

REPORT
Office of the Chief Administrative Officer
And
Finance Department

To: Mayor Johnstone and Members of Council
Date: November 28, 2022

From: Lisa Spitale
Chief Administrative Officer
File:

Harji Varn
CFO/Director of Finance

On behalf of the Senior Management Team
Item #: 2022-718

Subject: Q3 2022 Capital and Operating Performance Report

RECOMMENDATION

THAT Council receive this report for information; and

THAT Council approve the 2022 Quarter 3 capital budget adjustments as outlined in Table 1-1 of this report.

PURPOSE

An information report on the 2022 Quarter 3 (Q3) capital and operating budgets and to seek Council's approval of the proposed 2022 Quarter 3 Capital Budget Adjustments & Revised 2022 Multi-Year Capital Budget: (1) Adjust for net budget increases of \$0.8M; and (2) Approve the proposed revised 2022 Multi-Year Capital Budget of \$191.9M and no change to the 2022-2026 Five Year Financial Plan Bylaw as the \$0.8M will be accommodated by re-allocating funding within the current five year Capital Plan.

BACKGROUND

The 2022 Budget and Five Year Financial Plan were approved in February, 2022. This plan was guided by the Financial Sustainability Principles that align with the City's core values when building a vibrant, compassionate City that includes everyone and ensures the City's budget is sustainable, adaptable, stable and accountable.

The Capital Budget was presented by Strategic Priority which reinforced the alignment of spending to Council's priorities; and the Operating Expenditure Budget, prepared and presented by each Department Head, focused on 2021 highlights and achievements, and 2022 initiatives – all demonstrating commitment to transparency of City services.

Council approved the Capital Budget at **\$170.7M** during the annual budgeting process and later approved an **increase of \$20.4M** in the last two quarters bringing the approved budget at Q2 to **\$191.1M**. The Operating Expenditure Budget was approved at **\$216.0M**. No adjustments are being requested at this time.

As indicated in previous Council reports, as part of the City's commitment to flexibility and transparency, the Finance Department reports back to Council on a quarterly basis and seeks Council approval for any adjustments where budgets would need to be reset or varied from the original budget targets throughout the year.

The annual budget draws from an existing Five Year Financial Plan and is established in advance of the year of delivery with Council approval specific to annual property taxation and utility rates (the funding sources). Where the funds do not exist within the current approved Bylaw, staff then work to find offsets within the current approved expenditure plan to avoid growing the plan and seeking an amendment. Should an offset not exist, then staff would seek to amend the Bylaw to avoid delays or impacts on City services for major projects in progress.

A quarterly monitoring and reporting process is recognized as a best practice and acknowledges that change happens over the course of any given fiscal year. Accordingly, this approach allows for:

- reporting out on the quarter results so Council is well informed on accomplishments or project deferrals due to economic or internal factors;
- consultation on needed changes to the 2022 Approved Budget which, therefore, incorporates Council's feedback on project adjustments or new projects on a timely basis; and
- increased transparency and robust financial oversight which supports a more seamless transition into the next annual budget setting exercise and Five Year Financial Plan update.

1. QUARTER 3 CAPITAL REPORT

Capital projects and program spending can span over multiple years and, therefore, budgets can be larger than the actual annual spend due to the need to complete the procurement strategy and contract awards ahead of time. As per the Community Charter and the City's Procurement Policy, the City's budgets must be in place before contracts are committed.

The current 2022 Approved Multi-Year Capital Budget of \$191.1M has \$65.3M spent up to end of September and over \$96.5M in open purchase order commitments to span spending over multiple years.

At Q3, a total of \$0.9M capital budget adjustment is required which is offset by \$0.1M from savings/scope change of other projects in the same year. As a result, only \$0.8M net increase in Q3 2022 is required.

Attachment 1 is a detailed list of items by project or program which staff have brought forward as proposed adjustments to the existing 2022 Approved Multi-Year Capital Budget.

See **Table 1-1** for a summary of the adjustments which bring us to the Proposed Revised 2022 Multi-Year Capital Budget of **\$191.9M**.

Table 1-1

2022 Revised Multi-Year Capital Budget	2022 Q3 Quarterly Adjustment	2022 Proposed Multi-Year Capital Budget	Spend to Date (As of Sep 30)
191.1	0.8	191.9	65.3

The Proposed Q3 Capital Budget Adjustments are being offset with project BU 12299 future Park Land Acquisitions as such acquisition(s) will be further informed by the finalization of the Parks and Recreation Master Plan Update planned for 2023. Current approved 5 Year Plan amount is \$4.5M; staff have reduced the amount by \$1.7M in Q2 and an additional \$0.8M this quarter, bringing the total reduction to \$2.5M. Staff will bring forward any subsequent proposed changes during future annual budget cycles.

Major Projects Highlight and Status update at the end of the third Quarter:

- **\$62.0M təməsewtxw Aquatic & Community Centre (TACC)** – as at Q3 the forecasted spend is \$47.0M, with the balance of spending carrying over into 2023. The City has acquired \$93.6M debt authorized by Bylaw No. 8073, 2019 to fund the project. Construction contractor, Heatherbrae Construction Ltd, has informed the City that due to various factors on-site and globally, there is indication that the project timeline will be affected. An update will be provided to Council in early 2023, following further review.

- **\$24.5M Queensborough (QB) Substation** – as at Q3, the forecasted spend is \$18.7M with the balance of spending carrying into 2023. The City has acquired \$25.0M of the approved \$30.0M debt authorized by Bylaw No. 8041, 2018 to fund the project. New Duct Bank on Boyd Street from Howes Street to Wood Street is required to connect new electrical distribution from the Queensborough Substation to the City's existing electrical distribution system. The project is anticipated to be completed by spring 2023 and likely to be under-spent.
- **\$10.0M Advance Metering Infrastructure (AMI)** – as at Q3, the forecasted spend is \$1.0M with the balance carrying over into 2023 and 2024. Contract has been awarded to KTI Limited for the supply and installation of the new meters and to Harris Computer Systems for the IT infrastructure to connect the meters. Detailed project planning with the 2 vendors is underway. There is early indication that the project budget will need to increase as meter costs, IT costs and overall project resourcing costs have faced significant inflation since the project was first estimated in 2019. Staff will complete the detailed project plan and refine project scope, timelines and budget ahead of the 2023 Budget proposals to Council in early 2023.
- **\$8.7M Sewer Separation** – as at Q3, the forecasted spend is \$3.7M with the balance carrying over into 2023. Contract has been awarded to Complete Utilities Contractors Ltd for work at 4th and 6th Avenue and 13th Street (2022 Sewer separation program). Material for the project has been delivered, and locates are underway.
- **\$6.6M Water Main Replacement** – as at Q3, the forecasted spend is \$2.1M with the balance carrying over into 2023. This contract is coordinated with the Sewer Separation Work; same contractor, timing and location.
- **\$5.9M Boundary Pump Station** – as at Q3, the forecasted spend is \$5.5M with the balance carrying over into 2023. Construction is underway. The project is experiencing some delays due to supply chain issues for various parts and materials. Commissioning is set for early Q1 2023.
- **\$4.1M Massey Theatre** – as at Q3, the forecasted spend is \$0.5M with the balance carrying over into 2023. The four year phased renovation has started this year with defining the scope of work that can be achieved within the capital budget. The project design is scheduled to be completed by December 2023 and the construction work to commence in early 2024 and completed by December 2025.
- **\$3.5M Agnes Street Greenway Construction** – as at Q3, the forecasted spend is \$2.4M with the balance carrying over into 2023 for paving and final project completion work.
- **\$2.8M Electrical New Services** – as at Q3, \$2.3M has been spent. Staff are estimating to spend to the full budget amount with new services at various

locations such as 618 and 813 Carnarvon Street, 300 Duncan Street and the new Aquatics facility. The remaining projects charged to new services were largely new single family homes and laneway houses, as well as smaller subdivisions.

- **\$2.5M McInnis Overpass** - as at Q3, the forecasted spend is \$0.05M for design work and the balance to carry over into 2023 for the construction phase.
- **\$2.0M Sapperton District Energy** – as at Q3, the forecasted spend is \$0.4M with the balance carrying over into 2023. The consultant continues to develop the design further and provides support for all external related discussion, grant applications etc. The Project is not feasible without additional grant or developer funding. To date, minimal grant agreements have been secured or signed.

2. QUARTER 3 OPERATING REPORT

Operating budgets spending is primarily focused on providing annual funds to support with the delivery of key City Services, such as Public Safety, Parks & Recreation, Library Services, Engineering and many of other General Government and Utility Services.

Annually, staff bring forward the Operating Budgets which includes a proposal for the Property Taxes and Utility rates to be levied to support the Operating Expenditures and continued contribution to the City's Reserves for ongoing renewal/replacement of the City's aging infrastructure/assets.

The current 2022 Approved Operating Revenue Budget of \$262.3M is tracking ahead of budget by \$23.4M largely due to the sale of low carbon fuel credits. The City, through its operations of an Electrical Utility providing low carbon intensity fuels to SkyTrain, has accumulated approximately 62,000 credits and sold the credits in the market.

The current 2022 Approved Operating Expenditures of \$216.0M is trending slightly lower than budget by \$1.4M mainly due to staff shortages and vacant positions.

Aside from the \$26.4M revenue from carbon credits sale which will be transferred to the Climate Reserve at year end, staff are anticipating the overall operating result to be on budget but are seeing risks and pressures in the following areas:

- Emergency Management expenditures
- WorkSafe Premiums increase
- Collective agreements have expired for most of the City's unions
- Debt financing costs - interest rate increases
- Inflationary increases in supplies & materials/contractor costs/fuel, etc.

In 2022, staff's oversight, strategies and strict monitoring have led to the ability to manage within the existing approved budgets; however, with the continuous cost escalation and need to fill all vacancies, staff are seeing some significant challenges as we prepare for the 2023 Operating Budgets. There has historically been a dependency to achieve ~\$2M in vacancy surplus throughout the year as there are normally gaps in staff recruitment timing or turnover timing which if not achieved will put pressure on staying within budget in 2023.

See **Table 2-1** for a summary of the Operating Revenues – all funds

Table 2-1

	2022 Annual Budget	2022 YTD Budget	2022 YTD Actual	2022 YTD Variance	2022 Forecast	Forecast vs Budget Variance
<i>(in millions)</i>						
REVENUE						
Taxation Revenue	\$ (97.88)	\$ (97.15)	\$ (97.61)	\$ 0.46	\$ (98.20)	\$ 0.32
Utility Rates	\$ (100.12)	\$ (81.53)	\$ (84.92)	\$ 3.39	\$ (103.34)	\$ 3.22
Sale of Services	\$ (14.37)	\$ (10.58)	\$ (12.19)	\$ 1.61	\$ (16.13)	\$ 1.76
Grants from Governments	\$ (8.92)	\$ (7.03)	\$ (4.46)	\$ (2.57)	\$ (8.05)	\$ (0.87)
Contribution Revenue	\$ (24.09)	\$ (17.46)	\$ (7.10)	\$ (10.36)	\$ (18.49)	\$ (5.59)
Other Revenue	\$ (16.92)	\$ (12.72)	\$ (43.82)	\$ 31.11	\$ (48.02)	\$ 31.10
TOTAL REVENUE	\$ (262.29)	\$ (226.47)	\$ (250.11)	\$ 23.64	\$ (292.23)	\$ 29.93

To date (Q3) the City's total **actual revenues are \$250.1M** vs the estimated Q3 budget of \$226.4M. This is primarily driven by higher than planned Other Revenue (\$31.1M) and Utility Rates (\$3.4M), offset by slower Grants from Other Governments (\$2.5M) and Contribution Revenue (\$10.3M) due to timing of grants/revenue received. Aside from the \$26.4M revenue from carbon credits sale, which is recorded in Other Revenue, year to date (YTD) revenues are tracking behind budget to date by \$2.8M. Staff are forecasting \$3.5M over the 2022 annual budget when Grants from Other Governments and Contribution Revenue are adjusted for seasonality at year end.

Major Revenue Highlight and Status update at the end of the third Quarter:

- **Taxation Revenues:** Property tax revenue is \$0.4M higher than budget to date due to higher than expected grants in lieu of taxes. Annual forecast is largely in line of budget.
- **Utility Revenues:** YTD actual is \$3.4M higher than budget to date mainly due to higher than planned electricity consumption (\$3.2M) as a result of relatively lower temperatures and higher than planned user charges (\$0.2M) for sewer services. Adjusted for seasonality, staff are forecasting a \$3.2M increase from budget in annual revenues for the year.

- **Sale of Services:** YTD actual is \$1.6M higher than budget to date due to higher than planned service billings from Police (\$0.6M); higher sale on recreational services from Parks & Recreation (\$0.4M), higher parking revenue from Engineering department (\$0.3M); and other minor increases from various program areas. Staff are forecasting a slight increase in the sale of services in the remainder of the year.
- **Grants from Other Governments:** YTD government grants is \$2.5M lower than budget to date due to timing of the grants received. Annual forecast is largely in line with the 2022 budget.
- **Contribution Revenue:** YTD contribution revenue is \$10.3M lower than budget to date due to timing of the revenue received and a slower pace of capital spending largely due to staff challenges. The unfavorable variance is expected to reduce to \$5.5M at end of year.
- **Other Revenue:** YTD other revenue is \$31.1M higher than budget to date mainly due to the unplanned \$26.4M carbon credits sale. Other increases include higher than budgeted building permit issuance (\$2.2M); and higher than budgeted investment income (\$2.6M) due to higher than expected cash balances.

See **Table 2-2** for a summary of the Operating Expenditures – all funds

Table 2-2

	2022 Annual Budget	2022 YTD Budget	2022 YTD Actual	2022 YTD Variance	2022 Forecast	Forecast vs Budget Variance
<i>(in millions)</i>						
EXPENSES						
Salaries / Benefits / Training	\$ 103.68	\$ 79.37	\$ 78.07	\$ 1.29	\$ 104.29	\$ (0.62)
Contracted Services	\$ 12.91	\$ 9.51	\$ 9.13	\$ 0.38	\$ 13.21	\$ (0.30)
Supplies and Materials	\$ 10.74	\$ 7.92	\$ 7.63	\$ 0.29	\$ 11.21	\$ (0.47)
Cost of Sales	\$ 1.41	\$ 1.05	\$ 0.45	\$ 0.60	\$ 0.90	\$ 0.52
Grants	\$ 1.27	\$ 0.95	\$ 0.73	\$ 0.22	\$ 1.24	\$ 0.03
Insurance and Claims	\$ 4.24	\$ 3.13	\$ 3.19	\$ (0.05)	\$ 4.16	\$ 0.07
Utility Purchases and Levies	\$ 52.61	\$ 41.09	\$ 43.51	\$ (2.42)	\$ 54.47	\$ (1.87)
Amortization	\$ 26.29	\$ 19.45	\$ 19.71	\$ (0.26)	\$ 26.35	\$ (0.06)
Total Expenses before Interest	\$ 213.15	\$ 162.47	\$ 162.43	\$ 0.04	\$ 215.85	\$ (2.69)
Interest Charges	\$ 2.85	\$ 2.38	\$ 0.98	\$ 1.40	\$ 3.15	\$ (0.30)
TOTAL EXPENSES	\$ 216.00	\$ 164.84	\$ 163.41	\$ 1.44	\$ 219.00	\$ (2.99)

To date (Q3) the City's total actual Operating Expenditures **are \$163.4M** spent which is ~\$1.4M less than planned as at Q3 much of which can be explained by the mis-alignment of budget per seasons to actual spending projections. There are some

significant underspends to date in areas of Salaries/Benefits/Training (\$1.3M), Contracted Services (\$0.4M), Cost of Sales (\$0.6M), and Interest Charges (\$1.4M); offset by higher than budget to date Utility Purchases and Levies (\$2.4M) mainly due to higher than expected electrical consumption.

By year end, staff are forecasting the \$1.4M favorable YTD variance to diminish as departments fill vacancies and accelerate spends in areas like supplies and materials and contracted services. Staff are also predicting the Utility Purchases and Levies expense to improve, but not enough to close the overage; estimating a total year end overspend of (\$3.0M) fully offset by favorable forecast in revenues mainly in the Utility Rate recovery.

Furthermore, the Interest Charges are \$1.4M lower than budget to date primarily due to timing of debt coupon payments. Annual forecast is \$0.3M higher than budget which can be attributed to the rising interest rate environment worldwide.

Attachment 2 is a list of individual department operating memos which provide detailed analyses of the department's Q3 operating results and year end forecast.

3. MAJOR PURCHASE REPORT

The City's Procurement Policy (Policy) requires staff to report back to Council on all contracts awarded during the period in excess of \$100,000 and all sole source awards in excess of \$50,000.

For the Quarter ending September 30, 2022 the Purchasing Division was involved in the preparation and administration of 9 competitive bid documents. Also for this period; the Purchasing Division identified 25 awards, purchase orders, or change orders that met the parameters of this report requirement (**Attachment 3**). Of these, 13 were competitive contract awards, 5 were sole source awards, and 7 were change orders to an existing contract.

A list of all contracts or change orders awarded can be found in Attachment 3.

INTERDEPARTMENTAL LIAISON

All City departments have collaborated in this report.

OPTIONS

There are three options for Council's consideration:

Option 1: That Council receive this report for information;

Option 2: That Council approve the 2022 Quarter 3 capital budget adjustments as outlined in Table 1-1 of this report.

Option 3: THAT Council provides staff with further direction.

Staff recommend Options 1 and 2.

ATTACHMENTS

Attachment 1 – Proposed Capital Budget Quarterly Adjustments for Q3

Attachment 2 – Department Operating Memos for Q3

Attachment 3 – Major Purchases Report for Q3

This report was prepared by:

Lorraine Lyle, Senior Manager Financial Services
Gary So, Senior Financial Analyst
Patrick Shannon, Manager Purchasing Services

This report was approved by:

Harji Varn
CFO/Director of Finance

Lisa Spitale
Chief Administrative Officer