

Staff Report



To	City Council as Shareholder of Guelph Junction Railway Limited
Date	Wednesday, June 14, 2023
Subject	2022 Guelph Junction Railway Audited Financial Statements

Recommendation

That the Guelph Junction Railway Limited Audited Financial Statements for the year-ended December 31, 2022, be received for information.

Executive Summary

Purpose of Report

To present and review the 2022 Guelph Junction Railway Limited (GJR) Audited Financial Statements.

Key Findings

The operating results for the year ended December 31, 2022, exceeded both the 2021 results and the expectations laid out in the 2022 budget. GJR earned net comprehensive income of \$1.6 million for the year, an increase of \$584 thousand (55 per cent) over 2021, and a positive variance of \$822 thousand from budget. The freight ratio for 2022 is 2.05, above both the budgeted ratio of 1.83 and the 2021 ratio of 1.92.

GJR ended the year with a healthy working capital balance of \$2.7 million and saw strong investment of \$1.5 million in capital assets in 2022, increasing the net book value of property, plant and equipment by \$1.0 million over 2021. Net investment in capital after partner contributions is 15.0 per cent of 2022 revenue, which is slightly lower than GJR's target capital investment of 16.0 per cent on average.

Financial Implications

The governance and oversight of the City's wholly owned subsidiaries creates financial value to the City through equity gains and dividend returns.

The City's investment in GJR increased by \$1.5 million in 2022 and GJR will pay a dividend of \$164 thousand to the City in 2023 based on 2022 financial results. This is slightly higher than the budgeted dividends for 2023 confirmed by the Board in February 2023 of \$160 thousand.

Report

GJR is reporting net comprehensive income totaling \$1.6 million for 2022, a \$584 thousand (55 per cent) increase over 2021 net comprehensive income of \$1.1 million.

Statement of Comprehensive Income

GJR's revenue increased by \$1.1 million in 2022 due to increased freight movement revenue. Freight movement revenue includes both freight revenue and tariffs, and the largest portion of this increase was in tariff revenue, with \$1.5 million in tariff revenue reported for 2022 compared with \$665 thousand in 2021, an increase of \$855 thousand year over year. Freight car volumes increased to 5,239 cars, an increase of 237 cars over 2021.

Freight movement expenses increased by \$423 thousand over 2021, mainly due to additional switching services performed by GJR's operator which are invoiced as tariff revenue. The freight ratio, calculated by taking the sum of freight revenue and tariff revenue and dividing it by the total freight movement expense, approximates the gross margin of the freight operations. The freight ratio for 2022 is 2.05. This is above both the budgeted ratio of 1.83 and the 2021 ratio of 1.92.

All other revenues and expenses were consistent with 2021.

Overall, GJR budgeted for revenue totaling \$5.0 million and exceeded that estimate by \$1.1 million. Expenses totaling \$4.2 million were budgeted for 2022 and ended up \$316 thousand above budget largely due to the above-noted additional freight movement expenses, lower than budgeted expropriation costs, and offset by higher than budgeted repairs and maintenance costs resulting from the disposal of approximately 10,000 scrap ties that were stockpiled within range of a restricted water well head.

Balance Sheet

As of December 31, 2022, GJR had a healthy working capital balance of \$2.7 million (balance on December 31, 2021, \$1.8 million). Accounts receivable are currently at \$1.9 million (\$887 thousand on December 31, 2021). This increase is partially due to the timing of receipts from customers, and partially related to the overall increase in revenue. Management does not have any concerns over the collectability of accounts receivable.

The net book value of property, plant and equipment increased by \$1.0 million during 2022, which included capital asset additions totaling \$1.5 million offset by depreciation expense totaling \$460 thousand. GJR's 2022 approved capital budget totaled \$1.8 million, \$300 thousand higher than actual spending due to the XT-99 Siding Expansion being deferred to a future year (\$152 thousand) as well as the Speedvale Avenue and Macdonell Street crossing upgrade project (\$131 thousand).

GJR's capital expenditures are often cost-shared with or funded by the City of Guelph and other local municipalities (capital contributions). Capital contributions totaling \$520 thousand were budgeted for 2022 and actual contributions collected totaled \$572 thousand. The net investment in capital after contributions is 15.0 per cent of 2022 revenue, which is slightly lower than GJR's target capital investment of 16.0 per cent on average.

Shareholder's equity increased by \$1.5 million after \$105 thousand in dividends paid to the City of Guelph by GJR in 2022.

Statement of Cash Flows

As of December 31, 2022, GJR had a cash balance of \$430 thousand, and cash equivalents (due from the City of Guelph of \$603 thousand) for a total of \$1.0

million in cash and cash equivalents. Of this \$1.0 million, \$546 thousand is restricted to fund the future Speed River bridge project. The remaining \$487 thousand is unrestricted and available to fund current operations.

Dividends

GJR's Dividends Policy allows for regular dividend payments of 0 to 10 per cent of net income, subject to the condition that the dividend will not cause non-compliance with laws, breach of contract, impairment in operations or asset maintenance, or hinder the company's ability to make necessary capital investments. After giving due consideration to these factors, and based on GJR's 2022 net income, staff recommend a 2023 dividend totaling \$164 thousand be paid by GJR to the City.

Financial Implications

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Consultations

None

Attachments

Attachment-1 2022 GJR Audited Financial Statements

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This report was approved by:

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