

INFORMATION ITEMS

Week Ending September 7, 2018

REPORTS

1. 2018 Second Quarter Operating Variance Report

INTERGOVERNMENTAL CONSULTATIONS

1. None

CORRESPONDENCE

1. None

BOARDS & COMMITTEES

1. None

ITEMS AVAILABLE IN THE CLERK'S OFFICE

1. None

Information Report



Service Area Corporate Services

Date Friday, September 7, 2018

Subject **2018 Second Quarter Operating Variance Report**

Report Number CS-2018-22

Executive Summary

Purpose of Report

The purpose of this report is to provide a projection of the 2018 year-end position for the Tax Supported and Non-tax Supported Operating Budgets based on financial information as of June 30, 2018.

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

Key Findings

Overall, the City's Tax Supported Budget is projecting close to break-even with only a \$371,800 net unfavourable position or 0.25 per cent of the total budget. This is comprised of:

| | | |
|------------------------|--------------------|--------------|
| City departments | \$471,800 | Unfavourable |
| Local & outside boards | <u>(\$100,000)</u> | Favourable |
| Net variance | \$371,800 | Unfavourable |

The City's Non-tax Supported Budgets are projecting a total \$536,800 net favourable variance.

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

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

- a) Higher than anticipated revenues from water consumption, parking ticket fine enforcement, increased animal tag purchases, blue box grant from Stewardship Ontario, interest income, and the unplanned Guelph Junction Rail dividend received. These are offset by lower than anticipated revenues from Transit, ice rentals, leases, grants and sponsorships, daily parking, sale of recyclable materials, and interest and penalties on tax receivables;

b) A favourable year-end position is projected for salary and wages despite an increase in temporary wages and overtime, however, the City is experiencing benefit cost pressures predominantly with WSIB that may require use of the WSIB Reserve at year-end;

c) A favourable year-end position is projected for utilities and water consumption.

Notable departmental projected variances greater than \$100,000 which encompass the drivers described above are as follows:

- Environmental Services is projecting an unfavourable variance of \$140,000;
- Culture, Tourism and Community Investment is projecting an unfavourable variance of \$175,500;
- Guelph Transit is projecting an unfavourable variance of \$264,200;
- Police Services is projecting a favourable variance of \$100,000;
- Water Services is projecting a favourable variance of \$400,000;
- Wastewater Services is projecting a favourable year-end surplus of \$150,000.

Financial Implications

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

The year-end position is important in determining the City's overall fitness as assessed by an external credit rating agency. This credit rating affects the price in which the City can issue debt and therefore affects the affordability of long-term capital projects for the City tax and ratepayers.

Report

City departments were provided financial information as of June 30, 2018. Actual expenditures, revenues and related commentary were analyzed. Potential significant deviations from the budget that are expected to have an impact on the year-end financial position were identified with Finance staff support. Departments have identified some positive trends, challenges, risks and concerns based on all known and available information at the time of this report.

Summary of Projected Operating Variance for Dec 31, 2018

| | Total Annual Budget for Year 2018 (\$) | Projected Variance Dec 31, 2018 (\$) | Projected Variance for Dec 31, 2018 (%) |
|---|---|---|--|
| | | (Brackets indicate a favourable variance) | |
| Tax Supported | | | |
| City Departments | \$128,330,717 | \$535,800 | 0.4% |
| General Revenues and Expenses and Financing | \$(208,040,225) | \$(64,000) | (0.0%) |
| Subtotal City Departments, General and Financing | \$(79,709,508) | \$471,800 | 0.6% |
| Local Boards | \$50,831,719 | \$(100,000) | (0.2%) |
| Grants, Outside Boards and Agencies | \$28,877,789 | \$- | 0.0% |
| Total Tax Supported | \$ - | \$371,800 | 0.2% |
| Non-tax Supported | | | |
| Water | \$ | \$(400,000) | (1.4%) |
| Wastewater | \$ | \$(150,000) | (0.5%) |
| OBC | \$ | \$- | 0.0% |
| Court Services | \$ | \$13,200 | 0.6% |
| Stormwater | \$ | \$- | 0.0% |
| Total Non-tax Supported | \$ | \$(536,800) | (0.8%) |

Corporate Variance Drivers

The identified drivers below were significant, resulting in variances in both the Non-tax Supported and Tax Supported departments and the Local Boards and Shared Services.

1. Revenues

Year-end favourable revenue variances are projected for:

- By-law due to increased animal tags and parking fine enforcement revenue;
- Police are experiencing higher than anticipated special duty, record checks and alarm fee revenue;
- Solid Waste was successful in increasing the Stewardship Ontario grant revenues for the blue box program;
- Water Services due to higher billable consumption revenue;

- Investment and dividend revenues are projecting favourable due to Guelph Junction Railway declaring a dividend to the City of \$100,000 that was not anticipated and the increasing Bank of Canada interest rates which are improving the City's cash and investment portfolio returns.

Year-end unfavourable revenue variances are projected for:

- Solid Waste recyclable revenue is trending below budget due to international trade policies banning paper products in certain markets;
- Parks and Recreation revenue is anticipating lower than planned ice rentals due to lower utilization than expected and lease revenues as a result of losing a long-standing tenant in one facility;
- Culture, Tourism and Community Investment have experienced lower grants and sponsorships than planned;
- Parking revenue shortfalls are occurring due to loss in permit parking revenue attributable to the unexpected closure of the West Parkade;
- Transit revenue is lower than projected;
- Interest and penalties on tax receivables are lower than projected due to a change in legislation and policy that enables the City to action collection one year earlier than in the past.

2. Compensation

Overall total salary, overtime, and temporary wages are currently trending lower than budget and are projected to be in a slightly favourable position at year-end, inclusive of the natural length of time it takes to fill vacancies.

Overtime is currently trending higher than budget. Departments are able to meet service requirements through the deployment of overtime within the context of the overall compensation budget. Major factors that contributed to increased overtime costs:

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

While salary, overtime and temporary wages are on target, the City is projecting an unfavourable variance of \$414,000 in benefit costs mainly related to increasing WSIB pressures. Staff will continue to work on a sustainable long-term funding strategy to ensure the City can meet its WSIB obligations in an affordable phased-in approach. Any deficit at year-end can be funded from the WSIB Reserve or the Compensation Contingency Reserve in accordance with the General Reserve and Reserve Fund Policy.

Further, the City's premium-based life and long-term disability insurance costs renewed on July 1, 2018 at a much higher cost than what was expected. Staff are currently reviewing the bid results from a Request for Proposal issued for the City's

group benefits that is expected to address some of the in-year cost challenges and mitigate against escalating costs in future years.

Finally, the City is also projecting an unfavourable variance of approximately \$80,000 due to the recent Council approved settlement pathway for the ongoing negotiations related to employee taxable benefits with the Canadian Revenue Agency.

3. Utilities

Overall year-to-date energy and water expenditures are trending approximately 14 per cent below budget. Based on historical consumption and expenditure trends, a 10 per cent favourable variance is projected for 2018 year-end. Staff will continue to monitor the Corporation's energy and water consumption, the energy market, and Provincial strategies and programs, and will refine expenditure projections through the year.

4. Fuel

In the second quarter, the average regular diesel cost per litre has trended higher than budget to \$1.07/litre compared to a budget of \$1.05/litre. Fuel costs are projected to continue increasing in the coming months. If fuel costs increase as projected by the Canadian energy analysts, costs are likely to be higher than projected resulting in a negative variance at year-end. Transit and Operations, as the largest fuel consumers, will be the most impacted by the higher fuel costs. The City does have an Environment and Utility Contingency Reserve that can be accessed to offset this impact if required and then subsequent budgets will be adjusted accordingly.

City Departmental Variances

In addition to the variance drivers explained above, the following departments are projecting year-end variances greater than \$100,000:

Environmental Services is projecting a net unfavourable variance of \$140,000. This variance is mainly due to lower recyclable revenues resulting from international trade policies banning paper products and increased waste haulage costs offset by the aforementioned increased Stewardship Ontario grant as well as other expenditure savings. Staff are working to decrease costs through proactive maintenance, process improvements, and improved accountability and as a result expenditure savings through parts, operating supplies, purchased goods, and lower organics processing fees are projected.

Culture, Tourism & Community Investment are projecting a net unfavourable variance of \$175,500 due to lower grant and sponsorship revenues as well as increased compensation and repairs and maintenance expenses. Staff continue to monitor and mitigate variances where possible.

Guelph Transit is projecting an unfavourable variance of \$264,200. The variance is mainly attributed to lower than projected revenues from cash and ticket sales and

increased overtime costs due to 12 vacancies based on the approved staffing compliment. Mitigation measures are in effect and the use of overtime should be reduced in the second half of the year.

Guelph Police Services are projecting a net favourable variance of \$100,000 mainly due to increased revenue for special duty, police record checks, and alarm fees.

Water Services is projecting a \$400,000 net favourable year-end variance due to higher than planned billable consumption revenue, partially offset by higher than budgeted overtime expenses due to staff being able to broaden their skills through applying to different positions. Overtime has been used to manage workload within the division and meet regulatory requirements.

Wastewater Services is projecting a \$150,000 net favourable variance mainly due to staff vacancy savings. The projected year-end variance could be higher if the Municipal Property Assessment Corporation does not complete the reassessment on one property by year-end.

Risks

Fluctuations with actual revenues and expenditures will continue for the remainder of the year until the actual financial results are determined at year-end. The current financial projection based on June 30th actuals is indicating the City may be in a deficit position at year-end. In addition to the increasing cost of diesel fuel as already noted in the previous section, some additional key risks to the actual financial results include, but are not limited to, the following:

a) **Collective Bargaining**

The Guelph Professional Firefighters' Association, Ontario Public Service Employee Union (OPSEU) Local 231 (Paramedics), and International Associations of Theatre Stage Employees (IATSE), Local 357 that expired on December 31, 2017, March 31, 2018, and December 31, 2017 respectively have not been ratified. The approved budget included a contingency for an anticipated economic increase; there is risk of negative variance if the final agreements are higher than the anticipated increases.

In addition, within general expenditures, the City is projecting a deficit of \$224,000 for costs related to bargaining and negotiations that have gone into arbitration. Depending on the length of arbitration and outcome, this amount could increase.

b) **Local Boards**

Guelph Police Services are currently anticipating \$100,000 favourable year-end variance, however if the severity of crime or level of crime increases it may impact overtime resulting in a negative variance.

Consultations

Departments are responsible for managing their programs according to municipal standards and within the approved budget. The responsibility of monitoring the operating budget is shared by the departments and the Finance department. Department Managers were provided financial reports based on their actual revenue and expenditures to June 30, 2018 with which they provided a projected year-end commentary in consultation with the Finance department.

Corporate Administrative Plan

Budget monitoring and variance reporting are aligned with the City's strategic objectives. Providing Committee and Council with quarterly variance reports specifically aid the achievement of the following Corporate Administrative Plan directions:

Overarching Goals

Financial Stability
Service Excellence

Service Area Operational Work Plans

Our Services - Municipal services that make lives better
Our Resources - A solid foundation for a growing city

Attachments

ATT-1 Operating Budget Variance Report

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ATT 1 - to report CS-2018-22

Operating Budget Variance based on June 30, 2018

| Department | Annual Budget 2018 | Year-To-Date Net Expenditures June 30, 2018 (\$) | Projected Variance for Dec 31, 2018 (Favourable)/ Unfavourable (\$) | Projected Variance for Dec 31, 2018 (%) |
|--|---------------------------|---|--|--|
| TAX SUPPORTED | | | | |
| CAO | | | | |
| MAYOR AND COUNCIL | \$ 979,505 | \$ 446,707 | \$ - | |
| CAO ADMINISTRATION | \$ 731,475 | \$ 236,275 | \$ - | - |
| STRATEGY, INNOVATION & INTERGOVERNMENTAL SERVICES | \$ 1,027,920 | \$ 564,743 | \$ - | - |
| LEGAL, REALTY AND RISK SERVICES | \$ 1,836,520 | \$ 451,774 | \$ - | - |
| INTERNAL AUDIT | \$ 367,473 | \$ 131,691 | \$ - | - |
| CORPORATE COMMUNICATIONS | \$ 996,790 | \$ 260,159 | \$ - | |
| BUSINESS PROCESS MANAGEMENT (BPM) | \$ 393,907 | \$ 61,189 | \$ - | - |
| SUBTOTAL CAO | \$ 6,333,590 | \$ 2,152,538 | \$ - | 0.0% |
| INFRASTRUCTURE, DEVELOPMENT & ENTERPRISE | | | | |
| IDE ADMINISTRATION | \$ 245,670 | \$ 75,205 | \$ - | - |
| PLANNING, URBAN DESIGN, AND BUILDING SERVICES | \$ 3,360,975 | \$ (136,407) | \$ (66,000) | - |
| FACILITIES MANAGEMENT | \$ 5,437,170 | \$ 2,743,699 | \$ (44,000) | - |
| ENGINEERING & CAPITAL INFRASTRUCTURE SERVICES | \$ 1,994,808 | \$ 2,662,435 | \$ (11,000) | - |
| ENVIRONMENTAL SERVICES | \$ 11,940,318 | \$ 5,213,729 | \$ 140,000 | - |
| BUSINESS DEVELOPMENT & ENTERPRISE SERVICES | \$ 1,439,590 | \$ 687,759 | \$ - | - |
| SUBTOTAL INFRASTRUCTURE, DEVELOPMENT AND ENTERPRISE | \$ 24,418,531 | \$ 11,246,420 | \$ 19,000 | 0.1% |

| Department | Annual Budget 2018 | Year-To-Date Net Expenditures June 30, 2018 (\$) | Projected Variance for Dec 31, 2018 (Favourable) / Unfavourable (\$) | Projected Variance for Dec 31, 2018 (%) |
|---|-------------------------|--|--|---|
| PUBLIC SERVICES | | | | |
| PS ADMINISTRATION | \$ 430,560 | \$ 193,435 | \$ - | - |
| PARKS & RECREATION SERVICES | \$ 13,275,006 | \$ 6,171,416 | \$ - | - |
| CULTURE, TOURISM & COMMUNITY INVESTMENT | \$ 6,153,931 | \$ 4,511,946 | \$ 175,500 | - |
| GUELPH TRANSIT | \$ 17,698,350 | \$ 9,074,936 | \$ 264,200 | - |
| OPERATIONS | \$ 14,659,039 | \$ 7,829,424 | \$ - | - |
| FIRE SERVICES | \$ 26,575,910 | \$ 13,072,018 | \$ - | - |
| GUELPH-WELLINGTON PARAMEDIC SERVICES | \$ 6,594,695 | \$ 3,874,932 | \$ - | - |
| SUBTOTAL PUBLIC SERVICES | \$ 85,387,491 | \$ 44,728,107 | \$ 439,700 | 0.5% |
| CORPORATE SERVICES | | | | |
| CS ADMINISTRATION | \$ 331,610 | \$ 147,824 | \$ - | - |
| HUMAN RESOURCES | \$ 2,580,585 | \$ 1,111,624 | \$ 11,100 | - |
| INFORMATION TECHNOLOGY | \$ 5,280,515 | \$ 2,357,355 | \$ 70,000 | - |
| CITY CLERK'S OFFICE | \$ 1,628,530 | \$ 710,230 | \$ 16,000 | - |
| FINANCE | \$ 2,369,865 | \$ 727,253 | \$ (20,000) | - |
| SUBTOTAL CORPORATE SERVICES | \$ 12,191,105 | \$ 5,054,286 | \$ 77,100 | 0.6% |
| TOTAL CITY DEPARTMENTS (excl Financing) | \$ 128,330,717 | \$ 63,181,351 | \$ 535,800 | 0.4% |
| GENERAL EXPENDITURES AND CAPITAL FINANCING | | | | |
| GENERAL EXPENDITURES | \$ 5,365,106 | \$ (69,043) | \$ 26,000 | 0.5% |
| GENERAL REVENUES | \$ (244,594,736) | \$ (237,551,119) | \$ (90,000) | 0.0% |
| CAPITAL FINANCING | \$ 31,189,405 | \$ 30,148,883 | \$ - | 0.0% |
| GENERAL AND CAPITAL FINANCING | \$ (208,040,225) | \$ (207,471,279) | \$ (64,000) | 0.0% |
| TOTAL CITY DEPARTMENTS (incl Financing) | \$ (79,709,509) | \$ (144,289,928) | \$ 471,800 | 0.6% |

| Department | Annual Budget 2018 | Year-To-Date Net Expenditures June 30, 2018 (\$) | Projected Variance for Dec 31, 2018 (Favourable) / Unfavourable (\$) | Projected Variance for Dec 31, 2018 (%) |
|---|----------------------|--|--|---|
| LOCAL BOARDS | | | | |
| POLICE | \$ 40,228,100 | \$ 19,535,278 | \$ (100,000) | - |
| LIBRARY | \$ 9,089,062 | \$ 4,825,500 | \$ - | - |
| THE ELLIOTT LONG-TERM CARE | \$ 1,514,557 | \$ 1,136,257 | \$ - | - |
| SUBTOTAL LOCAL BOARDS | \$ 50,831,719 | \$ 25,497,035 | \$ (100,000) | (0.2%) |
| OUTSIDE BOARDS & AGENCIES | | | | |
| WDG PUBLIC HEALTH | \$ 3,868,973 | \$ 2,901,731 | \$ - | - |
| COUNTY (SOCIAL SERVICES) | \$ 22,341,117 | \$ 11,410,141 | \$ - | - |
| SUBTOTAL OUTSIDE BOARDS & AGENCIES | \$ 26,210,090 | \$ 14,311,872 | \$ - | 0.0% |
| GRANTS | | | | |
| GRANTS - SPECIAL PROJECTS | \$ 2,667,700 | \$ 2,000 | \$ - | 0.0% |
| Subtotal Grants, Local and Outside Boards & Agencies | \$ 79,709,509 | \$ 39,810,907 | \$ (100,000) | (0.1%) |
| TOTAL TAX SUPPORTED | \$ - | \$ (104,479,021) | \$ 371,800 | 0.2% |
| NON-TAX SUPPORTED | | | | |
| WATER SERVICES | \$ - | \$ 8,349,080 | \$ (400,000) | (1.4%) |
| WASTEWATER SERVICES | \$ - | \$ 7,161,886 | \$ (150,000) | (0.5%) |
| ONTARIO BUILDING CODE | \$ - | \$ 1,579,405 | \$ - | 0.0% |
| COURT SERVICES | \$ - | \$ 68,283 | \$ 13,200 | 0.6% |
| STORMWATER SERVICES | \$ - | \$ 2,143,009 | \$ - | 0.0% |
| TOTAL Non-tax Supported | \$ - | \$ 19,301,663 | \$ (536,800) | (0.8%) |