

Staff Report



To	Committee of the Whole
Service Area	Corporate Services
Date	Tuesday, September 3, 2019
Subject	Second Quarter 2019 Operating Variance Report
Report Number	CS-2019-23

Recommendation

That report CS-2019-23 Second Quarter 2019 Operating Variance Report dated September 3, 2019 be received for information.

Executive Summary

Purpose of Report

The purpose of this report is to provide a projection of the 2019 year-end position for the Tax Supported and Non-tax Supported Operating budgets based on actual financial information as of June 30, 2019.

Further this report highlights any budget variance concerns, challenges and risks that Council should be aware of, as well as staff's plan to address them for the remainder of the year.

Key Findings

Overall, the City's Tax Supported Budget is projecting a favourable variance of \$1,229,000 or 0.5 per cent of the total budget.

The City's Non-tax Supported Budgets are projecting a total \$905,000 net favourable variance.

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

A significant risk to the City's financial position are the provincial government budget announcements that impact Paramedic Services, Public Health agencies, Police Services, Conservation Authorities, research and innovation programs, Library Services, Child Care Services and likely more that are not yet clearly identified. The changes announced by the provincial government download costs that were previously funded by the province to the property tax payers. Official communication was received, holding funding at 2018 levels but more recent announcements suggesting changes to the funding levels have not been provided in writing.

Some notable variance drivers identified as contributing to year-end projected variances are:

- a. Positive revenue related variances contributing to departmental results mainly in the areas of blue box grant revenue, stormwater billing units, planning fees, 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.
- c. A favourable year-end position for hydro mainly due to sustained energy conservation and efficiency measures.

Financial Implications

There are no direct financial implications resulting from this report. The actual financial results will not be known until year-end. Any surplus or deficit will be transferred to or from the City's reserve and reserve funds at year-end in accordance with the Year-end Operating Surplus Allocation Policy.

The year-end 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 affects the affordability of long-term capital projects for the City tax and ratepayers.

Report

City departments were provided financial information as of June 30, 2019. Actual expenditures, revenues and related commentary were analyzed and any significant budget deviations, challenges, and risks that are expected to have an impact on the year-end financial position were identified with Finance staff support.

Table 1: Summary of Projected Operating Variance for December 31, 2019

	Total Annual Net Budget for Year 2019 (\$)	Projected Net Variance Dec 31, 2019 including projected reserve transfers (brackets note favourable variance)	Projected Variance for Dec 31, 2019 (%)
Tax Supported			
City Departments	\$135,867,341	\$(938,000)	(0.3%)
General Revenues, Expenses	\$(218,027,153)	\$59,000	0.1%
Local Boards	\$52,936,596	\$0	0.0%
Shared Services	\$29,223,216	\$(350,000)	(1.2%)
Total Tax Supported	\$0	\$(1,229,000)	(0.5%)
Non-tax Supported	Gross Expenditure Budget		
Water Services	\$29,077,660	\$(170,000)	(0.6%)
Wastewater Services	\$31,947,863	\$(485,000)	(1.5%)
Ontario Building Code	\$3,350,000	\$0	0.0%
Court Services	\$2,007,300	\$0	(0.0%)
Stormwater Services	\$6,885,000	\$(250,000)	(3.6%)
Total Non-tax Supported	\$73,267,823	\$(905,000)	(1.2%)

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 later part of the year.

1. Revenues

Year-end favourable revenue variances are projected for:

- By-law due to increased animal tags, business and taxi licenses revenue.
- Police due to higher than anticipated record checks and alarm fee revenue.
- Solid Waste Resources due to increased Stewardship Ontario grant revenues for the blue box program because of better diversion rates.
- Planning and Building Services due to increased development application fees and permit fees due to increased activity.
- Water and Wastewater Services due to higher billable consumption revenue.
- Stormwater Services due to increased billing units.
- Investment revenues due to increasing Bank of Canada interest rates which are improving the City's cash and investment portfolio returns.

Year-end unfavourable revenue variances are projected for:

- Parking revenue shortfalls are occurring due to temporary loss in permit parking revenue due to Wilson Parkade construction.
- Transit revenue is lower than projected due to lower advertising revenues.

2. Compensation

Overall total salary, overtime, and temporary wages are currently trending lower than budget and are projected to be in a favourable position at year-end, inclusive of the natural length of time it takes to fill vacancies. Overtime is currently trending higher than budget however this is not a concern as departments have been meeting service requirements through the deployment of overtime within the context of the overall compensation budget.

Major factors that have contributed to increased overtime costs include:

- Unplanned storm events that require service levels or statutory requirements to be met.
- Special events such as parades and festivals.
- Staff turnover, short-term and long-term leaves.
- Critical nature of emergency services and transit operations.
- Emergency repairs to critical infrastructure.

Benefit Costs

Effective April 1, 2019 the Government of Ontario made significant changes to the Ontario Health Insurance Plan (OHIP) for children and youth. OHIP will no longer provide drug coverage to children and youth under 25 who are covered by a private plan. Staff have consulted with the City's insurance provider and early projections forecast an increased cost to the City of Guelph of approximately \$155,000. Any deficit at year-end would be funded from the Compensation Contingency Reserve in accordance with the General Reserve and Reserve Fund Policy.

3. Utilities

Overall year-to-date energy and water expenditures are trending approximately 12 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 the third quarter.

4. Fuel

Fuel is currently trending lower than budget across the corporation for all fuel types despite the introduction of federal carbon tax in April 2019. The average price for regular diesel has been \$0.99 a litre year-to-date compared to budget of \$1.05 per litre. Staff will continue to monitor fuel usage and price increases.

City Departmental Variances

In addition to the variance drivers explained above, the following departments are projecting year-end variances greater than \$150,000:

- Planning and Building Services is projecting net favourable variance of \$283,000 mainly due to higher than budgeted planning application fees, and staff vacancy savings.
- Environmental Services is projecting a favourable variance of \$429,000, primarily driven by higher than budgeted revenues in blue box program payments from Stewardship Ontario and savings in expenditures.
- Operations is projecting an unfavourable variance of \$270,000 due to a greater number of major weather events in the first quarter of 2019. In accordance with the General Reserve and Reserve Fund Policy, surplus/deficits in winter control are transferred to/from the Environment and Utility Contingency Reserve.
- General Expenditures are projecting a net unfavourable variance of \$182,000 due to increased software licensing and human resources negotiations costs for collective bargaining

Local Boards and Shared Services

- The County of Wellington is projecting a year-end surplus of \$350,000 (city share) for Social Services, mainly due to staffing vacancies, delay in hiring new positions, and higher rental revenues. Additional detail can be found on page 9 of the [June 12, 2019 Social Services Financial Statements and Variance Projections as of May 31, 2019](#) Committee Report.

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, 2019 actuals is indicating the City may be in a surplus position. This is subject to change due to the risks already outlined as well as the following:

a) Collective Bargaining

At the time of writing this report, the Ontario Public Service Employee Union (OPSEU) Local 231 (Paramedics) collective agreement, which expired on March 31, 2018, has not been ratified. The approved budget included a contingency for an anticipated economic increase; there is risk of negative variance if the final

agreement is higher than the anticipated increase. In addition to the economic increase, costs related to bargaining and negotiations could increase depending on the length of arbitration and the outcome.

b) Local Boards

Guelph Police Services are currently projecting year-end actuals to be in line with budget. However, if the severity of crime or level of crime increases it may impact overtime resulting in a negative variance.

c) Soccer Dome Operations

Council approved report PS-2019-07 titled Agreements with the Guelph Community Sports and Guelph Soccer Club Incorporated on June 4, 2019. This report identified a potential negative operating variance in 2019. The financial outcome is unknown at this time and staff will continue to monitor this program throughout the year and incorporate the final results into the year-end operating variance report.

d) Provincial Funding Changes

As reported in the First Quarter Variance Report CS-2019-18, the province released its first budget under the conservative government in early April 2019. There were a number of announced service provision changes, program cancellations and cost-sharing allocation changes. The changes announced through this budget impact Public Health agencies, Police Services, Conservation Authorities, research and innovation programs, Library Services, Child Care Services and likely more that are not yet clearly identified.

One of the more significant announcements for the City was the 2019 funding freeze announced for the Paramedic Services, which was subsequently deferred to 2020 by the Province in the late spring after significant advocacy from the municipal sector regarding unfairness of in-year cuts. At this time, the City has not received any formal notification of the 2019 Paramedic Services revenue and the actual payments from the Province continue to be received at the earlier announced frozen rates. For this reason, there is a risk that Paramedic Service revenues will produce an unfavourable variance at year-end in the range of \$800,000 (of which approximately \$300,000 would be the responsibility of the County). Staff will continue to monitor and advocate for the funding submitted for in the 2019 budget planning document.

A presentation of the impact of provincial legislative changes was made to Council on June 24, 2019. The legislative changes may not only have immediate fiscal impacts but also policy, relationship, process and system impacts that will be felt in subsequent years.

Financial Implications

There are no direct financial implications resulting from this report. The actual financial results will not be known until year-end. Any surplus or deficit will be transferred to or from the City's reserve and reserve funds at year-end, subject to Council approval, in accordance with the Year-end Operating Surplus Allocation Policy.

The year-end 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 affects the affordability of long-term capital projects for the Guelph tax and ratepayers.

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, 2019 with which they provided a projected year-end commentary in consultation with the Finance department.

Corporate Administrative Plan

Overarching Goals

Financial Stability

Service Excellence

Service Area Operational Work Plans

Our Resources - A solid foundation for a growing city

Our Services - Municipal services that make lives better

Attachments

Attachment-1 Operating Budget Variance by Department as at June 30, 2019

Departmental Approval

Karen Newland, Manager, Finance Client Services

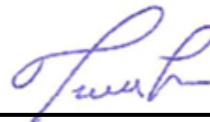
Report Author

Ron Maeresera, Sr. Corporate Analyst, Finance Client Services



Approved By

Tara Baker, CPA, CA
General Manager, Finance/
City Treasurer
Corporate Services
519-822-1260 extension 2084
tara.baker@guelph.ca



Recommended By

Trevor Lee
Deputy Chief Administrative Officer
Corporate Services
519-822-1260 extension 2281
trevor.lee@guelph.ca

Department	Annual Budget 2019	Year-to-date Net Expenditures June 30, 2019 (\$)	Projected Variance for Dec 31, 2019 (Favourable)/Unfavourable (\$)	Projected Reserve Transfer To/(From)	Net Projected Year-end Variance (\$)	Projected Net Variance for Dec 31, 2019 (%)
TAX SUPPORTED						
CAO						
MAYOR AND COUNCIL	\$ 1,128,860	\$ 529,011	\$ -	\$ -	\$ -	0.0%
CAO ADMINISTRATION	\$ 666,225	\$ 185,525	\$ -	\$ -	\$ -	0.0%
STRATEGY, INNOVATION & INTERGOVERNMENTAL SERVICES	\$ 874,470	\$ 495,595	\$ -	\$ -	\$ -	0.0%
INTERNAL AUDIT	\$ 288,663	\$ 86,123	\$ (15,000)	\$ -	\$ (15,000)	(5.2%)
CORPORATE COMMUNICATIONS	\$ 1,316,920	\$ 377,119	\$ -	\$ -	\$ -	0.0%
SUB-TOTAL CAO	\$ 4,275,138	\$ 1,673,373	\$ (15,000)	\$ -	\$ (15,000)	(0.4%)
INFRASTRUCTURE, DEVELOPMENT & ENTERPRISE						
IDE ADMINISTRATION	\$ 193,530	\$ 13,676	\$ -	\$ -	\$ -	0.0%
PLANNING AND BUILDING SERVICES	\$ 3,640,320	\$ (6,414)	\$ (283,000)	\$ -	\$ (283,000)	(7.8%)
FACILITIES MANAGEMENT	\$ 5,892,207	\$ 2,615,147	\$ -	\$ -	\$ -	0.0%
ENGINEERING AND TRANSPORTATION SERVICES	\$ 4,641,161	\$ 3,546,587	\$ (125,000)	\$ -	\$ (125,000)	(2.7%)
ENVIRONMENTAL SERVICES	\$ 13,064,880	\$ 5,529,093	\$ (429,000)	\$ -	\$ (429,000)	(3.3%)
BUSINESS DEVELOPMENT & ENTERPRISE SERVICES	\$ 1,527,902	\$ 903,247	\$ (60,000)	\$ -	\$ (60,000)	(3.9%)
SUB-TOTAL INFRASTRUCTURE, DEVELOPMENT AND ENTERPRISE	\$ 28,960,000	\$ 12,601,336	\$ (897,000)	\$ -	\$ (897,000)	(3.1%)
PUBLIC SERVICES						
PUBLIC SERVICE ADMINISTRATION	\$ 438,850	\$ 246,019	\$ -	\$ -	\$ -	0.0%
PARKS & RECREATION SERVICES	\$ 14,162,492	\$ 6,172,292	\$ 51,000	\$ -	\$ 51,000	0.4%
CULTURE, TOURISM & COMMUNITY INVESTMENT	\$ 6,531,282	\$ 4,520,604	\$ 55,000	\$ -	\$ 55,000	0.8%
GUELPH TRANSIT	\$ 18,669,181	\$ 9,891,794	\$ -	\$ -	\$ -	0.0%
OPERATIONS	\$ 15,313,954	\$ 8,444,889	\$ 270,000	\$ (270,000)	\$ -	0.0%
FIRE SERVICES	\$ 27,631,596	\$ 13,404,156	\$ 150,000	\$ -	\$ 150,000	0.5%
GUELPH-WELLINGTON PARAMEDIC SERVICES	\$ 7,101,695	\$ 4,395,267	\$ -	\$ -	\$ -	0.0%
SUB-TOTAL PUBLIC SERVICES	\$ 89,849,050	\$ 47,075,021	\$ 526,000	\$ (270,000)	\$ 256,000	0.3%
CORPORATE SERVICES						
CORPORATE SERVICES ADMINISTRATION	\$ 328,500	\$ 171,043	\$ -	\$ -	\$ -	0.0%
HUMAN RESOURCES	\$ 2,906,621	\$ 1,022,907	\$ (35,000)	\$ -	\$ (35,000)	(1.2%)
INFORMATION TECHNOLOGY	\$ 3,408,910	\$ 603,983	\$ (108,000)	\$ -	\$ (108,000)	(3.2%)
CITY CLERK'S OFFICE	\$ 1,704,450	\$ 795,331	\$ (12,000)	\$ -	\$ (12,000)	(0.7%)
FINANCE	\$ 2,853,372	\$ 705,719	\$ (127,000)	\$ -	\$ (127,000)	(4.5%)
LEGAL, REALTY AND COURT SERVICES	\$ 1,581,300	\$ 195,774	\$ -	\$ -	\$ -	0.0%
SUB-TOTAL CORPORATE SERVICES	\$ 12,783,153	\$ 3,494,757	\$ (282,000)	\$ -	\$ (282,000)	(2.2%)
TOTAL CITY DEPARTMENTS	\$ 135,867,341	\$ 64,844,487	\$ (668,000)	\$ (270,000)	\$ (938,000)	(0.7%)
GENERAL EXPENDITURES AND CAPITAL FINANCING						
GENERAL EXPENDITURES	\$ 6,792,497	\$ 88,836	\$ 337,000	\$ (155,000)	\$ 182,000	2.7%
GENERAL REVENUES	\$ (256,512,596)	\$ (267,139,388)	\$ (123,000)	\$ -	\$ (123,000)	0.0%
CAPITAL FINANCING	\$ 31,692,946	\$ 34,094,825	\$ -	\$ -	\$ -	0.0%
SUB-TOTAL GENERAL AND CAPITAL FINANCING	\$ (218,027,153)	\$ (232,955,727)	\$ 214,000	\$ (155,000)	\$ 59,000	0.0%
TOTAL CITY	\$ (82,159,812)	\$ (168,111,240)	\$ (454,000)	\$ (425,000)	\$ (879,000)	(1.1%)

Department	Annual Budget 2019	Year-to-date Net Expenditures June 30, 2019 (\$)	Projected Variance for Dec 31, 2019 (Favourable)/Unfavourable (\$)	Projected Reserve Transfer To/(From)	Net Projected Year-end Variance (\$)	Projected Net Variance for Dec 31, 2019 (%)
LOCAL BOARDS						
GUELPH POLICE SERVICES	\$ 42,019,900	\$ 20,192,992	\$ -	\$ -	\$ -	0.0%
GUELPH PUBLIC LIBRARY	\$ 9,363,062	\$ 4,844,991	\$ -	\$ -	\$ -	0.0%
THE ELLIOTT LONG-TERM CARE	\$ 1,553,634	\$ 1,165,226	\$ -	\$ -	\$ -	0.0%
SUB-TOTAL LOCAL BOARDS	\$ 52,936,596	\$ 26,203,209	\$ -	\$ -	\$ -	0.0%
SHARED SERVICES						
WDG PUBLIC HEALTH	\$ 3,946,400	\$ 2,959,765	\$ -	\$ -	\$ -	0.0%
COUNTY (SOCIAL SERVICES)	\$ 22,109,116	\$ 11,717,944	\$ (350,000)	\$ -	\$ (350,000)	(1.6%)
SUB-TOTAL LOCAL BOARDS & SHARED SERVICES	\$ 26,055,516	\$ 14,677,709	\$ (350,000)	\$ -	\$ (350,000)	(1.3%)
GRANTS						
GRANTS - SPECIAL PROJECTS	\$ 3,167,700	\$ 3,151,000	\$ -	\$ -	\$ -	0.0%
SUBTOTAL GRANTS, LOCAL AND OUTSIDE BOARDS & AGENCIES	\$ 82,159,812	\$ 44,031,918	\$ (350,000)	\$ -	\$ (350,000)	(0.4%)
TOTAL TAX SUPPORTED	\$ -	\$ (124,079,322)	\$ (804,000)	\$ (425,000)	\$ (1,229,000)	(0.5%)
NON-TAX SUPPORTED						
WATER SERVICES	\$ 29,077,660	\$ 8,219,355	\$ (170,000)	\$ -	\$ (170,000)	(0.6%)
WASTEWATER SERVICES	\$ 31,947,863	\$ 7,666,397	\$ (485,000)	\$ -	\$ (485,000)	(1.5%)
ONTARIO BUILDING CODE	\$ 3,350,000	\$ (505,271)	\$ -	\$ -	\$ -	0.0%
COURT SERVICES	\$ 2,007,300	\$ 419,050	\$ -	\$ -	\$ -	0.0%
STORMWATER SERVICES	\$ 6,885,000	\$ 2,358,523	\$ (250,000)	\$ -	\$ (250,000)	(3.6%)
TOTAL NON-TAX SUPPORTED	\$ 73,267,823	\$ 18,158,054	\$ (905,000)	\$ -	\$ (905,000)	(1.2%)