

COMMITTEE AGENDA



TO **Corporate Services Committee**

DATE Wednesday September 9, 2015

LOCATION Council Chambers, Guelph City Hall, 1 Carden Street

TIME 1:00 p.m.

DISCLOSURE OF PECUNIARY INTEREST AND GENERAL NATURE THEREOF

CONFIRMATION OF MINUTES – June 29 and July 6, 2015 open meeting minutes

PRESENTATIONS (Items with no accompanying report)

CONSENT AGENDA

The following resolutions have been prepared to facilitate the Committee's consideration of the various matters and are suggested for consideration. If the Committee wishes to address a specific report in isolation of the Consent Agenda, please identify the item. The item will be extracted and dealt with separately. The balance of the Corporate Services Committee Consent Agenda will be approved in one resolution.

ITEM	CITY PRESENTATION	DELEGATIONS	TO BE EXTRACTED
CS-2015.31 Outstanding Motions of the Corporate Administration, Finance & Enterprise and Corporate Services Committee			
CS-2015.32 2015 Interim Investment Performance Report			
CS-2015.33 Q2 2015 Operating Variance Report			
CS-2015.34 2015 Q2 Capital Variance Report			

CS-2015.35 Financial Review of the Urbacon Capital Project			
CS-2015.36 Service Rationalization Options			

Resolution to adopt the balance of the Corporate Services Committee Consent Agenda.

ITEMS EXTRACTED FROM CONSENT AGENDA

Once extracted items are identified, they will be dealt with in the following order:

- 1) delegations (may include presentations)
- 2) staff presentations only
- 3) all others.

STAFF UPDATES AND ANNOUNCEMENTS

ADJOURN

NEXT MEETING: October 5, 2015



**The Corporation of the City of Guelph
Corporate Services Committee
Monday June 29, 2015 at 2:00 p.m.**

Attendance

Members:	Chair Hofland Mayor Guthrie Councillor Allt	Councillor Billings Councillor MacKinnon
Councillors:	Councillor Bell Councillor Downer	Councillor Gordon Councillor Wettstein
Staff:	Ms. A. Pappert, Chief Administrative Officer Mr. M. Amorosi, Deputy CAO, Corporate & Human Resources Mr. D. Thomson, Deputy CAO, Public Services Mr. D. Godwaldt, General Manager Human Resources Ms. K. Dedman, General Manager Engineering & Capital Infrastructure Services/City Engineer Mr. B. Labelle, General Manager Technology Innovation Ms. J. Sheehy, General Manager Finance/Treasurer Mr. B. Coutts, Manager Court Services Mr. D. Godfrey, Manager By-law Compliance, Security & Licensing Mr. S. O'Brien, City Clerk Ms. J. Sweeney, Council Committee Coordinator	

Call to Order (2:00 p.m.)

Chair Hofland called the meeting to order.

Disclosure of Pecuniary Interest and General Nature Thereof

There were no disclosures.

The Chair advised that the purpose of this special meeting was to receive information on the Corporate Services, Council Shared Agenda Work Plans.

Mr. M. Amorosi, Deputy CAO Corporate Services recapped the shared agenda development to date and explained the format of the work plans. He highlighted the key deliverables of the four Corporate Services work plans: taxation and budget; infrastructure; quality service and customer service; and electoral review and reform.

The Committee had considerable discussion relating to the four work plans.

1. Moved by Councillor Billings
Seconded by Mayor Guthrie

That the Corporate Services – Council Shared Agenda Work Plan, be received.

VOTING IN FAVOUR: Mayor Guthrie, Councillors Allt, Billings, Hofland and MacKinnon (5)
VOTING AGAINST: (0)

CARRIED

Chair Hofland vacated the Chair and Mayor Guthrie assumed the Chair.

2. Moved by Councillor Hofland
Seconded by Councillor Billings

That the deliverable “Recommended approach to using taxation as a tool for quality of life” under Taxation and Budget Work Plan be removed.

VOTING IN FAVOUR: Councillors Billings and Hofland (2)
VOTING AGAINST: Mayor Guthrie, Councillors Allt and MacKinnon (3)

DEFEATED

Chair Hofland resumed the Chair.

3. Moved by Councillor Allt
Seconded by Councillor MacKinnon

That Committee input inform the next steps in the Council Shared Agenda Work Plan process.

VOTING IN FAVOUR: Mayor Guthrie, Councillors Allt, Billings, Hofland and MacKinnon (5)
VOTING AGAINST: (0)

CARRIED

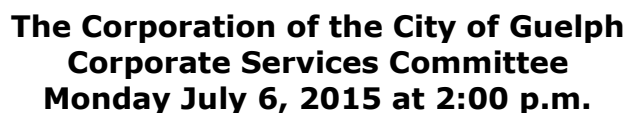
Adjournment (3:40 p.m.)

4. Moved by Councillor MacKinnon
Seconded by Mayor Guthrie

That the meeting be adjourned.

CARRIED

Joyce Sweeney
Council Committee Coordinator



Members:	Chair Hofland Mayor Guthrie Councillor Allt	Councillor Billings Councillor MacKinnon
Councillors:	Councillor Bell Councillors Downer	Councillor Gordon Councillor Wettstein
Staff:	Ms. A. Pappert, Chief Administrative Officer Mr. M. Amorosi, Deputy CAO, Corporate & Human Resources Mr. D. Thomson, Deputy CAO, Public Services Mr. D. Godwaldt, General Manager, Human Resources Mr. B. Labelle, General Manager, Information Technology Ms. J. Sheehy, General Manager Finance/City Treasurer Ms. T. Sprigg, General Manager, Communications & Customer Service Mr. S. O'Brien, City Clerk Ms. J. Sweeney, Council Committee Coordinator	

Chair Hofland called the meeting to order.

There were no disclosures.

1. Moved by Councillor Allt
Seconded by Mayor Guthrie
 1. That the open meeting minutes of the Corporate Services Committee held on June 1, 2015 be amended to reflect Councillor Billings and Councillor MacKinnon being the mover and seconder for resolution #1;
 2. That the open meeting minutes of the Corporate Services Committee held on June 1, 2015 be confirmed as amended.

VOTING AGAINST: (0)

CARRIED

Consent Agenda

The following items were extracted:

- CS-2015.29 Budget Formula City Guideline**
CS-2105.30 Councillor Allt's Motion from Council February 23, 2015 re:
Reinstatement of the Long Form Census
CS-2105.31 Capital Renewal Reserve Fund: Urbacon Settlement

Balance of Consent Items

2. Moved by Councillor Billings
 Seconded by Mayor Guthrie

That the balance of the Corporate Services Committee July 6, 2015 Consent Agenda, as identified below, be adopted:

CS-2015.27 Learning and Development Audit Progress Update

That the July 6, 2015 report titled "Learning and Development Audit - Progress Update", be received.

CS-2015.28 Print Shop Audit – Status of Actions Taken

That the report of the City Clerk regarding "Print Shop Audit – Status of Actions Taken", dated July 6, 2015, be received.

VOTING IN FAVOUR: Mayor Guthrie, Councillors Allt, Billings, Hofland and MacKinnon (5)

VOTING AGAINST: (0)

CARRIED

Extracted Items

CS-2015.29 Budget Formula City Guideline

Ms. J. Sheehy, General Manager Finance/City Treasurer briefly introduced the report.

Mr. M. Amorosi, Deputy CAO Corporate Services advised that the formula is a guideline to staff and that staff have presented budgets below the recommended guideline.

Chair Hofland stepped down from the Chair, and Mayor Guthrie assumed the Chair.

Main Motion

3. Moved by Councillor Allt
 Seconded by Councillor Hofland

1. That the Corporate Services Committee receive Report CS-2015-46 "Budget Formula City Guideline".

2. That Corporate Services Committee approve the use of the following budget formula to guide staff budget development:

(5-year average for Ontario CPI) + (5-year average of MPAC's Market Change) + Investment Factor

Councillor Hofland resumed the Chair.

Amendment

4. Moved by Mayor Guthrie
Seconded by Councillor Billings

That budget formula in Clause 2 be amended to read: *5-year average for Ontario CPI*

VOTING IN FAVOUR: Mayor Guthrie and Councillors Billings, (2)

VOTING AGAINST: Councillors Allt, Hofland and MacKinnon (3)

DEFEATED

Amendment

5. Moved by Mayor Guthrie
Seconded by Councillor Billings

That the investment factor be removed from the budget formula.

VOTING IN FAVOUR: Mayor Guthrie, Councillors Billings and MacKinnon (3)

VOTING AGAINST: Councillors Allt and Hofland (2)

CARRIED

Main Motion as Amended

6. Moved by Councillor Allt
Seconded by Councillor Hofland

1. That the Corporate Services Committee receive Report CS-2015-46 "Budget Formula City Guideline".
2. That Corporate Services Committee approve the use of the following budget formula to guide staff budget development:

(5-year average for Ontario CPI) + (5-year average of MPAC's Market Change)

VOTING IN FAVOUR: Councillors Allt, and MacKinnon (2)

VOTING AGAINST: Mayor Guthrie, Councillors Billings and Hofland (3)

DEFEATED

7. Moved by Councillor Allt
Seconded by Councillor MacKinnon

That the budget formula city guideline be referred to the July 20, 2015 Council meeting for consideration.

VOTING IN FAVOUR: Mayor Guthrie, Councillors Allt, Billings, Hofland and MacKinnon (5)

VOTING AGAINST: (0)

CARRIED

**CS-2015.30 Councillor Allt's motion from Council February 23, 2015 re:
Reinstatement of the Long Form Census**

Main Motion

8. Moved by Councillor Allt
Seconded by Mayor Guthrie

1. That the City of Guelph affirm its support for the reinstatement of the long form census.
2. That this resolution be forwarded to the Federation of Canadian Municipalities (FCM), the Association of Municipalities of Ontario (AMO), the Large Urban Mayors Caucus of Ontario (LUMCO) and the Minister of Industry.

Amendment

9. Moved by Mayor Guthrie
Seconded by Councillor Allt

That clause 2 be amended to direct the Mayor to write a letter in support.

VOTING IN FAVOUR: Mayor Guthrie, Councillors Allt, Billings and Hofland (4)

VOTING AGAINST: Councillor MacKinnon (1)

CARRIED

Main Motion as Amended

10. Moved by Councillor Allt
Seconded by Councillor MacKinnon

1. That the City of Guelph affirm its support for the reinstatement of the long form census.
2. **That the Mayor send a letter** to the Federation of Canadian Municipalities (FCM), the Association of Municipalities of Ontario (AMO), the Large Urban Mayors Caucus of Ontario (LUMCO) and the Minister of Industry.

VOTING IN FAVOUR: Mayor Guthrie, Councillors Allt, Billings and Hofland (4)

VOTING AGAINST: Councillor MacKinnon (1)

CARRIED

CS-2015.31 Capital Renewal Reserve Fund: Urbacon Settlement

Ms. J. Sheehy, General Manager Finance/City Treasurer provided a brief history of the Urbacon funding.

Ms. A. Pappert, Chief Administrative Officer, outlined the history of the issue and advised there is no clear direction from Council to repay the Capital Renewal Reserve and it is difficult for staff to recommend repayment to the Reserve until the BMA review of the current funding levels of all reserves has been received.

Main Motion

11. Moved by Mayor Guthrie
Seconded by Councillor Allt
 1. That report CS-2015.63 "Capital Renewal Reserve Fund: Urbacon Settlement", be received.
 2. That staff be directed not to repay the amount transferred from the Capital Renewal Reserve Fund to fund the Urbacon Settlement and unfunded legal and project costs.
 3. That Council approve a one-time exemption from the Capital Renewal Reserve Fund Policy as established by By-law Number (2013)-19536 related to the requirement to repay funding to the reserve.
 4. That staff include a recommendation in the 2016 budget related to the Capital Renewal Reserve Fund as part of the consideration of the findings of the BMA Financial Condition Assessment, thereby ensuring highest and best use of the funding of reserves.

Amendment

12. Moved by Councillor Billings
Seconded by Mayor Guthrie

That the BMA Financial Condition Assessment, reviewing the current funding level of all reserves be brought forward to the Corporate Services Committee meeting of October 5, 2015.

VOTING IN FAVOUR: Mayor Guthrie, Councillors Allt, Billings, Hofland and MacKinnon (5)

VOTING AGAINST: (0)

CARRIED

Main Motion as Amended

13. Moved by Mayor Guthrie
Seconded by Councillor Allt
 1. That report CS-2015.63 "Capital Renewal Reserve Fund: Urbacon Settlement", be received.

2. That staff be directed not to repay the amount transferred from the Capital Renewal Reserve Fund to fund the Urbacon Settlement and unfunded legal and project costs.
3. That Council approve a one-time exemption from the Capital Renewal Reserve Fund Policy as established by By-law Number (2013)-19536 related to the requirement to repay funding to the reserve.
4. That staff include a recommendation in the 2016 budget related to the Capital Renewal Reserve Fund as part of the consideration of the findings of the BMA Financial Condition Assessment, thereby ensuring highest and best use of the funding of reserves.
- 5. That the BMA Financial Condition Assessment, reviewing the current funding level of all reserves be brought forward to the Corporate Services Committee meeting of October 5, 2015.**

VOTING IN FAVOUR: Mayor Guthrie, Councillors Allt, Billings, Hofland and MacKinnon (5)

VOTING AGAINST: (0)

CARRIED

Staff Updates and Announcements

Ms. Sheehy introduced Liam Gott who will be replacing Sarah Purton during her maternity leave as Manager of Financial Planning & Budgeting.

Adjournment (4:00 p.m.)

14. Moved by Mayor Guthrie
Seconded by Councillor Allt

That the meeting be adjourned.

CARRIED

Joyce Sweeney
Council Committee Coordinator

**CORPORATE SERVICES COMMITTEE
CONSENT AGENDA**

September 9, 2015

Members of the Corporate Services Committee.

SUMMARY OF REPORTS:

The following resolutions have been prepared to facilitate the Committee's consideration of the various matters and are suggested for consideration. If the Committee wishes to address a specific report in isolation of the Consent Agenda, please identify the item. The item will be extracted and dealt with immediately. The balance of the Corporate Services Committee Consent Agenda will be approved in one resolution.

Reports from Administrative Staff

REPORT		DIRECTION
CS-2015.31	OUTSTANDING MOTIONS OF THE CORPORATE ADMINISTRATION, FINANCE & ENTERPRISE AND CORPORATE SERVICES COMMITTEE That the report dated September 9, 2015, regarding outstanding motions of the Corporate Administration, Finance & Enterprise and Corporate Services Committee, be received.	Receive
CS-2015.32	2015 INTERIM INVESTMENT PERFORMANCE REPORT 1. That Report CS-2015-66 entitled "Interim Investment Performance Report", be received for information. 2. That Council approve the amendments as proposed to the City's Investment Policy.	Approve
CS-2015.33	Q2 2015 OPERATING VARIANCE REPORT That report CS-2015-68 entitled "Q2 2015 Operating Variance Report", be received for information.	Receive
CS-2015.34	2015 Q2 CAPITAL VARIANCE REPORT That report CS-2015-69 entitled "2015 Q2 Capital Variance Report", be received for information.	Receive

CS-2015.35

**FINANCIAL REVIEW OF THE URBACON CAPITAL
PROJECT**

Receive

That report CS-2015-78 entitled "Financial Review of the Urbacon Capital Project", be received.

CS-2015.36

SERVICE RATIONALIZATION OPTIONS

Approve

That Council approve in principle a Service Rationalization review of City programs and services and refer the cost to the 2016 Budget process. (Attachment will be included on the addendum.)

attach.

STAFF REPORT



TO Corporate Services Committee

SERVICE AREA Corporate Services

DATE September 9, 2015

**SUBJECT Outstanding Motions of the Corporate, Administration,
Finance & Enterprise & Corporate Services Committee**

REPORT NUMBER **CS-2015-76**

EXECUTIVE SUMMARY

PURPOSE OF REPORT

To advise the Corporate Services Committee of the status of all outstanding Committee resolutions pertaining to Corporate Services.

KEY FINDINGS

Staff are continuing to plan work required to address outstanding motions previously passed by the Committee.

Staff have reviewed all outstanding motions and have provided updated as applicable.

FINANCIAL IMPLICATIONS

None

ACTION REQUIRED

To be advised of the status/timing of all outstanding Corporate Services Committee motions pertaining to Corporate Services and to update the outstanding motion list.

RECOMMENDATION

That the report dated September 9, 2015, regarding outstanding motions of the Corporate, Administration, Finance & Enterprise Committee and Corporate Services, be received;

BACKGROUND

For some time, with input from the Clerk's Department, a record of outstanding motions of Committee has been maintained. The Executive Team has decided to

STAFF REPORT

bring to each Committee of Council an update of all outstanding motions. The biannual report may include recommendations, where appropriate, to eliminate from the list any outstanding motions that may no longer be of priority to the Committee.

REPORT

Included for information is the outstanding motion for the Corporate, Administration, Finance & Enterprise and Corporate Services Committee, including the status of the work and the timing, when available, for when the work may be completed.

Date	Resolution	Lead	Status
CORPORATE & HUMAN RESOURCES			
May 25, 2009	AND THAT staff report back on the financial impact of the final decision of the appeal to ascertain Council's commitment to offset the impact on staff. (Canada Revenue Agency)	C & HR / HR	Ongoing
Date	Resolution	Lead	Status
FINANCE AND ENTERPRISE SERVICES			
Dec 5, 2013 Council Meeting	Main Motion 35 That the Chief Administrative Officer report back to the Corporate Administration, Finance & Enterprise Committee with a review of the value of introducing additional zero-base budgeting processes.	Al Horsman	A report addressing this motion will be submitted to CS Committee. Timing to be post 2016 budget approval.
Corporate Services			
July 7, 2014	That staff be directed to create a corporate policy regulating advertisements on city assets consistent with current applicable provincial and federal legislation, and in line with the <i>Canadian Code of Advertising Standards</i> as created and administered by Advertising Standards Canada	Derrick Thomson/ Tara Sprigg	Q4 2015 target completion date

CORPORATE STRATEGIC PLAN

Innovation in Local Government

2.3 Ensure accountability, transparency and engagement.

DEPARTMENTAL CONSULTATION

Corporate Services – Clerks Department, Finance Department

COMMUNICATIONS

N/A

ATTACHMENTS

None

STAFF REPORT



Report Author

Mary Stoddart,
Executive Assistant

A handwritten signature in cursive script that reads "Mark Amorosi".

Approved and Recommended By

Mark Amorosi, Deputy CAO
Corporate Services
519.822.1260 ext 2281
Mark.Amorosi@guelph.ca

STAFF REPORT



TO Corporate Services Committee

SERVICE AREA Corporate Services, Finance

DATE September 9, 2015

SUBJECT 2015 Interim Investment Performance Report

REPORT NUMBER CS-2015-66

EXECUTIVE SUMMARY

PURPOSE OF REPORT

To report on the interim 2015 investment portfolio performance and holdings as required by Ontario Regulation 438/97 of the *Municipal Act, 2001*, and the City's Council approved Investment Policy.

KEY FINDINGS

The City has earned \$2.7 million in investment interest income as of June 30, 2015. This is \$0.2 million less than the budgeted amount and comparable for the same period in 2014 (\$2.6 million).

The City also earned a \$1.95 million capital gain on the sale of an investment made prior to its maturity date to capitalize on the volatile bond market.

The average rate of interest return in 2015 declined to 2.13% as compared to 2.41% in 2014. This drop in interest return is due to the reduction in interest rates that was announced by the Bank of Canada (BOC) January 21, 2015. The decrease affected both the daily interest rate with Toronto Dominion (TD) Bank and two investments that are linked to market rates.

Including the capital gain of \$1.95 million, the average rate of return on total investments plus cash balances increases to 3.57% as of June 30, 2015.

With the exception of the items listed in section C of this report, the City has managed its investment portfolio in accordance with Ontario Regulation 438/97 of the *Municipal Act, 2001*, and in accordance with the December 2011 Council approved Investment Policy.

To adapt to the current low interest rate environment, staff reviewed the City's Investment Policy and have determined minor amendments are required in order to appropriately manage the investment portfolio and maximize the rate of return.

STAFF REPORT

FINANCIAL IMPLICATIONS

Investment income reduces the amount otherwise required from property taxation to finance City services, as well as increasing the value of reserve funds used to finance capital projects.

ACTION REQUIRED

That Report CS-2015-66 2015 Interim Investment Performance Report be received; AND

That Council approve the amendments as proposed to the City's Investment Policy.

RECOMMENDATION

THAT Report CS-2015-66 2015 Interim Investment Performance Report be received for information;

AND

THAT Council approve the amendments as proposed to the City's Investment Policy.

BACKGROUND

Ontario Regulation 438/97 of the *Municipal Act, 2001*, requires a municipality to adopt a statement of investment policies and goals and requires an investment report to be provided to Council at least annually. This report has been prepared in compliance with this regulation.

The primary objectives of the investment policy are as follows:

- Adherence to statutory requirements,
- Preservation of capital,
- Maintaining liquidity, and
- Earning a competitive rate of return

Provincial legislation requires that the Treasurer submit an investment report to Council, each year or more frequently as specified by Council. The City's current Investment Policy requires a report on the financial position, investment performance, market value, and compliance status of the portfolio at least twice per year.

STAFF REPORT

Additionally, the Investment Policy approved by Council in 2011 is required to be reviewed at every change in Council and/or as needed. For that reason, finance staff have reviewed the current policy and included amendments for approval in **Schedule III** to this report.

REPORT

Definitions

Carrying Value – Also known as book value. The portion of an asset's value that is not depreciated. Carrying value is not market value, which is determined by market forces, such as stock prices.

Face Value - The value of a bond or another type of debt instrument at maturity. Also called par value.

Market Value - The price at which a security currently can be sold.

A. Statement of Performance

The cash and investment positions (carrying value) of the City are as follows:

	June 30, 2015 (Carrying Value)	June 30, 2014 (Carrying Value)
Long-Term	\$ 172,426,199	\$ 114,190,383
Short-Term	\$ 45,000,000	\$ 75,000,000
Total Investments	\$ 217,426,199	\$ 189,190,383
Cash	\$ 79,303,608	\$ 77,158,831
Total	\$296,729,807	\$266,349,214

The total investment and cash market value was \$301.2 million (2014 - \$235.3 million).

The attached **Schedules I and II** provide the portfolio mix, term limits, and holding limits as at June 30, 2015.

Interest earned on investments and cash as of June 30, 2015 is \$2.7 million which is \$200k less than budget but comparable to June 30, 2014 earnings (\$2.6 million). The City also earned a \$1.95 million capital gain on the sale of an investment made prior to its maturity date to capitalize on the volatile bond market. This was an unbudgeted gain and will be used to offset the projected losses expected due to the low interest rate environment and low Canadian dollar. Any remaining gain will be

STAFF REPORT

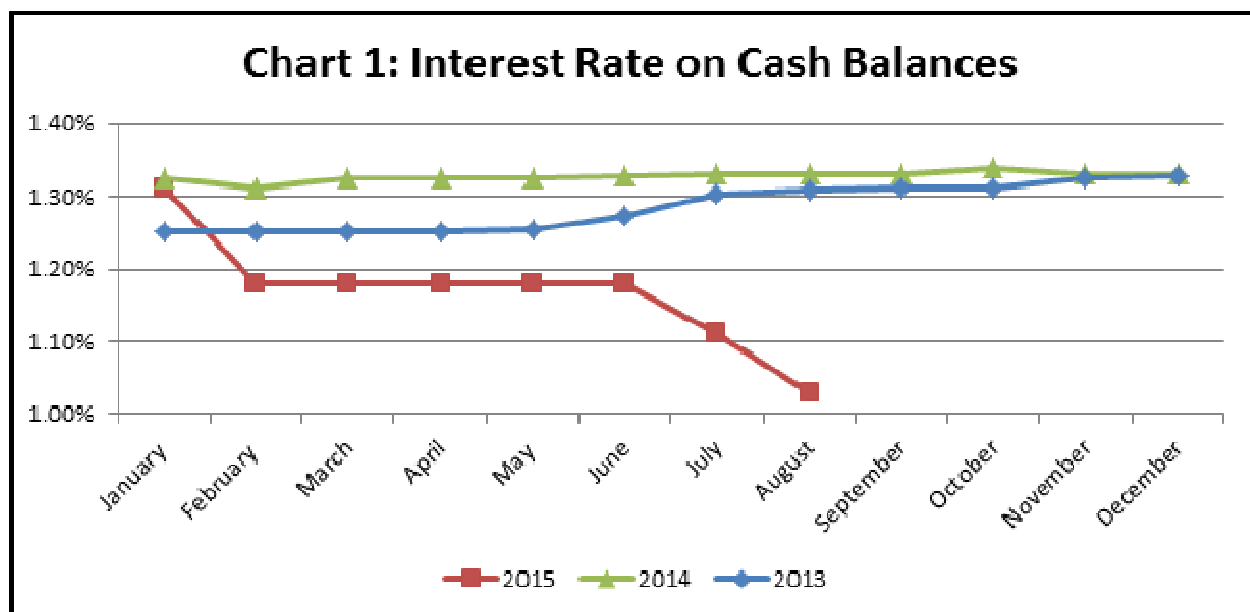
allocated to the reserve and reserve funds in accordance with the General Reserve and Reserve Fund Policy.

The carrying value of the total investment portfolio as of June 30, 2015 was \$217.4 million, plus cash holdings of \$79.3 million. This computes to an average rate of return of 2.13% (2014 – 2.41%). With the inclusion of the capital gain, the average rate of return for 2015 increases to 3.57% as of June 30, 2015. City staff caution against the benchmarking of capital gain returns in 2015 as these are a one-time return due to the current market conditions. City staff made the decision to sell investments prior to maturity in order to capitalize on the volatile bond market and may not have this opportunity again in 2016.

Investment income earned on investments and cash balances will be allocated to the reserve and reserve funds at year end in proportion to their average balances. This is in accordance with the City's General Reserve and Reserve Fund Policy.

2015 Investment Activity - Cash

Bank of Canada announced a cut in the prime rate from 3% to 2.70% on January 21, 2015. TD normally sets the City's deposit rate at prime minus 1.67% but only dropped their rate by 15 basis points to 1.18%. The drop in prime rate has affected the City's earning returns on the bank account as can be seen below in **Chart 1**. This lowering of prime translates into \$31k of lost revenue as of June 30, 2015 and could be as high as \$70k for the full year.



STAFF REPORT



On July 17, 2015, the Bank of Canada further reduced prime by another 25 basis points and TD Bank then followed by reducing their interest rate from 1.18% to 1.03%. This low interest rate environment is negatively affecting the City's investment returns and has city staff analyzing the function of investment management and what alternative options are advantageous in this climate.

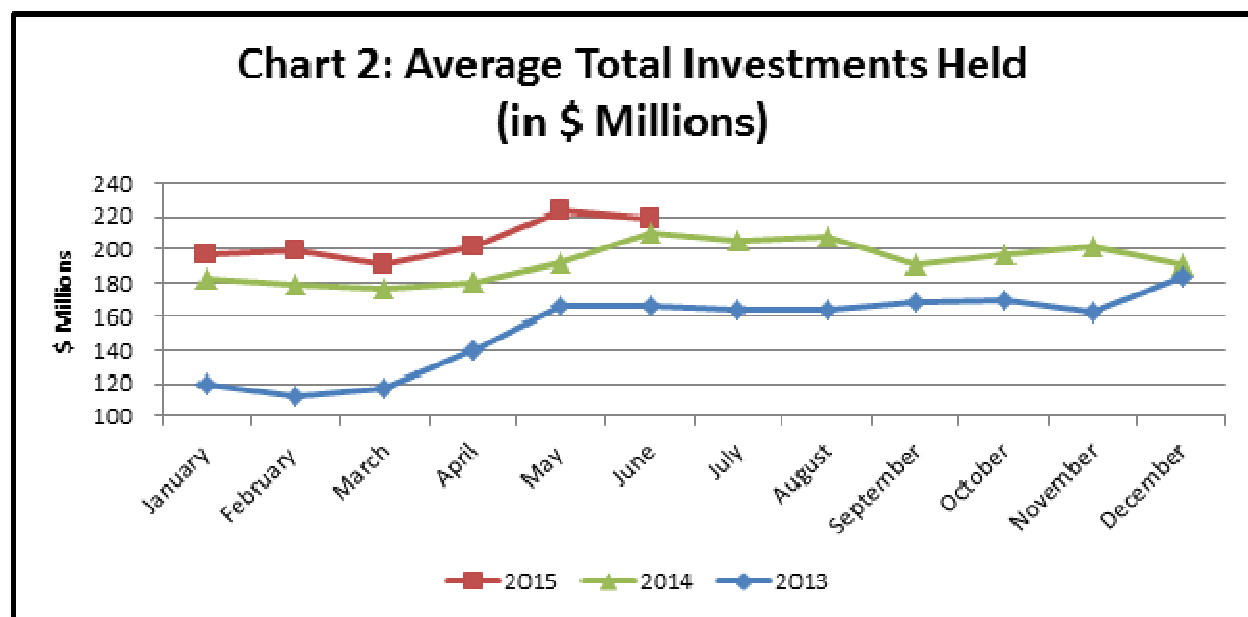
The City attempts to maximize the long-term investment position of the portfolio by using a cash flow model to estimate cash needs over the next 18 months. The City's cash and short term investment holdings are determined by balancing the availability of high yielding investment options in the market with the appropriate level of liquidity for operations. This balancing must also be done within the limits of the City's Investment Policy which guarantees that the portfolio is diversified across varying types of securities.

In today's market, Schedule I financial institutions are providing the most competitive long-term rates as they are creating specialized investment vehicles for the municipal sector to combat the low interest rate environment. Historically the best long-term options had been government and corporate issued bonds which left a large portion of the short-term portfolio open for Schedule 1 banks. The change in the Canadian investment landscape has caused the City to near the 75% maximum on the amount that can be invested with Schedule 1 banks and begin looking for alternative short-term options.

The City is investigating the use of high-interest savings accounts (HISA's) as a solution to the Schedule 1 bank portfolio limit issue. A HISA would not be subject to the limitations of Investment Policy as it is a liquid bank account similar to the city's operating bank account. Currently the City is considering two HISA's; an option through the ONE Fund and also an option through a local credit union.

2015 Investment Activity – Investment Portfolio

The City has earned a total of \$2.4 million (excluding capital gains of \$1.95 million) from the investment portfolio. This represents a return of 2.35% (excludes the return on cash) as at June 30, 2015 compared with \$2.4 million and 2.63% return for 2014. See **Chart 2** below for a comparison of average total investments held in 2015, 2014 and 2013.



Interest earned during the first half of 2015 was negatively affected by the reduction in the Bank of Canada interest rate of 25 basis points on January 21, 2015.

MITIGATION STRATEGY

Following are the events concerning the negative impacts on the interest earned and action that was taken by the City to minimize those impacts.

i) The City of Guelph currently holds two investments totalling \$30 million with TD Bank, purchased in 2013 and 2014 which provide for higher than normal interest returns. These were investment vehicles specially designed for the municipal sector that feature the following attributes:

1. The notes are 100% principal guaranteed at maturity,
2. The notes have a 10 year maturity but can be sold at market value at any time,
3. The notes pay interest quarterly on a fixed step-up schedule,
4. They are subject to early recall by the bank at any time,
5. They are subject to banker's acceptance interest rates with both lower and upper limits. If the market rate is outside the limits, interest is not paid.

With the drop in the Bank of Canada prime rate, these investments are no longer within the lower limit of the note terms and therefore are no longer earning any return.

In 2013 and 2014 these investments earned the City approximately 3.5% annually with the prospect of this increasing in 2015 forward due to the step-up factor in the rates. The unexpected lowering of prime in January and the subsequent second lowering of prime in July has temporarily put these investments "out-of-the-money".

The City's best plan of action for these investments is to hold until the market rebounds as the principle is guaranteed and once prime has rebounded, these investments will earn above market rates. In this temporary hold position, the City is not earning any return and alternative sources of investment income will be required to offset this loss. The current value of the lost revenues as of June 30, 2015 is approximately \$400k, projected to be \$950k by year end. Both notes are currently trading around 95 cents on the dollar and other municipalities are also holding on to these investments that are similar in nature until the interest rates increase.

ii) In this lower interest rate environment the Canadian Bond Market is trading at a premium. The City's Investment Policy has ensured a diverse portfolio and as such, the City of Guelph holds a significant value of municipal and provincial bonds that pay a coupon/strip rate above current market. This means that the market value of these bonds is significantly higher than when purchased and can be sold to realize a one-time capital gain.

The City proceeded with this strategy in June 2015 and sold a \$20 million provincial strip bond purchased in April 2014, which generated a \$1.95 million capital gain. This capital gain will be used to offset the lost revenues from the drop in the prime rate in 2015.

The circumstances which gave rise to this capital gain included:

1. When purchased the fixed income market was projecting the Bank of Canada would raise interest rates in 2015. Not only did this not happen but due to the selloff in oil, Bank of Canada reduced interest rates.
2. As a result, safe investments such as this bond were in higher demand creating a significant rise in the bond price.

The City holds other bonds that are also being analysed in this same capacity to see if it makes sense financially to sell for the capital gain or hold for to the on-going high coupon/strip rate. The sale only makes financial sense if a certain reinvestment rate can be achieved.

STAFF REPORT

iii) The City has opened an investment account with the ONE Fund Investment Program and started investing funds in the Universal Bond Portfolio effective June 29, 2015. Given the historical returns that this fund has achieved, the City believes that this is a new way that the City can achieve competitive long-term returns and diversify the overall portfolio. The ONE Fund has dedicated, skilled investment managers that specialize in municipal finance and building funds that are in compliance with the *Municipal Act*. Staff will monitor the City's investment in the ONE Fund and if the rate of return continues to be favourable relative to alternative investments, plans will be made to invest the 15% maximum allowed by the City's Investment Policy by year end.

iv) City staff have reviewed the function of investment management and considered if there was a business case in contracting this function out to a third-party. Staff met with two external advisors to discuss the cost of this service and the incremental increase in annual returns that would be expected due to using a highly skilled, dedicated resource. Based on conversations and figures provided, it was determined that due to the conservative and restrictive nature of the City's Investment Policy, there was little room for improving annual returns by using a third party service and the added cost would be in the range of .35 to .45 basis points or \$500k annually. Current staff time needed would not be reduced considerably by contracting out the service as cash flow management and portfolio oversight would still be required. Based on this review, it was not in the best interest of the City to contract out this service at this time. In the future, in an environment of better yields and a portfolio of larger value, this business case can be revisited to determine if it does become a financially viable option.

Asset-Backed Commercial Paper (ABCP) Restructuring

There has been no change in City's holding of the MAV II notes since December 31, 2014. The investments as detailed below have a face value of \$2.066 million and a market value of \$1.972 million. The asset impairment provision related to MAV II notes is \$94,925.

The remaining MAV II notes as of December 31, 2014, are as follows:

Class	Maturity	Rating	Face Value	Market Value	Impairment Provision
MAV II A-1	07/15/2056	A+	\$ 502,795	\$ 487,711	
MAV II A-2	07/15/2056	BBB+	\$ 1,270,940	\$ 1,220,103	
MAV II B	07/15/2056	Not Rated	\$ 230,711	\$ 212,254	
MAV II C	07/15/2056	Not Rated	\$ 62,043	\$ 51,496	
Total			\$ 2,066,489	\$ 1,971,564	\$94,925

STAFF REPORT

The City is currently investigating the option of selling these investments since they are earning very little income. It is not in the City's best interest to hold these funds until 2056, however, there currently isn't an active market for these investments.

B. Own Securities

The City has not invested in its own long-term or short-term securities.

C. Investment Policy and Regulation Investment Standard Compliance

To aid in the achievement of the primary objectives of the Investment Policy, the policy places restrictions and limitations on investment quality, diversification, and term. The current portfolio is in compliance with the *Municipal Act* and Ontario Regulation 438/97 and within the targets set out in the current City Investment Policy in all but the following respects:

- Under Ontario Regulation 438/97, a municipality **shall not invest in a bond, debenture, promissory note or evidence of indebtedness with a Dominion Bond Rating Service Limited (DBRS), or equivalent, rating lower than AA (low)**. As outlined above, most of the MAV II notes acquired in January of 2009 under asset-backed commercial paper restructuring do not meet this requirement. At the time of purchase these notes were rated above AA (low).
- Under the current policy, the **City shall not invest in a security with a DBRS or equivalent bond rating lower than A**. As outlined above, most of the MAV II notes acquired in January of 2009 under asset-backed commercial paper restructuring do not meet this requirement. At the time of purchase these notes were rated above A.
- Under the current policy, the **maximum term** for asset backed securities is 5 years. As outlined above, the MAV II notes acquired in January of 2009 and maturing in 2056 do not meet this requirement.
- The City should have a minimum investment in Government of Canada and Federal Guarantees of 5%. We currently hold 2.2% of our portfolio in this type of investment. However, investment rates in these vehicles are very low, and in today's market are not practical. Long term investment vehicles such as Corporate Guaranteed Investment Certificates earn between 1.90% and 2.05% while Government of Canada and Federal Guarantees earn about 1.5%.

In all other respects, investments are fully consistent with the investment policies and goals adopted by the City.

D. Investment Policy Review

The Investment Policy approved by Council in 2011 is required to be reviewed at every change in Council and/or as needed. For that reason, finance staff have reviewed the current policy and included amendments for approval in **Schedule III** to this report.

The proposed amendments and reasoning are as follows:

1. Authorized Investment Dealers – add the following clause:

The City may invest funds directly through the administrators of the identified sectors in Schedule 1 at the approval of the Treasurer and/or Deputy Treasurer subject to the Schedule 1 limits for those sectors.

Currently, the City's investment policy allows for investments in these sectors but due to the limitations on authorized investment dealers, the City cannot access these investments. This added language ensures that the City can access all allowable investments.

2. Separate the "Credit Union" sector from "Loans/Trust Corporations" sector and limit investments to 2 years in accordance with the *Municipal Act*. Additionally, the portfolio maximum limitations will be lower than Schedule II & III banks to reflect the risk of this sector's difficulty in accessing a credit rating.
3. Eliminate the requirement of having minimum portfolio balances in federal and provincial guarantees. This minimum requirement is a restrictive limitation that does not allow management to maximize returns in our current low interest rate environment. The maximum portfolio limitations already ensure diversification, security and liquidity.

CORPORATE STRATEGIC PLAN

Innovation in Local Government

2.1 – Build an adaptive environment for government innovation to ensure fiscal and service sustainability.

2.3 – Ensure accountability, transparency and engagement.

DEPARTMENTAL CONSULTATION

None noted

COMMUNICATIONS

STAFF REPORT



No communications are required

ATTACHMENTS

Appendix 1: Investment Reporting Requirements

Schedule I – City of Guelph Investment Portfolio by Issuer as of June 30, 2015

Schedule II – City of Guelph Investment Portfolio by Security as of June 30, 2015

Schedule III – Amendments to the City Investment Policy

David Haylett, Supervisor of Accounting
Report Author

Recommended By

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Approved By

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Investment Reporting Requirements

These investment reporting requirements are in accordance with Ontario Regulation 438/97 of the *Municipal Act, 2001*.

1. Statement of Performance

The City of Guelph earned an average return of 3.57% on its investment and cash as at June 30, 2015.

2. Investments in Own Securities

None of the 2015 investments of the City were invested in its own long-term or short-term securities.

3. Record of Own Security Transactions

None of the 2015 investments of the City were invested in its own long-term or short-term securities.

4. Statement of Treasurer re Investment Policy Compliance

I, Janice Sheehy, GM Finance and City Treasurer for the City of Guelph, hereby state that:

- a) \$1,563,694 in MAV II notes acquired in January of 2009 under asset-backed commercial paper restructuring do not meet the requirement of a DBRS or equivalent bond rating of at least A.
- b) \$2,066,489 in MAV II notes acquired in January of 2009 and maturing in 2056 exceed the maximum term of 5 years for asset backed securities.
- c) The City should have a minimum investment in Government of Canada and Federal Guarantees of 5%. The City currently hold only 2.2% of our portfolio in this type of investment.

The remaining investments have been made in accordance with the investment policies adopted by the City of Guelph.

(continued)

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5. Statement of Treasurer re O.R. 438/97 Investment Standard Compliance

I, Janice Sheehy, GM Finance and City Treasurer for the City of Guelph, hereby state that:

\$1,563,694 in MAV II notes acquired in January of 2009 under asset-backed commercial paper restructuring do not meet the requirement of a DBRS or equivalent bond rating of at least AA(low).

None of the other investments held by the City of Guelph fell below the required standard during the first 6 months of 2015.

Janice Sheehy, GM Finance and City
Treasurer

____ August 13, 2015_____
Date

STAFF REPORT

Investment Portfolio by Issuer as at June 30, 2015 (Schedule I)

Short-Term Investment Portfolio						
Issuer	Yield	Maturity Date	Carrying Value	Term to Maturity (Days)		
				At June 30/15	Restriction	Exceeded
Bank of Nova Scotia	1.85%	15-Oct-15	10,000,000	107	365	-
TD Bank	1.27%	22-Dec-15	10,000,000	175	365	-
Bank of Nova Scotia	1.88%	06-Jan-16	5,000,000	190	365	-
Bank of Nova Scotia	1.50%	18-Apr-16	20,000,000	293	365	-
Short-Term Investment Total			45,000,000			
Long-Term Investment Portfolio						
Issuer	Yield	Maturity Date	Carrying Value	Term to Maturity (Years)		
				At June 30/15	Restriction	Exceeded
MAV II CL A-1 Note	-	15-Jul-56	502,795	41.1	5	37.6
MAV II CL A-2 Note	-	15-Jul-56	1,270,940	41.1	5	37.6
MAV II CL B Note	-	15-Jul-56	230,711	41.1	5	37.6
MAV II CL C Note	-	15-Jul-56	62,043	41.1	5	37.6
CIBC	2.69%	02-Nov-15	5,000,000	0.3	10	-
FCC (Farm Credit Corp)	2.00%	15-Dec-15	4,956,085	0.5	20	-
CIBC	3.20%	15-Mar-16	10,000,000	0.7	10	-
Bank of Montreal	2.60%	08-Jul-16	10,000,000	1	10	-
Bank of Montreal	2.90%	08-Jul-16	2,431,142	1	10	-
Bank of Montreal	2.86%	08-Jul-16	2,004,874	1	10	-
Bank of Montreal	3.03%	08-Jul-16	2,499,999	1	10	-
Regional Municipality of Waterloo	3.51%	01-Dec-16	1,145,719	1.4	10	-
City of Toronto	5.08%	18-Jul-17	4,997,926	2	10	-
Bank of Nova Scotia	1.60%	17-Apr-17	20,000,000	1.8	10	-
Bank of Nova Scotia	1.81%	15-Apr-19	10,000,000	3.8	10	-
Bank of Nova Scotia	2.50%	06-Jan-20	15,000,000	4.5	10	-
TD Bank	4.00%	15-Jul-21	12,000,000	6	10	-
Province of Ontario	2.98%	02-Dec-21	13,458,386	6.4	20	-
TD Bank	3.04%	02-Dec-22	5,000,010	7.4	20	-
TD Bank	3.65%	09-May-23	18,000,000	7.8	10	-
Provincial	3.30%	12-Feb-24	7,418,387	8.6	20	-
Provincial	4.08%	02-Dec-26	6,447,182	11.4	20	-
ONE Investment Program	Market Based	Current	20,000,000	Current	NA	-
Long-Term Investment Total			172,426,199			

STAFF REPORT

City of Guelph Investment Portfolio by Security as at June 30, 2015 (Schedule II)

Securities	Investment Value	Investment Percentage of Holdings	Policy Maximum Portfolio Percentage Limit
Federal			
Government of Canada	\$0	0.0%	100%
Federal Guarantees	\$4,956,085	2.2%	50%
Provincial Governments & Provincial Guarantees	\$32,323,965	14.9%	75%
Country Other than Canada			5%
Municipal			
City of Guelph			50%
Other Municipalities & OSIFA – AAA & AA	\$6,143,645	2.8%	50%
Other Municipalities & OSIFA – A			10%
School Board, Ont. University, Local Board, Conservation Authority, Public Hospital, Housing Corp.			20%
Financial Institutions			
Schedule I Banks	\$151,936,015	69.9%	75%
Schedule II and III Banks			25%
Loan or Trust Corporations, Credit Union			5%
Supranational Financial Institution or Government Organization			25%
Asset Backed Securities	\$2,066,489	1.0%	25%
Corporate Debt			25%
Commercial Paper			15%
Joint Municipal Investment Pools	\$20,000,000	9.2%	15%
TOTAL	\$217,426,199	100.00%	

CORPORATE POLICY AND PROCEDURE



POLICY	INVESTMENT POLICY
CATEGORY	CORPORATE
AUTHORITY	FINANCE
RELATED POLICES	
APPROVED BY	COUNCIL
EFFECTIVE DATE	September 28, 2015
REVISION DATE	Review at every change in Council and/or as needed

POLICY STATEMENT

The City of Guelph strives for the optimum utilization of its cash resources within statutory limitations and the basic need to protect and preserve capital, while maintaining solvency and liquidity to meet on-going financial requirements.

SCOPE

The investment policy applies to all financial assets of the City of Guelph held within the following:

- General Funds;
- Reserve Funds and
- Funds held in Trust with the City of Guelph.

OBJECTIVES

The primary objectives of the Investment Program, in priority order, shall be:

- A. Adherence to statutory requirements;
- B. Preservation of capital;
- C. Maintaining liquidity and
- D. Earning a competitive rate of return.

A) Adherence to Statutory Requirements:

All investment activities shall be governed by the *Municipal Act* as amended. Investments, unless limited further by Council, will be those deemed eligible under

Ontario Regulation 438/97 or as authorized by subsequent provincial regulations. Relevant excerpts of the regulation are attached to this policy as Schedule 2.

B) Preservation of Capital:

Safety of principal is an important objective of the investment program. Investments of the City shall be undertaken in a manner that protects and preserves the capital of the portfolio. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. Staff shall endeavour to mitigate credit risk and interest rate risk as follows:

Credit Risk:

- Limiting investments to safer types of securities
- Diversifying the investment portfolio so that potential losses on individual securities will be minimized; and
- Pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisers with which the Region does business.

In determining the composition of the portfolio, it will be recognised that the combination of several different investments ("diversification") is likely to provide a more acceptable level of risk exposure than having a single investment. As a result, some reasonable diversification of the portfolio will be undertaken. To attain this goal, the City will undertake to establish limitations with respect to credit and investment size.

Investment Quality

All investments shall have a minimum rating within the limitations as set out in Schedule 2. In addition investments are further restricted by credit rating limitations as outlined in this policy.

- 1) The City shall not invest in a security offered by any Borrower (except City/Municipal Notes) with a bond rating lower than 'A' as established by Dominion Bond Rating Services (DBRS) or their equivalent ratings provided by Moody's Investor Services (Moody's), Fitch Ratings (Fitch), or Standard & Poors (S&P).
- 2) The City shall not invest in securities with a Commercial Paper/ST debt rating lower than 'R-1' Mid (except Financial Institutions in Schedule I with ratings no lower than R1 Low) as established by Dominion Bond Rating Services (DBRS) or their equivalent ratings provided by Moody's Investor Services (Moody's), or Standard & Poors (S&P)

Publications of the relevant credit rating agencies shall be monitored on an ongoing basis. Should a rating change result in increased risk with respect to established limitations, an exception report must be prepared and reviewed by the Treasurer with

the appropriate action taken to ensure the City's portfolio remains within the limitations and terms outlined in this policy.

Investment Diversification

Institutional exposure limitations have been established to reflect the relative safety of various issuers and the maximum desired exposure to various levels of government and financial institutions.

Diversification will include sector limitations outlined in Schedule 1 to this policy. All eligible investments (excluding cash held in the bank accounts of the City of Guelph) must adhere to the institutional sector limits as established under Schedule 1.

C) Maintaining Liquidity:

The investment portfolio shall remain sufficiently liquid to meet all operating and cash flow requirements and limit temporary borrowing requirements. This shall be done where possible by structuring the portfolio such that securities mature concurrent with anticipated cash demands. Furthermore, since all possible cash demands cannot be anticipated, the portfolio shall consist largely of securities with active secondary or resale markets. A portion of the portfolio may be placed in eligible investment pools which offer liquidity for short-term funds.

D) Earning a Competitive Rate of Return:

The Rate of Return on the investment portfolio will be optimized to the extent possible given the investment objectives of legality, safety of principal and the need to maintain adequate liquidity. Return on investment is of secondary importance compared to the safety and liquidity objectives described above.

Normally longer term investments offer higher yields than shorter term investments. Investments will be made to obtain the most advantageous yields while at the same time ensuring that funds can be made available to meet expected cash requirements. The composition of the portfolio, including its term and class of investments will be adjusted within the guidelines of this policy to take advantage of market opportunities which arise to enhance the rate of return on the portfolio.

Performance Standards/Benchmarking

The investment portfolio will be managed in accordance with the parameters specified within this policy. The portfolio should obtain a market average rate of return throughout the budgetary and economic cycles, commensurate with the investment risk constraints and cash flow needs of the City. The market yields should be higher than the rate given by the City's general bank account.

ELIGIBLE INVESTMENTS

The City will invest only in securities permitted under the *Municipal Act* and Ontario Regulation 438/97, as amended from time to time.

Only Canadian Dollar investments are authorized for the purposes of this Policy within the limitations set out in Schedule 2 and as further limited by Schedule 1.

AUTHORIZED INVESTMENT DEALERS

The City may invest funds through the investment arm of various Schedule I banks. The following Schedule I banks are authorized to be the City's primary investment dealers:

1. RBC Royal Bank
2. BMO Bank of Montreal
3. CIBC
4. TD Bank Financial Group
5. Scotiabank (The Bank of Nova Scotia)
6. National Bank of Canada

The City may invest funds directly through the administrators of the identified sectors in Schedule 1 at the approval of the Treasurer and/or Deputy Treasurer subject to the Schedule 1 limits for those sectors.

STANDARD OF CARE

A) Prudence

Investments shall be made with judgment and care, under circumstances then prevailing, following the prudent person principle of investment management and considering the probable safety of their principal as well as the probable income to be derived. Consideration will be given to obtaining independent legal and/or financial advice in circumstances in which the municipality believes additional expertise is warranted.

Investment staff acting in accordance with written procedure, this investment policy and exercising due diligence, shall be relieved of personal responsibility for an individual security's credit risks or market price changes, provided deviations from expectations are reported in a timely fashion and the liquidation or the sale of securities are carried out in accordance with the terms of this policy.

B) Ethics and Conflicts of Interest

Staff involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment policy, or that could impair their ability to make impartial decisions. Employees and investment officials shall disclose any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio.

Employees and officers shall not undertake personal investment transactions with the same individual with whom business is conducted on behalf of the City.

C) Delegation of Authority

The investment policy and any amendments thereto must be adopted by City Council. This policy will delegate to the Treasurer the authority to make investments which comply with this policy, pursuant to section 418(5) of the Act. The Treasurer has overall responsibility for the prudent investment of the City's portfolio.

Investment Procedures and Internal Control

The Treasurer will be responsible for the development and maintenance of suitable procedures to provide for the effective control and management of investments. The procedures include the following requirements:

- The Treasurer or designate is authorized to obtain a reasonable number of quotations with the approved institutions on any individual investment transaction prior to the decision to invest in a transaction on behalf of the City of Guelph;
- All investments are confirmed by signature of the individual making the investment and ratified by signatures of either the Treasurer or the Deputy Treasurer;
- All cash management transactions are recorded and interest earnings distributed to the various funds, as the case may be, in accordance with City policies and generally accepted accounting principles for Ontario municipalities;
- Periodic audits are carried out to determine whether or not the investment guidelines provided by this policy are being followed. An external audit is carried out to evaluate the adequacy of internal controls and
- Provision is made to obtain insurance coverage at all times to guard against any losses that may occur due to misappropriation, theft or other acts of fraud by employees.

Reporting to Council

In accordance with legislation, submit to Council at least twice per year, a report on the financial position, investment performance, market value and compliance status of the portfolio. The investment report will include reporting requirements as outlined in Schedule 2 and should include:

- A summary, by amount and percentage, of the composition of the investment portfolio;
- Monthly investment balances;

- Year end balance; and
- Such other information that City Council may require or that, in the opinion of the Treasurer, should be included.

D) Safekeeping and Custody

All investments shall be held for safekeeping in the name of the City of Guelph by financial institutions approved by the City. The depository shall issue a safekeeping receipt to the City for each investment transaction, listing the specific instrument, rate, maturity and other pertinent information. On a monthly basis, the depository will provide reports which list all investment activity, the book value of holdings, the market value as of month-end and income earned by the investments.

COLLATERALIZATION

In order to mitigate the City's exposure to credit risk, the City will only invest in Bank Sponsored asset-backed securities and repurchase agreements having satisfactory collateralization in place. The level of collateralization for these investments must be at least 100% of their market value.

DEFINITIONS

Asset Backed Securities: fixed income securities (other than a government security) issued by a Special Purpose Entity, substantially all of the assets of which consist of Qualifying Assets.

Credit Risk: the risk to an investor that an issuer will default in the payment of interest and/or principal on a security.

Diversification: a process of investing assets among a range of security types by sector, maturity, and quality rating.

Duration: a measure of the timing of the cash flows, such as the interest payments and the principal repayment, to be received from a given fixed-income security. This calculation is based on three variables: term to maturity, coupon rate, and yield to maturity. The duration of a security is a useful indicator of its price volatility for given changes in interest rates.

Interest Rate Risk: the risk associated with declines or rises in interest rates which cause an investment in a fixed-income security to increase or decrease in value.

Liquidity: a measure of an asset's convertibility to cash.

Market Risk: the risk that the value of a security will rise or decline as a result of changes in market conditions.

Market Value: current market price of a security.

Master Repurchase Agreement: an agreement between a dealer and a client which substantiates that the securities the client receives under a repurchase agreement are the property of the client in the event of a dealer failure.

Maturity: the date on which payment of a financial obligation is due. The final stated maturity is the date on which the issuer must retire a bond and pay the face value to the bondholder. See "Weighted Average Maturity".

ONE – The Public Sector Group of Funds ("ONE Fund"): A local government investment pool in which Ontario municipalities may invest. ONE is operated by Local Authorities Service Limited (a wholly owned subsidiary of the Association of Municipalities of Ontario), together with CHUMS Financing Corporation (a wholly owned subsidiary of the Municipal Finance Officers' Association of Ontario).

Portfolio: collection of securities held by an investor.

Prudent Person Rule: an investment standard outlining the fiduciary responsibilities relating to the investment practices of public fund investors.

- a) The standard of prudence to be used by investment managers shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio.
- b) The "prudent person" must act in all matters regarding investments with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims.
- c) The "prudent person" must diversify the investments of the Funds so as to minimize the risk of large losses, unless under the circumstances it is clearly not prudent to do so.

Qualifying Assets: financial assets, either fixed or revolving, that, by their terms convert into cash within a finite time period, plus any rights or other assets designed to assure the servicing or timely distribution of proceeds to security holders.

Rate of Return: the yield obtainable on a security based on its purchase price or its current market price. Yield reflects coupon, term, liquidity and credit quality.

Repurchase Agreement: an agreement between a dealer and client to sell a security and to repurchase that security, with interest, at a later date.

Safekeeping: holding of assets (e.g., securities) by a financial institution.

Securities: include bonds debentures, treasury bills, commercial paper, repurchase agreements, promissory notes and asset-backed securities.

Sinking Fund: money accumulated on a regular basis in a separate custodial account that is used to redeem debt securities or preferred stock issues.

Special Purpose Entity: a trust, corporation, partnership or other entity organized for the sole purpose of issuing securities that entitle the holders to receive payments that depend primarily on the cash flow from Qualifying Assets, but does not include a registered investment company.

Weighted Average Maturity (WAM): the average maturity of all the securities, that comprise a portfolio.

AUTHORIZED INVESTMENTS AND LIMITATIONS

Sector ⁽¹⁾		Minimum DBRS ⁽²⁾ Credit Rating		Maximum Term (years)	Maximum Credit Exposure	
		Short Term	Long Term		Individual Limit by Credit Rating	Portfolio Limit (max)
Federal	Government of Canada ⁽³⁾	n/a	n/a	20	100%	100%
	Federal Guarantees	n/a	n/a	20	100%	50%
Provincial	Provincial Governments & Provincial Guarantees ⁽⁴⁾	R1 high	AAA	20	75%	75%
		R1 mid	AA low	20	75%	
		R1 low	A low	7	50%	
Country other than Canada			AA low	1	5%	5%
Municipal	City of Guelph					50%
	Other Municipalities & OSIFA		AAA AA low	10	50% 40%	50%
			A low	5	10%	10%
School Boards			AA low	2	10%	20%
University in Ontario, Board of Governors of a College						
Local Board or Conservation Authority						
Board of a Public Hospital						
Non-profit Housing Corporation, Local Housing Corp.						
Financial Institutions	Schedule I Banks	R-1 low	AA low	10	75%	75%
	Schedule II & III Banks	R-1 mid	AA low	5	25%	25%
	Credit Unions	n/a	n/a	2	10%	10%
	Loan/Trust Corporations, Credit Unions	R-1 high	AA low	1	5%	5%
Supranational Financial Institution or Supranational Government Organization			AAA	5	25%	25%
Asset Backed Securities ⁽⁵⁾		R-1 high	AAA	5	25%	25%
Corporate Debt			AAA AA low	5 > 5	25% 15%	25%
Commercial Paper		R-1 mid		1	15%	15%
Joint Municipal Investment Pools					15%	15%
Portfolio Term To Maturity				ST – 1 LT - 10		

Note (1) Per definitions and restrictions contained in O.R. 438/97

Note (2) Equivalent ratings from Moody's Investor Services, Standard and Poor's or Fitch Ratings are acceptable as well.

Note (3) Minimum 5% of the portfolio must be in Government of Canada or Federal Government Guarantees.

Note (4) Minimum 10% of the portfolio must be in Provincial Governments or Provincial Guarantees, rated AA (low) or higher.

Note (5) Canadian Bank administered with a minimum of 2 credit ratings.

NOTE: Complete and up to date version is available on www.e-laws.gov.on.ca

Municipal Act, 2001

ONTARIO REGULATION 438/97

ELIGIBLE INVESTMENTS AND RELATED FINANCIAL AGREEMENTS

Last amendment: O. Reg. 52/11.

1. A municipality does not have the power to invest under section 418 of the Act in a security other than a security prescribed under this Regulation.

2. The following are prescribed, for the purposes of subsection 418 (1) of the Act, as securities that a municipality may invest in:

1. Bonds, debentures, promissory notes or other evidence of indebtedness issued or guaranteed by,
 - i. Canada or a province or territory of Canada,
 - ii. an agency of Canada or a province or territory of Canada,
 - iii. a country other than Canada,
 - iv. a municipality in Canada including the municipality making the investment,
 - iv.1 the Ontario Strategic Infrastructure Financing Authority,
 - v. a school board or similar entity in Canada,
 - v.1 a university in Ontario that is authorized to engage in an activity described in section 3 of the *Post-secondary Education Choice and Excellence Act, 2000*,
 - v.2 the board of governors of a college established under the *Ontario Colleges of Applied Arts and Technology Act, 2002*,
 - vi. a local board as defined in the *Municipal Affairs Act* (but not including a school board or a municipality) or a conservation authority established under the *Conservation Authorities Act*,
 - vi.1 a board of a public hospital within the meaning of the *Public Hospitals Act*,
 - vi.2 a non-profit housing corporation incorporated under section 13 of the *Housing Development Act*,
 - vi.3 a local housing corporation as defined in section 2 of the *Social Housing Reform Act, 2000*, or
 - vii. the Municipal Finance Authority of British Columbia.
2. Bonds, debentures, promissory notes or other evidence of indebtedness of a corporation if,
 - i. the bond, debenture or other evidence of indebtedness is secured by the assignment, to a trustee, as defined in the *Trustee Act*, of payments that Canada or a province or territory of Canada has agreed to make or is required to make under a federal, provincial or territorial statute, and
 - ii. the payments referred to in subparagraph i are sufficient to meet the amounts payable under the bond, debenture or other evidence of indebtedness, including the amounts payable at maturity.
3. Deposit receipts, deposit notes, certificates of deposit or investment, acceptances or similar instruments the terms of which provide that the principal and interest shall be fully repaid no later than two years after the day the investment was made, if the receipt, note, certificate or instrument was issued, guaranteed or endorsed by,
 - i. a bank listed in Schedule I, II or III to the *Bank Act* (Canada),
 - ii. a loan corporation or trust corporation registered under the *Loan and Trust Corporations Act*, or
 - iii. a credit union or league to which the *Credit Unions and Caisses Populaires Act, 1994* applies.
- 3.1 Deposit receipts, deposit notes, certificates of deposit or investment, acceptances or similar instruments the terms of which provide that the principal and interest shall be fully repaid more than two years after the day the investment was made, if the receipt, note, certificate or instrument was issued, guaranteed or endorsed by,
 - i. a bank listed in Schedule I, II or III to the *Bank Act* (Canada),
 - ii. a loan corporation or trust corporation registered under the *Loan and Trust Corporations Act*,
 - iii. a credit union or league to which the *Credit Unions and Caisses Populaires Act, 1994* applies.

4. Bonds, debentures, promissory notes or other evidence of indebtedness issued or guaranteed by an institution listed in paragraph 3.
5. Short term securities, the terms of which provide that the principal and interest shall be fully repaid no later than three days after the day the investment was made, that are issued by,
 - i. a university in Ontario that is authorized to engage in an activity described in section 3 of the *Post-secondary Education Choice and Excellence Act, 2000*,
 - ii. the board of governors of a college established under the *Ontario Colleges of Applied Arts and Technology Act, 2002*, or
 - iii. a board of a public hospital within the meaning of the *Public Hospitals Act*.
6. Bonds, debentures, promissory notes, other evidence of indebtedness or other securities issued or guaranteed by the International Bank for Reconstruction and Development.
- 6.1. Bonds, debentures, promissory notes or other evidence of indebtedness issued or guaranteed by a supranational financial institution or a supranational governmental organization, other than the International Bank for Reconstruction and Development.
7. Asset-backed securities, as defined in subsection 50 (1) of Regulation 733 of the Revised Regulations of Ontario, 1990 made under the *Loan and Trust Corporations Act*.
- 7.1 Bonds, debentures, promissory notes or other evidence of indebtedness issued by a corporation that is incorporated under the laws of Canada or a province of Canada, the terms of which provide that the principal and interest shall be fully repaid more than five years after the date on which the municipality makes the investment.
- 7.2 Bonds, debentures, promissory notes or other evidence of indebtedness issued by a corporation that is incorporated under the laws of Canada or a province of Canada, the terms of which provide that the principal and interest shall be fully repaid more than one year and no later than five years after the date on which the municipality makes the investment.
8. Negotiable promissory notes or commercial paper, other than asset-backed securities, maturing one year or less from the date of issue, if that note or commercial paper has been issued by a corporation that is incorporated under the laws of Canada or a province of Canada.
- 8.1 Shares issued by a corporation that is incorporated under the laws of Canada or a province of Canada.
9. Bonds, debentures, promissory notes and other evidences of indebtedness of a corporation incorporated under section 142 of the *Electricity Act, 1998*.
10. Bonds, debentures, promissory notes or other evidence of indebtedness of a corporation if the municipality first acquires the bond, debenture, promissory note or other evidence of indebtedness as a gift in a will and the gift is not made for a charitable purpose.
11. Securities of a corporation, other than those described in paragraph 10, if the municipality first acquires the securities as a gift in a will and the gift is not made for a charitable purpose.
12. Shares of a corporation if,
 - i. the corporation has a debt payable to the municipality,
 - ii. under a court order, the corporation has received protection from its creditors,
 - iii. the acquisition of the shares in lieu of the debt is authorized by the court order, and
 - iv. the treasurer of the municipality is of the opinion that the debt will be uncollectable by the municipality unless the debt is converted to shares under the court order.
- 2.1** A security is prescribed for the purposes of subsection 418 (1) of the Act as a security that a municipality may invest in if,
 - (a) the municipality invested in the security before January 12, 2009; and
 - (b) the terms of the municipality's continued investment in the security have been changed pursuant to the Plan Implementation Order of the Ontario Superior Court of Justice dated January 12, 2009 (Court file number 08-CL-7440) and titled "In the matter of the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36 as amended and in the matter of a plan of compromise and arrangement involving Metcalfe & Mansfield Alternative Investments II Corp. et al".
- 3.** (1) A municipality shall not invest in a security under subparagraph 1 iii, v.1, v.2, vi.1, vi.2 or vi.3 or paragraph 3.1 or 4 of section 2 unless the bond, debenture, promissory note or evidence of indebtedness is rated,
 - (b) by Dominion Bond Rating Service Limited as "AA(low)" or higher;
- (b.1) by Fitch Ratings as "AA-" or higher;
- (c) by Moody's Investors Services Inc. as "Aa3" or higher; or

(d) by Standard and Poor's as "AA-" or higher.

Schedule 2 cont.

(2.1) A municipality shall not invest in a security under paragraph 6.1 of section 2 unless the security is rated,

(a) by Dominion Bond Rating Service Limited as "AAA";

(b) by Fitch Ratings as "AAA";

(c) by Moody's Investors Services Inc. as "Aaa"; or

(d) by Standard and Poor's as "AAA".

(3) A municipality shall not invest in an asset-backed security under paragraph 7 of section 2 that matures more than one year from the date of issue unless the security is rated,

(a) by Dominion Bond Rating Service Limited as "AAA";

(a.1) by Fitch Ratings as "AAA";

(b) by Moody's Investors Services Inc. as "Aaa"; or

(c) by Standard and Poor's as "AAA".

(4) A municipality shall not invest in an asset-backed security under paragraph 7 of section 2 that matures one year or less from the date of issue unless the security is rated,

(a) by Dominion Bond Rating Service Limited as "R-1(high)";

(a.1) by Fitch Ratings as "F1+";

(b) by Moody's Investors Services Inc. as "Prime-1"; or

(c) by Standard and Poor's as "A-1+".

(4.1) A municipality shall not invest in a security under paragraph 7.1 of section 2 unless the security is rated,

(a) by Dominion Bond Rating Service Limited as "AA(low)" or higher;

(b) by Fitch Ratings as "AA-" or higher;

(c) by Moody's Investors Services Inc. as "Aa3" or higher; or

(d) by Standard and Poor's as "AA-" or higher.

(4.2) A municipality shall not invest in a security under paragraph 7.2 of section 2 unless the security is rated,

(a) by Dominion Bond Rating Service Limited as "A" or higher;

(b) by Fitch Ratings as "A" or higher;

(c) by Moody's Investors Services Inc. as "A2"; or

(d) by Standard and Poor's as "A".

(5) A municipality shall not invest in a security under paragraph 8 of section 2 unless the promissory note or commercial paper is rated,

(a) by Dominion Bond Rating Service Limited as "R-1(mid)" or higher;

(a.1) by Fitch Ratings as "F1+";

(b) by Moody's Investors Services Inc. as "Prime-1"; or

(c) by Standard and Poor's as "A-1+".

(6) If an investment made under subparagraph 1 iii, v.1, v.2, vi.1, vi.2 or vi.3 of section 2 or paragraph 3.1, 4, 6.1, 7, 7.1, 7.2 or 8 of section 2 falls below the standard required by this section, the municipality shall sell the investment within 180 days after the day the investment falls below the standard.

(6.1) Subsection (6) does not apply with respect to an investment made by a municipality under paragraph 7 of section 2 on a day before the day this subsection comes into force.

(7) A municipality shall not invest in a security under paragraph 9 of section 2 unless, at the time the investment is made and as long as it continues, the investment ranks, at a minimum, concurrently and equally in respect of payment of principal and interest with all unsecured debt of the corporation.

(8) A municipality shall not invest in a security under paragraph 9 of section 2 unless, at the time the investment is made, the total amount of the municipality's investment in debt of any corporation incorporated under section 142 of the *Electricity Act, 1998* that would

result after the proposed investment is made does not exceed the total amount of investment in debt, including any interest accrued on such debt, of the municipality in such a corporation that existed on the day before the day the proposed investment is to be made.

Schedule 2 cont.

(9) Any investment made under paragraph 9 of section 2, including any refinancing, renewal or replacement thereof, may not be held for longer than a total of 10 years from the date such investment is made.

(10) Subsections (7), (8) and (9) do not prevent a municipality from holding or disposing of a security described in paragraph 9 of section 2 issued by a corporation incorporated under section 142 of the *Electricity Act, 1998*, if the municipality acquired the security through a transfer by-law or otherwise under that Act.

(11) A municipality shall sell an investment described in paragraph 10 or 11 of section 2 within 90 days after ownership of the investment vests in the municipality.

4. (1) A municipality shall not invest more than 25 per cent of the total amount in all sinking and retirement funds in respect of debentures of the municipality, as estimated by its treasurer on the date of the investment, in short-term debt issued or guaranteed by the municipality.

(2) In this section,

“short-term debt” means any debt, the terms of which provide that the principal and interest of the debt shall be fully repaid no later than 364 days after the debt is incurred.

4.1 (1) A municipality shall not invest in a security under paragraph 7 of section 2 or in a promissory note or commercial paper under paragraph 8 of section 2 unless, on the date that the investment is made,

(a) the municipality itself is rated, or all of the municipality’s long-term debt obligations are rated,

(i) by Dominion Bond Rating Service Limited as “AA(low)” or higher,

(i.1) by Fitch Ratings as “AA-” or higher,

(ii) by Moody’s Investors Services Inc. as “Aa3” or higher, or

(iii) by Standard and Poor’s as “AA-” or higher; or

(b) the municipality has entered into an agreement with the Local Authority Services Limited and the CHUMS Financing Corporation to act together as the municipality’s agent for the investment in that security, promissory note or commercial paper.

(1.1) A municipality shall not invest in a security under paragraph 7.1 or 8.1 of section 2 unless, on the date the investment is made, the municipality has entered into an agreement with the Local Authority Services Limited and the CHUMS Financing corporation to act together as the municipality’s agent for the investment in the security.

(2) The investment made under clause (1) (b) or described in subsection (1.1), as the case may be, must be made in the public sector group of funds of the Local Authority Services Limited and the CHUMS Financing Corporation with,

(a) another municipality;

(b) a public hospital;

(c) a university in Ontario that is authorized to engage in an activity described in section 3 of the *Post-secondary Education Choice and Excellence Act, 2000*;

(d) the board of governors of a college established under the *Ontario Colleges of Applied Arts and Technology Act, 2002*;

(d.1) a foundation established by a college mentioned in clause (d) whose purposes include receiving and maintaining a fund or funds for the benefit of the college;

(e) a school board; or

(f) any agent of an institution listed in clauses (a) to (d.1).

5. A municipality shall not invest in a security issued or guaranteed by a school board or similar entity unless,

(a) the money raised by issuing the security is to be used for school purposes; and

6. (1) A municipality shall not invest in a security that is expressed or payable in any currency other than Canadian dollars.

7. (1) Before a municipality invests in a security prescribed under this Regulation, the council of the municipality shall, if it has not already done so, adopt a statement of the municipality’s investment policies and goals.

(2) In preparing the statement of the municipality’s investment policies and goals under subsection (1), the council of the municipality shall consider,

(a) the municipality’s risk tolerance and the preservation of its capital;

(b) the municipality’s need for a diversified portfolio of investments; and

(c) obtaining legal advice and financial advice with respect to the proposed investments.

(4) In preparing the statement of the municipality's investment policies and goals under subsection (1) for investments made under paragraph 9 of section 2, the council of the municipality shall consider its plans for the investment and how the proposed investment would affect the interest of municipal taxpayers.

Schedule 2 cont.

8. (1) If a municipality has an investment in a security prescribed under this Regulation, the council of the municipality shall require the treasurer of the municipality to prepare and provide to the council, each year or more frequently as specified by the council, an investment report.

(2) The investment report referred to in subsection (1) shall contain,

- (a) a statement about the performance of the portfolio of investments of the municipality during the period covered by the report;
- (b) a description of the estimated proportion of the total investments of a municipality that are invested in its own long-term and short-term securities to the total investment of the municipality and a description of the change, if any, in that estimated proportion since the previous year's report;
- (c) a statement by the treasurer as to whether or not, in his or her opinion, all investments are consistent with the investment policies and goals adopted by the municipality;
- (d) a record of the date of each transaction in or disposal of its own securities, including a statement of the purchase and sale price of each security; and
- (e) such other information that the council may require or that, in the opinion of the treasurer, should be included.

(2.1) The investment report referred to in subsection (1) shall contain a statement by the treasurer as to whether any of the following investments fall below the standard required for that investment during the period covered by the report:

- 1. An investment described in subparagraph 1 iii, v.1, v.2, vi.1, vi.2 or vi.3 of section 2.
- 2. An investment described in paragraph 3.1, 4, 6.1, 7, 7.1, 7.2 or 8 of section 2.
- 3. An investment described in subsection 9 (1).

(3) Upon disposition of any investment made under paragraph 9 of section 2, the council of the municipality shall require the treasurer of the municipality to prepare and provide to the council a report detailing the proposed use of funds realized in the disposition.

8.1 If an investment made by the municipality is, in the treasurer's opinion, not consistent with the investment policies and goals adopted by the municipality, the treasurer shall report the inconsistency to the council of the municipality within 30 days after becoming aware of it.

STAFF REPORT

7TO Corporate Services Committee

SERVICE AREA Corporate Services, Finance

DATE September 9, 2015

SUBJECT Q2 2015 Operating Variance Report

REPORT NUMBER CS-2015-68

EXECUTIVE SUMMARY

SUMMARY OF REPORT

The purpose of this report is to provide an in year projection of the 2015 year-end position for the Tax Supported and Non Tax Supported programs based on financial information as of June 30, 2015.

KEY FINDINGS

- Overall, an \$862,200 net unfavourable variance is being projected for the City's tax supported budget.
 - Unfavourable variances are projected for Solid Waste, Transit, Culture, Tourism and Community Investment, Operations, Parks, Clerks and General Expenditures.
- The City's non-tax supported programs are projecting an \$839,200 net unfavourable variance.
 - All non-tax supported departments; Water, Wastewater and Court Services are projecting unfavourable variances.

FINANCIAL IMPLICATIONS

Any realized surplus or deficit will be transferred to or from the City's reserves at year-end. Reserve balances are considered in determining the City's credit rating. A significant change in reserve balances may have an effect on this rating.

ACTION REQUIRED

THAT Report CS-2015-68 Q2 2015 Operating Variance Report be received for information.

RECOMMENDATION

THAT Report CS-2015-68 Q2 2015 Operating Variance Report be received for information.

STAFF REPORT

BACKGROUND

Once the Annual Budget is produced, actual expenditures and revenues are monitored and compared against budget. While some differences are expected, net variances should not be considerably above or below budget.

Staff have examined revenues and expenditures as of June 30, 2015 and compared them to the Council approved operating budget for the period. Departments reviewed the financial information, identified trends, and with consultation from Finance, were asked to project to the end of the year and comment on significant deviations from budget that were expected to have an impact on the year-end financial position. It should be noted that this report is based on information as of June 30, 2015 and is subject to change as further data becomes available. As well, where unfavourable variances are reported actions have already been taken to determine and implement mitigation strategies.

REPORT

2015 YEAR-END PROJECTED OPERATING VARIANCE

Departments were provided financial information as of June 30, 2015 and, with input from Finance, analyzed current and projected expenditures and revenues and provided related commentary. The chart that follows gives a high level indication of the current, projected 2015 year-end position.

Summary of Projected Operating Variance for Dec 31, 2015

	Total Annual Budget for Year 2015 (\$)	Projected Variance for Dec 31,2015	Variance for Dec 31, 2015 (%)
Tax Supported			
City Departments	\$ 110,685,823	\$ 1,648,200	4.3%
General Revenues and Expenses	\$ (186,299,376)	\$ (163,000)	(0.1%)
Sub-Total City Departments and Financing	\$ (75,613,553)	\$ 1,485,200	0.8%
Local Boards	\$ 44,816,935	\$ (500,000)	(1.1%)
Grants, Outside Boards and Agencies	\$ 30,796,618	\$ (123,000)	(0.4%)
Total Local and Outside Boards	\$ 75,613,553	\$ (623,000)	(0.8%)
Total Tax Supported	\$ -	\$ 862,200	0.5%
Non Tax Supported Budgets			
Water	\$ -	\$ 540,000	2.1%
Wastewater	\$ -	\$ 90,000	0.3%
OBC	\$ -	\$ -	0.0%
Court Services	\$ -	\$ 209,155	9.6%
Total Non Tax Supported	\$ -	\$ 839,155	1.4%

***[Brackets indicate a favourable variance]

Note: Non Tax Supported programs (Water, Wastewater, OBC, Courts) show a net zero budget due to revenue fully offsetting anticipated expenditures. The %age shown is based on total expenditures.

STAFF REPORT

Overall, the tax supported Service Area Managers are projecting an unfavourable variance of \$862k which is 0.5% of the overall net tax levy while the non-tax supported Service Area Managers are expecting a net unfavourable variance of \$839K which is 1.4%.

VARIANCE DRIVERS OVERVIEW

The following key areas have been identified corporately as potentially impacting the 2015 operating results.

Tax Supported

Favourable

- Public Services Administration is projecting a favourable variance of \$42k due to lower than planned travel, training and consulting expenses.
- General Revenues are projected to be \$180k favourable due to a gain from the early sale of a strip bond taking advantage of market conditions of \$1.95M offset by foreign exchange loss \$72k, short term and long term lost interest of \$240k, and reserve funds interest allocation of \$1.65M.
- Capital Financing is projecting a favourable variance of \$14k due to a lower internal loan interest payment than planned.
- Police are projecting a favourable variance of \$500k due to:
 - Vacant positions; 3 Police and 5.4 civilian vacancies, and
 - Lower than planned personnel supplies, gasoline and repairs and maintenance.
- Ontario Works and Housing are projecting a favourable variance of \$123k due to lower than planned child care and social housing support.

Unfavourable

- Operations is projecting an unfavourable variance of \$717k mainly due to:
 - Road Winter Control \$550k because of bad weather, resulting in overtime and the need for additional part time workers.
 - Lower parking lot and civic precinct recoveries \$200k fully offset by a favourable variance in another department.
- Transit is projecting an unfavourable variance of \$399k due to:
 - Higher repair costs due to extreme weather \$45k; engine and transmission rebuild \$655k, offset by salary savings and delayed software consulting services.
- Culture, Tourism & Community Investment is projecting a net unfavourable variance of \$29k mostly due to higher than planned artist and production costs at River Run.

STAFF REPORT

- Clerks are projecting an unfavourable variance of \$18k mainly due to Committee of Adjustment revenue shortfall of \$64k partially offset by position vacancy, and associated delay in purchasing furniture and equipment for the new hire.
- General Expenditures are projected to be \$31k unfavourable due to a lower corporate recovery for Accommodated Staffing expenses than planned.
- Solid Waste is projecting an unfavourable variance of \$500k due to:
 - Low commodity prices for sale of recyclable goods
 - Recyclable goods tonnage shortfall.

Non Tax Supported

Favourable

- Wastewater services expenditures are projected to be \$130k favourable due to biosolids management adjustments and lower operating supplies expenses.
- Court Services expenditures are projected to be \$148k favourable due to savings attributed to vacant positions, fewer purchases of ticket books and promotional material.

Unfavourable

- Water services expenditures are projected to be \$340k unfavourable due to costs associated with frozen water pipes emergency response during the winter period. Note an update on the City's request for provincial assistance is found under the Risks and Mitigation Measures section, later in this report.

REVENUE ANALYSIS AS OF JUNE 30, 2015

Council has requested increased disclosure regarding external revenue collection for Tax Supported City departments and Non-Tax Supported budgets with comments on significant deviations from budget. This is provided to Council twice a year with the June and December Operating Variance Reports. The chart that follows outlines the December revenue projections as of June 30, 2015:

STAFF REPORT

Revenue Variance Projection for Dec 31, 2015

(Brackets indicate a favourable variance)

	Total Budgeted Revenue for Year 2015 (\$)	Projected Variance for Dec 31, 2015 (\$)	Variance for Dec 31, 2015 (%)
Tax Supported <i>City Departments</i>			
CAO- ADMINISTRATION	\$ (52,500)	\$ -	0.0%
PUBLIC SERVICES	\$ (34,214,807)	\$ (183,000)	(0.5%)
INFRASTRUCTURE, DEVELOPMENT & ENGINEERING	\$ (20,365,228)	\$ 1,965,000	9.6%
CORPORATE SERVICES	\$ (1,285,480)	\$ 64,000	5.0%
Total Tax Supported <i>City Departments</i>	\$ (55,918,015)	\$ 1,846,000	3.3%
Non Tax Supported Budgets			
WATER	\$ (26,045,130)	\$ 200,000	0.8%
WASTEWATER	\$ (28,773,080)	\$ 220,000	0.8%
ONTARIO BUILDING CODE	\$ (2,950,000)	\$ -	0.0%
COURT SERVICES	\$ (3,349,900)	\$ 357,055	10.7%
Total Non Tax Supported	\$ (61,118,110)	\$ 777,055	1.3%

*** (Brackets indicate a favourable variance)

General Revenues, Tax Collection, Investments, and Outside Boards & Agencies are excluded for the purposes of this report.

Tax Supported

Public Services

- Culture and Tourism is projecting a favourable variance of \$150k for product sales at Sleeman Centre due to the success of the Guelph Storm Hockey Club. The favourable revenue variance will be offset by increased costs for wages and inventory.
- Emergency Services is projecting a favourable variance of \$33k due to a higher than forecasted Land Ambulance recoveries.

Infrastructure, Development and Enterprise

- Solid Waste Resources is reporting an unfavourable variance of \$1.97M due to lower commodity prices and tonnage shortfall for recyclable goods. The revenue shortfall will be partially offset by savings from expenditures.

Corporate Services

- Clerks are projecting \$64k unfavourable variance due to Committee of Adjustment revenue shortfall.

STAFF REPORT

Non Tax Supported

Water Services

- Water is forecasting \$200k year-end unfavourable revenue variance due to lower consumption volume than forecasted.

Wastewater Services

- Wastewater is forecasting \$220k unfavourable revenue variance due to lower consumption volume than forecasted.

Ontario Building Code

- OBC is currently not anticipating a variance.

Court Services

- Court revenues are projected to be \$357k below budget due to lower charge volumes than forecasted.

RISKS & MITIGATION MEASURES

Corporate Risks

- Fuel
 - While gasoline and diesel prices have been trending close to the forecasted rates in the first half of the year, there is a risk of an unfavourable variance if the price of fuel goes up in the coming months.
- Collective bargaining
 - The Guelph Professional Firefighters' Association and Ontario Public Service Employee Union (OPSEU) local 231 paramedics' collective agreements expired on December 31, 2014 and March 31, 2015 respectively.
- Currency
 - The Canadian dollar has fallen 30% against the US dollar since the beginning of the year. In the same period the City has suffered \$72k in foreign exchange losses. If the Canadian currency continues to fall or remain stagnant the City will incur further losses from USD purchases.

Mitigation Measures

- Operations
 - Winter Control Costs - as the severity of weather is outside the control of staff, an operating contingency reserve exists to cover such uncontrollable fluctuations in costs. The option is available to Council to use this contingency reserve at year-end if the negative variance persists.

STAFF REPORT

- Transit
 - A mitigation strategy has been developed to reduce fuel and maintenance costs.
- Solid Waste
 - Reductions in pricing and volume of recyclable goods commodities present a potential \$2.3 million unfavourable variance by year-end. To mitigate this, the City undertook changes to its external processing contracts which have reduced the projected unfavourable variance to \$500k. Staff will continue to identify potential areas of expenditure savings and new revenue sources to mitigate this remaining unfavourable variance.
- Parks
 - Deferred completion of a tree technical manual for the Urban Forestry Management Plan.
- Culture, Tourism & Community Investment
 - Increased focus on earned revenue through ticket sales and food and beverage, as well as reducing discretionary expenses and part-time staff wages wherever possible.
- Clerks
 - Discretionary spending has been put on hold within the department.
- Court Services
 - Cost reductions to be achieved through delayed hiring of vacant positions.
- Water Services
 - The variance is due to the frozen water pipes emergency response during the winter period. An application was sent to the Province for assistance from the **Ontario Disaster Relief Assistance Program (ODRAP)** for the associated costs. The request was declined and if the variance persists, the Water Rate Stabilization Reserve can be used to fund the deficit at Council's direction.

CORPORATE STRATEGIC PLAN

Innovation in Local Government

2.3 Ensure accountability, transparency and engagement.

DEPARTMENTAL CONSULTATION

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 Finance and the Departments managing their programs. Department managers were given financial information based on revenue and expenditures to June 30, 2015 and provided a year-end projected position and commentary in consultation with the Finance department.

STAFF REPORT

COMMUNICATIONS

Operating variance reports are produced on schedule for Council to compare actual results against budget. Finance and Executive Team have committed to producing quarterly variance reports for the year. This is the second operating variance report for 2015.

ATTACHMENTS

Appendix 1 – Operating Budget Variance June 30, 2015 – Department Summary

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Appendix 1
Operating Budget Variance based on June 30, 2015
City of Guelph: Departmental Summary

	Total Annual Budget for Year 2015 (\$)	Projected Variance for Dec 31, 2015 (\$)	Variance for Dec 31, 2015 (%)	Comments
TAX SUPPORTED				
City Departments				
CAO - ADMINISTRATION AND COUNCIL	\$ 4,347,710	\$ -	0.0%	No variance anticipated.
INFRASTRUCTURE, DEVELOPMENT AND ENTERPRISE	\$ 19,216,214	\$ 500,000	2.6%	-Solid Waste - \$500k unfavourable due to \$2.7m sale of recyclable goods because of low commodity prices and tonnage shortage partially offset by lower recyclable material purchase \$803k, operational savings \$390k, staff reduction \$275k and processing revenue \$735k from new contract signed in 2015.
PUBLIC SERVICES	\$ 75,983,061	\$ 1,130,000	1.5%	-PS Administration - \$42k favourable due to unspent travel, training and consulting budgets. -Culture, Tourism & Community Investment - \$29k unfavourable mainly due to higher artist and production costs at River Run \$97k, partially offset by Sleeman Centre revenues due to the success of the Guelph Storm Hockey Club, offset by increased costs for wages and inventory. -Transit -\$399k unfavourable due to fleet maintenance \$655k from engine and transmission failure and
CORPORATE SERVICES	\$ 11,138,838	\$ 18,200	0.2%	-Clerks - \$18k unfavourable due to Committee of adjustment revenue shortfall of \$64k partially offset by position vacancy, furniture and equipment for new hire \$49k.
BENEFIT SAVINGS	\$ -	\$ -	0.0%	
TOTAL CITY DEPARTMENTS (excl Financing)	\$ 110,685,823	\$ 1,648,200	4.3%	
GENERAL EXPENSES AND CAPITAL FINANCING	-\$ 186,299,376	-\$ 163,000	(0.1%)	-General Expenditures - \$31k unfavourable due to lower Accommodated staffing recovery. -General Revenues - \$180k favourable due to savings from early sale of strip bond taking advantage of the gains in the bond market \$1.95M offset by foreign exchange losses \$72k, interest on short and long term investment \$240k and reserve funds interest allocation \$1.65M. -Capital Financing - \$14k favourable due to lower internal loan interest payment than planned.
TOTAL CITY DEPARTMENTS (incl Financing)	-\$ 75,613,553	\$ 1,485,200	0.8%	
Local and Outside Boards				
LOCAL BOARDS	\$ 44,816,935	-\$ 500,000	(1.1%)	Police - \$500k favourable due to vacant positions; 3 Police and 5.4 civilian vacancies, lower than planned personnel supplies, gasoline and repairs and maintenance.
GRANTS, OUTSIDE BOARDS & AGENCIES	\$ 30,796,618	-\$ 123,000	(0.4%)	County - \$123k favourable due to lower than planned child care and social housing support partially offset by higher income support.
Subtotal Grants, Local and Outside Boards & Agencies	\$ 75,613,553	-\$ 623,000	(0.8%)	
TOTAL TAX SUPPORTED (incl Outside Boards, Grants and Financing)	\$ -	\$ 862,200	0.5%	
Non Tax Supported				
WATER REVENUE	-\$ 25,275,130	\$ 200,000	(0.8%)	Unfavourable due to lower consumption revenue than forecasted.
WATER OPERATIONS	\$ 25,275,130	\$ 340,000	1.3%	Unfavourable \$340k due to costs associated with frozen water pipes during the winter period.
SUB-TOTAL WATER WORKS	\$ -	\$ 540,000	2.1%	
WASTEWATER REVENUE	-\$ 28,788,080	\$ 220,000	(0.8%)	Unfavourable due to lower consumption revenue than forecasted.
WASTEWATER OPERATIONS	\$ 28,788,080	-\$ 130,000	(0.5%)	Favourable due to biosolids management adjustments \$100k, and lower operating supplies \$30k.
SUB-TOTAL WASTEWATER	\$ -	\$ 90,000	0.3%	
ONTARIO BUILDING CODE REVENUE	-\$ 2,950,000	-	0.0%	No variance anticipated.
ONTARIO BUILDING CODE COSTS	\$ 2,950,000	-	0.0%	No variance anticipated.
SUB-TOTAL OBC	\$ -	\$ -	0.0%	
COURT SERVICES REVENUE	-\$ 2,175,320	\$ 357,055	(16.4%)	Unfavourable due to 32% lower charge volumes than forecasted.

	Total Annual Budget for Year 2015 (\$)	Projected Variance for Dec 31,2015 (\$)	Variance for Dec 31, 2015 (%)	Comments
COURT SERVICES EXPENSES	\$ 2,175,320	-\$ 147,900	(6.8%)	Favourable due to savings attributed to vacant POA clerk position from Jan-June and vacant Prosecutor position for April, and vacant Collections Clerk for June, and fewer ticket book purchases and promotional material.
SUB-TOTAL COURTS	\$ -	\$ 209,155	9.6%	
TOTAL Non Tax Supported	\$ -	\$ 839,155	1.4%	
(Brackets indicate a favourable variance)				

STAFF REPORT

TO Corporate Services Committee

SERVICE AREA Corporate Services, Finance

DATE September 9, 2015

SUBJECT 2015 Q2 Capital Variance Report

REPORT NUMBER CS-2015-69

EXECUTIVE SUMMARY

PURPOSE OF REPORT

The purpose of this report is to provide the following: a summary of current year capital activity; an update on longer term projects; and to disclose any budget adjustments and project closures.

KEY FINDINGS

The 2015 tax supported capital budget was approved at \$51.7 million. When 2014 carry-over of \$78.1 million was added in, the total available capital funding for the year is \$129.8 million. Funding adjustments of \$3.0 million have been processed and current year capital spending to date is \$8.7 million leaving a cumulative unspent budget of \$124.2 million. Current open purchase orders totaled \$21.3 million for an uncommitted balance of \$102.9 million as of June 30, 2015.

The 2015 non-tax supported capital budget was approved at \$36.0 million. When 2014 carryover of \$69.8 million is added in, the total available capital funding for the year is \$105.8 million. Funding adjustments of \$335k have been processed and current year capital spending to date is \$8.2 million leaving a cumulative unspent budget of \$97.9 million. Current open purchase orders totaled \$15.3 million for an uncommitted balance of \$82.6 million as of June 30, 2015.

Unspent capital budgets have been growing over the past five years, with the current City total unspent balance at \$222.1 million as of June 30, 2015.

Note however that significant tendering was completed in May and June with expected work to be completed from July to October.

FINANCIAL IMPLICATIONS

Unspent capital budgets have increased over the past five years, which greatly restricts the flexibility of both capital reserves and debt funding for current opportunities and unexpected events.

STAFF REPORT

ACTION REQUIRED

THAT CS-2015-69 2015 Q2 Capital Variance Report be received for information.

RECOMMENDATION

THAT CS-2015-69 2015 Q2 Capital Variance Report be received for information.

BACKGROUND

This report provides a summary of the detailed reporting process that is completed on a monthly basis. Each month capital reports are circulated to all Project Managers (PMs); responses are received and compiled by Finance. Quarterly a summary of this process is provided to Council.

Through the monthly and year end process, PMs and Finance work together to:

- Provide a status update and expected completion date for each capital project,
- Identify risks, such as delays, potential overspending, etc.,
- Identify an alternative source of funds for projects that will be overspent,
- Close any completed capital projects in a timely manner.

REPORT

Current Year Spending

Capital spending is \$16.9 million as of June 30, 2015; \$8.7 million on tax supported projects and \$8.2 million on non-tax supported projects. Of this spending, the following are the significant areas:

Vehicle replacement (incl. Transit, Police, Ambulance and Fleet)	\$3.8 million
Waste Water and Water Services Facility Upgrades and Expansions	\$2.8 million
York Trunk Paisley Clythe Feedermain	\$2.9 million
Pavement Deficit	\$0.5 million
Facilities Maintenance and Upgrades	\$1.3 million

Planned activity as indicated by the largest open purchase orders are in the following areas:

Roads reconstruction and Paving	\$4.4 million
Water and Sewer Replacement and upgrades	\$7.6 million
Waste water and Water services facility upgrades and expansions	\$4.0 million
IT Lifecycle and replacement	\$1.5 million
Transit Technology system	\$2.5 million
Vehicle Replacement (incl. Transit, Police, Ambulance, Fire and Fleet)	\$3.7 million
Police Head Quarters renovations	\$2.6 million
Victoria Road Recreation Facility upgrades	\$1.0 million

STAFF REPORT



Schedule "A" provides a summary by Department of the current year spending.

The total City unspent budget as at June 30, 2015 is \$222.1 million, this is a concern as it has been increasing over the past four years.

Through the Capital Budget process in 2015 there was a continued focus on capacity constraints. Managing ongoing projects against new requests will once again be a concern that will be considered during the upcoming 2016 capital budget development. It is imperative that departments have sufficient resources to complete approved projects in a timely manner.

Long Term Projects

There are a number of significant projects currently approved which for justifiable reasons have had minimal spending as of June 30, 2015. These projects are expected to accelerate over the next 12 months and reach completion within 24 to 36 months.

Baker Street Land Purchase (\$8.9 million uncommitted) – Negotiations are currently ongoing with landowners. Discussions are planned with the Executive Team in Q3 2015 regarding how to proceed. Further updates will be provided to Council directly regarding plans for the Downtown as a whole based on these discussions.

Police Head Quarters Renovation (\$31.1 million uncommitted) – Guelph Hydro work is currently underway to relocate the services to the site to allow for changes required to the buildings layout.

Victoria Road Recreation Centre Renovation (\$11.5 million uncommitted) – Construction is scheduled to begin in April 2016 with completion in 2017. Currently there are no expected budget or schedule adjustments required.

STAFF REPORT



Over Budget Projects

Any projects currently forecasted to go over budget will be mitigated through budget reallocation from other projects. As work progresses through the summer this will be monitored to ensure that scope and expenditures are managed within expectations.

In June, Facilities Management brought forward a report requesting additional funding for the replacement of the Operations salt domes, Council approved a \$1.6 million in funding for this project, Report CON-2015.32 Construction of Salt Storage Facility at 45 Municipal, Reference Number 15-086.

Capital Projects Closed and Budget Adjustments

As of June 30, 2015 49 projects have been closed and/or had budget adjustments totaling \$3.4 million. There were 14 projects that had budgets adjusted for year-end, 13 have been closed and 22 have been adjusted year to date.

The 14 year-end adjustments were due to the following: seven to account for prior year sales of assets proceeds; one received approval (2014) to use additional donations; two to realign funding in the correct project and four that were closed incorrectly. The net budget correction was \$1.3 million and had no impact to the reserves or operating budget.

Of the 13 projects that were closed, five were consolidated into new projects that carry on the same activities (\$377k transferred) and the remaining eight were net over budget of \$3k.

The budget reallocations completed for the 22 projects year to date, were done for the following; four for project splits, nine project consolidations, five to cover overages in related projects, one to move budget from an operating business unit and the following three because of additional approved funding.

Operations Salt Domes – Council approved \$1.6 million in additional funding in June 2015

Transit GO Stops – Transit entered into a partnership with Metrolinx to construct shared GO-Guelph Transit stops over the next 20 years totaling \$500k. Metrolinx is providing \$250k in 2015 towards the first phase of the project. The City is managing the 20 year project that is fully funded by Metrolinx.

Traffic Accessibility – A Federal grant of \$50k was received to install signals to improve pedestrian accessibility.

STAFF REPORT



Schedule "B" provides a summary by department of Projects Closed or Budget Adjusted.

Conclusion

The review and accurate monitoring of financial reporting and asset management is critical to the effective utilization of funding, and contributes to better cash flow modeling that can lead to improved investment opportunities.

CORPORATE STRATEGIC PLAN

Innovation in Local Government

2.3 – Ensure accountability, transparency and engagement

DEPARTMENTAL CONSULTATION

The role of monitoring the capital budget work-in-progress is shared by the departments responsible for the management of the project and supported by the Finance department. Departments must manage the project to completion according to municipal standards, on time and within the approved budget.

COMMUNICATIONS

Finance staff have worked closely with all City departments in obtaining the status of projects, expected completion times and impact on budget.

ATTACHMENTS

Schedule "A" Summary of all open Capital Projects as at June 30, 2015

Schedule "B" Summary of Projects Closed or Budget Adjusted during 2015

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STAFF REPORT

Schedule A: CS-2015-69 Summary of All Open Capital Projects as at June 30, 2015

	# of Open Projects	Budget Carried over from 2014	2015 Budget	2015 Expenditures	Net Funding Adjustment	Unspent
	Note 1	Note 2			Note 3	
Tax Supported						
Infrastructure, Development & Enterprise Services						
Engineering	439	10,023,438	17,630,000	1,424,839	(218,062)	26,010,537
Business Development & Enterprise	14	11,850,053	-	181,503	(22,404)	11,646,145
Facilities Maintenance	201	2,511,350	4,390,300	933,373	1,600,000	7,568,277
Planning & Building Services	49	1,581,774	462,400	156,793	-	1,887,381
Environmental Services	67	4,565,448	850,000	265,727	-	5,149,722
IDE Total	770	30,532,063	23,332,700	2,962,235	1,359,534	52,262,062
Public Services						
Culture, Tourism & Community Investments	92	393,377	350,000	372,392	157,027	528,012
Emergency Services	48	496,308	1,102,900	375,190	-	1,224,017
Parks & Recreation	499	5,352,402	17,154,000	211,398	992,971	23,287,974
Operations	50	1,607,330	3,696,300	725,068	(127,080)	4,451,481
Transit	99	5,984,687	2,242,000	2,236,150	251,692	6,242,229
PS Total	788	13,834,102	24,545,200	3,920,197	1,274,610	35,733,715
Corporate Services						
Finance	20	(2,795,269)	-	-	300,000	(2,495,269)
Information Technology	84	1,319,797	2,611,751	717,739	-	3,213,809
CS Total	104	(1,475,472)	2,611,751	717,738	300,000	718,539
Local Boards						
Library	29	255,738	210,000	243,522	-	222,216
Police	59	34,929,367	1,062,500	833,976	79,069	35,236,960
Local Boards Total	88	35,185,104	1,272,500	1,077,498	79,069	35,459,177
TAX SUPPORTED TOTAL	1,750	78,075,797	51,762,151	8,677,670	3,013,212	124,173,493
Non-Tax Supported						
POA	8	53,087	302,400	34,781	-	320,705
Environmental Services	386	69,758,434	35,674,500	8,211,145	334,828	97,556,616
NON-TAX SUPPORTED TOTAL	394	69,811,521	35,976,900	8,245,927	334,828	97,877,322
CITY TOTAL	2,144	147,887,318	87,739,051	16,923,597	3,348,040	222,050,815

Note:

1 Projects open as of June 30, 2015

2 Finance negative unspent is due commitment to fund GO Metrolinx which is currently unbudgeted.

3 "Net Funding Adjustment" details provided in Schedule B

STAFF REPORT

Schedule B: CS-2015-69 Summary of Capital Projects Closed or Budget Adjusted during 2015

	# of Adjusted Projects	Net Funding Adjustment	Prior Year Adjustments	Grants & Subsidies	Other Non-Tax	Current Revenue	Capital Reserve
(Note 1)							
Tax Supported							
Infrastructure, Development & Enterprise Services							
Business Development & Enterprise	2	(22,404)	(22,400)	-	-	-	(4)
Engineering	6	(218,062)	(225,015)	-	-	-	6,953
Environmental Services	-	-	-	-	-	-	-
Facilities Maintenance	6	1,600,000	-	1,600,000	-	-	-
Planning & Building Services	-	-	-	-	-	-	-
IDE Total	14	1,359,534	(247,415)	1,600,000	-	-	6,949
Public Services							
Culture, Tourism & Community Investments	3	157,027	159,000	-	-	-	(1,973)
Emergency Services	-	-	-	-	-	-	-
Operations	6	(127,080)	(173,531)	50,000	-	-	(3,549)
Parks & Recreation	8	992,971	33,136	-	-	-	959,834
Transit	3	251,692	-	-	250,000	-	1,692
PS Total	20	1,274,610	18,605	50,000	250,000	-	956,004
Corporate Services							
Finance	1	300,000	150,000	-	-	150,000	-
Information Technology	-	-	-	-	-	-	-
CS Total	1	300,000	150,000	-	-	150,000	-
Local Boards							
Library	-	-	-	-	-	-	-
Police	6	79,069	79,069	-	-	-	-
Local Boards Total	6	79,069	79,069	-	-	-	-
TAX SUPPORTED TOTAL	41	3,013,212	259	1,650,000	250,000	150,000	962,953
Non-Tax Supported							
Environmental Services	8	334,828	1,295,000	-	-	-	(960,172)
POA	-	-	-	-	-	-	-
NON-TAX SUPPORTED TOTAL	8	334,828	1,295,000	-	-	-	(960,172)
CITY TOTAL	49	3,348,040	1,295,259	1,650,000	250,000	150,000	2,780

Note

1 Details for "Prior Year Adjustments" are included in the main report on page 3.

STAFF REPORT



TO Corporate Services Committee

SERVICE AREA Corporate Services, Finance

DATE September 9, 2015

SUBJECT Financial Review of the Urbacon Capital Project

REPORT NUMBER CS-2015-78

EXECUTIVE SUMMARY

PURPOSE OF REPORT

To provide the results of the specified audit procedures that Deloitte LLP performed on the legal, settlement, and construction costs of the City of Guelph Civic Administration Building and POA Permanent Facility.

KEY FINDINGS

The results of the specified audit procedures validated the following project details:

The City's full settlement costs, including all applicable taxes, were \$5,800,837. Full legal costs, including lawyer's fees, mediation, expert witness fees and reports, were \$2,300,484. The project construction costs for the Civic Administration Building and the POA Permanent Facility were \$56,968,414 resulting in a total project cost of \$65,069,735. These findings confirm the values previously disclosed by City of Guelph staff to the public.

With the exception of the legal and settlement fees, the Civic Administration Building and POA Permanent Facility was within one percent of budgeted construction costs.

The results of Deloitte LLP's report verify the City of Guelph's financial tracking of project costs is sufficient to provide detailed, accurate costing information, and that the City of Guelph's record keeping system can provide supporting documentation on these costs.

FINANCIAL IMPLICATIONS

There are no direct financial implications for the resolutions presented here.

ACTION REQUIRED

The Corporate Service Committee receive the results of the specified audit procedures performed by Deloitte LLP related to the Urbacon Capital Project.

RECOMMENDATION

That report CS-2015-78 Financial Review of the Urbacon Capital Project be received.

BACKGROUND

In June of 2015 the City of Guelph settled the final two actions related to the Urbacon litigation. As promised, City of Guelph Staff committed to providing three deliverables to inform the public of the total costs and funding of the project, as well as an assessment of the City's approach to managing a range of capital projects. The deliverables included:

- 1) A third party risk assessment of capital projects. The third party review and recommendations were received by the Governance Committee on August 4, 2015.
- 2) A report outlining the treatment of the funds transferred from the Capital Asset Renewal Reserve Fund to pay for the Urbacon settlement. This report was presented to the Corporate Services Committee on July 6, 2015 and subsequently recommended for City Council approval on July 20, 2015.
- 3) An independent third party capital cost audit on the project costs.

Item number three is the basis for this report and is included in ATT-1.

REPORT

Deloitte LLP was engaged by the City of Guelph to perform specified auditing procedures in accordance with the requirements of the Chartered Public Accountants' - Assurance Handbook Section 9100, "Reports on the results of applying specified auditing procedures to financial information other than financial statements". This type of special purpose audit report differs from a standard audit in that it doesn't consider whether the cost were capitalized or expensed for accounting purposes. The intention was to confirm the total dollar value of the project and all costs associated with the project. The figures included in ATT-1 show all of the costs associated with the project. Please note that there is no concept of materiality with a Section 9100 report. Deloitte LLP was required to report any dollar value exceptions regardless of the size of the difference, whereas with an audit there is a dollar threshold below which exceptions are considered inconsequential.

This report outlines the, methodology and findings of the Section 9100 report performed by Deloitte LLP in ATT-1.

STAFF REPORT

Methodology

City of Guelph staff prepared the project schedule in ATT-1 based on information recorded in the City of Guelph's financial system. Deloitte LLP performed specialized audit procedures to cover the assertions of accuracy and existence of listed project expenditures, as well as completeness surrounding the list provided by staff.

Accuracy and Existence

As noted in Deloitte LLP's report, a statistically significant sample of costs was randomly selected from the general ledger project details to validate the cost included in the project summary. Deloitte LLP verified that the project cost on the invoice agreed with the cost included in the project summary, the invoice description supported that the cost was associated with the Urbacon project, and that the project cost was an approved expenditure.

Result: No discrepancies were noted.

Completeness

After verifying the accuracy of the Urbacon project costs, Deloitte LLP focused on the possibility that expenses were incurred, but not listed by City of Guelph staff and related to the Urbacon project. To verify the completeness assertion, Deloitte LLP obtained a listing of all vendors contracted for the project between January 2004 and June 2015 with total costs greater than \$98K and randomly selected a statistically significant sample. For each item sampled Deloitte confirmed that if the item related to the Urbacon project that it was included on the list, and if not that it was appropriately excluded.

Result: No discrepancies were noted.

To verify that the listing of project vendors was correct, Deloitte LLP obtained a listing of all tender contracts awarded between January 1, 2004 and June 30, 2015. Deloitte searched for any contracts that related to the Urbacon project which were not included on the listing provided by City of Guelph staff.

Result: No discrepancies were noted.

REPORT FINDINGS

With the exception of a small difference between the legal costs provided to the media and the detailed project costs (\$1,145), Deloitte LLP's report supports the values previously disclosed by City Of Guelph staff.

These results verify the City of Guelph's financial tracking of project costs is sufficient to provide detailed, accurate costing information, and that the City of Guelph record keeping system can provide supporting documentation on these costs.

STAFF REPORT

FINANCIAL SUMMARY

Included below is a summary of the costs verified through the report prepared by Deloitte LLP (actual column) compared to budget.

PROJECT SUMMARY	Actual	Budget
Project Cost	\$ 56,968,414	\$ 56,633,348
Settlement Costs	\$ 5,800,837	0
Legal & Expert Witness Fees	\$ 2,300,484	0
Total Project Cost	\$ 65,069,735	\$ 56,633,348

Council approved the funding sources for the unbudgeted cost of \$8,436,387 in report CHR-2014-62.

The total budgeted figures of \$56,633,348 can be further broken down as follows:

BUDGET SUMMARY	\$
Approved Annual Capital Budgets	54,850,100
Additional funding collected (grants, interest, etc.)	1,783,248
Total approved budget and funding	56,633,348

Approved annual capital budget broken down by year:

PROJECT SUMMARY	2005	2006	2007	2008	2009	Total
Civic Administration Building	\$ 4,000,000	\$ 19,050,000	\$ 14,889,000	\$ 1,847,000	\$ 2,300,000	\$ 42,086,000
POA Permanent Facility	\$ -	\$ 10,964,100 *	\$ -	\$ -	\$ 1,800,000	\$ 12,764,100
Approved capital budget	\$ 4,000,000	\$ 30,014,100	\$ 14,889,000	\$ 1,847,000	\$ 4,100,000	\$ 54,850,100

* Approved at the June 26, 2006 Council Meeting through Bylaw #18077.

This report is the final accounting of the Urbacon project. Any difference between amounts previously disclosed relate to the timing of the disclosures, and subsequent costs being incurred. With the exception of the legal and settlement fees, the Civic Administration Building and POA Permanent Facility was within one percent of budgeted construction costs.

CORPORATE STRATEGIC PLAN

Innovation in Local Government

1.3 Ensure accountability, transparency and engagement

DEPARTMENTAL CONSULTATION

Legal Department

STAFF REPORT



FINANCIAL IMPLICATIONS

There are no direct financial implications for the resolutions presented here.

COMMUNICATIONS

Communications have been released stating that City of Guelph staff will bring forward a report regarding the final accounting of the Urbacon project.

ATTACHMENTS

ATT-1 – Deloitte's Section 9100 Report

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To the Council of the City of Guelph

As requested by the City of Guelph (the “City”), we have performed the procedures outlined below with respect to the City of Guelph Civic Administration Building and POA Permanent Facility capital project (the “Project”) for the period January 1, 2004 to June 30, 2015.

1. We verified the costs included in the Project Summary to the General Ledger of the City for the period January 1, 2004 to June 30, 2015, which reports project costs of \$56,968,414, settlement costs of \$5,800,837 and legal and expert witness fees of \$2,300,484, and found them to be in agreement with the exception of legal and expert witness fees which totaled \$2,299,339 in the General Ledger.
2. To support the validity of costs included in the Project Summary, we randomly selected 62 costs from the Project Summary and agreed the costs to supporting documentation. We verified that:
 - the project cost was supported by an approved invoice;
 - the cost agreed to the cost included in the Project Summary and;
 - the invoice description supported that the cost related to the Project.No differences were identified relating to these procedures.
3. To assess that all costs were included on the Project Summary, we performed the following procedures:
 - we reviewed the General Ledger and identified the names of all vendors used for the Project with total costs greater than \$98,900;
 - we obtained a list of all payments made to those vendors by the City during the period from January 1, 2004 to June 30, 2015;
 - we randomly selected 54 payments made to these vendors and agreed the payment to a supporting invoice to verify the costs had been recorded by the City in the correct capital project; and
 - we verified the payment was included in the Project Summary if it related to the Project.No differences were identified related to these procedures.
4. To assess the completeness of the vendors recorded for the Project, we obtained a list of all tender contracts awarded by the City from January 1, 2004 to June 30, 2015 and searched for all contracts related to the Project. We did not identify any vendors that were excluded from the General Ledger for the Project.

The above procedures do not constitute an audit with the objective of expressing a separate opinion regarding the subject financial information and accordingly, we do not express an opinion on such information.

This report is intended solely for the use of the Council for the purpose of presenting a complete report of all costs incurred for the Project from January 1, 2004 to June 30, 2015 and should not be used for any other purpose.

A handwritten signature in black ink that reads "Deloitte LLP". The signature is written in a cursive, flowing style.

Chartered Professional Accountants
Licensed Public Accountants
August 19, 2015

STAFF REPORT

TO Corporate Services Committee

SERVICE AREA Corporate Services

DATE September 9, 2015

SUBJECT Service Rationalization Options

REPORT NUMBER CS-2015-74

EXECUTIVE SUMMARY

PURPOSE OF REPORT

The purpose of this report is to recommend an option and approach to implementing a service rationalization/service delivery review.

KEY FINDINGS

The issue of implementing a corporate wide service rationalization has previously been discussed with Council. An organizational assessment was completed in 2013 and Senior Management recommended that service rationalization be deferred for at least two years and then be reassessed. This report is in response to that recommendation.

FINANCIAL IMPLICATIONS

It is estimated that \$500,000 to \$850,000 would be required to conduct a corporate wide Service Rationalization.

There are no financial implications at this time; however, should Council wish to proceed with the review, staff will include a recommendation in the 2016 budget for consideration.

ACTION REQUIRED

THAT Council approve the recommendations in CS-2015-74 Service Rationalization Options.

RECOMMENDATION

THAT Council approve in principle a Service Rationalization review of City programs and services and refer the cost to the 2016 Budget process.

STAFF REPORT

BACKGROUND

On October 9, 2012 the Governance Committee received two reports, CAO-A-1201 entitled Status Report on the Service and Operational Reviews and CAO-A-1202 entitled Audit Review – New Rating System and Methodology. As part of the review of these reports the committee requested the following to achieve Council’s “Service Review Process Principles” as approved July 11, 2011. Namely that a Service Review process occurs outside of the budget, that for the following three years 75 services be reviewed and that the service review process be collaborative and respectful including both management and resident input. Subsequently:

- On October 22, 2012 Council passed a resolution to approve report CAO-A-1202 and added a clause “THAT staff bring forward a draft Service Rationalization/Assessment project to the next governance committee meeting.”
- At the Governance Committee meeting of November 13, 2012, staff returned with report CAO-A-1207 entitled Service Rationalization and Assessment Project. This report provided members with options for consideration with respect to conducting a Service Rationalization and Assessment project, along with information on the approximate costs, duration and scope of the project. Committee chose to proceed with a two-year, phased project with Phase 1 – Organization Assessment project to be completed in 2013 and Phase 2 – Service Rationalization project to be completed in 2014.
- Western Management Consultants was hired and on September 16, 2013 staff highlighted the results of the project in report CAO-C-1306 entitled Organizational Assessment Results. The report recommended that systems be developed and that the City begin gathering analytical data for each service area. This information would be used to evaluate a service area’s effectiveness and efficiency.
- In discussion with the consultants it was suggested that a service rationalization would be counterproductive while there was so much work to be done on the organizational assessment and as follow up to the employment engagement results.

Through Report CAO-A-1308 entitled Service Rationalization Project Status the committee deemed that no further action would be taken on implementing a service rationalization project for 2014; further within the report it was the recommendation of the Internal Auditor and Chief Financial Officer that the need for service rationalization be deferred for at least two years and be reassessed at that time. This report is in response to that recommendation.

It is noted that the City of Guelph, like most municipalities in Ontario is facing significant financial challenges related to the affordability of programs while continuing to provide high quality services to the public. The timing may be appropriate to implement a service delivery review to ensure the municipality’s long-term financial sustainability.

STAFF REPORT

REPORT

While now slightly dated, KPMG's survey The Wolf is at the Door: The Global Economic Crisis and the Public Sector is still considered an important piece of research into how six countries, including Canada, were planning on dealing with fiscal challenges. In 2010 it was believed that the coming squeeze to the public sector would not be fully felt for at least five and possibly ten years. However, in Canada the research concluded that "government needs a new way of thinking. They should think about the longer term, and what can be done now to equip ourselves [sic] with better capacity". True radical change will mean that the business or service delivery model of the public sector will have to change. A final conclusion was that public sector agencies' IT systems must also be improved or it is unlikely that they will "have the depth and breadth of knowledge needed to make and implement the radical changes that are necessary to improve performance".

As part of the evolution of any organization, it is valuable to pause and review the mandate and service inventory to determine if changes to the business model are required. As such, interest has been expressed in initiating a service rationalization/service delivery review to maintain existing service levels in the face of competing priorities; meet increased demands for services; reduce costs and improve revenues.

Service Rationalization/Service Delivery Review

A service rationalization/service delivery review is one in which each specific municipal service is systematically reviewed to determine the most appropriate way to provide it.

A service delivery review is not a value-for-money audit. A value-for-money audit assesses the effectiveness and efficiency of the utilization of public funds only. A service delivery review is much broader in scope and focuses on setting priorities and making choices in order to reduce the cost of delivery while maintaining or improving services and service levels. This requires asking the following questions:

- ***Improving Services, Programs and Functions***– Can the efficiency, effectiveness and quality of the service be improved?
- ***"Menu" of Services and Programs:*** – What is the total package or menu of services and programs that we provide? Are they core to our business and aligned with our mission, values and strategic plan? Are they valued by our community? Are we providing the right "menu" of services and programs to meet our current and future community needs?
- ***Capacity:*** Does the organization have the capacity to achieve its objectives?

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- **Service Levels** – Are we providing the right level of service? How much would it cost to improve the service level? Is the public prepared to pay for the current level of service or should it be reduced?
- **Alternate Service Delivery** – Can services be delivered in other ways such as partnerships, outsourcing, or electronic delivery for some services?
- **Allocation of Resources** – Are we fully utilizing our resources and do we have the appropriate level of resources for the existing level of services? Are current resources optimized to deliver required outcomes?

Many municipalities have been conducting service reviews in an effort to ensure the efficient and effective management of resources and to meet their budget challenges, as well as identifying programs or areas that require additional resources.

Details of the environmental review are highlighted in Attachment 1 – Municipal Scan.

The executive team of the City of Guelph is fully supportive of pursuing a review, in an effort to deliver better and value added services to the public as well as being transparent in the evaluation of these services. There are two options related to the implementation of a service rationalization/service delivery review:

1. External Resourcing – Many municipalities have utilized consulting firms that specialize in conducting service delivery reviews (ex. Deloitte, KPMG, etc.). There are several advantages to using external firms, including objectivity, defined expertise and subject matter knowledge, and the ability to start and complete the engagement relatively quickly. To proceed in this manner and in compliance with the purchasing By-law (2014) – 19771, staff would need to issue a Request for Proposal (RFP).
2. Internal Staff – In previous reports it was recommended that the Internal Auditor be utilized to perform the function of service rationalization. However, the Institute for Internal Auditors' (IIA) Standards deem this to be an impairment to their independence and/or objectivity. Therefore, temporary staff would need to be hired. The ability to perform such reviews would require specialized knowledge which may be difficult to obtain on a contract basis. In order to have the review completed on a timely basis, several staff would be required. Regardless of skill level, there will be a significant learning curve.
 - a. Conduct the review within a one year time frame. This would involve the evaluation of 300+ entities and would be very disruptive to corporate wide programs and operations, due to the involvement of management in the review. Proceeding with the review in an expedited manner would impact on the timeframes related to other City priorities including the Council Shared Agenda and departmental work plans.

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- b. Phase in the review over the remaining term of Council. This would involve the analysis of approximately 100 entities per year, resulting in the ability to phase in both the costs and results.

Management is recommending that the review be undertaken by an external consulting firm obtained through a RFP. This will ensure that the work is done by resources with the appropriate technical knowledge and expertise, and completed within a one year time frame. It is anticipated that accelerating the review will ultimately be the least disruptive option to the organization.

CORPORATE STRATEGIC PLAN

Innovation in Local Government

2.1 Build an adaptive environment for government innovation and ensure fiscal and service sustainability.

2.2 Deliver public services better.

2.3 Ensure accountability, transparency and engagement.

DEPARTMENTAL CONSULTATION

The executive team have been consulted in the development of this report.

FINANCIAL IMPLICATIONS

It is estimated that a range of \$500,000 to \$850,000 would be required to conduct a corporate wide Service Rationalization.

COMMUNICATIONS

A full communication plan will be developed by Communications staff.

ATTACHMENTS

ATT-1 Municipal Scan

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