

Committee of the Whole (2) Report

DATE: Tuesday, May 9, 2023 **WARD(S):** ALL

TITLE: 2022 YEAR END 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 ending December 31, 2022.

Report Highlights

- The City's property tax supported operations ended 2022 with a surplus of \$5.9 million, attributed in part to higher than budgeted revenues mainly driven by the removal of COVID-19 restrictions.
- Transfers of \$5.7 million to the working capital reserve and \$0.2 million to the year-end expenditure reserve were made to bring the ending financial position to balance.
- Combined, the rate supported operations ended 2022 with a \$23.0 million contribution to reserves.
- Total capital spending in 2022 was \$212.8 million.
- In 2022, 80 capital projects were closed and \$39.3 million returned to various originating reserves and reserve funds.

Recommendation

1. THAT the Fiscal Health Report as of December 31, 2022, be received.

Background

The fiscal health report tracks actual spending performance of the City's calendarized financial plan. This report provides the year-end financial position of the City as of December 31, 2022, on the same basis as the 2022 budget, with accompanying commentary on the contributing factors that have affected the City's fiscal health.

The year-end fiscal health report compares annual actuals as of December 31, 2022, versus the approved budgets for city tax-supported and rate-supported (water, wastewater and stormwater) operations and capital on the same basis as the budget. This differs from the basis of accounting in the City's audited financial statements in some important ways. 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.

The City's draft audited financial statements are expected to be presented to the Audit Committee and approved by Council in June 2023.

Previous Reports/Authority

[2022 Mid-Year Fiscal Health Report – June 30, 2022](#)

Analysis and Options

Executive Summary

There are socio-economic variables impacting operational and financial results, such as inflation, rising interest rates and the continuous recovery from COVID-19.

In alignment with provincial regulations, the City of Vaughan eased all public health measures that were implemented to ensure safety and support for citizens, businesses, and employees during the COVID-19 global pandemic.

Some resulting changes in 2022 include:

- Unrestricted access to recreational facilities, park amenities and other City facilities, including the removal of all mask mandates;
- Property tax rate increase of 2.0% from 2021 to continue supporting tax-supported City operations;
- Increasing staff capacity at city facilities while developing guidelines for alternative work arrangements where operationally feasible;

- Rehiring of laid-off workforce to correspond with restored service levels and revenue projections;
- Reduction in COVID related funding as pre-pandemic normality is restored.

The financial results for 2022 continue to reflect measures taken by the City in response to COVID-19 and include withdrawal from reserve related to the Safe Restart Agreement to support unbudgeted COVID-19 operating costs.

The City's year-end 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 2022 in a surplus financial position of \$5.9 million before year-end reserve transfers. The surplus position is mainly due to higher than budgeted revenue collections from Recreation, Building Standards, Development Planning and Development Engineering. Of the total surplus, \$5.7 million was transferred to the Working Capital Reserve and the remaining \$0.2 million was transferred to the Year-End Expenditure Reserve to mitigate tax pressures in 2023 and beyond.

Combined, the water, wastewater and stormwater rate supported operations ended 2022 with reserve contributions totaling \$23.0 million, which is \$10.3 million higher than budgeted.

The higher commercial water and wastewater billings and lower than anticipated expenditures were the primary drivers for the increased reserve contributions. These reserve funds are necessary for future infrastructure replacements as these assets near the end of their useful life.

The City's capital budget year-end results are summarized in Table 2.

The 2022 approved capital budget included \$271.8 million in new projects and or increases to existing capital projects. As of December 31, 2022, after all in-year capital budget amendments, there were 578 open capital projects with \$641.5 million of available budget remaining.

Operating Results – as of December 31, 2022

Table 1			
\$ million	Budget	Actual	Variance
Property Tax Based Budget			
Revenues	333.2	361.3	28.1
Expenditures	333.2	355.4	(22.2)
Net Position	\$ -	\$ 5.9	\$ 5.9
Water Rate Based Budget			
Revenues	74.1	78.0	3.9
Expenditures	66.6	67.9	(1.2)
Net Position	\$ 7.5	\$ 10.2	\$ 2.7
Wastewater Rate Based Budget			
Revenues	92.8	98.2	5.5
Expenditures	89.2	88.9	0.2
Net Position	\$ 3.6	\$ 9.3	\$ 5.7
Stormwater Charge Based Budget			
Revenues	10.8	10.8	0.0
Expenditures	9.2	7.4	1.9
Net Position	\$ 1.6	\$ 3.5	\$ 1.9
Note - numbers may not add due to rounding			

Capital Results – as of December 31, 2022

Table 2						
Capital Projects \$ million	Total Projects	2022	Life-to-Date			
		Total Actuals	Total Budget	Total Actuals	Total Variance	% Spent
Open projects	578	\$ 212.9	\$ 1,434.2	\$ 792.7	\$ 641.5	55%
In-Year Closed projects	80	\$ (0.1)	\$ 157.5	\$ 118.2	\$ 39.3	75%
TOTAL	658	\$ 212.8	\$ 1,591.6	\$ 910.9	\$ 680.7	57%
Note - numbers may not add due to rounding						

Discussion

Operating Budget Results

Total City revenues at year-end were \$361.3 million or 8.4% higher than budgeted.

\$ million	Total Operating		Variance	
	Budget	Actuals	Total	
			\$	%
Fees and Charges Revenue	50.7	79.3	28.6	56.4%
Corporate Revenues	25.3	35.3	10.0	39.4%
Reserve & Other Transfers	31.5	20.8	(10.7)	(33.9%)
Taxation	225.7	226.0	0.2	0.1%
Total Revenues	\$ 333.2	\$ 361.3	\$ 28.1	8.4%

Note - numbers may not add due to rounding

Operating Revenue Variances:

Fees and Charges Revenue – favourable variance of \$28.6 million consists of:

- Higher fee collection of \$12.8 million in Building Standards, Development Planning, Development Engineering, as well as other departments.
- Higher fee revenues of \$5.5 million in Recreation/Community Development resulting from lifted COVID-19 restrictions, offset by lower fee revenues of \$0.3 million in By-Law & Compliance, Licensing & Permit Services.

Corporate Revenues – favourable variance of \$10.0 million consists of:

- Total dividends received from Alectra in 2022 was higher by \$3.9 million, mainly due to better than planned results for the utility company in 2021, (Q4 2021 dividends were declared and distributed to the City in Q1 2022);
- Higher MAT revenue collections of \$1.3 million due to gradual recovery in occupancy rates from tourism;
- Higher investment income due to increases in interest rates of \$0.3 million;
- Higher fines & penalties of \$2.6 million due to increased deferral of tax payments; and
- Recovery of unbudgeted costs for vaccination clinics from York Region of \$0.4 million.

Reserve and Other Transfers – unfavourable variance of \$10.7 million consists of:

- Lower than budgeted transfers of \$9.2 million from Building Standards and Development Engineering due to higher fee collection and lower full costs;

- Timing delays in YMCA loan repayment of \$1.5 million; these debt servicing costs are funded mainly by reserves;
- Lower than budgeted labour recovery of \$1.6 million from capital projects due to personnel vacancies;
- Lower draws from the Insurance Reserve of \$0.7 million due to lower than budgeted insurance costs; partially offset by
- A transfer of \$2.7 million from reserves for the Safe Restart Agreement to fund COVID-19 related expenses.

Taxation – favourable variance of \$0.2 million consists of:

- Adjustment for taxation, offset by lower than budgeted payment-in-lieu of taxes.

Total City Expenditures at year-end were \$355.4 million or 6.7% higher than budgeted.

\$ million	Total Operating		Variance	
	Budget	Actuals	Total	
			\$	%
Departmental	298.1	313.4	\$ (15.3)	(5.1%)
Reserve Contrib. & Corp. Exp.	14.1	25.6	\$ (11.5)	(81.6%)
Long Term Debt	10.6	8.7	\$ 1.8	17.4%
Contingency	5.4	0.2	\$ 5.2	96.1%
Capital from Taxation	5.0	7.4	\$ (2.4)	(48.4%)
Total Expenditures	\$ 333.2	\$ 355.4	\$ (22.2)	(6.7%)
Note - numbers may not add due to rounding				

Operating Expenditure Variances:

Departmental – unfavourable variance of \$15.3 million consists of:

- Higher than budgeted contributions to reserves of \$20.1 million in Building Standards, Development Planning and Development Engineering;
- Partially offset by net savings in labour related costs of \$7.0 million due to gapping and delays in filling vacant positions;
- Timing differences in non-labour expenditures, primarily in contractors, supplies, and material resulting in \$1.6 million less in expenditures; and
- Higher personnel, contractor and contractor materials, supplies, and materials expenditures of \$3.8 million.

Reserve Contributions & Corporate Expenses – unfavourable variance of \$11.5 million consists of:

- Labour gapping budgeted in Corporate but realized in departments of \$6.7 million;
- Higher contributions to reserve due to higher collections of \$1.3 million from the Municipal Accommodation Tax (MAT) and Tourism Vaughan Corporation;
- COVID-19 related expenses (security guards, PPE, additional cleaning, overtime, grievances etc.) of \$2.7 million; and
- Un-budgeted costs of vaccination clinics of \$0.2 million (recovered from York Region as reflected in revenues).

Long-Term Debt – favourable variance of \$1.8 million was due to delay in the loan conversion for the YMCA at the Vaughan Metropolitan Centre.

Contingency – No significant expenses were charged to the Contingency account – favourable variance of \$5.2 million, which offset other pressures throughout the City. A summary of operating results are included in Attachment 1 and 2; Attachment 3 provides commentary at the Portfolio/Office level.

Water, Wastewater, and Stormwater Results

Total revenues for water, wastewater and stormwater billings were \$187.1 million, or 5.3% greater than budget. Total expenses for water, wastewater and stormwater billings were \$164.1 million, or 0.5% lower than budget. This results in a lifecycle contribution of \$23.0 million for the future replacement and rehabilitation of water, wastewater and stormwater infrastructures.

Table 5				
\$ million	Budget	Actual	Variance	
			\$	%
Revenues				
Water	74.1	78.0	3.9	5.3%
Wastewater	92.8	98.2	5.5	5.9%
Stormwater	10.8	10.8	0.0	0.2%
Total Revenues	177.7	187.1	9.4	5.3%
Expenses				
Water	66.6	67.9	(1.2)	(1.8%)
Wastewater	89.2	88.9	0.2	0.3%
Stormwater	9.2	7.4	1.9	20.1%
Total Expenses	165.0	164.1	0.9	0.5%
Transfer to Reserves	12.7	23.0	10.3	81.0%
Note - numbers may not add due to rounding				

- The net sale of water/wastewater (water/wastewater billings net of purchases) was favourable to budget by \$5.4 million. This was driven by favourable water and wastewater revenues to budget by \$10.0 million. The increased consumption resulted in higher than budgeted water and treatment charges (water/wastewater purchase cost from the Region) in the amount of \$4.6 million. Note that actual non-revenue water was 17.4% compared to budget at 18%.
- Water and wastewater other expenses were lower than budget by \$3.0 million. The variance was driven by temporary vacancies and lower than budgeted contracted activities and professional fees.
- Stormwater other expenses were lower than budget by \$1.9 million due non-realization of debenture costs and lower than budgeted contracted activities and professional fees.

Total lifecycle contributions to reserves were \$23.0 million.

Capital Budget Results

In 2022, Departments projected to spend approximately \$280 million on capital projects. By year end, actual spending was approximately \$212.9 million from a total of 578 open capital projects.

Table 6 below summarizes 2022 variance for the 578 open projects as of year-end.

Table 6					
Managing Portfolio \$ million	2022 Year End				
	Total Projects	Planned Spend	Total Actuals	Total Variance	% Spent
Infrastructure Development	292	159.7	180.8	(21.1)	113%
Planning & Growth Management	66	67.7	5.2	62.5	8%
Public Works	132	32.6	10.8	21.8	33%
Community Services	20	4.5	7.2	(2.7)	159%
Corporate Services & Chief Financial Officer	18	7.0	4.9	2.1	69%
Office Fire & Rescue Services	30	3.5	0.5	3.0	15%
Vaughan Public Libraries	6	1.5	1.7	(0.2)	110%
Corporate Communications & Economic Development	2	1.2	0.7	0.5	55%
Administrative Services & City Solicitor	5	1.5	0.8	0.7	52%
Transformation & Strategy	4	0.5	0.4	0.2	70%
Economic & Cultural Development	1	-	-	-	-
Corporate & Strategic Communications	2	-	0.0	(0.0)	-
Total	578	\$ 279.8	\$ 212.9	\$ 66.9	76%
Note - numbers may not add due to rounding					

As of December 31, 2022, there was a total of 578 open capital projects with a total project spend of \$792.7 million, and \$641.5 million in remaining budget. 384 projects, 66% of open capital projects, are related to Roads, Vehicles & Equipment, Buildings & Facilities, and Parks & Open Spaces.

Table 7 summarizes the 578 open capital projects by asset group and life-to-date variance.

Table 7					
Asset Group \$ million	Life-to-Date				
	Total Projects	Planned Spend	Total Actuals	Available Budget	% Spent
Roads	128	420.2	204.0	216.2	49%
Buildings & Facilities	95	263.9	189.0	74.9	72%
Vehicles & Equipment	88	19.9	6.5	13.4	33%
Parks and Open Space	73	146.9	50.5	96.4	34%
Studies & New Initiatives	71	52.1	32.3	19.8	62%
Information Technology	26	29.1	18.0	11.2	62%
Stormwater Management	23	87.4	23.4	64.0	27%
Water Services	22	63.4	47.1	16.3	74%
Development Services	13	7.9	3.3	4.6	41%
Wastewater Services	11	41.1	35.9	5.3	87%
Local Boards	11	21.5	10.8	10.7	50%
Water & Wastewater Infrastructure	9	13.1	5.8	7.4	44%
Land	5	124.7	24.0	100.7	19%
Facilities	1	140.7	140.6	0.1	100%
Parkland Acquisition	1	1.6	1.6	0.0	100%
Piped Infrastructure	1	0.5	-	0.5	0%
Total	578	\$ 1,434.2	\$ 792.7	\$ 641.5	55%
Note - numbers may not add due to rounding					

The detailed list of open capital projects is included in Attachment 4.

For full-year 2022, departments closed 80 projects, returning \$39.3 million to reserves.

Table 8 below provides a breakdown by portfolio of all projects closed as of December 31, 2022.

Table 8		
Portfolio	Total Closed Projects	Returned to Reserves \$ million
Infrastructure Development	29	(1.2)
Public Works	33	39.6
Planning & Growth Management	7	0.7
Economic & Cultural Development	1	0.0
Office of Fire & Rescue Services	8	0.0
Corp. Services	2	-
Total	80	\$ 39.3
Note - numbers may not add due to rounding		

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 semi-annual reporting process. The list of authorized capital budget amendments processed in 2022 are summarized in Attachment 5 of this report.

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						
Area Specific Development Charges	15.9	3.8	0.1	19.6	17.9	1.8
City-Wide Development Charges	491.4	125.5	71.7	545.2	401.1	144.1
Restricted Grant	32.8	10.4	14.7	28.4	26.0	2.4
Other	181.0	82.4	25.3	238.0	105.7	132.3
Sub-Total	\$ 721.1	\$ 222.1	\$ 111.9	\$ 831.3	\$ 550.7	\$ 280.6
Discretionary Reserves						
Capital from Taxation	23.4	17.4	16.9	23.9	17.2	6.7
Corporate	18.3	(3.1)	-	15.2	-	15.2
Infrastructure	253.7	48.1	47.0	254.8	103.6	151.2
Special Purpose	11.6	8.6	0.7	19.5	12.8	6.7
Sustainability	96.2	17.0	8.7	104.5	1.0	103.5
Sub-Total	\$ 403.1	\$ 88.0	\$ 73.2	\$ 417.9	\$ 134.5	\$ 283.4
Total	\$1,124.2	\$ 310.1	\$ 185.1	\$ 1,249.2	\$ 685.3	\$ 563.9
Note - numbers may not add due to rounding						

At year-end, the reserve balance before commitments was \$1,249.2 million, as summarized in table 9. Net reserve activity of \$685.3 million is committed against these reserves and reserve funds. After this activity is accounted for, the total reserves and reserve fund balances as of December 31, 2022, was \$563.9 million, of which \$280.6 million was for obligatory reserves and \$283.4 million was in discretionary reserves. Total Development Charges (DCs) revenues of \$129.3 million is comprised of \$117.9 million in DC collections and \$11.5 million investment income. Collections have rebounded significantly over recent years and continue to increase due to a growing number of high-rise residential and industrial developments. Compared to the same period in 2021, City-wide DC collections have increased by 42.9% or \$34.4 million.

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

Financial Ratios in alignment with Corporate Targets

Discretionary reserves provide the City with financial flexibility to safeguard against economic downturns and finance operations internally. To ensure the sustainability of these reserves, the City has adopted associated targets. The City also has a target ratio for debt services costs. The table below provides the status of these targets at the end of 2022.

Policy Ratio	2022	2021	Target
Discretionary Reserve	>50%	>50%	>50% Of Own Source Revenues
Working Capital*	2.7%	5.5%	Up To 10% Of Own Source Revenues (tax only)
Tax Rate Stabilization*	2.0%	2.0%	Up To 10% Of Own Source Revenues (tax only)
Debt Service	1.3%	2.0%	<10% Of Own Source Revenues

* In 2020 and prior, the Ratio for Working Capital Reserve included Tax Rate Stabilization Reserve. In 2021, these reserves were separated and a ratio for each reserve was created to measure and improve the fiscal health of the City. In addition, own-source revenues now include all revenues (except for Rate revenues) per the updated Consolidated Reserve and Reserve Fund Policy.

Discretionary Reserve Ratio - The greatest pressure on discretionary reserves is due to funding infrastructure replacement as the City’s initial stock of infrastructure assets begin to reach the end of their useful lives.

Working Capital Ratio and Tax Rate Stabilization Ratio – Contributions to Working Capital Reserve and Tax Stabilization Reserve occur when the City achieves a surplus; these reserves can be sources of funding to address a year-end deficit position. In 2022, approximately \$5.7 million of the operating surplus from taxation was transferred to the Working Capital Reserve. The year over year decrease in Working Capital Ratio reflects the short-term pressures on the City’s cash flow.

Debt Service Ratio - The City's policy limits debt servicing costs to a maximum of 10 percent of the City's own-source revenue, which is significantly lower than the 25 per cent provincial maximum. Total debenture outstanding principal as of December 31, 2022 was approximately \$63.4 million (2021 - \$11.5 million). In 2022 the total debt repayment costs were \$6.4 million (2020 - \$6.1 million), \$5.2 million in principal and \$1.2 million in interest. Repayment costs of \$6.4 million represents approximately 1.3 percent of the City's own source revenues.

Debt financing can be an additional tool to fund infrastructure in the City, however fiscal prudence and due diligence are necessary to ensure the City's long-term financial sustainability and flexibility. While the Debt Service Ratio improved from 2021 to 2022, the addition of the YMCA debt in 2022 will increase future debt servicing costs, stressing the need to consider alternate capital funding sources.

In 2022, the City presented the long-term fiscal plan to the new Term of Council. The plan reflects the City's Term of Council strategic plan, growth plans, asset management plan, development charge study, and treasury management strategy. An updated Investment Policy and a newly developed Capital Amendments procedure were introduced in 2022 to compliment this long-term fiscal plan. Recommendations resulting from the fiscal model will continue to be considered in the City's multi-year financial plan to ensure financial decisions are mindful of short-term and long-term financial impacts from the City's growth and desired levels of services.

Grant Activity Update

Since 2017, all grant activity is centrally tracked by the Municipal Partnership Office in Economic Development. Keeping city-wide priorities in mind, this office identifies and communicates funding opportunities, supports applications, and ultimately reports on the outcomes in partnership with the Financial Planning and Development Finance Department.

Table 10 below summarizes grants applied for and awarded in 2022; however, grants awarded in 2022 may not have been fully received by December 31, 2022. Table 11 summarizes actual grant revenue received in 2022.

Table 10		
Grants Awarded	Capital Grants Awarded	Operating Grants Awarded
Strategic Priorities Infrastructure Fund (SPIF)	3,584,003	
Canada Community Revitalization Fund (CCRF)	2,981,250	
The Atmospheric Fund (TAF)	11,000	
Canadian Heritage Community Projects		5,000
Active Transportation Fund (ATF)		50,000
Canada Summer Jobs		119,421
AlectraCARES Community Support Program		40,000
Mainstreet Community Activator Program		115,000
Seniors Community Grant Programs		54,598
Trees Environmental Sustainability Grants		28,500
Fire Safety Grant		10,000
Grants for Vaughan Public Library		158,331
Ontario Sport Hosting Fund		19,000
Streamline Development Approval Fund		1,000,000
Small Business Enterprise Centre Funding		323,525
Municipal Assset Management Program (MAMP)		50,000
Sub-totals	\$ 6,576,253	\$ 1,973,375
Total Grants Awarded in 2022	\$	8,549,628
Note - grants awarded may not have been received in 2021		

In 2022, the City received approximately \$5.2 million in grant revenues, excluding Canada Community-Building Funding (formerly Gas Tax) of \$9.7 million.

Table 11		
Grant Funding Received	Capital Grants	Operating Grants
Investing in Canada Infrastructure Program (ICIP)	673,157	
Disaster Mitigation and Adaptation Fund (DMAF)	833,121	
Streamline Development Approval Fund	500,000	
Canada Community Revitalization Fund (CCRF)	719,324	18,581
Canada Summer Jobs		198,005
Celebrate Canada		17,250
Recreation Virtual Programs		52,832
Resource Productivity and Recovery Authority Grants		1,766,759
Public Library Operating Grants		157,720
Ministry for Seniors and Accessibility Grant		20,000
Diversity and Inclusion Event		1,500
The Green Municipal Fund		2,000
Pet Smart Charities of Canada Grant		19,792
Provincial COVID Funding		224,156
Sub-totals	\$ 2,725,601	\$ 2,478,594
Total Grants Received in 2022	\$	5,204,195
Note - numbers may not add due to rounding		

Broader Regional Impacts/Considerations

None.

Conclusion

The report is consistent with the priorities set in the 2018-2022 Service Excellence Strategic Initiatives under Operational Performance: Financial Sustainability.

The City's tax and rate based operating results tracked more favourably than budgeted for fiscal year 2022. However, as uncertainty remains regarding the extent of inflation, heightened interest rates, COVID recovery and the impacts of Bill 23 (More Homes Built Faster Act, 2022), staff continue to assess the financial impact of these pressures on maintenance, repair, and capital costs in 2023 and beyond. 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 reserves and senior levels of government as necessary.

The Fiscal Health Report will continue to evolve to ensure it continues to provide relevant insights to ensure 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. Consolidated 2022 Operating Budget Results Summary
3. Portfolio/Department Commentary
4. 2022 Capital Projects Listing
5. 2022 Capital Budget Amendments Listing

Prepared by

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Approved by

A handwritten signature in blue ink, appearing to read "Michael Coroneos".

Michael Coroneos, DCM Corporate
Services, City Treasurer and CFO

Reviewed by

A handwritten signature in black ink, appearing to read "V. Musacchio".

Vince Musacchio
on behalf of Nick Spensieri,
City Manager