

Committee of the Whole (2) Report

DATE: Wednesday, October 16, 2019

WARD(S): ALL

**TITLE: FISCAL HEALTH REPORT – FOR THE YEAR TO DATE PERIOD
ENDING JUNE 30, 2019**

FROM:

Michael Coroneos, Deputy City Manager, Corporate Services 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, 2019.

Recommendation

1. That the Fiscal Health Report for the year to date period ending June 30, 2019 be received.

Report Highlights

- The City's property tax supported operations ended the second quarter in an unfavourable position of approximately \$2.2 million.
- Combined, the rate supported operations ended the second quarter in an unfavorable position of \$8 million
- \$19.7 million has been spent on 222 capital projects during the first two quarters of the year.

Background

The fiscal health report tracks actual spending performance of the City's calendarized financial plan. This report provides a snapshot of the City's financial health at a point in time and indicates areas for closer monitoring.

The attached fiscal health report compares actual city operating, water, wastewater and stormwater operations and capital results as of June 30, 2019, relative to approved budgets and on the same basis as the budget. It should be noted the full amortization of tangible capital assets and post-retirement benefits are excluded while transfers to and from reserves and net debenture financing requirements are included.

Analysis and Options

Executive Summary

City's property tax supported operations and rate supported operations both ended the second quarter in an unfavorable position.

The City's property tax supported operations ended the second quarter in an unfavourable position of approximately \$2.2 million, largely attributed to lower than expected revenues, and in part due to timing differences between actual and budgeted expenditures.

Combined, the rate-based budgets ended the second quarter in a unfavourable position of \$8 million. Further discussion regarding the contributing factors that resulted in these third quarter results is contained within the body of this report.

During the 2019 budget process, \$166 million in additional capital funding was approved. Combined with the remaining \$265 million in open capital project funding at the end of 2018, the City began 2019 with 833 open projects and \$431 million in capital funding. There has been \$19.7 million spent on 222 capital projects during the first two quarters of the year.

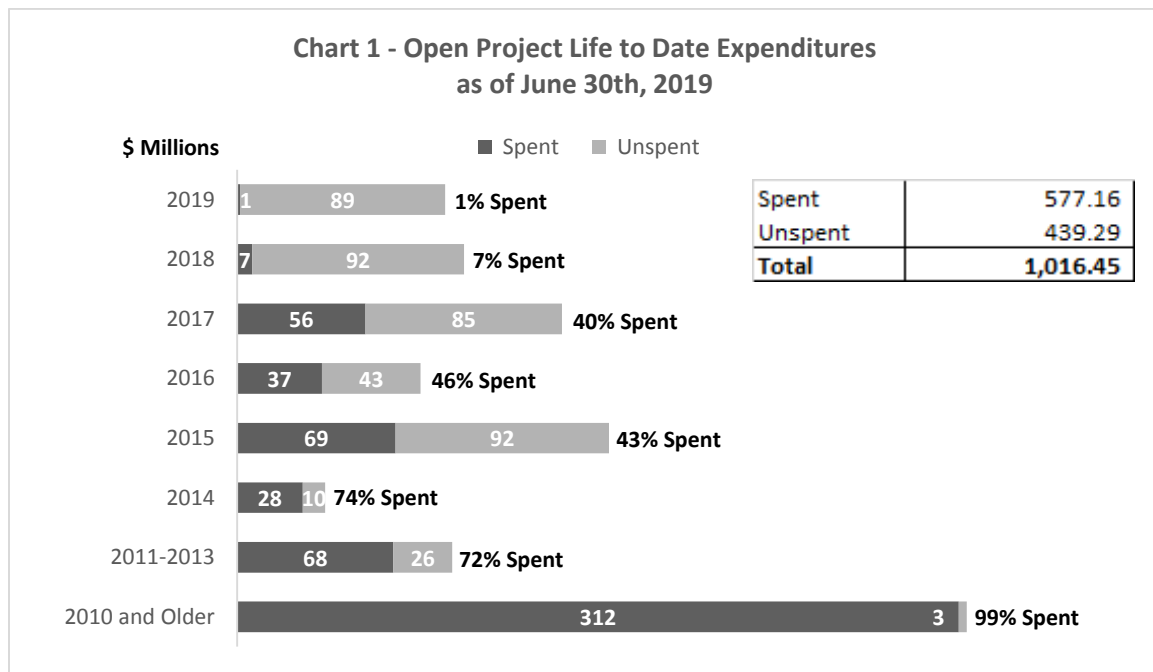
As of June 30, 2019, after all post-budget capital amendments and activity, there were 799 open capital projects with \$439 million of available budget remaining. As construction season proceeds through fall and early winter, capital expenditures are expected to increase through the remainder of the year.

Operating Results – Year to Date Ending June 30, 2019

	Budget \$million	Actual \$million	Variance \$million
Property Tax Based Budget			
Revenues	227.9	217.6	(10.3)
Expenditures	167.3	159.3	8.0
Net	\$60.6	\$58.4	(\$2.2)
Water Rate Based Budget			
Revenues	34.1	31.3	(2.8)
Expenditures	34.1	31.3	2.8
Net	\$0.0	\$0.0	\$0.0
Wastewater Rate Based Budget			
Revenues	35.9	36.7	(2.8)
Expenditures	35.9	36.7	2.8
Net	\$0.0	\$0.0	\$0.0
Stormwater Charge Based Budget			
Revenues	10.3	1.7	(8.6)
Expenditures	10.3	1.7	8.6
Net	\$0.0	\$0.0	\$0.0

Note – numbers may not add due to rounding

Capital Results – Year to Date Ending June 30, 2019



Note – chart above includes active projects

Discussion

OPERATING BUDGET RESULTS

Overall, City Revenues were \$10.3 million lower than budget.

	Budget	Actual	Variance	Variance
	\$million	\$million	\$million	%
Department Revenues	29.1	23.2	(5.9)	(20%)
Corporate Revenues	8.5	8.1	(0.4)	(4%)
Reserve Transfers	9.7	5.8	(3.9)	(40%)
Taxation	180.6	180.5	(0.01)	0%
Total Revenues	\$227.9	\$217.6	(\$10.3)	(5%)

Note – numbers may not add due to rounding

- Department Revenues were 20 percent less than planned. Notable drivers in the second quarter that contributed to this result included lower than expected Development Planning revenues collected from site plan applications, subdivision applications and other related fees. The lower than planned revenue in licenses and permits from Building Standards have been mostly offset by a corresponding transfer to the Building Standards Reserve. The remainder of the variance is related to labour recoveries from capital due to position vacancies and the timing of the delivery of capital projects.
- Reserve transfers were 40 percent less than planned. Transfers from Engineering and Building Standards Reserves were less than budgeted, as their overall department expenditures were less than planned in the first two quarters of 2019.

Overall, City expenditures were \$8.1 million lower than planned.

	Budget	Actual	Variance	Variance
	\$million	\$million	\$million	%
Labour	97.4	94.0	3.3	3%
Service Contracts & Materials	18.9	19.7	(0.8)	(4%)
Capital Related	27.0	27.3	(0.3)	(1%)
Other	14.2	10.2	4.0	28%
Utilities & Fuel	5.6	4.6	1.0	18%
Insurance	4.3	3.4	0.9	21%
Total Expenditures	\$167.3	\$159.3	\$8.0	5%

Note – numbers may not add due to rounding

- Labour costs were 3 percent lower than planned. This is primarily attributable to vacancies for positions approved in 2019 that are still in the recruitment process and that have not yet been filled. Departments will continue to work with Human Resources to complete the recruitment of vacant positions.
- Service Contracts & Materials were 4 percent higher than budget due to winter maintenance costs resulting from higher than average winter events in the beginning of 2019.

- Utilities & Fuel were 18 percent lower than budget mainly due to lower than expected hydro costs resulting in part from reduced consumption achieved through implementation of energy savings initiatives.
- Insurance costs were 21 percent lower than budget mainly due to lower than budgeted insurance premiums and deductibles.
- Other expenditures were 28 percent lower than budget partially driven by the timing of and magnitude of contracts, lower than anticipated utility expenses and computer software costs that are anticipated to be spent prior to the end of the year.

Attachment 2 provides commentary at the Portfolio/Office level.

Risks and Pressures

The City's operating results for the two quarters ending June 30, 2019 were unfavorable but are expected to improve in the second half of the year. Staff will continue to monitor revenue performance during the remainder of the year.

The Development Planning and Building Standards department are experiencing lower than anticipated revenues which may be the result of several factors including the implementation of development charge pre-payment agreements in the latter half of 2018. The pre-payment agreements resulted in the City receiving an influx of applications at the end of 2018 as opposed to spread more evenly across the last quarter of 2018 and through 2019. Additionally, the introduction of Bill 108, which will impact the revenues that may be collected by municipalities for growth related development, has created uncertainty in the market as the development industry waits for clarity on the impact of the changes from the Province. This has contributed to lower than expected development related fee revenues but will most likely improve in the latter part of 2019 as the Province releases more information regarding Bill 108 and the development applications related to the pre-payment agreements are approved.

Operating Transfers Authorized by the Chief Financial Officer/City Treasurer

There were no operating budget transfers completed during the first and second quarter for which the Chief Financial Officer/City Treasurer has the delegated authority as granted by Council at the Special Council meeting of December 15, 2015 (Finance, Administration and Audit Committee, Report 16, Item 1).

Water, Wastewater and Stormwater Results

Year to Date Second Quarter Water Operating Results

Water Operations gross margin was \$0.8 million less than budget.

	Budget	Actual	Variance	Variance
	\$million	\$million	\$million	%
Residential Billings	19.8	18.3	(1.5)	(7.6%)
Commercial Billings	12.8	11.7	(1.1)	(8.6%)
Other	0.2	0.1	(0.1)	(50.0%)
Purchases/Treatment Charges	20.1	17.6	2.5	12.4%
Non-Revenue Water	3.0	3.6	(0.6)	(20.0%)
Gross Margin	9.7	8.9	(0.8)	(8.2%)
Other Revenues	1.3	1.2	(0.1)	(7.7%)

- Residential and commercial water sales for the second quarter ended lower than budget by 7.6% and 8.6% respectively due to wetter than normal weather.
- As a result of decreased sales, Regional water purchases (direct cost) were lower than budgeted.
- York Region deviated from the posted budgeted wholesale rates for water and wastewater, increasing the treatment costs for wastewater and decreasing the costs for water resulting in lower than expected water purchase costs.
- Non-Revenue Water (NRW) was higher than budgeted due to an increase in charges on the Region bill. The City and Region are investigating to determine reasons for the higher than expected NRW.

Water Operations expenditures before Lifecycle Contributions were \$1.7 million less than budgeted.

	Budget	Actual	Variance	Variance
	\$million	\$million	\$million	%
Maintenance and Installation Cost	3.5	2.2	1.3	37.1%
General Administration	2.9	2.5	0.4	13.8%
Joint Service Costs	0.4	0.4	0.0	0.0%
Lifecycle Contribution	4.2	5.0	(0.8)	(19.0%)
	11.0	10.1	0.9	8.2%

- Maintenance and Installation Costs ended lower by 37.1% due to timing of work for activities such as water service repairs, main repairs and meter installations.
- General Administration costs were lower by 13.8% due to position vacancies to be filled and professional fees savings and operator training.

City's net lifecycle contribution was \$0.8 million greater than budgeted at the end of the second quarter.

Year to Date Second Quarter Wastewater Operating Results

Wastewater Operations gross margin was \$2.5 million less than budget.

	Budget	Actual	Variance	Variance
	\$million	\$million	\$million	%
Residential Billings	23.3	22.0	(1.3)	(5.6%)
Commercial Billings	15.1	14.2	(0.9)	(6.0%)
Other	0.3	0.1	(0.2)	(66.7%)
Purchases/Treatment Charges	28.2	27.0	1.2	4.3%
Non-Revenue Water	4.2	5.5	(1.3)	(31.0%)
Gross Margin	6.3	3.8	(2.5)	(39.7%)
Other Revenues	0.8	0.4	(0.4)	(50.0%)

- Residential and commercial billings for the second quarter are trending 5.6% and 6.0% respectively lower than budget due to wetter than normal weather.
- Wastewater billing is based on water consumption and therefore trends similar to water consumption.
- York Region deviated from the posted budgeted wholesale rates for water and wastewater, increasing the treatment costs for wastewater and decreasing the costs for water resulting in lower than expected water purchase costs.
- As a result of decreased sales, treatment charges (direct cost) were lower than budgeted.
- Non-Revenue Water (NRW) was higher than budgeted due to an increase in charges on the Region bill. The City and Region are investigating to determine reasons for the higher than expected NRW.

Wastewater Operations expenditures before Lifecycle Contributions were \$1.2 million less than budgeted.

	Budget	Actual	Variance	Variance
	\$million	\$million	\$million	%
Maintenance and Installation Cost	2.4	1.4	1.0	41.7%
General Administration	1.6	1.4	0.2	12.5%
Joint Service Costs	0.3	0.3	0.0	(0.0%)
Lifecycle Contribution	2.8	1.1	1.7	60.7%
	7.1	4.2	2.9	40.8%

- Maintenance and Installation Costs ended lower by 41.7% due to timing of work for activities such as lateral repairs, flushing and cleaning, and flow monitoring

- General Administration costs were lower by 12.5% due to position vacancies to be filled and timing delay in planned training.

City's net lifecycle contribution was \$1.7 million lower than budgeted at the end of the second quarter.

Year to Date Second Quarter Stormwater Operating Results

Stormwater Operations gross margin was \$8.6 million less than budgeted.

	Budget	Actual	Variance	Variance
	\$million	\$million	\$million	%
Residential Billings	4.2	0.7	(3.5)	(83.3%)
Commercial Billings	5.8	0.7	(5.1)	(87.9%)
Other	0.0	0.0	0.0	0.0%
Purchases/Treatment Charges	0.0	0.0	0.0	0.0%
Non-Revenue Water	0.0	0.0	0.0	0.0%
Gross Margin	10.0	1.4	(8.6)	(86.0%)
Other Revenues	0.3	0.3	0.0	0.0%

- Total annual billing for stormwater charges will be completed in the third quarter.

Stormwater Operations expenditures before Lifecycle Contributions were \$1.5 million less than budgeted.

	Budget	Actual	Variance	Variance
	\$million	\$million	\$million	%
Maintenance and Installation Cost	2.1	0.9	1.2	57.1%
General Administration	1.9	1.7	0.2	10.5%
Joint Service Costs	0.1	0.0	0.1	100.0%
Lifecycle Contribution	6.2	(0.9)	7.1	(114.5%)
	10.3	1.7	8.6	83.5%

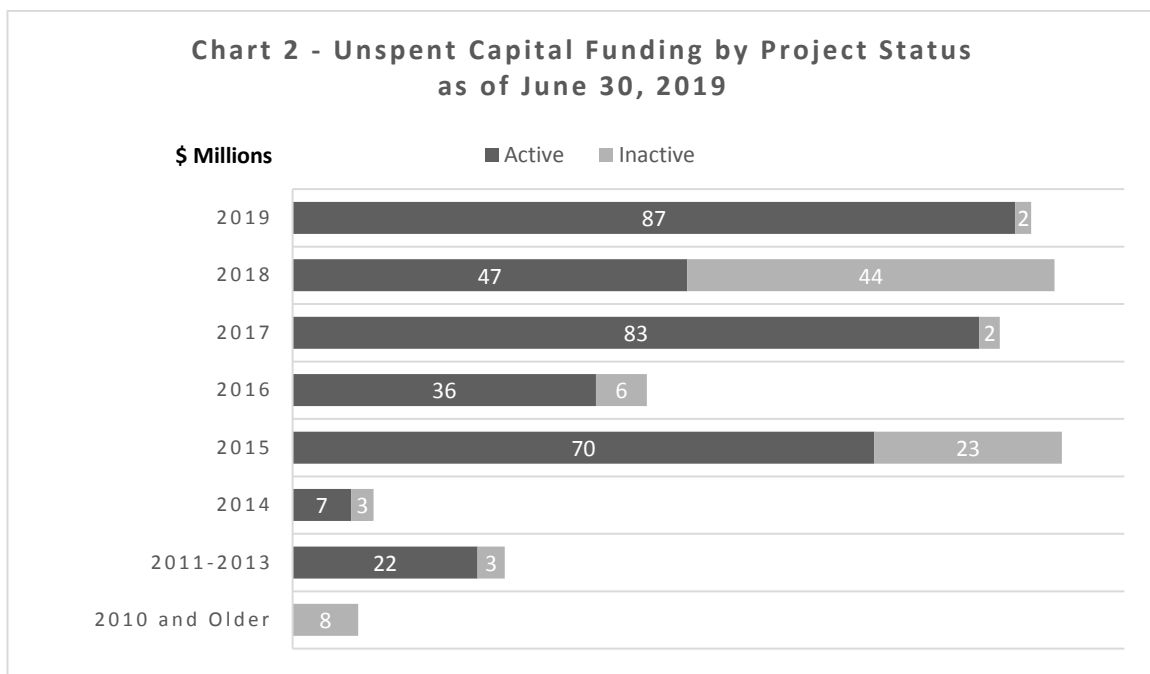
- Maintenance and Installation costs were lower by 57.1% mainly due to timing of stormwater pond and catch basin cleaning, and lower than expected street sweeping activities. A CCTV contract awarded in late 2018 has a lower than expected contract price also contributed to the lower than expected expenditures.
- General Administration costs were lower by 10.5% mainly due to deferral of debenture payment, timing of spending in professional fees and joint services fee with Alectra and gapping associated to a temporary vacancy.

City's net lifecycle contribution was \$7.1 million lower than budgeted at the end of the second quarter mainly related to timing of the stormwater billing that will be completed in the third quarter.

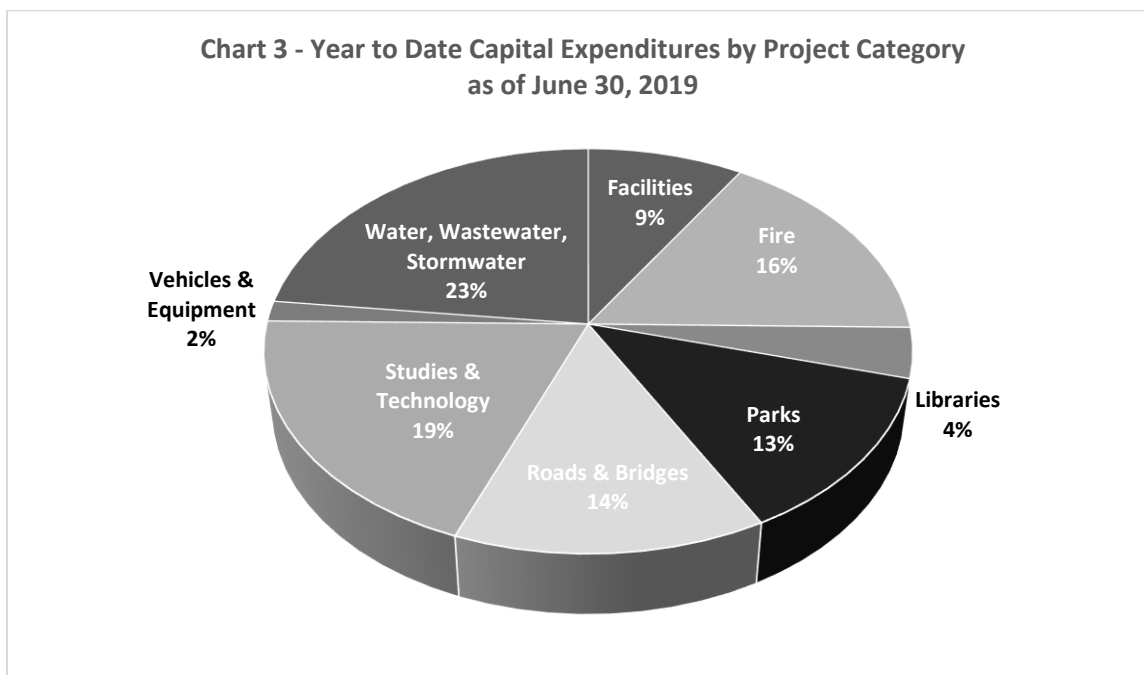
Capital Budget Results

As at June 30, 2019, there were 799 open capital projects with \$439 million of available budget remaining. The open projects were made up of 649 active projects and 150 inactive projects. The open project unspent funding breakdown by year is illustrated in the chart 2.

Further information about the inactive projects can be found in the next section of the report.



During the first two quarters of 2019, \$19.7 million was spent on 222 capital projects. Chart 3 illustrates the breakdown of funds spent by project category as of Q2 2019.



In the 2019 capital budget, departments indicated that \$208 million in capital expenditures would be processed throughout 2019. At the end of the second quarter, approximately 9 percent of the forecasted spend was accomplished. As construction season continues through the fall and winter months, and more billing from the summer is processed, it is expected that capital expenditure will rise. Departments are continuing to enhance the robustness of their capital cash flow spend forecasts which will improve the tracking of future results.

There were no projects considered substantially completed as of June 30, 2019 which had budget overages as permitted under Section 8 of the Capital Project Financial Administration and Reporting policy.

Inactive Projects and Closed Projects

Of the 799 open capital projects, there are 150 projects that are considered inactive. Inactive projects comprise 19 per cent of the total number of open projects, equating to 21 per cent of the total unspent funds of \$439 million. Approximately 67 per cent of the inactive projects are considered near completion but are required to remain open until a future event occurs. 13 per cent of the inactive projects are on hold or have not started for a variety of reasons such as project scopes changes, estimated project costs being reevaluated, and project reprioritization due to limited resource capacity. The breakdown of project classifications of the 150 open inactive projects is as follows:

Classification	Number of Projects	Amount (\$million)
Completed-to be closed	62	\$3.6
Completed-Under Warranty or Maintenance	29	\$5.4
Completed-Waiting for final invoices	10	\$3.9
DC Repayment in place	26	\$34.3
Not Started	8	\$1.5
Project Deferred	1	\$0.6
Project on Hold	11	\$40.4
Work Ongoing	3	\$1.5
Total	150	\$91.1

Of the total \$91.1 million in unspent funds from inactive projects, \$34.3 million (representing 38%) is held for projects that have development charge repayment agreements in place and will be paid out and closed in accordance with those agreements. Staff continue to review the status of projects on hold and projects deferred, and accordingly will develop action plans to return funding commitments back to the funding sources, to repurpose the project scope, or to advance the project.

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

Departments closed 31 projects in the second quarter of 2019, returning \$3.7 million to reserves.

During the second quarter, departments closed 31 capital projects, bringing the total capital projects closed in 2019 to 34 projects. The table below provides a breakdown of projects closed during the third quarter.

Portfolios	Number of Projects Closed in Q2 2019	Amount Returned to Reserve (\$million)
Community Services	10	\$1.1
Corporate Services	1	\$0.3
Planning and Growth Management	3	\$0.0
Public Works	17	\$2.3
Total	31	\$3.7

Capital Budget Amendments

For capital projects where a budget amendment is required, departments are required to bring a report to Finance, Administration and Audit Committee outlining the request for the amendment.

The following capital budget amendments were processed during the first two quarters of 2019:

From	To	Supporting Document/Report	Amount
Vehicle Reserve	FL-5425-18 - PW-RDS- Replace Unit #1094 with tandem dump truck	May 01, 2019 FAA R6 I3	\$67,790.00
Vehicle Reserve	FL-5427-18 - PW-RDS- Replace Unit #1159 with tandem dump truck	May 01, 2019 FAA R6 I3	\$17,790.00
City Wide DC - Fleet	BY-9548-18 - VMC Enforcement Officers Vehicles	May 01, 2019 FAA R6 I3	\$5,000.00
Vehicle Reserve	FL-5411-18 - PKS- FORESTRY-Replace Unit #1519 with Bucket chipper truck	May 14, 2019 FAA R7 I8	\$46,000.00

Capital Transfers Authorized by the Chief Financial Officer/City Treasurer

As outlined in the section above, *Operating 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 capital transfers were authorized by the CFO during the first two quarters of 2019:

From	To	Amount
RP-6764-17 - Beautification strategy - Enhanced garden displays	FL-5333-18 - PKS-HORT- Replace Unit#1352 with 1 ton reg. cab 4x4 dump truck	\$79,000.00
IT-9546-17 - AV Infrastructure Renewal	IT-9542-16 - City Hall A.V. Equipment	\$15,653.00
PK-6438-17 - Marco Park-Tennis Court Redevelopment	PK-6461-17 - Marco Park- Playground Replacement and Safety Surfacing	\$210,866.00
RP-6739-15 - Tree Replacement Program-EAB	RP-6700-15 - Tree Planting Program-Regular	\$256,212.60
PK-6503-18 - Tennis Court Reconstruction	PK-6461-17 - Marco Park- Playground Replacement and Safety Surfacing	\$65,000.00
DP-9537-14 - Islington Avenue Streetscape Tree Planting Partnership with KARA and KBIA	DP-9542-15 - Islington Avenue Streetscape Phase 1	\$29,970.91
EN-1906-12 - Islington Avenue Streetscape - Gateway Features	DP-9542-15 - Islington Avenue Streetscape Phase 1	\$29,610.97
PK-6376-13 - Bridge ID# MS29: Pedestrian Bridge Replacement	PK-6533-17 - West Don Valley- Pedestrian Bridge Replacement	\$38,099.28
PK-6397-13 - VMC23-2 - Vaughan Metropolitan Centre Black Creek Park Design and Construction	PK-6319-12 - Vaughan Metropolitan Centre (V.M.C.)- Millway/Applewood Park Design	\$42,000.00
RL-0005-12 - Land Acquisition Fees	RL-0009-13 - Real Estate Acquisition Strategy	\$30,000.00
RP-6775-18 - Traffic Signs Reflectivity Inspection and Testing	RP-6756-15 - Traffic Signs Reflectivity Inspection and Testing	\$23,000.00

Continuity Schedule of Reserves and Reserve Funds

\$ million	Opening Balance	Year to Date Revenues	Year to Date Expenses	Closing Balance Before Commitments	Commitments	Closing Balance After Commitments
Obligatory Reserves						
City-Wide Development Charges	484.28	7.41	3.68	488.01	180.94	307.07
Area Specific Development Charges	8.76	0.08	-0.18	9.01	17.14	-8.13
Restricted Grant	30.15	0.32	0.00	30.47	48.88	-18.41
Other	93.81	3.75	3.05	94.51	4.91	89.60
Obligatory Subtotal	617.01	11.55	6.56	622.00	251.87	370.13
Discretionary Reserves						
Infrastructure	216.38	18.71	8.10	226.99	72.60	154.39
Capital from Taxation	18.64	8.42	2.75	24.31	21.05	3.26
Corporate	17.37	0.27	0.00	17.64	0.12	17.52
Special Purpose	7.09	0.23	0.04	7.28	12.88	-5.60
Sustainability	42.71	2.30	3.67	41.35	0.87	40.48
Discretionary Subtotal	302.20	29.93	14.56	317.57	107.52	210.05
Grand Totals	\$919.21	\$41.48	\$21.12	\$939.57	\$359.39	\$580.18

Note – numbers may not add due to rounding.

At the end of the second quarter, the reserve balance before commitments was \$940 million. A net reserve activity of \$360 million is committed against these reserves and reserve funds; after this activity is accounted for, the total reserves and reserve funds balances as of June 30, 2019 was \$580 million, of which \$370 million was for obligatory reserves and \$210 million was in discretionary reserves.

Development Charges (DCs) collected in the first two quarters of 2019 equated to \$4 million, with interest earned on reserve balances making up the difference in revenues. These collections are lower than typical due to a decrease in development applications most likely resulting from the DC Pre-payment agreements that were offered in September 2018 and the uncertainty in the market created by the introduction of Bill 108.

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 negatively comparing to the budget. Staff is forecasting 2019 year-end actual results to be on budget, however winter events in late 2019 are uncertain and will need to be monitored for their potential impact on the final year end position of the City.

Staff will continue to monitor the financial health of the organization and provide advice and guidance to departments 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 – Second Quarter Financial Summary
2. City Operating – Portfolio/Office Summary

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