121,416	43,484	41,941	85,425	35,991
Community Development	143,952	65,944	21,525	87,469	56,482
Corporate Services	52,226	29,102	17,357	46,459	5,767
Total*	**$317,593**	**$138,530**	**$80,823**	**$219,353**	**$98,240**

As noted above, the 2016 actual expenditures and commitments as of September 30th is $80.8 million. The following chart illustrates the total spending by program.



As illustrated in the chart above, Infrastructure Planning represents the largest portion of the capital spending to date with $20.8 million or 26% and includes projects such as:

- Road Preservation Program - $6.7M
- Fourth Line reconstruction and widening from Speers to Wyecroft - $1.6M
- Grand Blvd at Upper Wedgewood Creek Culvert rehab - $1.6M
- Kerr Street widening and grade separation - $1.3M
- Downtown Lakeshore Reconstruction/Streetscape - $1.0M
- Rebecca Street Bridge rehabilitation - $0.9M

Parks and Open Spaces has the second largest capital spending with $15.9 million or 20% and includes:

- EAB Management Initiatives - $3.8M
- Uptown Core - Memorial Park - $1.5M
- Tennis and Basketball Court rehab - $1.0M
- Parks stairs, bridges and trail rehab - $0.7M
- 16 Mile Creek West Shore Landscape rehab - $0.6M
- Bronte Harbour Regional Waterfront Park - $0.6M
- North Oakville Neighbourhood Park 2 - $0.5M

Other notable projects include:

- LED Streetlight Conversion - $4.0M
- Trafalgar Park Revitalization project - $3.6M
- Oakville Trafalgar Memorial Hospital Demolition - $1.4M
- Library RFID System Purchase and Installation - $1.1M
- HVAC replacements – Various Locations - $1.0M
- Emergency Generator Installation at QEP - $0.8M

Closures

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 the asset goes into service, they are closed. In accordance with the revised Financial Control Policy, Commissioners are authorized to approve the transfer of funds for any project where the costs exceed budget by less than 10% or $200,000. In most cases these over-expenditures are offset by other projects with savings. As a result of the September 30th review, a total of 39 projects will be closed.

These closures represent a net savings of $684 thousand that will be returned to reserves/reserve funds. As summarized in the table below, $238 thousand will be returned to Capital reserves, $70 thousand will be returned to equipment reserves, and $251 thousand will be returned to Development Charge reserve funds. A further $123 thousand will be returned to Program Specific reserve funds, which include the Parking reserve fund, Building Maintenance reserve fund, and Gas Tax reserve funds. Additional recoveries of $4 thousand have helped to offset expenditures which have reduced the requirement from reserves. Refer to Appendix C for a more detailed view of project closures by program.

Authority	Impact on Reserves (in $1,000s) (Positive = surplus, negative = add'l funds required/received)					External Revenues Variance
	Capital Reserves	Equip. Reserves	Program Specific Reserve Funds	Dev. Charge Reserve Funds	Total to/(from) Reserves	
Commissioner Authority	**238.8**	**70.4**	**123.5**	**251.7**	**684.3**	**(4.3)**
Council Authority	**-**	**-**	**-**	**-**	**-**	**-**
Net Impact	**$ 238.8**	**$ 70.4**	**$ 123.5**	**$ 251.7**	**$ 684.3**	**$ (4.3)**

Additional Project Funding

Total funding of $260,000 was approved in the 2011 budget as part of capital project 52221113 for the Walker St. erosion control slope stability work**.** The original capital budget was developed around a low profile armourstone wall. After conducting the geotechnical investigation, it was determined that the instability of the slope was far more severe than originally anticipated and a more robust wall would be required. Further, the length of the wall was also increased and approximately 80% of the length of the slope adjacent to these town houses would now require a retaining wall. The overall new cost estimate for the retaining wall is $305,700. In addition, there are many trees and vegetation that are required to be removed for the new wall to be installed, therefore additional costs of $50,500 would be required to vegetate the slope and add additional plant material. Overall, the revised project cost to complete the work is $450,000 resulting in a shortfall of $190,000. In order to complete the required work it is recommended that the budget for project 52221113 be increased by $190,000 to be funded by the General Capital reserve.

PURCHASING

In accordance with the Town's Purchasing By-law, a summary of the competitive bids, contract renewals and sole source awards in excess of $250,000 need to be reported to Council. Appendix D provides details of the awards and contract renewal in excess of $250,000 from July - September 2016.

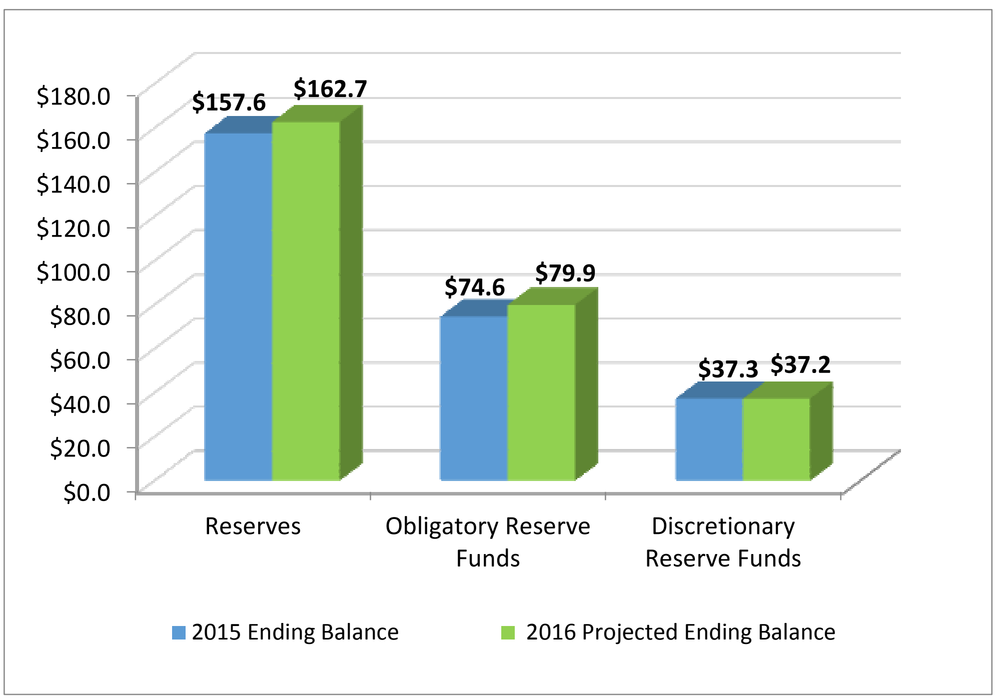
RESERVES, RESERVE FUNDS AND TRUST FUNDS

Under the authority of Council, reserves and reserve funds are appropriations from the town's net revenues designated for purposes that may extend beyond the current fiscal year. Annual budgeted transfers to the funds ensure funding levels are sufficient to support future needs, providing non-tax levy financing for capital projects and program operations, such as refurbishment and replacement of the town's capital assets. Trust funds are assets held by the town for the benefit of other agencies or entities in accordance with specific statutes or trust indenture. In sum, these 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.

Reserves

Based on September 30th results, the 2016 ending reserve balance is projected to be $162.7 million. This represents a slight increase from the 2015 ending balance ($157.6 million) after review of approved capital spending forecasts in 2016. Expenditures are offset by annual contributions to reserves from operating as well as the transfer of proceeds from the sale of surplus land to the general capital reserve. In addition, it includes the estimated surplus transfer of $0.8 million to the tax stabilization reserve as well as the $1.0 estimated transfer to tax stabilization for fuel savings.

Reserve and Reserve Fund Balances at September 30, 2016
($Millions)



Reserve Funds

Transfers from obligatory reserve funds to capital projects are made as spending occurs in the projects. Therefore, projects approved in prior years are still receiving funding as spending does not all occur in one year. Transfers to capital are estimated to be $35.9 million in 2016 based on current tender activity and includes the cost to purchase land at White Oaks school as part of the agreement with the school board; funded from the parkland reserve fund. Development related activity has remained fairly steady in recent months and it is expected that revenue will exceed budget with $29.6 million for DC's and $6 million for parkland. Overall, obligatory reserve funds are now expected to increase to $79.9 by year end due to a reduction in current year funding requirements to capital projects.

The discretionary reserve funds balances are expected to remain stable with projected spending and revenue fairly equal.

Appendix E provides further information pertaining to 2016 reserve and reserve funds activity and projected interest and capital gains/losses distribution.

Fund Management and Investment Interest Allocation

Management of these funds and distribution of investment earnings to eligible funds at year end will be in accordance with the town's newly updated financial control policy and reserve/reserve fund procedure. As prescribed by these documents, total investment earnings are distinguished between interest earnings and capital gains/losses. At year end, capital gains/losses will be allocated to the tax stabilization reserve and interest earnings will be allocated to each eligible fund in proportion to the balance of the fund to the total average portfolio.

In addition, beginning with the 2017 budget cycle, all funds eligible to receive interest through this process will be budgeted investment earnings based on an estimated rate of return and portfolio balance. At year end, the actual rate of return on the portfolio will be determined and interest earnings distributed on that earnings rate, directly impacting budget variances.

Finally, as part of the development of the reserve/reserve fund procedure staff completed and evaluation of the various individual reserves to look at opportunities to consolidate similar funds to align with current strategic goals and improve financial flexibility. As a result of this review the following reserves are recommended to be consolidated with similar purpose funds and closed. As part of this consolidation it is recommended that the "Roads and Works Equipment reserve" be renamed to be the "Roads and Parks Operations Equipment reserve"

Reserve/Reserve Fund	Purpose	Consolidate with
GTA Pooling Reserve	Funds resulting from the phase out of the Provincial "GTA Pooling" for Toronto social programs transferred to reserve for the use of capital infrastructure needs	General Working Capital Reserve
WIP Subdivision/Storm Water Maintenance Reserve	To fund unexpected shortfalls in storm water capital maintenance	General Working Capital Reserve
Communication System Equipment Reserve	To fund future replacement or expansion of the telephone system	General Working Capital Reserve
Parks & Open Space Equipment Reserve	To fund replacement of parks equipment	Roads & Parks Operations Equipment Reserve
Cemetery Equipment Reserve	To fund replacement cemetery equipment	Roads & Parks Operations Equipment Reserve
Print Centre Equipment Reserve	To fund replacement of equipment for print centre	Building Maintenance Reserve Fund
School Pools Reserve	To fund school pools which the town utilizes through agreement with the school board	Building Maintenance Reserve Fund
Reciprocal Agreement-Schedule B Reserve	To mitigate fluctuating annual differences between town usage of school facilities and school board usage of town facilities	Tax Rate Stabilization Reserve
Fire Services Reserve	To fund fire prevention, training or suppression activities eligible under Ontario Fire Services Grant	To Capital Project 43301511 "Specialized Equipment Replacement"

Trust Funds

Funds segregated and held in trust in accordance with the specific terms of a statute or trust indenture totaled $5.8 million at September 30th, as detailed in the following table;

2016 Trust Funds
($ Thousands)

Trust Fund	2015 Ending Balance	2016 Activity: Contributions and Interest	2016 Activity: Transfers	Balance at 30-Sep-16
Cemetery Marker Care	307.1	13.9	-	321.0
Cemetery Perpetual Care	4,650.5	257.7	-	4,908.1
Library - Halton Information Providers	445.1	59.5	-	504.6
Burloak Canoe Club	31.3	0.2	-	31.6
Bronte Harbour Yacht Club	11.0	2.1	-	13.1
Oakville Power Boat Club	-	2.0	-	2.0
Total	**5,445.0**	**335.4**	**-**	**5,780.4**

CASH MANAGEMENT AND INVESTMENTS

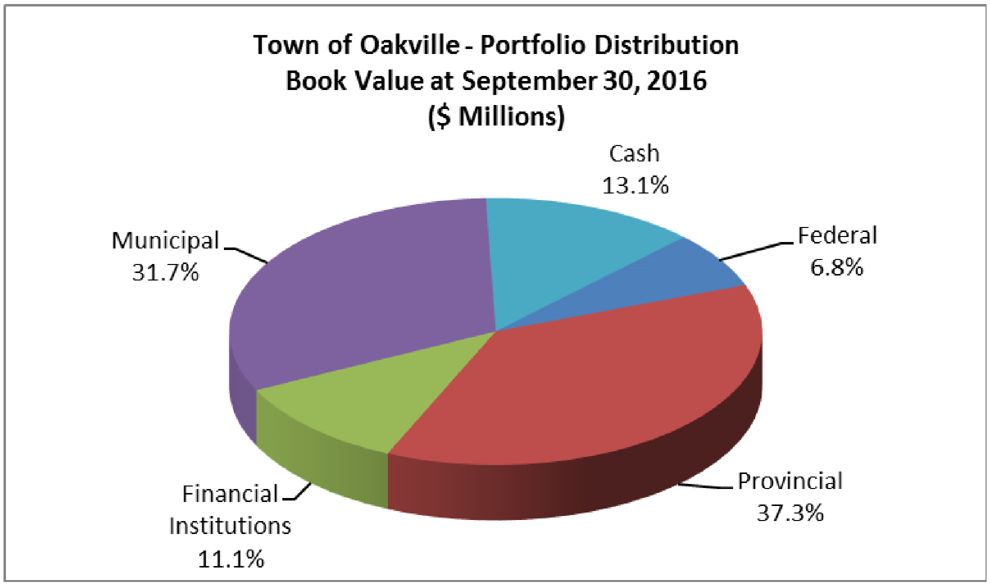
The investment program is governed by the town's approved investment policy/procedure as well as legislative requirements encompassing the investment of all funds made by or on behalf of the town, its agencies and local boards. It's objectives in order of priority are:

- Adherence to statutory requirements
- Preservation of principal
- Diversification of the investment portfolio
- Maintaining liquidity; and
- Earning a competitive rate of return

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

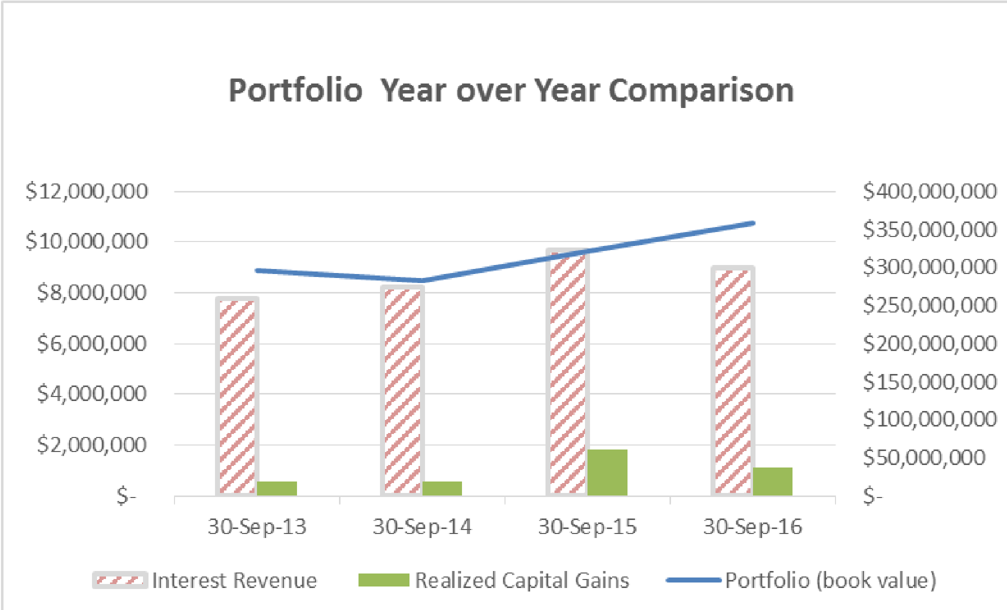
Cash flows are managed as part of the investment program to ensure the funding requirements of the town are met while providing for a reasonable rate of return on invested funds not needed in current operations. Investment strategy follows a conservative approach which mitigates term and interest rate 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. However, these funds are not used to achieve budgeted revenues, but rather are used to enhance the corporate tax stabilization reserve. Based on the current market value of the portfolio, total unrealized capital gains/losses, or funds that could be made available if the portfolio was liquidated, is approximately $23 million.

The following chart illustrates the town's portfolio by security sector type at September 30th;



For the period ended September 30th, gross investment revenue from realized interest income and capital gains/losses, net of amortized premiums/discounts was $9.0 million, on a portfolio of cash and investments totaling $412.6 million (book value). The annualized rate of return based on average cash and investment holdings was 3.0%, with an average maturity of 7.0 years. At this time, projections of budgeted investment earnings which support operations are not expected to vary significantly from budget at the close of the year.

The following table provides comparative data for the current portfolio position versus prior years for realized returns at the end of the third quarter. In addition it illustrates the impact historically low yields in the current year has made on investment returns;



Further details related 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 F and H.

Market Commentary

In the aftermath of the U.S. election, the Republican win signals a swing to policies that are highly stimulative, inflationary and protectionist. Possible initiatives include reopening the North American Free Trade Agreement (NAFTA), cancelling participation in the Trans-Pacific Partnership (TPP), relaxing regulations on fossil fuel production and implementing major tax cuts. With the exception of the Keystone pipeline possibly seeing renewed interest, these measures represent a significant risk to the Canadian economy, already struggling with lackluster exports and business investment. Pre-election speeches by the governor and deputy governor of the Bank of Canada (the bank) spoke of lower growth projections and the significant output gap, new mortgage measures to curb financial risks caused by the housing sector and household indebtedness and the longer period Canada's economy may need to recover from 2014's oil price crash.

Promised infrastructure spending in the U.S. could give commodity prices a boost in the near term until the actual extent of stimulus oriented spending can be determined. However, protectionist policies supportive of U.S. shale oil and other fossil fuel production coupled with the risk that OPEC (the Organization of the Petroleum Exporting Countries) does not achieve a sustainable accord to cut oil production in the wake of a global supply glut have made forecasts of energy prices volatile.

While uncertainty prevails and until the Canadian federal government stimulus measures take hold, markets are pricing in a possibility that the bank will intervene with a cut to overnight rates. However, this action is thought to be unlikely in the near term, given the already low exchange rate and probability that the U.S. Federal Reserve will increase their interest rates at their next meeting in December.

In global markets the European Central Bank (ECB) is expected to continue its quantitative easing program beyond March 2017 to prop up tepid growth projections given continued low inflation that shows little sign of improving and upcoming talks with the United Kingdom (U.K.) on Brexit. For the U.K., it is thought that the flow through effects of Brexit on that economy are yet to be seen. Likely hits in 2017 include further weakness in the pound sterling and growth capacity. In China, fiscal stimulus has been ramped up to fill the void created by new measures to cool the housing market and combat weak global demand that has been slowing business investment. With these measures in place the economic growth rate is projected to be on track to meet the target of 6.5%.

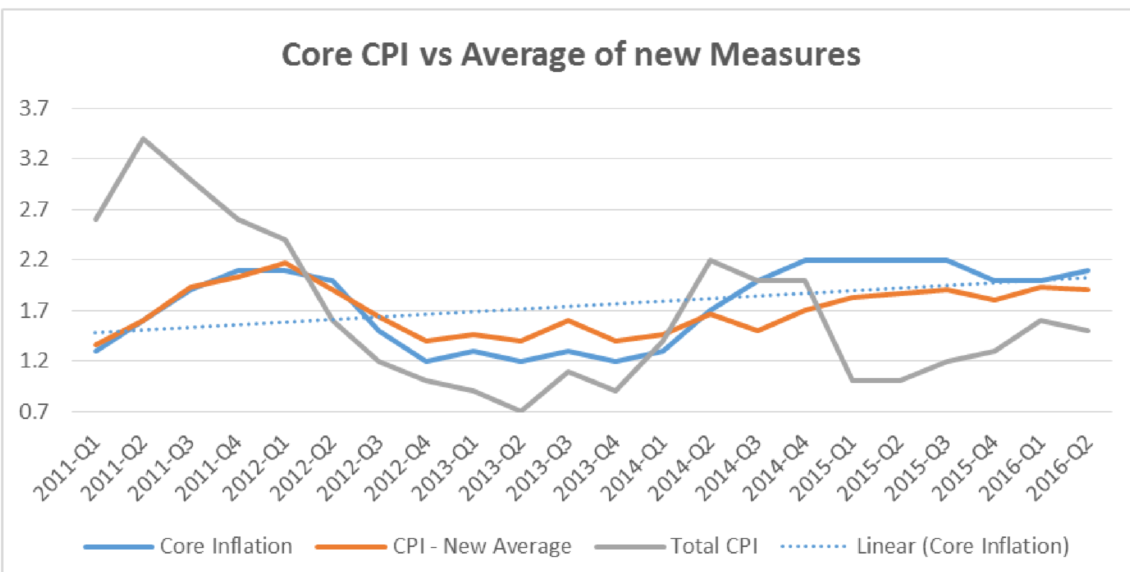
The uncertainty currently prevailing is not beneficial to bond markets, particularly the long end which is more sensitive to rate fluctuations. Therefore the current conservative portfolio management strategy will be continued, which emphasizes high quality, medium term investments.

Replacement of Core Inflation Index

The Federal Government and the BOC in a joint announcement, announced Canada’s inflation-control target will be renewed for a further five years ending speculation that it would be raised from the midpoint of the 1 to 3 percent target range. The Bank of Canada had studied the possibility of raising the target to give it more room to add stimulus, but concluded that the potential loss of credibility and costs of a change were too high. In sticking with the 2 percent inflation target for another five years, the statement said the well-established mandate remains the best support for a weak economy. However, the bank did announce that it will be dropping the current measure (CPIX-core which excludes 8 of the most volatile components of CPI) for gauging underlying inflation trends in favour of a broader consideration utilizing three different measures. These new measures (CPI-trimmed mean, CPI- weighted median, and CPI-common) are said by the bank to correlate better with the measure of output gap (actual GDP versus potential GDP) and are defined as:

Measure	Definition
CPI-Trim (previously MEANSTD)	A measure of core inflation that excludes CPI components whose rates of change in a given month are located in the tails of the distribution of price changes
CPI-Median (previously Weighted Median)	A measure of core inflation corresponding to the price change located at the 50th percentile (in terms of CPI basket weights) of the distribution of price changes in a given month.
CPI-Common (previously Common Component of CPI)	A measure of core inflation that tracks common price changes across categories in the CPI basket

An average of the three measures, illustrated below, is currently about the same as the old core index, suggesting no major change in the track of monetary policy. Therefore the BOC is not expected to change its stance significantly, that underlying inflation remains subdued and that excess capacity in the economy will keep inflation below the 2% target through the end of next year. Barring increasing pressures south of the border, the BOC is expected to maintain an accommodative policy stance holding the overnight rate steady at 0.50% into 2018.



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

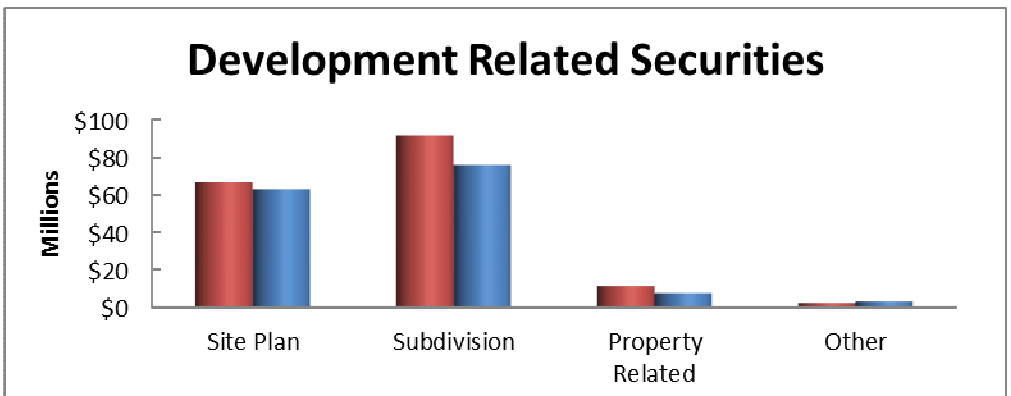
and procedure, and taken in the form of cash deposits or letters of credit. Project Management division's staff monitor the progress of the various projects to ensure that adequate security is held by the town relative to the value of the outstanding work. Releases of securities are contingent on satisfactory inspection. The town draws on securities when deficiencies identified through the inspection process are not corrected.

Unclaimed securities are advertised in accordance with the 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.

At September 30th the town held $172.1 million in securities of which $149.3 million was secured by letters of credit and $22.8 million was secured by cash.

The following comparative chart details securities held by the town by the type of agreement they secure;



	Site Plan	Subdivision	Property Related	Other
2016	$66,686,658	$91,549,478	$11,394,927	$2,452,173
2015	$63,014,915	$75,884,646	$7,594,442	$3,175,401

DEBT

Debt financing complements the funding of growth related 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. In addition, the province limits the amount of external debt a municipality can issue, without requiring approval from the Ontario Municipal Board (OMB), to 25% of net municipal revenues.

Town policy further limits the amount and type of debt to;

- 6.25% of operating revenues for tax supported debt,
- 12% of operating revenues for total corporate debt and,
- 25% of a five year average of forecasted DC revenues for DC supported debt

Debt financing approved for capital projects which has yet to be issued includes the Bronte Harbour Dredge ($1.85 million), approved as part of the 2015 capital budget and Phase 1 of the LED Street Lighting project ($6 million) approved through the 2016 capital budget process. Timing of issuance is dependent upon market conditions and expected project completion.

Overall, outstanding debt principal is projected to be $129.4 million at year end; including the local share commitment for the new Oakville Hospital, a provision for the two aforementioned debt financed projects which have yet to be issued, and principal payments of $9 million to be made over the year. Further details are located in Appendix G.

CONSIDERATIONS:

(A) PUBLIC

This report provides information to the public regarding the town's financial performance for 2016 as of September 30th. 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 – 2016 Operating Budget Variance Results
Appendix B – Capital Project Summary by Commission and Department
Appendix C – Summary of Capital Closures
Appendix D – Purchasing Activity Greater than $250,000
Appendix E – Reserves, Reserve Funds
Appendix F – 2016 Investment Portfolio
Appendix G – 2016 Outstanding Debt
Appendix H – Municipal Act Reporting Requirements Report

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