

Item:



## Finance, Administration and Audit Committee Report

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**DATE:** Wednesday, June 06, 2018

**WARD(S):** ALL

**TITLE: FISCAL HEALTH REPORT – FOR THE QUARTER ENDING  
MARCH 31, 2018**

**FROM:**

Laura Mirabella, Chief Financial Officer and City Treasurer

**ACTION:** FOR INFORMATION

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**Purpose**

To report on the City's fiscal health for the quarter ending March 31, 2018.

**Recommendations**

1. That the Fiscal Health Report for the Quarter Ending March 31, 2018 be received.

**Report Highlights**

- As a result of timing differences related to reserve transfers, the City ended Q1 in a deficit position of \$4.7 million.
- When the impact of these timing differences is excluded, the City's property tax supported operations ended the first quarter in a surplus position of \$2.3 million.
- Combined, the City's rate supported operations ended the first quarter in a surplus financial position of \$1.8 million.
- During the first quarter of 2018, there was approximately \$26.2 million in capital expenditures on 195 projects

**Background**

The fiscal health report monitors actual spending performance of the City's calendarized financial plan. This report provides a snapshot of the City's financial position as at March

31, 2018 on the same basis as the 2018 budget, with accompanying commentary on the contributing factors and areas for closer monitoring.

The quarterly fiscal health report compares actual city operating, water and wastewater and stormwater operations and capital results for the period ending March 31, 2018, versus the approved budgets and 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.

## **Previous Reports/Authority**

[FISCAL HEALTH REPORT – FOR THE YEAR ENDING DECEMBER 31, 2017 – May 7, 2018](#)

## **Analysis and Options**

### ***Executive Summary***

As a result of timing differences related to reserve transfers, the City ended Q1 in a deficit position of \$4.7 million. When the impact of these timing differences is excluded, the City's property tax supported operations ended the first quarter in a surplus position of \$2.3 million.

The surplus position is mainly due to vacancies across the organization that were being actively recruited in Q1 and the timing of expenditures and revenues related to insurance costs and contract services. It is anticipated that many of the vacant positions actively recruited in the first quarter will be filled by the end of Q2.

Certain corporate transactions related to reserve transfers processed in Q1 represented full year impacts compared to the calendarized budget. This resulted in higher than budgeted recorded expenditures in the quarter which contributed to the overall deficit position. As the year progresses, the impact of these timing differences will be reduced and/or eliminated.

Combined, the rate based budgets ended the first quarter in a favourable position of \$1.8 million. Further discussion regarding the contributing factors that resulted in these first quarter results is contained within the body of this report.

During the 2018 budget process, \$147 million in additional capital funding was approved. Combined with the remaining \$243 million in capital funding available at the end of 2017, the City began 2018 with 789 open projects and \$390 million in available capital funding. There has been \$26.2 million in capital expenditures on 195 projects during the first quarter. Capital expenditures in the first quarter of the year are typically

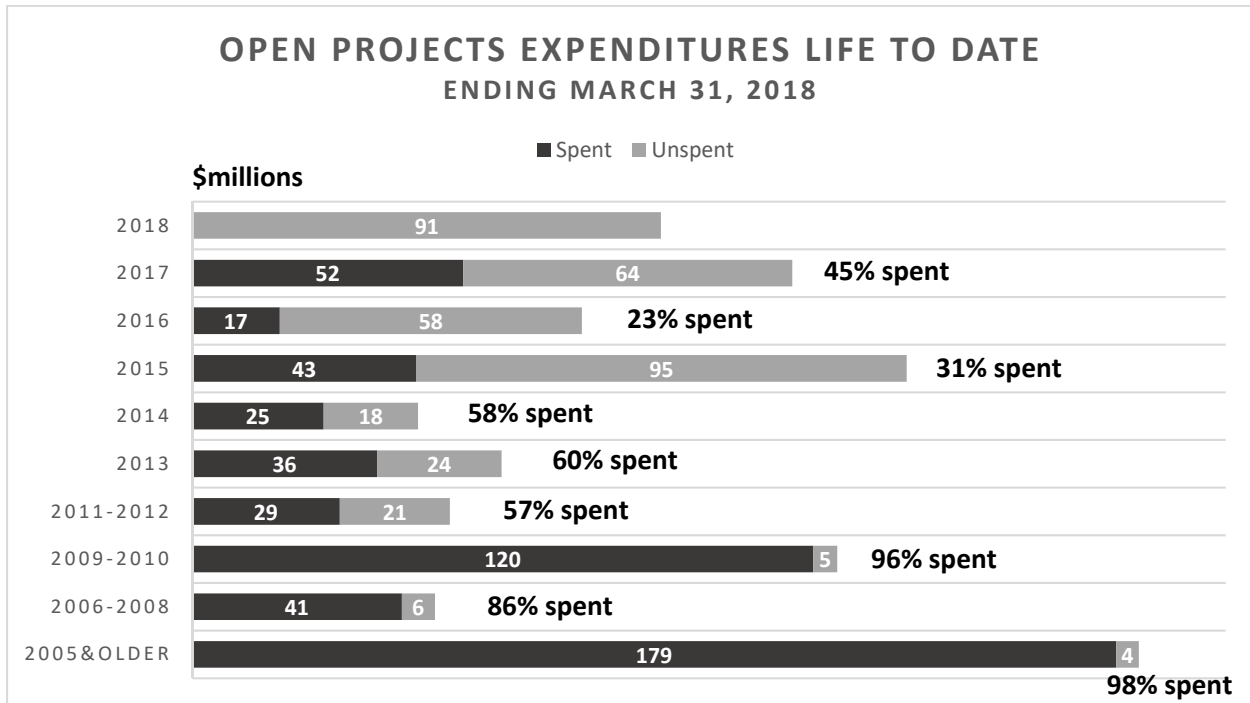
lower than other quarters due to procurement timing for new projects and due to weather. It is anticipated that expenditures will catch up in subsequent quarters as projects get underway and weather conditions become more favourable.

Attachment 1 provides the net position for all City departments.

**Operating Results – Quarter ending March 31, 2018**

	<b>Budget</b>	<b>Actual</b>	<b>Variance</b>
	\$million	\$million	\$million
<b>Property Tax Based Budget</b>			
Revenues	112.7	109.9	-2.7
Expenditures	80.7	82.6	-1.9
<b>Net</b>	<b>\$32.0</b>	<b>\$27.3</b>	<b>-\$4.7</b>
<b>Water Rate Based Budget</b>			
Revenues	13.2	13.0	-0.2
Expenditures	13.2	13.0	0.2
<b>Net</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>
<b>Wastewater Rate Based Budget</b>			
Revenues	15.5	15.5	0.0
Expenditures	15.5	15.5	0.0
<b>Net</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>
<b>Stormwater Charge Based Budget</b>			
Revenues	0.1	0.1	0.0
Expenditures	0.1	0.1	0.0
<b>Net</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>

## Capital Results – Quarter ending March 31, 2018



Actual Expenditures to Date \$ 542 million

Amount unspent \$ 387 million

Total \$ 929 million

### ***Discussion***

### **OPERATING BUDGET RESULTS**

**Overall, City Revenues were \$2.7 million lower than planned.**

	Budget \$million	Actual \$million	Variance \$million	Variance %
Department Revenues	14.0	14.4	0.4	2.7%
Corporate Revenues	1.4	1.3	-0.1	(9.9)%
Reserve Transfers	4.9	2.0	-2.9	(58.4)%
Taxation	92.3	92.2	-0.1	(0.1)%
<b>Total Revenues</b>	<b>\$112.7</b>	<b>\$109.9</b>	<b>-\$2.7</b>	<b>(2.4)%</b>

Note – numbers may not add due to rounding

- Department Revenues were 2.7% greater than planned, primarily due to the timing of spring recreation revenues. The revenue increase in licenses and permits from Building Standards, due to higher than anticipated volume of applications received,

was partially offset by a corresponding higher transfer to the Building Standards Continuity Reserve.

- Reserve transfers were \$2.9 million lower than planned. This is primarily due the timing of a funding contribution to the election reserve. This entry was scheduled for Q1 but will occur in Q2.

**Overall, City Expenditures were \$1.9 million higher than planned.**

	<b>Budget</b>	<b>Actual</b>	<b>Variance</b>	<b>Variance</b>
	<b>\$million</b>	<b>\$million</b>	<b>\$million</b>	<b>%</b>
Labour	42.8	39.7	3.1	7.3%
Service Contracts & Materials	11.1	11.0	0.0	0.4%
Capital Related	12.3	20.5	-8.1	(66.6)%
Other	7.5	6.0	1.5	20.3%
Utilities & Fuel	2.8	2.2	0.6	20.5%
Insurance	4.2	3.2	1.0	23.5%
<b>Total Expenditures</b>	<b>\$80.7</b>	<b>\$82.6</b>	<b>-\$1.9</b>	<b>(2.4)%</b>

Note – numbers may not add due to rounding

- Capital Related expenditures, consisting of infrastructure reserve contributions and draws for principal and interest repayments to the Region, were greater than budget by 66%. This variance is largely due to the full year impact of a \$7.2 million corporate transaction to fund the Capital from Taxation reserve. This entry caused a \$6.9 million negative variance in Q1 which will correct itself in Q2.
- Labour costs were 7.3% lower than budget. This is primarily attributable to vacancies for positions approved in 2018 that have not yet been filled. These positions were being actively recruited in Q1. Departments will continue to work with Human Resources to complete the recruitment for the vacant positions.
- Other costs were 20.3% lower than budget, due in part to timing of purchases for office equipment and furniture across multiple departments, as well as timing of leasing voting tabulators for the upcoming election.
- Insurance costs were 23.5% lower than budget mainly due to the timing of insurance related expenditures. Given the unpredictable nature of these costs, actuals may not align with budget figures by quarter.

**Risks and Pressures**

The City’s operating results in Q1 were unfavourable mainly due to the full year impact of certain corporate transactions. There are no factors at the end of the first quarter to indicate that the City’s financial position for the year will be unfavourable. The City is assessing the impacts of weather events that occurred in Q2 2018 and will continue to monitor expenditures for the remainder of the year, seeking to mitigate any negative impacts within the approved fiscal budget.

## Operating Transfers Authorized by the Chief Financial Officer/City Treasurer

The following table summarizes the operating budget transfers 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, Rpt 16, Item 1):

Departments		Description	Amount transferred between Departments (\$)
From:	To:		
Facility Services	Recreation Services	Realignment of staff and services	438,504
Procurement	Financial Services	Transfer of partial FTE	52,090
Corporate Contingency	Recreation Services	To fund a pilot project to extend youth drop-in hours at Dufferin Clark and Al Palladini Community Centres	35,380
Infrastructure Planning & Corporate Asset Management	Development Engineering	Adjustment to reflect first-year operating budget for newly established business unit	35,607

## Water, Wastewater and Stormwater Results

### First Quarter Water Operating Results

Water Operations gross margin was \$0.9 million greater than budget.

	Budget \$million	Actual \$million	Variance \$million
Residential Billings	7.8	7.7	(0.1)
Commercial Billings	4.9	4.7	(0.2)
Other	0.1	0.1	0.0
Purchases/Treatment Charges	8.0	7.1	0.9
Non-Revenue Water	1.2	0.9	0.3
<b>Gross Margin</b>	<b>3.6</b>	<b>4.5</b>	<b>0.9</b>
<b>Other Revenues</b>	<b>0.4</b>	<b>0.5</b>	<b>0.1</b>

- Residential and commercial water sales for the first quarter ended lower than budget by 1.3% and 4.1% respectively.

- As a result of decreased sales, Regional water purchases (direct cost) were lower than budgeted.

**Water Operations expenditures before Lifecycle Contributions were \$0.7 million less than budget.**

	<b>Budget</b>	<b>Actual</b>	<b>Variance</b>
	\$million	\$million	\$million
Maintenance and Installation Cost	1.3	0.8	0.5
General Administration	1.3	1.1	0.2
Joint Service Costs	0.2	0.2	0.0
Lifecycle Contribution	1.2	2.9	1.7
	<b>4.0</b>	<b>5.0</b>	<b>1.0</b>

- Maintenance and Installation Costs were lower by 38.5% due to timing of work.
- General Administration costs were lower by 15.4% due to position gapping.

**City's net lifecycle contribution to the water reserve was \$1.7 million greater than budget at the end of the first quarter.**

#### **First Quarter Wastewater Operating Results**

**Wastewater Operations gross margin was \$0.3 million greater than budget**

	<b>Budget</b>	<b>Actual</b>	<b>Variance</b>
	\$million	\$million	\$million
Residential Billings	9.4	9.3	(0.1)
Commercial Billings	5.8	5.9	0.1
Other	0.1	0.1	0.0
Purchases/Treatment Charges	11.1	11.4	(0.3)
Non-Revenue Water	1.7	1.1	0.6
<b>Gross Margin</b>	<b>2.5</b>	<b>2.8</b>	<b>0.3</b>
<b>Other Revenues</b>	<b>0.2</b>	<b>0.2</b>	<b>0.0</b>

- Residential and Commercial wastewater billings for the first quarter trended 1.1% lower and 1.7% higher than budget respectively.
- Treatment charges (direct cost) were slightly higher than budgeted.

**Wastewater Operations expenditures before Lifecycle Contributions were \$0.2 million less than budget.**

	<b>Budget</b>	<b>Actual</b>	<b>Variance</b>
	\$million	\$million	\$million
Maintenance and Installation Cost	0.8	0.7	0.1
General Administration	0.7	0.6	0.1
Joint Service Costs	0.1	0.1	0.0
Lifecycle Contribution	1.1	1.6	0.5
	<b>2.7</b>	<b>3.0</b>	<b>0.3</b>

- Maintenance and Installation costs and General Administration costs were lower by 12.5% and 14.3% respectively due to timing of activities.

**City's net lifecycle contribution was \$0.5 million greater than budget at the end of the first quarter.**

### **First Quarter Stormwater Operating Results**

**Stormwater Operations gross margin was \$0.0 million.**

	<b>Budget</b>	<b>Actual</b>	<b>Variance</b>
	\$million	\$million	\$million
Residential Billings	0.0	0.0	0.0
Commercial Billings	0.0	0.0	0.0
Other	-	-	-
Purchases/Treatment Charges	-	-	-
Non-Revenue Water	-	-	-
<b>Gross Margin</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Other Revenues</b>	<b>0.1</b>	<b>0.1</b>	<b>0.0</b>

- Stormwater billing will begin the middle of May and is anticipated to take approximately 8 weeks to complete.



**Stormwater Operations expenditures before Lifecycle Contributions were \$0.4 million less than budget.**

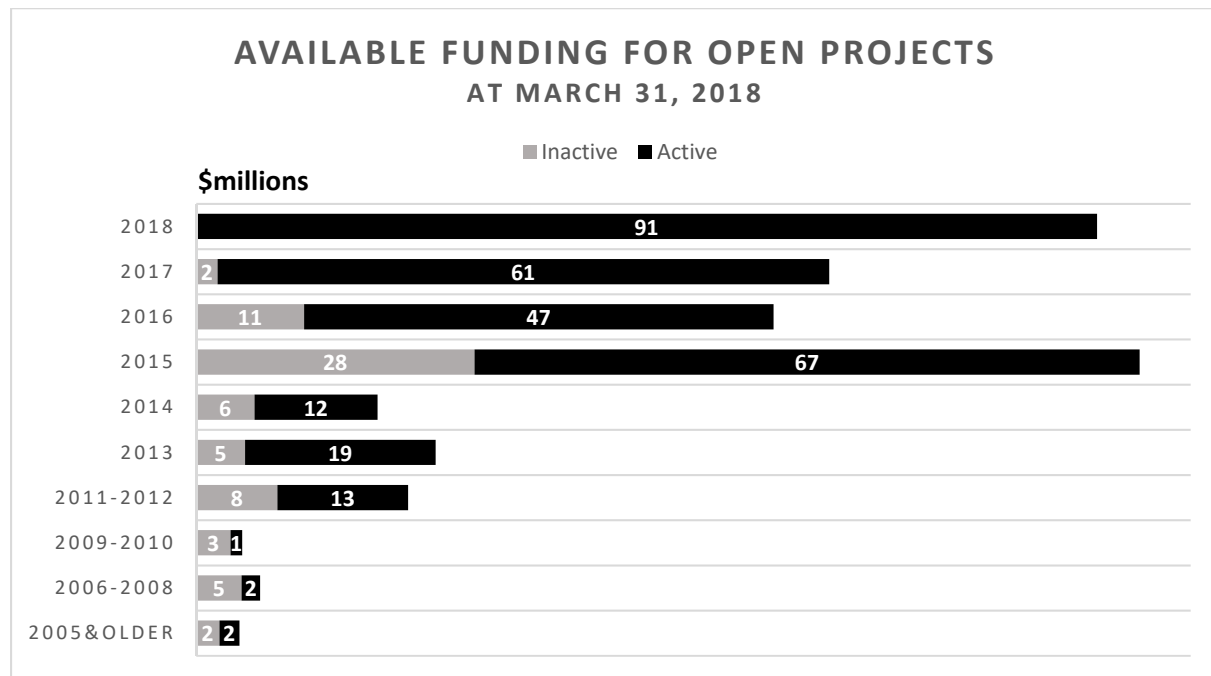
	<b>Budget</b> \$million	<b>Actual</b> \$million	<b>Variance</b> \$million
Maintenance and Installation Cost	0.4	0.2	0.2
General Administration	0.8	0.6	0.2
Joint Service Costs	0.1	0.1	0.0
Lifecycle Contribution	(1.2)	(0.8)	(0.4)
	0.1	0.1	0.0

- Maintenance and Installation Costs ended lower by 50.0% due to timing of activities and lower than expected emergency and planned repairs.
- General Administration costs were lower by 25.0% due to vacancy and lower than expected professional fee expenditures.

**City's net lifecycle draw was \$0.4 million less than budget at the end of the first quarter.**

### Capital Budget Results

As at March 31, 2018, there were 749 open capital projects with \$387 million of available budget remaining. The open project unspent funding breakdown by year is illustrated in the Chart below.



During the first quarter, \$26.2 million was spent on 195 capital projects. The largest contributor to this figure was \$13.5 million in land acquisition costs pertaining to Facilities. The table below illustrates the breakdown of funds spent by project asset category during the first quarter.

A complete list of open projects can be found [online](#).

<b>Project Category</b>	<b>% Spend</b>	<b>\$ Spend</b>
Facilities	61%	15.9
Roads & Bridges	12%	3.2
Water, Wastewater, Stormwater	8%	2.1
Parks	6%	1.7
Libraries	5%	1.4
Vehicles & Equipment	3%	0.7
Studies	2%	0.5
Technology	1%	0.3
Tree Canopy	1%	0.4
Fire	0%	0.1
<b>Total (\$M)</b>	<b>100%</b>	<b>\$26.2</b>

Note – numbers may not add due to rounding

In addition to actual expenditures during the first quarter of 2018, more information about specific capital projects will be available in the Term of Council Service Excellence Strategy Map Progress Report that will be presented to Council in June 2018.

A complete list of projects closed in the quarter can be found [online](#).

### **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.

<b>Capital Projects</b>		<b>Amount transferred between Projects</b>
<b>From:</b>	<b>To:</b>	
CM-2526-16 Service Excellence Strategic Initiatives	SE-0080-16 Service Excellence Master's Program	50,000
EV-2096-17 SCADA Project – Phase 2	EV-2078-15 SCADA System Implementation	9,051

<b>Capital Projects</b>		<b>Amount transferred between Projects</b>
<b>From:</b>	<b>To:</b>	
1363-0-05 Servicing-Dufferin Winter Work and 1610-0-06 Dufferin Street Works Yard	ID-2059-18 Dufferin Works Yard Improvements	639,342

### **Continuity Schedule of Reserves and Reserve Funds**

<b>\$ million</b>	<b>Opening Balance</b>	<b>Revenues</b>	<b>Expenses</b>	<b>Closing Balance Before Commitments</b>	<b>Commitments</b>	<b>Closing Balance After Commitments</b>
<b>Obligatory Reserves</b>						
City-Wide Development Charges	287.9	4.6	7.1	285.5	165.1	120.3
Area Specific Development Charges	1.9	0.0	(7.2)	9.1	17.1	(8.0)
Restricted Grant	27.8	0.1	(0.9)	28.8	31.4	(2.6)
Other	91.2	1.5	0.4	92.3	3.8	88.5
<b>Obligatory Subtotal</b>	<b>408.9</b>	<b>6.2</b>	<b>(0.6)</b>	<b>415.7</b>	<b>217.5</b>	<b>198.2</b>
<b>Discretionary Reserves</b>						
Infrastructure	193.2	14.3	4.0	203.5	71.4	132.1
Capital from Taxation	17.2	7.3	1.0	23.5	22.6	0.9
Corporate	15.1	0.1	0.0	15.2	0.2	15.1
Special Purpose	7.0	0.1	0.0	7.0	13.1	(6.1)
Sustainability	41.8	2.1	1.7	42.1	0.4	41.7
<b>Discretionary Subtotal</b>	<b>274.4</b>	<b>23.9</b>	<b>6.8</b>	<b>291.4</b>	<b>107.6</b>	<b>183.8</b>
<b>Grand Totals</b>	<b>\$683.3</b>	<b>\$169.9</b>	<b>\$6.2</b>	<b>\$707.1</b>	<b>\$325.1</b>	<b>\$382</b>

Note – numbers may not add due to rounding.

At the end of the first quarter, the reserve balance before commitments was \$707.1 million. It is forecasted that a net reserve activity of \$325.1 million will be processed through these reserves. After this activity is accounted for, there is expected to be \$382 million in reserve funds available, \$198.2 million for obligatory reserves and \$183.8 million in discretionary reserves.

Development Charges collected in the first quarter of 2018 equated to \$3.4 million with interest earned on reserve balances making up the difference in revenues. Future development charge collections are not included in the above forecast. Staff received final approval on the 2018 DC Background Study Background Study and By-Law in May of this year. The result was a 97% increase to the residential rate and a 151% increase to the Non-Residential rate. The new rates will become effective as of September 21, 2018. New reserve forecasts will be developed to incorporate the anticipated revenues related to these increases.

The City contributed approximately \$15.7 million into various infrastructure reserves, of which \$12 million was contributed from taxation and approximately \$3.7 million was from rate supported revenues. The City is currently on its journey to develop a comprehensive asset management plan that will be rolling out into various phases. Phase one of the roadmap is to develop an asset management strategic policy and accompanying strategies to establish mechanism to promote principle and evidence based decision making. Asset management plans will inform future infrastructure planning and support asset management related budget and spending decisions.

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

### **Broader Regional Impacts/Considerations**

Not applicable.

### **Conclusion**

As a result of timing differences related to reserve transfers, the City ended Q1 in a deficit position of \$4.7 million. When the impact of these timing differences is excluded, the City's property tax supported operations ended the first quarter in a surplus position of \$2.3 million. Combined, the City's rate supported operations ended the first quarter in a surplus financial position of \$1.8 million. During the first quarter of 2018, there was approximately \$26.2 million in capital expenditures on 195 projects. The City will continue to monitor operating results throughout each quarter and bring forward updates to Council.

**For more information**, please contact:

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### **Attachments**

1. City Operating Budget – Q1 2018 Financial Summary

### **Prepared by**

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