

Information Report



Service Area	Corporate Services
Date	Friday, August 21, 2020
Subject	Second Quarter Operating Variance Report and Year-end Forecast

Executive Summary

Purpose of Report

The purpose of this report is to provide Council notice of any financial risks that could affect the 2020 year-end position and provide a year-end forecast based on actual financial information as of June 30, 2020, which is the end of the second quarter (Q2) for the tax supported and non-tax supported budgets. As Council is aware, the greatest risk to the 2020 financial results is the ongoing COVID-19 pandemic.

Key Findings

Due to the COVID-19 pandemic, the City is projecting to be in a deficit position for both the tax and non-tax supported budgets at year-end. The year-end deficit projection based on the current COVID Public Health guidelines, and without including any announced emergency financial relief funding from the provincial and federal governments is currently estimated at \$10 million. However, as the situation has been changing, and health authorities not certain when the pandemic will end, or if a second wave will occur, staff have provided for an additional deficit of \$3 million. The city could experience a year-end deficit up to \$13 million. Staff are continuing to update and monitor financial projections.

Both the provincial and federal governments have pledged financial support to municipalities to help alleviate the pressures resulting from the pandemic. At the time of writing the report, the details have not been provided on how much funding Guelph will receive.

Council and staff have been very responsive and proactive in making decisions to mitigate the City's current financial impact as well as provide relief for businesses and citizens who may be facing financial challenges due to the pandemic. In response to the emergency declaration, and fiscal difficulties brought by the pandemic, the City implemented several measures including; closure of facilities, service delivery changes, modified working environment for employees, redirected resources, 601 casual and seasonal part-time layoffs, halted non-critical hiring, and placed 127 full-time employees on declared emergency leave. Actions taken to date are resulting in an estimated \$20.7 million shortfall in revenue and increased expenses related to COVID-19 of \$3.6 million. Council and staff have recognized the need to mitigate the impact of these losses and the estimated cost savings is projected to be \$14.3 million from the mitigation measures implemented. This

results in a currently estimated year-end deficit of \$10 million. Staff have provided for an additional deficit of \$3 million due to the ongoing pandemic.

Attachment-1 2020 Second Quarter Operating Variance Year-end Projection provides the forecasted year-end results by department. Actual results will vary by department at year-end as fuel and utility savings have not been allocated to specific departments.

Financial Implications

Forecasting these financial impacts to year-end, the City will likely experience deficits in both the tax supported and non-tax supported budgets. The current year-end projection is \$10 million; \$6.5 million for tax supported and \$3.5 million for non-tax supported budgets. It is difficult to forecast these deficits as the situation is changing quickly, resulting in staff providing for an additional \$1.5 million deficit for tax supported and \$1.5 million for non-tax supported budgets.

The City's contingency reserves are sufficient to mitigate through deficits in this range, however, wherever possible, continued actions to reduce these losses to protect the City's long-term sustainability is recommended.

The government has announced funding for municipalities through the Safe Restart Agreement between the Federal and Provincial Governments on July 16. The federal contribution of the final agreement is \$19 billion to support provinces, territories and municipalities. The City has been allocated just over \$12 million in combined operating emergency and transit-specific funding in the first phase of the grant expected in September. Staff are currently reviewing the reporting requirements and determining eligibility criterion for utilizing these funds. Updates on the impact of these grants on the projected deficit will be forthcoming to Council in future variance report updates.

This emergency funding will enable the contingency reserves to be replenished so that the long-term financial impacts of this pandemic can be managed without significant increases to the tax levy or user rates. It will provide the City with greater flexibility to respond to a second wave or other unexpected events in the upcoming years.

Report

Background

The COVID-19 pandemic has caused an unprecedented public health crisis, creating uncertainty in the economy. Municipalities, as frontline service providers, are particularly impacted by the COVID-19 pandemic and the City is not an exception.

City departments were provided financial information as of June 30, 2020. 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.

In addition, departments were asked to assess the impact of the pandemic and provide commentary assuming potential disruption till the end of the year. The same assessment was conducted in the first quarter. It is still early to fully quantify

the full impact of the pandemic as the City has just entered Stage 3 of the recovery, and no forecasted end in sight provided by the health authorities. With the help of department management, Finance staff is monitoring and assessing the financial impact to the City taking into consideration all measures taken by the City and will continue to update Council as more information becomes available as the year progresses.

Through Council-approved fiscal relief measures and declaring a state of emergency, broad economic impacts, deferring non-essential spending, and halting non-critical hiring, currently the City is projecting a year-end deficit position in each of the tax and non-tax supported budgets.

COVID-19 Variance Highlights

The impact on revenues related to operations during the COVID-19 crisis is an estimated \$20.7 million shortfall, a cost increase of \$3.6 million and a corresponding cost reduction through mitigation efforts of \$14.3 million resulting in a projected deficit of \$10 million at the time of writing this report. Due to the phased in approach of the recovery, the projection will change and the final COVID-19 financial impacts on the City will not be fully known until City programming and services return to normal (or a new form of normal). Staff have provided for an additional \$3 million to take into account the future unknowns. Likely, the impacts will continue for years as the businesses and employment in our community change, working-from-home becomes much more prevalent and the Province enacts new legislation to help mitigate pandemic emergencies in the future.

Revenue Impact

Public Services

- Transit estimated revenue loss is \$8.1 million mainly due to waived transit fares which includes the cancellation of the U-pass for fall 2020 due to the University of Guelph offering online learning, retailers and establishments not returning to normal operations, and cancelled advertising revenues. Future Transit ridership will be dependent upon how quickly the community returns to using Transit in a changed environment of online learning, and business employees who are working-from-home.
- Parks and Recreation estimated revenue loss is \$3.2 million due to closure of facilities, cancellation of programs, memberships, and events and bookings.
- Culture, Tourism, and Community Investment estimated revenue loss is expected to be \$2.6 million due to cancellation of shows and events. Guelph Museums began to open in July 2020 and will slowly return to full operations through 2020. River Run Centre and Sleeman Centre may be permitted to open with very small groups or for non-audience events dramatically effecting revenue. Rentals and food and beverage sales are anticipated to be low through the rest of 2020 based on limited audiences. Impacts will be noticeable into next year.

Infrastructure, Development and Enterprise Services

- Environmental Services estimated revenue loss is \$368 thousand due to closure of the public drop-off and reduced tipping fees resulting from lower construction and demolition tonnage. Revenue will be mostly offset by Blue Box program

reimbursement funding revenue which is anticipated to come in higher than budget due to increasing diversion rates. The implementation of spring residential yard-waste is also contributing to this loss as tonnage will no longer be user pay. Staff estimate it may take up to three months for operations to return to normal.

- Planning and Building Services and Engineering and Transportation Services combined estimated revenue loss of \$832 thousand, due to reduced development activity levels and pausing of subdivision and construction projects from the provincial closure order. Ontario Building Code is forecasting a 16% loss in 2020 revenues or \$575 thousand due to a reduction in permit activity.
- Parking Services projected revenue loss is \$2 million due to relief and waiver of monthly parking fees, loss of event parking revenue, and reduced demand for transient (daily parking). It is difficult to predict the level of parking revenue for the remainder of 2020 as it relies upon community behavior, but as the City and community remain in Stage 3 of pandemic recovery, staff will track trends to continue to refine year end projections.
- Year-to-date volumetric consumption is showing no decrease and is trending on budget. Further data and factors will be received in the third quarter which will provide a better indication of the impact from the pandemic, mainly the number of students on campus at the University of Guelph which is likely to result in lower Industrial, Commercial, and Institutional consumption and increased residential demand. Wastewater agreements revenue is continuing to be strong and is expected to come in at \$134 thousand higher than budgeted by year-end. Other revenue losses are due to cancellation of rain barrel sales at Water Services

Corporate Services

- Court Services is projecting revenue loss of \$952 thousand due to mandated closure of courts and an additional \$410 thousand due reduced charge base, and no enforcement or collection activities taking place for Provincial Offences Act. However, it should be noted that the revenue loss due to the closure of courts is shared between the City and the County, 56 per cent or \$533 thousand and 44 per cent or \$419 thousand respectively. The Ministry of Attorney General may be reluctant to return courts to normal operation due to group size and physical distancing requirements or may be reluctant to allow as many matters on a court docket thus requiring more court dates to deal with the same number of court matters. It may take until 2021 for business to return to normal for courts.

General Revenues

- Loss of investment income is projected at \$500 thousand for the year due to the Bank of Canada decreasing interest rates.
- Supplementary taxation revenue is projected at a loss of \$500 thousand for the year due to lower development activity and \$781 thousand for the waiver of penalty and interest revenue on taxes.

Local Boards and Shared Services

- Guelph Police Services has projected revenue loss of \$200 thousand due to lower number of record checks.

- Guelph Public Library has projected revenue loss of \$98 thousand from lack of fines, room rentals, printing, and merchandise as a result of closure during the pandemic.

Expenditure Impact

In response to the emergency declaration by various levels of governments, the City has been dedicated to managing through the crisis; balancing both the need to protect the economic well-being of the City and dedication to public safety while delivering essential services to the community. From the day the Province proclaimed a state of emergency on March 17, 2020, City staff created a cost centre to track expenses directly related to COVID-19 response, and all departments were instructed to monitor the financial impact of COVID-19 on their operations.

1. Compensation

To mitigate the lost revenues being experienced, the City implemented a hiring freeze for non-critical positions creating savings through vacancies. Further, action was taken through the month of April with temporary lay-offs of casual, part-time and full-time staff creating over \$1 million of savings per month. Current projections indicate a potential savings in compensation of \$7.7 million for the year based on these actions, however, this number is likely to change as decisions are fluid and staff have since been called back to work based upon changing Provincial orders.

2. Utilities

Overall energy and water expenditures are projected to be \$500 thousand below budget reflected in facilities and energy management due to facility closures and reduced consumption.

3. Fuel

Fuel consumption and fuel prices have been lower than budgeted resulting in estimated savings of \$1.3 million reflected in operations. Staff will continue to monitor and update accordingly.

4. Delayed implementation of projects

During the 2020 budget deliberations, Council approved the transit route enhancements and operating budget increases to operate previously approved capital projects. Due to the pandemic an estimated \$1.4 million of expense savings are projected to be realized by delaying the implementation of these initiatives.

5. Mitigation measures and other cost savings

In addition to the corporate variance drivers explained above, departments were encouraged to defer discretionary expenses to 2021. Operational savings are estimated to be \$3.2 million however some of the deferred expenses will be required in future years as business returns to the new normal.

6. Additional COVID-19 related expenditures

The City is currently projecting \$3.6 million in additional, unplanned expenses for responding to the COVID emergency. These costs include additional cleaning

staff and sanitizing supplies, personal protective equipment for frontline staff, and information technology solutions for a digital workforce.

Other Considerations

County-provided Social Services

- The County provided a year-end projection to the [Administration, Finance and Human Resources Committee on June 16, 2020](#) (page 24) based on May 31, 2020 financial results. At the time, the County was projecting to be in a surplus position at year-end. The City's share of the projected surplus is approximately \$500,000. The City under budgeted for County Social Services expenses based on historical spending trends and as a result the City is projecting to be on budget at year-end.

Wellington-Dufferin-Guelph Public Health

- As the Public Health Unit is at the frontlines of fighting the pandemic, it is expected that costs will increase, but there is expectation that the Province will provide emergency funding because of these pressures. At this time, no significant variance is expected.

Corporate Variance Risks

Looking ahead beyond COVID-19, the City remains to have business-driven variance pressures from the lasting effects of COVID-19 or other external factors.

- Winter control costs are currently trending over budget. Depending on the number of winter weather events in November/December 2020, a transfer from reserve may be required to offset this shortfall.
- Information within the report will change significantly if the guidance from Public Health or the Province of Ontario changes due to COVID-19.
- How consumers react to the new normal as the government gradually reopens the economy may further impact the overall financial picture of the City.

Recovery Phase

As with other municipalities in the province facing operating deficits in the current year, and as the City enters Stage 3 of the recovery, Council should continue to take a long-term view on the recovery journey. The world has entered a 'new normal' and recovery is a period for identifying new opportunities, increased cooperation with local businesses and partner organizations to bring the local economy back to a thriving position. Working together with other partners, promoting businesses to ensure that commercial real estate is not severely impacted in the long-term will protect assessed commercial property values and limit a taxation shift to the residential sector. Council should continue to leverage the City's Strategic Plan to prioritize recovery efforts and take advantage of recovery funding and stimulus programming from other levels of government to position Guelph and be Future Ready. The City cannot afford to be everything to all people and businesses; other governments and associations also have their role. Staff are actively planning for the future and starting to consider the three-year budget implications that may unfold from this emergency.

Financial Implications

Forecasting these financial impacts to year-end, the City will likely experience deficits in both the tax supported and non-tax supported budgets. The current year-end projection is \$10 million; \$6.5 million for tax supported and \$3.5 million for non-tax supported budgets. It is difficult to forecast these deficits as the situation is changing quickly, resulting in staff providing for an additional \$1.5 million deficit for tax supported and \$1.5 million for non-tax supported budgets.

The City's contingency reserves are sufficient to mitigate through deficits in this range, however, a deficit of this size will impair our ability to respond to further impacts of a second wave or other unexpected events. The City is finding every opportunity to create budget savings in 2020 to offset this mounting impact but there is only so much that can be done while still maintaining services that the community has vocally supported as a priority. For this reason, the recently announced Safe Restart Agreement will enable the reserves to be replenished so that the long-term financial impacts of this pandemic can be managed without significant increases to the tax levy or user rates.

The Safe Restart Agreement between the Federal and Provincial Governments was announced on July 16. The federal contribution of the final agreement is \$19 billion to support provinces, territories and municipalities. This is a \$5 billion increase from the earlier proposal. Altogether, the Safe Restart Agreement will result in \$7.6 billion in funding for municipal governments Canada-wide from the federal and provincial governments. The City has been allocated just over \$12 million in combined operating emergency and transit-specific funding in the first phase of the grant expected in September. Staff are currently reviewing the reporting requirements and determining eligibility criterion for utilizing these funds. Updates on the impact of these grants on the projected deficit will be forthcoming to Council in future variance report updates.

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 wherever possible, continued actions to reduce these losses to protect the City's long-term sustainability is recommended.

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 managers were provided financial reports based on their actual revenue and expenditures to June 30, 2020 with which they provided commentary in consultation with the Finance department.

Strategic Plan Alignment

Reporting quarterly on the operating variance along with a year-end forecast supports the Strategic Plan's Working Together for our Future pillar through maintaining a fiscally responsible local government.

Attachments

Attachment-1 2020 Second Quarter Operating Variance Year-end Projection

Departmental Approval

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Attachment-1: 2020 Second quarter operating variance year-end projection

Department	Annual Net Budget 2020	Forecasted Net Variance for December 31, 2020 (Favourable) / Unfavourable (\$)
Mayor and Council	\$1,161,350	\$(45,000)
Sub-total Mayor and Council	\$1,161,350	\$(45,000)
CAO Administration	\$701,605	\$(120,000)
Strategy, Innovation and Intergovernmental Services	\$1,006,540	\$(152,000)
Internal Audit	\$283,048	\$(93,100)
Corporate Communications	\$1,310,560	\$(164,900)
Smart Cities Office	\$0	\$0
Sub-total Office of the CAO	\$3,301,753	\$(530,000)
IDE Administration	\$223,310	\$0
Planning and Building Services	\$3,646,295	\$(134,000)
Facilities and Energy Management	\$6,130,347	\$(75,000)
Engineering and Transportation Services	\$3,313,669	\$129,500
Environmental Services	\$13,077,100	\$(822,000)
Business Development and Enterprise Services	\$1,427,192	\$(140,000)
Sub-total Infrastructure Development and Enterprise	\$27,817,913	\$(1,041,500)
Public Services Administration	\$446,930	\$0
Parks and Recreation Services	\$14,344,103	\$905,300
Culture, Tourism, and Community Investment	\$6,664,028	\$1,137,600
Guelph Transit	\$20,829,310	\$6,686,700
Operations	\$15,404,135	\$(1,821,500)
Fire Services	\$28,230,886	\$120,000
Guelph-Wellington Paramedic Services	\$6,959,295	\$230,000
Sub-total Public Services	\$92,878,687	\$7,258,100
Corporate Services Administration	\$329,680	\$(6,000)
Human Resources	\$2,962,885	\$(607,000)
Information Technology	\$3,438,870	\$(93,200)
City Clerk's Office	\$1,736,510	\$(89,000)
Finance	\$3,132,114	\$(355,000)
Legal, Realty and Court Services	\$1,559,830	\$145,000
Sub-total Corporate Services	\$13,159,889	\$(1,005,200)

Department	Annual Net Budget 2020	Forecasted Net Variance for December 31, 2020 (Favourable) / Unfavourable (\$)
Total City Departments	\$138,319,592	\$4,636,400
General Expenditures	\$8,763,706	\$(2,100,000)
General Revenues	\$(267,126,628)	\$1,781,000
COVID-19 Expenses		\$3,189,800
Capital Financing	\$33,097,745	\$0
Total General and Capital Financing	\$ (225,265,178)	\$2,870,800
Total City Departments, General and Capital Financing	\$(86,945,586)	\$7,507,200
Guelph Police Services	\$45,641,500	\$(734,000)
Guelph Public Library	\$9,622,212	\$(169,200)
The Elliott Community	\$1,580,457	\$0
Sub-total Local Boards	\$56,844,169	\$(903,200)
Wellington-Dufferin-Guelph Public Health	\$4,025,400	\$0
Social Services (County of Wellington)	\$22,884,317	\$0
Sub-total Shared Services	\$26,909,717	\$0
Grants	\$3,191,700	\$0
Subtotal Local Boards, Shared Services and Grants	\$86,945,586	\$(903,200)
Total Tax Supported Budget	0	\$6,604,000
Department	Annual Expenditure Budget 2020	Forecasted Net Variance for December 31, 2020 (Favourable) / Unfavourable (\$)
Water Services	\$31,608,009	\$447,000
Wastewater Services	\$33,949,117	\$(186,000)
Ontario Building Code	\$3,591,200	\$542,000
Parking Services	\$6,337,502	\$1,898,000
Court Services	\$4,202,100	\$715,000
Stormwater Services	\$7,903,600	\$0
TOTAL Non-tax Supported Budget	\$87,591,528	\$3,416,000