

# Staff Report



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To	<b>Committee of the Whole</b>
Service Area	Corporate Services
Date	Tuesday, May 2, 2023
Subject	<b>2022 Year-end Operating Budget Monitoring Report and Surplus Allocation and Deficit Funding</b>

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## Recommendation

That the 2022 operating surplus of 13,698,567 be allocated to or funded from the City's reserve and reserve funds or grants as follows:

- a) Transfer \$841,703 from Safe Restart Funding Transit Reserve Fund (344) to Transit Services to fully utilize this Grant in 2022.
- b) Transfer \$155,862 from Safe Restart Funding Transit Phase 4 to Transit Services to fully utilize this Grant in 2022.
- c) Transfer the Guelph Public Library surplus of \$140,000 to the Library Capital Reserve Fund (157).
- d) Transfer \$540,000 to the WSIB Reserve (330) in accordance with the request from the Guelph Police Board.
- e) Transfer \$790,000 to the Police Operating Contingency Reserve (115) in accordance with the request from the Guelph Police Board.
- f) Transfer \$840,000 to the Police Capital Reserve Fund (158) in accordance with the request from the Guelph Police Board.
- g) Transfer \$1,300,000 to the Tax Operating Contingency Reserve (180) to partially build back one-time funds used in the 2023 approved budget.
- h) Transfer \$976,000 to 100RE Reserve Fund (355) for savings from corporate utilities.
- i) Transfer \$1,200,000 to Environment and Utility Reserve (198) for revenue surplus for sale of recycled goods.
- j) Transfer \$587,000 to the City Building Reserve Fund (159) to mitigate future tax impacts related to inflation.
- k) Transfer \$1,370,000 to the Growth Reserve Fund (156) to mitigate future tax impacts related to inflation and growth revenue shortfalls associated with Bill 23.
- l) Transfer \$4,569,092 to the Infrastructure Renewal Reserve Fund (150) to mitigate future tax impacts related to inflation.

- m) Transfer the Water Services surplus of \$1,814,411 to the Water Capital Reserve Fund (152).
- n) Transfer the Wastewater Services surplus of \$1,542,519 to the Wastewater Capital Reserve Fund (153).
- o) Transfer the Stormwater Services surplus of \$55,385 to the Stormwater Capital Reserve Fund (165).
- p) Transfer the Building Services surplus of \$124,305 to the Building Services OBC Stabilization Reserve Fund (188).
- q) Transfer \$476,876 from the Safe Restart Operating Stream Grant held in the Tax Operating Contingency Reserve (180) to parking services to fund COVID-related revenue shortfalls.
- r) Transfer \$786,877 from the Parking Operating Contingency Reserve (106) to fund COVID-related revenue shortfalls.
- s) Transfer the Court Services surplus of \$111,172 to the Court Capital Reserve Fund (120).

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## **Executive Summary**

### **Purpose of Report**

To provide the 2022 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 allocation of 2022 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 surplus of \$13.7 million or a 2.8 per cent variance from budget. The tax supported surplus is \$11.3 million and non-tax supported surplus is \$2.4 million.

Attachment-1 2022 Year-end Surplus and Deficit by Department provides the actual year-end results for each department.

Some notable variance drivers are:

- Positive revenue variance of 26 per cent, partially offset by increased transfers to reserves. Surpluses were realized in grant revenue, water and wastewater basic and consumption usage, sale of land, vehicles and equipment, and investment income.
- A favourable year-end position for salaries, wages, and benefit costs of 2.4 per cent due to staff turnover resulting in an increased vacancy rate, which was prolonged due to a tight labour market for hard to fill roles.
- A favourable year-end position for hydro mainly due to sustained energy conservation and efficiency measures.
- An unfavourable year-end position for fuel due to actual costs being 57 per cent higher than budgeted.

This operating surplus position enables the City to bolster its reserve and reserve fund position heading into 2023 as the economic conditions continue with above-average inflationary pressures and supply chain concerns, coupled with growth revenue funding shortfalls created by Bill 23. It also enables the replenishing of certain funds that were utilized for one-time initiatives or budget reductions during the 2023 confirmation budget. Through the 2022 surplus allocation, tax supported reserves are receiving \$11.3 million: \$2.8 million to operating contingency and program specific reserves and \$8.5 million to capital related reserve funds. Non-tax supported reserves are being allocated \$2.9 million in total, primarily to capital reserve funds.

### **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. Monitoring the financial status of the City is directly linked to the City's credit rating as Standard and Poor reviews and updates the credit rating annually. In 2022 the City received a AAA credit rating, which is the highest rating available.

### **Financial Implications**

The improved financial stability of the City has been enabled through years of rightsizing the budget, modernizing financial policies, and focusing on long-term planning. Staying on this course, being fiscally minded in service delivery, will reap benefits for our community in future years.

The City received a total of \$12.0 million Safe Restart Operating Grant and \$11.2 million under the Safe Restart Agreement Phase 1-3 for Transit. The City has applied carry forward amounts of \$842 thousand and \$477 thousand of the Safe Restart Transit and Safe Restart Operating Grants in 2022. In addition to these carry forward amounts, the City also received \$156 thousand in Transit Phase 4 which has been applied in 2022.

Staff anticipate receiving recommendations from Guelph Police Services (GPS) Board to direct surplus funds to their operating contingency and capital reserves as well as the City WSIB reserve to offset future needs. The Board meets April 20, 2023 and will forward their formal request once finalized. City staff support the request in an effort to provide the Board more autonomy and ownership over risk management in a multi-year budget environment.

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## **Report**

This 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.

Council received the [Third Quarter 2022 Budget Monitoring Report](#) on November 26, 2022. At that time staff projected a year-end favourable variance of \$9.4 million for both the tax supported and non-tax supported budgets prior to allocating any Safe Restart Grant funding. The actual year-end surplus of \$13.7 million was higher than projected. The key driver for the difference from forecast to actual was higher than anticipated revenue realized across many departments including sale of recycled materials, investment income, grants, wastewater agreements and

overstrength revenue, and water and wastewater rate revenue. Expenditure savings were realized in compensation, purchased services and financial expenses.

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, 2022. Table 1 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 2022 year-end position is a surplus of 2.8 per cent or \$13.7 million prior to any grant funding allocations. Detailed information is provided in Attachment-1 2022 Year-end Operating Surplus and Deficit by Department, Attachment-2 2022 Year-end Operating Surplus and Deficit by Strategic Plan Pillar and Attachment-3 2022 Year-end Operating Surplus and Deficit by Account Category.

**Table 1: Summary of year-end position**

<b>Tax Supported Operating Budgets</b>	<b>Total Approved Net Budget (\$)</b>	<b>Year-end Variance (\$) Surplus/(Deficit)</b>	<b>Variance as a Per cent of Budget (%)</b>
City Departments	151,832,558	4,045,224	2.7%
General Revenues and Expenses	(247,779,974)	3,454,321	(1.4%)
Local Boards	67,223,106	2,473,765	3.7%
Grants, Outside Boards and Agencies	28,724,311	1,341,217	4.7%
<b>Total Tax Supported</b>	<b>0</b>	<b>11,314,527</b>	<b>2.9%*</b>
<b>Non-tax Supported Operating Budgets</b>	<b>Total Approved Gross Expenditure (\$)</b>	<b>Year-end Variance (\$) Surplus/(Deficit)</b>	<b>Variance as a Per cent of Budget %</b>
Water Services	31,203,122	1,814,411	5.8%
Wastewater Services	34,894,602	1,542,518	4.4%
Building Services	3,950,800	124,307	3.1%
Court Services	4,773,100	111,173	2.3%
Stormwater Services	9,801,000	55,384	0.6%
Parking Services	5,074,325	(1,263,754)	(24.9%)
<b>Total Non-tax Supported</b>	<b>89,696,949</b>	<b>2,384,040</b>	<b>2.7%</b>
<b>Total</b>		<b>13,698,567</b>	<b>2.8%</b>

\*Calculated as a per cent of total expenditure budget

Table 2 provides the adjusted City position after applying the COVID-related Safe Restart Grants to Transit and Parking. This brings the City’s 2022 year-end position to a budget surplus of \$15.2 million or 3.1 per cent.

**Table 2: City Position After Safe Restart Funding**

<b>Funding</b>	<b>Tax Supported \$</b>	<b>Non-tax Supported \$</b>	<b>Total \$</b>
Net year-end position surplus	11,314,527	2,384,040	13,698,567
Use of Transit Safe Restart Funds	997,565		997,565
Use of Operating Safe Restart Funds		476,873	476,873
<b>Total City Year-end Position</b>	<b>12,312,092</b>	<b>2,860,902</b>	<b>15,173,005</b>

### **Powering our future**

The [Powering our future](#) priority includes Economic Development and Tourism, Culture, Smart Cities Office, and Strategy Innovation and Intergovernmental Services. Overall, the Powering our future priority ended 2022 with a two per cent surplus, the areas with variances of plus or minus \$200 thousand are:

- Culture realized a year-end deficit of \$249 thousand due to increased labour costs for part-time staff and inflationary impacts on the cost of food and supplies. This deficit is offset by year-end surplus in all other areas primarily due to staff vacancies contributing to compensation savings and lower purchased services spending.
- Economic Development and Tourism surplus of \$211 thousand due to staffing vacancies and lower purchased goods and services. Proceeds of \$6.2 million from the Hanlon Creek Business Park sale were transferred to the Industrial Land Reserve Fund (332).
- Strategy Innovation and Intergovernmental Services surplus of \$205 thousand due to costs relating to staff vacancies.

### **Sustaining our future**

The [Sustaining our future](#) priority includes Environmental Services, Planning and Building Services, Stormwater, Parks Operations, and Energy Management. Overall, the Sustaining our future priority ended 2022 with an 18 per cent surplus, the areas with variances of plus or minus \$200 thousand are:

- Planning and Building surplus of \$1.6 million is primarily due to savings in compensation, purchased goods and purchased services. Changes to the Planning Act in 2022 resulted in a higher demand for Senior Planners province wide putting further pressure on the tight labour market. Consulting fees surplus is due to the passing of Bill 23 and Provincial changes to the Heritage Act resulting in the original scope of planned 2022 work being untenable. As a result, staff did not proceed with the 2022 work and are proceeding with an immediate action of the Cultural Heritage Action Plan. A heritage conservation district study for the downtown will be undertaken in 2023. Purchased goods surplus is due to supply chain issues procuring a Building Services vehicle.
- Parks Operations surplus of \$202 thousand is due to increased revenues for amusement rides and plant sales combined with compensation savings related to extended full-time vacancies.
- Environmental Services Water surplus of \$1.8 million results from higher than budgeted rate revenues and cost savings in utilities and taxes. Purchased

services deficit due to the needed implementation of physical security at all Water facilities was managed within the overall budget.

- Environmental Services Wastewater surplus of \$1.5 million mainly due to higher seasonal water consumption and higher revenue from service agreements. Expenditure savings in compensation due to staffing vacancies offset inflationary impacts on chemicals.
- Environmental Services Solid Waste surplus of \$1.4 million mainly due to higher than anticipated commodity prices realized on sale of recyclables, higher grants from the Province for Blue Box Funding due to changes in the funding model, and savings in taxes, utilities, training, repairs, and maintenance costs.
- Corporately, revenue for the sale of the carbon credits in the amount of \$125 thousand were transferred to the 100RE Reserve Fund (355) in accordance with the General Reserve and Reserve Fund Policy.

Corporately, electricity, natural gas and water expenditures resulted in a \$1.2 million surplus with the surplus in water and electricity offsetting the deficit in natural gas. Natural gas rates have increased significantly throughout 2022 due to the global energy crisis and the scheduled rise in the carbon tax. Staff continue to monitor the impacts of the elevated rates and implementing energy conservation measures to reduce exposure. 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 2024 to 2027 multi-year budget.

Streetlight surplus of \$339 thousand was transferred to the Wastewater Capital Reserve Fund (153) in accordance with the repayment plan of the LED streetlight conversion capital project.

## **Navigating our future**

The [Navigating our future](#) priority includes Transportation Services, Parking Services, and Guelph Transit. Overall, the Navigating our future priority ended 2022 in a three per cent deficit, the areas with variances of plus or minus \$200 thousand are:

- Parking Services realized a deficit of \$1.2 million due to lower revenue resulting from lower than expected parking services demand across daily and event categories. Staff recommend allocating the remaining \$477 thousand of Safe Restart Operating Grant to Parking Services to offset the revenue shortfall. The adjusted year-end position after Safe Restart Funding is a deficit of \$787 thousand and is recommended to be funded from the Parking Services Operating Contingency Reserve (106). The Parking Master Plan is underway and will be looking at adjustments to the parking funding model that will be incorporated in to the 2024-2027 budget.
- Guelph Transit surplus of \$48 thousand due to higher than anticipated enrollment in the University of Guelph U-pass program and compensation savings due to the timing of Future Ready Plan implementation. Staff recommend allocating the remaining Safe Restart Transit Grant of \$842 thousand and Safe Restart Transit Phase 4 Funding of \$156 thousand to fully utilize the balance of this grant for December 31, 2022. This will result in Transit ending the year with an overall surplus of \$1 million.
- Operations Transit Fleet surplus of \$278 thousand mainly due to staffing vacancies, and labour recoveries for internal staff time charged to capital works.

## 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. Overall, the Working together for our future priority ended 2022 with a two per cent surplus, the areas with variances of plus or minus \$200 thousand are:

- Legal and Realty ended in a deficit position of \$531 thousand mainly due to an unfavourable non-insurable claim variance of \$798 thousand. Amounts are partially offset by savings in compensation, user fees and external recoveries.
- Finance ended in a surplus of \$518 thousand mainly due to higher than anticipated user fees in taxation, and compensation savings resulting from staff turnover and temporary vacancies.
- Strategic Communications and Community Engagement ended with a surplus of \$450 thousand due to staff vacancies.
- General Revenues and Expenditures ended with a combined surplus of \$3.4 million due to a number of factors. First, higher than anticipated investment income was earned as a result of a market rebound as the Federal Government hiked rates to slow inflation. Overall investment revenue totaled \$12.6 million and of this, \$11.1 million was allocated to reserve funds based on the General Reserve and Reserve Fund Policy. The remaining \$1.5 million in operating interest represented a surplus of \$1.1 million from the amount budgeted. From a property tax management perspective, as a result of the provincial decision to further delay the tax reassessment cycle, lower than budgeted assessment appeal adjustments were realized in 2022 accounting for \$2.5 million savings. In addition, a net surplus of \$500 thousand in supplemental tax revenues were experienced due to the continued partnership and electronic building permit submittal to the Municipal Property Assessment Corporation allowing for timely assessment of property improvements. Lastly, corporate technology costs were lower than budget by \$225 thousand due to slower implementation than planned for certain software projects and lower than expected software licensing fees.
- Corporate Fleet realized a year-end deficit of \$400 thousand due to the unprecedented fuel costs and inflationary impacts on the cost of parts in 2022. The overall deficit was offset by increased internal fuel recoveries. The year-end position includes the transfers of the proceeds from sale of used vehicles of \$616,423 to Infrastructure Renewal Reserve Fund (150) and \$223,708 to Paramedics Provincial Capital Reserve Fund (360).

Corporately, fuel deficits of \$2.2 million were realized due to soaring energy prices increasing the average fuel price 57 per cent higher than budgeted. Fuel budgets fall within several service areas of the City, with the majority of the costs flowing through Operations as an internal charge back to the department with an offsetting recovery in Operations. This method of accounting spreads the overall deficit across the corporation where it is managed to the bottom line.

Overall City compensation experienced significant savings in 2022, and the current year-end position is a surplus of \$5.6 million or 2.4 per cent. It was a particularly challenging year to hire part-time, contract, and casual staff, and some

departments experienced challenges filling full-time positions. This tight labour market resulted in extended vacancies for staff turnover and hard to fill roles.

## 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, Park Services, and Infrastructure Planning and Construction. Overall, the Building our future priority ended 2022 with a two per cent surplus, the areas with variances of plus or minus \$200 thousand are:

- Engineering and Transportation Services ended in a surplus of \$656 thousand due to vacancy savings.
- Parks and Trail development ended with a surplus of \$303 thousand due to extended staff vacancies.
- Operations ended in a surplus of \$424 thousand which includes the winter control year-end deficit of \$54 thousand; a transfer from the Environment and Utility Contingency Reserve (198) was not completed. The surplus is mainly due to increased revenues for business licensing and labour recoveries for staff recoveries for work on the corporate Enterprise Resource Planning (ERP) system. Savings in external equipment operators were realized in 2022 as use of internal resources were maximized.
- Recreation realized a year-end deficit of \$476 thousand due to revenue shortfall resulting from COVID related closures in the first quarter. Budget pressures were also due to escalated food services costs at the Evergreen Seniors Community Centre.
- Fire Services ended in a deficit of \$827 thousand primarily driven by compensation deficits due to increased overtime requirements.
- Local Boards (including GPS and Guelph Public Library) ended in a combined net surplus position of \$2.5 million and report to their boards and Council under a separate report.
- County Social Services ended in a surplus of \$1.3 million due to savings in Social Assistance – Income Maintenance.

## Operating Budget Surplus and Deficit Recommendation

That the total operating surplus of \$13.7 million be funded from grants and allocated to the reserves and reserve funds as follows:

<b>Reserve</b>	<b>Amount \$</b>
Transfer from Safe Restart Transit Reserve Fund (344)	(841,703)
Transfer from Safe Restart Funding Transit Phase 4	(155,862)
Transfer to Library Capital Reserve Fund (157)	140,000
Transfer to WSIB Reserve (330)	540,000
Transfer to Police Operating Contingency Reserve (115)	790,000



<b>Reserve</b>	<b>Amount \$</b>
Transfer to Police Capital Reserve Fund (158)	840,000
Transfer to Tax Rate Operating Contingency Reserve (180)	1,300,000
Transfer to 100RE Reserve Fund (355)	976,000
Transfer to Environment and Utility Reserve (198)	1,200,000
Transfer to City Building Reserve Fund (159)	587,000
Transfer to Growth Reserve Fund (156)	1,370,000
Transfer to Infrastructure Renewal Reserve Fund (150)	4,569,092
Transfer to Water Capital Reserve Fund (152)	1,814,411
Transfer to Wastewater Capital Reserve Fund (153)	1,542,518
Transfer to Stormwater Capital Reserve Fund (165)	55,384
Transfer to Building Services OBC Stabilization Reserve Fund (188)	124,307
Transfer from Safe Restart Grant Operating (180)	(476,876)
Transfer from Parking Operating Contingency Reserve (106)	(786,877)
Transfer to Court Capital Reserve Fund (120)	111,173
<b>Total</b>	<b>13,698,567</b>

The rationale for the above transfers includes:

- The GPS Board meets April 20, 2023, to review year-end results. Staff anticipate receiving a formal request to transfer their surplus of \$2.1 million to the WSIB Reserve (330), the Police Capital Reserve Fund (158), and the Police Operating Contingency Reserve (115). City staff support the request in an effort to provide the Board more autonomy and ownership over risk management in a multi-year budget environment.
- The transfer to the Tax Rate Operating Contingency Reserve (180) to partially build back one-time funds used in the 2023 approved budget.
- The transfer to the 100RE Reserve Fund (355) and the Environment and Utility Reserve (198) includes budget surplus in water and electricity, natural gas, district energy and the proceeds from the sale of recyclable materials to assist Council in meeting environmental objectives of the Strategic Plan and offsetting

budget pressures relating to energy, fuel, and winter control in 2023 due to rising inflation.

- The transfer to the City Building Reserve Fund (159), the Growth Reserve Fund (156), and the Infrastructure Renewal Reserve Fund (150), is recommended to inject one-time funds to help mitigate escalating inflation costs on capital projects in 2023. The allocation is based on the approved 2023 capital funding splits. Further, this will assist in funding the growth revenue gap created from Bill 23.
- The transfer of surplus from Courts, Water, Wastewater, and Stormwater to the respective Capital Reserve Funds is recommended to help close the funding gap related to infrastructure renewal and growth pressures.
- The transfer of surplus from Building Services to their operating contingency reserves helps mitigate fluctuations in building permits revenue based on current economic conditions.
- The transfer of funds from the Safe Restart Operating Stream Grant that were transferred to Tax Operating Contingency Reserve (180) in 2021 as well as the transfer from the Parking Operating Contingency Reserve (106) are to fund COVID-related revenue shortfalls in Parking Services.
- The transfer of funds from the Safe Restart Funding Transit (344) to Guelph Transit fully utilizes the City's grant funding allocation in 2022.

## **Financial Implications**

The City of Guelph is in a good financial position to be able to manage through the post pandemic economy as long as impacts are managed, and losses are limited where possible. Building the City's capital and operating contingency reserves through the 2022 surplus allocations provides stability as we navigate through economic uncertainty and inflationary impacts to the City budget in 2023. Through the 2022 surplus allocation, tax supported reserves are receiving \$11.3 million: \$2.8 million to operating contingency and program specific reserves and \$8.5 million to capital related reserves. Non-tax supported reserves are being allocated \$2.9 million in total, primarily to capital reserve funds. Staff continue to monitor reserve balances and targets through the multi-year budget process to ensure financial stability and flexibility in 2023 and beyond.

The improved financial stability of the City has been enabled by years of rightsizing 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. In 2022 the City received a AAA credit rating which is the highest rating available.

The City of Guelph received a total of \$12.0 million Safe Restart Operating Grant and \$11.2 million under the Safe Restart Agreement Phase 1-3 for the Safe Restart Transit Stream. The City has fully utilized the carry forward amounts of \$842 thousand and \$477 thousand of the Safe Restart Transit and Safe Restart Operating Grant in 2022. In addition to these carry forward amounts, the City also received \$156 thousand in Transit Phase 4 which has been applied in 2022.

## **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, 2022, 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 2022 Year-end Operating Surplus and Deficit by Department

Attachment-2 2022 Year-end Operating Surplus and Deficit by Strategic Plan Pillar

Attachment-3 2022 Year-end Operating Surplus and Deficit by Account Category

## **Departmental Approval**

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