



Staff Report for Budget Committee of the Whole Meeting

Date of Meeting: October 22, 2019

Report Number: SRCFS.19.034

Department: Corporate and Financial Services

Division: Financial Services

Subject: **SRCFS.19.034 – 2019 Year-end Operating Forecast**

Purpose:

To present the 2019 year-end operating forecast.

Recommendation(s):

- a) That the interim forecast of the Operating and Water, Wastewater & Stormwater Funds, based on the six month period ended June 30, 2019, be received for information purposes;
- b) That the 2019 costs for the approved Public Works Enhancement program be funded from Community Enhancement & Economic Vitality Reserve Fund; and
- c) That the full costs of Public Works Enhancements program be phased into the Operating Budget from 2020 to 2027 through the use of the Community Enhancement and Economic Vitality Reserve Fund.

Contact Person:

Haley Leung, Financial Management Advisor, Ext. 5484

Report Approval:

Submitted by: Mary-Anne Dempster, Commissioner of Corporate and Financial Services

Approved by: Neil Garbe, City Manager

All reports are electronically reviewed and/or approved by the Division Director, Treasurer (as required), City Solicitor (as required), Commissioner and City Manager. Details of the reports approval are attached.

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Background:

An interim operating forecast provides management a process to monitor and obtain feedback on budget to actual results, and if necessary, amend operating decisions. Throughout the year, the Financial Control By-law allows management flexibility to reallocate personnel and non-personnel resources to meet corporate priorities as they arise.

At the end of June 2019 staff reviewed year-to-date financial results, re-evaluated original assumptions used to derive the 2019 Approved Budget, and provided estimated amounts for the remainder of the year based on current information. Based on this review, staff is forecasting an operating surplus at year-end of \$230,400 on a budget of \$182.7 million.

During the annual budget process, Council and Senior Management have exercised diligence and restraints to minimize the tax rate impact in the operating fund while adhering to Council's Budget direction:

1. Maintain existing service levels
2. Include items consistent with the Strategic Plan, that also provides for:
 - a. Annualizations of prior years' approved service enhancements;
 - b. Impacts from development growth;
 - c. Legislated changes; and
 - d. Continued phased reductions of the Growth Rate Stabilization Strategy and Investment Income;

Budgets are staff's best predictions of the future, and it is normal to experience fluctuations. However, the operating budget has been shaped with very little room for fluctuations, to the extent that most expenditure overage and / or revenue shortfall situations will present surplus or deficits that pose a challenge to mitigate.

Financial/Staffing/Other Implications:

Appendix "A" provides a financial overview of the operating forecast by division through consultation with each department.

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Operating Fund

Based on information available at the end of June, the forecast is based on the following significant variances with further details following:

			Forecast Fav/(Unfav)
Surplus Items - Higher Revenues or Lower Expenditures			
A)	Payment in Lieu of Taxes - York Region Transit		\$ 599,200
B)	Facilities Utilities - Hydro, Water, Heat for all facilities		\$ 200,000
C)	Tax Arrears - Penalties & Interest		\$ 50,000
D)	Delay Opening for the second ice pad in Ed Sackfield Arena & Fitness Studio		\$ 11,200
Deficit Items - Lower Revenues or Higher Expenditures			
F)	Winter Maintenance Material & Contract		\$ (330,000)
G)	Parking Fines Revenue		\$ (300,000)
Year-End Operating Forecast - Net Surplus			\$ 230,400

Surplus Items – higher revenues or lower expenditures

- *PIL of Taxes -York Region Transit* generated a surplus of \$599,200 due to the transit facility at 55 Orlando Drive remaining eligible for payment in lieu of taxation. The Region is in discussions with the Province to make regulatory changes to exempt the municipal transit facilities from property taxation.
- *Utilities costs* across all buildings are trending towards savings of approximately \$200,000 due to combination of factors, including savings from energy conservation projects.
- *Tax Arrears – Penalties & Interest revenues* have been trending above budget in previous years, increasing steadily since 2017. The \$50,000 greater revenue forecasted is consistent with the general increase in Accounts Receivable balances.
- *The delay in opening for the second ice pad at Ed Sackfield Arena and Fitness Studio* to November 2019 will create a favourable variance of \$11,200. It consists of \$150,600 savings from personnel costs and other program expense; these savings are partially offset by the \$139,400 shortage in membership and ice rental revenue.

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Deficit Items – lower revenues or higher expenditures

- *Winter maintenance* is forecasted with an unfavourable variance of \$330,000 in 2019. There was a salt shortage earlier this year resulting in staff having to purchase additional salt outside the province. The financial impact is approximately \$190,000. Further, the greater number and extent of salting and plowing events in 2019 contributed to a \$140,000 increase in winter contracted services.
- *Parking Fines revenue* is projected to end the year with a \$300,000 unfavourable variance due to lower volume of fines than budgeted.

Fully Funded

Building Permit Fees, Plumbing Inspection and related revenues is forecasted to be \$850,000 greater than budget. The increase reflects a larger number of applications and more complex building files in the early portion of the year, primarily in residential high-rise applications. In addition, current permits issued are for larger-scale projects which have higher rates than single family dwellings. Overall, instead of having to draw \$808,000 from the stabilization reserve fund, the increase in revenues combined with savings from personnel gapping will allow for \$517,000 to be transferred back to the Building Permit Rate Stabilization Reserve Fund. The result is a net zero impact to the operating fund.

Investment Income

The City maintains an investment portfolio in excess of \$500 million which is comprised of a short-term portion (< one year duration) to meet ongoing working capital needs (i.e. Operating Budget related needs) and a long term portion (> one year duration) to align with future needs (primarily capital in nature). On average the annual investment income of this portfolio ranges between \$14 and \$17 million, depending on the economic factors in a year. The short term portion of these returns (ranging between \$2 million and \$3.7 million over recent years) should be allocated to the Operating Budget and the long term returns being allocated to City Reserve Funds (between \$12 and \$14 million). The 2019 Operating Budget includes Investment Income revenue at \$5,870,000 which is over \$2 million more than it should be. Staff and Council have made an effort to reduce the reliance on the investment income when preparing the operating budget from \$6,870,000 in 2016 to \$5,870,000 in 2019 with a three-year phased reduction. Long term investment portfolio returns is still subsidizing the 2019 Operating Budget by \$2,170,000 in order to ensure an operating surplus. This is not a long term sustainable practice as this Operating Budget revenue should be less than \$3.5 million to reflect average short-term returns.

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Public Work Enhancement

At the meeting of Council on March 25, 2019, SRCS.19.07 was adopted to endorse public works enhancements including a city-wide snow windrow-clearing program through an in-house solution. Program preparations have commenced with the services to be launched to Richmond Hill residents at the beginning of the 2019/2020 winter season. As a result of the enhancements, Richmond Hill has shifted its reliance on casual labour in Public Work Operations by converting these positions into 80 full-time positions (79 positions in Public Works Operations and one position in Access Richmond Hill), to ensure a more consistent and responsive level of services. Thirty-five loaders have been purchased utilizing Development Charges to fund the enhancement program. Other costs, including winter de-icing materials, fuel, clothing, training, equipment maintenance and repairs will also be incurred in conjunction with the program. The program cost is estimated at \$2 million in 2019, although the amount depends on the severity of winter weather conditions. The full annual cost of the Public Works Enhancement program (approximately \$4 million) is recommended to be phased in over the next 8 years with an annual contribution of \$500,000 towards the tax rate, starting in 2020, with the balance funded by the Community Enhancement and Economic Vitality Reserve Fund.

Water & Wastewater Fund

Due to the unusually wet spring/early summer, residential and commercial water usage has been lower than budgeted and correspondingly, water volumes purchased from the Region has followed a similar trend (2.39% lower than budget). As a result, the water and wastewater fund is forecasted to have a deficit of \$231,300.

Relationship to the Strategic Plan:

Presentation of the Year End Operating Forecast reflects the overall use and wise management of resources but also touches on the other goals in the Strategic Plan:

- a) Stronger connections in Richmond Hill to improve access to local information and services; and
- b) Wise management of resources in Richmond Hill to serve as a role model for municipal management, in that, based on forecasting process leading to the year-end reporting, staff have been able to analyze municipal operations, adjust resourcing levels, and position surpluses for use in future year(s).

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Conclusion:

Based on the preliminary estimates and actual results as of June 30, 2019, staff forecast an Operating Fund surplus of \$230,400 and The Water & Wastewater Fund is forecasted to be in a deficit of \$231,300.

Attachments:

The following attached documents may include scanned images of appendixes, maps and photographs. If you require an alternative format please call the contact person listed in this document.

- Appendix A: Financial Overview – 2019 Year End Forecast

Report Approval Details

Document Title:	SRCFS.19.034 2019 Year-end Operating Forecast.docx
Attachments:	- SRCFS.19.034 Appendix A - 2019 Year End Forecast.pdf
Final Approval Date:	Oct 10, 2019

This report and all of its attachments were approved and signed as outlined below:

David Dexter - Oct 8, 2019 - 2:25 PM

MaryAnne Dempster - Oct 9, 2019 - 4:17 PM

Neil Garbe - Oct 10, 2019 - 11:30 AM