

Committee of the Whole (2) Report

DATE: Tuesday, September 22, 2020

WARD(S): ALL

TITLE: 2020 MID-YEAR FISCAL HEALTH REPORT – FOR THE YEAR-TO-DATE PERIOD ENDING JUNE 30, 2020

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, 2020.

Report Highlights

- The City's property tax supported operations ended the second quarter in an unfavorable position of approximately \$77.7 million, largely attributed to deferral of property tax billings from June to August.
- In the first six months of the year, capital expenditures were \$32.4 million, or 20% of annual forecast expenditures. The variances are largely due to timing of projects.
- Combined, the rate supported operations for the second quarter ended in an unfavorable position of \$9.8 million mainly due to deferral of stormwater billing.

Recommendation

1. That the 2020 Mid-Year Fiscal Health Report as at June 30, 2020, 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, 2020, 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

At mid-year, the City's property tax-supported Operating Budget and rate-supported operations report unfavorable results, as summarized in Table 1.

The City's property tax supported operations ended the second quarter in an unfavorable position of approximately \$77.7 million, largely attributed to deferral of property tax billings from June to August and lost fees and charges revenue due to facility closures, program cancellations and lower demand for services as a result of the COVID-19 pandemic.

Combined, the rate supported operations ended the second quarter with reserve contributions below budget. Lower commercial water sales were offset with reduced water purchases from York Region and lower than expected spending on maintenance and installations. Lower commercial wastewater billings were offset by reduced York Region treatment costs and lower than expected spending on maintenance and installations. Both the City and the Region cancelled the 2020 rate increases for water and wastewater, which is impacting both sales and purchase variances. The stormwater charge was postponed as a result of the COVID pandemic, with the charge process starting in July and finishing in September. Overall, the rate supported operation ended the second quarter with combined contributions to reserves of \$4.7 million which was \$9.8 million less than expected, mostly due to the deferral of the stormwater billing. These reserve funds are necessary for future infrastructure replacements as these assets near the end of their useful life.

The 2020 Approved Capital budget included \$173.6 million in new capital projects. As of June 30, 2020, after all post-budget capital amendments, there were 752 open capital projects with \$512.6 million of available budget remaining. Chart 1 illustrates inception-to-date expenditures on all open projects. As construction season proceeds through

summer and early fall, capital expenditures are expected to remain steady through the remainder of the year.

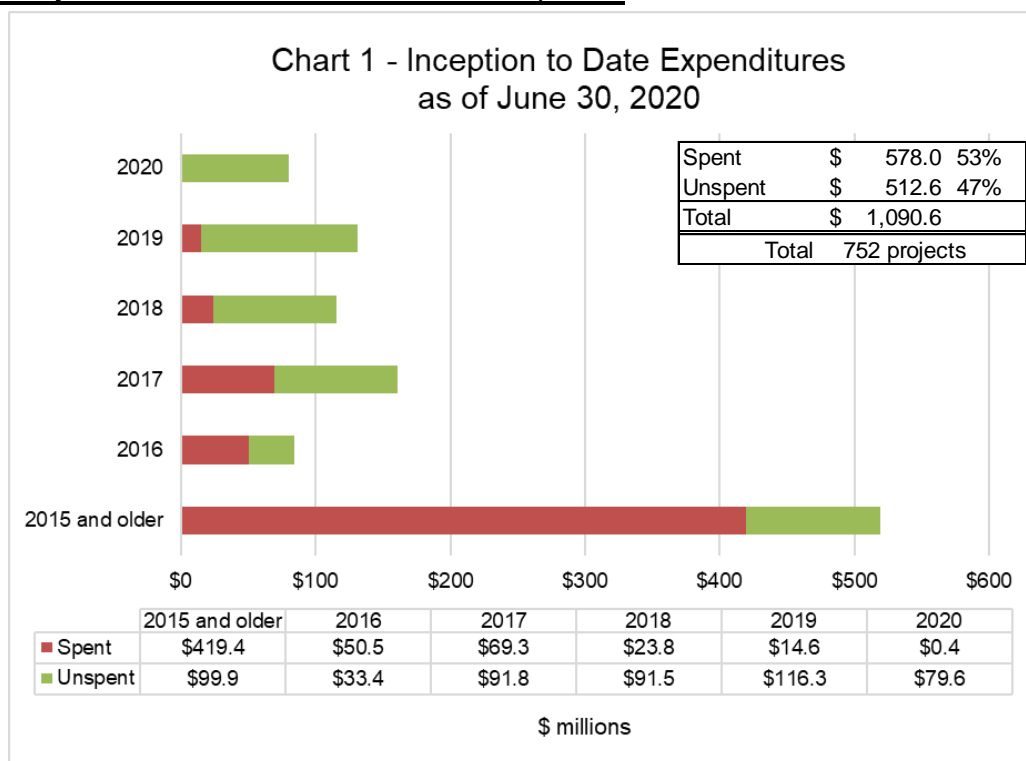
Tax-Levy and Rate Supported Operating Results as of June 30, 2020

Table 1

\$ millions	YTD Budget	YTD Actuals	Variance Fav./Unfav.)
Property Tax Based Budget			
Revenues	234.0	146.1	(88.0)
Expenditures	172.2	162.0	10.3
Net	\$ 61.8	\$ (15.9)	\$ (77.7)
Water Rate Based Budget			
Revenues	36.0	33.1	(2.9)
Expenditures	31.3	28.1	3.2
Lifecycle Contribution	\$ 4.7	\$ 5.0	\$ 0.3
Wastewater Rate Based Budget			
Revenues	44.0	39.7	(4.3)
Expenditures	40.3	37.0	3.3
Lifecycle Contribution	\$ 3.7	\$ 2.7	\$ (1.0)
Stormwater Charge Based Budget			
Revenues	10.9	0.2	(10.7)
Expenditures	4.8	3.2	1.6
Lifecycle Contribution	\$ 6.1	\$ (3.0)	\$ (9.1)

Note: numbers may not add due to rounding

Capital Expenditure Results as of June 30, 2020



Discussion

OPERATING BUDGET RESULTS

Overall, City revenues at June 30th were \$146.1 million, an unfavourable variance of \$88.0 million as shown in Table 2.

Table 2

\$ millions	Q2 2020 YTD		Variance Fav./(Unfav.)	
	Budget	Actual	\$	%
Corporate Revenues	11.6	16.5	4.9	42.2%
Department Revenues	30.8	25.5	(5.3)	-17.2%
Reserve Transfers	9.0	3.3	(5.7)	-63.3%
Taxation	182.7	100.8	(81.9)	-44.8%
Net	\$ 234.1	\$ 146.1	\$ (88.0)	-37.6%

Note: numbers may not add due to rounding

Mid-Year revenues for the City were \$88.0 million under-budget, primarily due to the impacts of the COVID-19 pandemic and the decision to delay property tax billings to August. As a result of the delay, property tax collections were 55.2% of the budget at the end of the second quarter but are expected to be collected within the year.

Operationally, departmental fees and charges were under-budget largely due to COVID-19, which resulted in lower recreation fees, license, permit and application revenues.

Corporate revenues were \$4.9 million over-budget at mid-year, resulting from the timing of investment income as the City is still benefitting from the pre-pandemic rates, and higher than expected dividends received from the City's investment holding company, Vaughan Holdings Inc.

Department revenues associated with transfers from reserves for recoverable expenses can fluctuate with the level of expenses and non-tax revenues.

Overall, City expenditures had a favourable variance of \$10.3 million below budget as shown in Table 3.

Table 3

\$ millions	Q2 2020 YTD		Variance Fav./(Unfav.)	
	Budget	Actual	\$	%
Labour	101.5	94.3	7.2	7.1%
Service Contracts & Materials	21.5	18.4	3.1	14.4%
Insurance	5.2	4.3	0.9	17.3%
Capital Related	26.9	26.4	0.5	1.9%
Utilities & Fuel	4.7	4.4	0.3	6.4%
Other	12.4	14.1	(1.7)	-13.7%
Net	\$ 172.2	\$ 161.9	\$ 10.3	6.0%

Note: numbers may not add due to rounding

The most significant mid-year under-expenditure for the City was labour related costs. As of June 30th, cost of labour was \$7.2 million under-budget. This is primarily attributed to vacancies and implementation of workforce re-balancing measures in response to the impacts of COVID-19, including a hiring freeze and temporary layoffs of non-essential staff. In addition, the timing of expenditures related to contractors and materials, and lower than planned expenditures in utilities, fuel, and insurance contribute further to the \$10.3 million under-expenditure.

[Attachment 2](#) provides commentary at the Portfolio/Office level.

Risks and Pressures

The City's operating results for the first half of the year were unfavorable, with overall expenditures exceeding revenues. Although, deferred property tax revenues from the first six months of the year will be reflected in third-quarter results, lower revenues from recreation; development applications; and, By-law Compliance, Permits, and Licencing will likely continue. At the same time, investment income will also decline as financial assets in the City's portfolio mature and are re-invested at lower rates.

Operating Budget Transfers

Table 4 summarizes in-year operating budget transfers between departments completed during the first half of the year 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).

Table 4

Departments		Description	Budget Transferred
From:	To:		
DCM Public Works	Parks, Forestry & Horticulture Operations	Restatement of budget and FTE resulting from internal reorganization to align with business objectives.	\$ 142,084
Infrastructure Delivery	Facilities Management	Budget and FTE transfer resulting from organizational realignment.	\$ 807,863
Facilities Management	Real Estate	Budget and FTE transfer resulting from organizational realignment.	\$ 145,613
Office of Chief Information Officer	Infrastructure Development	Budget and FTE transfer resulting from organizational realignment.	\$ 159,989

WATER, WASTEWATER AND STORMWATER RESULTS

Second Quarter Water Operating Results

Water Operations gross margin was \$0.4 million less than budget.

	Budget \$million	Actual \$million	Variance \$million	Variance %
Residential Billings	20.8	21.1	0.3	1.4%
Commercial Billings	13.7	11.1	(2.6)	(19.0%)
Other	0.2	0.2	(0.0)	(0.0%)
Purchases/Treatment Charges	21.3	18.8	2.5	11.7%
Non-Revenue Water	3.2	3.8	(0.6)	(18.8%)
Gross Margin	10.2	9.8	(0.4)	(3.9%)
Other Revenues	1.3	0.7	(0.6)	(46.2%)

- Residential water sales for the second quarter ended higher than budget by 1.4% whereas commercial water sales ended lower than budget by 19.0%. These results are a combination of the impact of COVID-19 and the 2020 rate freeze directed by Council to provide relief to businesses and citizens.
- As a result of decreased commercial sales, Regional water purchases (direct cost) were lower than budgeted. Further, York Region cancelled the 2020 water and wastewater rate increases resulting in lower than expected water purchase costs.
- Non-Revenue Water (NRW) was higher than budgeted. Several initiatives, including meter replacements, are underway to find and reduce NRW.

Water Operations expenditures before Lifecycle Contributions were \$1.3 million less than budgeted.

	Budget \$million	Actual \$million	Variance \$million	Variance %
Maintenance and Installation Cost	3.5	2.5	1.0	28.6%
General Administration	2.9	2.6	0.3	10.3%
Joint Service Costs	0.4	0.4	0.0	0.0%
Total Expenditures	6.8	5.5	1.3	19.1%
Lifecycle Contribution	4.7	5.0	0.3	6.4%

- Maintenance and Installation Costs were lower by 28.6%. Federal and Provincial grants for meter installations, recalibrating the AMI program, and temporary vacancies resulted in lower expenses.
- General Administration costs were lower by 10.3% mainly due to postponed hiring while assessing vacancies against needs.

The City's net lifecycle contribution was \$0.3 million greater than budgeted at the end of the second quarter.

Second Quarter Wastewater Operating Results

Wastewater Operations gross margin was \$2.4 million less than budget.

	Budget \$million	Actual \$million	Variance \$million	Variance %
Residential Billings	25.7	25.3	(0.4)	(1.6%)
Commercial Billings	17.0	13.7	(3.3)	(19.4%)
Other	0.3	0.2	(0.1)	(33.3%)
Purchases/Treatment Charges	31.0	28.7	2.3	7.4%
Non-Revenue Water	4.6	5.5	(0.9)	(19.6%)
Gross Margin	7.4	5.0	(2.4)	(32.4%)
Other Revenues	1.0	0.5	(0.5)	(50.0%)

- Residential and commercial billings for the second quarter are trending 1.6% and 19.4% respectively lower than budget. These results are a combination of the impact

of COVID-19 and the 2020 rate freeze directed by Council to provide relief to businesses and citizens.

- Wastewater billing is based on water consumption and therefore trends similar to water consumption.
- As a result of decreased billings, treatment charges (direct cost) were lower than budgeted. Further, York Region cancelled the 2020 water and wastewater rate increases resulting in lower than expected wastewater treatment costs.
- Non-Revenue Water (NRW) was higher than budgeted. Since wastewater collection and treatment are based on water volumes, these costs are affected by NRW. Several initiatives, including meter replacements, are underway to find and reduce NRW.

Wastewater Operations expenditures before Lifecycle Contributions were \$1.9 million less than budgeted.

	Budget	Actual	Variance	Variance
	\$million	\$million	\$million	%
Maintenance and Installation Cost	2.4	0.9	1.5	62.5%
General Administration	1.9	1.5	0.4	21.1%
Joint Service Costs	0.4	0.4	0.0	0.0%
Total Expenditures	4.7	2.8	1.9	40.4%
Lifecycle Contribution	3.7	2.7	(1.0)	(27.0%)

- Maintenance and Installation Costs ended lower by 62.5% due to postponed hiring while assessing vacancies against needs, time to set up contracts for flow monitoring and flood monitoring activities, lower than expected CCTV work and lateral repairs and timing of spending in flushing and cleaning activities.
- General Administration costs were lower by 21.1% mainly due to postponed hiring while assessing vacancies against needs.

City's net lifecycle contribution was \$1.0 million lower than budgeted at the end of the second quarter.

Second Quarter Stormwater Operating Results

Stormwater Operations gross margin was \$10.5 million less than budgeted due to the deferral of stormwater charges billing.

	Budget	Actual	Variance	Variance
	\$million	\$million	\$million	%
Residential Billings	4.2	0.0	(4.2)	(100.0%)
Commercial Billings	6.3	0.0	(6.3)	(100.0%)
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	10.5	0.0	(10.5)	(100.0%)
Other Revenues	0.4	0.2	(0.2)	(50.0%)

- Total annual billing for stormwater charges began in July and will be completed in September.

Stormwater Operations expenditures before Lifecycle Contributions were \$1.6 million less than budgeted.

	Budget	Actual	Variance	Variance
	\$million	\$million	\$million	%
Maintenance and Installation Cost	2.7	1.8	0.9	33.3%
General Administration	2.0	1.5	0.5	25.0%
Joint Service Costs	0.1	(0.1)	0.2	200.0%
Total Expenditures	4.8	3.2	1.6	33.3%
Lifecycle Contribution	6.1	(3.0)	(9.1)	(149.2%)

- Maintenance and Installation costs were lower by 33.3% mainly due to delay in contract award for stormwater pond maintenance and cleaning, timing of street sweeping activities and lower than expected repairs for storm mains and catch basins.
- General Administration costs were lower by 25.0% mainly due to timing of spending on professional fees and postponed hiring while assessing vacancies against needs.
- Joint services fee with Alectra were lower than expected due to adjustment in previous year billing.

The City's net lifecycle contribution was \$9.1 million lower than budgeted at the end of the second quarter due to deferral of stormwater charges billing.

Capital Budget Results

As at June 30, 2020, there were 752 open capital projects with \$512.6 million of budget remaining. Open projects include 626 active projects, and 126 inactive or on-hold projects. The open project unspent funding breakdown by year is illustrated in Chart 2.

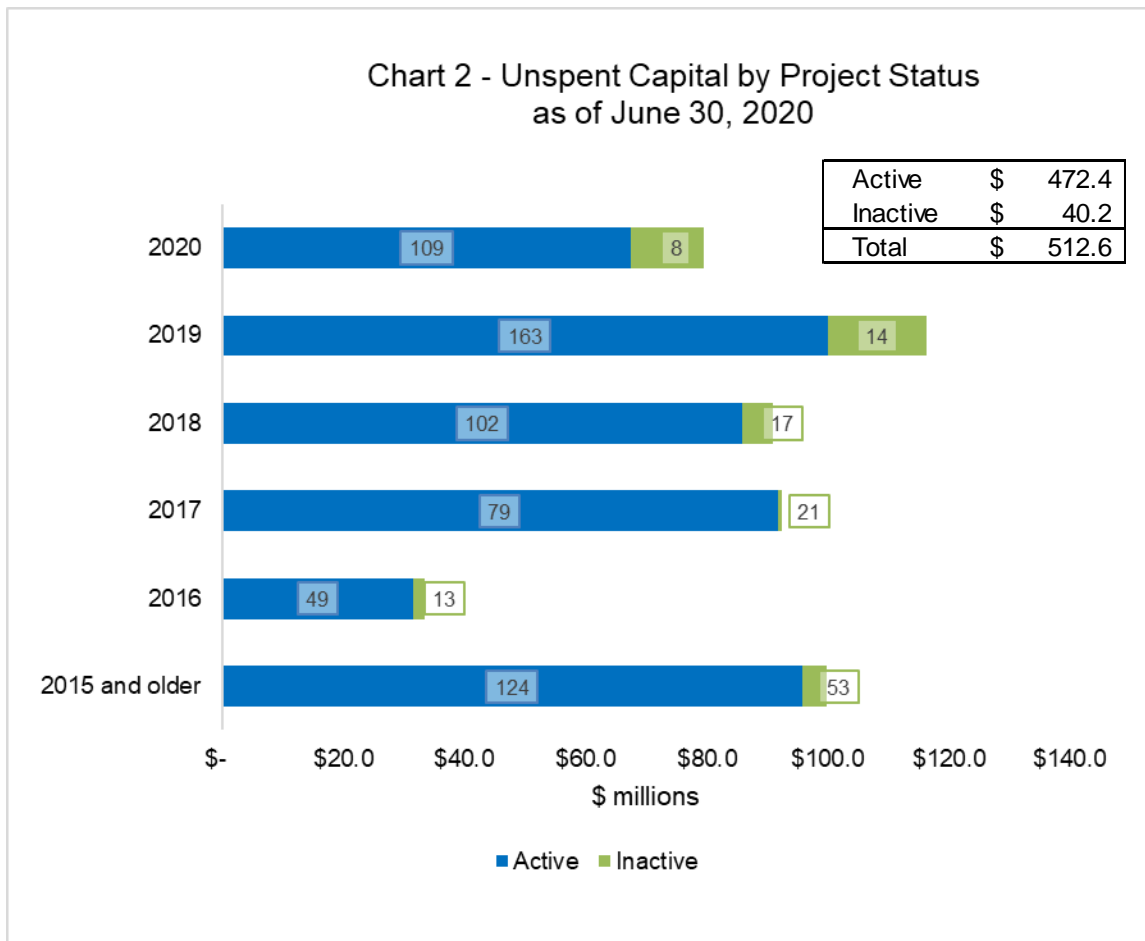
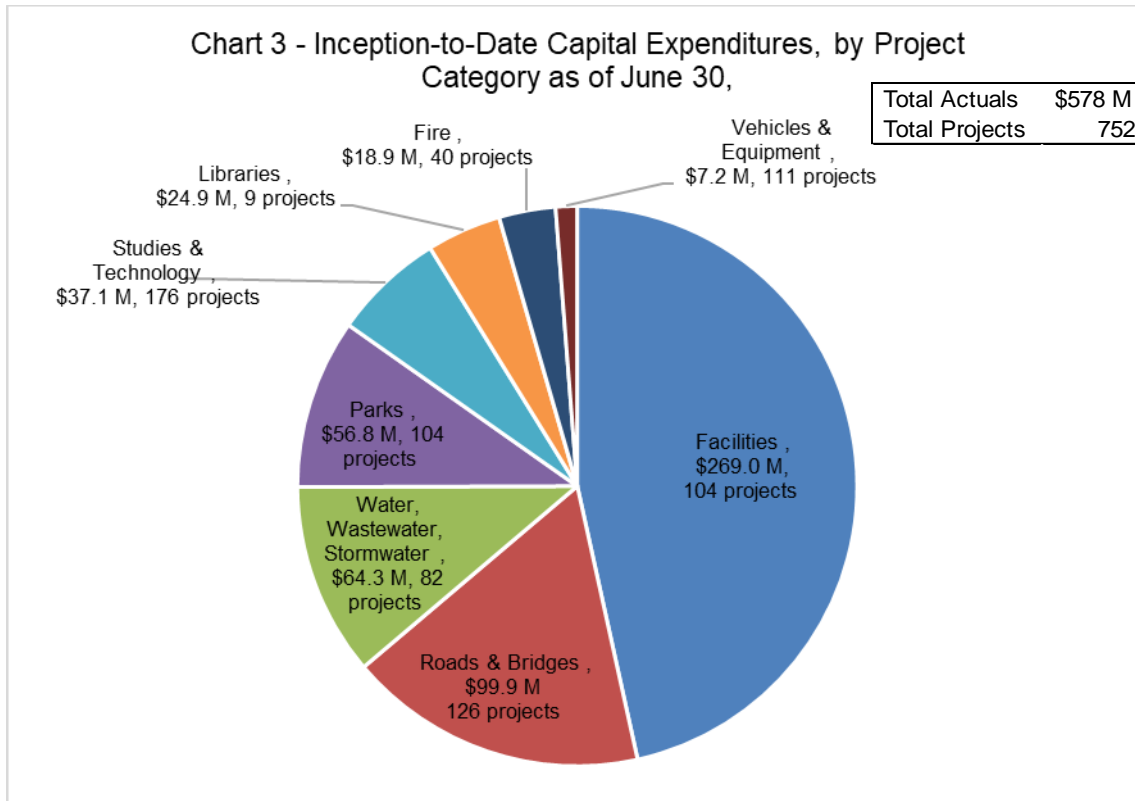


Chart 3 illustrates the breakdown of year-to-date capital expenditures by project category as of June 30, 2020.



In the 2020 capital budget, departments indicated that \$165.8 million in capital expenditures would be processed throughout 2020. At the end of the second quarter, \$32.4 million or approximately 20 percent of the forecasted amount has been spent. As construction season continues through the summer and fall 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.

Inactive Projects and Closed Projects

Of the 752 open capital projects, there are 126 projects that are considered inactive. Inactive projects comprise 17 per cent of the total number of open projects, equating to eight per cent of the total unspent funds of \$512.6 million. Approximately 27 per cent of the inactive projects are considered near completion but are required to remain open until a future event occurs. Twenty-four per cent of the inactive projects are on hold or have not started for a variety of reasons, such as: project scope changes, reevaluation of estimated project costs, and reprioritization of projects due to resource constraints. The breakdown of project classifications of the 126 inactive projects is as follows:

Classification	Number of Projects	Amount (\$million)
Completed-to be closed	57	\$3.8
Completed-Under Warranty or Maintenance	26	\$8.6
Completed-Waiting for final invoices	8	(\$7.5)
DC Repayment in Place	3	\$15.3
Not Started	19	\$15.5
Project on Hold	11	\$4.1
Work On-going	2	\$0.4
Total	126	\$40.2

Of the total \$40.2 million in unspent funds from inactive projects, \$8.6 million is held for projects that are under warranty or maintenance. 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 71 projects in the first half of 2020, releasing \$11.0 million of reserves.

During the second quarter, departments closed 17 capital projects, bringing the total capital projects closed in 2020 to 71 projects. The table below provides a breakdown of projects closed as of second quarter 2020, with funding available.

Portfolios	Number of Projects Closed as of Q2 2020	Amount of Reserves Released (\$ million)
Environmental Services	3	\$0.1
Infrastructure Delivery	1	\$0.5
Infrastructure Planning & Corporate Asset Management	11	\$9.2
Parks Delivery	4	\$0.2
Transportation & Fleet Management	38	\$0.2
Development Engineering	3	\$0.7
Library Services	2	\$0.1
Other	9	\$ -
Total	71	\$11.0

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	473.32	8.01	5.90	475.42	249.86	225.56
Area Specific Development Charges	9.20	0.08	0.53	8.75	18.88	(10.13)
Restricted Grant	36.67	9.56	0.47	45.75	43.67	2.09
Other	100.00	7.55	2.23	105.32	6.58	98.74
Obligatory Subtotal	619.18	25.19	9.13	635.24	318.98	316.26
Discretionary Reserves						
Infrastructure	223.35	18.49	10.20	231.64	76.91	154.73
Capital from Taxation	21.60	8.15	2.10	27.65	23.47	4.19
Corporate	18.08	(0.03)	-	18.05	0.01	18.04
Special Purpose	8.20	0.58	0.14	8.65	14.29	(5.64)
Sustainability	49.44	2.87	2.04	50.27	1.34	48.93
Discretionary Subtotal	320.68	30.06	14.48	336.26	116.02	220.25
Grand Totals	\$939.86	\$55.25	\$23.61	\$971.51	\$435.00	\$536.50

Note – numbers may not add due to rounding.

At the end of the second quarter, the reserve balance before commitments was \$971.51 million. Net reserve activity of \$435.0 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, 2020 was \$536.50 million, of which \$316.26 million was for obligatory reserves and \$220.25 million was in discretionary reserves.

Total Development Charges (DCs) revenues in the first two quarters of 2020 of \$8.1 million is comprised of \$4.8 million in DC collections and \$3.3 million investment income. 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 uncertainty in the market. Compared to the first half of

2019, DC collections have increased 247% or by \$2.8 million as a result of new development applications outside of the DC pre-payment agreements.

The Detailed 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 compared to the budget. Staff will continue to monitor the financial health of the organization and provide advice and guidance to departments as necessary. An update on the expected financial impact of COVID-19 in 2020 and 2021 will be provided at the Ready, Resilient, Resourceful Committee on September 29, 2020.

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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Dean Ferraro, Director, Financial Services, Ext. 8272

Attachments

1. [City Operating – Financial Summary, June 2020](#)
2. [City Operating – Portfolio/Office Summary, June 2020](#)

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Approved by

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Michael Coroneos, Deputy City Manager

Reviewed by

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Jim Harnum, City Manager