

Staff Report



To **Committee of the Whole**
Service Area Corporate Services
Date Monday, May 6, 2019
Subject **2018 Year-end Operating Variance Report and Surplus Allocation**
Report Number CS-2019-11

Recommendation

1. That the tax supported surplus of \$3,255,971 be allocated to the reserves and reserve funds as follows:

Tax Rate Operating Contingency Reserve (180)	\$816,000
Environment and Utility Contingency Reserve (198)	\$400,000
Police Operating Contingency Reserve (115)	\$39,000
Infrastructure Renewal Reserve Fund (150)	\$2,000,971
Total	\$3,255,971

2. That the Water Services surplus of \$578,081 be allocated to the Water Capital Reserve Fund (152).
 3. That the Wastewater Services surplus of \$2,787,381 be allocated to the Wastewater Capital Reserve Fund (153).
 4. That the Stormwater Services surplus of \$313,835 be allocated to the Stormwater Capital Reserve Fund (165).
 5. That the Ontario Building Code (OBC) deficit of \$608,582 be funded from the Building Services OBC Stabilization Reserve Fund (188).
 6. That the Court Services surplus of \$88,950 be allocated to the Court Contingency Reserve (211).
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Executive Summary

Purpose of Report

To provide the 2018 year-end operating position of the City's tax supported and non-tax supported departments subject to any adjustments resulting from the year-end external audit. Additionally, this report serves as Council's opportunity to approve the allocation of the 2018 surplus and deficit as outlined in the Council-approved Surplus Allocation Policy and in accordance with the General Reserve and Reserve Fund Policy.

Key Findings

The preliminary net operating result for tax-supported departments is a surplus of \$3,255,971 or 0.9 per cent of the 2018 total tax supported gross expenditures. This

surplus is larger than projected at the third quarter (Q3) as more revenue and additional savings were realized by the City departments.

The preliminary net operating result for non-tax supported departments is a surplus of \$3,159,665 or 4.4 per cent of the 2018 total non-tax supported budget. The surplus is larger than was projected at Q3 due to additional savings realized at Wastewater Services.

ATT-1 2018 Operating Budget Variance provides the actual year-end results by department.

Measures put in place after the Solid Waste Service Review have resulted in a favourable year-end position of \$1,595,761, and staff recommend transferring a part of the surplus to the Environment and Utility Contingency Reserve.

Some notable variance drivers are:

- a) Positive revenue related variances contributing to departmental results mainly in the areas of supplementary taxation, stormwater rates, and water and wastewater basic and consumption usage.
- b) A favourable year-end position for salaries, wages and benefit costs due to the naturally occurring recruitment process for hiring vacant positions and lower than budgeted benefit costs.
- c) A favourable year-end position for hydro mainly due to sustained energy conservation and efficiency measures.

Financial Implications

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

Over the last few years, the financial stability of the City has been improving through right-sizing of budgets, updating financial policies, and focusing on long-term financial planning.

Report

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

Council received the 2018 Q3 operating variance report on December 10, 2018. At that time staff projected a year-end favourable surplus of \$1,530,500 for tax supported operating departments, and \$2,630,000 projected year-end surplus for non-tax supported operating departments. The year-end forecast was based on September actuals and best estimates for the last quarter of 2018 and the full comparison results are shown in Table 1.

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

	Q3 Projected Year-end Variance	Actual 2018 Year-end Variance
Tax Supported Budget		
City Departments	\$(325,500)	\$(2,101,978)
General Revenues and Expenses	\$(1,105,000)	\$(1,378,808)
Local Boards	\$(100,000)	\$195,304
Grants, Outside Boards and Agencies	\$0	\$29,511
Total Tax Supported Surplus	\$(1,530,500)	\$(3,255,971)
	Q3 Projected Year-end Variance	Actual 2018 Year-end Variance
Non-tax Supported Budgets		
Water Services	\$(880,000)	\$(578,081)
Wastewater Services	\$(1,415,000)	\$(2,787,381)
Ontario Building Code (OBC)	\$300,000	\$608,582
Court Services	\$(25,000)	\$(88,950)
Stormwater Services	\$(610,000)	\$(313,835)
Total Non-tax Supported	\$(2,630,000)	\$(3,159,665)
(Brackets indicate a favourable variance)		

As part of the City's regular variance reporting process, departments were asked to provide comments on their financial results for the year-ending December 31, 2018. Table 2 provides a high-level summary for the year-end position of the City's tax supported and non-tax supported operations. More detailed information is provided in ATT-1 2018 Operating Budget Variance.

Table 2: Summary of 2018 Operating Variance

	Total Approved 2018 Budget	2018 Year-end Variance	2018 Variance as a percentage of Budget
Tax Supported Budget			
City Departments	\$128,341,917	\$(2,101,978)	(1.6%)
General Revenues and Expenses	\$(208,124,626)	\$(1,378,808)	(0.7%)
Local Boards	\$50,904,919	\$195,304	0.4%
Grants, Outside Boards and Agencies	\$28,877,790	\$29,511	0.1%
Total Tax Supported	\$0	\$(3,255,971)	(0.9%)
Non-tax Supported Budgets			
Water Services	\$0	\$(578,081)	(2.0%)
Wastewater Services	\$0	\$(2,787,381)	(8.9%)
OBC	\$0	\$608,582	18.2%
Court Services	\$0	\$(88,950)	(4.3%)
Stormwater Services	\$0	\$(313,835)	(5.2%)
Total Non-tax Supported	\$0	\$(3,159,665)	(4.4%)

Corporate Variance Drivers

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

1. Revenues

Year-end favourable revenue variances:

- By-law Compliance, Security and Licensing due to increased volume of animal tags and higher parking fine enforcement revenue due to additional by-law coverage;
- Guelph Police Services experienced higher than anticipated special duty, record checks and alarm fee revenue;
- Planning and Building Services due to higher activity levels;
- Environmental Services was successful in increasing the Stewardship Ontario grant revenues for the blue box program because of better diversion rates;
- Guelph-Wellington Paramedic Services due to additional funding for Paramedicine program;
- Water and Wastewater Services due to higher billable consumption revenue;
- Stormwater Services due to an increase in impervious area billable units;
- City taxation due to increased supplementary revenue from increased building growth, implementation of Assessment Based Management and continued relationship building with the Municipal Property Assessment Corporation; and
- Investment and dividend revenues are favourable due to Guelph Junction Railway declaring a dividend to the City of \$100,000 that was not anticipated and the increased Bank of Canada interest rates, which improved the City's cash and investment portfolio returns.

Year-end unfavourable revenue variances;

- Environmental Services recyclable revenue due to international trade policies banning paper products in certain markets; and
- Parking revenue shortfalls resulting from the longer than anticipated closure of the West Parkade.

2. Compensation

Overall compensation was lower than budget at year-end, inclusive of savings experienced from the length of time it takes to fill vacancies.

Within the compensation expenditures, overtime was significantly higher than planned. Departments were able to meet service requirements through the deployment of overtime within the context of the overall compensation budget. Major factors that contributed to increased overtime costs include:

- Unplanned storm events that required service levels or statutory requirements to be met;
- Special events such as parades, homecoming and festivals;
- Short-term and long-term staffing leaves, and the critical nature of backfilling emergency services, law enforcement and transit operations absences; and
- Emergency repairs to critical infrastructure including water mains.

3. Utilities

Overall energy cost was \$1,196,000 or 11% below budget. The surplus for tax-supported operations (\$440,177) was transferred to the Environment and Utility Reserve as per the reserve and reserve fund policy. Facilities Management and Corporate Energy staff continued energy conservation efforts including building organizational awareness, facility LED lighting retrofits, recommissioning of facility HVAC systems, preventative maintenance, and ice arena controls upgrades. Reduced energy rates at the Wastewater Treatment Facility and the Waste Resource Innovation Centre continued due to the renewed subscription to the Industrial Conservation Initiative (ICI). Staff will continue to monitor the impact of the Provincial strategies and programs on the budget.

4. Repairs and Maintenance

An overall net budget deficit of \$1,044,000 attributed mainly to buildings, and vehicle repairs and general maintenance at several City-owned facilities.

City Departmental Variances

Tax Supported

Infrastructure, Development and Enterprise Services

Environmental Services, Solid Waste favourable \$1,595,761

The variance is primarily related to the cancellation of the third party recycling contract, lower than budgeted property tax expenses from an appeal, and savings in other expenditures largely related to recyclable material, parts, promotions, equipment and operator, and additional blue box revenue from Stewardship Ontario; partially offset by the sale of recyclable goods and waste processing fees. Staff are recommending a transfer of \$400,000 to the Environment and Utility Contingency Reserve to mitigate future commodity price fluctuations in line with the Service Review recommendations.

Public Services

Culture, Tourism & Community Investment unfavourable \$436,488

Lower than anticipated grant and sponsorship revenues as well as higher event costs compared to associated revenues, and repairs and maintenance expenses.

Fire Services unfavourable \$221,821

Higher consumables costs due to increased call volume, a secondment in mechanical and fire prevention, and unanticipated vehicle repair costs, partially offset by savings in consulting.

General Expenditures

General Expenditure's unfavourable variance of \$844,510

- higher negotiation costs due to the number of collective agreements being bargained and in some cases, bargaining going to arbitration;
- legislative compliance costs related to pay equity and the first phase of implementing Bill 148;
- corporate severance costs;
- Council-approved settlement of the Canada Revenue Agency taxable benefit payroll audit; and
- higher than budgeted expenses for property tax appeal decisions and rebates.

Local Boards and Shared Services

Guelph Public Library unfavourable \$234,104

Due to increased staffing costs and higher exchange costs for library book purchases (USD company).

Non-tax Supported

Infrastructure, Development and Enterprise Services

Water Services favourable \$578,081

Higher than planned billable consumption revenue and new growth demands, and savings in promotion and training.

Wastewater Services favourable \$2,787,381

Higher billable consumption revenue and new growth demands, utility savings due to participation in the Industrial Conservation Initiative which resulted in a Global Adjustment Class A reclassification, lower than budgeted property taxes, and negotiation of a new bio-solids contract.

Stormwater Services favourable \$313,835

Mainly due to lower uptake of the of the stormwater credit/rebate fee program and higher than projected impervious area billing units.

Ontario Building Code (OBC) unfavourable \$608,582

The variance is attributed to a decline in the number of significant permit applications at the beginning of the year, and substantial deferral of permit revenue into 2019 due to timing. In accordance with the General Reserve and Reserve Fund Policy, this deficit will be funded from the Building Services OBC Stabilization Reserve Fund.

Allocation of the 2018 Operating Surplus and Deficit

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

The surplus/deficit allocation recommendations are heavily influenced by the General Reserve and Reserve Fund Policy review that was received by Council in May 2018. The City now has identified and measurable targets for our funds, which have enabled evidence-based recommendation for the operating budget transfer. The benefit of this cannot be emphasized enough as it moves the City further along the maturity path of strategic financial management.

Surplus Allocation Recommendations

For 2018, the City has returned an operating surplus from the tax supported budget, and four of the five non-tax supported budgets; Water Services, Wastewater Services, Stormwater Services, and Court Services. In accordance with the Council-approved Year-end Surplus Allocation Policy, the following recommendations are being made:

(A) Tax Supported Operating Surplus Allocation - \$3,255,971

It is recommended that the surplus be allocated to reserves that are below the recommended target, towards expenses that were recommended and approved by Council during 2019 budget deliberations, and/or had funds withdrawn to alleviate financial pressures in the current or future budget year. The recommended allocation is provided for in Table 3.

Table 3: Tax Supported Surplus Allocation

Reserve	Recommended Allocation	Reserve Balance After Allocation	Funded Status
Tax Rate Operating Contingency Reserve (180)	\$816,000	\$7,000,654	70%
Police Operating Contingency Reserve (115)	\$39,000	\$189,000	N/A
Environment and Utility Reserve (198)	\$400,000	\$2,882,196	85%
Infrastructure Renewal Reserve Fund (150)	\$2,000,971	\$2,302,906	10%
Total	\$3,255,971		

Tax Rate Operating Contingency Reserve (180): This reserve is required to provide the City sufficient liquidity and cash flow and to offset extraordinary and unforeseen corporate expenditures in order to mitigate fluctuations to the tax rate. During the 2019 budget deliberations, Council approved the following to be funded from the 2018 surplus:

- Addiction court support worker
- Support recovery room
- Welcoming Streets Initiative
- Route review (two years)
- Rotary Trail; and
- One-time Strategic Initiative Reserve funding

Staff is recommending that \$816,000 of the 2018 surplus be allocated to the Tax Rate Operating Contingency Reserve to flow funding through to these 2019 initiatives accordingly.

Police Operating Contingency (115): This reserve is intended to mitigate fluctuations to the tax rate for planned one-time operating budget impacts, and to offset extraordinary and unforeseen Police expenditures. Staff is recommending that \$39,000 of the 2018 operating surplus be allocated to the reserve to replenish the one-time funding approved through the 2019 budget or for a future public art project.

Environment and Utility Contingency (198): This reserve is intended to offset the impact of volatile operating expenditures relating to energy, fuel, recycling revenues, winter control and other weather related events. Staff are recommending \$400,000 of the 2018 operating surplus be allocated to this reserve to have appropriate funds on hand to mitigate against this volatility.

Infrastructure Renewal Reserve Fund (150): This reserve is used to fund the replacement and rehabilitation of the City's tax supported infrastructure including all tax supported debt servicing including principle and interest. This reserve fund is currently the most under-funded reserve fund within the City's portfolio and is therefore being recommended to receive the remainder of the 2018 surplus funds of \$2,000,971.

(B) Non-tax Supported Operating Surplus Allocation

It is a fundamental principle that the non-tax supported businesses are self-sustaining; meaning that any surplus or deficit will be kept within the business and incorporated into future budgets. The reserve and reserve funds for each business are assessed and staff are recommending surplus transfers in Table 4 based on the highest need.

Table 4: Non-tax Supported Operating Surplus Allocation

Non-tax Department	Reserve Fund	2018 Surplus Allocation	Reserve Fund Balance after Allocation	Funded Status
Water Services	Water Capital Reserve Fund (152)	\$578,081	\$22,613,158	174%
Wastewater Services	Wastewater Capital Reserve Fund (153)	\$2,787,381	\$50,131,161	212%
Stormwater Services	Stormwater Capital Reserve Fund (165)	\$313,835	\$789,950	11%
Court Services	Court Services Contingency Reserve (211)	\$88,950	\$573,076	143%

Deficit Allocation Recommendations

For 2018, the City had an operating deficit in the Ontario Building Code (OBC) budget of \$608,582. More information on this can be found in staff report IDE-2019-43.

To fund the OBC deficit, a transfer from the Building Services OBC Stabilization Reserve Fund (188) will be made in accordance with the provincial legislation. The balance of the reserve (including commitments) will be \$2,230,559 after the transfer.

Financial Implications

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

Over the past five years, the City's year-end tax supported operating position has been within this range as presented in Table 5.

Table 5: Five-year Historical Tax Supported Year-end Position

	2014	2015	2016	2017	2018
City Departments	\$5,339,766	\$3,705,277	\$1,942,677	(\$502,860)	(\$2,101,978)
General Revenues and Capital Financing	(\$1,399,035)	(\$1,292,809)	(\$2,668,753)	(\$1,628,957)	(\$1,378,808)
Local Boards	(\$563,556)	(\$726,036)	(\$369,077)	(\$279,280)	\$195,304
Shared Services	(\$2,282,148)	(\$2,829,555)	(\$1,984,787)	(\$1,135,098)	\$29,511
Total	\$1,095,027	(\$1,143,123)	(\$3,079,940)	(\$3,546,195)	(\$3,255,971)

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

As part of the 2019 budget, Council will recall that adjustments were made to corporately budgeted items like insurance, supplementary taxes, fuel and risk management. These have historically been key drivers of surplus and have contingency reserves to support any variance. As a result, the 2019 budget includes more risk for negative variance and this will likely result in a lower year-end variance.

Consultations

Departments are responsible for managing their programs according to municipal standards and within the approved budget. The responsibility for monitoring the operating budget is shared by the operating departments and the Finance Department. Department managers were provided financial reports based on their actual revenue and expenditures to December 31, 2018, which they provided a 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 Council with quarterly variance reports specifically aids 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

Attachments

ATT-1 2018 Operating Budget Variance

Departmental Approval

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ATT-1 to report CS-2019-11				
Operating Budget Variance based on December 31, 2018				
Department	Annual Budget 2018	Net Expenditures December 31, 2018 (\$)	Variance for Dec 31, 2018 (Favourable) / Unfavourable (\$)	Net Variance for Dec 31, 2018 (%)
TAX SUPPORTED				
CAO				
MAYOR AND COUNCIL	\$ 979,505	\$ 901,604	\$ (77,901)	
CAO ADMINISTRATION	\$ 731,475	\$ 616,337	\$ (115,138)	
STRATEGY, INNOVATION & INTERGOVERNMENTAL SERVICES	\$ 1,027,920	\$ 1,097,674	\$ 69,754	
INTERNAL AUDIT	\$ 367,473	\$ 337,463	\$ (30,010)	
CORPORATE COMMUNICATIONS AND CUSTOMER SERVICE	\$ 996,790	\$ 977,878	\$ (18,912)	
BUSINESS PROCESS MANAGEMENT (BPM)	\$ 393,907	\$ 330,216	\$ (63,691)	
SUB-TOTAL CAO	\$ 4,497,070	\$ 4,261,172	\$ (235,898)	(5.2%)
INFRASTRUCTURE, DEVELOPMENT & ENTERPRISE				
IDE ADMINISTRATION	\$ 245,670	\$ 298,748	\$ 53,078	
PLANNING AND BUILDING SERVICES	\$ 3,360,975	\$ 2,924,487	\$ (436,488)	
FACILITIES MANAGEMENT	\$ 5,402,470	\$ 5,462,150	\$ 59,680	
ENGINEERING AND TRANSPORTATION SERVICES	\$ 1,994,808	\$ 2,029,604	\$ 34,796	
ENVIRONMENTAL SERVICES	\$ 11,940,318	\$ 10,344,557	\$ (1,595,761)	
BUSINESS DEVELOPMENT & ENTERPRISE SERVICES	\$ 1,439,590	\$ 1,364,630	\$ (74,960)	
SUB-TOTAL INFRASTRUCTURE, DEVELOPMENT AND ENTERPRISE	\$ 24,383,831	\$ 22,424,176	\$ (1,959,655)	(8.0%)
PUBLIC SERVICES				
PS ADMINISTRATION	\$ 430,560	\$ 395,831	\$ (34,729)	
PARKS & RECREATION SERVICES	\$ 13,275,006	\$ 13,287,012	\$ 12,006	
CULTURE, TOURISM AND COMMUNITY INVESTMENT	\$ 6,153,931	\$ 6,502,557	\$ 348,626	
GUELPH TRANSIT	\$ 17,698,350	\$ 17,646,584	\$ (51,766)	
OPERATIONS	\$ 14,659,039	\$ 14,858,276	\$ 199,237	
FIRE SERVICES	\$ 26,575,910	\$ 26,797,731	\$ 221,821	
GUELPH-WELLINGTON PARAMEDIC SERVICES	\$ 6,629,395	\$ 6,268,416	\$ (360,979)	
SUB-TOTAL PUBLIC SERVICES	\$ 85,422,191	\$ 85,756,407	\$ 334,216	0.4%
CORPORATE SERVICES				
CS ADMINISTRATION	\$ 331,610	\$ 330,257	\$ (1,353)	
HUMAN RESOURCES	\$ 2,580,585	\$ 2,580,714	\$ 129	
INFORMATION TECHNOLOGY	\$ 5,291,715	\$ 5,321,473	\$ 29,758	
CITY CLERK'S OFFICE	\$ 1,628,530	\$ 1,546,577	\$ (81,953)	
FINANCE	\$ 2,369,865	\$ 2,324,082	\$ (45,783)	
LEGAL, REALTY AND COURT SERVICES	\$ 1,836,520	\$ 1,695,081	\$ (141,439)	
SUB-TOTAL CORPORATE SERVICES	\$ 14,038,825	\$ 13,798,184	\$ (240,641)	(1.7%)
TOTAL CITY DEPARTMENTS (excl Financing)	\$ 128,341,917	\$ 126,239,939	\$ (2,101,978)	(1.6%)
CAPITAL FINANCING	\$ 31,189,405	\$ 31,193,316	\$ 3,911	
GENERAL AND CAPITAL FINANCING	\$ (208,124,626)	\$ (209,503,434)	\$ (1,378,808)	0.7%
TOTAL CITY DEPARTMENTS (incl Financing)	\$ (79,782,709)	\$ (83,263,495)	\$ (3,480,786)	
LOCAL BOARDS				
GUELPH POLICE SERVICES	\$ 40,301,300	\$ 40,262,161	\$ (39,139)	
GUELPH PUBLIC LIBRARY	\$ 9,089,062	\$ 9,323,166	\$ 234,104	
THE ELLIOTT COMMUNITY	\$ 1,514,557	\$ 1,514,896	\$ 339	
SUB-TOTAL LOCAL BOARDS	\$ 50,904,919	\$ 51,100,223	\$ 195,304	0.4%
SHARED SERVICES				
WDG PUBLIC HEALTH	\$ 3,868,974	\$ 3,868,974	\$ -	
COUNTY OF WELLINGTON (SOCIAL SERVICES)	\$ 22,341,117	\$ 22,341,117	\$ -	
SUB-TOTAL SHARED SERVICES	\$ 26,210,091	\$ 26,210,091	\$ -	0.0%
GRANTS				
GRANTS - SPECIAL PROJECTS	\$ 2,667,700	\$ 2,697,210	\$ 29,511	
Sub-total Grants, Local Boards and Shared Services	\$ 79,782,709	\$ 80,007,524	\$ 224,815	
TOTAL TAX SUPPORTED	\$ -	\$ (3,255,971)	\$ (3,255,971)	(0.9%)
NON-TAX SUPPORTED				
WATER SERVICES	\$ -	\$ (578,081)	\$ (578,081)	-2%
WASTEWATER SERVICES	\$ -	\$ (2,787,381)	\$ (2,787,381)	-9%
ONTARIO BUILDING CODE	\$ -	\$ 608,582	\$ 608,582	18%
COURT SERVICES	\$ -	\$ (88,950)	\$ (88,950)	-4%

Department	Annual Budget 2018	Net Expenditures December 31, 2018 (\$)	Variance for Dec 31, 2018 (Favourable) / Unfavourable (\$)	Net Variance for Dec 31, 2018 (%)
STORMWATER SERVICES	\$ -	\$ (313,835)	\$ (313,835)	-5%
TOTAL NON-TAX SUPPORTED	\$ -	\$ (3,159,665)	\$ (3,159,665)	(4.4%)