

Staff Report



To	City Council as Shareholder of Guelph Junction Railway Limited
Date	Tuesday, June 25, 2024
Subject	Guelph Junction Railway 2023 Audited Financial Statements

Recommendation

That the Guelph Junction Railway Limited Audited Financial Statements for the year-ended December 31, 2023, be received for information.

Executive Summary

Purpose of Report

To present and review the 2023 Guelph Junction Railway Limited (GJR) audited financial statements.

Key Findings

The operating results for the year ended December 31, 2023, exceeded both the 2022 results and the expectations laid out in the 2023 budget. GJR earned net comprehensive income of \$2.1 million for the year, an increase of \$470 thousand (29 per cent) over 2022, and a positive variance of \$827 thousand from the budget. The freight ratio for 2023 is 2.28, above both the budgeted ratio of 1.93 and the 2022 ratio of 2.05.

GJR ended the year with a healthy working capital balance of \$3.4 million and saw a strong investment of \$1.6 million in capital assets in 2023, increasing the net book value of property, plant, and equipment by \$1.1 million over 2022. Net investment in capital after partner contributions is 21 per cent of 2023 revenue, which is higher than GJR's target capital investment of 16 per cent on average.

Financial Implications

The City's investment in GJR increased by \$1.9 million and GJR paid a dividend of \$210 thousand to the City in 2024 based on 2023 financial results.

Report

GJR is reporting net comprehensive income totalling \$2.1 million for 2023, a \$470 thousand (29 per cent) increase over 2022 net comprehensive income of \$1.6 million.

Statement of Comprehensive Income

GJR's revenue increased by \$1.3 million in 2023 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 \$2.4 million in tariff

revenue reported for 2023 compared with \$1.5 million in 2022, an increase of \$900 thousand year over year. Freight revenue from Canadian National Railway increased by \$506 thousand, while freight revenue from Canadian Pacific Railway decreased by \$200 thousand compared with 2022. Freight car volumes increased to 5,737 cars, an increase of 498 cars over 2022.

Freight movement expenses increased by \$245 thousand over 2022, mainly due to additional freight movement. These costs are factored into the amount being invoiced for tariff revenue and represent only a 4 per cent increase over budgeted amounts. 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 2023 is 2.28. This is above both the budgeted ratio of 1.93 and the 2022 ratio of 2.05.

All other expenses remained relatively consistent with the exception of repairs and maintenance, which increased by 32 per cent over budget and 29 per cent over the prior year. These increases were attributable to the additional wear and tear experienced with increases in freight movement.

GJR experienced a derailment on October 11, 2023, and incurred costs of \$320 thousand as part of the clean-up operations. Any insurance proceeds received to offset these costs will be recognized in the period received.

Overall, GJR budgeted for revenue totalling \$6.1 million and exceeded that estimate by \$1.4 million. Expenses totalling \$4.8 million were budgeted for 2023 and ended up \$564 thousand above budget largely due to the above-noted derailment costs of \$320 thousand, higher freight movement expenses, and repairs and maintenance associated with higher rail traffic.

Balance Sheet

As of December 31, 2023, GJR had a healthy working capital balance of \$3.4 million (balance on December 31, 2022, \$2.7 million). Accounts receivable is currently at \$2.0 million (\$1.9 million on December 31, 2022). The accounts receivable balance has remained relatively consistent despite increased revenue reflected in the ratio for days sales outstanding decreasing from 111 days in 2022 to 95 days in 2023. Management does not have any concerns over the collectability of accounts receivable.

The net book value of property, plant, and equipment increased by \$1.1 million during 2023, which included capital asset additions totalling \$1.6 million offset by depreciation expense totalling \$495 thousand. GJR's 2023 approved capital budget totalled \$1.6 million, consistent with actual 2023.

GJR's capital expenditures are often cost-shared with or funded by the City of Guelph and other local municipalities (capital contributions). The net investment in capital after contributions is 21 per cent of 2023 revenue, which is higher than GJR's target capital investment of 16 per cent on average.

Shareholder's equity increased by \$1.9 million after \$164 thousand in dividends paid to the City by GJR in 2023.

Statement of Cash Flows

As of December 31, 2023, GJR had a cash balance of \$1.6 million, and cash equivalents (due from the City of Guelph of \$396 thousand) for a total of \$2.0

million in cash and cash equivalents. Of this \$2.0 million, \$702 thousand is restricted to fund the future Speed River bridge project. The remaining \$1.3 million is unrestricted and available to fund current operations, an improvement of \$829 thousand over the 2022 available operational cash and cash equivalents.

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 2023 net income, the Board approved a 2024 dividend totaling \$210 thousand be paid by GJR to the City.

Financial Implications

The City's investment in GJR increased by \$1.9 million and GJR paid a dividend of \$210 thousand to the City in 2024 based on 2023 financial results.

Consultations

None.

Attachments

Attachment-1 Guelph Junction Railway 2023 Audited Financial Statements

Report Author

Jane Stamp, Finance Consultant

Shanna O'Dwyer, Deputy Treasurer, Manager of Financial Strategy and Reporting

This report was approved by:

Trevor Lee
Chief Financial Officer, Guelph
Junction Railway Limited, and Deputy
Chief Administrative Officer, City of
Guelph
Corporate Services
519-822-1260 extension 2281
trevor.lee@guelph.ca

This report was recommended by:

Scott Stewart
Chief Executive Officer, Director,
Guelph Junction Railway Limited, and
Chief Administrative Officer, City of
Guelph
Office of the Chief Administrative
Officer
519-822-1260 extension 2221
scott.stewart@guelph.ca