Financial Report 2023-2024

Prepared by Sasa Krcmar, OLS Finance Councillor

As technology has evolved, Surveyors have had to transform their companies to accommodate and adapt. These same challenges affect regulators. As the AOLS seeks to make the operation more agile, it is imperative to transform the core operational systems with cloud solutions. This will enable the AOLS staff to address more immediate priorities, allowing best practices for business processes, simplifying core staff experiences, and providing better structures for serving the needs of our members and the public. Unfortunately, we have a long road ahead to get there. The 2024 budget is estimated at a loss over $500k (half a million) when compared to 2023. Why?

1. STAFFING:

Over the years, 1043 has retained paper documents that were required to meet legislative and governance mandates. The Executive Director has placed a priority on transitioning to an on-line paperless AOLS office system requiring temporary additional staffing. In addition, budget flexibility is being retained to deal with potential Deputy Registrar hiring.

2. MARKETING & RECRUITMENT

Marketing professionals have been hired to advise on Communications and Marketing strategies for the AOLS. While broader consumer awareness would be ideal, a more focused and targeted recruitment program, with defined KPIs, has been approved by the steering committee. Budget of $150K has been allocated, with new OLS Recruitment Microsite and website recommendations underway.

3. SYSTEM DATABASE & WEBSITE

Costly but necessary technology improvements are underway to improve the data structures of the AOLS. While a new website is needed, step one will be a new micro-site to address Communications and Marketing initiatives identified by the marketing team to provide clarity on the paths to becoming an OLS.

4. STRATEGIC PLANNING:

Although we are approaching the end of the 5-year cycle in 2024, Council has decided to delay the strategic planning session till next year, while we continue to work on the strategic objectives that were set. Major initiatives underway include addressing FARPACTA (Fair Access to Regulated Professions and Compulsory Trades Act, 2006); Communications & Marketing (membership recruitment) and legislative enhancements.

This report is for the Fiscal Year – November 1st, 2022, to October 31st, 2023.

We are pleased that the 2023 fiscal year ended on a substantial positive position of **$260,240.00**. Explanations are shown below.

Revenue Factors

Compared to the 2023 Budget, actual revenue was higher by $5k.

The following significant reasons allowed us to achieve the surplus over budget:

- Investment Income, managed by Logan Wealth Management resulted in a gain of $37k (+50%) due to higher interest rates.
- Cost Related Activities saw in increase in actual revenue of $33k and $161k compared to the previous year due to the end of the pandemic. Of note the Annual General Meeting had a record attendance, first in person meeting in three years.

Expenses

Compared to the 2023 Budget, actual expenses were lower by $236k.

The following significant reasons allowed us to achieve the surplus over budget:

- Salaries - We welcomed a new Executive Director, Mr. Al Jeraj. Increase payroll funds for severance, overlap in this position plus other minor items. This resulted in an overrun of $38k.
- Office & General – Here we had a decrease in expected expenditures $73k. The bulk of this was due to delayed/cancelled plan for a new website.
- Committee expenses were lower by $87k as most meetings were online, eliminating the need to travel to the office.
- Survey review, higher consultants cost due to new hires and increased workload $42k overrun.
- Discipline expenses came in lower by $55k because no hearings occurred in 2023. General legal expenses were also lower by $12k.
- Building related expenses were lower by $33k as were expenses for Continuing Education ($16k).
- Expenses for the PSRI came in under by $6k and Cost Related expenses were down by $23k.

Moving to online platforms, reconvening the in-person AGM, no Discipline hearings and delaying some significant projects such as Marketing and the website redevelopment helped to realize the budget surplus. However it is expected that the projects that were delayed will materialize in future years. It is also expected that Discipline costs may be significant in some years over others.

AOLS Investments

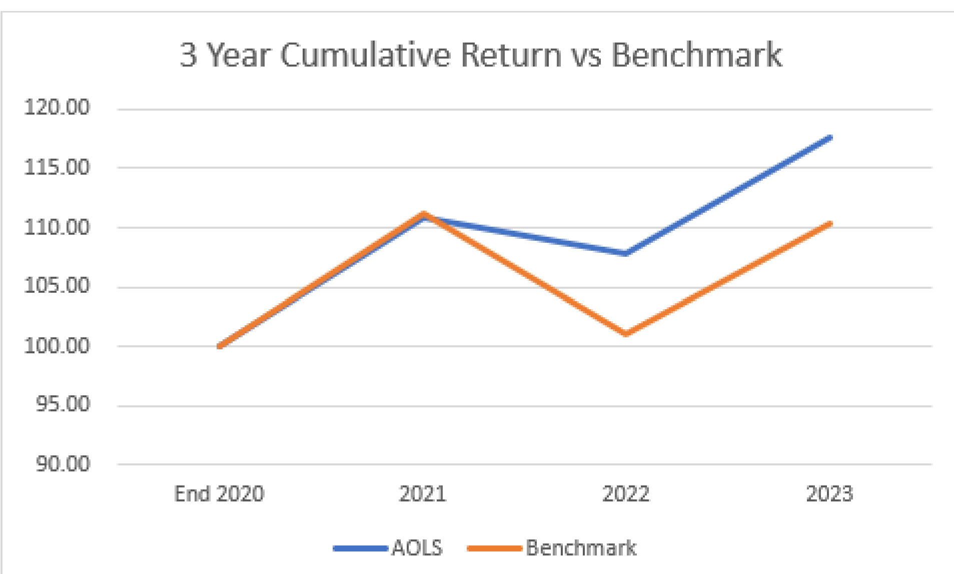
The Fiscal year and calendar year returns for 2023 are noted below.

1 Year Returns	FY to October 31	Calendar Year
AOLS General	5.2%	8.4%
AOLS Insurance	6.4%	9.70%
Combined	6.2%5.4%	9.1%

By way of comparison, here is a longer history of returns. The AOLS has been well served by Julie Brough and Logan Wealth Management. The AOLS investments dodged most of the downturn in 2022 but still caught the recovery in 2023. The current balance for the Insurance Fund on October 31, 2023 is $2,779,374 and the General account is $2,031,450 for a combined total of $4,810,824.

2023 Investment Summary

Overall, the year ended strong, with the majority of the return earned in the last two months. The year was really a recovery from the declines in 2022 and by the end of the year both the Canadian and US equity markets were hovering back near the peaks. The bond market had not yet fully recovered from the 2022 losses. By contrast, over the two-year period, the portfolio had gained over 6%. Throughout a large part of the year, we held a larger than normal cash balance. This was due to expected withdrawals required to cover potential insurance claims and special projects at the Association, that would not be covered under the normal budget. By year-end, the likelihood of those funds being needed had passed and we can now invest the remaining funds. During most of the period we were holding the cash, it was earning over 5%.

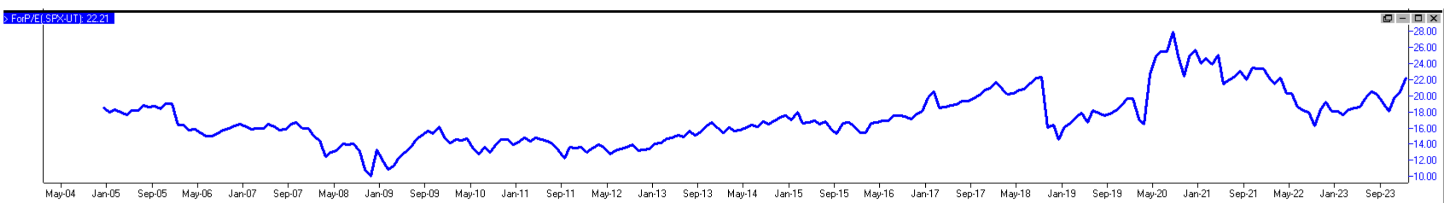


2024 Investment Outlook

We are cautiously optimistic for 2024. As interest rates are now likely to be stable to lower, the bond market should be strong. The annualized return expected on the bonds tends to be from a little over 5% per year to over 6% per year and we would expect the bond holdings – which currently make up 43% (up from 38% at year end) of the holdings to return somewhere in that range of mid 5% to low 6%. We expect equity markets to be volatile this year, given geo-political strife, what will likely be a toxic election season in the U.S., and debate in markets over how much interest rates will likely come down. Interest rates have been a key driver of equity markets in recent years, so any difference between expectations and reality can be quite important. When everything settles out, our base case is for moderate equity returns. Equity prices are driven by two key components – how much money a company earns (earnings growth) and how much investors are willing to pay for those earnings (valuation). Valuation levels are high by historic standards, making it difficult for equity markets to *rationally* move higher on valuation. That limits the upside to earnings growth. As we do not believe the U.S. economy will go into recession, earnings growth is likely to be okay – our guess is in the 5% - 8% range. Market expectations are a bit higher but have been coming down. We would expect equity returns to be somewhere in the range of earnings growth.

S&P500 Valuation Levels

Source: Refinitiv



The possibility for upside from there comes from higher valuation levels. That could happen if interest rates come down more than anticipated. Although this would be nice in the short-term, it is probably not sustainable as valuation levels very rarely stay above the 20 times earnings that markets currently trade at.

The downside risk comes from the debt markets. Government debt and deficits are extremely high by any historic standards. Commercial real estate is still facing problems related to higher financing costs, vacancies, and lower building valuations. This could create challenges for owners that need to refinance. Corporate debt is also an issue, with one estimate indicating the 20% of public companies are unable to cover debt costs from earnings. It is likely no better (although better hidden) in private equity markets. If something goes wrong in debt markets, that could lead to a significant downturn.

Given the narrow spread between what we expect from equity returns over bond returns, we are focused on using the cash to increase the bond weights, more so than the equity weight. The current equity weight is 43% (compared to a blended portfolio target of 46%). At this point, we are comfortable with that level, as we feel the downside risk if something goes wrong in debt markets, deserves some tempering of risk taking.

2024 Budget – Income Gains

The budget proposes to run a significant deficit of over $500,000 as explained at the start of this report.

REVENUE

We will analyze the expected revenue below:

- Fees are expected to increase by $53k. This is based on the new fee bylaw and the estimated number of surveyors. It also takes into account an estimate of retired members and new surveyors.
- PSRI revenue is expected to increase by $35k. This is based on the number of firms and surveyors who renew their subscription to the PSRI.
- Interest income is expected to increase by $75k due to interest rates stabilizing and favorable market conditions.
- Cost related activities are expected to drop by $50k as we move back to administering in-person exams.
- SRD Revenue is expected to drop by $76k due to the number of sticker sales dropping as construction slows down.

Overall we expect to see an increase in revenue from 2023 of approximately $38k.

EXPENSES

- Salaries are up by $200k as we are budgeting to fill 2 positions. The Deputy Registrar and a Marketing Specialist.
- Office Administration is up by $130k. This includes the new membership database, the website redevelopment and the scanning project.
- Committee expenses are up by $145k. This includes the Marketing project under the Marketing and Recruitment Committee and the Registration project under AERC. The Registration project includes consulting fees to review and develop content for the exams and the Core Competency assignments. It also includes funds for Strategic Planning that Council had decided to postpone after the budget was approved.
- The Discipline Reserve Fund is up by $60k. We have two cases underway in 2024.

The above points highlight some of the significant revenue and expense details and does not provide a line-by-line analysis of the budget.