

Staff Report

To	City Council
Service Area	Corporate Services
Date	Monday, May 25, 2020
Subject	2019 Year-end Operating Variance Report and Surplus Allocation

Recommendation

1. That the tax supported operating surplus of \$5,478,013 be allocated to the reserve and reserve funds as follows:
 - a. Tax Rate Operating Contingency Reserve (180) \$3,696,763
 - b. Library Operating Contingency Reserve (102) \$18,703
 - c. Police Operating Contingency Reserve (115) \$12,547
 - d. Environment and Utility Reserve (198) \$650,000
 - e. 100 Per cent Renewable Energy (100RE) Reserve Fund (355) \$500,000
 - f. Infrastructure Renewal Reserve Fund (150) \$600,000.
 2. That the Water Services operating surplus of \$183,746 be allocated to the Water Capital Reserve Fund (152).
 3. That the Wastewater Services operating surplus of \$1,287,410 be allocated to the Wastewater Capital Reserve Fund (153).
 4. That the Stormwater Services operating surplus of \$340,673 be allocated to the Stormwater Capital Reserve Fund (165).
 5. That the Ontario Building Code (OBC) operating surplus of \$2,081,005 be allocated to the Building Services OBC Stabilization Reserve Fund (188).
 6. That the Court Services operating surplus of \$157,608 be allocated to the Court Contingency Reserve (211).
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Executive Summary

Purpose of Report

To provide the 2019 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 the 2019 surplus as outlined in the Council-approved

Surplus Allocation Policy and in accordance with the General Reserve and Reserve Fund Policy.

Key Findings

The preliminary net operating result for tax-supported departments is a surplus of \$5,478,013 or 1.4 per cent of the 2019 total tax supported gross expenditures. This surplus is larger than projected at the third quarter (Q3) as more revenue and additional savings were realized by the City departments.

The preliminary net operating result for non-tax supported departments is a surplus of \$4,050,442 or 5.1 per cent of the 2019 total non-tax supported gross expenditures. The surplus is in line with what was projected in Q3.

Attachment-1 2019 Year-end Operating Variance Report provides the actual year-end results by department.

Some notable variance drivers are:

- i. Positive revenue related variances contributing to departmental results mainly supplementary taxation, investment income, stormwater rates, OBC administration revenues, water and wastewater basic and consumption usage.
- ii. A favourable year-end position for salaries, wages and benefit costs due to higher than expected vacancies and lower than budgeted benefit costs.
- iii. A favourable year-end position for hydro mainly due to sustained energy conservation and efficiency measures.
- iv. A favorable year-end variance for fuel costs in both corporate fleet and transit fleet.

Financial Implications

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.

Over the last few years, the financial stability of the City has been improving through right-sizing of budgets, updating financial policies, and focusing on long-term financial planning. This provides the City the financial flexibility needed for times of uncertainty or crises like Canada is experiencing now with the COVID-19 Pandemic. Without sound financial policies and appropriate reserve levels, a City would struggle in a time of crisis. The City of Guelph is in a good financial position to be able to weather this storm so long as impacts are managed and losses are limited where possible. Staff is recommending a portion of the 2019 year-end operating surplus be allocated to the Tax Rate Operating Contingency Reserve to provide additional financial resources to assist sustainability during this unprecedented time.

Report

The year-end operating variance report provides information on the year-end position prior to the completion of the annual external audit and provides recommendations for the allocation of the surplus, subject to Council approval.

Council received the 2019 Q3 Operating Variance report on December 2, 2019. At that time staff projected a year-end favorable surplus of \$2,235,931 for tax supported operating departments and \$4,006,086 projected year-end surplus for non-tax supported operating departments. The year-end forecast was based on September actuals and best estimates for the last quarter of 2019 and full comparison results are shown in Table 1.

Table 1: Q3 Year-end Projection Compared to Actual Year-end Results

Budget	Q3 Projected Year-end Variance	Actual 2019 Year-end Variance
City Departments	\$(2,690,131)	\$(4,166,986)
General Revenues and Expenses	\$454,200	\$(1,660,284)
Local Boards	\$0	\$(31,250)
Grants, Outside Boards and Agencies	\$0	\$380,507
Total Tax Supported Surplus	\$(2,235,931)	\$(5,478,013)
Water Services	\$(1,029,970)	\$(183,746)
Wastewater Services	\$(1,100,116)	\$(1,287,410)
Ontario Building Code (OBC)	\$(1,690,000)	\$(2,081,005)
Court Services	\$(16,000)	\$(157,608)
Stormwater Services	\$(170,000)	\$(340,673)
Total Non-tax Supported Surplus	\$(4,006,086)	\$(4,050,442)

As part of the City's regular variance reporting process, departments were asked to provide comments on their financial results for the year-ending December 31, 2019. Table 2 provides a high level summary for the year-end position of the City's tax supported and non-tax supported operations. More detailed information is provided in Attachment-1 2019 Year-end Operating Variance Report.

Table 2: Summary of 2019 Operating Variance

Net Tax Supported Operating Budget	Total Net Approved 2019 Budget	2019 Net Year-end Variance	2019 Variance as a percentage of Budget
City Departments	\$134,524,001	\$(4,166,986)	(3.1%)
General Revenues and Expenses	\$(216,683,813)	\$(1,660,284)	(0.8%)
Local Boards	\$52,936,596	\$(31,250)	(0.1%)
Grants, Outside Boards and Agencies	\$29,223,216	\$380,507	1.3%
Total Tax Supported Surplus	\$0	\$(5,478,013)	(2.2%)
Net Non-tax Supported Operating budget	Total Approved 2019 Gross Expenditures	2019 Net Year-end Variance	2019 Variance as a percentage of Budget
Water Services	\$31,867,000	\$(183,746)	(0.6%)

Net Tax Supported Operating Budget	Total Net Approved 2019 Budget	2019 Net Year-end Variance	2019 Variance as a percentage of Budget
Wastewater Services	\$33,448,838	\$(1,287,410)	(3.8%)
OBC	\$3,545,000	\$(2,081,005)	(58.7%)
Court Services	\$3,957,400	\$(157,608)	(3.9%)
Stormwater Services	\$6,889,000	\$(340,673)	(4.9%)
Total Non-tax Supported Surplus	\$79,707,238	\$(4,050,442)	(5.1%)

Corporate Variance Drivers

The identified drivers below were significant, resulting in variances in both the non-tax supported and tax supported budgets.

i. Corporate Revenues

- City taxation revenues are favourable due to higher than budgeted supplementary revenue from increased building growth, continued focus on proactive assessment base management and continued relationship building with the Municipal Property Assessment Corporation; and
- Investment revenues are favourable due to increased Bank of Canada interest rates which improved the City's cash and investment portfolio returns, however are partially offset due to lower than budgeted dividend income due to change in timing of quarterly dividend distribution from Alectra as compared to Guelph Hydro.

ii. Corporate Expenditures

- Corporate expenditures were lower than budget due to fewer tax appeal write-offs, lower consulting and audit fees, and lower corporate technology network costs.

iii. Compensation

- Overall total salary, overtime, benefits, and temporary wages were lower than budget by \$2,049,000 at year-end, inclusive of the typical length of time it takes to fill vacancies. Staff vacancies create challenges for departments and require management to make decisions to ensure service delivery expectations are met. Some examples include increasing overtime, prioritizing work, adjusting work plans, and delaying projects. Overtime was higher than budget, however it was not a concern as departments were able to meet service requirements through the deployment of overtime within the context of the overall compensation budget.

iv. Utilities

- Overall energy cost was \$616,000 below budget. \$500,000 of the utilities surplus is recommended to be transferred to the 100 Renewable Energy (RE) Reserve to assist in future efficiency projects. Facilities and Energy Management and the Corporate Energy and Climate Change Office's energy conservation efforts that support the Corporate 100RE target continues through strengthening organizational awareness, process optimization, facility LED lighting retrofits, recommissioning of facility HVAC systems, and preventative maintenance. Reduced energy rates at the Wastewater

Treatment Facility and the Waste Resource Innovation Centre continued through the renewed subscription to the Industrial Conservation Initiative (ICI). Staff will continue to monitor the impact of the Provincial strategies and programs in 2020 for additional opportunities for energy savings.

v. Fuel

- Overall fuel cost was \$652,000 below budget across the corporation for all fuel types despite the introduction of federal carbon tax in April 2019. The average price for regular diesel was \$0.91 a litre compared to budget of \$1.05 per litre. This diesel savings mainly occurred in Transit and Operations. \$650,000 of this surplus is recommended to be transfer to the Environment and Utility Reserve to mitigate against future price fluctuations and to assist with general corporate contingency through the COVID-19 emergency.

vi. Repairs and Maintenance

- An overall net budget deficit of \$1,300,000 attributed mainly due to buildings, and vehicle repairs and general maintenance at several City-owned facilities.

Tax Supported City Departmental Variances

In addition to the corporate variance drivers explained above, the following departments experienced year-end variances of five per cent or more due to the following:

i. Office of the Chief Administrative Officer (CAO)

Collectively the departments within the Office of the CAO have a surplus of \$185,039 or 5.8 per cent budget savings, primarily driven by staff vacancies and reduced advertising costs due to more digital advertising and renegotiated contracts.

ii. Infrastructure, Development and Enterprise Services (IDE)

Collectively the departments within IDE have a surplus of \$2,341,835 or 8.4 per cent budget savings, primarily driven by the following:

IDE Administration and Business Development and Enterprise Services (BDE)

- Surplus primarily driven by compensation savings due to staff vacancies and lower promotion and consulting expenses in BDE

Planning and Building Services

- Higher building fees and permit revenue due to increased development activity levels
- Expenditure savings in purchased services due to lower consulting fees and training costs

Engineering and Transportation Services

- Parking revenue shortfalls resulting from the Elizabeth Street lot and a delay in opening of the Market Parkade were offset by savings in compensation due to a higher number of staff vacancies throughout the year resulting in a net surplus position

Environmental Services

- Higher than budgeted revenues in the Stewardship Ontario blue box program, sale of recyclable products, public drop off fees, and the sale of carbon credits
- Savings in operating parts, property taxes, and supplies
- The variance is net of carbon credit revenue as the revenue was transferred to the 100RE Reserve Fund to work towards Council's environmental goals

iii. Public Services (PS)

Collectively the departments within PS have a surplus of \$1,325,462 or 1.5 per cent budget savings. Primary drivers of the surplus include the following:

- Increased Transit revenue from regular monthly bus pass sales and higher U-passes from the University
- Increased revenue from program registrations, memberships, and product and food sales due to higher activity levels
- Increased revenues from pet, business, and taxi licenses due to increased quantity of licenses issued
- Compensation savings due to staff vacancies and timing of recruitment, partially offset by reduced Provincial funding and higher medical supply costs

iv. Corporate Services (CS)

Collectively the departments within CS have a surplus of \$284,338 or 2.2 per cent budget savings, primarily due to compensation savings due to higher staff vacancies which were partially offset by higher than budgeted legal costs.

Non-tax Supported City Departmental Variances

i. IDE

Collectively the departments within IDE non-tax have a surplus of \$3,892,834 or 5.1 per cent budget savings, primarily driven by increased revenues, staff vacancies, and reduced utility and credit rebate program costs.

Wastewater Services

- Higher billable consumption revenue and new growth demands, compensation savings due to staff vacancies, and utility savings due to participation in the Industrial Conservation Initiative

Stormwater Services

- Higher than projected impervious area billing units and slower than planned uptake on the credit rebate program, however participation is increasing

OBC Administration

- Higher revenues due to a few large value construction projects

Allocation of the 2019 Operating Surplus

In accordance with City Council's approved Year-end Operating Surplus Allocation Policy, a primary consideration for the allocation of any year-end surplus is to transfer funds to operating reserves to smooth future volatility in operating costs and tax increases. This is provided as a general guideline and may be superseded in

order to address more immediate financial needs as identified by the City Treasurer.

The surplus recommendations are heavily influenced by the General Reserve and Reserve Fund Policy. The City now has identified measurable targets for our reserves, which have enabled evidence-based recommendation for the operating budget transfer. The benefit of this cannot be emphasized enough as it moves the City further along the maturity path of strategic financial management.

For 2019, the City has returned an operating surplus from the tax supported budget and non-tax supported budget. In accordance with the Council-approved year-end Surplus Allocation Policy, the following recommendations are being made:

1. Tax Supported Operating Budget Surplus Allocation - \$5,478,013

It is recommended that the surplus be allocated to reserves that are:

- Below the recommended target
- Replenishing the Council-approved one-time reserve-funded expenditures during 2020 budget
- Potentially required to offset economic and social pressures from COVID-19 pandemic
- Required to alleviate financial pressures in the current or future budget year

The recommended allocation is provided in Table 3.

Table 3: Tax Supported Surplus Allocation

Reserve	Recommended Allocation	Reserve Balance After Allocation	Funded Status
Tax Rate Operating Contingency Reserve (180)	\$3,696,763	\$10,044,198	71%
Library Operating Contingency Reserve (102)	\$18,703	\$18,703	
Police Operating Contingency Reserve (115)	\$12,547	\$201,547	
Environment and Utility Reserve (198)	\$650,000	\$3,532,196	85%
100 RE Reserve Fund (355)	\$500,000	\$1,715,958	
Infrastructure Renewal Reserve Fund (150)	\$600,000	\$15,394,788	51%
Total	\$5,478,013		

Tax Rate Operating Contingency Reserve (180):

This reserve is required to provide the City sufficient liquidity and cash flow and to offset extraordinary and unforeseen corporate expenditures in order to mitigate fluctuations to the tax rate. During the 2020 budget deliberations, Council approved the following to be funded from the 2019 surplus;

- Supportive recovery room (\$150,000)
- One-time capital funding for The Elliott (\$100,000)
- One-time funding to phase in the impact of Guelph Police Services staff enhancements (\$500,000)
- Council composition review (\$230,000)

- Strategic initiatives (\$300,000)
- Transit route review specialist (\$100,000)

Staff is recommending that \$3,696,763 of the 2019 surplus be allocated to the Tax Rate Operating Contingency Reserve for the 2020 budget initiatives above totaling \$1,380,000 and the balance of funding of \$2,316,763 be allocated as a contingency for the COVID-19 pandemic and any economic or social implications resulting from the pandemic.

Library Operating Contingency Reserve (102):

This reserve is intended to mitigate fluctuations to the tax rate for planned one-time operating budget impacts or to offset extraordinary and unforeseen Library expenditures. Staff is recommending that the Library surplus in the amount of \$18,703 be transferred to the Library Operating Contingency Reserve to help offset future budget requests.

Police Operating Contingency Reserve (115):

This reserve is intended to mitigate fluctuations to the tax rate for planned one-time operating budget impacts, and to offset extraordinary and unforeseen Police expenditures. Staff is recommending that the Police Service 2019 surplus of \$12,547 be allocated to the reserve to replenish the one-time funding approved through the 2020 budget or for a future public art project. Attachment-3 is a letter dated April 16, 2020 from the Guelph Police Services Board to support this recommendation.

Guelph Police Services has requested \$150,000 in funding from the 2019 City surplus for public art at the Guelph Police Headquarters. See Attachment-2 for the formal request letter from the Guelph Police Services Board. Staff is not recommending funding this request due to the current COVID-19 pandemic and the need to prioritize funding for urgent matters.

Environment and Utility Contingency Reserve (198):

This reserve is intended to offset the impact of volatile operating expenditures relating to energy, fuel, recycling revenues, winter control and other weather related events. Staff are recommending \$650,000 of the 2019 operating surplus be allocated to this reserve to have appropriate funds on hand to mitigate against this volatility.

100RE Reserve Fund (355):

This reserve fund is used to provide funding for capital and operating projects that will enable the City to accomplish its stated goal of reaching 100 per cent renewable energy by 2050. Staff are recommending \$500,000 of the 2019 operating surplus be allocated to this reserve fund to assist Council in meeting the environmental goals outlined in the Council Strategic Plan.

Infrastructure Renewal Reserve Fund (150):

This reserve is used to fund the replacement and rehabilitation of the City's tax supported infrastructure including all tax supported debt servicing including principle and interest. Staff are recommending \$600,000 of the 2019 operating surplus be allocated to this reserve for increased investment requirements in digital technology including the Time, Attendance and Scheduling project that was

identified as a requirement through the review completed in December 2019 with the Provincial Audit and Accountability grant funding.

Financial Implications

The year-end operating surplus represents one-time funding that cannot be relied on to recur on an ongoing basis, as such; year-end surplus should only be allocated to fund one-time, non-recurring expenditures. Actual financial results vary from year-to-year based on various external and internal factors. A year-end position within the one to two per cent range from budget on an annual basis is a reasonable and prudent result. Table 4 shows the historical year-end position for the City's tax supported businesses.

Table 4: Five-year Historical Tax Supported Year-end Position

Tax Supported	2015	2016	2017	2018	2019
City Departments	\$3,705,277	\$1,942,677	(\$502,860)	(\$2,101,978)	\$(4,166,986)
General Revenues and Capital Financing	(\$1,292,809)	(\$2,668,753)	(\$1,628,957)	(\$1,378,808)	\$(1,660,284)
Local Boards	(\$726,036)	(\$369,077)	(\$279,280)	\$195,304	\$(31,250)
Shared Services	(\$2,829,555)	(\$1,984,787)	(\$1,135,098)	\$29,511	\$380,507
Total	(\$1,143,123)	(\$3,079,940)	(\$3,546,195)	(\$3,255,971)	\$(5,478,013)

The budget process includes review of actual spending trends and considers future need requirements each year so that trends can be adjusted; collectively determining the budget required in any given year to meet the Council-approved service levels. Financial policies are in place to allow the City to manage any surplus or deficit in a fiscally responsible manner.

Consultations

Departments are responsible for managing their programs according to municipal standards and within the approved budget. The responsibility for 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, 2019, which they provided a year-end commentary in consultation with the Finance Department.

Strategic Plan Alignment

Reporting quarterly on the progress of the City's actual operating results compared to budget supports the Strategic Plan's Working Together for our Future pillar through maintaining a fiscally responsible local government.

Attachments

Attachment-1 2019 Year-end Operating Variance Report

Attachment-2 Guelph Police Services City surplus request

Attachment-3 Guelph Police Services 2019 operating variance request

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