

CITY OF VAUGHAN

EXTRACT FROM COUNCIL MEETING MINUTES OF JUNE 27, 2017

Item 4, Report No. 6, of the Finance, Administration and Audit Committee, which was adopted without amendment by the Council of the City of Vaughan on June 27, 2017.

4 FISCAL HEALTH REPORT – YEAR TO DATE FOR PERIOD ENDING MARCH 31, 2017

The Finance, Administration and Audit Committee recommends approval of the recommendation contained in the following report of the Chief Financial Officer/City Treasurer, the Director of Financial Planning and Development Finance/Deputy City Treasurer and the Director of City Financial Services/Deputy Treasurer, dated June 6, 2017:

Recommendation

The Chief Financial Officer/City Treasurer, the Director of Financial Planning and Development Finance/Deputy City Treasurer and the Director of City Financial Services/Deputy Treasurer recommend:

1. That the Fiscal Health Report be received.

Contribution to Sustainability

Not applicable.

Economic Impact

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

The City's property tax based budget ended the first quarter in a favourable position. This is mainly due to the timing of expenditures and revenues. Staff will continue to work with departments to monitor their budgets, identify potential pressures and determine a plan of action to mitigate these potential pressures. Combined, the rate based budgets ended the first quarter in a favourable position of \$1.5 million. Further discussion regarding the contributing factors that resulted in these first quarter results is contained within the body of this report.

During the 2017 budget process, \$114.4 million in additional capital funding was approved. Combined with the remaining \$202.7 million in capital funding at the end of 2016, the city began 2017 with 738 open projects and \$317.1 million in capital funding. There has been \$17.0 million in capital expenditures on 118 projects during the first quarter.

Communication Plan

The report and all attachments are available publicly on the Agenda, Minutes & Extract page of the City's website (www.vaughan.ca).

Purpose

To report on the City's fiscal health for the year to date period ending March 31, 2017.

Background – Analysis and Options

The attached fiscal health report compares annual actual city operating, water and wastewater/stormwater operations and capital results as of March 31, 2017, relative to approved

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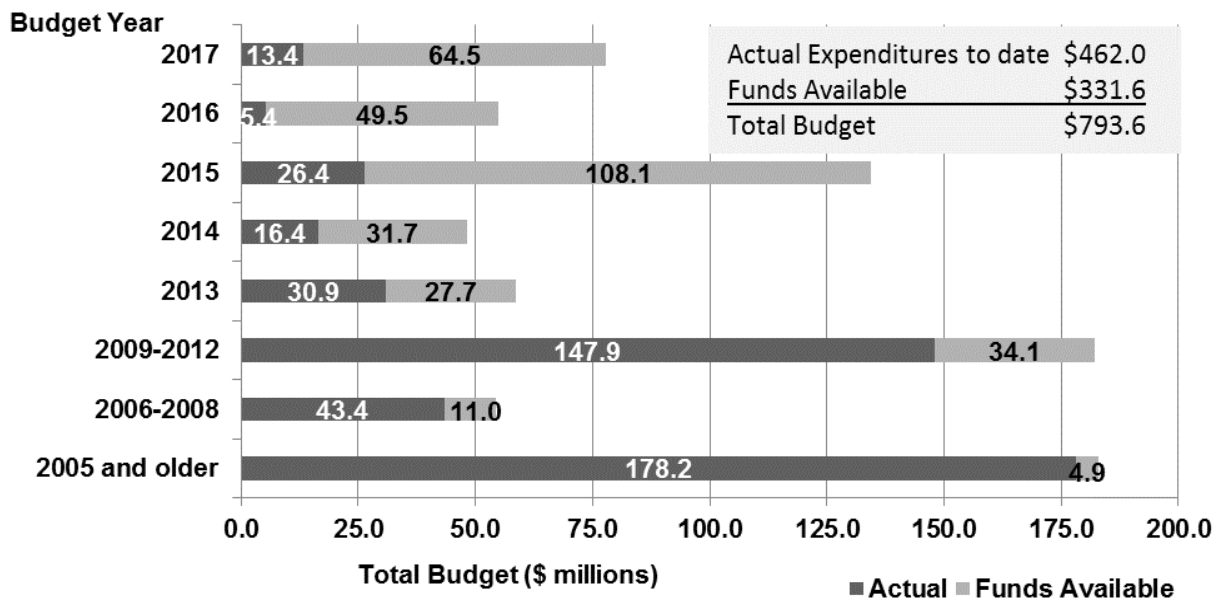
budgets and on the same basis as the budget. It should be noted, the full amortization of tangible capital assets and post-retirement benefits are excluded while transfers to and from reserves and net debenture financing requirements are included.

Summary

Operating Results – Year to Date period ending March 31, 2017

	Budget	Actual	Variance
Property Tax Based Budget			
Revenues	107.3	107.0	-0.3
Expenditures	83.0	78.2	4.8
Net	24.3	28.8	4.5
Water Rate Based Budget			
Revenues	12.2	11.7	-0.5
Expenditures	10.5	9.2	1.3
Net	1.7	2.5	0.8
Wastewater Rate Based Budget			
Revenues	16.0	15.6	-0.4
Expenditures	13.3	12.2	1.1
Net	2.7	3.4	0.7
Stormwater Charge Based Budget			
Revenues	0.1	0	-0.1
Expenditures	1.1	1.0	0.1
Net	-1.0	-1.0	0.0

Capital Results – Year to Date period ending March 31, 2017



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Discussion

Operating Budget Results

Overall, City Revenues were relatively on target with the Plan

	Budget\$	Actual\$	Variance\$
Department Revenues	12.5	13.1	0.6
Corporate Revenues	6.7	5.8	-0.9
Taxation	88.1	88.1	0.0
Total Revenues	107.3	107.0	-0.3

Note – numbers may not add due to rounding

- Department Revenues were 5 per cent greater than planned, primarily as a result of the timing of spring recreation revenues and a higher than expected volume of development applications.
- Corporate Revenues were 14 per cent less than plan, primarily as a result of lower required transfers from reserves and capital recoveries owing to lower than planned expenditures and reversals of prior year-end accruals.

City expenditures were \$4.8 million less than planned

	Budget\$	Actual\$	Variance\$
Service Contracts & Materials	10.1	10.8	-0.7
Utilities & Fuel	2.6	2.3	0.3
Capital Related	18.2	17.3	0.9
Labour	38.4	37.3	1.1
Other	8.6	7.3	1.3
Insurance	5.1	3.2	1.9
Total Expenditures	83.0	78.2	4.8

Note – numbers may not add due to rounding

- Service contract and material costs were 7 per cent greater than budget. This is primarily attributed to higher salt usage in Q1 as a result of responding to the 23 salting events in the quarter.
- Utilities and fuel costs were 12 per cent less than budget, primarily due to timing differences that are expected to reverse in future quarters as well as lower fuel prices.
- Capital related operating expenditures were 5 per cent less than budget primarily as a result of timing differences that will reverse in the second quarter. These expenditures include contributions to reserves, principal and interest payments on debt and labour recovery from capital projects.
- Labour costs were 3 per cent less than budget. This was primarily attributable to positions approved for 2017 that had not yet been filled at the end of the first quarter. Departments will continue to work with Human Resources to recruit and fill the vacant headcount. Partially offsetting these savings are increased expenditures in overtime and part time.

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- Other expenditures were 15 per cent less than budget primarily as a result of timing differences that are expected to reverse as the year progresses.
- Insurance was 37 per cent less than budget due to savings realized from an RFP that was awarded towards the end of 2016 (Finance, Administration and Audit Committee, Report 10, Item 2). At year-end, any insurance related savings will be allocated to the insurance reserve to mitigate future volatility in insurance related costs.

Attachment 2 provides commentary at the Portfolio/Office level.

Risks and Pressures

In the first quarter, there were 23 salting events, 6 of which were considered intense and required multiple rounds of salting. As a result, these costs were \$0.6 million greater than the first quarter budget. This was subsequent to higher than budgeted expenses for fourth quarter in 2016 as well. Staff will be analyzing the budgeted winter control costs for the remainder of the year, and developing a mitigation strategy to address potential future forecasted pressures in winter control costs.

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 (\$)	Reference #
From:	To:			
Contingency	Procurement Services	To reallocate the budget for the consultant work on the Corporate Fair Wage Policy	51,602	1
Contingency	Community Development & Events	To fund expenses related to Canada 150 Celebrations	50,000	2
General Expense-Corporate	City Manager	To reallocate the budget for the 2017 Senior Management Team Training & Development Program	20,000	3
Contingency	Corporate Communications	To reallocate the budget regarding the data charges related to the 10 outdoor digital signs	7,200	4
Contingency	Integrity Commissioner	To reallocate the budget surrounding complexity of code of conduct formal complaints	50,000	5

A summary of the net impact of these transactions is included with Attachment 1. The reference number on the table corresponds to the reference number on the financial summary table.

City's net position was \$4.5 million favourable at the end of the first quarter.

Attachment 1 provides the net position for all City departments. Staff will continue to work with departments to monitor their position throughout the year. There are no current indications that the year will end in a deficit position, however winter events in late 2017 are uncertain and will need to be monitored for their potential impact on the final year end position of the City.

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Water, Wastewater and Stormwater Results

Water Operations gross margin was \$0.6 million greater than budget.

	Budget	Actual	Variance
Residential Billings	7.1	6.9	-0.2
Commercial Billings	4.5	4.4	-0.1
Other	0.1	0.1	0.0
Purchases/Treatment Charges	-7.1	-6.8	0.3
Non-Revenue Water	-1.1	-0.5	0.6
Gross Margin	3.5	4.1	0.6
Other Revenues	0.5	0.3	-0.2

- Residential and commercial water sales for the first quarter ended lower than budget by 2.8 per cent and 2.2 per cent respectively.
- As a result of decreased sales, Regional water purchases (direct cost) were lower than budgeted.
- Non-Revenue Water is lower than budgeted due to a decrease in charges on the Region bill. The Region is investigating.

Water Operations expenditures before Lifecycle Contribution were \$0.4 million less than budgeted. Lifecycle Contributions were \$0.8 million greater than budgeted.

	Budget	Actual	Variance
Maintenance and Installation Cost	0.9	0.7	0.2
General Administration	1.2	1.0	0.2
Joint Service Costs	0.2	0.2	0.0
Lifecycle Contribution	1.7	2.5	-0.8
	4.0	4.4	-0.4

- Maintenance and Installation Costs ended lower by 22.2 per cent due to timing of work on activities such as hydrant inspections and water service repairs which are normally performed in the Spring, Summer and Fall. Further, a mild winter decreased pipe thawing activities.
- General Administration costs are lower by 16.7 per cent due to timing delay in planned training and gapping associated with new staff including a Program and System Planning Manager and a Backflow Prevention Coordinator.

Water's net lifecycle contribution to the Water Reserve is \$0.8 million greater than budgeted at the end of the first quarter.

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

	Budget	Actual	Variance
Residential Billings	9.6	9.3	-0.3
Commercial Billings	6.1	6.1	0.0
Other	0.1	0.1	0.0
Less Regional Treatment Charges	-11.9	-10.7	1.2
Gross Margin	3.9	4.8	0.9
Other Revenues	0.2	0.1	-0.1

- Residential Billings for the first quarter are trending 3.1 per cent lower than budget.
- As a result, treatment charges (direct cost) were lower than budgeted. The Region is investigating.

Wastewater Operations expenditures before Lifecycle Contributions were on budget. Lifecycle Contributions were \$0.7 million greater than budgeted.

	Budget	Actual	Variance
Maintenance and Installation Cost	0.7	0.9	-0.2
General Administration	0.6	0.5	0.1
Joint Service Costs	0.1	0.1	0.0
Lifecycle Contribution	2.7	3.4	-0.7
	4.1	4.9	-0.8

- Maintenance and Installation Costs were 28.6 per cent higher than budgeted. Some activities that were expected to be completed later in the year were advanced including repair work on mains and laterals. Further, additional flushing work was done to clean the mains in preparation for upcoming CCTV work.
- General Administration costs are lower by 16.7 per cent due to gapping associated with new staff including a W/WW Enforcement Officer (since hired) and a Program Manager.

Wastewater's net lifecycle contribution to the Wastewater (Sewer) Reserve is \$0.7 million greater than budgeted at the end of the first quarter.

Stormwater Operations gross margin reflects the billing date of late June.

	Budget	Actual	Variance
Residential Billings	0.0	0.0	0.0
Commercial Billings	0.0	0.0	0.0
Other	0.0	0.0	0.0
Gross Margin	0.0	0.0	0.0
Other Revenues	0.1	0.0	-0.1

Stormwater Operations expenditures before Lifecycle Contributions were \$0.1 million less than budgeted. As a result of the June Stormwater billing date, there were no lifecycle contributions.

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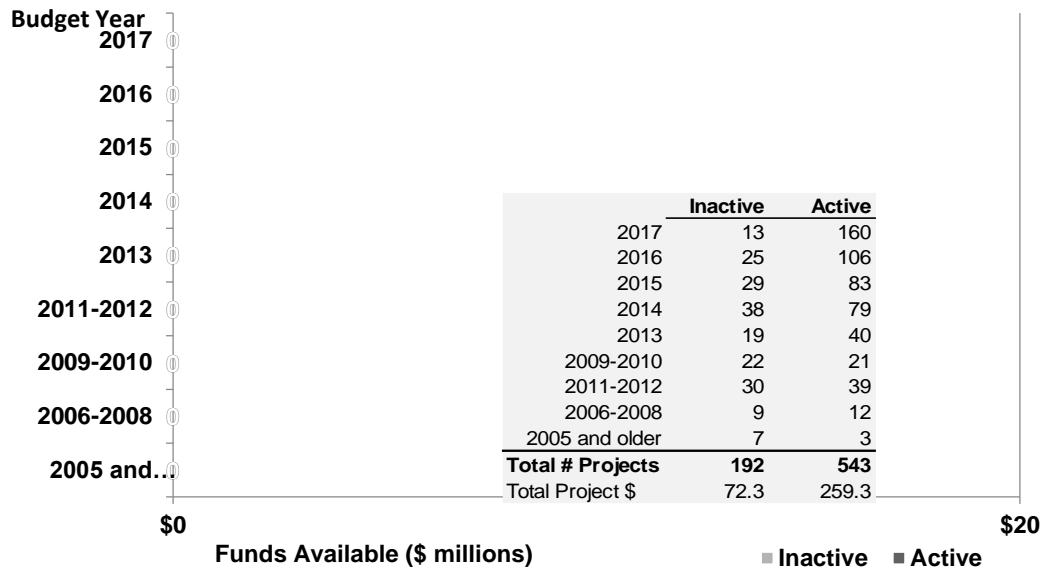
	Budget	Actual	Variance
Maintenance and Installation Cost	0.4	0.4	0.0
General Administration	0.6	0.5	0.1
Joint Service Costs	0.1	0.1	0.0
Lifecycle Contribution	-1.0	-1.0	0.0
	<u>0.1</u>	<u>0.0</u>	<u>0.1</u>

- General Administration costs are lower by 16.7 per cent due to gapping associated with new staff including a W/WW Enforcement Officer, Water Resource Analyst (both since hired) and a Program Manager.

Stormwater's net lifecycle contribution to the Stormwater Reserve is on plan at the end of the first quarter.

Capital Budget Results

At March 31, 2017, there were 735 open capital projects with \$331.6 million of available budget remaining. The open projects are made up of 543 active projects and 192 inactive projects.



During the first quarter, \$17.0 million was spent on capital projects, 75 per cent of which was for the purchase of parkland in Block 30. The table below illustrates the breakdown of funds spent by project category during the first quarter:

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Project Category	% Spend	\$ Spend
Parks	77	13.09
Fire	6	1.02
Roads & Bridges	5	0.85
Libraries	3	0.51
Studies	2	0.34
Water, Wastewater, Stormwater	2	0.34
Technology	2	0.34
Facilities	1	0.17
Vehicles & Equipment	1	0.17
Tree Canopy	1	0.17
Total (\$M)	100%	\$17.0

During the 2017 budget process, departments identified that \$157 million in capital expenditures would be processed throughout 2017. At the end of the first quarter, approximately 11 per cent of this forecasted spend was accomplished.

The semi-annual Term of Council Service Excellence Strategy Map Progress Report will continue to provide an update on the status of key activities for the projects that have been identified as a key support to the initiatives in 2017.

Capital spending detail for all projects can be found [online](#).

There are 192 Inactive Projects

Of the 735 open capital projects, there are 192 projects that are considered inactive. Inactive projects comprise 26 per cent of the total open projects, equating to 22 per cent of the total unspent funds of \$331.6 million. Inactive projects are primarily made up of projects that are substantially complete but are required to remain open until a future event occurs. The breakdown of the classification of the 192 open inactive projects is as follows:

Classification	#	\$M
DC repayment agreement in place	31	39.1
Completed - Under Warranty/Maintenance	47	8.8
Project on Hold	24	8.3
Project Deferred	30	7.5
Completed - Waiting for final invoices	18	4.3
Completed - to be closed	40	4.2
Project cancelled	2	0.1
Grand Total	192	\$72.3

The majority, 54 per cent, of these unspent capital funds have development charge repayment agreements in place and will be paid out and closed in accordance to those agreements.

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

Departments closed 3 projects in the Quarter

The table below summarizes the number of projects closed in each Portfolio/Office:

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Portfolio/Office	# Closed	\$M to Reserves
Transportation Services, Parks and Forestry Operations	2	0.0
Office of Chief Financial Officer/City Treasurer	1	0.0
Grand Total	3	0.0

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

Capital Budget Amendments

For capital projects for which a budget amendment was required, departments brought to Committee a report outlining the request for the amendment. There are also instances in which there is pre-existing Council approval to process repayments as funds become available in reserves.

The following table summarizes these budget amendments that have been processed during the first quarter:

Departments			Amount of Amendment
From:	To:		
Cash in Lieu of Parkland	RL-00019-17 Block 30 Parkland Acquisition	By-law 187- 2016	\$13,175,986
Federal Grant	PK-6540-16 Chancellor District Park-Playground	FAA R2, I3	\$181,500
Special Area Charge - Woodlots	DI-0018-17 Woodlot Acquisition Block 11	Agreement	\$145,000
Federal Grant	PK-6359-14 Maxey Park - Parking Lot Expansion	FAA R2, I3	\$72,600*
DC- City Wide Engineering	DT-7097-14 Pedestrian and Cycle Strategy	FAA R3, I6	\$68,000
Cash in Lieu of Parkland	PK-6594-17 VMC Parkland and Road Extension	Legal Agreement	\$15,437

*PK-6359-14 is a budget amendment of \$72,600 and the capital project was closed and consolidated with PK-6571-17

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 and a summary of these changes be incorporated into the quarterly reporting process.

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Departments		Amount transferred between Departments
From:	To:	
LI-4503-14 Bathurst Clark Renovations – Phase 2	LI-4551-16 Bathurst Clark Admin Area Renovation	\$250,000
LI-4547-13 – Bathurst Clark Bathroom Renovations	LI-4551-16 Bathurst Clark Admin Area Renovation	\$150,000
HR-9536-14 Learning Management System	HR-9539-16 E-Performance Application	\$11,683
BU-0006-13 Citywide CPA module	BU-0002-11 Questica Budget Software License	\$10,140

Continuity Schedule of Reserves and Reserve Funds

\$Million	Opening	Revenue	Spend	Closing	Forecasted Activity	Balance
Obligatory						
City-Wide Development Charges	247.8	14.3	0.9	261.3	138.4	122.8
Areas Specific Development Charges	1.2	0.0	-5.7	6.9	14.3	-7.4
Restricted Grant	27.1	0.1	0.0	27.2	22.4	4.9
Other	95.5	8.4	14.5	89.4	5.9	83.5
Sub-total	371.6	22.8	9.7	384.7	181.0	203.7
Discretionary						
Sustainability	34.5	1.8	1.4	35.0	-1.1	36.1
Infrastructure	170.8	11.4	0.7	181.5	76.0	105.5
Capital from Taxation	17.2	7.4	0.4	24.2	23.6	0.6
Corporate	17.4	0.1	0.0	17.5	3.1	14.4
Special Purpose	6.7	0.0	0.0	6.7	13.5	-6.8
Sub-total	246.7	20.8	2.5	264.9	115.1	149.8
Total	618.3	43.6	12.2	649.6	196.1	353.6

Note – numbers may not add due to rounding

At the end of the first quarter, the reserve balance before commitments was \$649.6 million. To the end of 2017, it is forecasted that a net reserve activity of \$196.1 million will be processed through these reserves. This forecasted activity is comprised of \$312.4 million in capital expenditures, offset by additional funds of \$16.3 million being collected. After this activity is accounted for, there was \$353.6 million in reserve funds available, \$203.7 million for obligatory reserves and \$149.8 million in discretionary reserves.

Development Charges collected in the first half of 2017 equated to \$13.7 million, with interest earned on reserve balances making up the difference in revenues. Future Development Charge collections are not included in the above forecast. As part of the Financial Sustainability project, staff will be working with consultants to develop a Development Charge forecast for future collections. As this information becomes available, it will be incorporated into the reserves forecast.

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

Comments from the Chief Financial Officer/City Treasurer

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 in an effort to streamline the report and provide information that assists with ensuring the financial sustainability of the City.

Relationship to Term of Council Service Excellence Strategy Map (2014-2018)

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

Regional Implications

None

Conclusion

At March 31, 2017, the City was in an overall favourable position. This position will continue to be monitored closely by staff to determine if it is anticipated to maintain itself or reverse. Consistent with current practices, quarterly updates advising of changes in the City's financial landscape will be brought forth to Council.

Attachments

1. City Operating – First Quarter Financial Summary
2. City Operating – Portfolio/Office Summary

Report prepared by:

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Senior Manager, Corporate Financial Planning & Analysis

Sean Skinkle
Acting Finance Manager, Water & Wastewater

(A copy of the attachments referred to in the foregoing have been forwarded to each Member of Council and a copy thereof is also on file in the office of the City Clerk.)