

# Information Report

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| Service Area | Corporate Services                                 |
| Date         | Friday, May 19, 2023                               |
| Subject      | <b>First Quarter 2023 Budget Monitoring Report</b> |

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## Executive Summary

### Purpose of Report

The purpose of this report is to provide Council notice of any financial risks that could affect the 2023 year-end position. This report will include the first quarter (Q1) actual financial information for both the operating and capital budget for each of the strategic plan priority areas, as of March 31, 2023.

### Key Findings

Overall, from an operating perspective, the City is managing within the approved budget. Inflationary challenges and limited actual experience early in the year limit the ability to project a full year-end operating position. Staff will continue to focus on service delivery and expense management to ensure the City remains in a stable financial position.

From a capital perspective as outlined in Attachment-1, the City has spent a total of \$15.2 million in the Q1 which was a \$4.5 million increase compared to Q1 2022. Purchase order (PO) commitments on March 31, 2023 were \$95.3 million (\$3.1 million less than Q1 2022). The uncommitted approved budget on March 31, 2023 was \$470.4 million. As staff prepare and award tenders for the upcoming construction season including several large projects such as South End Community Centre (SECC), F.M. Woods Station Upgrade and Baker District, 2023 will see significant increases in PO commitments and spending over previous years.

Changes from the approved capital budget are outlined in Attachment-2 including one reallocation greater than \$500 thousand (Table 4).

### Strategic Plan Alignment

Reporting quarterly on the financial status of the operating and capital budget supports the Strategic Plan's Working together for our Future pillar by maintaining a fiscally responsible local government. Monitoring the financial status of the City is directly linked to the City's Credit rating as Standard and Poor reviews and updates the credit rating annually. In 2022 the City received a AAA credit rating which is the highest rating available.

### Financial Implications

Staff will continue to monitor the impact of risks and opportunities identified in this report to protect the City's long-term sustainability. The City has financially healthy

contingency reserves to help mitigate any negative financial impacts should an overall City deficit materialize.

The year-end operating position is important in determining the City's overall fitness as assessed by an external credit rating agency. This credit rating affects the price at which the City can issue debt and therefore impacts the affordability of long-term capital projects for the City tax and rate payers.

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## **Report**

### **Details**

City departments were provided financial information as of March 31, 2023. Actual expenditures and revenues were analyzed and related commentary on potential significant deviations from the budget that are expected to have an impact on the year-end financial position were identified with Finance staff support. Departments have identified some positive trends, challenges, risks, and concerns based on all known and available information at the time of this report.

### **Corporate Variance Drivers**

The variance drivers identified below are not currently quantifiable, and due to seasonality, timing and unknown market forces or events beyond the control of the City; certain expenses and revenues may not be realized until the latter part of the year.

#### **1. Fuel Costs**

Fuel costs continue to trend higher than budget in 2023 as budget adjustments were not made during the 2023 budget confirmation as any deficit would be managed through overall surplus and be backstopped by the Environment and Utility Reserve (198). In Q1 the average fuel price per litre is 32 per cent higher than budget or \$1.7 million. Staff will continue to monitor both usage and cost and refine expenditure projections in the second quarter (Q2).

#### **2. Utility Costs**

Overall year-to-date energy and water expenditures are trending approximately 3 per cent below budget. This is based on historical consumption and expenditure trends. Staff will continue to monitor the energy market, provincial strategies and programs, and will refine expenditure projections in Q2.

#### **3. Compensation and Benefit Costs**

Overall, for compensation and benefit costs, the City has experienced savings in Q1 and is currently trending at 2.5 per cent below budget. It is not unknown at present if this trend will continue as staff vacancy and recruitment challenges have seen some relief and the delays appear to be related more to timing and less to the external market. OMERS eligibility resulting from the plan change that was effective January 1, 2023, has seen an increase in non-full-time enrolment of approximately 45 per cent or \$130 thousand in Q1. There is a risk of increased compensation costs towards the fourth quarter (Q4) as the Provincial Government has committed to increasing minimum wage rates to \$16.55 on October 1, 2023, which is an increase of \$1.05 per hour. The change

may have an impact on some of the City's hourly wage employees who are currently above the minimum wage due to compression issues. Paramedics and Fire Services groups are in collective bargaining negotiations that may also have future budgetary impacts.

#### 4. Inflationary Impacts

Inflationary trends identified in the [2023 budget confirmation](#) continue to impact City departments and are expected to continue through to year-end. Key areas experiencing increased costs are medical supplies, haulage and organics processing, chemicals, and maintenance related to water and wastewater services. Preliminary estimates for inflationary impacts including fuel are approximately 0.7 per cent of the gross operating budget. Staff will continue to monitor and are still confident the mitigation measures of leveraging temporary operating savings from the tight labour markets and increased investment returns will offset the inflationary impacts being seen.

### **Powering our future**

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

From an operating budget perspective there are no known risks to report that will affect the operating results outside of the Corporate Variance Drivers identified above.

There are two capital projects within this priority, the citywide fibre-optic network (IT0061), and the Hanlon Creek Business Park (SS0002). Capital spending in Q1 within this priority was \$240 thousand with another \$1.5 million in PO commitments as of March 31, 2023. Remaining to be executed is \$5.2 million of the budget with \$4.5 million of that related to IT0061 Fibre Data Connection.

Work on the fibre-optic network (IT0061) continues in 2023 on the remainder of Ring 1 (east and northward from City Hall) as well as starting in targeted areas within Ring 3 (south of City Hall) to the south.

An information report is planned for Q2 of 2023 on the (SS0002) Hanlon Creek Business Park and will provide an update on the on-going process to sell Phase 3, which will replenish the Industrial Land Reserve (332) once completed.

### **Sustaining our future**

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

In addition to the Corporate Variance drivers above, Planning and Building have indicated Planning fees are at risk to be under budget due to the implementation of Bill 109 along with uncertainty in the industry around development applications. A pause in the volume of applications the City receives has been seen in Q1 because of the uncertainty of changing legislation and the instability this causes. Revenue shortfalls may be partially offset by compensation savings as it continues to be very challenging to recruit and retain planning staff. City staff will continue to monitor

the impacts of Bill 109 and specifically the refunds for Site Plan fees outlined in the legislation with a potential for refunds commencing July 1.

Capital spending in Q1 within this priority was \$5.9 million with another \$44.5 million in PO commitments as of March 31, 2023. Remaining to be executed is \$172.1 million of the budget.

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

- (PN0097) Speedvale Road Reconstruction – Woolwich Street to Metcalfe Street (\$7.7 million) – PO for construction work has been issued and work has begun. Construction work includes the replacement of the existing watermain, new truck watermain, sanitary sewer, storm sewer, curb and gutter, sidewalk, multi-use path, bike signals, railway signals and gates, driveway ramps, and roadway.
- (ST0009) Plant Energy Efficiency Management (\$4.1 million) - construction work is in progress related to the upgrade of process aeration blowers, aeration control systems, and supporting electrical, mechanical, and Supervisory Control and Data Acquisition (SCADA)/communication infrastructure at the Water Resource Recovery Centre (formally known as the Wastewater Treatment Plant). This work will reduce the energy footprint and operational costs while upgrading aging end-of-life assets to improve operational flexibility, add redundancy, and future growth capacity.
- (WT0011) Paisley Pump Upgrades (\$2.9 million) - construction work is in progress for upgrades and improvements to end-of-life equipment and to increase pumping capacity for future growth.

Projects that have the largest uncommitted balances include the following:

- (WT0064) F.M. Woods Station Upgrade (\$30.9 million) – the construction tender closes in May for the booster pumping station replacement.
- (PN0026) Baker Street – Quebec Street to Woolwich Street (\$10.1 million) – the construction tender closed in April.
- (ST0003) Biosolids Facility Upgrade (\$8.1 million) – multi-year/pooled account linked to the implementation of the [Wastewater Master Plan](#).

Projects identified as completed in Q1 include the following:

- (GG0264) Natural Capital Asset Valuation is now complete with an inventory of natural assets including valuation and identification of associated risks to or as a result of the natural asset.
- (WT0026) Zone 2E Elevated Tank involved an environmental assessment to determine the type of water storage required in Zone 2 however after additional modeling it was determined that no elevated storage is needed in Zone 2 and also led to recommendations for Clythe booster pumping station. As a result, this project was completed under budget with \$138 thousand in savings.

## **Navigating our future**

The [Navigating our future](#) priority includes Transportation Services, Parking Services, and Guelph Transit.

Guelph Transit continues to re-build ridership to pre-pandemic levels. Current trends show a reduction in ridership of approximately 10 to 15 per cent from pre-pandemic levels. In addition, Upass revenue was budgeted for Conestoga College

and this agreement with the College did not come to fruition. Staff continues to explore other opportunities with the College, especially in light of the recent announcement regarding the downtown Conestoga campus. Revenue shortfalls will be partially offset by savings related to the timing of the year-two implementation of the Future Ready plan.

Parking Services revenue is trending nine per cent below budget due to lower permit sales and lower transient revenue. If current trends continue, Parking will experience a negative variance at year-end. As part of the 2022 year-end report, utilizing Safe Restart grant funding to offset 2022 parking revenue deficits enabled \$133 thousand to be available in the Parking Operating Contingency Reserve (106) that can be accessed if required for 2023. The Downtown Parking Master Plan study is underway, and the updated Masterplan is scheduled to be presented to Committee of the Whole on September 6, 2023.

Capital spending in Q1 within this priority was \$2.2 million with another \$24.8 million in PO commitments as of March 31, 2023. Remaining to be executed is \$65.0 million of the budget.

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

- (PN0271) York Road Phase 3 Reconstruction – Stevenson Street South to Victoria Road South (\$11.4 million) - construction work is tendered and awarded and is expected to begin in Q2 2023 and wrap up by Q3 2024.
- (TC0070) Bus Electrification – Replacement, Investing in Canada Infrastructure Program (ICIP) (\$7.0 million) – three electric buses are on order to replace existing buses with anticipated delivery in Q1 2024.
- (RB0010) Norfolk St. Rail Bridge Rehabilitation (\$2.1 million) – Rehabilitation and improvements to support the Metrolinx GO Train network are complete – the project is being managed by Metrolinx, final accounting is still outstanding.

Projects that have the largest uncommitted balances include the following:

- (TC0070) Bus Electrification – Replacement ICIP (\$11.0 million) – majority of assets out for tender.
- (TC0059) Transit Operations Facility ICIP (\$6.6 million) - multi-year project with ICIP funding and early site readying work is in progress and on budget (for additional information see [2023-17 - Operations Facilities Long-Term Plan Update](#)).
- (TC0078) Transit Vehicle Growth (\$5.5 million) - four electric buses are on order with anticipated delivery in Q1 2024.

Projects identified as completed in Q1 include the following:

- (TM0008) Mobility Van – Expansion – purchased one mobility van.
- (BR0001) Edinburgh Road Structure Rehabilitation – predesign is complete and detailed design and construction will be budgeted through the 2024-2027 budget.

## **Working together for our future**

The [Working together for our future](#) priority includes many of the internal facing services including Finance, Corporate Fleet, Human Resources, Legal, Realty and

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

In addition to the Corporate Variance Drivers reported above, investment income continues to trend higher than budget due to higher short-term interest rates. The Bank of Canada rates remain unchanged through Q1. Assessment appeal adjustments are expected to be below budget resulting in a surplus due to the provincial decision to further delay the tax reassessment cycle.

Capital spending in Q1 within this priority was \$436 thousand with another \$1.7 million in PO commitments as of March 31, 2023. Remaining to be executed is \$10.6 million of the budget.

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

- (IT0064) Property Tax Billing Software Replacement (\$412 thousand) – the first phase of the new system was implemented and will be monitored through 2023 for any final modifications. Currently, phase two is underway with the expected launch of a citizen portal in mid-2023.
- (IT0081) PC Replacement (\$402 thousand) – lifecycle replacements are currently in progress with expected completion by year-end 2023.
- (IT0083) IT Infrastructure Lifecycle (\$259 thousand) – currently in progress with expected completion by year-end 2023.

Projects that have the largest uncommitted balances include the following:

- (IT0111) Utility Billing Software (\$2.1 million) – workplan is expected to be completed in 2023 and implementation will extend into 2024.
- (CS0004) Court Services Facility Renewal (\$1.1 million) – upcoming work includes pre-qualification of general contractors for the heritage masonry and wood window restoration work.
- (IT0063) Corporate Point of Sale Software Replacement (\$665 thousand) – project has been deferred to align with broader corporate strategies related to customer service. Revised timing will be determined through work planning for the 2024-2027 multi-year budget.

## **Building our future**

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

In addition to the Corporate Variance Drivers identified above the City has budgeted \$2.1 million less than the County of Wellington's estimate for City funding in 2023 for Social Services. As part of the 2023 budget staff recommended managing the deficit within the overall City budget in 2023, backstopped by contingency reserves. Q2 budget monitoring report will provide an updated projection for year-end.

Capital spending in Q1 within this priority was \$6.4 million with another \$22.8 million in PO commitments as of March 31, 2023. Remaining to be executed is \$217.5 million of the budget.

Baker District (including the library, open space, and parking) and SECC account for over 74 per cent of the remaining budget to be executed in this priority. See the [City's capital projects webpage](#) for quarterly updates on these and other Tier 1 capital projects.

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

- (FS0089) HFV Replacement Pumper/Aerial (\$1.8 million) – replacement aerial apparatus fire truck has been ordered.
- (PN2439) Corporate Maintenance Management System (CMMS) Implementation (\$1.7 million) – implementation of the replacement of the existing work order management and procurement systems is underway with change management training on-going to support successful adoption and hardware to support the data system storage has been purchased and additional temporary staff resources have been obtained.
- (GG0245) Administration Facilities Renewal (\$1.5 million) – Citywide renewal of corporate buildings such as exterior building work at the Courthouse, Annex and Gatehouse, demolition of the former Humane Society Shelter and future space planning at City Hall.

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

- (PN2439) CMMS Implementation (\$8.5 million) - once fully implemented the new maintenance management system will become the asset management system of record and will integrate with the City's financial system. Upgrades to procurement processes and continued change management will round out the implementation.
- (PK0075) Downtown Pedestrian Bridge New Design and Construction (\$5.9 million) – tender for construction has been released.
- (GG0245) Administration Facilities Renewal (\$5.2 million) – work planned in 2023 includes corporate space planning, building condition assessments and projects at Eastview Road, City Hall, Youth Shelter, and the Lawn Bowling Club.

Projects identified as completed in Q1 include the following:

- (PO0046) Tree Planting Initiative – planted approximately 1,000 trees.

## **Financial Implications**

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

Staff will continue to monitor the impact of risks and opportunities identified in this report to protect the City's long-term sustainability. The City has financially healthy contingency reserves to help mitigate any negative financial impacts should an overall City deficit materialize.

The year-end operating position is important in determining the City's overall fitness as assessed by an external credit rating agency. This credit rating affects the price in which the City can issue debt and therefore impacts the affordability of long-term capital projects for the City tax and rate payers.

## **Consultations**

Departments are responsible for managing their programs according to municipal standards and within the approved budget. The responsibility of monitoring the operating budget is shared by the operating departments and the Finance department. Department General Managers were provided financial reports based on their actual operating revenue and expenditures to March 31, 2023, on which they provided commentary in consultation with the Finance department.

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

Department General Managers and Project Managers were provided financial reports based on their actual capital expenditures and commitments to March 31, 2023, with which they provided a progress status and financial forecast update at the project level and the best available information at a point in time. Future updates are subject to change based on the economic environment, especially the rate of inflation.

## **Attachments**

Attachment-1: Q1 2023 Capital Spending

Attachment-2: Q1 2023 Capital Budget Adjustments

## **Departmental Approval**

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**Attachment-1: Q1 2023 Capital Spending** (all values are in thousands of dollars)

| <b>Budget by Pillar</b>                   | <b>Powering our future</b> | <b>Sustaining our future</b> | <b>Navigating our future</b> | <b>Working together for our future</b> | <b>Building our future</b> | <b>Total Year to Date</b> |
|---|----------------------------|------------------------------|------------------------------|--|----------------------------|---------------------------|
| 2022 carry-over budget                    | 7,032                      | 173,031                      | 62,838                       | 5,684                                  | 209,340                    | 457,925                   |
| 2023 capital budget, approved             | 0                          | 52,280                       | 26,504                       | 6,998                                  | 37,374                     | 123,156                   |
| 2023 additional approved funding          | 0                          | (2,829)                      | 2,709                        | 0                                      | 25                         | (95)                      |
| <b>Available capital funding for 2023</b> | <b>7,032</b>               | <b>222,482</b>               | <b>92,051</b>                | <b>12,682</b>                          | <b>246,739</b>             | <b>580,986</b>            |
| 2023 capital spending                     | 240                        | 5,919                        | 2,221                        | 436                                    | 6,415                      | 15,231                    |
| Open purchase orders (PO)                 | 1,545                      | 44,461                       | 24,799                       | 1,678                                  | 22,832                     | 95,315                    |
| <b>Total spending and commitments</b>     | <b>1,785</b>               | <b>50,380</b>                | <b>27,020</b>                | <b>2,114</b>                           | <b>29,247</b>              | <b>110,546</b>            |
| Projects closed                           | 0                          | 0                            | 0                            | 0                                      | 0                          | 0                         |
| <b>Uncommitted approved budget</b>        | <b>5,247</b>               | <b>172,102</b>               | <b>65,031</b>                | <b>10,568</b>                          | <b>217,492</b>             | <b>470,440</b>            |

Note: May not add due to rounding.



|                    |   |  |     |                  |
|--------------------|---|--|-----|------------------|
|                    | Phase 2-Terry /<br>Eramosa (\$1,143,700)<br><br>RD0376 Silvercreek<br>Parkway Speedvale<br>Avenue to Woodlawn<br>Road protected bike<br>lanes (\$528,090) | Account for<br>Reallocations<br>(to maintain<br>funding<br>splits) |     |                  |
| <b>Grand Total</b> | n/a   | n/a  | n/a | <b>2,429,160</b> |