

## **Committee of the Whole Meeting Agenda**

**Tuesday, September 5, 2017 – 2:00 p.m.  
Council Chambers, Guelph City Hall, 1 Carden Street**

Please turn off or place on non-audible all electronic devices during the meeting.

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### **Call to Order – Mayor**

Disclosure of Pecuniary Interest and General Nature Thereof

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### **Presentation:**

- a) Local Immigration Partnership Contribution Agreement  
Sandra Cocco, GWLIP Co-Chair, Immigrant Services Guelph Wellington  
Trish McComb, GWLIP Co-Chair, County of Wellington
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### **Items for Discussion – Public Services**

#### **Chair – Councillor Downer**

The following items have been extracted from Consent Agenda and will be considered separately. These items have been extracted either at the request of a member of Council or because they include a presentation and/or delegations.

#### **COW-PS-2017.11 Corporate Security Update**

##### **Presentation:**

David Wiedrick, Manager, Bylaw Compliance, Security and Licensing

##### **Recommendation:**

That staff bring forward an expansion package for Council's consideration during the 2018 budget deliberations for the hiring of two full-time security guards.

#### **Service Area Chair and Staff Announcements**

## **Consent Agenda – Corporate Services**

### **Chair – Councillor MacKinnon**

The following resolutions have been prepared to facilitate Council's consideration of various matters and are suggested for consideration. If Council wishes to address a specific report in isolation of the Consent Agenda, please identify the item. It will be extracted and dealt with separately as part of the Items for Discussion.

#### **COW-CS-2017.14 Reserve and Reserve Fund Review and Policy Update**

##### **Recommendation:**

1. That the General Reserve and Reserve Fund Policy, included as Attachment 1, General Reserve and Reserve Fund Policy, be approved and adopted by By-law, and that By-law Number (2010)-18932 General Reserve and Reserve Fund Policy and the Compensation Reserve Policy dated June 25, 2012 be repealed and replaced.
2. That the consolidation, closing and renaming of the City's reserves and reserve funds in accordance with the recommendations included in report CS-2017-19 entitled "Reserve and Reserve Fund Review and Policy Update" be approved.
3. That the reserve and reserve fund reallocation transfers, in accordance with the recommendations included in report CS-2017-19 entitled "Reserve and Reserve Fund Review & Policy Update", be approved.
4. That the Capital Asset Renewal Reserve Fund Policy, dated March 2013, be repealed and replaced with the Efficiency, Innovation and Opportunity Fund Reserve Policy (Attachment 3: Efficiency, Innovation and Opportunity Fund Reserve Policy).

#### **COW-CS-2017.15 Capital Transfer Allocation Policy**

##### **Recommendation:**

1. That the Council endorsed ten year Dedicated Infrastructure Levy be allocated 90% to the Infrastructure Renewal Reserve Fund (150) and 10% to the City Building Reserve Fund (159).
2. That beginning with the 2018 budget, the annual capital transfer from operating budget be allocated 80% to the Infrastructure Renewal Reserve Fund (150), 10% to the Growth Reserve Fund (156) and 10% to the City Building Reserve Fund (159).

#### **COW-CS-2017.16 2017 Q2 Capital Variance Report**

##### **Recommendation:**

That the report titled 2017 Q2 Capital Variance Report (CS-2017-26) be received.

## **COW-CS-2017.17 2017 Q2 Operating Variance Report**

### **Recommendation:**

1. That the report titled 2017 Q2 Operating Variance Report (CS-2017-27), and dated September 5, 2017, be received.
2. That a transfer of \$360,000 from the Tax Rate Operating Contingency Reserve for the projected Environmental Services (Solid Waste) variance due to organics processing be approved.
3. That a transfer of \$100,000 from the Insurance Reserve for lost recyclables revenue realized during early 2017 from the facility closure for equipment replacement resulting from the 2016 fire at the Material Recovery Facility be approved.

## **Service Area Chair and Staff Announcements**

### **Consent Agenda – Audit**

#### **Chair – Councillor Billings**

The following resolutions have been prepared to facilitate Council's consideration of various matters and are suggested for consideration. If Council wishes to address a specific report in isolation of the Consent Agenda, please identify the item. It will be extracted and dealt with separately as part of the Items for Discussion.

## **COW-AUD-2017.8 Driver Certification Program Compliance Audit**

### **Recommendation:**

That the report CAO-A-1706, "Driver Certification Program Compliance Audit" dated September 5, 2017 be received.

## **COW-AUD-2017.9 Internal Audit Work Plan Update - 2017**

### **Recommendation:**

That staff bring forward an expansion package for Council's consideration during the 2018 budget deliberations for the hiring of one full-time internal auditor.

## **Service Area Chair and Staff Announcements**

### **Mayor as Chair**

#### **Chair and Staff Announcements**

Please provide any announcements, to the Chair in writing, by 12 noon on the day of the Council meeting.

### **Adjournment**

# Staff Report



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To **City Council**

Service Area Public Services

Date Tuesday, September 5, 2017

Subject **Corporate Security**

Report Number PS-17-23

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## Recommendation

1. That staff bring forward an expansion package for Council's consideration during the 2018 budget deliberations for the hiring of two full-time security guards

## Executive Summary

### Purpose of Report

To provide Council a general overview of Corporate Security along with staff recommendations to address the increase in calls for service related to security.

### Key Findings

Calls related to security are on the increase at all City facilities. Hiring of security guards may allow the City to relax other security controls. So far in 2017, City staff responded to 45 security calls at City Hall and 201 security calls at other City properties.

### Financial Implications

To add two security guards and a vehicle will cost approximately \$90,000 annually. It is anticipated that this cost will be off-set by reducing funds assigned for temporary security needs. The total cost going forward is expected to be \$50,000.

## Report

In response to a number of public inquiries and concerns requesting increased security support within City facilities, this report provides an overview of the City's Corporate Security program with a focus on City Hall security.

### City Hall

Guelph City Hall was built with open access to Council Chambers, Committee Room 112 and Service Guelph; controlled doors restrict access to all other areas. This

design was based on the premise that access to work spaces shall be limited to employees, contractors, signed in visitors and service personnel. It is common practice that public entrances should channel traffic through a selected entry and exit point in order to effectively screen visitors and provide better customer service.

Within City Hall there are currently three levels of access controlled areas:

- Public areas (Service Guelph, Room 112, Council Chambers - very nominal security with free access to the general public),
- Staff areas (City Hall work areas - controlled access to all employees, authorized persons and signed in visitors)
- Restricted areas (IT vault, file rooms, security systems room – limited access for specific employees or authorized persons)

Only the public area currently has a Bylaw Officer assigned to assist with the security and safety of staff and patrons. This officer not only provides security support, but provides general information on Bylaw matters and acts as receptionist for all City Hall staff.

While City Hall is equipped with access controls, security cameras and other alarms, the facility itself was never designed to be protected against the security threats and issues facing society today. The complexity of today's security risks creates a diverse matrix of interrelated threats, vulnerabilities, and impacts. While access doors are present to limit access to the City staff work areas, they may not prevent all issues. Once a person who is set on creating an incident has entered through the locked doors, in most cases there are no barriers to stop them from proceeding floor by floor. While it is hopeful that the public access of City Hall can be expanded, a change in the security staffing of the building is recommended to enhance deterrence and detection of unwanted activities and improve staff response times to security matters.

In 2016, City staff responded to 79 security calls at City Hall and the Guelph Police Service responded to approximately 25 calls for assistance to City Hall. As of June 2017, this number is 45 and 20, respectively. This is an increase of 16% and 60% respectively if the calls for service maintain the current trend. Issues included suspicious persons, unwanted animals, medical calls, domestic disputes, persons purposely injuring themselves, and assaults against staff.

### Corporate Security

In privately run businesses, security regulations and standards are common. For most large companies and public institutions, having designated security staff is not optional, but is a requirement. Unfortunately, the need for security staff is becoming more common place as the number of incidents occurring on City property affecting the general public, staff, elected officials and City assets increase.

For the City of Guelph, the City's Corporate Security program resides within the Bylaw Compliance, Security and Licensing Division. Historically, the program itself has had no dedicated security staff but relies on Bylaw staff to provide security-like duties. To address on-going needs, a Program Manager of Corporate Security is being hired through a reallocation of an existing vacancy. This position will be responsible for coordinating and executing the City's corporate security systems. The Program Manager will also be tasked with conducting security audits of various City facilities to ensure that security of persons and buildings is sufficient. The focus of these audits will not be to increase security barriers, but to identify processes or systems that can be implemented to enhance safety.

The Bylaw Compliance, Security and Licensing Division is also responsible for the monitoring, maintenance, training and alarm response for all of the City's electronic security systems. These systems include security cameras, access systems and intrusion alarms. The division often coordinates its security efforts with other external agencies such as the Guelph Police, VIA security, GO Transit Police and private security companies.

The division is responsible for providing assistance and training to all staff on the City's emergency procedures program (BEACON). As part of the corporate focus, the division also offers assistance to general managers and facility managers to help identify security needs when new facilities are built or when security audits of existing facilities are conducted.

As indicated at the beginning of this report, the demand for a security presence at various City facilities has increased. Calls for service from both the public and City staff related to unwanted activities and behaviour are becoming more common. While most of the security calls are related to areas within the downtown, concerns regarding unwanted activities/behaviours occurring at locations outside of the downtown have also been steadily increasing. Examples of where calls for service are being received include the Waste Resource Innovation Centre, Public Works, West End Community Centre and Riverside Park. Staff working reception desks at various City facilities have also expressed safety concerns through the City's Joint Health and Safety Committee.

In 2016, in addition to the security calls at City Hall but not including park land, City staff responded to 448 security calls at City properties and the Guelph Police Service responded to 216 calls for assistance at City properties. By June 2017, City staff have already responded to 201 security calls and the Guelph Police have responded to approximately 222 calls for assistance. The calls for service for City staff appear to be trending similar to 2016; however there is already an increase for police attendance over past years. Issues included disturbances, drug related calls, intoxication, trespassing, theft, vandalism, assaults against staff and the public.

Currently, the division budgets for Bylaw staff to be posted in City Hall during regular business hours and at the Transit Terminal during the late night service hours. Outside these hours and for all other City facilities, security patrols are not budgeted and occur on an ad-hoc basis as staffing permits. While the Guelph Police Service does respond to calls for assistance and does proactively patrol areas of

concern when able to do so, their ability to provide a continuous presence in City facilities or at City properties is limited. It should be noted that due to the high volume of public concerns, in late 2016 and continuing to date, the Bylaw Compliance, Security and Licensing Division has posted and contracted two security guards to patrol City facilities. The cost of these guards was not originally budgeted but is being off-set by unanticipated revenues and funds identified for contracted staff within the division's 2017 budget.

Given the need for regular security patrols, staff are recommending that an expansion package for two full-time security guards be brought forward for Council's consideration during the 2018 budget deliberations. Based on the 2017 budget, staff do believe a significant portion of the expansion costs can continue to be off-set within the base budget of the Operations Department.

It should be noted that some City facilities do hire their own internal or external security staff. These staff operate under different supervisors and managers. To further assist with security coverage when and where needed, staff are exploring if all internal and external security staffing can be reallocated under the Bylaw Compliance, Security and Licensing Division. Not only will this reallocation provide assistance and create efficiencies, but it will help maintain consistency across the Corporation when dealing with security related issues. By having all security guards under one division, it will also ensure that all guards are properly trained and uniformed as per the Private Security and Investigative Services Act. This Act sets regulations for security staff regarding training, equipment, vehicles, uniforms and conduct.

Increasing the presence of security staff may also allow the public areas of City Hall to be expanded. Specifically, areas normally controlled by locked doors could in fact be patrolled by staff. In addition, while Bylaw Compliance Officers will continue to provide security support when needed, the additional staff complement will allow Bylaw staff to continue their focus on Bylaw matters.

The City's access systems, servers, intrusion alarms and 400+ security cameras are being serviced by a number of private companies with varying levels of service and cost. This year, working with a local college, the division was able to create a work placement for a security technician. This resulted in improved maintenance of the City's security system and reduced costs. In future years as costs increase for the hiring of private companies, it is anticipated that in order to maintain the City's security systems in a timely and cost effective manner, a permanent security technician position will be recommended.

## **Financial Implications**

To add two security guards and a vehicle will cost approximately \$90,000. It is anticipated that this cost will be off-set by reducing funds assigned for temporary security needs, the total cost going forward is expected to be \$50,000 annually.

## Consultations

Guelph Police Services

## Corporate Administrative Plan

### Overarching Goals

Service Excellence

### Service Area Operational Work Plans

Our Services - Municipal services that make lives better

Our People- Building a great community together

## Attachments

N/A

## Departmental Approval

N/A

## Report Author

David Wiedrick, Manager, Bylaw Compliance, Security & Licensing



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### Approved By

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# Staff Report



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To **Committee of the Whole**

Service Area Corporate Services

Date Tuesday, September 5, 2017

**Subject Reserve and Reserve Fund Review and Policy Update**

Report Number CS-2017-19

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## Recommendation

1. That the General Reserve and Reserve Fund Policy, included as Attachment 1, General Reserve and Reserve Fund Policy, be approved and adopted by By-law, and that By-law Number (2010)-18932 General Reserve and Reserve Fund Policy and the Compensation Reserve Policy dated June 25, 2012 be repealed and replaced.
2. That the consolidation, closing and renaming of the City's reserves and reserve funds in accordance with the recommendations included in report CS-2017-19 entitled "Reserve and Reserve Fund Review and Policy Update" be approved.
3. That the reserve and reserve fund reallocation transfers, in accordance with the recommendations included in report CS-2017-19 entitled "Reserve and Reserve Fund Review & Policy Update", be approved.
4. That the Capital Asset Renewal Reserve Fund Policy, dated March 2013, be repealed and replaced with the Efficiency, Innovation and Opportunity Fund Reserve Policy (Attachment 3: Efficiency, Innovation and Opportunity Fund Reserve Policy)

## Executive Summary

### Purpose of Report

The purpose of this report is to provide a revised General Reserve and Reserve Fund Policy and deliver an update on Phase Two of the Reserve and Reserve Fund Project. The proposed General Reserve and Reserve Fund Policy will replace all existing reserve related policies, and by-laws and provide one overarching policy that; improves clarity to the purpose of the reserves, mitigates Corporate risk by ensuring appropriate targets are identified and monitored, improves fiscal internal controls surrounding access and reporting, strengthens the City's financial position and contributes to the development of a long-term financial strategy.

## **Key Findings**

Phase Two action items achieved include:

Updated the General Reserve and Reserve Fund Policy to include detailed purpose, funding source, designated use, target balance, timing and authorization specifics for all reserves and reserve funds;

Recommended consolidation and/or closure of 16 reserves or reserve Funds;

Reallocation of funds between under and sufficiently funded reserves based on revised targets; and

Revision of the purpose and scope of the Capital Asset Renewal Reserve Fund to support the pillars of the Corporate Administration Plan through the new Efficiency, Innovation and Opportunity Fund.

## **Financial Implications**

The proposed General Reserve and Reserve Fund Policy and recommended reserve consolidations and closures will enhance the City's financial flexibility, functionality and transparency and contribute to improved financial stability and long-term financial planning.

The consolidations recommended in this report will not have a material impact to the operating or capital budgets in 2017, however funding decisions made during the 2018 capital budget process will reflect strategic efforts to allocate funding and close the remaining inactive or irrelevant s.

The funding reallocations recommended in this report will redistribute reserve funds to the highest needs and priorities based on the updated targets. This supports long-term financial stability by ensuring the City's reserve funds are aligned with risk profiles of the City's operations.

## **Background**

In 2015, Finance engaged BMA Consulting to review the City's financial position including an analysis of the reserves and reserve funds, as summarized in Staff Report CS-2016-24 2015 Reserve and Reserve Fund Statement. The report identified a number of recommended actions that would add clarity and efficiency to managing the City's reserves and reserve funds. The action items included:

- Reset the Capital Reserve Fund management to align with the recommendations presented in the 2015 BMA Consulting Financial Condition Assessment;
- Perform a comprehensive review of all reserves and reserve funds and consolidate where needed;

- Establish funding targets for miscellaneous reserves and reserve funds where appropriate, and recommend funding reallocations where targets have been reached; and
- Review and recommend changes to the General Reserve and Reserve Fund Policy as well as the Compensation Reserve Policy.

The action items identified in the BMA Consulting report have been addressed in two phases. Phase One included the development of a plan to condense the reserve and reserve fund structure and the consolidation of 27 reserves and reserve funds (as detailed in CS-2016-62 Reserve and Reserve Fund Consolidation & Policy dated November 7, 2016). Phase Two includes the development of an updated General Reserve and Reserve Fund Policy that stipulates; target balances, contributions, allowable uses, transaction authority and timing. Phase Two also includes the amended Compensation Contingency Reserve as recommended by BMA Consulting and the consolidation of an additional 16 reserves.

## Report

Phase Two of the Reserve and Reserve Fund Project includes an update to the General Reserve and Reserve Fund Policy, an alignment of the compensation related reserves and further reductions in the number of reserves. Further it provided specific targets for the remaining reserve and reserve funds and took a strategic view of ensuring Corporate risk is mitigated through appropriate contingency funding for both capital and operating.

### **Recommendation 1: General Reserve and Reserve Fund Policy**

Recommendation 1: That the revised General Reserve and Reserve Fund Policy, included as **ATT-1: General Reserve and Reserve Fund Policy**, be approved and adopted by by-law, and that By-law Number (2010)-18932 General Reserve and Reserve Fund Policy and the Compensation Reserve Policy dated June 25, 2012 be repealed and replaced.

The General Reserve and Reserve Fund Policy has been enhanced and improved so that it is now an overarching policy that will replace all existing reserve related policies and by-laws. The proposed policy has been fortified with enhanced language for the creation and dissolution of reserves, reporting requirements, internal borrowing and new Corporate metrics for the entire reserve and reserve fund portfolio. Further, a new appendix has been added to the policy that is an all-encompassing policy for the City's reserves and reserve funds. This appendix details the purpose, funding source, defined use, target balance and transaction authority for each reserve and reserve fund. This is a major improvement in the administration of the City's reserves as it brings together many decades of policies into one manageable, centralized document that will be maintained by the Finance Department.

The policy will be reviewed and updated with each term of Council to ensure it is relevant and accurate. Annually, Council will receive a comprehensive Reserve and Reserve Fund Report that outlines fund balances, funding status compared to targets and significant transactions.

### Tax Supported Operating Contingency Reserves:

A significant deliverable from this project has been clarifying the purpose and intended use of the Contingency Reserves and defining how and when they can be accessed. Further, it has been unclear to staff the appropriate target for these reserves which has now been addressed in the revised policy. Staff is recommending four Contingency Reserves that address the most common Corporate concerns and drivers of tax rate fluctuations. These four are:

1. Tax Rate Contingency Reserve;
2. Environment and Utility Contingency Reserve;
3. Legal and Insurance Reserve; and
4. Compensation Contingency Reserve.

The policy further details the specifics of each of these reserves of which the highlights can be summarized as follows:

- Clear description of purpose, appropriate use and funding sources, authority to access and timing of access; and
- Clear individual reserve targets that collectively ensure appropriate working capital and liquidity.

The most common complaint or feedback from internal department stakeholders is that the City has funds in reserves that are not utilized for the purpose to which they were intended due to a lack of clarity regarding how to access funds and when it is appropriate to access. Finance has historically taken the position that corporately, if the City is projecting a tax supported surplus, there is no reason to make in-year reserve transfers to offset known, unforeseen departmental negative variances. This methodology is not supporting accountability at the department level or transparency in reporting to Council.

The revised Contingency Reserve Policy will support in-year reserve transfers coming forward to Council for approval for significant unforeseen business issues. There is also a newly refurbished reserve specifically for common Corporate variable tax supported operating cost drivers like price of fuel, price of electricity and a number of severe weather events. This will be utilized in-year by management if budgeted drivers differ materially from actuals. These reserve transfers will be fully reported on to Council through the quarterly Operating Variance Reports and at year-end through the Reserve and Reserve Fund Annual Report.

### Compensation Reserves:

BMA Consulting's Financial Condition Assessment recommended the consolidation of four compensation reserves into a singular Compensation Contingency Reserve and was approved by Council in 2016. In doing so, the 2012 Council approved Compensation Reserve Policy was no longer relevant and as such, is being repealed and replaced with the updated General Reserve and Reserve Fund Policy.

The purpose of the consolidated Compensation Contingency Reserve is to fund unplanned expenses relating to compensation and to offset compensation benefit budget related deficits. The reserve target balance is tied to total annual Corporate salary and benefit budgets in order to mitigate against risk related to medical and

dental benefits, severance costs, Joint Job Evaluation Committee's results, Employee Assistance Programs (EAP) and a provision for unforeseen, one-time compensation related expenses as defined in Attachment 1, General Reserve and Reserve Fund Policy. Use of the Compensation Contingency Reserves will be disclosed to Council through quarterly Operating Variance Reports.

In addition to the Contingency Reserve, there are four Compensation Reserves remaining that are required to be segregated in order to sufficiently monitor, fund and meet future compensation related commitments. These reserve targets are tied to actuarially computed liabilities and balance affordability with managing the financial risk to the Corporation. The four remaining Compensation Reserves are:

1. Accumulated Sick Leave (Fire);
2. Accumulated Sick Leave (Police);
3. WSIB; and
4. Paramedic Retirement Compensation.

## **Recommendation 2 - Consolidation, Closure, Renaming and Addition of Reserves and Reserve Funds**

Recommendation 2 - That Council approve the consolidation, closing and renaming of the following reserves:

### Tax Supported Reserves

Insurance Reserve (184)

**Into** Legal Reserve (193), and rename it Legal and Insurance Reserve

Building Operating Maintenance Reserve (206)

**Into** the Tax Rate Operating Contingency Reserve (180)

Heritage Redevelopment Reserve (192)

Downtown TIBG Reserve (358)

**Into** the Brownfield Strategy Reserve, which is to be renamed the Redevelopment Incentives Reserve (122)

McRae House Development Reserve (136)

Moon MacKeigan Artifact Development Fund (137)

**Into** the Museum Development Reserve (135)

Road Widening Reserve Fund (331)

**Into** the Infrastructure Renewal Reserve Fund (150)

Brownfield Capital Reserve Fund (357)

**Into** City-owned Contaminated Sites Reserve Fund (155),

Fire Dispatch Equipment Replacement (112)

Fire Capital (173)

Corporate Property Capital (175)

**Into** Infrastructure Renewal Reserve Fund (150)

**Rename** the Land Ambulance Retirement Severance Reserve as the Paramedic Retirement Reserve (338),

**Rename** the Operating Contingency Reserve as the Environment & Utility Contingency Reserve (198),

**Rename** the Tax Rate Stabilization Reserve as the Tax Rate Contingency Reserve (180)

**Close** the Tree Donation Program Reserve (178) and transfer funds totalling \$60 to the Forestry Department operating account, to be spent in-year. Future donations will flow to operating account to be spent in-year.

Non-Tax Supported Reserves

Waterworks Contingency Reserve (106)

**Into** the Water Rate Stabilization Reserve, which is to be **renamed** Water Contingency Reserve (181)

Wastewater Contingency Reserve (105)

**Into** the Waste Water Rate Stabilization Reserve, which is to be **renamed** the Wastewater Contingency Reserve (182)

Waterworks Development Charge Exemptions Reserve (353)

**Into** the Waterworks Capital Reserve (152)

Wastewater Development Charge Exemptions Reserve (354)

**Into** the Wastewater Capital Reserve (153)

**Rename** POA Capital as the Courts Capital Reserve Fund (120)

**Rename** POA Relocation as the Courts Contingency Reserve (211)

The 2015 BMA Consulting Financial Condition Assessment Report, advised that a comprehensive review of all reserves and reserve funds was required to identify opportunities to reduce the number of reserves and reserve funds. BMA Consulting reported that having too many reserves and reserve funds reduces financial flexibility and is inefficient to manage, resulting in less effective long-term planning and decision making.

Finance met with internal stakeholders to discuss the purpose and plans for each reserve and reserve fund and investigated transaction history, policies, and related Council Reports, Resolutions and By-laws to develop a comprehensive and concise reserve structure. The use of sub-ledgers will be used to track specific program transactions through a reserve or reserve fund if needed. Recommended consolidations were shared and approved by relevant area managers. Phase Two of the Reserve and Reserve Fund Consolidation and Policy has achieved the consolidation of 16 additional reserves, bringing the grand total down to 61 reserves and reserve funds.

### **Recommendation 3 – Reserve and Reserve Fund Reallocations**

Recommendation 3 - That the reserve and reserve fund reallocation transfers in accordance with the recommendations included in report CS-2017-19 entitled “Reserve and Reserve Fund Review & Policy Update” be approved.

#### **Reserve and Reserve Fund Balance Targets**

As part of the project, staff undertook a comprehensive review of individual policy targets including research of municipal best practices, legislation guidance and long-term program schedules. Some targets are still being refined through the work of the Asset Management Office as more information becomes available.

**ATT-2: Reserve and Reserve Fund Funded Status** compares these financial targets against the 2016 reserve balances and discusses funding strategies being utilized to address noted deficiencies. Affordability continues to be the main challenge in bringing all reserves to a complete funded status and in some cases, a long-term approach is the only viable option.

Based on the results of this analysis, staff are recommending the following transfers in order to address deficiencies for certain reserves where it was deemed appropriate.

1. Redistribute surplus funds from Legal and Insurance Reserve:

|                                       |              |
|---------------------------------------|--------------|
| Legal and Insurance Reserve – 193     | \$ (800,000) |
| Environment and Utility Reserve – 198 | \$ 800,000   |

These reserves are both Operating Contingency Reserves and the redistribution of funds better aligns resources compared to targets. With the recent announcement of the City’s new Solicitor, refinement of this target may occur and as such, only a partial redistribution of this reserve is recommended.

2. Redistribute funds from Compensation Contingency Reserve to WSIB Reserve:

|                                |              |
|--------------------------------|--------------|
| Compensation Contingency – 131 | \$ (650,000) |
| WSIB Reserve – 330             | \$ 650,000   |

Due to the changing environment in WSIB legislation including presumptive claims, Post-Traumatic Stress Disorder (PTSD) and other mental health related matters, it is prudent to ensure the WSIB Reserve remains sufficiently funded. Based on recent claim experience, this reserve is at risk of being depleted and the City does not have a long-term funding strategy in place to address significant funding deficiencies. Historically, the WSIB Reserve has acted as a Corporate self-insurance reserve with costs distributed equally across all City employees. More recently due to significant claim experience related to firefighter presumptive legislation, the City will be considering changing the funding methodology in the 2018 budget to reflect actual experience by employee group.

Staff are recommending that the other funding deficits remain as reported and be addressed through longer-term funding strategies incorporated into the annual budget process and the year-end surplus allocation process.

## **Recommendation 4 – Efficiency, Innovation and Opportunity Fund**

Recommendation 4: That the Capital Asset Renewal Reserve Fund Policy, dated March 2013, be repealed and replaced by the Efficiency, Innovation and Opportunity Fund Reserve Policy (**ATT-3: Efficiency, Innovation and Opportunity Fund Reserve Policy**)

The Capital Asset Renewal and Reserve Fund Policy was created in 2013 and has served as a very successful tool for leveraging grants from other levels of government and funding energy efficiency projects that have a quantifiable return on investment. The notable challenges with the current policy are that it's specifically limited to capital asset investments and the restrictive repayment stipulations offer no incentive to departments to opt into certain Corporate initiated programs.

Staff are recommending a change in this policy to rename the reserve fund to the "Efficiency, Innovation and Opportunity Fund" and expand the intended use beyond just capital asset projects. This fund will support the pillars of Corporate Administrative Plan by investing in innovative initiatives that generate operating budget savings, cost-avoidance savings and/or revenue generation. The changes to the policy are summarized as follows:

- Expanded scope to allow for both capital and operating initiatives;
- Expanded scope to allow for projects that generate new revenues or avoided costs;
- Revised repayment terms to allow funding of initiatives that do not have on-going revenue generation/budget savings but instead avoid escalating operating budget costs;
- Prescriptive language to ensure that \$5 million of the fund is preserved for future projects through requiring a Council approved repayment plan if the fund drops below this balance;
- Recommending a base operating contribution, subject to Council approval during the annual budget process, to provide for a stable stream of funding for those projects that do not have a repayment mechanism (one-time grant opportunities or cost avoidance initiatives); and
- Expanded scope to allow the CAO and Treasurer to approve in-year projects individually less than \$100,000 to a maximum of \$250,000 annually. This will provide delegated authority to management to enable smaller dollar departmental initiatives to occur within a prescriptive business case model.

## **Financial Implications**

The proposed General Reserve and Reserve Fund Policy and recommended reserve consolidations and closures will enhance the City's financial flexibility, functionality and transparency and contribute to improved financial stability and long-term financial planning.

The consolidations recommended in this report will not have a material impact to the operating or capital budgets in 2017, however funding decisions made during the 2018 capital budget process will reflect strategic efforts to allocate funding and close the remaining inactive or irrelevant reserves and reserve funds.

The funding reallocations recommended in this report will redistribute reserve funds to the highest needs and priorities based on the updated targets. This supports long-term financial stability by ensuring the City's reserve funds are aligned with risk profiles of the city's operations.

## Consultations

Business Development and Enterprise, Information Technology, Planning, Engineering, Human Resources, Environmental Services (Water, Wastewater, and Solid Waste), Courts, Culture Tourism and Community Investment, Facilities Management (Climate Change Office), Emergency Services, Legal Services and Parks.

## Corporate Administrative Plan

### Overarching Goals

Financial Stability  
Innovation

### Service Area Operational Work Plans

Our Resources - A solid foundation for a growing city

## Attachments

ATT-1        General Reserve and Reserve Fund Policy  
ATT-2        Reserve and Reserve Fund Funded Status  
ATT-3        Efficiency, Innovation & Opportunity Fund Reserve Policy

## Report Author

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# CORPORATE POLICY AND PROCEDURE



|                  |  |
|------------------|--|
| POLICY           | <b>General Reserve and Reserve Fund Policy</b>   |
| CATEGORY         | Finance  |
| AUTHORITY        | Council  |
| RELATED POLICIES | Investment Policy, Debt Policy, Capital Renewal Reserve Fund Policy, DC Exemption Policy |
| APPROVED BY      | Council  |
| EFFECTIVE DATE   | September 25, 2017   |
| REVISION DATE    | Within each term of Council  |

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## PURPOSE

### Policy Statement

It is the policy of the City of Guelph to:

- Establish reserves and reserve funds for planned future capital expenditures, unexpected events or extraordinary expenditures which would otherwise cause fluctuations in the operating or capital budgets;
- Manage reserves and reserve funds in a responsible manner; and
- Utilize reserves and reserve funds solely for their intended purpose.

### Policy details

A financial reserve is a provision for an amount that is designated for a future purpose that extends beyond the current fiscal year. Reserves are established for a variety of purposes:

- to ensure the ongoing financial stability of the organization;
- to protect against known risks and unforeseen events;
- to provide for life cycle replacement of capital assets;
- to meet specific liabilities;
- to smooth expenditures which would otherwise cause fluctuations in operating or capital budgets;
- to provide for planned future expenditures and
- to provide a source of internal financing

The City of Guelph has a variety of reserves and reserve funds, both obligatory and discretionary, as outlined in **Appendix A: Reserve and Reserve Fund Policy Schedule**.

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## Definitions

**Reserve** means an allocation from net revenue at the discretion of council, after the provision for all known expenditures, as part of an overall strategy for funding programs or projects as set out in annual budget or budget forecast and is authorized under the provisions set out in the Municipal Act. Reserves have no reference to a specific asset, do not earn interest, do not require segregation and may be established for a pre-determined purpose.

**Reserve fund** means a fund with assets that are segregated and restricted to meet the purpose of the reserve fund. It is based on a statutory requirement or defined liability payable in the future and is usually prescriptive as to the basis for collection and use of monies in the fund. All interest earnings derived from reserve fund assets must remain and accumulate in that reserve fund. There are two types of reserve funds: obligatory and discretionary.

**Obligatory reserve funds** are created when a provincial statute requires that revenue received for specific purposes is segregated from the general revenues of the municipality. Obligatory reserve funds are to be used solely for the purpose prescribed for them by statute.

**Discretionary reserve funds** are created under the Municipal Act when Council wishes to earmark revenue to finance a future expenditure for which it has the authority to spend money, and to set aside a certain portion of any year's revenues so that the funds are available as required.

**Deferred revenue** means revenue that is considered a liability on the City's financial statements until, over time, it becomes relevant to current operations, such as a prepayment received from something that has not yet been provided. Deferred revenue is set aside in an obligatory reserve fund for a specific purpose by legislation, regulation, or agreement. Development charges and federal and provincial gasoline tax are examples of deferred revenue.

## SCOPE

The General Reserve and Reserve Fund Policy applies to all departments and local boards of the Corporation of the City of Guelph.

## ADMINISTRATION

### Creation & Dissolution

Council approval must be established prior to the formation or dissolution of any reserve or a reserve fund. New reserves and reserve funds must have a Council approved policy that outlines the purpose, targets, funding sources and authorization. All proposed reserve and reserve fund policies must be reviewed by the Treasurer prior to seeking council approval to ensure the policy is in line with

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current financial strategies, policies and procedures. Prior to creating a new reserve or reserve fund, it is recommended that a review of existing reserve or reserve funds be completed to determine if the goals and needs identified in the proposed reserve and reserve fund policy can be accommodated by an existing reserve or reserve fund.

## **Adequacy**

The adequacy of an individual reserve or reserve fund shall be determined on a case-by-case basis, taking into consideration the purpose of the reserve and the magnitude and timing of all future commitments and projected funding sources. Appendix A: Reserve and Reserve Fund Policy Schedule prescribes the target balances for each reserve and reserve fund. If a reserve or reserve fund has exceeded the recommended target, the Treasurer will review the source of funding and consider transferring funds to areas where there is high need or high priority, subject to Council approval.

General corporate reserve and reserve fund targets:

- Total Operating Reserves as a percentage of Own Source Revenue: this indicator analyzes the health of the operating reserves by focusing specifically on the contingency reserves capered to own source revenues. The City's benchmark is 8%-10% based on a review of best practices. This ratio is calculated for the tax supported funds and the non tax supported funds.
- Debt to Reserve Fund ratio: This indicator provides a measure for financial prudence by comparing total debt to the total reserve balances. The current target identified in the Debt Policy is 1:1 (total debt outstanding should not exceed the total reserve and reserve fund balance)
- Liquid Assets to Total Reserves: This ratio compares the cash and investment balances to the reserve and reserve fund balances. This ratio indicates whether a City is managing total cash flow appropriately as reserve and reserve funds should have corresponding available assets. The target for this indicator is a minimum of 1:1 (total cash and investments to be at least equal to the total reserves and reserve funds).
- Capital Reserve Fund annual transfer targets: This indicator ensures that corporately, on an annual basis, the City is investing in infrastructure renewal as a primary corporate objective. The annual budget transfer to capital as approved through the operating budget shall be allocated as follows:
  - 80% to the infrastructure renewal reserve fund
  - 10% to the growth reserve fund
  - 10% to the city building reserve fund

Variation from this policy must be approved by Council.

Reserve and reserve fund balances can be increased through the following options:

- Contributions from the operating fund that are approved by Council through the annual budget process or through other in-year reports
- Yearend operating surplus allocations as recommended by the Treasurer and approved by Council

- 
- Returning surplus funds from capital projects or other operating budgets in accordance with the Policy
  - Donations/bequests/surcharges/fees/proceeds from sale of assets
  - Interest income earned on reserve fund balances

### **Reserve Fund Borrowing**

Inter-fund borrowing between reserve and reserve funds is permitted, with the exception of the Obligatory reserve funds. Obligatory funds are not permitted to fund deficiencies in the reserves and reserve funds.

Short-term inter-fund borrowing is permitted to cover a reserve or reserve fund shortfall over a period of less than two years where;

- sufficient funding is available
- it is deemed appropriate by the Treasurer; and
- interest is paid annually on the borrowed funds where applicable

Long-term inter-fund borrowing is permitted over a period of greater than two years where;

- sufficient funding is available
- it is deemed appropriate by the Treasurer and,
- interest is paid annually on the borrowed funds
- there is a Council approved By-law

The *Development Charges Act 1997* permits inter-fund borrowing between DC reserve funds, provided that all amounts borrowed are repaid with a prescribed rate of interest.

### **External Debt supported with Reserve Funds**

External debt and debt servicing costs shall be budgeted and paid from the operating fund. There are two exemptions to this rule:

- **Development Charge Reserve Fund:** Under the Development Charges Act, debt may be included as a capital cost to leverage development charge revenue while waiting for DC collections to catch up to growth-related spending. The DC debt related costs will be recovered from the appropriate DC reserve fund.
- **Cash in Lieu of Parkland Reserve Fund:** Historically, debt has been permitted for the purchase of parkland, but under this policy, new debt will be incurred and repaid through the operating fund in order to reduce the risk from future undetermined contributions

### **Authorization**

The Treasurer is responsible for monitoring the status of reserves and reserve funds in accordance with the Council approved policy.

Utilization of funds from a reserve or reserve fund can be approved through the following options:

- 
- a) approved by Council through the annual budget process
  - b) approved by Council through a separate report/ Council resolution
  - c) any other means prescribed by the approved Reserve and Reserve Fund Policy

Council must approve the:

- establishment of new reserves and reserve funds
- closing reserves and reserve funds no longer required
- consolidation of reserves and reserve funds
- transfer funds to and from reserves and reserve funds as prescribed by Appendix A: Reserve and Reserve Fund Policy Schedule

The Treasurer will:

- recommend establishing, closing and consolidating reserves and reserve funds
- monitor the adequacy of reserve and reserve fund balances and report annually
- recommend and monitor target balances for reserves and reserve funds
- recommend transfers of funds to and from reserves and reserve funds
- manage the reserves and reserve funds in accordance with legislative requirements and the City's existing policies and corporate strategies
- determine the source of financing for the City's programs and capital works

### **Investment Income Earned on Reserve Funds**

Reserve funds must be invested and done so in a manner that is in accordance with the City's approved Investment Policy. Investment income earned on the total cash and investment portfolio shall be credited to each separate fund in proportion to the amount invested from it. The investment income allocation shall be based on the average annual balance of the reserve fund calculated at year end at the average annual interest rate earned on the City's total cash and investment portfolio.

### **Contribution timing**

Contributions from operating budgets to reserves shall be transferred to the reserve or reserve fund as a one-time transfer at the beginning of the year based on the approval of the City's budget. Contributions from reserves and reserve funds to capital or operating accounts shall be transferred at least semi-annually, upon completion of a project or as directed by Council.

### **Reporting**

The status of the City's reserves and reserve funds will be communicated to Council, the public and the Ministry of Municipal Affairs and Housing through the following reports:

- A Reserve and Reserve Fund Statement detailing balances, transactions, funding status and commitments is required annually. It will identify risks, emerging issues and changes to relative legislation;
- Reserve and reserve fund balances, projected contributions and planned expenditures shall be presented with the annual budget;

- 
- Each year, in accordance with provincial legislation, the Treasurer will provide Council with a Development Charge Reserve Fund Statement with balances, expenditures, collections and transfers;
  - Each year, in accordance with provincial legislation, the Treasurer will provide Council with a Parkland Dedication Reserve Fund Statement with balances, expenditures, collections and transfers;
  - The City's annual audited Financial Statements and provincially mandated Financial Information Return

## **POLICY REVIEW**

This policy is to be reviewed with every term of Council

The Treasurer has the authority to administratively amend Appendix A: Reserve and Reserve Fund Policy Schedule when deemed necessary. Administrative amendments authorized are:

- Updating Appendix A for Council approved changes, additions or deletions of individual reserve or reserve fund policies
- Updating Appendix A for refinement of the reserve and reserve fund targets as new and improved information becomes available through the Asset Management or other initiatives
- Updating Appendix A for the authorization language in the event of a corporate reorganization that changes the position titles referenced in the Policy

**Attachment 2: Reserve and Reserve Fund Funded Status as at December 31, 2016**

*As of December 31, 2016*

| NAME                            | #                                   | PURPOSE | TARGET BALANCE   | TARGET  | UNCOMMITTED BALANCE | (UNDER FUNDED) SUFFICIENTLY FUNDED | PROPOSED REDISTRIBUTION | (UNDER FUNDED) SUFFICIENTLY FUNDED | FUNDING STRATEGY |   |
|---------------------------------|-------------------------------------|---------|--|---|---------------------|------------------------------------|-------------------------|------------------------------------|------------------|---|
| <b>TAX SUPPORTED - RESERVES</b> |                                     |         |  |   |                     |                                    |                         |                                    |                  |   |
| <b>OPERATING</b>                |                                     |         |  |   |                     |                                    |                         |                                    |                  |   |
| <b>CORPORATE</b>                | TAX RATE OPERATING CONTINGENCY      | 180     | To provide cash flow and working capital, provide sufficient liquidity, offset extraordinary and unforeseen corporate expenditures. To mitigate fluctuations to the tax rate for planned one-time operating budget impacts.  | 8-10% of own source revenue less other tax-supported corporate operating contingency reserves.<br><br>Reserve balance cannot fall below \$5M in order to maintain sufficient corporate liquidity. | 10,437,827          | 6,891,657                          | (4,581,702)             | -                                  | (4,581,702)      | Operating base budget contributions and annual surplus allocations  |
|                                 | COMPENSATION CONTINGENCY            | 131     | To manage operating budget variances relating to employee benefits and other compensation related costs including: Medical / Dental benefits, Short Term and Long Term Disability Severance, Employee Assistance Program (EAP), Arbitration related costs, Regulatory audit decisions, Joint Job Evaluation Committee, Pay Equity. | 2.5% of total annual corporate salary and benefit budget  | 4,825,000           | 5,414,394                          | 589,394                 | (650,000)                          | (60,606)         | Annual monitoring of actual benefit costs compared to budgeted estimates. Annual compensation benefit budget reflects adjustments for historical experience.<br><br>Year end surplus transfers as required. |
|                                 | ENVIRONMENT AND UTILITY CONTINGENCY | 198     | To offset the impact of volatile operating expenditures relating to energy, fuel, winter control and other weather related events.   | Up to 50% of 5 year average hydro & winter control expense  | 3,200,000           | 750,000                            | (2,450,000)             | 800,000                            | (1,650,000)      | Operating base budget contributions and annual surplus allocations  |

**Attachment 2: Reserve and Reserve Fund Funded Status as at December 31, 2016**

*As of December 31, 2016*

|                  | NAME                            | #   | PURPOSE   | TARGET BALANCE  | TARGET    | UNCOMMITTED BALANCE | (UNDER FUNDED) SUFFICIENTLY FUNDED | PROPOSED REDISTRIBUTION | (UNDER FUNDED) SUFFICIENTLY FUNDED | FUNDING STRATEGY   |
|------------------|---------------------------------|-----|---|---|-----------|---------------------|------------------------------------|-------------------------|------------------------------------|--|
|                  | LEGAL / INSURANCE               | 193 | To manage operating budget variances relating to external legal expenditures and settlements, large insurance claims, insurance deductible costs and other costs not recoverable through insurance (lost revenue, business interruption). | Average of the past five years legal and insurance claims.  | 2,225,173 | 3,700,247           | 1,475,074                          | (800,000)               | 675,074                            | Automatic transfer of external legal and insurance claim cost variances year to year.<br>Operating base budget contributions and annual surplus allocations. |
| PROGRAM SPECIFIC | ACCUMULATED SICK LEAVE (FIRE)   | 100 | To set aside funds over the service life of an employee to fund sick leave hours that are payable in the future   | minimum = 95% of the Liability for Sick Leave   | 5,056,773 | 5,475,150           | 418,377                            |                         | 418,377                            | Annual compensation budget allocation for this reserve.  |
|                  | ACCUMULATED SICK LEAVE (POLICE) | 101 | To set aside funds over the service life of an employee to fund sick leave hours that are payable in the future   | minimum = 95% of the Liability for Sick Leave   | 3,814,758 | 4,113,957           | 299,199                            | -                       | 299,199                            | Annual compensation budget allocation for this reserve.  |
|                  | WSIB                            | 330 | To set aside funds throughout the service life of an employee to fund the expected cost of WSIB claims  | minimum = 50% of the WSIB Liability   | 3,417,466 | 1,452,220           | (1,965,246)                        | 650,000                 | (1,315,246)                        | Annual compensation budget allocation for this reserve.  |
|                  | PARAMEDIC RETIREMENT            | 338 | To set aside funds over the service life of an employee to fund the future cost of a retirement benefit payment. Paramedic employees hired before July 1, 2010 receive a lump sum retirement benefit based on years of service.           | Equal to the long term funding plan required to fund retirement payments over the remaining service life of the paramedics. | 655,018   | 655,018             | 0                                  | -                       | 0                                  | Annual compensation budget allocation for this reserve.  |

**Attachment 2: Reserve and Reserve Fund Funded Status as at December 31, 2016**

*As of December 31, 2016*

|           | NAME                         | #   | PURPOSE   | TARGET BALANCE   | TARGET  | UNCOMMITTED BALANCE | (UNDER FUNDED) SUFFICIENTLY FUNDED | PROPOSED REDISTRIBUTION | (UNDER FUNDED) SUFFICIENTLY FUNDED | FUNDING STRATEGY  |
|-----------|------------------------------|-----|---|--|---------|---------------------|------------------------------------|-------------------------|------------------------------------|---|
|           | ELECTION COSTS               | 195 | Established to amortize the cost of a municipal election over 4 years, rather than expensing the entire amount in the year of the election.           | Prior election cost total plus accumulated annual inflation to be achieved by next election year   | 524,000 | 399,856             | (124,144)                          | -                       | (124,144)                          | Annual operating budget allocation for this reserve   |
|           | WESTMINISTER WOODS           | 345 | This reserve is required, as per the Licence Agreement (September 2006) between the City and Westminster Woods Ltd.                                   | \$35,000   | 35,000  | 35,000              | 0                                  | -                       | 0                                  | No strategy required.   |
| STRATEGIC | AFFORDABLE HOUSING           | 119 | To provide incentives to developers that encourage the creation of affordable rental units.<br><br>REFER TO SEPARATE COUNCIL APPROVED POLICY.         | As mandated by the affordable housing strategy to be approved by Council 2017  | 0       | 793,714             | 793,714                            | -                       | 793,714                            | Proposed strategy for 2018 budget approval - Annual operating budget contributions to fund the 5 year program.        |
|           | REDEVELOPMENT INCENTIVES (3) | 122 | Redevelopment Incentive program aimed at encouraging redevelopment of brownfield sites, heritage sites and high density developments in the downtown  | Please see the TIBG fiscal impact schedule for the program funding requirements (based on committed and completed projects). Balance must be positive. | 0       | 0                   | 0                                  | -                       | 0                                  | Long-term Council approved financial strategy in place through annual operating budget contributions to this reserve. |
|           | DOWNTOWN IMPROVEMENT         | 194 | Downtown CIP incentive program supports private sector investments in the form of façade improvement, feasibility studies and large scale renovations | Reserve is intended to accommodate longer term grant commitments over a year end. There should be no uncommitted balance in the reserve                | 0       | 6,677               | 6,677                              | -                       | 6,677                              | As approved annually through the operating budget.  |

**Attachment 2: Reserve and Reserve Fund Funded Status as at December 31, 2016**

*As of December 31, 2016*

|                                      | NAME                             | #   | PURPOSE   | TARGET BALANCE   | TARGET | UNCOMMITTED BALANCE | (UNDER FUNDED) SUFFICIENTLY FUNDED | PROPOSED REDISTRIBUTION | (UNDER FUNDED) SUFFICIENTLY FUNDED | FUNDING STRATEGY   |  |
|--------------------------------------|----------------------------------|-----|---|--|--------|---------------------|------------------------------------|-------------------------|------------------------------------|--|--|
|                                      | GREENHOUSE GAS                   | 352 | To earmark revenues from the sale of Greenhouse gas credits for improvements to the Eastview Landfill | No established maximum limit, reserve balance must be positive   | 0      | 39,184              | 39,184                             | -                       | 0                                  | Currently under review.  |  |
|                                      | STRATEGIC INITIATIVES            | 179 | To fund the implementation of the Corporate Administration Plan (previously Corporate Strategic Plan) | No established maximum limit, reserve balance must be positive   | 0      | 298,801             | 298,801                            | -                       | 298,801                            | No strategy required.  |  |
|                                      | INDUSTRIAL LAND                  | 332 | To fund the development of the Hanlon Creek Business Park   | Value of future land sales must be equal to or greater than cost of servicing less life to date land sales | 0      | (7,585,300)         | (7,585,300)                        | -                       | (7,585,300)                        | Proceeds from City owned industrial lands are automatically transferred to this reserve. Long-term strategy is currently on-going and planned to come back to Council in early 2018. |  |
| <b>TAX SUPPORTED - RESERVE FUNDS</b> |                                  |     |   |  |        |                     |                                    |                         |                                    |  |  |
| <b>OPERATING</b>                     |                                  |     |   |  |        |                     |                                    |                         |                                    |  |  |
| PROGRAM SPECIFIC                     | MUSEUM DONATIONS (3)             | 135 | To fund Museum and McCrae house operating or capital projects, including artifacts                    | No established maximum limit, reserve balance must be positive   | 0      | 132,850             | 132,850                            | -                       | 132,850                            | No strategy required.  |  |
|                                      | PUBLIC ART                       | 356 | To accumulate funds for the purpose of investing in public art  | No established maximum limit, reserve balance must be positive   | 0      | 151,102             | 151,102                            | -                       | 151,102                            | No strategy required.  |  |
|                                      | COMMUNITY INVESTMENT             | 205 | To support community programs and initiatives   | No established maximum limit, reserve balance must be positive   | 0      | 89,278              | 89,278                             | -                       | 89,278                             | No strategy required.  |  |
|                                      | TRANSPORTATION DEMAND MANAGEMENT | 350 | Develop strategies to move the modal split within the City towards Council targets                    | No established maximum limit, reserve balance must be positive   | 0      | 23,296              | 23,296                             | -                       | 23,296                             | No strategy required.  |  |
|                                      | INFORMATION TECHNOLOGY           | 210 | To fund software licence replacement.   | No established maximum limit, reserve balance must be positive   | 0      | 847,858             | 847,858                            | -                       | 847,858                            | Annual operating budget allocation for this reserve  |  |

**Attachment 2: Reserve and Reserve Fund Funded Status as at December 31, 2016**

*As of December 31, 2016*

|                         | NAME                          | #   | PURPOSE  | TARGET BALANCE   | TARGET    | UNCOMMITTED BALANCE | (UNDER FUNDED) SUFFICIENTLY FUNDED | PROPOSED REDISTRIBUTION | (UNDER FUNDED) SUFFICIENTLY FUNDED | FUNDING STRATEGY   |
|-------------------------|-------------------------------|-----|--|--|-----------|---------------------|------------------------------------|-------------------------|------------------------------------|--|
|                         | LIBRARY BEQUESTS              | 138 | To fund one-time library related capital or operating expenses   | No established maximum limit, reserve balance must be positive | 0         | 370,149             | 370,149                            | -                       | 370,149                            | No strategy required.  |
| <b>CAPITAL</b>          |                               |     |  |  |           |                     |                                    |                         |                                    |  |
| <b>PROGRAM SPECIFIC</b> | LIBRARY                       | 157 | To assist in financing the cost of construction, reconstruction or acquisition of Library assets         | No established maximum limit, reserve balance must be positive | 0         | 603,210             | 603,210                            | -                       | 603,210                            | No strategy required.  |
|                         | POLICE                        | 115 | To fund equipment replacement relating to Guelph Police Services   | No established maximum limit, reserve balance must be positive | 0         | 246,458             | 246,458                            | -                       | 246,458                            | No strategy required.  |
|                         | POLICE                        | 158 | To assist in financing the cost of construction, reconstruction or acquisition of Police assets          | No established maximum limit, reserve balance must be positive | 0         | 57,051              | 57,051                             | -                       | 57,051                             | No strategy required.  |
|                         | SLEEMAN CENTRE NAMING RIGHTS  | 162 | To fund capital projects at the Sleeman Centre   | No established maximum limit, reserve balance must be positive | 0         | 34,306              | 34,306                             | -                       | 34,306                             | No strategy required.  |
|                         | SLEEMAN CENTRE                | 189 | To fund non-lifecycle capital projects at the Sleeman Centre   | No established maximum limit, reserve balance must be positive | 0         | 50,740              | 50,740                             | -                       | 50,740                             | No strategy required.  |
|                         | RIVER RUN                     | 340 | To fund capital projects at the River Run  | No established maximum limit, reserve balance must be positive | 0         | 73,279              | 73,279                             | -                       | 73,279                             | No strategy required.  |
|                         | CITY-OWNED CONTAMINATED SITES | 155 | Allocation of funds to manage liabilities associated with city-owned environmentally contaminated sites. | 10% of the current outstanding liability                       | 2,686,000 | 83,826              | (2,602,174)                        | -                       | (2,602,174)                        | No current strategy in place. Annual planned costs of monitoring, assessments and clean up are budgeted as required. Staff to consider contingency strategy as part of the 2018 work plan. |

**Attachment 2: Reserve and Reserve Fund Funded Status as at December 31, 2016**

*As of December 31, 2016*

|                  | NAME                   | #   | PURPOSE  | TARGET BALANCE   | TARGET     | UNCOMMITTED BALANCE | (UNDER FUNDED) SUFFICIENTLY FUNDED | PROPOSED REDISTRIBUTION | (UNDER FUNDED) SUFFICIENTLY FUNDED | FUNDING STRATEGY  |
|------------------|------------------------|-----|--|--|------------|---------------------|------------------------------------|-------------------------|------------------------------------|---|
| <b>STRATEGIC</b> | INFRASTRUCTURE RENEWAL | 150 | To provide funds for the replacement and rehabilitation of the City's infrastructure   | Annual capital transfer equal to 100 year average total tax supported asset replacement cost;<br><br>Balance equal one year's worth of tax supported capital requirement based on ten year average.<br><br>**To be further refined through the work of the Asset Management Office | 20,000,000 | 5,806,469           | (14,193,531)                       | -                       | (14,193,531)                       | Council approved 10 year capital levy to increase capital funding to a sustainable level.<br><br>Dedicating 80% of the annual capital budget transfer to infrastructure renewal funding.<br><br>Asset Management Office strategies for capital replacement prioritization, service level standards and long-term asset replacement plans. |
|                  | GROWTH                 | 156 | To provide funds to cover shortfalls in growth related capital funding relating to exemptions, reductions and limitations mandated by the Development Charge Act, 1997 and exemptions prescribed by the City's DC By-law | 25% of annual DC collections (based on three year average before exemptions)   | 3,500,000  | 3,668,062           | 168,062                            | -                       | 168,062                            | Dedication of 10% of the annual capital levy to support growth related projects.<br><br>Development of a model and costing of the tax cost of growth  |
|                  | CITY BUILDING          | 159 | To fund enhancements to City assets that are non-growth related and not asset renewal, including those related to accessibility  | Average 10 year annual requirement   | 4,000,000  | 161,141             | (3,838,859)                        | -                       | (3,838,859)                        | Dedication of 10% of the annual capital levy to support City Building related projects.<br><br>Utilizing debt to cash flow significant City Building projects.  |

**Attachment 2: Reserve and Reserve Fund Funded Status as at December 31, 2016**

*As of December 31, 2016*

| NAME  | #                      | PURPOSE  | TARGET BALANCE  | TARGET    | UNCOMMITTED BALANCE | (UNDER FUNDED) SUFFICIENTLY FUNDED | PROPOSED REDISTRIBUTION | (UNDER FUNDED) SUFFICIENTLY FUNDED | FUNDING STRATEGY  |
|---|------------------------|--|---|-----------|---------------------|------------------------------------|-------------------------|------------------------------------|---|
| EFFICIENCY, INNOVATION AND OPPORTUNITY FUND | 351                    | To provide funding for corporate investment opportunities that generate efficiencies and/or savings or avoided costs that may be repaid to the reserve in full or part over a period of time | Minimum \$5 million   | 5,000,000 | 7,656,268           | 2,656,268                          | -                       | 2,656,268                          | Subject to budget approval, an annual operating transfer to invest in efficiency and cost avoidance projects. |
| <b>NON-TAX SUPPORTED - RESERVE FUNDS</b>    |                        |  |   |           |                     |                                    |                         |                                    |   |
| <b>OPERATING</b>                            |                        |  |   |           |                     |                                    |                         |                                    |   |
| <b>PROGRAM SPECIFIC</b>                     | WATERWORKS CONTINGENCY | To meet emergency and unplanned funding needs for Water Operations in order to avoid operating deficits or fluctuations in the rate  | 10% of annual gross operating expenditures                      | 3,045,000 | 3,897,284           | 852,284                            | -                       | 852,284                            | Annual budget surplus transfers   |
|   | WASTEWATER CONTINGENCY | To meet emergency and unplanned funding needs for Wastewater Operations in order to avoid an operating deficits or fluctuations in the rate  | 10% of annual gross operating expenditures                      | 3,095,100 | 4,733,839           | 1,638,739                          | -                       | 1,638,739                          | Annual budget surplus transfers   |
|   | STORMWATER CONTINGENCY | To meet emergency and unplanned funding needs for Stormwater Operations in order to avoid an operating deficit or fluctuations in the rate   | 10% of annual gross operating expenditures                      | 421,900   | 0                   | (421,900)                          | -                       | (421,900)                          | Annual budget surplus transfers   |
|   | COURT CONTINGENCY      | To meet emergency and unplanned funding needs for Courts in order to avoid an operating deficit  | 8 - 10% of City's share of Court's gross operating expenditures | 390,200   | 467,773             | 77,573                             | -                       | 77,573                             | Annual budget surplus transfers   |
| <b>CAPITAL</b>                              |                        |  |   |           |                     |                                    |                         |                                    |   |

**Attachment 2: Reserve and Reserve Fund Funded Status as at December 31, 2016**

*As of December 31, 2016*

|                  | NAME               | #   | PURPOSE  | TARGET BALANCE   | TARGET     | UNCOMMITTED BALANCE | (UNDER FUNDED) SUFFICIENTLY FUNDED | PROPOSED REDISTRIBUTION | (UNDER FUNDED) SUFFICIENTLY FUNDED | FUNDING STRATEGY  |
|------------------|--------------------|-----|--|--|------------|---------------------|------------------------------------|-------------------------|------------------------------------|---|
| PROGRAM SPECIFIC | WATERWORKS CAPITAL | 152 | To assist in financing the capital program for waterworks. | Annual capital transfer equal to 100 year average total waterworks asset replacement cost;<br><br>Balance equal to the average 3% of total waterworks asset replacement cost.<br><br>**To be further refined through the work of the Asset Management Office | 18,465,000 | 30,483,998          | 12,018,998                         | -                       | 12,018,998                         | 10 year capital plans that are supported by the Asset Management Office practices and policies.<br><br>Annual sustainable budget transfers and year end budget surplus.   |
|                  | WASTEWATER CAPITAL | 153 | To assist in financing the capital program for Wastewater. | Annual capital transfer equal to 100 year average total wastewater asset replacement cost;<br>Balance equal to the average 3% of total wastewater asset replacement cost.<br><br>**To be further refined through the work of the Asset Management Office     | 18,018,000 | 33,748,938          | 15,730,938                         | -                       | 15,730,938                         | 10 year capital plans that are supported by the Asset Management Office practices and policies.<br><br>Annual sustainable budget transfers and year end budget surplus.<br><br>Significantly above targeted balance due to delays in executing needed capital work. |

**Attachment 2: Reserve and Reserve Fund Funded Status as at December 31, 2016**

*As of December 31, 2016*

| NAME                            | #   | PURPOSE   | TARGET BALANCE   | TARGET     | UNCOMMITTED BALANCE | (UNDER FUNDED) SUFFICIENTLY FUNDED | PROPOSED REDISTRIBUTION | (UNDER FUNDED) SUFFICIENTLY FUNDED | FUNDING STRATEGY   |
|---------------------------------|-----|---|--|------------|---------------------|------------------------------------|-------------------------|------------------------------------|--|
| STORMWATER CAPITAL              | 165 | To assist in financing the capital program for Storm water.   | Annual capital transfer equal to 100 year average totalstormwater asset replacement cost; Balance equal to the average 3% of total stormwater asset replacement cost.<br><br>**To be further refined through the work of the Asset Management Office | 16,746,000 | 9,989               | (16,736,011)                       | -                       | (16,736,011)                       | 10 year capital plans that are supported by the Asset Management Office practices and policies.<br><br>Annual sustainable budget transfers and year end budget surplus.<br><br>Stormwater became a rate supported utility in 2017 and a long-term rate plan is in place to bring stormwater capital funding to sustainable levels. |
| COURTS CAPITAL                  | 120 | To assist in financing the capital program for the Provincial Offences Act (POA) Court operations.  | Under review - to be based on the outcome of the Asset Management Plan work.   | 0          | 1,116,857           | 1,116,857                          | -                       | 0                                  | Under review and will be finalized as part of the on-going Asset Management review.  |
| <b>OBLIGATORY RESERVE FUNDS</b> |     |   |  |            |                     |                                    |                         |                                    |  |
| PARKLAND DEDICATION             | 300 | Created in accordance with subsection 42 (14) and (15) of the Planning Act for the purpose of requiring the payment of cash-in-lieu of conveyance of land for a park or other public recreation purpose                 | 2017 update to the City's Parkland dedication by-law will provide information needed to determine appropriate target   | 0          | 2,950,774           | 2,950,774                          | -                       | 0                                  | Currently under review.  |
| DOWNTOWN PARKLAND DEDICATION    | 301 | Created in accordance with subsection 42 (14) and (15) of the Planning Act for the purpose of requiring the payment of cash-in-lieu of conveyance of land for a park or other public recreation purpose in the downtown | 25% of the planned parkland purchase cost in accordance with the Downtown Secondary Plan   | 1,065,137  | 540,546             | (524,591)                          | -                       | (524,591)                          | Manage planned projects within the funding envelope available.   |

**Attachment 2: Reserve and Reserve Fund Funded Status as at December 31, 2016**

*As of December 31, 2016*

|           | NAME                                | #          | PURPOSE  | TARGET BALANCE   | TARGET    | UNCOMMITTED BALANCE | (UNDER FUNDED) SUFFICIENTLY FUNDED | PROPOSED REDISTRIBUTION | (UNDER FUNDED) SUFFICIENTLY FUNDED | FUNDING STRATEGY   |
|-----------|-------------------------------------|------------|--|--|-----------|---------------------|------------------------------------|-------------------------|------------------------------------|--|
| CORPORATE | BUILDING SERVICES OBC STABILIZATION | 188        | As mandated by O.Reg.305/03 of the Building Code, a building services stabilization reserve fund is required for managing fluctuations in City building activity that may impact operations                          | 1 year operating expenditure (based on 5 year average)   | 2,917,190 | 2,788,134           | (129,056)                          | -                       | (129,056)                          | Annual rate reviews and adjustments to maintain cost recovery level.   |
|           | DEDICATED GAS TAX                   | 342        | Monies received from the Provincial government that are to be used to support increased public transportation ridership and investments in the renewal and expansion of public transportation                        | No established maximum limit, reserve balance must be positive   | 0         | (179,021)           | (179,021)                          | -                       | (179,021)                          | No funding strategy required.  |
|           | FEDERAL GAS TAX                     | 343        | Infrastructure construction, renewal or enhancement within 17 eligible categories  | No established maximum limit, reserve balance must be positive   | 0         | 1,769,453           | 1,769,453                          | -                       | 1,769,453                          | No strategy required.  |
|           | DEVELOPMENT CHARGES                 | 311 to 327 | As prescribed by the DCA, 1997, reserve funds are used to facilitate the collection of development charges from growth within the City and the funding of capital infrastructure required to accommodate that growth | Reserve fund balance must be zero by build out and debt interest cannot exceed 20% of annual DC revenues | 0         | (27,146,800)        | (27,146,800)                       | -                       | (27,146,800)                       | Debt fund cash flow gaps; Adjust capital plan to match estimated projections; Revisit growth targets and rate development as part of the 2019 DC Background Study. |

# CORPORATE POLICY AND PROCEDURE



|                 |  |
|-----------------|--|
| POLICY          | <b>Efficiency, Innovation and Opportunity Fund</b> |
| CATEGORY        | Corporate  |
| AUTHORITY       | Council  |
| RELATED POLICES | General Reserve and Reserve Fund Policy            |
| APPROVED BY     | Council  |
| EFFECTIVE DATE  | September 2017                                     |
| REVISION DATE   | As required  |

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## 1. POLICY STATEMENT

It is the policy of the City of Guelph to establish and maintain a reserve fund to preserve the proceeds from disposition of significant assets for the purpose of financing projects that improve the **efficiency** of the corporation, that support **innovation** in direct service delivery or corporate change or that leverage external funding **opportunities** such as grants and partnerships.

## 2. POLICY PURPOSE

The purpose of the Efficiency, Innovation and Opportunity Fund (EIOF) is to encourage both operating and capital initiatives that result in corporate efficiencies and/or innovations that have a measurable outputs and value to the corporation by way of savings, cost avoidance, revenue generation or one-time grant / partnership funding.

The policy aims to balance the protection of the reserve fund principal through supporting projects with budgetary savings & on-going revenue generation compared to investing in initiatives that have corporate benefits of cost avoidance and access to one-time revenues.

The Efficiency, Innovation and Opportunity Fund is a way of helping to stabilize the general municipal tax levy and minimize reliance on debt.

## 3. ADMINISTRATION

### 3.1 Intended Use

The EIOF is to be used for the exclusive purpose of financing projects that improve the efficiency of the corporation, that support innovation in direct service delivery

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or corporate change or that leverage external funding opportunities such as grants and partnerships.

### **3.2 Limitations**

3.2.1 Transfers shall be made into and from the EIOF as approved by Council with the exception of individual projects less than \$100,000 to a maximum of \$250,000 annually with the approval of the CAO and Treasurer.

3.2.2 For all projects individually greater than \$100k, Council approval is required.

3.2.3 A business case approved by the Treasurer is a pre-requisite for ALL transfers out of the EIOF. The business case must quantify the project's resulting operating savings, costs-avoided and/or revenue generated and sufficiently demonstrate the project's alignment to the Corporate Administrative Plan. The business case must provide for a final reporting and accounting of the funds used and results realized within a reasonable time period.

3.2.4 It is recommended that the annual investment in projects with no source of funding to repay the EIOF, is limited to that budget year's Council approved reserve transfers into the EIOF. This is left to the discretion of the Treasurer and CAO subject to the limitation in 3.2.7.

3.2.5 Projects approved with a repayment schedule must repay funds within ten years at a maximum. Projects initiated by a corporate service department or committee on-behalf of a department(s) shall repay the EIOF within the following parameters subject to the repayment not extending past ten years

- I. A maximum of 1/3 of the savings can be directed back to the department(s)' operating budget
- II. A maximum of 1/3 of the savings can be directed to the corporate service department or committee's operating budget or reserve
- III. A minimum of 1/3 of the savings must be directed to the repayment of the EIOF until such time that the principal is fully repaid

3.2.6 The EIOF is a reserve fund and as such, will earn interest in accordance with the General Reserve and Reserve Fund Policy. All transfers of funds from the EIOF are done so on an interest free basis.

3.2.7 The EIOF must preserve a principle fund balance of \$5 million (including repayment obligations). The EIOF will not permit utilization of funds without a Council approved repayment plan if the balance drops below this amount. A repayment plan can include a long-term Council approved operating budget transfer in the event that the project does not generate budget savings.

# Staff Report



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To **Committee of the Whole**

Service Area Corporate Services

Date Tuesday, September 5, 2017

Subject **Capital Transfer Allocation Policy**

Report Number CS-2017-68

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## Recommendation

1. That the Council endorsed ten year Dedicated Infrastructure Levy be allocated 90% to the Infrastructure Renewal Reserve Fund (150) and 10% to the City Building Reserve Fund (159);
2. That beginning with the 2018 budget, the annual capital transfer from operating budget be allocated 80% to the Infrastructure Renewal Reserve Fund (150), 10% to the Growth Reserve Fund (156) and 10% to the City Building Reserve Fund (159).

## Executive Summary

### Purpose of Report

To obtain Council direction for the ten year Council endorsed Dedicated Capital Infrastructure Levy allocation and the Capital Transfer Allocation Policy that will inform available funding for 2018 and future capital programs of work.

### Key Findings

Infrastructure renewal has accounted for 55% of City capital spending over the past five years and the majority of the funding for this comes from either tax or rate supported reserves. In order to fund this, historically 87% of tax and rate funds have gone to support infrastructure renewal and the balance of the funding has come in the form of grants, partnership contributions or other similar sources.

The Corporate Asset Management Plan identified a current infrastructure backlog of \$501 million, in addition to the need for increased annual expenditures on infrastructure renewal to maintain existing levels of service over the next twenty years. The ten year forecast indicates that approximately 80% of the City's funding requirement will be for infrastructure renewal projects but with the caveat that this forecast is not fully funded and the Corporate Asset Management Policies and work plan will assist in refining this estimate over time.

Based on these facts, the recommended allocation starting in 2018 is that 80% of the capital budget transfer be directed to Infrastructure Renewal Reserve Fund, 10% to Growth Reserve Fund and 10% to City Building Reserve Fund. This effectively balances maintaining what we currently own with providing funding for growth and City building projects. The General Reserve and Reserve Fund Policy will reflect this approved policy.

With regard to the Dedicated Infrastructure Levy, the recommended allocation for 2017 and future would be 90% to Infrastructure Renewal Reserve Fund and 10% to City Building Reserve Fund. This recommendation is consistent with the primary purpose of the special levy in funding the infrastructure renewal deficit.

### **Financial Implications**

This is an important policy decision that will inform available funding for all future capital projects. There are limited funding resources available and Council must direct at a high level the allocation of the capital budget through these funding allocation envelopes. The recent Corporate Asset Management Plan indicates that we have an estimated \$501 million of assets past their expected useful life and current funding is insufficient to meet a sustainable infrastructure replacement plan.

## **Report**

In the last five years the City has spent \$350,579,039 on capital related projects, these projects fall into three main categories; City Building, Growth and Infrastructure Renewal. Infrastructure Renewal accounted for over 55% of spending during this time period. This is to be expected as the City has constructed over \$4 billion in infrastructure assets during the past one hundred plus years. These assets are expected to remain in use from five to eighty years and will require maintenance, renewal and replacement at various points in their life depending on the type and use of the asset. As per the recent Asset Management Plan presented to Council in March 2017, the estimated value of assets currently past their expected useful life is \$501 million.

**Table 1 Breakdown of Capital Spending 2012-2016**

|                        | <b>2012-2016 Spending</b> | <b>% of Total</b> |
|------------------------|---------------------------|-------------------|
| City Building          | \$24,895,606              | 7%                |
| Growth                 | \$131,271,885             | 37%               |
| Infrastructure Renewal | \$194,411,548             | 55%               |

Funding specifically for Infrastructure Renewal has historically been funded by two main sources: tax/user rates (78%) and grants (22%). This demonstrates the need for a reliable tax-supported funding source to ensure that assets can be maintained and replaced as needed to ensure continued delivery of City services at established levels.

The City has recently been successful in obtaining grant funding through a number of sources, most notably the Public Transit Infrastructure Fund and the Clean Water and Wastewater Fund. These grants have allowed us to move significant deferred projects forward, such as renewal of the Transit bus fleet and reconstruction of

Metcalfe Street; however, these grants are not permanent. The City will not have additional information about further Federal/Provincial grant opportunities until spring of 2018 and will continue to actively seek out these grants to augment municipal capacity. The uncertainty in grant funding increases the dependency on the tax and rate funding when establishing long-term capital plans.

### **Breakdown of Tax and Rate Funding**

Of the \$200,555,660 of tax and rate funding that was spent on all capital over the past five years; 87% went to Infrastructure Renewal, 5% to City Building and 8% to Growth. The current ten year capital forecast follows a similar projection in that 80% of funding is forecasted for Infrastructure Renewal. This amount is not fully funded and 100% of currently forecasted available funding for all capital would not be sufficient to cover the Infrastructure Renewal needs over the next ten years.

Given the capital priorities over the coming years, a balance needs to be maintained to ensure the City is able to continue to grow as it works to maintain existing assets.

### **Recommended Annual Capital Allocation**

Based on the above, the recommended allocation starting in 2018 is that 80% of the capital budget transfer be directed to the Infrastructure Renewal Reserve Fund, 10% to the Growth Reserve Fund and 10% to the City Building Reserve Fund. This effectively balances maintaining what we currently own with providing funding for growth and City building projects.

With regards to the Dedicated Infrastructure Levy, the recommended allocation for 2017 and future would be 90% to the Infrastructure Renewal Reserve Fund and 10% to the City Building Reserve Fund. This recommendation is consistent with the primary purpose of the special levy in funding the infrastructure renewal deficit.

The allocations will be monitored annually and reviewed every term of Council or as required to ensure they are in line with current needs and Corporate strategy and reflects external opportunities such as grants and partnerships.

### **Financial Implications**

This is an important policy decision that will inform available funding for all future capital projects. There are limited funding resources available and Council must direct at a high level the allocation of the capital budget through these funding allocation envelopes. The recent Corporate Asset Management Plan indicates that we have an estimated \$501 million of assets past their expected useful life and current funding is insufficient to meet a sustainable infrastructure replacement plan.

## Consultations

Discussions with Corporate Asset Management group regarding needs and impacts to the overall Corporate objectives was discussed, and this department will play a lead role in developing prioritizing tools and methodologies for specific projects based on the recommended allocation.

## Corporate Administrative Plan

### Overarching Goals

Financial Stability

### Service Area Operational Work Plans

Our Resources - A solid foundation for a growing city

## Attachments

None

### Report Author

Greg Clark, CPA, CMA, Program Manager Capital Planning



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# Staff Report



To **Committee of the Whole**

Service Area Corporate Services

Date Tuesday, September 5, 2017

Subject **2017 Q2 Capital Variance Report**

Report Number CS-2017-26

## Recommendation

That the report titled 2017 Q2 Capital Variance Report (CS-2017-26) be received.

## Executive Summary

### Purpose of Report

To provide a summary of 2017 capital spending activity as at June 30, 2017 and highlight significant activity by program of work.

### Key Findings

This report reflects year-to-date spending through Q2 of \$29.2 million and second quarter-to-date spending of \$16.1 million; an increase over Q1 of \$3.1 million and an increase over year-to-date 2016 by \$9.9 million. The increased spending relates primarily to ongoing work at Guelph Police Services (GPS) Headquarters and the completion of the Victoria Road Recreation Centre (VRRC), which both began in Q2 2016.

Of note in Q2, open purchase orders were slightly less than Q1 by \$0.6 million which is somewhat unexpected given the construction season beginning and construction awards being tendered. This should increase significantly in Q3 with the Wilson Parkade project being awarded by Council.

Below is the capital activity for 2017 through Q2, details are provided in ATT-1.

|  |                        |
|--|------------------------|
| 2016 Carry-over                          | \$169,400,000          |
| 2017 Capital Budget, approved            | \$92,860,300           |
| 2017 Additional approved funding         | <u>\$1,168,000</u>     |
| Total available capital funding for 2017 | \$263,428,300          |
| As of June 30, 2017                      |                        |
| Capital spending                         | ( \$29,161,071)        |
| Balance available                        | \$234,267,229          |
| Open purchase orders                     |                        |
| Work in progress                         | <u>( \$65,560,907)</u> |
|  | \$168,706,322          |

## Financial Implications

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

## Report

### Current Year Spending

In Q2 2017, the total spending from capital accounts was \$29.2 million compared to \$19.3 million over the same period in 2016. The second quarter spending was \$3.1 million higher than the first quarter which is to be expected as the linear infrastructure and work in open spaces started to get underway in the warmer months. Additionally, tender and request-for-proposal (RFP) documents are being prepared and assessed so that major reconstruction awards can be finalized with construction starting late Q2 and through Q3. At this point, staff do not foresee any significant variances from the estimated cash flow through the balance of 2017.

Open purchase orders were slightly less than Q1 by \$0.6 million which is somewhat unexpected given the construction season beginning and construction awards being tendered. This should increase significantly in Q3 with the Wilson Parkade project being awarded by Council. Staff will continue to monitor this balance and incorporate these findings in to the development of the 2018 Capital Budget.

Subsequent to the approval of the 2017 Capital Budget, additional capital funding was received for the following projects as of June 30:

|  |           |
|--|-----------|
| Sold Waste Equipment Replacement                   | \$506,200 |
| Insurance recovery from facility fire in 2016      |           |
| GPS Vehicle and Equipment Replacement              | \$40,900  |
| Proceeds of sale of vehicles                       |           |
| Groundwater Protection                             | \$90,600  |
| Contribution from GRCA                             |           |
| IT Fibre Data Network                              | \$500,000 |
| Partnership with Upper Grand District School Board |           |
| Fleet Vehicle and Equipment Replacement            | \$30,300  |
| Proceeds of sale of vehicles                       |           |

In July 2017, the Wilson Street Parkade and the LED Streetlight projects were approved and will be included in the Q3 Capital Variance Report.

### Work in progress

There are a number of reasons for the magnitude of the Work in Progress balance; recently approved projects that have not yet been awarded, projects delayed or projects which are currently under review for future requirements. Staff is actively working to assess these projects and implement strategies to support better debt and cash flow management. A new requirement approved as part of the Project Management Office body of work this quarter is to require cash flow projections for Tier-1 and Tier-2 projects starting in 2018 as part of the tender approval process to ensure finance has appropriate level of detail to maximize earnings on available

cash flow. Additionally as a focus for the 2018 capital budget development, departments have been required to do a detailed analysis of their work in process balance and reconcile this to their human resources capacity to deliver. The work of the Capital Asset Management team has also provided great assistance to departments in having tools available to make this process transparent and consistent across the Corporation.

Below are highlights, but not comprehensive summaries, of the various programs of work.

### **Active Transportation**

The active transportation program of work has had spending of \$1 million to date in 2017 mostly attributed to Transit terminal upgrades and equipment replacement.

Work in progress outstanding includes \$2.5 million for transit fare box upgrades, \$2.3 million for road allowance related projects, and \$2.3 million in trail projects.

Of note, the order for twenty new conventional transit buses to replace existing ones that have reached their end of life is in place with delivery expected in Q4 of this year. This accounts for the \$7.7 million of the \$9.7 million open purchase orders for this program of work.

### **Building Expansion, Renewal & Upgrades**

The higher spending this year relates to two of the City's current Tier-1 projects and significant facility renovations; high-level quarterly progress reports (Q2 2017) can be found in the Information Report, IDE-17-98, Tier-1 Projects Q2 2017 Status Update.

[http://guelph.ca/wp-content/uploads/info\\_items\\_072817.pdf#page=31](http://guelph.ca/wp-content/uploads/info_items_072817.pdf#page=31)

**Guelph Police Service (GPS) headquarters** renovation is progressing as planned and spending for 2017 to date totalled \$4.1 million. The project is tracking on budget, on schedule and within scope as of Q2 2017. Work on the west wing has reached the fourth floor, while the new entrance on the east wing is taking shape. Structural steel is nearing completion on the east wing as well.

**Victoria Road Recreation Centre (VRRC)** renovations are substantially complete and full occupancy has been achieved with the very successful grand re-opening event on Saturday, June 24, 2017. Spending in 2017 totalled \$4.5 million and the project is projecting to be within budget. Final invoices and significant deficiency work is on-going with the final project report expected in Q4 2017.

In addition to the major facility renovations, there has been spending of \$1.6 million on other building renewal and life cycle projects at various other City facilities including a new fire alarm system in the Sleeman Centre and East & West Parkades.

The work in progress balance remains significant at \$18.2 million of which \$6.0 million relates to later phases and contingency budgets for the GPS headquarters and VRRRC renovation projects. Additionally there is approximately \$6.3 million for Corporate building renewal and structural projects including \$1 million for the Civic Museum brick repointing expected to be tendered by Q4 2017, \$1.35 million for a new vehicle storage facility at Solid Waste to be tendered in Q1 2018 and \$350 thousand for parking lot upgrades at the Evergreen Centre to be tendered in Q4 2017. Finally there is \$3.9 million not yet awarded for the South End Community Centre (SECC) design. The Tier-1 project team and committee has been formed and the RFP materials are ready to be released for bids. It is expected that this work will be awarded in early October 2017.

## **Downtown Implementation**

**Wilson Street Reconstruction and Parkade** project hit a significant milestone in July 2017 as Council approved an expanded parkade structure with 496 parking spaces as well as awarded the design and build contract totaling \$20.4 million to The Newton Group. The amended budget for Phase 3 Wilson Street road reconstruction work and the Norfolk Pedestrian Bridge was also approved in July 2017 totalling \$1.45 million which will enable staff to move forward with completing all related Wilson Street projects in an efficient and connected manner. Phase 2 of Wilson Street, from Carden to MacDonnell, commenced construction in early July.

Council participated in a Downtown Planning Workshop in Q1 2017 with the goal of determining the sequencing and alignment of the various projects required to implement the Downtown Secondary Plan. In July 2017 Council approved the Baker District Redevelopment project as a priority program of work to further implement the Downtown Secondary Plan. The Business Development and Enterprise group will be issuing a Request for Proposal in Q3 to seek development proposals for the Baker Street site. This is all expected back to Council in Q1 2018.

Work in Progress – Total of \$19.2 million work in progress as at June 30, 2017 is resulting from two projects: \$5.1 million is approved but not yet committed for the purchase of the remaining parcels of land within the Baker Street area and \$14.2 million is approved but not yet committed for the Wilson Street Reconstruction and Parkade. The latter will be awarded and committed in the Q3 2017 report.

## **Full Corridor Reconstruction**

Significant progress continued on the **York trunk sewer Paisley-Clythe feeder main** (\$3,757,000 in spending), as work continued east from the Covered Bridge to the F.M Woods Pumping Station. The current phase is expected to be completed by October 2017 with the completion of reconstruction of Waterworks Place road and final infrastructure connections at Lyon Park and the F.M. Woods Pumping Station.

Work in Progress – Total of \$23.4 million as at June 30, 2017 as a result of a number of the following: normal timelines required to complete the tendering

process on significant construction projects; project delays due to land access and locate issues; tendering budget challenges. Outstanding tendering and awarding of major projects includes: Niska Bridge and Road \$3 million (expected 2018 tender), Metcalfe Street \$3.6 million (expected in Q3 2017), Woodlawn Road West \$2.5 million (expected later in 2017) and later phases of York Trunk Sewer/Paisley Feeder Main of \$12.95 million (expected tendering in early 2018).

## **IT Innovation**

Work to upgrade and re-implement the City's Work Management System, as well as Purchasing and Inventory systems continues, with the work of the Enterprise Asset Management team. Current project work is progressing through detailed product review, setup structure decisions, business process review and data migration planning. The new systems are expected to be installed and be ready for testing by 2018, with full implementation and roll-out expected in late 2018.

Total spending on IT innovation year-to-date for 2017 is \$1.9 million of which \$1.0 million is for network, hardware, software and server equipment replacement and renewal and \$0.9 million is for strategic information system improvement and replacement projects. A work in progress balance remains of \$3.4 million attributable to IT infrastructure replacement totalling \$2.0 million and IT strategic plan projects totalling \$1.4 million yet to be awarded.

## **Planning and Studies**

Year-to-date Q2 2017 spending totaled \$0.7 million; notable spending on the Geographic Information Systems (GIS) data modeling study, the Clair Maltby Secondary Plan, the Official Plan Review and the Urban Design Guideline.

The work in progress balance of \$6.5 million of which the most significant tenders outstanding include \$1.7 million for a later phase of the Clair Maltby Secondary Plan, \$860 thousand for the Transit Master Plan, \$856 thousand for Wastewater plans and studies, \$540 thousand for the zoning by-law review and \$430 thousand for level of service asset management work. There are also a number of other smaller valued master plans, studies and reviews that are yet to be started.

## **Vehicle and Equipment**

Year-to-date Q2 2017 spending totalled \$4.2 million; notable purchases in Q2 include: replacement of three winter control vehicles (\$426,122) and completion of the new Fire Pumper (\$824,578).

The work in progress balance of \$13.9 million is attributable to; \$5.6 million in fleet vehicle replacement, \$2.2 million for playground equipment expected to be tendered in August 2017, \$2.2 million of police vehicle and equipment replacement and \$1.5 million of solid waste equipment replacement.

## **Wastewater Plant and Equipment**

Work in Progress – Staff have recently completed a comprehensive review of all approved capital projects to determine the continued need for these projects and the magnitude of related budgets. This review has informed the 2018 Capital Budget and will also result in a number of historical capital projects being closed with budgeted funds returned to the capital reserve funds. The details of this reprioritization work will be brought forward to Council later this fall, after which this work in progress balance of \$29.6 million will be reduced substantially and will reflect only active capital projects. Staff are now working to obtain additional temporary project delivery resources that will focus on completing the reconfirmed priority 2017 projects. Furthermore, staff are considering an expansion position for the 2018 budget to support continued delivery of the capital program.

Tendering will be completed in Q3 for the Digester Gas Proofing and Structural Repairs project (\$1.7 million) and expressions of interest will be released in Q3 to update the business case for the Biosolids Facility upgrade (potential cost of \$13.6 million). The Wastewater Treatment Plant Phase 2 expansion is still being delayed pending Ministry feedback and has the potential for significant capital savings.

## **Water Services Plant and Equipment & Distribution Network**

To date, the Water Services Department has tendered and started to implement the following construction contracts contributing to the capital spending of \$2.8 million and awarded purchase orders of \$7.8 million.

- Burke Well treatment and pumping facility upgrades \$5.1 million (construction beginning in June 2017)
- Phase 3 of District Metered Area Construction \$2.1 million (construction started in April 2017)
- Speedvale Water Tower Repainting and Operational Upgrades \$1.1 million (construction started April 2017)
- F.M. Woods Pumping Station Valve Train Replacements \$300,000 (construction started in April 2017)
- F.M. Woods Pumping Station Transformer Upgrades \$110,000 (construction started in June 2017)

The work in progress balance of \$21.1 million includes projects to be tendered this fall for University, Emma and Water Street wells (valued at \$400,000); Helmer well facility upgrades (valued at \$210,000); Park Station upgrades (valued at \$200,000) and University well upgrades (valued at \$500,000). Additionally, land acquisition and construction costs to be incurred following completion of a Class Environmental Assessment for treatment and process upgrades at Clythe well are valued at \$6.9 million. Further, construction costs associated with the Woods Facility Upgrades will be incurred in 2018 due to continued scoping of this complex to address operational risks at this critical water supply facility (a planned expenditure of \$0.9 million in 2017). The remaining balance is a combination of budget available for the later phases of the Burke Well treatment and pumping

facility, groundwater protection, new supply and conservation & efficiency programs.

## Financial Implications

Ongoing monitoring of capital spending ensures that projects are delivered on schedule and as intended and that any financial issues that arise are dealt with in a proactive manner by Management and Council.

## Consultations

Corporate Management Team  
Corporate Asset Management Office

## Corporate Administrative Plan

### Overarching Goals

Service Excellence  
Financial Stability

### Service Area Operational Work Plans

Our Resources - A solid foundation for a growing city  
Our Services - Municipal services that make lives better

## Attachments

ATT-1 Capital Spending as of June 30, 2017

## Departmental Approval

None noted.

## Report Author

Greg Clark, Program Manager Capital Planning



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### Approved By

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## ATT-1 – Capital spending as of June 30, 2017

| Program of Work                           | 2017<br>Available<br>Funding | 2017<br>Actual<br>Spending | June 30,<br>2017<br>Balance | Open<br>Purchase<br>Orders | Work in<br>Progress |
|---|------------------------------|----------------------------|-----------------------------|----------------------------|---------------------|
| Active Transportation                     | 18,414,674                   | 1,034,579                  | 17,380,095                  | 9,701,327                  | 7,678,768           |
| Bridges & Structures                      | 4,890,293                    | 305,427                    | 4,584,866                   | 100,363                    | 4,484,503           |
| Building Expansion,<br>Renewal & Upgrades | 44,958,643                   | 10,288,869                 | 34,669,774                  | 16,451,344                 | 18,218,430          |
| Contaminated Sites                        | 3,298,409                    | 59,469                     | 3,238,940                   | 26,110                     | 3,212,830           |
| Downtown<br>Implementation                | 26,266,414                   | 953,251                    | 25,313,163                  | 6,057,741                  | 19,255,422          |
| Full Corridor<br>Reconstruction           | 38,482,238                   | 4,785,657                  | 33,696,581                  | 10,260,047                 | 23,436,534          |
| Hanlon Creek Business<br>Park             | 1,143,680                    | 113,874                    | 1,029,806                   | 273,124                    | 756,682             |
| IT Innovation                             | 6,873,708                    | 1,898,124                  | 4,975,584                   | 1,571,072                  | 3,404,512           |
| Outdoor Spaces                            | 7,241,723                    | 798,857                    | 6,442,866                   | 3,065,531                  | 3,377,336           |
| Planning & Studies                        | 8,170,272                    | 693,008                    | 7,477,264                   | 960,550                    | 6,516,714           |
| Road & Right of Way                       | 6,579,648                    | 257,085                    | 6,322,563                   | 2,926,101                  | 3,396,462           |
| Storm water                               | 8,144,048                    | 406,564                    | 7,737,484                   | 1,556,782                  | 6,180,702           |
| Vehicle & Equipment                       | 21,813,336                   | 4,152,487                  | 17,660,849                  | 3,773,789                  | 13,887,061          |
| Wastewater Collection                     | 4,940,579                    | 280,986                    | 4,659,593                   | 427,800                    | 4,231,793           |
| Wastewater Plant &<br>Equipment           | 30,453,406                   | 326,767                    | 30,126,639                  | 576,228                    | 29,550,411          |
| Water Distribution<br>Network             | 1,732,846                    | 375,715                    | 1,357,131                   | 139,494                    | 1,217,637           |
| Water Plant &<br>Equipment                | 30,024,383                   | 2,430,352                  | 27,594,031                  | 7,693,505                  | 19,900,526          |
| <b>Total</b>                              | <b>263,428,300</b>           | <b>29,161,071</b>          | <b>234,267,229</b>          | <b>65,560,907</b>          | <b>168,706,322</b>  |

# Staff Report



To **Committee of the Whole**

Service Area Corporate Services

Date Tuesday, September 5, 2017

Subject **2017 Q2 Operating Variance Report**

Report Number CS-2017-27

## Recommendation

1. That the report titled 2017 Q2 Operating Variance Report (CS-2017-27), and dated September 5, 2017, be received.
2. That a transfer of \$360,000 from the Tax Rate Operating Contingency Reserve for the projected Environmental Services (Solid Waste) variance due to organics processing be approved.
3. That a transfer of \$100,000 from the Insurance Reserve for lost recyclables revenue realized during early 2017 from the facility closure for equipment replacement resulting from the 2016 fire at the Material Recovery Facility be approved.

## Executive Summary

### Purpose of Report

The purpose of this report is to provide an in-year projection of the 2017 year-end position for the Tax Supported and Non-Tax Supported programs based on financial information as of June 30, 2017.

### Key Findings

Overall, a \$1,693,000 net favourable variance including reserve transfers is being projected for the City's Tax Supported Budget comprised of:

|                        |                      |              |
|------------------------|----------------------|--------------|
| City Departments       | \$107,000            | Unfavourable |
| Local & Outside Boards | <u>(\$1,800,000)</u> | Favourable   |
| Net Variance           | <u>(\$1,693,000)</u> | Favourable   |

The City's Non-Tax Supported programs are projecting a \$1,121,600 net favourable variance.

Attachment 1 provides a projected budget-to-actual variance by department.

Some notable variance drivers identified as contributing to budget variance are:

- a) Lower than anticipated revenues from Provincial Offences Act fines, sale of recyclable materials, ice rentals, ticket and cash fares and higher than anticipated stormwater revenue, and increased Transit advertising and student fares;
- b) A favourable year-end position is projected for compensation as a whole despite an increase in overtime and temporary wages;
- c) Environmental Services is projecting an increase in organics processing costs due to an increase in organics volume and unassociated unbudgeted expenses. An in-year reserve transfer from the Tax Rate Operating Contingency Reserve is recommended to offset the variance;
- d) A favourable year-end position is projected for County Social Services and Guelph Police Services; and
- e) An unfavourable year-end position is projected for Information Technology due to compliance requirements pertaining to the Payment Card Industry – Data Security Standard (PCI-DSS).

The Corporately identified variances are discussed along with the significantly impacted departments.

### **Financial Implications**

Any surplus or deficit will be transferred to or from the City's reserves at year-end in accordance with the Year-End Operating Surplus Allocation Policy.

## **Report**

### **2017 YEAR-END PROJECTED OPERATING VARIANCE**

Departments were provided financial reporting as of June 30, 2017. Current and projected expenditures and revenues were analyzed and related commentary was provided with Finance staff support.

As with any forecast, variance projections will become more accurate as the year unfolds. The chart below gives a high level indication of the current, projected 2017 year-end position.

## Summary of Projected Operating Variance for Dec 31, 2017

|   | Total Annual Budget for Year 2017 (\$) | Proposed Reserve Transfer | Projected Variance Including Reserve Transfer Dec 31, 2017 (\$) | Variance for Dec 31, 2017 (%) |
|---|--|---------------------------|---|-------------------------------|
| ***(Brackets indicate a favourable variance)    |  |                           |   |                               |
| <b>Tax Supported</b>                            |  |                           |   |                               |
| City Departments                                | \$119,567,987                          | \$(460,000)               | \$507,000   | 0.4%                          |
| General Revenues and Expenses                   | \$(198,532,080)                        | \$-                       | (\$400,000)   | (0.2%)                        |
| <b>Sub-Total City Departments and Financing</b> | <b>\$(78,964,093)</b>                  | <b>\$(460,000)</b>        | <b>\$107,000</b>  | <b>0.1%</b>                   |
| Local Boards                                    | \$49,358,109                           | \$                        | \$(200,000)   | (0.4%)                        |
| Grants, Outside Boards and Agencies             | \$29,605,984                           | \$                        | \$(1,600,000)   | (5.9%)                        |
| Total Local and Outside Boards                  | \$78,964,093                           | \$                        | \$(1,800,000)   | (2.3%)                        |
| <b>Total Tax Supported</b>                      | <b>\$</b>                              | <b>\$</b>                 | <b>\$(1,693,000)</b>  | <b>(0.8%)</b>                 |
| <b>Non Tax Supported Budgets</b>                |  |                           |   |                               |
| Water   | \$                                     | \$                        | \$(250,000)   | (0.9%)                        |
| Wastewater                                      | \$                                     | \$                        | \$(485,000)   | (1.6%)                        |
| OBC   | \$                                     | \$                        | \$(33,000)  | (1.1%)                        |
| Court Services                                  | \$                                     | \$                        | \$66,400  | 3.3%                          |
| Stormwater                                      | \$                                     | \$                        | \$(420,000)   | (10.0%)                       |
| <b>Total Non-Tax Supported</b>                  | <b>\$</b>                              | <b>\$</b>                 | <b>\$(1,121,600)</b>  |                               |

### Variance Drivers Overview

The identified drivers below were significant, resulting in variances in both the Non-Tax Supported and Tax Supported departments and the local boards.

#### 1. Revenues

Year-end unfavourable variances are projected for:

- o Solid Waste recyclable revenue is trending 25 per cent below forecast due to less tonnage sold during the first quarter as a result of the 2016 fire-related equipment and commissioning, as well as changing market conditions. A \$100,000 transfer from the Insurance Reserve has been included in the projection to offset this loss of revenue related to the fire. Staff are working

to optimize processing contracts and to improve recycling facility performance to mitigate this loss.

- o Lower ice, floor and daytime rentals mainly due to limited operating hours at the Victoria Road Recreation Centre during renovations, and a trend towards fewer bookings across the City-owned ice pads. Lower than anticipated Provincial Offences Act (POA) fine revenue due to lower charge volumes.
- o Lower than projected subdivision and site plan application activity is impacting revenue for Engineering and Capital Infrastructure Services and Planning, Open Space Planning, Urban Design, and Building Services.

Year-end favourable revenue variances are projected for:

- o Stormwater fees due to higher than anticipated actual impervious area measurements basis. Impervious area measurement units increased by 21,000 resulting in an additional \$600,000 in revenue. The City has been working with Guelph Hydro to ensure all billable units are added to the billing system, and this may result in more additional billable units.
- o Wastewater Agreement driven revenues related to pre-treated effluent are expected to be positive compared to budget due to an increase in volume.
- o Increased Transit advertising and student fare revenue mainly due to increase in student enrollment at University of Guelph and Conestoga College.
- o Increased parking ticket fine collection revenue for Court Services.

## 2. Fuel

The overall fuel variance across the Corporation is currently 4 per cent or \$200,000 below plan for Q2 which is slightly higher than what was projected in Q1, however due to unpredictability of fuel markets this could change over the remaining months.

Currently the diesel average price is 10 per cent below plan at \$0.91 compared to planned \$1.01 and the gasoline price at \$0.92 compared to plan \$0.99 or 8 per cent below plan. If the Q2 market prices hold, a favourable fuel variance is projected.

## 3. Compensation

Overall total salary, overtime and temporary wages are currently trending lower than budget by \$400,000 after salary gapping due to a lag in filling vacancies; Emergency Services and Transit are experiencing higher than budgeted overtime and temporary wage costs due to the critical nature of the 2 departments' operations.

In June 2017, the City received a significant WSIB claim due to the Presumptive Legislation pertaining to cancer in firefighters. This claim will be funded from the WSIB reserve. Staff is working on a long-term funding strategy to ensure the City can meet its obligations under the Presumptive

Legislation. This claim has not been reflected in the Q2 operating variance projection.

The October general minimum wage legislation change from \$11.40 to \$11.60 has minimal impact for City departments in 2017. The legislation will impact budgets in 2018 and 2019.

In addition to the variance drivers as explained above, the following departments are projecting year-end variances:

*Environmental Services* is projecting an unfavourable variance of \$600,000. This variance is due to processing costs for increased third-party tonnages rising above forecasted amounts at the Organics Waste Processing Facility, and reduced waste processing revenues at the Material Recovery Facility caused by equipment replacement and commissioning related to the 2016 fire. Staff are working to optimize existing processing contracts and improve overall organics and recycling facility performance to mitigate this unfavourable variance. More information on these variances and mitigations will be provided by staff through an information report to Council in September.

*Engineering Services* is projecting \$240,000 unfavourable variance due to lower than projected external recoveries and subdivision revenue. Council received a report on the development fee structure in June intended to address the systemic variance issues in Engineering and Capital Infrastructure Services and Planning, Urban Design, and Building Services. The proposed fee structure will be effective in 2018, and has no impact in the current fiscal year.

*Information Technology* is projecting an unfavourable variance of \$183,000 due to the PCI-DSS which is a regulatory measure designed to ensure that proper behaviour is employed by both staff and electronic systems when handling credit card data. This standard allows organizations to take credit card payments on behalf of financial institutions. If found to be non-compliant, organizations can lose the ability to process credit card payments and be served with monetary penalties. Finance and Information Technology have developed a strategy which will determine what business processes and technical changes need to occur in order to ensure regulatory compliance. This scoping exercise is nearing completion and, as a result, adjustments will be made in 2018 and beyond to build these costs into the budget. The negative variance associated with the PCI-DSS for 2017 relates to consulting costs to support development of an overall strategy to assist in managing the necessary business process changes at an organizational level. It also accounts for costs related to implementation and maintenance with respect to the City's network architecture and software services.

*Water Services* is projecting a favourable variance of \$250,000 due to fewer repairs and maintenance costs as a result of a light main break season earlier in the year. If main breaks increase in November/December of this year the variance could be impacted.

*Wastewater Services* is projecting a favourable variance of \$485,000 due to increased industrial wastewater agreement revenue, lower chemical uses, and fewer repairs and maintenance than forecast. Unexpected repairs or other process changes could impact this variance.

*Stormwater Services* is projecting a \$420,000 favourable variance due to an increase in impervious area billable units as discussed under revenues in number 1 above.

The County-delivered shared Social Services are currently projecting to be \$1,600,000 favourable. The year-end projected variance for the County provided services are based on the actual City portion of expenses for the first half of the year which were lower than anticipated. The County has not provided a projection or commentary for the variance at this time. If the caseload increases as the year progresses, the variance could fluctuate.

## **Risks**

Fluctuations with actual revenues and expenditures will continue for the remainder of the year until the actual financial results are determined at year end. The current financial projection based on June 30<sup>th</sup> actuals is indicating the City should be in a surplus position at year-end. Some key risks to the actual financial results include but are not limited to the following:

### a) Hydro

The City was notified via our colleagues at Guelph Hydro that the Province, as part of the Fair Hydro Plan, will be re-allocating the global adjustment charge to the Local Distribution Companies that is to be passed on to certain classifications of electricity users. The majority of the City facilities would be affected by this global adjustment and costs could escalate in the last half of the year. At this time, the impact to the City cannot be quantified but the charges are expected to begin in September-October 2017. The Provincial Fair Hydro Plan offered a cost reduction for some electricity users like residential and small businesses but other users like businesses and municipalities did not receive this same benefit and will bear a lot of the cost impact of the Provincial hydro strategies and programs. Staff will continue to monitor the financial impact of the Provincial hydro strategies and programs on City budgets.

To mitigate future variances and cost escalation, staff tabled a report to Council on transitioning to LED Street Lighting and has taken on other initiatives such as reclassification of the Wastewater Treatment Plant and installing LED lighting in St. George's Square.

b) Collective Bargaining

The Guelph Professional Firefighters' Association, Ontario Public Service Employee Union (OPSEU) Local 231 (Paramedics), and The Amalgamated Transit Union (ATU) Local 1189 Collective Agreements that expired on December 31, 2014, March 31, 2015, and June 30, 2017 respectively have not been ratified. The approved budget included a contingency for an anticipated economic increase; there is risk of negative variance if the final agreements are higher than the anticipated increases.

c) Local Boards

Guelph Police Services are currently anticipating \$200,000 favourable year-end variance, however if the severity of crime or level of crime increases it may impact overtime resulting in negative variance.

## **In-Year Reserve Allocation**

In accordance with City Council's approved General Reserve and Reserve Fund Policy, transfers from contingency reserves to address unanticipated fluctuations in expenditures shall be authorized by Council through approval of staff recommendations in periodic variance reports.

Environmental Services has experienced three consecutive years of unfavourable variances and each year they have implemented a number of mitigation measures to limit the negative impact on their operations. Systemic contract issues have been an ongoing challenge for Solid Waste Services. To allow the department to operate without significantly impacting service delivery, it is recommended that an in-year transfer from the Tax Rate Operating Contingency Reserve of \$360,000 be allocated to Environmental Services to offset the variance caused by increased organic waste processing costs resulting from the Region of Waterloo contract.

In addition, Solid Waste Services had a fire at the Materials Recovery Facility in 2016 which resulted in a shut down in January 2017 to replace equipment damaged in the fire causing lost revenue of \$100,000. It is recommended that a transfer of \$100,000 from the Insurance Reserve be made to offset the loss of revenue resulting from the fire. This is an appropriate use of the Insurance Reserve.

## **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 departments and the Finance Department.

Department Managers were provided financial reports based on their actual revenue and expenditures to June 30, 2017 with which they provided a projected year-end commentary in consultation with the Finance Department.

## Corporate Administrative Plan

Budget monitoring and variance reporting are aligned with the City's strategic objectives. Providing Committee and Council with quarterly variance reports specifically aid the achievement of the following Corporate Administrative Plan directions:

### Overarching Goals

Financial Stability  
Service Excellence

### Service Area Operational Work Plans

Our Services - Municipal services that make lives better  
Our Resources - A solid foundation for a growing city

### Overarching Goals

Financial Stability

## Attachments

ATT-1 Detailed Operating Variance Report

Report Author  
Ron Maeresera



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### Approved By

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### Recommended By

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**Attachment 1**

**Operating Budget Variance based on June 30, 2017**

| Department  | 2016 YE Variance    | Annual Budget 2017   | YTD Net Expenditures<br>June 30, 2017 (\$) | Projected Variance<br>Including Reserve<br>Transfer for Dec 31, 2017<br>(\$) | Projected Variance<br>for Dec 31, 2017<br>(%) |
|---|---------------------|----------------------|--|--|---|
| <b>TAX SUPPORTED</b>  |                     |                      |  |  |   |
| <b>CAO</b>  |                     |                      |  |  |   |
| MAYOR AND COUNCIL   | \$ (9,335)          | \$ 965,030           | \$ 470,726                                 | \$ -   |   |
| CAO ADMINISTRATION  | \$ (10,407)         | \$ 705,925           | \$ 254,152                                 | \$ -   | -   |
| INTERGOVERNMENTAL RELATIONS, POLICY<br>AND OPEN GOVERNMENT      | \$ (12,271)         | \$ 980,698           | \$ 484,138                                 | \$ -   | -   |
| LEGAL, REALTY AND RISK SERVICES                                 | \$ (122,167)        | \$ 1,890,685         | \$ 488,043                                 | \$ (6,000)   | -   |
| INTERNAL AUDIT  | \$ (10,793)         | \$ 222,650           | \$ 111,017                                 | \$ -   | -   |
| CORPORATE COMMUNICATIONS  | \$ (9,100)          | \$ 932,300           | \$ 240,657                                 | \$ (10,000)  | -   |
| <b>SUB-TOTAL CAO</b>  | <b>\$ (174,073)</b> | <b>\$ 5,697,288</b>  | <b>\$ 2,048,733</b>                        | <b>\$ (16,000)</b>   | <b>(0.3%)</b>                                 |
| <b>INFRASTRUCTURE, DEVELOPMENT &amp; ENTERPRISE</b>             |                     |                      |  |  |   |
| IDE ADMINISTRATION  | \$ 22,623           | \$ 222,150           | \$ 33,364                                  | \$ -   | -   |
| PLANNING & BUILDING SERVICES                                    | \$ (236,574)        | \$ 3,149,700         | \$ (113,186)                               | \$ (30,000)  | -   |
| FACILITIES MANAGEMENT   | \$ 107,371          | \$ 4,214,528         | \$ 1,727,860                               | \$ -   | -   |
| ENGINEERING SERVICES  | \$ 283,388          | \$ 1,592,064         | \$ 1,959,677                               | \$ 240,000   | -   |
| ENVIRONMENTAL SERVICES  | \$ 1,599,991        | \$ 10,886,080        | \$ 5,007,795                               | \$ 140,000   | -   |
| BUSINESS DEVELOPMENT & ENTERPRISE<br>SERVICES                   | \$ (49,296)         | \$ 1,518,782         | \$ 741,721                                 | \$ -   | -   |
| PROJECT MANAGEMENT OFFICE                                       | \$ 46,892           | \$ 510,575           | \$ 249,076                                 | \$ 30,000  | -   |
| <b>SUB-TOTAL INFRASTRUCTURE,<br/>DEVELOPMENT AND ENTERPRISE</b> | <b>\$ 1,774,396</b> | <b>\$ 22,093,879</b> | <b>\$ 9,606,306</b>                        | <b>\$ 380,000</b>  | <b>1.7%</b>                                   |
| <b>PUBLIC SERVICES</b>  |                     |                      |  |  |   |
| PS ADMINISTRATION   | \$ 27,999           | \$ 503,900           | \$ 240,749                                 | \$ -   | -   |
| PARKS & RECREATION SERVICES                                     | \$ 439,221          | \$ 11,740,094        | \$ 5,544,223                               | \$ 209,000   | -   |
| CULTURE, TOURISM & COMMUNITY<br>INVESTMENT                      | \$ 1,024,204        | \$ 6,997,768         | \$ 4,543,601                               | \$ -   | -   |
| TRANSIT   | \$ (229,403)        | \$ 17,104,850        | \$ 9,207,177                               | \$ -   | -   |
| OPERATIONS  | \$ (153,899)        | \$ 14,512,189        | \$ 6,592,990                               | \$ (140,000)   | -   |
| EMERGENCY SERVICES  | \$ (255,700)        | \$ 29,494,097        | \$ 15,048,570                              | \$ (109,000)   | -   |
| <b>SUB-TOTAL PUBLIC SERVICES</b>                                | <b>\$ 852,422</b>   | <b>\$ 80,352,898</b> | <b>\$ 41,177,309</b>                       | <b>\$ (40,000)</b>   | <b>(0.0%)</b>                                 |

| Department  | 2016 YE Variance      | Annual Budget 2017      | YTD Net Expenditures<br>June 30, 2017 (\$) | Projected Variance<br>Including Reserve<br>Transfer for Dec 31, 2017<br>(\$) | Projected Variance<br>for Dec 31, 2017<br>(%) |
|---|-----------------------|-------------------------|--|--|---|
| <b>CORPORATE SERVICES</b>   |                       |                         |  |  |   |
| CS ADMINISTRATION   | \$ 5,494              | \$ 360,200              | \$ 155,051                                 | \$ -   | -   |
| HUMAN RESOURCES   | \$ 44,690             | \$ 2,545,525            | \$ 1,068,620                               | \$ -   | -   |
| INFORMATION TECHNOLOGY  | \$ (77,980)           | \$ 4,699,742            | \$ 2,047,969                               | \$ 183,000   | -   |
| CITY CLERK'S OFFICE   | \$ (17,638)           | \$ 1,561,500            | \$ 726,509                                 | \$ -   | -   |
| FINANCE   | \$ (464,633)          | \$ 2,256,955            | \$ 492,785                                 | \$ -   | -   |
| <b>SUB-TOTAL CORPORATE SERVICES</b>                                 | <b>\$ (510,067)</b>   | <b>\$ 11,423,922</b>    | <b>\$ 4,490,935</b>                        | <b>\$ 183,000</b>  | <b>1.6%</b>                                   |
| <b>TOTAL CITY DEPARTMENTS (excl<br/>Financing)</b>                  | <b>\$ 1,942,677</b>   | <b>\$ 119,567,987</b>   | <b>\$ 57,323,284</b>                       | <b>\$ 507,000</b>  | <b>0.42%</b>                                  |
| <b>GENERAL AND CAPITAL FINANCING</b>                                | <b>\$ 411,187</b>     | <b>\$ (198,532,080)</b> | <b>\$ (199,938,656)</b>                    | <b>\$ (400,000)</b>  | <b>0.2%</b>                                   |
| <b>TOTAL CITY DEPARTMENTS (incl<br/>Financing)</b>                  | <b>\$ 2,353,864</b>   | <b>\$ (78,964,093)</b>  | <b>\$ (142,615,373)</b>                    | <b>\$ 107,000</b>  | <b>0.14%</b>                                  |
| <b>LOCAL BOARDS</b>   |                       |                         |  |  |   |
| POLICE  | \$ (392,393)          | \$ 39,048,200           | \$ 18,631,683                              | \$ (200,000)   | -   |
| LIBRARY   | \$ 43,317             | \$ 8,820,900            | \$ 4,609,888                               | \$ -   | -   |
| THE ELLIOTT LONG TERM CARE  | \$ (20,000)           | \$ 1,489,009            | \$ 1,116,757                               | \$ -   | -   |
| <b>SUB-TOTAL LOCAL BOARDS</b>                                       | <b>\$ (369,077)</b>   | <b>\$ 49,358,109</b>    | <b>\$ 24,358,328</b>                       | <b>\$ (200,000)</b>  | <b>(0.4%)</b>                                 |
| <b>OUTSIDE BOARDS &amp; AGENCIES</b>                                |                       |                         |  |  |   |
| WELLINGTON DUFFERIN GUELPH PUBLIC HEALTH                            | \$ 54,813             | \$ 3,756,284            | \$ 2,670,148                               | \$ -   | -   |
| SOCIAL ASSISTANCE   | \$ (2,029,900)        | \$ 23,412,000           | \$ 13,692,407                              | \$ (1,600,000)   | -   |
| <b>SUB-TOTAL OUTSIDE BOARDS &amp; AGENCIES</b>                      | <b>\$ (1,975,087)</b> | <b>\$ 27,168,284</b>    | <b>\$ 16,362,555</b>                       | <b>\$ (1,600,000)</b>  | <b>(5.9%)</b>                                 |
| <b>GRANTS</b>   |                       |                         |  |  |   |
| GRANTS - SPECIAL PROJECTS   | \$ (9,700)            | \$ 2,437,700            | \$ 2,000                                   | \$ -   | 0.0%  |
| <b>Subtotal Grants, Local and Outside Boards<br/>&amp; Agencies</b> | <b>\$ (2,353,864)</b> | <b>\$ 78,964,093</b>    | <b>\$ 40,722,883</b>                       | <b>\$ (1,800,000)</b>  | <b>(2.3%)</b>                                 |
| <b>TOTAL TAX SUPPORTED</b>  | <b>\$ (0)</b>         | <b>\$ -</b>             | <b>\$ (101,892,490)</b>                    | <b>\$ (1,693,000)</b>  | <b>(0.8%)</b>                                 |

| Department                     | 2016 YE Variance | Annual Budget 2017 | YTD Net Expenditures<br>June 30, 2017 (\$) | Projected Variance<br>Including Reserve<br>Transfer for Dec 31, 2017<br>(\$) | Projected Variance<br>for Dec 31, 2017<br>(%) |
|--------------------------------|------------------|--------------------|--|--|---|
| <b>NON TAX SUPPORTED</b>       |                  |                    |  |  |   |
| WATER SERVICES                 | \$ 0             | \$ -               | \$ 6,996,975                               | \$ (250,000)   | (0.9%)  |
| WASTEWATER SERVICES            | \$ -             | \$ -               | \$ 7,013,003                               | \$ (485,000)   | (1.6%)  |
| ONTARIO BUILDING CODE          | \$ 0             | \$ -               | \$ 912,635                                 | \$ (33,000)  | (1.1%)  |
| COURT SERVICES                 | \$ 0             | \$ 0               | \$ 421,607                                 | \$ 66,400  | 3.3%  |
| STORMWATER SERVICES            | \$ 0             | \$ -               | \$ 1,035,298                               | \$ (420,000)   | (10.0%)                                       |
| <b>TOTAL Non Tax Supported</b> | <b>\$ 0</b>      | <b>\$ 0</b>        | <b>\$ 16,379,519</b>                       | <b>\$ (1,121,600)</b>  |   |

# Staff Report



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To **Committee of the Whole**

Service Area Office of the Chief Administrative Officer

Date Tuesday, September 5, 2017

Subject **Driver Certification Program Compliance Audit**

Report Number CAO-A-1706

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## Recommendation

1. That the report CAO-A-1706, "Driver Certification Program Compliance Audit" dated September 5, 2017 be received.

## Executive Summary

### Purpose of Report

To provide Committee of the Whole with the results of the Driver Certification Program compliance audit performed at Guelph Transit in accordance with the Ministry of Transportation requirements.

### Key Findings

- Based on the results of the audit the City of Guelph as the Recognized Authority is in compliance with the Ministry of Transportation Driver Certification Program requirements.

### Financial Implications

N/A

## Report

Guelph Transit Services has been designated by the Ministry of Transportation Ontario (MTO) as a Recognized Authority (RA) under the provincial Driver Certification Program. Under this authority; Guelph Transit Services provides program related training and testing to employees for the purpose of upgrading or renewing applicable classified licenses for the City of Guelph including classes B and Z. Each RA must appoint an individual employee to be the Recognized Authority

Official (RAO) who is directly responsible for effectively delivering the Driver Certification Program (DCP). The current RAO for the City of Guelph is the General Manager, Guelph Transit. The Signing Authority (SA) is the Ministry approved trainer and tester who delivers the program. Guelph Transit has one approved Signing Authority and one who has been nominated for approval.

In 2014 MTO implemented a process to ensure that all Recognized Authorities are in compliance with ministry requirements by delegating the authority to conduct an annual audit on their behalf. Internal Audit meets the criteria to conduct DCP audits on behalf of MTO. The first DCP audit conducted by Internal Audit was in 2014.

The objective of the audit was to assess whether management has processes in place which ensure that they are in compliance with Ministry requirements.

Based on the results of this audit, the City of Guelph as the Recognized Authority is in compliance with the MTO Driver Certification Program.

## **Financial Implications**

N/A

## **Consultations**

Discussed findings with Public Services management.

## **Corporate Administrative Plan**

### **Overarching Goals**

Service Excellence

### **Service Area Operational Work Plans**

Our Services - Municipal services that make lives better



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### **Report Author and Approved By**

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# Staff Report



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To **Committee of the Whole**

Service Area Office of the Chief Administrative Officer

Date Tuesday, September 5, 2017

Subject **Internal Audit Work Plan Update - 2017**

Report Number CAO-A-1707

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## Recommendation

1. That staff bring forward an expansion package for Council's consideration during the 2018 budget deliberations for the hiring of one full-time internal auditor.

## Executive Summary

### Purpose of Report

To provide the Committee of the Whole an update on the progress of the 2017 Internal Audit Work Plan.

### Key Findings

- The Council approved 2017 Internal Audit work plan included eight projects of which four have been completed to date;
- A follow-up audit was added to the work plan and completed in June 2017;
- During the second quarter of 2017, a part time auditor was hired for the year to assist in completing projects on the work plan.
- Remaining projects will be either started or completed in 2017 with the exception of one project which will be deferred to 2018.

### Financial Implications

The part time auditor resource hired to assist in completing the 2017 work plan projects is being funded from Internal Audit's consulting budget and the CAO contingency account.

## Report

The Work Plan was developed taking into consideration the risk assessment results conducted by Internal Audit, feedback from management and Council, previous audit results, other identified issues/trends and resources available to complete activities. The Plan has been developed in compliance with the City of Guelph's Internal Audit Charter.

The Work plan was approved by Council December 2016.

Internal Audit is focused on performing an objective assessment of evidence to provide an independent opinion in regard to the effectiveness, efficiency and economy of a process, system or program in order to assist management in achieving their business objectives and goals.

The results of each audit are communicated to management and the Committee of the Whole to assist in carrying out their governance responsibilities.

The approved work plan consists of six operational and one compliance audit projects. In addition, the Plan includes a report to update Committee on management's implementation status of recommendations that have been previously agreed upon by staff.

The International Standards for the Professional Practice of Internal Auditing and the Internal Audit Charter requires the Committee of the Whole to receive an update on the progress of activities against the approved Work Plan.

During the second quarter of 2017, a resource was hired part time to assist with internal audit activities for the remainder of the year. This is funded through Internal Audit's consulting budget and the CAO contingency account. In order to provide adequate audit coverage in future years an additional full time internal auditor is required to assist in completing audit projects identified on the risk-based annual Internal Audit work plan.

As of July 31, 2017 three operational audits have been completed and presented to Council and one compliance audit completed (attachment 1). Internal Audit is currently performing the Payroll Process Audit.

During the year Internal Audit developed, formalized and implemented a follow up audit process to monitor and track the implementation of previously agreed upon recommendations by management. As part of this process Internal Audit added to the work plan a follow up audit for the Legal Representation review. This project was completed June 2017.

Based on the resources available and the projects remaining to be completed it is anticipated that all projects will be in progress or completed this year with the exception of the Contract Management audit which will be deferred to 2018.

## **Conclusion:**

The 2017 work plan will continue to be reviewed during the year and updated if necessary. Any additional projects added to the Plan will be identified as a 'special project' and communicated during the year to the Committee of the Whole. The Plan is designed to add value to the City and provide the highest standard of professional, quality and timely solutions in partnership with City departments.

## **Financial Implications**

The part time auditor resource hired to assist in completing the 2017 work plan projects is being funded from Internal Audit's consulting budget and the CAO contingency account.

## **Corporate Administrative Plan**

### **Overarching Goals**

Service Excellence

### **Service Area Operational Work Plans**

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## **Attachment**

ATT-1      Attachment 1 - Internal Audit Work Plan 2017 Update



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### Internal Audit Work Plan 2017 Update

| <b>Name of Audit/Project</b>  | <b>Type of Audit</b> | <b>Status as of July 31, 2017</b> |
|---|----------------------|-----------------------------------|
| <b>Vendor/Payment Process Audit</b> (commenced in 2016)<br><i>To assess the effectiveness and efficiency of the processes and compliance to policies, procedures and legislation.</i>   | Operational          | Completed                         |
| <b>Single Sourced Purchases</b> (deferred from 2016)<br><i>To assess the effectiveness and efficiency of the processes and compliance to policies, procedures, legislation and By Laws</i>  | Operational          | Not Started                       |
| <b>Fuel Security and Systems Audit</b> (commenced in 2016)<br><i>To assess the effectiveness and efficiency of the processes and compliance to policies, procedures, legislation, etc.</i>  | Operational          | Completed                         |
| <b>Guelph Public Library Audit</b> (commenced in 2016)<br><i>To assess the efficiency and effectiveness of operations in place at the Guelph Public Library to deliver services, adequacy of Board governance and the reasonableness of the cost of service delivery.</i> | Operational          | Completed                         |
| <b>Driver Certification Program Compliance Annual Audit</b><br><i>To assess compliance to the Ministry of Transportation criteria</i>   | Compliance           | Completed                         |
| <b>Payroll Process Audit</b><br><i>To assess the effectiveness and efficiency of the processes and compliance to policies, procedures, legislation, etc.</i>  | Operational          | In Progress                       |
| <b>Contract Management Audit</b><br><i>For a selected construction project assess the effectiveness and efficiency of the processes and compliance to policies, procedures, legislation, etc.</i>   | Operational          | Not Started                       |
| <b>Legal Representation Follow Up Audit – Special Project</b><br><i>To verify the previously agreed upon recommendations were implemented effectively.</i>  | Follow Up            | Completed                         |
| <b>Status Report on Outstanding Audit Recommendations</b><br><i>Provides an update to Council on management's implementation status of recommendations agreed upon by staff.</i>  | N/A                  | Not Started                       |