

Information Report



Service Area	Corporate Services
Date	Friday, October 6, 2023
Subject	Second Quarter 2023 Budget Monitoring Report

Executive Summary

Purpose of Report

The purpose of this report is to provide Council notice of any financial risks that could affect the 2023 year-end position. This report includes the second quarter (Q2) actual financial information for both the operating and capital budget for each of the strategic plan priority areas, as of June 30, 2023.

The report is prepared in alignment with the 2019 to 2023 Strategic Plan to complete the fiscal reporting cycle for 2023 to align 2023 budget confirmation to actual reporting.

Key Findings

As identified in the [First Quarter 2023 Budget Monitoring](#) report, the City is managing within its approved operating budget. Overall, from an operating perspective, the City Budget is projecting a favourable variance of \$2.8 million or 0.6 per cent. Current year-end projections indicate the non-tax supported budget will be in a deficit position of \$760 thousand and the tax supported budget will be in a surplus position of \$3.6 million.

Some notable drivers identified as contributing to year-end projected variances are:

- Revenue collections to June 30 reflect 85 per cent of the total budget, the Q2 forecast projects a \$4.3 million revenue surplus at year-end.
- Fuel costs continue to trend higher than budgeted, the Q2 forecast projects a year-end deficit of \$1.4 million.
- Compensation and benefits costs for the City overall are tracking four per cent below budget and trending to a favourable position at year-end.
- Corporately, utility projections for the year indicate a surplus of \$900 thousand. Water, electricity, and natural gas are trending six per cent below budget with a surplus in water and electricity costs offsetting a deficit in natural gas.
- Social Services costs billed by the County are projected to be in a \$4.1 million deficit at year-end.

From a capital perspective as outlined in Attachment-1, the City has spent a total of \$42.0 million year to date which was a \$7.4 million increase compared to Q2 2022. Purchase Order (PO) commitments on June 30, 2023, were \$102.1 million (\$2.3 million less than at Q2 2022). The uncommitted approved budget on June 30, 2023, was \$479.5 million. As staff prepare and award tenders for the upcoming

construction season including several large projects such as South End Community Centre (SECC), F.M. Woods Station Upgrade and Baker District, the remainder of 2023 will see significant increases in PO commitments and spending over previous years.

Changes from the approved capital budget are outlined in Attachment-2 including additional budget approved through Council and delegated authority as well as grant funding received (Table 1). In addition, there are two reallocations greater than or equal to \$500 thousand which are outlined in Table 4.

Strategic Plan Alignment

Reporting quarterly on the financial status of the operating and capital budget supports the Strategic Plan's Working together for our future pillar by 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 2023 the City received a credit rating of AAA which is the highest rating available.

Financial Implications

There are no direct financial implications resulting from this report, staff will continue to monitor the impact of risks and opportunities identified in this report to protect the City's long-term sustainability. The City has financially healthy contingency reserves to help mitigate any negative financial impacts should an overall City deficit materialize.

The year-end operating position is important 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 the City tax and rate payers.

Report

Details

City departments were provided financial information as of June 30, 2023. Actual expenditures and revenues were analyzed and related commentary on potential significant deviations from the budget that are expected to have an impact on the year-end financial position were identified with Finance staff support. Departments have identified some positive trends, challenges, risks, and concerns based on all known and available information at the time of this report.

Corporate Variance Drivers

The variance drivers identified below will result in a surplus or deficit at year-end and these early projections will change based on activities through the latter part of the year. Corporate variance drivers affect many departments throughout the City and are presented below to alleviate the repetition throughout the report.

1. Fuel Costs continue to trend higher than budgeted, the average cost per litre has come down in Q2 however, remains 11 cents per litre higher than budgeted. The Q2 forecast projects a year-end deficit of \$1.4 million or 26 per cent over budget. The Environment and Utility Reserve (198) balance at December 31,

2022, was \$5.9 million and is available to mitigate this projected deficit if required.

2. Corporately, utility costs for water, electricity and natural gas are trending six per cent below budget with a surplus in water and electricity costs offsetting a deficit in natural gas. Staff continue to monitor the impacts of the fluctuating natural gas rates and implement energy conservation measures to reduce exposure. Utilities are projected to be in a surplus position of \$900 thousand, at year-end.
3. Compensation and benefits costs for the City overall are tracking four per cent below budget and are trending to be in a favourable position at year-end. It is unknown at this time if this trend will continue throughout 2023 as the tight labour market continues to impact vacancy rates in the first half of the year. Staff are looking to a variety of creative solutions to ensure continued service delivery. Departments are implementing contract extensions, over compliment hires and predictive hires ahead of 2024 budget approval for positions related to advancing the Housing Pledge and will be managing these additional costs within the approved City budget in 2023.

Powering our future

The [Powering our future](#) priority includes Economic Development and Tourism, Culture, Smart Cities Office, and Strategy Innovation and Intergovernmental Services.

From an operating budget perspective, this priority area is forecasting a minor year-end surplus of \$104 thousand driven by compensation savings in Economic Development and Tourism due to the vacant General Manager position. This is somewhat offset by pressures in Culture with a projected year-end deficit due to inflationary impacts on food and beverage purchases.

There are two capital projects within this priority, the citywide fibre-optic network (IT0061), and the Hanlon Creek Business Park (SS0002). Capital spending in Q2 within this priority was \$580.8 thousand with another \$1.7 million in PO commitments as of June 30, 2023. Remaining to be executed is \$4.8 million of the budget with \$4.4 million of that related to IT0061 Fibre Data Connection.

Construction of the fibre-optic network (IT0061) continues in 2023 on the remainder of Ring 1 – east and northward from City Hall, (approximately 60 per cent completed) and Ring 3 – south of City Hall (approximately 15 per cent completed). Additionally, four City owned facilities have been cutover onto the new fibre network so far and approximately thirty-five traffic signals have been connected. Staff are targeting completion of this project for the end of 2026.

Environmental monitoring continues at the Hanlon Creek Business Park (SS0002). Costs for servicing Block 5 as well as legal and commission costs for Phase 3 are remaining. An information report will be forthcoming once Phase 3 sales are finalized.

Sustaining our future

The [Sustaining our future](#) priority includes Environmental Services (Solid Waste, Water, and Wastewater), Planning and Building, Stormwater, Parks Operations, and

Energy Management. From an operating budget perspective, this priority area is forecasting a year-end surplus of \$3.0 million mainly due to:

Planning and Building Services project a surplus of \$175 thousand due to compensation savings relating to a high volume of vacancies. Staff anticipate additional spending in the second half of the year as vacancies are filled. The predictive hire of three accelerated housing staff ahead of 2024 budget is expected to offset a portion of this surplus for year-end.

Ontario Building Code (OBC) is projected to end the year with a surplus of \$200 thousand. Savings are projected in purchased goods due to the risk of delays in the delivery of a new vehicle with minor savings in compensation, purchased services and financial expenses.

Environmental Services are projecting a combined revenue surplus of \$1.9 million across the three divisions. Solid Waste Services, \$1.6 million related to higher cost recovery from producer-related blue box program and Wastewater Services, \$291 thousand on higher than anticipated wastewater agreements, overstrength surcharge and interest.

Water and Wastewater Services are also experiencing compensation savings allowing for higher chemical costs to be managed within the existing budget.

Parks is projecting an overall year-end deficit of \$400 thousand. Although Parks is experiencing some minor revenue surpluses, this only mildly offsets deficits in purchased goods of \$135 thousand, as new hires come on board and they work to address the back log in work that previous vacancies created. A \$280 thousand deficit in purchased services is projected due to extended vehicle rental costs as staff await delivery of replacement vehicles, and a significant inflationary increase in the cost of portable washroom rentals.

Capital spending within this priority was \$18.3 million with another \$43.3 million in PO commitments as of June 30, 2023. Remaining to be executed is \$164.5 million of the budget.

The top three project expenditures (spending and commitments) occurred in the following accounts:

- (PN0097) Speedvale Road Reconstruction – Woolwich Street to Metcalfe Street (\$7.8 million) – the construction PO has been issued for Phase 1 that includes from Glenwood Avenue to East of Guelph Junction Railway tracks and work is in progress.
- (PN0026) Baker Street Reconstruction – Quebec to Woolwich Street (\$6.4 million) – underground work including sewers is nearing completion at which time the road surface will be restored temporarily while the remainder of the heavy construction work is underway. Once completed, the roadway surface works will be completed along with all streetscaping.
- (ST0009) Plant Energy Efficiency Management (\$4.1 million) - construction work is in progress related to the upgrade of process aeration blowers, aeration control systems, and supporting electrical, mechanical, and Supervisory Control and Data Acquisition (SCADA)/communication infrastructure at the Water Resource Recovery Centre (formally known as the Wastewater Treatment Plant). This work will reduce the energy footprint and operational costs while upgrading

aging end-of-life assets to improve operational flexibility, add redundancy, and future growth capacity.

Projects that have the largest uncommitted balances include the following:

- (WT0064) F.M. Woods Station Upgrade (\$41.1 million) – the construction tender has been awarded and the PO will be issued in Q3, which will see the majority of this budget committed. The tender for this work came in considerably higher than anticipated due to inflation largely on the electrical component of the tender. Planning work for F.M. Woods Station (pumping station and operational/administrative centre) began in 2018. The F.M. Woods Station is the most critical water supply asset providing up to 80 per cent of the City's daily water supply and accounting for a significant portion of the City's fire fighting reservoir storage capacity. To ensure this priority project moves forward, Staff have reallocated budget from existing approved projects where possible in the amount of \$7.4 million (BR-23CAP-25 on Table 4 of Attachment-2) which will be re-budgeted in the 2024-2033 budget. An additional \$3.0 million (BR-23CAP-31 on Table 1 of Attachment-1) was also approved through delegated authority. This will be offset corporately by in-year budget reductions and the surplus budgets of projects closed in 2023.
- (ST0003) Biosolids Facility Upgrade (\$8.0 million) – multi-year/pooled account linked to the implementation of the [Wastewater Master Plan](#).
- (ST0009) Plant Energy Efficiency Management (\$7.5 million) – an assessment is being completed to determine how to address the maintenance needs of the cogeneration facility which will determine future spending in this account.

Navigating our future

The [Navigating our future](#) priority includes Transportation Services, Parking Services, and Guelph Transit. From an operating budget perspective, this priority area is forecasting a year-end deficit of \$180 thousand. Budget pressures are being felt in:

Parking Services projects a year-end revenue shortfall of \$1.1 million due to lower than budgeted transient revenue as this service continues to recover from COVID-19. Permit revenues are also down as Cooperators begin reducing their permits in advance of their relocation to the City's south end.

Guelph Transit projects a \$600 thousand surplus due to higher than budgeted revenue related to monthly bus pass sales and compensation savings to date. To date the savings are offsetting a negative fuel variance of \$830 thousand.

Operations Transit Fleet division projects a year-end surplus of \$200 thousand resulting from compensation savings due to vacancies combined with a \$105 thousand deficit projected in purchased goods driven by the increase in crude oil impacting the cost of tires and oil products.

Capital spending within this priority was \$6.7 million with another \$25.2 million in PO commitments as of June 30, 2023. Remaining to be executed is \$60.4 million of the budget.

The top three project expenditures (spending and commitments) occurred in the following accounts:

- (PN0271) York Road Phase 3 Reconstruction – Stevenson Street South to Victoria Road South (\$11.5 million) – construction work has begun and is expected to wrap up by Q3 2024.
- (TC0070) Bus Electrification – Replacement, Investing in Canada Infrastructure Program (ICIP) (\$4.5 million) – three electric buses have been received.
- (RD0403) Road Restoration and Resurfacing Program (\$2.4 million) – included in this account is the 2023 annual paving contract which is projected to pave approximately 2.2 km of roadway by year-end. Repaving was also completed on Speedvale Avenue from the Hanlon Expressway to Edinburgh Road (1,200m, four-lane section).

Projects that have the largest uncommitted balances include the following:

- (TC0070) Bus Electrification – Replacement ICIP (\$10.9 million) – majority of assets out for tender.
- (TC0078) Transit Vehicle Growth (\$5.5 million) - four electric buses are on order with anticipated delivery in Q1 2024.
- (TC0059) Transit Operations Facility ICIP (\$5.3 million) - multi-year project with ICIP funding and early site readying work is in progress and on budget (for additional information see [2023-17 - Operations Facilities Long-Term Plan Update](#)).

Projects identified as completed in Q2 include the following:

- (RD0410) Gordon Street Sidewalk South side of Poppy Drive – West side – design has been completed and construction will be completed through the 2023 annual sidewalk program.

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, Corporate Communications, and the City Clerk's Office. It also includes Executive Team, City Council, and Internal Audit.

From an operating budget perspective, this priority area is forecasting a year-end surplus of \$4.8 million. The main drivers of this surplus include:

Compensation savings due to vacancies in Information Technology, Finance and Strategic Communications and Community Engagement.

Revenue surplus projections in General Corporate Expenditures, \$1.9 million due to higher interest revenue on short-term investment. Revenue deficits are projected in Courts Services, \$1.2 million due to the lack of judicial resources resulting in closures, lower capacity due to hybrid model and lower than budgeted revenue for red light cameras and automated speed enforcement due to mid-year implementation.

Operations Non-Transit Fleet service area Q2 projections result in a year-end surplus of \$445 thousand due to the implementation of the new short-term rental license fee combined with expenditure savings in compensation due to vacancies and purchased goods due to winter control projections. Deficits are anticipated for purchased services due to unplanned building maintenance and lower than budgeted recoveries from parking.

City Clerk's Office projects a year-end deficit of \$163 thousand due to the addition of unbudgeted Council Coordinator and Board and Committee Coordinator to support Council hybrid meetings. This position will be included for Council consideration in the upcoming 2024-2027 budget.

Capital spending within this priority was \$1.7 million with another \$3.7 million in PO commitments as of June 30, 2023. Remaining to be executed is \$17.5 million of the budget.

The top three project expenditures (spending and commitments) occurred in the following accounts:

- (PN2439) CMMS Implementation (\$2.0 million) – implementation of the replacement of existing work order management and procurement system is underway. In addition, change management engagement for the program has begun which will enable successful adoption.
- (IT0081) Computer Replacement (\$525 thousand) – lifecycle replacements are currently in progress with expected completion by year-end 2023.
- (IT0083) IT Infrastructure Lifecycle (\$506 thousand) – currently in progress with expected completion by year-end 2023.

Projects that have the largest uncommitted balances include the following:

- (PN2439) CMMS Implementation (\$8.2 million) – majority of uncommitted is planned for project resources to continue supporting the implementation including change management activities to enable change readiness across the organization. Once fully implemented the new maintenance management system will become the asset management system of record and will integrate with the City's financial system. Upgrades to procurement processes and continued change management will round out the implementation.
- (IT0111) Utility Billing Software (\$2.1 million) – workplan is expected to be completed in 2023 and implementation will extend into 2024.
- (IT0063) Corporate Point of Sale Software Replacement (\$651 thousand) – project has been deferred to align with broader corporate strategies related to customer service. Revised timing will be determined through work planning for the 2024-2027 multi-year budget.

Building our future

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

From an operating budget perspective, this priority area is forecasting a year-end deficit of \$4.9 million. The main pressures are being felt in:

Social Services provided by the County of Wellington and billed to the City as a shared service, is projected to end the year with a \$4.1 million deficit. The City operating budget includes the municipal share of both capital and operating activities. As of May 31, 2023, the County projected \$1.75 million operating budget shortfall due to pressures in homelessness prevention and higher than budgeted costs to maintain and operate social housing units. The City has historically underbudgeted for Social Services costs due to on-going operating surpluses, and

as reported in the [January 25, 2023 Council Memo](#) related to the 2023 budget confirmation process, the 2023 City budget is \$2.1 million less than the County estimate.

Guelph Wellington Paramedics Services project a year-end deficit of \$500 thousand driven by repairs and maintenance including the Elmira Road renovations and software services trending higher than anticipated. Budget pressures also impact purchased goods projecting a year-end deficit related to printing costs associated with medical protocol manuals, medical supplies, and increased fuel costs. The projected deficit is cost shared \$315 thousand City and \$185 thousand County.

Fire Services project a year-end deficit of \$920 thousand with a minor revenue surplus resulting from administrative process improvements offsetting expenditure deficits in compensation driven by overtime requirements and purchased services due to unexpected equipment repairs. Staff are working to mitigate this variance throughout the remainder of the year.

Engineering and Transportation are projecting a year-end surplus of \$300 thousand due to savings related to software maintenance timing of renewal scheduled for Q1 2024.

Operations divisions within this priority project a year-end surplus of \$445 thousand due to higher than budgeted revenues for business licensing, and expenditure savings in compensation and purchased goods offsetting projected deficits in purchased services due to unplanned maintenance and replacement of overhead doors.

Capital spending within this priority was \$14.8 million with another \$28.2 million in PO commitments as of June 30, 2023. Remaining to be executed is \$232.3 million of the budget.

Baker District (including the library, open space, and parking) and SECC account for over 85 per cent of the remaining budget to be executed in this priority. See the [City's capital projects webpage](#) for quarterly updates on these and other Tier 1 capital projects.

The top three project expenditures (spending and commitments), excluding Baker District and SECC, occurred in the following accounts:

- (PK0075) Downtown Pedestrian Bridge New Design and Construction (\$5.6 million) – the construction tender has been awarded with anticipated completion in 2024.
- (GG0245) Administration Facilities Renewal (\$3.0 million) – Citywide renewal of corporate buildings such as exterior building work at the Courthouse, Annex and Gatehouse, demolition of the former building that housed the Humane Society Shelter, future space planning at City Hall and Parks and Public Works needs assessment and master plan.
- (RF0095) Recreation Facilities Renewal (\$2.9 million) – work includes several projects at West End Community Centre (WECC) such as roof works, mold remediation and HVAC replacement. Work at Victoria Road Recreation Centre (VRRC) include replacement of three rooftop units and installation of precast concrete storage buildings.

Projects that have the largest uncommitted balances (excluding Baker District and SECC) include the following:

- (GG0252) Dunlop Site Preparation (\$4.7 million) – budget remaining for removal of contaminated soils and preliminary site preparation work as well as design and contract administration.
- (RF0095) Recreation Facilities Renewal (\$4.4 million) – relocation of the pottery program to WECC, roof replacement at VRRC, replacement of insulated glass units in the aquatic area at WECC and cooling tower replacement at Centennial Arena are still to be executed out of this account.
- (GG0245) Administration Facilities Renewal (\$3.8 million) – additional work planned for 2023 includes renovation of City Hall courtyard and space planning as well as further exterior masonry and structural restoration of the Gatehouse.

Projects identified as completed in Q2 include the following projects:

- (PK0076) Dallan New Park Master Plan and Construction – new neighbourhood park was constructed.
- (PK0092) Tennis Court Lifecycle – various tennis courts were replaced.
- (PK0025) – Norm Jary Park – the courts were reconfigured to include two full basketball courts and three shooting practice courts.
- (PK0068) – Starwood/Watson Roads New Park Master Plan/Construction – new neighbourhood park was constructed.
- (FM0003) – Drill Hall Assessment and Repair – the historic building has been stabilized and can now be repurposed for community use.

Financial Implications

Ongoing monitoring of operating and capital spending ensures projects and services are delivered as intended and that any financial impacts or risks are addressed proactively.

Current year-end projections indicate the non-tax supported budget will be in a deficit position of \$760 thousand and the tax supported budget will be in a surplus position of \$3.6 million. Staff will continue to monitor the impact of variances identified in this report to protect the City's long-term sustainability. The year-end operating position is important in determining the City's overall fitness as assessed by an external credit rating agency. This credit rating affects the price in which the City can issue debt and therefore impacts the affordability of long-term capital projects for the City tax and rate payers.

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 General Managers were provided financial reports based on their actual operating revenue and expenditures to June 30, 2023, on which they provided commentary in consultation with the Finance department.

Project Managers are the owners of the capital accounts and have financial responsibility and accountability to manage the capital deliverables within the budget approved, within a reasonable time period, to achieve the Council expected outcomes of that capital project.

Department General Managers and Project Managers were provided financial reports based on their actual capital expenditures and commitments to June 30, 2023, with which they provided a progress status and financial forecast update at the project level and the best available information at a point in time. Future updates are subject to change based on the economic environment, especially the rate of inflation.

Attachments

Attachment-1: Q2 2023 Capital Spending

Attachment-2: Q2 2023 Capital Budget Adjustments

Departmental Approval

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