

Staff Report



To	Committee of the Whole
Service Area	Corporate Services
Date	Monday, May 2, 2022
Subject	2021 Year-end Operating Budget Monitoring Report and Surplus Allocation and Deficit Funding

Recommendation

That the net operating deficit of \$2,390,440 be allocated to or funded from the City's reserve and reserve funds or grants as follows:

- a) Transfer from Safe Restart Funding Transit (344) of \$6,531,826 to fund the deficit in Transit Services.
- b) Transfer from the Safe Restart Operating Stream Grant held in the Tax Operating Contingency Reserve (180) of \$8,666,323 to the tax supported budget to fund COVID-related expenses and revenue shortfalls.
- c) Transfer to the Library Contingency Reserve (102) of \$105,000 in accordance with the request from the Guelph Public Library Board.
- d) Transfer to the Police Operating Contingency Reserve (115) of \$1,575,832 in accordance with the request from the Guelph Police Board.
- e) Transfer to Environment and Utility Reserve (198) of \$480,000 for savings from corporate fuel.
- f) Transfer to the Tax Operating Contingency Reserve (180) of \$862,780 for the City's commitment to The Elliott Community long-term care bed expansion.
- g) Transfer to the Infrastructure Renewal Reserve (150) of \$4,921,884 to mitigate future tax impacts related to inflation.
- h) Transfer the Water Services surplus to the Water Capital Reserve Fund (152) of \$914,314.
- i) Transfer the Wastewater Services surplus to the Wastewater Capital Reserve Fund (153) of \$2,354,699.
- j) Transfer the Stormwater Services surplus to the Stormwater Capital Reserve (165) of \$136,256.
- k) Transfer the Building Services surplus to the Building Services OBC Stabilization Reserve Fund (188) of \$604,717.

- l) Transfer the Parking Services surplus (net of grant funding) to the Parking Operating Contingency Reserve (106) of \$919,913.
- m) Transfer from the Safe Restart Operating Stream Grant held in the Tax Operating Contingency Reserve (180) of \$67,686 to fund Court Services deficit.

Executive Summary

Purpose of Report

To provide the 2021 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 2021 deficit and the allocation of 2021 surplus, in accordance with the Council approved Surplus Allocation Policy and the General Reserve and Reserve Fund Policy.

Key Findings

The actual combined year-end position before applying any emergency relief funds is a deficit of \$2.4 million or a 0.5 per cent variance from budget. The key drivers for the difference from forecast to actual was higher staffing costs than projected, lower COVID expenses than projected, additional revenue over third quarter projection for building permits, recycled materials, wastewater agreements and overstrength revenue, water, and wastewater rate revenue.

Both the provincial and federal governments have pledged financial support to municipalities to help alleviate the pressures resulting from the pandemic.

After applying the Safe Restart Transit and Operating stream funding of \$6.5 million and \$8.7 million respectively, to offset revenue shortfalls and increased costs directly related to the pandemic the year-end position ends in a surplus of \$12.8 million as shown in Table 3 to be allocated to reserve and reserve funds to help mitigate future pressures and ensure the financial stability of the City.

Safe Restart funding was utilized to cover budget pressures mainly for Transit, Community Investment, Tourism, Courts, Parking, Guelph-Wellington Paramedics, Culture and Recreation. Some areas such as Transit experienced both revenue shortfalls and increased COVID-related operating expenses due to enhanced cleaning and sanitization, increased staffing costs, and increased use of medical and protective equipment supplies.

Operations, Parks, Finance, Guelph Police Service, Water Services, and Wastewater Services have favourable year-end positions mainly due to COVID-19-related expenditure savings related to compensation and associated staff operating and training budgets. In addition to expenditure savings, Environmental Services experienced increased commodity prices for the sale of recycled goods resulting in a large overall surplus.

Financial Implications

The City of Guelph is in a good financial position to be able to manage through COVID-related deficits in 2022 and 2023, so long as impacts continue to be managed proactively as demonstrated through the last two years. 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.

The City of Guelph received a total of \$7.4 million and \$9.9 million under the Safe Restart Agreement Phase 1-3 for transit and operating stream respectively. Since inception of these grant programs in 2020 the City has been able to manage through the challenges of the COVID pandemic and will carry forward \$842 thousand and \$477 thousand of the Safe Restart Transit and Safe Restart Operating grant for use throughout 2022.

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 3 and 4 respectively. City staff support both requests, in an effort to provide these Boards more autonomy and ownership over risk management in a multi-year budget environment.

Report

The year-end operating budget monitoring 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 2021 Budget Monitoring Report](#) on November 26, 2021. At that time staff projected a year-end deficit of \$9.9 million. Due to the unpredictable nature of the pandemic and the ever-changing public health guidelines towards the end of the year, the actual year-end deficit was lower than projected as shown in the table below. The key drivers for the difference from forecast to actual was higher staffing costs than projected, lower COVID expenses than projected, additional revenue over third quarter projection for building permits, recycled materials, wastewater agreements and overstrength revenue, water, and wastewater rate revenue.

Table 1: Projected and actual year-end variance

Revenue and Expenditure Impact	Third Quarter Projected Year-end Variance \$	Actual 2021 Year-end Variance \$
Lost Revenue	18,337,000	14,853,345
Other Revenue Impacts	1,354,000	(1,200,546)
Expenditure Savings	(12,435,900)	(12,977,982)
COVID Expenditure Increase	2,613,100	1,715,623
Total City Year-end Deficit	9,868,200	2,390,440

As part of the City's regular budget monitoring process, departments were asked to provide comments on their financial results for the year-ending December 31, 2021. Table 2 provides a high-level summary for the year-end position of the City's tax supported and non-tax supported operations. Overall, the City's final position is only 0.5% from budget, or a \$2.4 million deficit. More detailed information is provided in Attachment-1 2021 Year-end Operating Variance Report by Department and Attachment-2 2021 Year-end Operating Variance Report by Strategic Plan Pillar.

Table 2: Summary of year-end position

Operating Budget	Total Approved Gross Expenditure (\$)	Year-end Variance (\$) Deficit (Surplus)	Variance as a percentage of Budget %
City Departments	202,066,485	4,574,711	2.2
General Revenues and Expenses	73,440,410	3,990,325	5.4
Local Boards	67,654,067	(2,236,094)	(3.3)
Grants, Outside Boards and Agencies	28,688,634	(804,289)	(2.8)
Total Tax supported	371,849,596	5,524,653	1.5
Water Services	30,297,592	(914,314)	(3.0)
Wastewater Services	34,039,732	(2,354,699)	(6.9)

Operating Budget	Total Approved Gross Expenditure (\$)	Year-end Variance (\$) Deficit (Surplus)	Variance as a percentage of Budget %
Building Services	3,663,000	(604,718)	(16.5)
Court Services	4,052,000	67,687	1.7
Stormwater Services	8,927,300	(136,256)	(1.5)
Parking Services	4,901,491	808,087	16.5
Total Non-tax Supported	85,881,115	(3,134,213)	(3.7)
Total City	457,730,711	2,390,440	0.5

Table 3 provides the adjusted City position after applying the COVID related safe restart grants to appropriate losses. This brings the overall position of the City to a net surplus position.

Table 3: Net City Position After Safe Restart Funding

Funding	Tax Supported	Non-tax Supported	Total
Total City net year-end deficit/(surplus) position	5,524,653	(3,134,213)	2,390,440
Use of Transit Safe Restart funds	(6,531,826)	-	(6,531,826)
Use of Operating Safe Restart funds	(6,938,323)	(1,728,000)	(8,666,323)
Total City net-year end surplus	(7,945,496)	(4,862,213)	(12,807,709)

Powering our future

The [Powering our future](#) priority includes Economic Development and Tourism, Culture, Smart Cities Office, and Strategy Innovation and Intergovernmental Services. Culture realized a year-end deficit of \$458 thousand due to the mandated closure of facilities such as River Run Centre, Sleeman Centre and the Museum for much of the year, resulting in lost revenues, partially offset by reduced compensation, utilities, and overall operating costs. Staff recommend funding the revenue shortfall of \$1.3 million related to facility closures from the safe restart

operating grant resulting in an adjusted year-end position of \$842 thousand surplus.

Sustaining our future

The [Sustaining our future](#) priority includes Environmental Services, Planning and Building Services, Stormwater, Parks Operations, and Energy Management.

- Planning and Building surplus of \$754 thousand is primarily due to increase in condo and environmental fees due to the volume of applications, as well as a surplus in building permits due to large dollar value permits issued at the end of 2021.
- Parks Operations surplus of \$756 thousand is due to staffing vacancies for both permanent and seasonal, mainly due to fewer seasonal workers.
- Environmental Services Water surplus of \$914 thousand mainly due to staffing vacancies, utility savings and certain environmental programs not running as a result of COVID. Staff had adjusted rate revenue assumptions in 2021 budget and these assumption changes were successful as the surplus driven from rate revenue of \$340 thousand was much lower than in previous years.
- Environmental Services Wastewater surplus of \$2.4 million due to expenditure savings in utilities, property taxes, and biosolids. One-time special agreements and discharge contracts revenues contributed to \$1.3 million of the surplus. Similar to above, Staff had adjusted rate revenue assumptions in 2021 budget and these assumption changes were successful as the surplus driven from rate revenue of \$350 thousand was much lower than in previous years.
- Environmental Services Solid Waste surplus of \$1.8 million mainly due to higher than anticipated commodity prices realized on sale of recyclables, lower haulage costs for waste removal due to a reduction in tonnage at the Public Drop Off and savings from, taxes, utilities and lower training and consulting services. In addition, revenue for the sale of the carbon credits in the amount of \$91 thousand were transferred to the 100RE Reserve Fund (355) in accordance with the reserve and reserve fund policy.
- Stormwater surplus of \$136 thousand dollars due to savings in the rebate program due to demand of the program not being fully realized.

Overall electricity, natural gas and water expenditures resulted in a \$1.4 million surplus corporately due to provincially mandated facility closures resulting in reduced occupancy and consumption, along with the implementation of energy conservation initiatives. With the LED streetlight conversion project complete, \$1.2 million was transferred to the Wastewater Capital Reserve Fund (153) in accordance with the repayment plan of the LED streetlight conversion capital project. These savings are seen in departmental budgets but reported on corporately. Wastewater Services continues to see electrical utility cost reductions under the Class 'A' Global Adjustment Program. Utilities will be reviewed and realigned as needed during the next budget process.

Navigating our future

The [Navigating our future](#) priority includes Transportation Services, Parking Services, and Guelph Transit.

From an operating perspective, both Parking Services and Guelph Transit experienced significant revenue shortfalls.

- Guelph Transit realized a deficit of \$6.5 million due to significant revenue loss of \$8.3 million mainly due to the cancellation of the University Contract (U-pass) of \$6.5 million, reduced ridership of \$1.6 million and loss of advertising revenue of \$189 thousand. Guelph Transit has also experienced higher than anticipated expenditures mainly due to enhanced cleaning, and other measures to support physical distancing. The loss is partially offset by lower compensation costs with year-end savings of \$1.0 million. The U-pass contract has been re-instated in January 2022 as the University student body voted in favour of the U-pass. Guelph Transit can allocate \$6.5 million in Safe Restart Grant Funding to their operating budget to offset the overall year-end deficit. A balance of \$842 thousand will remain in the Safe Restart Funding Transit Reserve (344) to help offset deficits incurred through December 31, 2022.
- Parking Services ended with a revenue loss of \$1.7 million due to COVID-19, off-set by expenditures savings, resulting in a deficit of \$808 thousand overall. Staff recommend allocating \$1.7 million of safe restart operating grant to Parking Services to offset the revenue shortfall. The adjusted year-end position after safe restart funding is a surplus of \$920 thousand.
- Engineering and Transportation Services surplus of \$228 thousand mainly due to staffing vacancies and savings in operating and training expenses due to COVID.
- Operations transit fleet surplus of \$617 thousand mainly due to staffing vacancies and lower fuel usage and auto parts costs due to less bus use as a result of COVID.

Working together for our future

The [Working together for our future](#) priority includes many of the internal facing services including Finance, Corporate Fleet, Human Resources, Legal, Realty, and Court Services, Information Technology, Strategic Communication and Community Engagement, and the City Clerk's Office. It also includes Executive Team, City Council, and Internal Audit.

- Court Services ended with revenue loss of \$906 thousand due to mandated closure of courts, reduced charge base, and reduced enforcement or collection activities taking place for Provincial Offences Act. The revenue loss is partially offset by lower court expenses including adjudication, interpreters, and witness fees due to courts not operating at full capacity and virtual court proceedings. Court Services year-end deficit is \$67 thousand, and it is recommended that the Safe Restart Operating grant funding be used to fund this net deficit position.
- Legal and Realty ended in a deficit position of \$549 thousand mainly due to an unfavourable non-insurable claim variance of \$632 thousand, and consulting for legal matters. Amounts are partially offset by savings in compensation and external recoveries.
- Finance ended in a surplus of \$354 thousand mainly due to higher than anticipated user fees in taxation, and savings in operating and training expenses due to COVID-19.
- Information Technology ended in a deficit of \$527 thousand due to higher expenses in compensation due to COVID service levels. Additional contract employees have been needed to meet demand related to digitizing forms and processes across the City. This was partially offset with savings in operating and training costs due to work-from-home and online training courses.
- Supplemental taxes and appeal losses ended in a net surplus \$355 thousand, which is described in the [Assessment Base Management 2021 Report](#).

Corporately, fuel savings of \$480 thousand were realized due to lower consumption mainly for transit service because of the pandemic.

Overall, since the beginning of the pandemic the City has experienced a savings in compensation and benefits, and the trend has continued throughout the fourth quarter of 2021. The reasons for this are varied. The City has taken action to mitigate costs by temporarily laying off some seasonal and part-time staff due to closures and reduced demand for services, and some permanent positions have remained vacant longer due to recruitment challenges in a competitive market. The current year-end position is a compensation savings of \$3.5 million inclusive of benefits.

Due to the balance of funds held in reserves compared to reserve funds, and the respective rate of return earned on each, the operating budget is carrying a \$2.7 million negative variance in the amount of investment income earned on reserves, which is budgeted to flow to the operating budget. Overall, the City's rate of return was lower than previous years, Year-end Investment Report, however, total investment income was in line with budget. The allocation between reserves and reserve funds is a budgeting alignment concern which is being addressed in 2022 with no impact to the overall City budget, additional information will be provided through the mid-year Investment Report.

Building our future

The [Building our future](#) priority includes Recreation Services, Community Investment, Public Works, Corporate and Community Safety, all of the Emergency Services including Fire, Paramedic and Police, Guelph Public Library, Corporate Facilities Maintenance, and Infrastructure Planning and Construction.

For operating budget, the areas with significant variances are:

- Operations ended in a surplus of \$609 thousand after transferring \$689 thousand of savings related to winter control to Environment and Utility Reserve (198). The surplus is mainly due to vacancy savings, lower operating goods and services for non-winter related roads maintenance.
- Recreation ended in a deficit of \$708 thousand due to revenue shortfall of \$3.1 million due to capacity restrictions, mandated closures of facilities, along with the cancellation of programs, memberships, and events bookings, partially offset through expense savings. Staff recommend funding the revenue shortfall of \$3.1 million related to facility closures from the safe restart operating grant resulting in an adjusted year-end position of \$2.4 million surplus.
- Guelph-Wellington Paramedic Services ended up in deficit of \$439 thousand net of County share primarily caused by increase in overtime to cover employees on self-isolation due to COVID exposures, as well as COVID swabbing and vaccination in accordance with Public Health directions. Additional deficit is caused by increase supply costs related to rising call volumes, increase in repair and maintenance of CPAP machines, and increase in building costs. Staff recommend funding a portion of the additional overtime costs due to COVID from the safe restart operating grant resulting in an adjusted year-end position of \$190 thousand deficit.
- Guelph Police Service ended in a surplus position of \$1.6 million mainly due staff vacancies partially offset by an increase in safety supplies, equipment and overtime expenses related to COVID pandemic.

- Guelph Public Library ended in a surplus of \$660 thousand due to compensation savings resulting from facility closures and lower material purchases due to ongoing supply chain issues.
- County Social Services ended in a surplus of \$943 thousand due to lower childcare and housing costs.

Operating Budget Surplus and Deficit Recommendation

That the total operating deficit of \$2,390,440 be funded from grants and allocated to the reserves and reserve funds as follows:

Reserve	Amount \$
Transfer from Safe Restart Funding Transit Reserve Fund (344)	(6,531,826)
Transfer from Safe Restart Grant Operating (180) for tax supported COVID expenses and revenue shortfalls	(8,666,323)
Transfer to Library Contingency Reserve (102)	105,000
Transfer to Police Operating Contingency Reserve (115)	1,575,832
Transfer to Environment and Utility Reserve (198)	480,000
Funding for The Elliott Community additional long-term care beds transferred to Tax Operating Contingency Reserve (180)	862,780
Transfer to Infrastructure Renewal Capital Reserve Fund (150)	4,921,884
Transfer to Water Capital Reserve Fund (152)	914,314
Transfer to Wastewater Capital Reserve Fund (153)	2,354,699
Transfer to Stormwater Capital Reserve (165)	136,256
Transfer to Building Services OBC Stabilization Reserve Fund (188)	604,717
Transfer to Parking Operating Contingency Reserve (106)	919,913
Transfer from Safe Restart Grant Operating (180) to fund Court Services deficit	(67,686)
Total	(2,390,440)

The rationale for the above transfers includes:

- Transit loss of \$6,531,826 being funding by Safe Restart Transit Grant in accordance with grant specifications.
- Operating COVID expenses and revenue shortfalls of \$8,666,323 being funded by the Safe Restart Operating Grant. The grant will fund these specific pressures and is in accordance with grant specifications:

General City COVID expenses	\$1,711,723
IT-related COVID expenses	\$64,500
Social Services-related COVID expenses	\$63,100
Paramedic overtime (city portion)	\$249,000
Fire overtime	\$450,000
Parking Services revenue shortfall	\$1,728,000
Culture revenue shortfall user fees	\$1,300,000
Recreation revenue shortfall user fees	\$3,100,000
Total	\$8,666,323

- The City has received a formal request for \$105,000 from the \$660,262 GPL surplus for conducting communication activities to support the new Central Library on Baker Street (Attachment 4).
- The City has received formally a request from the GPS Board, to request their full surplus of \$1,575,832 to be transferred to the Police Operating Contingency Reserve. If you recall, as part of the 2022 Budget, GPS requested an increase in the target balance of their contingency reserve. Staff are generally in favour of increasing the contingency reserve target in an effort to support the Boards having more autonomy and ownership of risk management in a multi-year budget environment (Attachment 3).
- The fuel savings totaling \$480,000 be transferred to the Environment and Utility Reserve to offset inflationary pressures in 2022 related to the high price of oil. Early projection based on February YTD information projects a 2022 year-end deficit between \$900 thousand and \$1.250 million. Staff will continue to monitor the year-end projection for fuel monthly and will advise if it is expected to exceed 25 percent of budget. The Environment and Utility Reserve (198) has a balance of \$4.2 million before this transfer and is at 97 per cent of target. In 2020 the year-end position of fuel was a \$1.9 million surplus which a portion was transferred to the 100RE Reserve Fund (355) to assist Council in meeting environmental objectives of the Strategic Plan and offsetting budget pressures in 2022 and beyond. In 2019 the year-end position was a surplus of \$650 thousand which was transferred to the Environment and Utility Reserve (198) to mitigate against future price fluctuations.
- On Monday December 20, 2021, City Council was presented with a business case to support a non-binding application for long-term care home redevelopment. The report highlighted a City cost of \$862,780 for a 29 bed expansion. Recommendation 3 "That City staff be directed to provide a funding strategy and budget impact of The Elliott's requested service expansion for approval and inclusion in the multi-year budget as part of Council's final decision to enter into a contribution agreement for additional long-term care beds". By allocating these funds for the capital portion this completes part of the direction to staff. The funds will be held in the Tax Operating Reserve (180) until such time that Council enters into a signed contribution agreement. At time of report publishing the City had not heard any further details from the Ministry.
- The transfer to the Infrastructure Renewal Reserve Fund (150) of \$4,921,884 is recommended to inject one-time funds to help mitigate escalating cost of capital

projects in 2022 and 2023 as noted in the [April 4, 2022 Inflationary Financial Impact Strategy Report](#).

- The transfer of surplus from Water, Wastewater, and Stormwater to the respective Capital Reserve Funds is recommended based on financial restrictions that disallow the use of surplus from one business line to another and to help close the funding gap related to asset management.
- The transfer of surplus from Building Services and Parking Services to their respective operating contingency reserves helps mitigate potential on-going revenue losses from COVID in 2022 and fluctuations in building permits based on current economic conditions.
- The transfer of funds from the Safe Restart Operating Stream grant that were transferred to Tax Contingency Reserve (180) to cover the deficit in Court 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 a total of \$7.4 million and \$9.9 million under the Safe Restart Agreement Phase 1-3 for transit and operating stream respectively for use in 2021. Since inception of these grant programs in 2020 the City has been able to manage through the challenges of the COVID pandemic and will carry forward \$842 thousand and \$477 thousand of the Safe Restart Transit and Safe Restart Operating grant for use throughout 2022.

In addition to the staff recommendation to utilize \$15.2 million of safe restart grant at year-end, Council approved the use of \$700,000 in the 2021 budget to fund \$350,000 through the Tourism Rebuild Emergency Grant and \$350,000 through the Emergency Funding Community Investment Strategy bringing the total amount utilized in 2021 to \$15.9 million.

This funding has enabled 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 2022 and 2023, 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, 2021, 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 2021 Year-end Operating Surplus and Deficit by Department

Attachment-2 2021 Year-end Operating Surplus and Deficit by Strategic Plan Pillar

Attachment-3 Guelph Police Services Board Request for 2021 Surplus Allocation

Attachment-4 Guelph Public Library Board Request for 2021 Surplus Allocation

Attachment-5 Year-end Review Staff Presentation

Departmental Approval

Karen Newland, Manager Finance Client Services

Report Author

Ron Maeresera, Senior Corporate Analyst

This report was approved by:

Tara Baker

General Manager Finance/City Treasurer

Corporate Services

519-822-1260 extension 2084

tara.baker@guelph.ca

This report was recommended by:

Trevor Lee

Deputy Chief Administrative Officer

Corporate Services

519-822-1260 extension 2281

trevor.lee@guelph.ca