

Committee of the Whole (2) Report

DATE: Tuesday, September 20, 2022

WARD(S) ALL

TITLE: 2022 MID-YEAR FISCAL HEALTH REPORT

FROM:

Michael Coroneos, Deputy City Manager, Corporate Services, City Treasurer and Chief Financial Officer

ACTION: FOR INFORMATION

Purpose

To report on the City's fiscal health for the year-to-date period ending June 30, 2022.

Report Highlights

- The City's property tax supported operations ended the second quarter in a favourable position of \$5.8 million (Table 1).
- Combined, the rate supported operations for the second quarter ended in a favourable position of \$4.1 million (Table 1).
- In the first six months of the year, capital expenditures were \$69.2 million (Table 2).
- In the first six months of the year, 29 capital projects were closed and \$40.1 million returned to various originating reserves and reserve funds.

Recommendation

1. That the 2022 Mid-Year Fiscal Health Report as of June 30, 2022, be received.

Background

The Mid-Year Fiscal Health Report provides a snapshot of the City's overall financial health for the first six months of the year and indicates areas requiring further monitoring and corrective actions.

The Report summarizes actual city operating, capital, water, wastewater, and stormwater results as of June 30, 2022, relative to approved budgets and on the same basis as the budget. The full amortization of tangible capital assets and post-retirement benefits are excluded from this report, while transfers to and from reserves, and net debenture financing requirements are included.

Previous Reports/Authority

[2021 Year-End Fiscal Health Report – December 31, 2021](#)

Analysis and Options

Executive Summary

The City's mid-year results for the property tax-supported operating budget and rate-supported operations are summarized in Table 1.

The City's property tax-supported operations ended the second quarter in a favorable position of \$5.8 million. Higher fees and service charges contributed \$18.4 million towards the favorable variance, offset by higher than budgeted reserve contributions of \$12.6 million for Building Standards and Development Application fees. Other variance drivers include higher than budgeted Alectra dividend payments, and lower reserve draws due to strong revenue collections. There were also savings in labour costs and program expenditures.

Combined, the water, wastewater and stormwater rate-supported operations ended the second quarter with higher water and wastewater sales, and unanticipated revenue recovery from stormwater spills and clean-ups, offset by higher water purchases from York Region. Lower spending is mainly attributed to savings in labour costs, lower than budgeted water meter installations, as well as, lower than budgeted contract spending.

Overall, the rate-supported operations ended the second quarter with no contributions to reserves. However, these reserve funds remain necessary for future infrastructure replacements as these assets near the end of their useful life. Therefore, contributions to reserves will be made at year-end based on actual surpluses, if any.

The City's Capital Budget mid-year results are summarized in Table 2.

The 2022 approved Capital Budget included \$271.8 million in capital projects. As of June 30, 2022, after all post-budget capital amendments, there were 624 open capital projects with \$752.6 million of available budget remaining.

Operating Results – as of June 30, 2022

Table 1			
\$ million	Budget	Actual	Variance
Property Tax Based Budget			
Revenues	271.9	286.6	14.6
Expenditures	170.5	179.3	(8.8)
Net Position	\$ 101.4	\$ 107.2	\$ 5.8
Water Rate Based Budget			
Revenues	31.4	34.2	2.8
Expenditures	29.1	30.9	(1.8)
Net Position	\$ 2.3	\$ 3.3	\$ 1.0
Wastewater Rate Based Budget			
Revenues	40.2	44.4	4.2
Expenditures	39.1	41.3	(2.2)
Net Position	\$ 1.1	\$ 3.1	\$ 2.0
Stormwater Charge Based Budget			
Revenues	8.7	8.8	0.1
Expenditures	4.3	3.4	0.9
Net Position	\$ 4.4	\$ 5.4	\$ 1.0
Note - numbers may not add due to rounding			

Capital Results – as of June 30, 2022

Table 2						
Managing Portfolio \$ million	Total Projects	2022	Life-to-Date			
		YTD Actual	Total Budget	Total Actual	Total Variance	% Spent
Open projects	624	\$ 69.2	\$ 1,349.9	\$ 597.3	\$ 752.6	44%
In-Year Closed projects	29	\$ -	\$ 47.7	\$ 7.6	\$ 40.1	16%
TOTAL	653	\$ 69.2	\$ 1,397.6	\$ 604.9	\$ 792.7	43%
Note - numbers may not add due to rounding						

DISCUSSION

Operating Budget Results

Total City revenues at mid-year were \$286.6 million or 5.4% higher than budgeted.

Table 3						
	Total Operating		Variance			
\$ million	Budget \$	Actual \$	Operating (non-COVID) \$	COVID-19 \$	Total	
					\$	%
Fees and Charges Revenue	23.8	42.2	18.0	0.3	18.4	77.0%
Corporate Revenues	14.3	17.9	2.5	1.1	3.6	24.9%
Reserve Transfers	13.4	6.7	(6.7)	-	(6.7)	(50.2%)
Taxation	220.4	219.8	(0.6)	-	(0.6)	(0.3%)
Total Revenues	\$ 271.9	\$ 286.6	\$ 13.1	\$ 1.5	\$ 14.6	5.4%
Note - numbers may not add due to rounding						

Operating Revenue Variances:

Fees and Charges Revenue – favourable variance of \$18.4 million consists of:

Non-COVID-19 (favourable variance of \$18.0 million):

- Higher fee collection in Building Standards (BSD) and Development Planning of \$18 million; partially offset by:
 - Lower transfers from reserves in Building Standards and Development Engineering (\$5.0 million)

COVID-19 (favourable variance of \$0.3 million):

- Gradual recovery of revenues of \$1.1 million mainly in Recreation, offset by \$0.8 million lower collections in By-Law & Compliance, Licensing & Permit Services.

Corporate Revenues – favourable variance of \$3.6 million consists of:

Non-COVID-19 (favourable variance of \$2.5 million):

- Fourth Quarter 2021 dividend from Alectra, declared in 2022, is higher by \$3.0 million, reflecting better than planned results for the utility company in 2021.
- Higher MAT revenue collections due to gradual recovery in occupancy rates (\$0.2 million).
- Lower investment income due to higher transfers to reserves resulting from interest rate increases (\$1.1 million).

COVID-19 (favourable variance of \$1.1 million):

- Recovery of \$0.2 million from York Region for costs associated with vaccination clinics, and revenue losses.

- Higher fines & penalties \$0.9 million due to increased deferral of tax payments.

Reserve and Other Transfers – unfavourable variance of \$6.7 million consists of:

Non-COVID-19 (unfavourable variance of \$6.7 million):

- Lower transfers from reserves in Building Standards and Development Engineering (\$5.0 million, as mentioned above), offset by higher insurance draw required (\$0.2 million)
- Lower than budgeted labour recovery from capital projects due to personnel vacancies (\$0.9 million).

Taxation – unfavourable variance of \$0.6 million consists of:

Non-COVID-19 (unfavourable variance of \$0.6 million):

- Adjustment for taxation due to lower assessment growth in 2021.

Total City expenditures at mid-year were \$179.3 million or 5.2% higher than budgeted.

Table 4						
\$ million	Total Operating		Variance			
	Budget \$	Actual \$	Operating (non-COVID) \$	COVID-19 \$	Total	
					\$	%
Departmental	147.4	152.7	(4.1)	(1.2)	\$ (5.2)	(3.6%)
Reserve Contrib. & Corp. Exp.	15.1	19.2	(3.0)	(1.1)	\$ (4.1)	(27.4%)
Long Term Debt	3.0	2.4	0.6	0.0	\$ 0.6	20.2%
Contingency	0.0	0.1	(0.1)	0.0	\$ (0.1)	-
Capital from Taxation	5.0	5.0	0.0	0.0	\$ -	-
Total Expenditures	\$ 170.5	\$ 179.3	\$ (6.5)	\$ (2.3)	\$ (8.8)	(5.2%)
Note - numbers may not add due to rounding						

Operating Expenditure Variances:

Departmental – unfavourable variance of \$5.2 million consists of:

Non-COVID-19 (unfavourable variance of \$4.1 million):

- Higher transfers to reserves in Building Standards (\$9.1 million), Development Engineering (\$3.1 million) and Insurance (\$0.2 million).
- Savings in labour costs of \$2.4 million due to gapping.
- Savings of \$2.7 million due to lower than budgeted non-labour expenditures, primarily in contractor materials, supplies, and repairs.

COVID-19 (unfavourable variance of \$1.2 million):

- Sooner than anticipated recovery in labour (\$1.0 million) and non-labour (\$0.2 million) program costs in Recreation as a result of an increase in program registrations.

Reserve Contributions & Corporate Expenses – unfavourable variance of \$4.1 million consists of:

Non-COVID-19 (unfavourable variance of \$3.0 million):

- Labour gapping budgeted in Corporate but realized in departments (\$3.2 million), offset by lower repayment of taxes due to reassessments from MPAC of \$1 million.
- Higher contributions to reserve due to higher collections of \$0.2 million from the Municipal Accommodation Tax.
- Under-spending in various other expenditures of \$0.4 million.

COVID-19 (unfavourable variance of \$1.1 million):

- Un-budgeted costs of vaccination clinics of \$0.2 million (recovered from York Region as reflected in revenues); and
- COVID-19 expenses (security guards, PPE, additional cleaning, overtime, etc.) of \$0.9 million.

Attachment 2 provides commentary at the Portfolio/Office level.

Operating Budget Transfers

The Chief Financial Officer/City Treasurer has the delegated authority to approve any administrative operating budget realignments between departments, provided they are fiscally neutral. A summary of these changes is incorporated into the quarterly reporting process.

In the first half of 2022, there were operating budget transfers between departments totaling \$395 thousand. The operating budget transfers primarily result from the relocation of Cultural Events from Economic Development to Recreation Services (\$204 thousand), and the transfer of one FTE from Office of Transformation Strategy to City Manager's Office (\$111 thousand).

Water, Wastewater, and Stormwater Results

Total revenues for water, wastewater and stormwater billings were \$87.4 million, or 8.8% greater than budget. Total expenses for water, wastewater and stormwater billings were \$75.6 million. This results in a net surplus of \$11.9 million.

Table 5				
\$ million	Budget	Actual	Variance	
			\$	%
Revenues				
Water	31.4	34.2	2.9	9.1%
Wastewater	40.2	44.4	4.1	10.3%
Stormwater	8.7	8.8	0.1	0.7%
Total Revenues	\$ 80.4	\$ 87.4	\$ 7.1	8.8%
Expenses				
Water	29.1	30.9	(1.8)	(6.1%)
Wastewater	39.1	41.3	(2.2)	(5.6%)
Stormwater	4.3	3.4	1.0	21.9%
Total Expenses	\$ 72.5	\$ 75.6	\$ (3.0)	(4.1%)
Net Position	\$ 7.8	\$ 11.9	\$ 4.1	51.8%
Note - numbers may not add due to rounding				

- The net sale of water/wastewater was favourable to budget by \$0.8 million. This was driven by favourable water and wastewater revenues to budget by \$7.2 million, offset by unfavourable water and treatment charges (direct cost) in the amount of \$6.4 million. The unfavourable water and treatment charges of \$6.4 million can be attributed to increased consumption (\$4.4 million) as well as higher than anticipated non-revenue water (\$2.0 million). Several initiatives, including meter replacements and the water audit, are underway to find and reduce non-revenue water.
- Water and wastewater other expenses were lower than budget by \$2.4 million. The variance was driven by lower meter installations and timing of maintenance activities and temporary vacancies.
- Stormwater other expenses were lower than budget by \$1.0 million due temporary vacancies, non-realization of debenture costs and timing of maintenance activities.

Total net favourable variance was \$11.9 million, or 51.8% higher than budgeted.

Capital Budget Results

As of June 30, 2022, there was a total of 624 open capital projects and \$752.6 million of budget remaining. Departments are projected to spend over \$287 million on capital projects in 2022. At the end of the second quarter, actual capital spending is approximately \$69.2 million. Actual spending is expected to increase as capital projects progress and full-year capital accounting entries are processed.

Table 6			
Managing Portfolio \$ million	2022 Year-to-Date		
	Total Projects	Planned Spend	YTD Actual
Infrastructure Development	317	159.8	62.0
Planning & Growth Management	68	67.9	1.4
Public Works	149	39.8	1.8
Community Services	21	5.8	1.0
Corporate Services & Chief Financial Officer	19	7.2	1.9
Office Fire & Rescue Services	32	3.6	0.1
Vaughan Public Libraries	6	1.5	0.6
Administrative Services & City Solicitor	4	1.3	0.4
Economic & Cultural Development	2	-	-
Transformation & Strategy	4	0.5	0.2
Corporate & Strategic Communications	2	-	-
Total	624	\$ 287.5	\$ 69.2
Note - numbers may not add due to rounding			

The detailed list of capital projects is included in Attachment 3.

Departments closed 29 projects in the first half of 2022, returning \$40.1 million to Reserves

The following table provides a breakdown of projects closed as of June 30, 2022.

Table 7		
Portfolio	Closed Projects	Returned to Reserve \$ million
Infrastructure Development	2	-
Planning & Growth Management	5	0.5
Public Works	14	39.5
Corporate Services & Chief Financial Officer	2	-
Office Fire & Rescue Services	6	-
Total	29	\$ 40.1

A complete list of Closed Projects can be found [online](#).

Capital Transfers Authorized by the Chief Financial Officer/City Treasurer

The Chief Financial Officer/City Treasurer has the delegated authority to approve any operating or capital realignments between departments, provided they are fiscally neutral. A summary of these changes is incorporated into the quarterly reporting process.

The following authorized capital budget amendments were processed in the first half of 2022:

Table 8		
From	To	Amount
RE-9544-20 Implementation of Event's Str	RE-9527-18 Events Strategy	40,000
FL-5440-20 PKS Additional salt supply	FL-6784-20 PKS PU trucks for arborist	2,800
FL-5221-19 PKS Additional Sand Sifter	FL-9642-21 "3 New Vichicles for Animal	3,700
FL-5276-21 PKS additional loader	FL-9642-21 "3 New Vichicles for Animal Serv/FL-9578-21 1Animal Serv Purp-Built Vehicle	20,800
FL-9627-22 Skid steers	FL-9642-21 "3 New Vichicles for Animal Serv/FL-9578-21 1Animal Serv Purp-Built Vehicle	30,000
FL-9573-21 Paint Liners Unit#1907,1908,1909,1910	FL-9590-21 Paint Liners Unit#2010,2011,2012,2013	3,500
RP-7139-20 Fire st-hatch payvement	FL-9635-22 move smart mobility/markings	70,000
ID-2060-19 2021 Road Rehab	ID-2047-18 2020 Road Rehab	352,000
ID-2113-21 2023-2026 watermain repl	ID-2046-18 2020 Watermain repl	613,000
EN-1958-13 corp Asset Mangmnt	FI-9595-22 finance Modernization	1,330,575
BS-1003-11 computer system upgrade	BS-1011-19 Service Delivery Modernization	160,862
ID-2047-18 2020 Rd Rehab	ID-2060-19 2021 Rd Rehab	1,020,000
CD-2026-17 2019 Rd Rehab	ID-2060-19 2021 Rd Rehab	280,000
ID-2083-19 Huntington Rd reconstr	ID-2050-19 Kirby Rd Extension	20,600,000
ID-2083-19 Huntington Rd reconstr	ID-2079-19 Canada Dr -america Brg	7,210,000

Continuity Schedule of Reserves and Reserve Funds

Table 9						
Reserve Balances \$ million	Opening Balance	Revenues	Expenses	Closing Balance Before Commitments	Commitments	Closing Balance After Commitments
Obligatory Reserves						
City-Wide Development Charges	491.4	103.1	87.9	506.7	389.5	117.1
Area-Specific Development Charges	15.9	3.3	0.0	19.1	17.9	1.2
Restricted Grant	32.8	0.2	-	32.9	40.8	(7.8)
Other	181.0	58.5	23.0	216.5	6.5	210.0
Sub-Total	\$ 721.1	\$ 165.0	\$ 110.9	\$ 775.2	\$ 454.7	\$ 320.6
Discretionary Reserves						
Infrastructure Development	253.7	18.4	10.9	261.1	142.1	119.0
Capital from Taxation	23.4	5.1	1.9	26.7	22.9	3.8
Corporate	18.3	0.1	-	18.4	-	18.4
Special Purpose	11.6	0.8	0.0	12.3	12.8	(0.5)
Sustainability	96.2	5.2	1.9	99.5	0.9	98.6
Sub-Total	\$ 403.1	\$ 29.6	\$ 14.7	\$ 418.0	\$ 178.7	\$ 239.3
Total	\$1,124.2	\$ 194.6	\$ 125.6	\$ 1,193.2	\$ 633.4	\$ 559.9
Note - numbers may not add due to rounding						

At mid-year, the reserve balance before commitments was \$1,193.2 million. Net reserve activity of \$633.4 million is committed against these reserves and reserve funds. After this activity is accounted for, the total reserves and reserve fund balances as of June 30, 2022, was \$559.9 million, of which \$320.6 million was for obligatory reserves and \$239.3 million was in discretionary reserves.

Total Development Charges (DCs) revenues of \$106.4 million is comprised of \$103.5 million in DC collections and \$2.9 million investment income. Collections have rebounded significantly in second quarter due to continued growth in high-rise residential and non-residential developments outside of the 2018 DC pre-payment agreements, driven also by a planned York Region DC increase and the City's semi-annual July 1 DC index increase. Compared to the same period in 2021, City-wide DC collections have increased by 33.5% or \$22 million.

The Detailed Reserve Continuity Schedule can be found [online](#).

Broader Regional Impacts/Considerations

Not applicable.

Conclusion

The report is consistent with the priorities set in the Service Excellence Strategic Initiatives under Operational Performance: Financial Sustainability.

The City's tax and rate based operating results are tracking favourably compared to the budget. However, as uncertainty to the extent of the pandemic and recovery period remains, staff are assessing the financial impact for the remainder of the year. Staff will continue to monitor the financial health of the organization, provide advice and guidance to departments, and take steps to mitigate all pressures, including utilizing funding from senior levels of government as necessary.

The Fiscal Health Report will continue to evolve to ensure it continues to provide relevant information that assists in ensuring the financial sustainability of the City. Consistent with current practices, regular updates advising of changes in the City's financial landscape will be brought forth to Council.

For more information, please contact:

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Attachments

1. City Operating – 2022 Financial Summary
2. Portfolio/Department Commentary
3. City Capital – Capital Project Listing

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