

CITY OF VAUGHAN

EXTRACT FROM COUNCIL MEETING MINUTES OF DECEMBER 11, 2017

Item 2, Report No. 14, of the Finance, Administration and Audit Committee, which was adopted without amendment by the Council of the City of Vaughan on December 11, 2017.

2 FISCAL HEALTH REPORT – YEAR TO DATE FOR PERIOD ENDING SEPTEMBER 30, 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 December 4, 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 – Year to Date for the Period Ending September 30, 2017 be received.

Contribution to Sustainability

Periodic review of the corporation's fiscal health and financial position supports financial sustainability.

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 third quarter in a favorable position of approximately \$4.3 million. This is mainly due to timing differences between actual and budgeted expenditures, and in part due to increased revenues resulting from higher than anticipated growth related volume of building permits, subdivision applications and site plan applications.

Combined, the rate based budgets ended the third quarter in a favourable position of \$3.5 million. Further discussion regarding the contributing factors that resulted in these third 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 open capital project funding at the end of 2016, the City began 2017 with 738 open projects and \$317.1 million in capital funding. There has been \$54 million spent in capital projects during the first three quarters of the year, of which \$21 million was spent in the third quarter of 2017. As construction season proceeds through late fall and early winter, capital expenditures are expected to increase through the remainder of the year.

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 September 30, 2017.

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Background – Analysis and Options

The attached fiscal health report compares annual actual city operating, water, wastewater and stormwater operations and capital results as of September 30, 2017, 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.

Summary

OPERATING RESULTS – YEAR TO DATE PERIOD ENDING SEPTEMBER 30, 2017

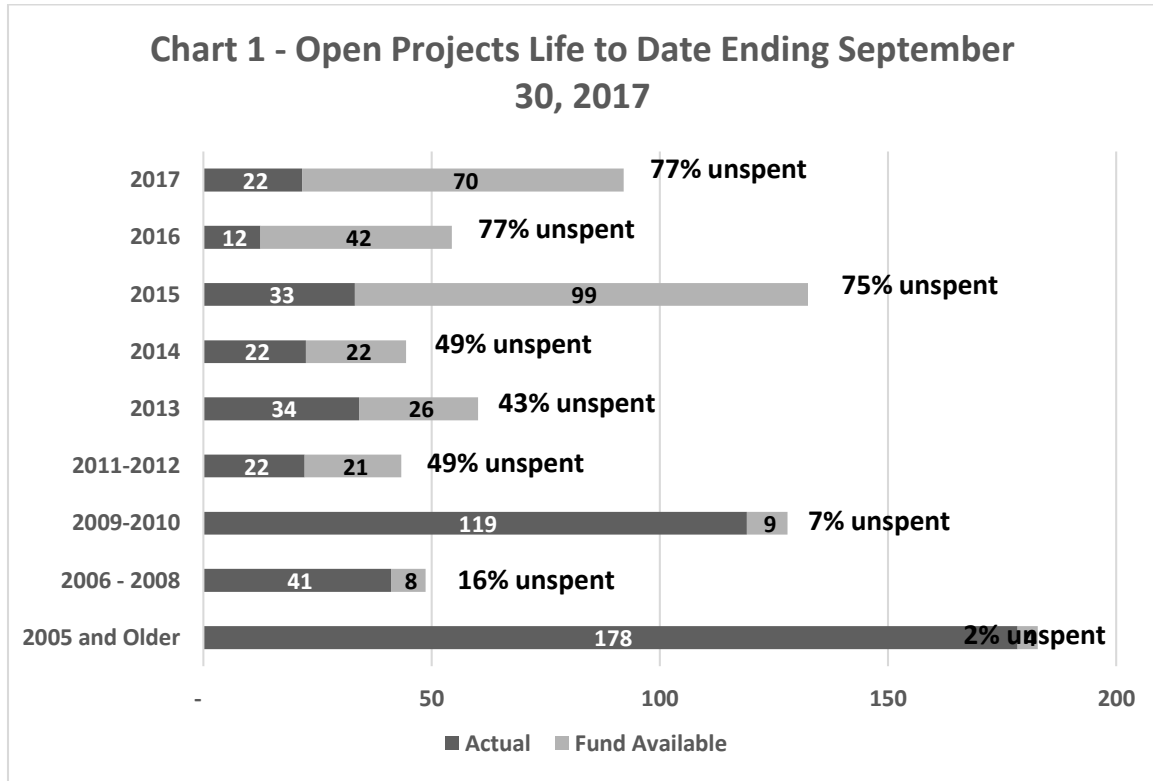
	Budget \$million	Actual \$million	Variance \$million
Property Tax Based Budget			
Revenues	248.8	246.3	(2.5)
Expenditures	206.3	199.5	6.8
Net	\$42.5	\$46.8	\$4.3
Water Rate Based Budget			
Revenues	48.1	42.9	(5.2)
Expenditures	48.1	42.9	5.2
Net	\$0.0	\$0.0	\$0.0
Wastewater Rate Based Budget			
Revenues	57.9	52.5	(5.4)
Expenditures	57.9	52.5	5.4
Net	\$0.0	\$0.0	\$0.0
Stormwater Charge Based Budget			
Revenues	12.4	9.1	(3.3)
Expenditures	12.4	9.1	3.3
Net	\$0.0	\$0.0	\$0.0

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CAPITAL RESULTS – OPEN PROJECTS LIFE TO DATE ENDING SEPTEMBER 30, 2017



Actual Expenditures to date	\$485 million
Funds Available	\$302 million
Total Budget	\$787 million

Discussion

OPERATING BUDGET RESULTS

Overall, City Revenues were under budget by \$2.4 million

	Budget \$million	Actual \$million	Variance \$million	Variance %
Department Revenues	39.0	40.6	1.6	4.0%
Corporate Revenues	12.8	11.6	(1.2)	(8.7%)
Reserve Transfers	11.5	8.7	(2.8)	(24.6%)
Taxation	185.5	185.4	(0.00)	0.0%
Total Revenues	\$248.8	\$246.3	(\$2.4)	

Note – numbers may not add due to rounding

- Department Revenues were 4 per cent greater than budget, primarily because of higher than expected volume of development applications and building permit revenues.

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- Corporate Revenues were 8.7 per cent below budgeted revenues, this is mainly due to timing difference between budgeted and actual receipt of shareholder dividend from Alectra Inc; this is expected to correct itself by year end. Lower than budgeted revenues for property tax penalties and interest is also contributing to this variance.
- Reserve transfers for Building Standards and Development Engineering & Infrastructure Planning were 60% and 20%, respectively, less than budgeted, as these department expenditures were less than planned due to vacancies.

City expenditures were \$6.7 million less than planned

	Budget	Actual	Variance	Variance
	\$million	\$million	\$million	%
Labour	123.2	123.0	0.2	0.1%
Service Contracts & Materials	24.7	22.3	2.4	9.7%
Capital Related	23.0	23.0	0.0	0.1%
Other	21.6	19.4	2.3	10.6%
Utilities & Fuel	8.0	7.8	0.2	2.5%
Insurance	5.8	4.2	1.7	28.4%
Total Expenditures	\$206.3	\$199.5	\$6.7	

Note – numbers may not add due to rounding

- Labour costs were on budget.
- Service contract and material costs were 10 per cent less than budget. This is primarily attributed to timing delays in Transportation Services, Parks and Forestry Operations relating to execution on contracts occurring later in the season than was planned. It is expected that this will gradually increase to be back on budget throughout the year.
- Capital related operating expenditures are on budget.
- Other expenditures were 10 per cent less than budget. Staff is forecasting the underexpenditures will be reversed as more invoices are expected to come in the last quarter of the year.
- Utilities and Fuel were 2.5 per cent less than budget primarily due lower than expected fuel costs in the beginning of the year.
- Insurance was 28 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

While the City's own source revenue is on track to be on budget for 2017, some internal reserve transfers were not realized as budgeted due to lower than budgeted related expenditures. Staff will continue to monitor revenue performance during the remainder of the year.

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Winter maintenance costs, specifically salt usage, may add pressure on the City's 2017 operating budget in Q4 based on recent trends experienced in the number and severity of salting events in the 4th quarter of previous years. Staff will be monitoring operating results and are implementing a salt management plan to help address potential future forecasted cost pressures driven by salt usage.

Operating Transfers Authorized by the Chief Financial Officer/City Treasurer

There were no operating budget transfers completed during the third 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).

City's net position was approximately \$4.3 million favourable at the end of the third 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. The City's year end net expenditure is forecasted to be in a favorable 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.

Water, Wastewater and Stormwater Results

Third Quarter Water Operating Results

Water Operations gross margin was \$2.6 million greater than budget.

	Budget	Actual	Variance
	\$million	\$million	\$million
Residential Billings	28.0	24.7	(3.3)
Commercial Billings	18.4	16.8	(1.6)
Other	0.3	0.5	0.2
Purchases/Treatment Charges	29.0	24.6	4.4
Non-Revenue Water	4.3	1.4	2.9
Gross Margin	13.4	16.0	2.6
Other Revenues	1.4	0.9	(0.5)

- Residential and commercial water sales for the third quarter ended lower than budget by 11.8% 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.
- Non-Revenue Water (NRW) was lower than budgeted due to a decrease in consumption.

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

	Budget	Actual	Variance
	\$million	\$million	\$million
Maintenance and Installation Cost	3.8	3.2	0.6
General Administration	3.9	3.2	0.7
Joint Service Costs	0.5	0.5	-
Lifecycle Contribution	6.6	10.0	3.4
	14.8	16.9	2.1

- Maintenance and Installation Costs ended lower by 15.8% due to timing of work for activities such as water service repairs and meter installations and lower than expected water main breaks to date.
- General Administration costs were lower by 17.9% due to timing delay in planned training, professional fees, gapping associated with the Backflow Prevention Coordinator position and vehicle lease expenses.

The City's net lifecycle reserve contribution was \$3.4 million greater than budgeted at the end of the third quarter. The lifecycle reserve contribution is the net difference between the gross margin (and other revenues) and total expenses and is primarily driven by variable water consumption.

Third Quarter Wastewater Operating Results

Wastewater Operations gross margin was \$2.2 million greater than budget.

	Budget	Actual	Variance
	\$million	\$million	\$million
Residential Billings	34.1	30.3	(3.8)
Commercial Billings	22.9	21.5	(1.4)
Other	0.3	0.3	-
Purchases/Treatment Charges	40.6	37.9	2.7
Non-Revenue Water	6.1	1.4	4.7
Gross Margin	\$ 10.6	\$ 12.8	\$ 2.2
Other Revenues	\$ 0.6	\$ 0.4	\$ (0.2)

- Residential and commercial billings for the third quarter are trending 11.1% and 6.1% respectively lower than budget due to wetter than normal weather. Wastewater billing is based on water consumption and therefore trends similar to water consumption.
- As a result, treatment charges (direct cost) were lower than budgeted.

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Wastewater Operations expenditures before Lifecycle Contributions were \$0.1 million less than budgeted.

	Budget	Actual	Variance
	\$million	\$million	\$million
Maintenance and Installation Cost	2.6	2.6	-
General Administration	1.6	1.5	-0.1
Joint Service Costs	0.2	0.2	-
Lifecycle Contribution	6.8	8.9	2.1
	\$ 11.2	\$ 13.2	\$ 2.0

- General Administration costs were lower due to timing delay in planned training and professional fees.

The City's net lifecycle reserve contribution was \$2.1 million greater than budgeted at the end of the third quarter. The lifecycle reserve contribution is the net difference between the gross margin (and other revenues) and total expenses and is primarily driven by variable treatment charges.

Third Quarter Stormwater Operating Results

Stormwater Operations gross margin was \$3.1 million less than budgeted.

	Budget	Actual	Variance
	\$million	\$million	\$million
Residential Billings	4.0	3.9	(0.1)
Commercial Billings	8.1	5.1	(3.0)
Other	-	-	-
Purchases/Treatment Charges	-	-	-
Non-Revenue Water	-	-	-
Gross Margin	12.1	9.0	(3.1)
Other Revenues	0.3	0.1	(0.2)

- Total annual billing for stormwater charges was completed in the third quarter.
- Total billing revenues are lower than budgeted due to refinements to assumptions originally used to build the stormwater charge.

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

	Budget	Actual	Variance
	\$million	\$million	\$million
Maintenance and Installation Cost	2.0	1.7	0.3
General Administration	2.5	1.6	0.9
Joint Service Costs	0.4	0.3	0.1
Lifecycle Contribution	7.5	5.5	(2.0)
	12.4	9.1	(3.3)

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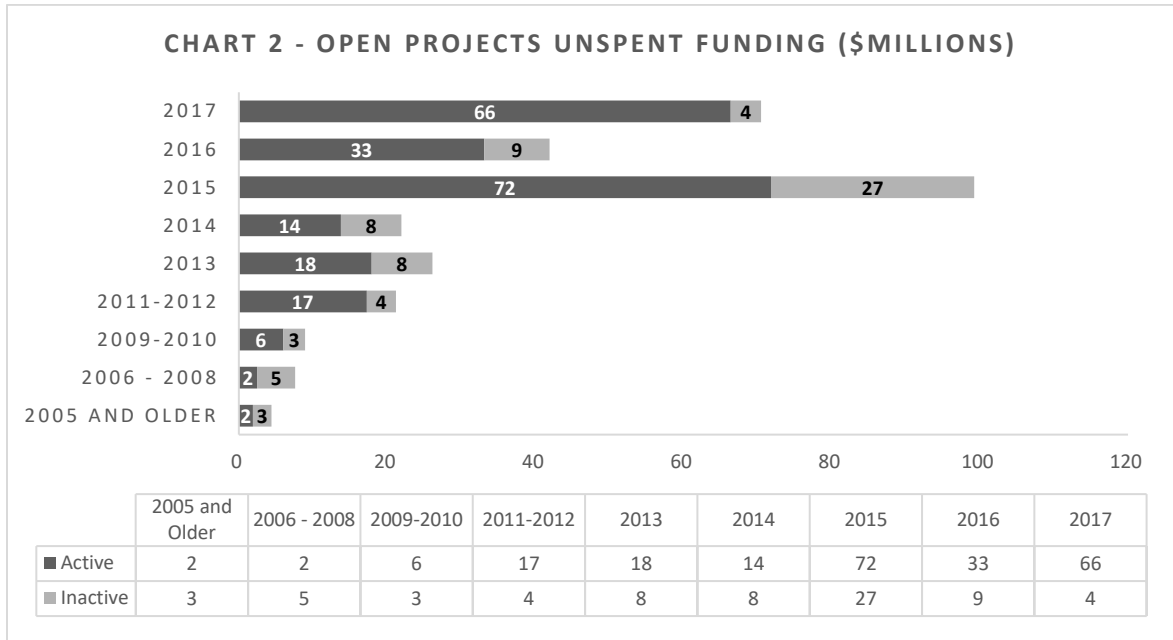
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- General Administration costs were lower by 36% due to gapping associated with new staff including a W/WV Enforcement Officer, Water Resource Analyst, Program Manager and Project Manager (all hired by the end of Q2) and the debenture repayment (\$0.5 million) for the VMC project yet to begin.

The City's net lifecycle reserve contribution was \$2.0 million less than budgeted at the end of the third quarter. The lifecycle reserve contribution is the net difference between the gross margin (and other revenues) and total expenses.

CAPITAL BUDGET RESULTS

As at September 30, 2017, there were 679 open capital projects with \$302 million of available budget remaining. The open projects were made up of 504 active projects and 175 inactive projects (refer to next page). The open project unspent funding breakdown by year is illustrated in the chart 2 below.

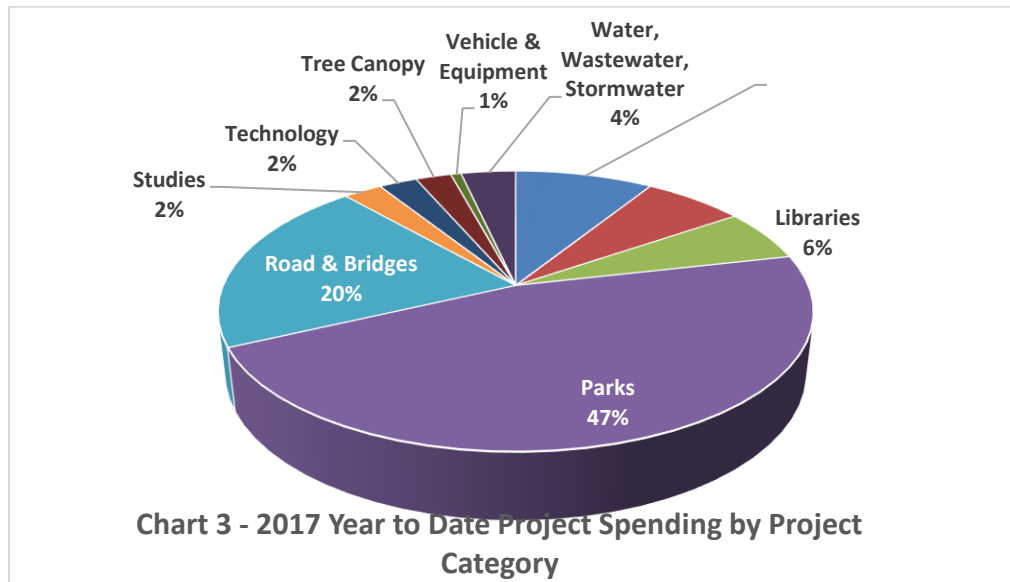


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During the first half year of 2017, \$54.3 million was spent on capital projects, 36 per cent of which was for the purchase of parkland in Block 30 and Block 59. The chart 3 below illustrates the breakdown of funds spent by project category during the third quarter:



In the 2017 Budget, departments indicated that \$157 million in capital expenditures would be processed throughout 2017. At the end of the third quarter, approximately 35 per cent of this 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.

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](#).

Inactive Projects and Closed Projects

Of the 679 open capital projects, there are 175 projects that are considered inactive. Inactive projects comprise 26 per cent of the total open projects, equating to 23 per cent of the total unspent funds of \$302 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 175 open inactive projects is as follows:

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Classification	Number of Projects	Amount (\$million)
Completed - to be closed	35	\$5.5
Completed - Under Warranty/ Maintenance	41	\$7.5
Completed - Waiting for final invoices	7	\$3.2
DC repayment in place	25	\$38.5
Not Started	3	\$0.8
Project Cancelled	3	\$0.2
Project Deferred	25	\$7.6
Project on Hold	36	\$8.0
Grand Total	175	\$71.2

Of the total \$71.2 million unspent funds from inactive projects, \$38.5 million (representing 54%) 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 will be analyzing 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 50 projects in the third quarter of 2017, returning \$8.8 million

Departments	Number of Projects Closed in Q3 2017	Amount Returned to Reserve
Development Engineering and Infrastructure Planning Services	9	\$3,484,635
Infrastructure Delivery	9	\$2,588,954
Parks Development	7	\$3,480
Recreation Services	12	\$188,959
Facility Maintenance Services	1	\$82,104
Transportation Services Parks & Forestry Operations	4	\$2,183,600
Fire & Rescue Services	5	\$259,939
Human Resources	2	\$0
Library Services	1	\$38
Grand Total	50	\$8,791,708

A complete list of Closed Projects is enclosed as Attachment 3.

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 were also instances in which there was pre-existing Council approval to process repayments as funds became available in reserves.

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The following table summarizes these budget amendments that were processed during the third quarter:

From	To	Supporting Document/Report	Amount
Vehicle Replacement Reserves	FL-5422-15 PW-RDS Replace Unit#1209 with Tandem Roll Off Dump Truck	June 27, 2017 FAA R7 I5	\$26,750.00
City Wide DC - Public Works	FL-5500-16 PW-RDS Additional Tandem Roll Off Dump Truck with Plow/Wing	June 27, 2017 FAA R7 I5	\$58,750.00
City Wide DC - Public Works/Fleet	FL-5529-17 Bylaw- Two additional 1/2 ton pickups	Sept 20, 2017 FAA R8 I9	\$8,900.00
Sewer Reserve	FL-5527-17 Pickup Truck 4x4 - 1/2 Ton Crew Car	Sept 20, 2017 FAA R8 I9	\$3,800.00

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

From	To	Amount
BF-8418-13 Vellore Village Community Centre Concrete Replacement Northwest of Main Entrance	ID-2043-17 Vellore Village CC - Main Entrance Improvement	\$88,306.50
BF-8520-16 Woodbridge Pool & Arena - Pool Liner Replacement	BF-8279-12 Woodbridge Pool & Arena- Replace Diving Boards Stands	\$20,000.00
BF-8482-16 Vellore Village Community Centre Interior Renovation	BF-8479-15 Kleinburg United Church Renovation	\$180,000.00
FL-5192-17 PKS-Replace Unit #1434 with 3/4 to quad cab 4x4 pickup	FL-5422-15 PW-RDS-Replace Unit #1209 with tandem roll off dump truck	\$750.00
FL-5530-17 New Vehicle Municipal Inspector Service Connections	FL-5500-16 PW-RDS- Additional tandem roll off dump truck with plow/wing	\$2,315.00
PK-6284-11 GT Keffer Marsh-Bridge Replacement	PK-6474-15 Keffer Marsh - Bridge Replacement	\$25,560.70
PK-6384-13 Uplands Hiking Trails	PK-6489-16 Oak Bank Pond - Boardwalk Reconstruction	\$109,500.00
PK-6361-14 Bindertwine Pk-Soccer Fence	PK-6489-16 Oak Bank Pond - Boardwalk Reconstruction	\$65,200.00
PK-6408-16 Concord Thornhill Regional Park - Playground Rubber Surface Replacement	PK-6540-16 Chancellor District Park- Playground Replacement and Safety Surfacing	\$92,388.75

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Continuity Schedule of Reserves and Reserve Funds

\$ million	Opening Balance	Revenues	Expenses	Closing Balance Before Commitments	Commitments	Closing Balance After Commitments
Obligatory Reserves						
City-Wide Development Charges	247.8	57.3	2.1	303.0	131.6	171.4
Area Specific Development Charges	1.2	0.8	-6.4	8.4	15.1	-6.6
Restricted Grant	27.1	4.7	0.3	31.6	29.5	2.1
Other	95.5	14.8	22.3	87.9	3.1	84.9
Obligatory Subtotal	371.6	77.6	18.3	430.9	179.2	251.7
Discretionary Reserves						
Infrastructure	170.8	12.3	11.0	172.2	55.1	117.0
Capital from Taxation	17.2	7.5	3.9	20.8	1.4	19.4
Corporate	17.4	0.3	0.4	17.4	0.5	17.0
Special Purpose	6.7	0.1	0.2	6.5	13.3	-6.8
Sustainability	34.5	9.0	4.5	39.0	0.3	38.7
Discretionary Subtotal	246.7	29.3	20.0	255.9	70.6	185.3
Grand Total	618.3	106.9	38.4	686.8	249.8	437.1

Note – numbers may not add due to rounding

At the end of the third quarter, the reserve balance before commitments was \$687 million. A net reserve activity of \$250 million is committed against these reserves and reserve funds; after this activity is accounted for, the total reserves and reserve funds balances as of September 30, 2017 was \$437 million, of which \$252 million was for obligatory reserves and \$185 million was in discretionary reserves.

Development Charges collected in the first three quarters of 2017 equated to \$55.2 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.

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

Comments from the Chief Financial Officer/City Treasurer

The City's tax and rate based operating results are tracking positively comparing to the budget. Staff is forecasting 2017 year-end actual to be in a favourable 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.

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 streamline the report and provide information that assists with ensuring the financial sustainability of the City.

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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 September 30, 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 – Third Quarter Financial Summary
2. City Operating – Portfolio/Office Summary

Report prepared by:

Maggie Wang, MBA, CPA, CGA, A.I.M.A.
Manager, Corporate Financial Planning & Analysis

Sean Skinkle
Finance Manager, Water, Wastewater and Stormwater

(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.)