

# Information Report

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Service Area	Corporate Services
Date	Friday, November 27, 2020
Subject	<b>Third Quarter Operating Variance Report and Year-end Forecast</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 2020 year-end position and provide a year-end forecast based on actual financial information as of September 30, 2020, which is the end of the third quarter 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 \$3.6 million.

Both the provincial and federal governments have pledged financial support to municipalities to help alleviate the pressures resulting from the pandemic. Guelph received a total of \$12.0 million through the Safe Restart Phase 1 Funding for operating and transit streams.

Council and staff have been very responsive and proactive in the COVID response, including providing relief for businesses and citizens who may be facing financial challenges due to the pandemic. In total, the pandemic has resulted in an estimated \$19.5 million shortfall in revenue and new expenses related to COVID-19 of \$4.8 million (down from \$20.7 and up from \$3.6 respectively since the second quarter projection).

Council and staff have recognized the urgent need to mitigate the impact of these losses and the estimated cost savings from mitigation measures is now projected to be \$20.7 million (up from \$14.3 from the second quarter). The mitigation measures included; 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.

Attachment-1 2020 Third 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. Funding from the Safe Restart Phase 1 will be included at year-end based on eligible deficit positions. Any funds not required in 2020 from the Safe Restart Phase 1 will be transferred to reserve to help offset deficits in 2021 in accordance with the provincial guidelines.

## 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 corporate year-end projection is \$3.6 million; \$2.7 million for tax supported and \$900 thousand for non-tax supported budgets. However, the City has in place financial restrictions that disallow the use of surplus from one business line to another, as well as the Reserve and Reserve Fund Policy that should be considered as a first priority before the use of the Safe Restart Grant relief. For this reason, the projected deficit in non-tax supported budgets after considering this projected impacts is \$3.1 million as demonstrated in Table 1.

Table 1: Non-tax projected deficit adjusted for year-end reserve fund transfers

+	Projected (Surplus)/Deficit	Projected Transfer to /(from) Reserve	Additional funding from County to City	Projected Net Deficit to be funded from Safe Restart Grant
Water	\$(1,073,000)	\$1,073,000		\$0
Wastewater	\$(1,916,000)	\$1,916,000		\$0
Stormwater	\$(215,000)	\$215,000		\$0
Parking	\$2,388,000	\$0		\$2,388,000
Ontario Building Code	\$510,000	\$(510,000)		\$0
Courts	\$1,253,000	\$(500,000)	\$(300,000)	\$453,000
<b>Total</b>	<b>\$947,000</b>	<b>\$2,194,000</b>	<b>\$(300,000)</b>	<b>\$2,841,000</b>

The projected year-end variance requiring funding from the Safe Restart Phase 1 Funding is estimated at a total of \$5.5 million; \$2.7 million for tax supported budgets and \$2.8 million for non-tax supported budgets.

Due to the early and significant steps taken by staff and Council to implement expense mitigation measures early on in the pandemic, the City was not eligible for Phase 2 funding. Based on projections, the City will have remaining Phase 1 Funding available of approximately \$6.5 million and will be able to transfer this to reserve to help offset COVID impacts in the first quarter of 2021. Given that we are currently experiencing the second wave of COVID, and the City is continuing to respond to changing provincial requirements, these estimates will still likely change and be revised through the year-end variance reporting process.

The Safe Restart Phase 1 Funding will enable the contingency reserves to remain intact in 2020 and better position the City to be able to manage the long-term financial impacts of this pandemic without significant increases to the tax levy or user rates. It will provide the City with greater flexibility to respond to the second wave through 2021 and other unexpected events in the upcoming years.

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## **Report**

### **Details**

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 September 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 second quarter. It is still early to fully quantify the full impact of the pandemic as the City is in 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 corporate financial impact taking into consideration all mitigation measures taken by the City.

### **COVID-19 Variance Highlights**

The impact on revenues related to operations during the COVID-19 crisis is an estimated \$19.5 million shortfall, a cost increase of \$4.8 million and a corresponding cost reduction through mitigation efforts of \$20.7 million resulting in a projected deficit of \$3.6 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). Likely, the impacts will continue for years as the businesses and employment in our community change, working from home becomes 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 \$8.0 million mainly due to lower transit fares which includes the cancellation of the U-pass for fall 2020 due to the University of Guelph offering online learning, and retailers and establishments not returning to normal operations. This projection also includes cancelled advertising revenues. Future Transit ridership will be dependent upon how quickly the community returns to using Transit services in a changed environment of online learning, virtual medical appointments and employees who are working from home.

- Culture and Recreation, and Parks estimated revenue loss is \$5.7 million due to closure of facilities, cancellation of programs, shows, events, memberships, and events and bookings. Guelph Museums reopened in July 2020 and will slowly increase operations and programming through 2020. Outside of a few small rentals and community ice time, River Run Centre and Sleeman Centre have no special events booked for the remainder of this year. Impacts will be noticeable into 2021.

#### Infrastructure, Development and Enterprise Services

- Solid Waste Services estimated revenue loss is \$368 thousand due to closure of the public drop-off and reduced tipping fees resulting from lower construction activity and demolition tonnage. Revenue will be mostly offset by Blue Box program revenue which is anticipated to come in higher than budget due to increasing diversion rates.
- Planning and Building Services and Engineering and Transportation Services combined estimated revenue loss of \$644 thousand, due to reduced development activity levels and pausing of subdivision and construction projects from the provincial closure order. Legislated Building Services (Ontario Building Code) is forecasting a 17% loss in 2020 revenues or \$600 thousand due to a reduction in permit activity.
- Parking Services projected revenue loss is \$2.5 million due to 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 for projections into 2021 on the impact on parking revenues.
- Economic Development and Tourism is projecting a revenue loss of \$112 thousand due to lost rent at the Farmer's Market.
- Water and Wastewater Services combined project a \$1.3 million favorable variance in revenue. The favorable year-end projection is the result of higher than expected volumetric usage. Although there has been a decline in Industrial, Commercial and Institutional (ICI) consumption, residential consumption has been strong year-to-date which has overshadowed the decrease in ICI consumption. The decrease in ICI consumption is forecasted to continue until the end of the year mainly based on a reduction in consumption at the University of Guelph due to significantly fewer students on campus for the fall semester. Residential consumption is expected to continue to perform better than budget for the remainder of the year as a result of many residents continuing to work from home. The net impact is a projected favorable year-end variance for volumetric revenues. 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 annual rain barrel sales at Water Services in the second quarter as well as interest and late fee waivers.

#### Corporate Services

- City Clerk's Office is projecting revenue loss of \$114 thousand due to lost user fees, licenses and permits.

- Finance is projecting lost revenue of \$66 thousand for lost user fees due to tax certifications, arrears notices, and mortgage fees.
- Court Services is projecting revenue loss of \$1.8 million. \$1 million due to mandated closure of courts and an additional \$800 thousand due to reduced charge base, and no enforcement or collection activities taking place for Provincial Offences Act. Revenue related to parking fine enforcement is transferred to Operations in the tax supported budget at year-end. The revenue loss due to the closure of courts is shared between the City and the County, 56 per cent or \$560 thousand and 44 per cent or \$440 thousand respectively. The projected net impact to the County at year-end is estimated to be a deficit of \$300 thousand. 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 the end of 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 \$140 thousand due to lower number of record checks.
- Guelph Public Library has projected revenue loss of \$240 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-essential positions creating savings through vacancies. Further, action was taken through the month of April with temporary layoffs 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 \$10.7 million for the year based on these actions.

#### 2. Utilities

Overall energy and water expenditures are projected to be \$1.5 million (\$1.0 million tax and \$500 thousand non-tax) below budget reflected in facilities and energy management due to facility closures and reduced consumption. Staff have made adjustments in the 2021 proposed budget to maintain overall city energy and water budgets at 2020 levels with the exception of wastewater services which continues to see electrical utility cost reductions under the Class A Global Adjustment Program.

### 3. Fuel

Fuel consumption and fuel prices have been lower than budgeted resulting in estimated savings of \$1.8 million reflected in operations. A portion of this savings is due to price per litre being lower than budgeted and a portion is due to lower fleet activity. Staff have made an adjustment to realign the cost per litre to a 3-year historical average in the proposed 2021 budget.

### 4. Delayed implementation of projects

During the 2020 budget deliberations, Council approved transit route enhancements related to three new buses acquired in the 2019 budget. 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 \$5.1 million in 2020, 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 \$4.8 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 Oct 14, 2020](#) (page 52) based on September 30, 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 \$725 thousand. The City under budgeted for County-delivered 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 the Province has initiated a reimbursement program to address these pressures. At this time, no significant variance is expected.

### Paramedic Services

- Paramedic Services is projecting a year-end deficit of \$550 thousand due to higher compensation costs, medical supplies costs, and stretcher maintenance costs. A portion of this projected deficit will be shared with the County based on call volumes. The expected impact to the County is a projected budget deficit of \$209 thousand.

## **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.

## **Financial Recovery**

### **Emergency funding for municipalities: the Safe Restart Agreement**

The Safe Restart Agreement between the Federal and Provincial governments was announced on July 16.

The City of Guelph received \$5.1 million and \$6.9 million under the Safe Restart Agreement Phase 1 for transit and operating stream respectively. Due to the timing of the third quarter variance report and year-end projection, staff did seek Council approval of a motion on October 26, 2020 that would allow the City to apply for Phase 2 funding as part of the Safe Restart Agreement operating stream. Due to the early and significant steps taken by staff and Council to implement expense mitigation measures early on in the pandemic, the City was not eligible for Phase 2 funding. Based on projections, the City will have remaining Phase 1 Funding available and will be able to transfer this to reserve to help offset COVID impacts in the first quarter of 2021. The amounts to be transferred to reserve and used to offset pressures in 2021 will not be known until year-end.

### **Long-term Recovery**

As with other municipalities in the Province facing operating deficits in the current year, and as the City remains in Stage 3 of the recovery, Council should continue to take a long-term view on the recovery journey. The City's 2021 Budget includes a [four-part strategy](#) to address the impacts of COVID on our service delivery.

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.

## **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 \$3.6 million; \$2.7 million for tax supported and \$900 thousand for non-tax supported budgets.

The projected deficit in non-tax supported budgets after year-end reserve fund transfers in accordance with reserve and reserve fund policy is \$2.8 million as outlined in Table 1 above.

The projected year-end variance requiring funding from the Safe Restart Phase 1 Funding is estimated at a total of \$5.5 million; \$2.7 million tax supported and \$2.8 million non-tax supported budgets.

Due to the early and significant steps taken by staff and Council to implement expense mitigation measures early on in the pandemic, the City was not eligible for Phase 2 funding. Based on projections, the City will have remaining Phase 1 funding available and will be able to transfer this to reserve to help offset COVID impacts in the first quarter of 2021. The amounts to be transferred to reserve and used to offset pressures in 2021 will not be known until year-end.

The Safe Restart Phase 1 Funding will enable the contingency reserves to remain intact in 2020 and better position the City to be able to manage the long-term financial impacts of this pandemic without significant increases to the tax levy or user rates. It will provide the City with greater flexibility to respond to the second wave through 2021 and other unexpected events in the upcoming years.

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 September 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 Third Quarter Operating Variance Year-end Projection

## **Departmental Approval**

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### Attachment-1: 2020 Third 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)
<b>Sub-total Mayor and Council</b>	<b>\$1,161,350</b>	<b>\$(45,000)</b>
CAO Administration	\$701,605	\$(180,000)
Strategy, Innovation and Intergovernmental Services	\$1,006,540	\$(167,000)
Internal Audit	\$283,048	\$(93,100)
Corporate Communications	\$1,310,560	\$(156,000)
Smart Cities Office	\$0	\$0
<b>Sub-total Office of the CAO</b>	<b>\$3,301,753</b>	<b>\$(596,100)</b>
IDE Administration	\$223,310	\$(32,000)
Planning and Building Services	\$3,646,295	\$(139,200)
Facilities and Energy Management	\$6,130,347	\$(955,000)
Engineering and Transportation Services	\$3,313,669	\$(616,000)
Environmental Services	\$13,077,100	\$(1,710,000)
Economic Development and Tourism	\$1,845,720	\$(422,000)
<b>Sub-total Infrastructure Development and Enterprise</b>	<b>\$28,236,441</b>	<b>\$(3,874,200)</b>
Public Services Administration	\$446,930	\$0
Parks	\$10,394,355	\$(507,000)
Culture and Recreation	\$10,195,248	\$1,362,000
Guelph Transit	\$20,829,310	\$5,489,600
Operations	\$15,404,135	\$(2,668,700)
Fire Services	\$28,230,886	\$(121,500)
Guelph-Wellington Paramedic Services	\$6,959,295	\$500,000
<b>Sub-total Public Services</b>	<b>\$92,460,159</b>	<b>\$4,104,400</b>
Corporate Services Administration	\$329,680	\$(6,000)
Human Resources	\$2,962,885	\$(744,000)
Information Technology	\$3,438,870	\$15,500
City Clerk's Office	\$1,736,510	\$(80,000)
Finance	\$3,132,114	\$(504,000)
Legal, Realty and Court Services	\$1,559,830	\$194,000
<b>Sub-total Corporate Services</b>	<b>\$13,159,889</b>	<b>\$(1,124,500)</b>
<b>Total City Departments</b>	<b>\$138,319,592</b>	<b>\$1,535,400</b>
General Expenditures	\$8,763,706	\$(1,100,000)
General Revenues	\$(267,126,628)	\$1,781,000

<b>Department</b>	<b>Annual Net Budget 2020</b>	<b>Forecasted Net Variance for December 31, 2020 (Favourable) / Unfavourable (\$)</b>
COVID-19 Expenses		\$4,497,100
Capital Financing	\$33,097,745	\$0
<b>Total General and Capital Financing</b>	<b>\$ (225,265,178)</b>	<b>\$5,178,100</b>
<b>Total City Departments, General and Capital Financing</b>	<b>\$(86,945,586)</b>	<b>\$3,642,700</b>
Guelph Police Services	\$45,641,500	\$(719,000)
Guelph Public Library	\$9,622,212	\$(262,000)
The Elliott Community	\$1,580,457	\$0
<b>Sub-total Local Boards</b>	<b>\$56,844,169</b>	<b>\$(981,000)</b>
Wellington-Dufferin-Guelph Public Health	\$4,025,400	\$0
Social Services (County of Wellington)	\$22,884,317	\$0
<b>Sub-total Shared Services</b>	<b>\$26,909,717</b>	<b>\$0</b>
Grants	\$3,191,700	\$0
<b>Subtotal Local Boards, Shared Services and Grants</b>	<b>\$86,945,586</b>	<b>\$(981,000)</b>
<b>Total Tax Supported Budget</b>	<b>0</b>	<b>\$2,661,700</b>
<b>Department</b>	<b>Annual Expenditure Budget 2020</b>	<b>Forecasted Net Variance for December 31, 2020 (Favourable) / Unfavourable (\$)</b>
Water Services	\$31,608,009	\$(1,073,000)
Wastewater Services	\$33,949,117	\$(1,916,000)
Ontario Building Code	\$3,591,200	\$510,000
Parking Services	\$6,337,502	\$2,388,000
Court Services	\$4,202,100	\$1,253,000
Stormwater Services	\$7,903,600	\$(215,000)
<b>TOTAL Non-tax Supported Budget</b>	<b>\$87,591,528</b>	<b>\$947,000</b>