

REPORT

Office of the Chief Administrative Officer And Finance Department

To: Mayor Johnstone and Members of Council
Date: June 12, 2023

From: Lisa Spitale
Chief Administrative Officer
File:

Jacqueline Dairon
Acting CFO/Director of Finance

On behalf of the Senior Management Team
Item #: 2023-411

Subject: 2023 Capital and Operating Quarterly Performance Report

RECOMMENDATION

THAT Council receive this report for information; and

THAT Council approve the 2023 quarterly capital budget adjustments as outlined in Table 1-1 of this report.

PURPOSE

To provide quarterly updates to Council on the Operating and Capital Budget and Major Project/Program Spending performance and to seek Council's approval of the proposed 2023 Capital Budget Adjustment and Revised 2023 Capital Budget: (1) Adjust for net budget increases of \$6.0M; and (3) Approve the proposed revised 2023 Multi-Year Capital budget of \$179.2M.

EXECUTIVE SUMMARY

The enclosed report and attachments provide a quarterly financial update on the City's 2023 budget and Financial Plan. As of May 15, the Capital Budget of \$173.2M has spent \$24.9M and committed over \$60.4M to major projects and capital program spending. The report highlights the City's progress, achieving milestones according to plan. As of May 15, a total of \$7.3M capital budget adjustment is required of which \$1.3M is fully offset by savings/scope change of other projects in the same year, leaving a net proposed adjustment of \$6.0M for Massey Theatre.

Regarding the Operating Budget, the Operating Revenue Budget of \$301.5M is slightly ahead of expectations, resulting in a projected favorable position of \$2.08M by year-end. Similarly, the Operating Expenditure Budget of \$235.4M is trending favorably, with a projected favorable position of \$0.18M by year-end.

The City is proactively monitoring and addressing financial risks while implementing measures to ensure the ongoing financial health and sustainability of the City.

BACKGROUND

The 2023 Budget and Five Year Financial Plan were approved in April, reflecting the City's commitment to financial sustainability and aligning with its core values. The budget process involved each Department Head presenting their respective budgets, highlighting achievements from 2022 and outlining initiatives for 2023. This demonstrated a transparent approach to delivering services.

To maintain flexibility and transparency, the Finance Department provides quarterly reports to Council and seeks approval for any necessary budget adjustments throughout the year. This allows for timely reporting on accomplishments, project deferrals, and incorporation of Council's feedback on project adjustments or new initiatives.

The quarterly monitoring and reporting process serves as a best practice, acknowledging that changes can occur within a fiscal year. It ensures that Council is well informed, facilitates consultation on needed changes, and enhances transparency and financial oversight. This approach supports a seamless transition into future budget cycles and updates to the Five Year Financial Plan.

1. QUARTERLY 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 2023 Approved Multi-Year Capital Budget of \$173.2M has \$24.9M spent up to May 15th and over \$60.4M in open purchase order commitments to span spending over multiple years.

As at March 31, a total of \$7.3M capital budget adjustment is required of which \$1.3M is fully offset by savings/scope change of other projects in the same year, leaving a net proposed adjustment of \$6.0M for Massey Theatre. **Attachment 1** is a detailed list of items by project or program which staff have brought forward as proposed adjustments to the existing 2023 Approved Multi-Year Capital Budget.

Table 1-1 is a summary of the adjustments, which bring us to the Proposed Revised 2023 Multi-Year Capital Budget of **\$179.2M**.

Table 1-1

2023 Approved Multi-year Capital Budget (\$ in millions)	2023 Q1 Quarterly Adjustment (\$ in millions)	2023 Proposed Multi-Year Capital Budget (\$ in millions)	2023 Annual Forecast (\$ in millions)	2023 Spend to Date (As of May 15) (\$ in millions)
\$ 173.2	\$ 6.0	\$ 179.2	\$ 143.9	\$ 24.9

Table 1-2 is a summary of the adjustments excluding \$6.0M Massey Theatre quarterly adjustment, which keeps the 2023 Multi-Year Capital Budget of **\$173.2M**. The \$1.3M quarterly adjustment required are fully offset by savings/scope change of other projects in the same year primarily by project BU 11989 New Queensborough Substation as the project is expected to complete with a savings of \$2.0M. Staff will bring forward any subsequent proposed changes during future quarterly budget cycles.

Table 1-2

--

Major Projects Highlight and Status update:

- **\$42.8M təməsewtxw Aquatic & Community Centre (TACC)** – as at March 31, the forecasted spend is \$42.8M. The project manager along with internal City staff are working through challenges surrounding off-site connections for storm and sanitary lines. TACC team remains committed to tight monitoring and mitigation strategies and continue to manage risk via the project's contingency and to stay within the current approved budget of \$114.6M. Phase One completion is on target for March 2024. Phase Two completion is on target for September 2024.

- **\$13.8M Advance Metering Infrastructure (AMI)** – as at March 31, the forecasted spend is \$13.8M. The Advanced Metering Infrastructure (AMI) project has made significant progress over the past three years and is currently in the detailed design and software integration stage. With the support of the external consulting service, staff are actively advancing the AMI initiative as well as the network installation and setup with significant spending meter replacements to being in 2024
- **\$7.3M Queensborough (QB) Substation** – as at March 31, the forecasted spend is \$5.3M with an estimated \$2.0M savings by project completion by June 2023. The project has been transferred to the City and is currently undergoing final adjustments to address minor deficiencies. A grand opening event is scheduled for June 20th to commemorate the completion of the QB Substation project.
- **\$6.7M West-End Sewer Separation Program** – as at March 31, the forecasted spend is \$2.7M with the balance carrying over into 2024. Archeological requirements for the site have delayed the procurement process, but a renewed procurement strategy will leverage efficiencies, allowing this multi-year program to remain on target.
- **\$6.0M West-End Watermain Repair Program** – as at March 31, the forecasted spend is \$6.0M. Archeological requirements for the site have delayed the procurement process, but a renewed procurement strategy will leverage efficiencies, allowing this multi-year program to remain on target.
- **\$6.5M Massey Theatre** – as at March 31, the building investigation and scope definition work has now been completed as part of the pre-design phase of the project. The recommended scope represents the minimum amount of work necessary to achieve the project objectives and is estimated to exceed the available project budget of \$14.1M by \$6.0M. The total estimated cost to renovate the facility to the required MVO level is \$20.1M which includes demo of gym, electrical room, roof, structural, washroom, elevators, and other accessibility improvements and or upgrades.
- **\$5.2M Sewer Separation** – as at March 31, the forecasted spend is \$5.2M. Construction is underway and is on-track on 13th Street.
- **\$4.6M Water Main Replacement** – as at March 31, the forecasted spend is \$4.6M. Construction is underway and is on-track on 13th Street.
- **\$2.6M Crosstown Greenway Construction** – as at March 31, the forecasted spend is still forecasted to spend \$2.6M, however, the project will be deferring work to 2024 as the project needs to be coordinated with a Metro Vancouver.
- **\$2.3M Sapperton District Energy** – as at March 31, the forecasted spend is \$2.3M. The project team reviewed with external experts whether the District

Energy project would qualify for carbon credits, capitalization of carbon credits for the Sapperton loop is likely not possible. Staff are still exploring whether the carbon credits associated with RCH can be monetized. A report detailing potential project scenarios and associated cost estimates will be provided before summer break. In addition, a proposal will be provided to the CNW by the City's consultant related to progressing the design to 30% in order to determine a Class C cost estimate.

2. QUARTERLY OPERATING REPORT

The Operating Budgets provide annual funds for essential City Services such as Public Safety, Parks & Recreation, Library Services, and more. These budgets also propose Property Taxes and Utility rates to sustain Operating Expenditures and contribute to infrastructure renewal.

As at March 31, the 2023 Approved Operating Revenue Budget of \$301.5M is surpassing expectations by \$2.1M, driven by higher Bank Interest Income. The 2023 Approved Operating Expenditures of \$235.4M are slightly below budget by \$0.2M due to staff shortages.

Potential risk and pressures include expired collective agreements, increasing debt financing costs, Emergency Management expenditures, and inflationary increases in supplies and contractor costs. Significant challenges arise from continuous cost escalation and the need to fill vacancies.

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

Table 2-1

Operating Revenue (in millions)	2023 Annual Budget	2023 YTD Budget	2023 YTD Actual	2023 YTD Variance	2023 Forecast	Forecast vs Budget Variance
Taxation Revenue	\$ (105.14)	\$ 0.11	\$ 0.13	\$ (0.02)	\$ (105.12)	\$ (0.02)
Utility Rates	\$ (110.55)	\$ (56.38)	\$ (56.21)	\$ (0.17)	\$ (109.86)	\$ (0.70)
Sale of Services	\$ (14.80)	\$ (3.52)	\$ (4.11)	\$ 0.60	\$ (15.45)	\$ 0.65
Grants from Other Governments	\$ (24.89)	\$ (16.85)	\$ (16.55)	\$ (0.30)	\$ (24.81)	\$ (0.07)
Other Revenue	\$ (23.44)	\$ (6.69)	\$ (7.18)	\$ 0.49	\$ (25.76)	\$ 2.31
Contribution Revenue	\$ (22.68)	\$ (3.56)	\$ (1.95)	\$ (1.61)	\$ (22.59)	\$ (0.09)
Total Revenue	\$ (301.50)	\$ (86.88)	\$ (85.87)	\$ (1.01)	\$ (303.59)	\$ 2.08

As at March 31, the City's total **actual revenues are \$85.9M** vs the estimated budget of \$86.9M. This is primarily due to lower than planned Contribution Revenue \$1.6M and Grants from Other Governments \$0.3M due to timing of contribution revenue and grants received, which are offset by higher than planned Sales of Services \$0.6M and Other Revenue \$0.5M. Staff are forecasting \$2.1M over the 2023 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 first Quarter:

- **Taxation Revenues:** Property tax revenue will be recorded when notices are issued in May. The due date for payment of property taxes is July 4, 2023.
- **Utility Revenues:** YTD actual is \$0.2M lower than budget to date mainly due to lower than planned commercial electricity consumption \$0.7M, partially offset higher than planned residential electricity consumption \$0.3M. Staff are forecasting a slight decrease \$0.7M from budget in annual revenues for the year.
- **Sale of Services:** YTD actual is \$0.6M higher than budget to date due to higher than planned service billings from Police \$0.1M; higher sale on recreational services from Parks & Recreation \$0.3M, higher parking revenue from Engineering department \$0.3M; and other minor variances 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 \$0.3M lower than budget to date due to timing of the grants received. Annual forecast is largely in line with the 2023 budget.
- **Contribution Revenue:** YTD contribution revenue is \$1.6M lower than budget to date due to timing of the revenue received. The unfavorable variance is forecasting to reduce to \$0.1M at end of year as we progress through the budgeted capital spending.
- **Other Revenue:** YTD other revenue is \$0.5M higher than budget primarily due to higher than budgeted bank interest income \$1.0M as the 2023 budget increase was the first increase staff proposed after many years and therefore staff were conservative as the post covid world is unpredictable and interest rates can fluctuate; higher than budgeted planning permit issuance \$0.2M; which are offset by lower than planned carbon credit revenue due to the timing of the anticipated sale of carbon credits.

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

Table 2-2

Operating Expenses (in millions)	2023 Annual Budget	2023 YTD Budget	2023 YTD Actual	2023 YTD Variance	2023 Forecast	Forecast vs Budget Variance
Salaries/Benefits/Training	\$ 110.63	\$ 29.39	\$ 27.46	\$ 1.93	\$ 110.78	\$ (0.14)
Contracted Services	\$ 15.62	\$ 3.70	\$ 2.97	\$ 0.73	\$ 14.97	\$ 0.66
Supplies and Materials	\$ 11.80	\$ 2.82	\$ 3.07	\$ (0.26)	\$ 12.28	\$ (0.48)
Cost of Sales	\$ 1.67	\$ 0.40	\$ 0.34	\$ 0.07	\$ 1.67	\$ (0.00)
Grants	\$ 1.22	\$ 0.31	\$ 0.52	\$ (0.22)	\$ 1.24	\$ (0.02)
Insurance and Claims	\$ 4.24	\$ 1.02	\$ 0.99	\$ 0.03	\$ 4.25	\$ (0.02)
Amortization	\$ 27.73	\$ 6.66	\$ 6.93	\$ (0.28)	\$ 27.99	\$ (0.26)
Utility Purchases and Levies	\$ 55.71	\$ 11.34	\$ 10.68	\$ 0.66	\$ 55.12	\$ 0.59
Interest and Bank Charges	\$ 6.76	\$ 2.07	\$ 2.72	\$ (0.66)	\$ 6.91	\$ (0.14)
Total Expenses	\$ 235.38	\$ 57.69	\$ 55.69	\$ 2.00	\$ 235.21	\$ 0.18

As at March 31, the City's total actual Operating Expenditures are **\$55.7M** spent which is ~\$2.0M less than planned, 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 \$1.9M, Contracted Services \$0.7M, and Interest Charges \$0.7M; offset by higher than budget to date Utility Purchases and Levies \$0.7M mainly due to lower than expected electrical consumption.

The Interest Charges are \$0.7M higher than budget to date primarily due to timing of debt coupon payments. Annual forecast is \$0.1M higher than budget, which can be attributed to the rising interest rate environment worldwide.

By year-end, staff are forecasting the \$2.0M favorable YTD variance to reduce as departments fill vacancies and accelerate spends in areas like Supplies and Materials and Contracted Services. Staff are estimating the total expenditures by year-end to be \$0.2M below the planned budget due to lower Contracted Services and Utility Purchase spends, which are offset by unfavorable forecast in revenues mainly in the Utility Rate recovery.

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 March 31, 2023 the Purchasing Division was involved in the preparation and administration of 23 competitive bid documents. Also for this period, the Purchasing Division identified 18 awards, purchase orders, or change orders that met the parameters of this report requirement (**Attachment 3**). Of these, 4 were competitive

contract awards, 8 were sole source awards, and 6 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 2023 quarterly capital budget adjustments as outlined in Table 1-1 of this report.

Option 3: That Council approve the 2023 quarterly capital budget adjustments as outlined in Table 1-2 of this report.

Option 4: THAT Council provides staff with further direction.

Staff recommend Options 1 and 2.

ATTACHMENTS

Attachment 1 – Proposed Capital Budget Quarterly Adjustments

Attachment 2 – Quarterly Department Operating Memos

Attachment 3 – Quarterly Major Purchases Report

APPROVALS

This report was prepared by:

Alex Tam, Senior Financial Analyst
Gary So, Senior Manager Financial Services
Indeep Johal, Manager Financial Services
Patrick Shannon, Manager Purchasing Services

This report was approved by:

Harji Varn
CFO/Director of Finance

Jacqueline Dairon
Acting CFO/Director of Finance

Lisa Leblanc
Acting Chief Administrative Officer