

Staff Report



To	Committee of the Whole
Service Area	Corporate Services
Date	Monday, May 3, 2021
Subject	2020 Year-end Operating Budget Monitoring and Surplus Allocation and Deficit Funding

Recommendation

1. That the net operating deficit of \$947,524 be allocated to or funded from the City's reserve and reserve funds or grants as follows:
 - a. Transfer from Safe Restart Transit Stream grant of \$3,814,405 to fund deficit in Transit Services.
 - b. Transfer from Safe Restart Operating Stream grant of \$2,069,019 to fund combined deficit in Parking Services, Ontario Building Code Services, and Court Services.
 - c. Transfer to the 100RE Reserve Fund (355) of \$1,000,000
 - d. Transfer to the City Building Reserve Fund (159) of \$1,524,115
 - e. Transfer to the Police Operating Contingency Reserve (115) of \$417,996
 - f. Transfer to the Library Operating Contingency Reserve (102) of \$200,000
 - g. Transfer to the Water Capital Reserve Fund (152) of \$63,791
 - h. Transfer to the Wastewater Capital Reserve Fund (153) of \$965,693
 - i. Transfer to the Stormwater Capital Reserve (165) of \$764,305
 2. That the remaining Phase 1 Safe Restart Transit Stream grant of \$1,282,130 be deferred and applied to expected COVID-related deficit from January 1 to March 31, 2021.
 3. That the remaining Phase 1 Safe Restart Operating Stream grant of \$4,842,081 be transferred to the Tax Operating Contingency Reserve (180) to be utilized for expected ongoing COVID-related deficits through 2021 and 2022.
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Executive Summary

Purpose of Report

To provide the 2020 year-end operating position of the City's tax supported and non-tax supported departments, subject to any adjustments resulting from the year-end external audit. Additionally, this report serves as Council's opportunity to approve the funding of the 2020 deficit in accordance with the Council-approved Surplus Allocation Policy and the General Reserve and Reserve Fund Policy.

Key Findings

The [Third Quarter Operating Variance Report and Year-end Forecast](#) projected a year-end deficit of \$3.6 million combined for tax and non-tax supported budgets before any announced emergency financial relief funding from the provincial and

federal governments. The actual combined year-end position before applying any emergency relief funds is a deficit of \$947.5 thousand.

Both the provincial and federal governments have pledged financial support to municipalities to help alleviate the pressures resulting from the pandemic. Guelph received a total of \$12.0 million through the Safe Restart Phase 1 Funding for operating and transit streams. Of the total amount received, \$3.8 million of the Safe Restart Transit Stream will be required to offset the Transit deficit and \$2.1 million of the Safe Restart Operating Stream will be required to offset the deficits in Court Services, Parking Services, and Ontario Building Code Administration Services. The remaining \$6.1 million of Safe Restart Phase 1 funding remains to offset financial pressures in 2021 and 2022 as the financial impacts from the pandemic continue.

Council and staff have been very responsive and proactive in addressing the COVID pandemic, including providing relief for businesses and citizens who may be facing financial challenges. In total, the pandemic has resulted in an \$18.7 million shortfall in revenue and additional unbudgeted expenses of \$4.4 million (slightly better than third quarter projections of \$19.5 and \$4.8 respectively).

Council and staff recognized the urgent need to mitigate the impact of these losses and acted fast. This successfully resulted in estimated cost savings from mitigation measures of \$22.2 million (up from \$20.7 in the third quarter). The mitigation measures included; closure of facilities, service delivery changes, modified working environment for employees, redirected resources, 601 casual and seasonal part-time layoffs, halted non-critical hiring, and placed 127 full-time employees on declared emergency leave. These business decisions were not made lightly and were endorsed by Council early on in the pandemic as it was not known if municipalities would receive funding from the provincial and federal governments. Action needed to be taken quickly to ensure the City remained in a solid financial position throughout the pandemic.

The City could be feeling effects of the pandemic into 2023 and sound financial management is imperative to a fiscally responsible government capable of weathering various financial challenges. Full-time staff remain on lay-off due to facility closures as well as reduced demand for services resulting in reduced service levels. Staff continue to monitor facilities and service levels, in consultation with Public Health, and will return to normal business operations when it is safe to do so and when the demand for City services returns. The City is awaiting decisions by the University of Guelph and Conestoga College specifically related to service levels in Transit.

Financial Implications

The City of Guelph is in a good financial position to be able to manage through COVID-related deficits in 2021 and 2022 so long as impacts are managed and losses are limited where possible. The financial stability of the City has been enabled by years of right sizing the budget, modernizing financial policies, and focusing on long-term financial planning. Staying on this course, being fiscally minded in service delivery will reap benefits for our community in future years. Multi-year budget is another tool the City has been exploring and will be seeking policy approval in June 2021 which will further solidify the financial stability of the City.

With the utilization of the Safe Restart Transit Stream grant, Council is able to allocate tax funding toward reducing the projected tax levy impacts of implementing the strategic priorities. For this reason, staff is recommending an allocation to the City Building Reserve Fund and 100RE Reserve Fund. These reserve funds are used for projects including the Baker District Library, energy retrofitting, transit fleet electrification, active transportation, and modernization of technology and customer service.

Staff have also received recommendations from Guelph Police Services Board (GPS) and Guelph Public Library Board (GPL) to direct surplus funds from their operations to their contingency reserves. These letters are attached in Attachments-2 and 3 respectively. City staff are comfortable with the request from GPS even though it will result in a reserve position in excess of target due to the likely one-time costs of reopening the Guelph Police Headquarters.

Report

The year-end operating variance report provides information on the year-end position prior to the completion of the annual external audit and provides recommendations for the allocation of surplus/funding of deficits, subject to Council approval.

Council received the [Third Quarter Operating Variance Report and Year-end Forecast](#) on November 27, 2020. At that time staff projected a year-end \$2.6 million deficit for tax supported operating departments and \$947.5 thousand projected year-end deficit for non-tax supported operating departments as shown in Table 1 below.

Table 1: Projected and actual year-end variance

Budget	Third Quarter Projected Year- end Variance \$	Actual 2020 Year-end Variance \$
City Departments	(1,535,400)	(1,132,987)
General Revenues and Expenses	5,178,100	3,084,930
Local Boards	(981,000)	(1,203,577)
Grants, Outside Boards and Agencies	0	(76,072)
Total Tax Supported Deficit	2,661,700	672,294
Water Services	(1,073,000)	(63,791)
Wastewater Services	(1,916,000)	(965,693)
Ontario Building Code (OBC)	510,000	203,544
Court Services	1,253,000	450,408
Stormwater Services	(215,000)	(764,305)
Parking Services	2,388,000	1,415,067
Total Non-tax Supported Deficit	947,000	275,230

As part of the City's regular variance reporting process, departments were asked to provide comments on their financial results for the year-ending December 31, 2020. Table 2 provides a high-level summary for the year-end position of the City's tax supported and non-tax supported operations. More detailed information is provided in Attachment-1 2020 Year-end Operating Variance Report.

Table 2: Summary of year end position

Operating Budget	Total Approved Expenditure (\$)	Year-end Variance (\$)	Variance as a percentage of Budget %
City Departments	193,565,343	(1,132,987)	(0.6)
General Revenues and Expenses	74,826,843	3,084,930	4.1
Local Boards	61,444,069	(1,203,577)	(2.0)

Operating Budget	Total Approved Expenditure (\$)	Year-end Variance (\$)	Variance as a percentage of Budget %
Grants, Outside Boards and Agencies	30,690,627	(76,072)	(0.2)
Total Tax supported deficit	360,526,882	672,294	0.2
Water Services	30,432,289	(63,791)	(0.2)
Wastewater Services	33,949,117	(965,693)	(2.8)
OBC	3,591,200	203,544	5.7
Court Services	3,967,000	450,408	11.4
Stormwater Services	7,903,600	(764,305)	(9.7)
Parking Services	5,961,402	1,415,067	23.8
Total Non-tax Supported deficit	85,804,608	275,230	0.3

The COVID-19 pandemic has created unprecedented economic uncertainty, and municipalities, as frontline service providers, are particularly impacted by the health crisis; the City of Guelph is not an exception.

COVID-19 Variance Highlights

The impact on revenues related to operations during the COVID-19 was a loss of \$18.7 million, and led to additional unbudgeted expenses of \$4.4 million. Through quick, proactive action, cost mitigation measures have resulted in corresponding cost saving of \$22.2 million. Due to the phased-in approach of the recovery, and seemingly unending public health crisis now spanning two fiscal years, the COVID-19 financial impacts on the City will not be fully known until City programming and services return to normal (or a new form of normal as the population gets vaccinated). Likely, the impacts will continue for years as the businesses and employment in our community change, working from home becomes more prevalent and the Province enacts new legislation to help mitigate pandemic emergencies in the future. Staff will continue to report the financial impacts of COVID through 2021 budget monitoring reports.

Revenue Impact

Public Services

- Transit revenue - loss of \$7.8 million mainly due to lower transit fares which includes the cancellation of the U-pass for fall 2020 due to the University of Guelph offering online learning, and retailers and establishments not returning to normal operations. This projection also includes cancelled advertising revenues. Future Transit ridership will be dependent upon how quickly the community returns to using Transit services in a changed environment of online learning, virtual appointments and employees who are working from home. The revenue loss was partially offset by funding from the Safe Restart Transit Stream grant in the amount of \$3.8 million. Transit revenues are expected to remain below budget through 2021 and cost mitigation measures including service level reductions will correspondingly continue until such time that local university and college locations make a decision regarding in-person learning.
- Parks, Culture and Recreation - a combined revenue loss of \$5.6 million due to closure of facilities, cancellation of programs, shows, events, memberships, and events and bookings for most of the year. Guelph Museum and Recreation facilities were opened in the third quarter; however, programs and facilities were cancelled again in December. Financial impacts of cancellations will be noticeable into 2021.

Infrastructure, Development and Enterprise Services

- Solid Waste Services - revenue loss is \$180 thousand due to closure of the public drop-off and reduced tipping fees resulting from lower construction activity and demolition tonnage. In addition, revenue for the sale of carbon credits in the amount of \$298 thousand were transferred to the 100RE Reserve Fund in accordance with the reserve policy.
- Planning and Building Services - revenue loss of \$600 thousand due to a reduction in permit activity for legislated OBC Services.
- Parking Services - revenue loss of \$2.1 million due to waiver of monthly parking fees, loss of event parking revenue, and reduced demand for transient (daily) parking.
- Economic Development and Tourism - revenue loss of \$112 thousand due to lost rent at the Farmer's Market.
- Water and Wastewater Services - combined favourable revenue of \$1.1 million resulting from higher than expected Wastewater third-party service agreements and over-strength charges, partially offset by lower volumetric usage mainly from Industrial, Commercial and Institutional (ICI) consumption.

Corporate Services

- City Clerk's Office - revenue loss of \$91 thousand due to lost user fees, licenses and permits.
- Finance - revenue loss of \$75 thousand for lost property tax user fees and lower visa rebate fees.
- Court Services - revenue loss of \$1.6 million, mainly due to mandated closure of courts, reduced charge base, and no enforcement or collection activities taking place under the Provincial Offences Act. The revenue loss due to the closure of courts is shared between the City at 56 % and the County at 44%.

General Revenues

- Overall investment income was \$1.22 million higher than budgeted because of a special \$715 thousand distribution from the ONE Corporate Bond fund and a \$302 thousand distribution from the ONE Canadian Equity fund in December

2020, as well as \$100 thousand greater return than budgeted from the RBC Secondary markets account. However, \$1.9 million more interest than budgeted was transferred to reserve funds at year-end based on reserve fund balances, resulting in a \$700 thousand negative variance in operating investment income.

- Supplementary taxation revenue ended in a surplus of \$270 thousand offset by a deficit of \$951 thousand for the waiver of penalty and interest revenue on taxes.

Local Boards and Shared Services

- GPS - revenue loss of \$138 thousand due to lower number of record checks.
- GPL - revenue loss of \$215 thousand from lack of fines, room rentals, printing, and merchandise as a result of closure during the pandemic.

Expenditure Impact

Since the emergency declaration by various levels of governments, the City has been dedicated to managing through the crisis; balancing both the need to protect the economic well-being of the City and dedication to public safety while continue to deliver necessary essential services to the community. When the Province proclaimed a state of emergency on March 17, 2020, City staff created a cost centre to track expenses directly related to COVID-19 response, and all departments were instructed to monitor the financial impact of COVID-19 on their operations, and reduce discretionary spending. The cost mitigation measures included: closure of facilities, service delivery changes, modified working environment for employees, redirected resources, 601 casual and seasonal part-time layoffs, halted non-critical hiring, and placed 127 full-time employees on declared emergency leave.

1. Compensation

To mitigate the lost revenues being experienced, the City implemented a hiring freeze for non-essential positions creating savings through vacancies. Further, action was taken through the month of April with temporary layoffs of casual, part-time and full-time staff creating over \$1 million of savings per month during the layoff period. The overall compensation, inclusive of benefits, overtime, contract and other staffing related costs resulted in savings of \$10.7 million.

2. Utilities

Overall energy and water expenditures are approximately \$1.9 million below budget reflected in Facilities and Energy Management due to facility closures and reduced consumption. In addition, with the LED streetlight conversion project complete, \$917 thousand was transferred to the Wastewater Capital Reserve Fund in accordance with the repayment plan of the LED streetlight conversion capital project.

As part of the 2021 budget, staff have maintained overall city energy and water budgets at 2020 levels with the exception of Wastewater Services, which continues to see electrical utility cost reductions under the Class 'A' Global Adjustment Program.

3. Fuel

Fuel consumption and fuel prices have been lower than budgeted resulting in estimated savings of \$1.9 million reflected in Operations mainly due to lower

average price per litre at \$0.73 compared to the budgeted average of \$1.07 per litre. Staff have made an adjustment to realign the cost per litre to a three-year historical average in the approved 2021 budget.

4. Additional COVID-19-related expenditures

The City incurred \$4.4 million in unplanned expenses for responding to the COVID emergency. These costs include additional cleaning staff and sanitizing supplies, personal protective equipment for frontline staff, and information technology solutions for a digital workforce.

5. Winter Control

The City experienced fewer winter events than budgeted for in 2020 and the savings of \$468 thousand was transferred to the Environment and Utility Reserve in accordance with the reserve policy. As part of the 2022 budget, staff will consider adjusting this budget for average three-year historical experience and rely on this reserve fund for negative variances.

Safe Restart Grants

Phase 1 of the Safe Restart Operating Stream grant of \$6,911,100 was received to help offset deficits resulting from COVID-19. Due to the various mitigation strategies implemented throughout 2020, the City only required \$2,069,019 and staff are recommending the balance of \$4,842,081 be transferred to the Tax Operating Contingency Reserve. The City also received \$1,384,000 in Phase 2 and eligible to receive \$3,684,802 in Phase 3 allocations of the Safe Restart Operating Stream, combined with remaining Phase 1 funds, the City has a total of \$9,910,883 available in 2021 and beyond.

The Phase 1 amount of funding received through the Safe Restart Transit Stream in 2020 was \$5,096,534. Of this amount \$1,282,130 will be deferred to help offset pressures through March 31, 2021. The City is eligible to receive \$6,383,730 in Phase 2 allocations of Safe Restart Transit stream, combined with remaining Phase 1 funds for a total of \$7,665,860 to support COVID-19 municipal transit pressures incurred from October 1, 2020 to March 31, 2021. Note, however, that Phase 2 funding will be distributed once reporting is completed and City will only receive funds for actual costs.

Furthermore, the City received \$4,972,037 in Phase 3 funding to support actual COVID-19 municipal transit pressures between April 1 and December 31, 2021 plus up to 50% of transit future-looking transformation changes (e.g. On-demand transit studies and pilots, structural/governance changes with neighbouring municipalities).

Allocation of the 2020 Operating Surplus and Deficit

In accordance with City Council's approved Year-end Operating Surplus Allocation Policy, a primary consideration for the allocation of any year-end surplus or deficit is to transfer funds to operating reserves to smooth future volatility in operating costs and tax increases. This is provided as a general guideline and may be superseded in order to address more immediate financial needs, and taking a long-term strategic financial planning management by identifying and addressing potential future budget pressures.

Operating Budget Surplus and Deficit Recommendation

That the total operating deficit of \$947,523 be funded from grants and allocated to the reserves and reserve funds as follows:

Reserve	Amount \$
Safe Restart Transit Stream grant	\$3,814,405
Transfer to Police Operating Contingency Reserve (115)	(417,996)
Transfer to Library Operating Contingency Reserve (102)	(200,000)
Transfer to 100RE Reserve Fund (355)	(1,000,000)
Transfer to City Building Reserve Fund (159)	(1,524,115)
Transfer to Water Capital Reserve Fund (152)	(63,791)
Transfer to Wastewater Capital Reserve Fund (153)	(965,693)
Transfer to Stormwater Capital Reserve (165)	(764,305)
Safe Restart Operating Stream Grant OBC	203,544
Safe Restart Operating Stream Grant Court Services	450,408
Safe Restart Operating Stream Grant Parking Services	1,415,067
Total	\$947,524

The rationale for the above transfers includes:

- The City received a formal request for \$200 thousand from GPL for funding to complete a Baker District Library fundraising campaign. See GPL Board letter in Attachment-3.
- The City received a formal request for \$417,996 from GPS to transfer this surplus to the Police Operating Contingency Reserve. There is expected to be one-time relocation expenses with the opening of the Police Headquarters that this contingency can support. See GPS Board letter in Attachment-2.
- A portion of the tax-supported utility and fuel savings transferred to the 100RE Reserve Fund to assist Council in meeting environmental objectives of the Strategic Plan and offsetting the budget pressure in 2022 and beyond.
- The transfer to the City Building Reserve Fund is recommended to inject one-time funds to help mitigate forecasted levy increases resulting from additional funds needed for Strategic Plan initiatives like the Baker District, Active Transportation, streetscaping and Transit growth.
- The transfer of surplus from Water, Wastewater, and Stormwater to the respective Capital Reserve is recommended based on financial restrictions that disallow the use of surplus from one business line to another.
- The transfer of funds from the Safe Restart Operating Stream grant to cover the deficit in OBC, Court Services, and Parking Services is recommended as the deficits directly resulted from the pandemic.

Financial Implications

The City of Guelph is in a good financial position to be able to manage through the pandemic so long as impacts are managed and losses are limited where possible. The financial stability of the City has been enabled by years of right sizing the budget, modernizing financial policies, and focusing on long-term financial planning. The year-end operating position and the reserve and reserve fund positions are important factors considered in determining the City's overall fitness as assessed by an external credit rating agency. This credit rating affects the price at which the City can issue debt and therefore impacts the affordability of long-term capital projects for tax and rate payers of the City.

The City of Guelph received \$5.1 million and \$6.9 million under the Safe Restart Agreement Phase 1 for transit and operating stream respectively. Use of Safe Restart Phase 1 funding will enable the contingency reserves to remain intact and better position the City to be able to manage the long-term financial impacts of this pandemic without significant increases to the tax levy or user rates. It will provide the City with greater flexibility to respond to further impacts from the pandemic through 2021, and other unexpected events in the coming years.

Consultations

Departments are responsible for managing their programs according to municipal standards and within the approved budget. The responsibility of monitoring the operating budget is shared by the operating departments and the Finance department. Department managers were provided financial reports based on their actual revenue and expenditures to December 31, 2020 with which they provided commentary in consultation with the Finance department.

Strategic Plan Alignment

Reporting year-end results supports the Strategic Plan's Working Together for our Future pillar through maintaining a fiscally responsible local government.

Attachments

Attachment-1 2020 Year-end Operating Surplus and Deficit

Attachment-2 Guelph Police Services Board Request for 2020 Surplus Allocation

Attachment-3 Guelph Public Library Board Request for 2020 Surplus Allocation

Departmental Approval

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