

### RECOMMENDATION:

That the 2019-2023 financial plan be amended by an increase of \$579,000 in revenues and expenses.

### REPORT SUMMARY

This report provides financial information about the City's ongoing operating activities until the end of the third quarter of 2019 and year-end forecasts. Managers have reviewed their respective sections to take into account work in progress or any emerging activities and these factors are reflected in the final year-end forecast figures. The year-end forecast suggests a net favourable variance of \$5,151,000 made up of \$5,507,000 (5.16%) of excess revenue, offset by an unfavourable variance in expenses of \$356,000 (0.42%). As expenditures are forecasted to exceed the approved budget, an amendment to the 2019-2023 financial plan is recommended.

### BACKGROUND

Over the past number of years, the City has taken efforts to minimize the annual tax burden; specifically, by not over-taxing for amounts that are not required to fund operations. In part, this has been accomplished by reducing the gap between budgeted revenues/expenditures and actual results, resulting in lower annual surpluses. To accomplish this, a number of initiatives were implemented, including:

- Establishing a \$300,000 offset against the expense budget (\$200,000 in labour and \$100,000 in contract services) to reflect the reality that staffing levels are lower than 100% (i.e. the City usually has some vacancies). This offset sits as a placeholder in Common Services at the beginning of the year and then is applied against specific departmental budgets later in the year once vacancy information is confirmed.
- Increasing revenue projections to better reflect anticipated actual revenues earned.
- Only adding payroll, materials and internal charge operating costs for capital assets to the budget once the need has been demonstrated (i.e. budgets are added in the year after costs have been incurred).
- Decreasing the cost share percentage applied to the RCMP budget and increasing the amount of operating funding from the RCMP operating reserve (funded from prior year RCMP surpluses) to account for anticipated vacancies.

Over time, these initiatives have resulted in a decreasing gap between budget and actuals for many functions within the City.

## 2019 Q3 Operating Variance

As the gap between budget and actuals narrows, variance reporting has become a critical tool for ensuring that the City is on track financially. As of Q2, the City was forecasting a net favourable variance of \$3,201,000 made up of \$3,952,000 of excess revenue, offset by an unfavourable variance in expenses of \$751,000. Under the *Community Charter*, a municipality can only make expenditures that are within the financial plan. So, while on a net basis the City was forecasting a \$3,292,000 surplus position, the expense forecast would result in expenditures exceeding the authorized budget. Because of this, staff have been monitoring expenses closely, and have prepared the Q3 variance report as early as possible to allow time for adjustments, if necessary.

### DISCUSSION

The forecast as of Q3 projects a net favourable variance of \$5,151,000, representing an increase of \$1,859,000 from the second quarter forecast.

Since Q2, revenue projections have increased by \$1,555,000 (from \$3,952,000) largely due to changes in forecast for investment income, sales of services and permits and licenses, but offset by decreases in forecasts for utility charges and taxation and other levies. Projections for expenses since Q2 have decreased by \$395,000 (from \$751,000) due to changes in forecast for Solid Waste, Sanitary Operations and Water Operations, offset by increases in Engineering & Public Works.

Overall, the Q3 estimates are consistent with Q2 in that the budgeted expenses are projected to be exceeded, however the amount has decreased significantly. More discussion about this specific issue, including options to address it, will be provided in the Financial Implications section of the report.

	2019 Budget	2019 Annual Forecast	Annual Forecast Variance	Forecast % of Budget	2019 YTD	YTD % of Budget
Operating Revenues	\$106,766,420	\$112,273,474	\$5,507,054	105.16%	\$109,119,415	102.20%
Operating Expenses	84,406,490	84,762,353	(355,863)	100.42%	61,491,568	72.85%
<b>Difference between revenue and expenses<sup>1</sup></b>	<b>\$22,359,930</b>	<b>\$27,511,121</b>	<b>\$5,151,191</b>	<b>123.04%</b>	<b>\$47,627,847</b>	<b>213.01%</b>

The following sections of this report break down this forecast into revenue and expenditure components.

<sup>1</sup> Difference between revenues and expenses relates to funds collected to transfer to reserves, and funds collected to pay off debt principle.

## 2019 Q3 Operating Variance

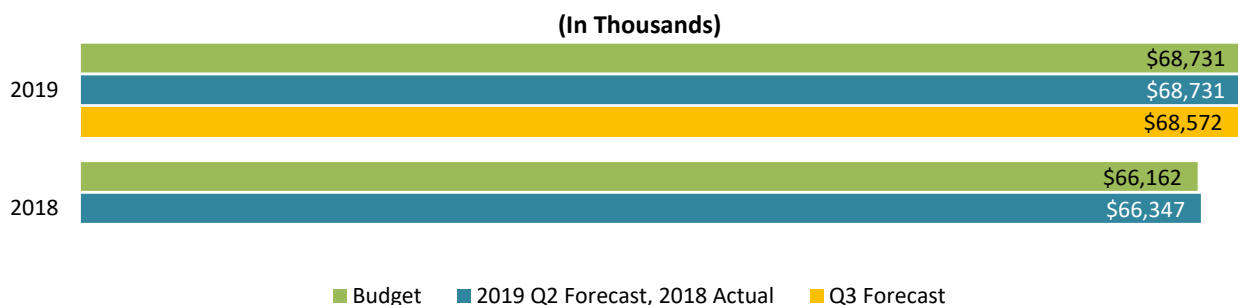
### Revenues by Source

Total operating revenues for 2019 are forecasted at \$112.3 million and are estimated to result in a \$5.5 million or 5.2% variance at year-end. Of this favourable variance, the majority is attributable to higher than expected investment income (\$2,685,000) due to better interest rates, and other revenues (\$1,241,000) due to unbudgeted reserve contributions for watercourse compensation, parking, cemetery expansion and bonus density.

Explanations for any significant variances have been provided in the department summaries below. These summaries also include supporting graphs which show 2019 Q3 forecasts, 2019 Q2 forecasts, and 2018 budget and actuals for comparative purposes.

	2019 Budget	2019 Annual Forecast	Annual Forecast Variance	Forecast % of Budget	2019 YTD	YTD % of Budget
Taxation and Other Levies	\$68,731,220	\$68,572,368	\$(158,852)	99.77%	67,972,355	98.90%
Utility Charges	24,206,700	24,275,478	68,778	100.28%	24,275,478	100.28%
Sale of Services	6,470,300	7,066,711	596,411	109.22%	5,329,170	82.36%
Contributions	2,013,700	2,288,443	274,743	113.64%	1,965,139	97.59%
Permits and Licenses	2,812,600	3,487,647	675,047	124.00%	3,464,878	123.19%
Investment Income	2,039,900	4,725,101	2,685,201	231.63%	4,258,979	208.78%
Penalties and Fines	429,500	553,965	124,465	128.98%	553,965	128.98%
Other Revenue	62,500	1,303,760	1,241,260	2086.0%	1,299,452	2079.1%
<b>Total Operating Revenue</b>	<b>\$106,766,420</b>	<b>\$112,273,473</b>	<b>\$5,507,053</b>	<b>105.16%</b>	<b>\$109,119,416</b>	<b>102.20%</b>

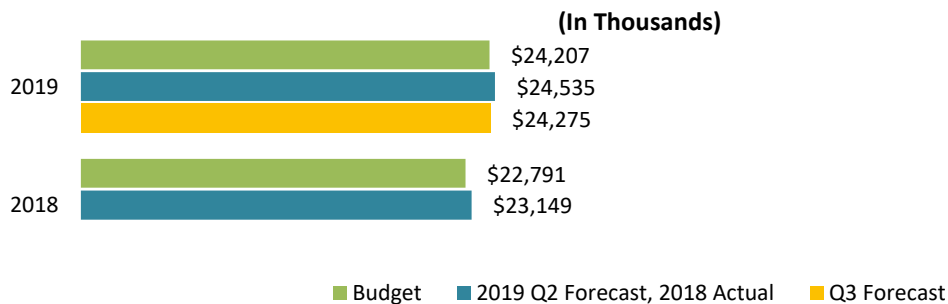
### Taxation and Other Levies



## 2019 Q3 Operating Variance

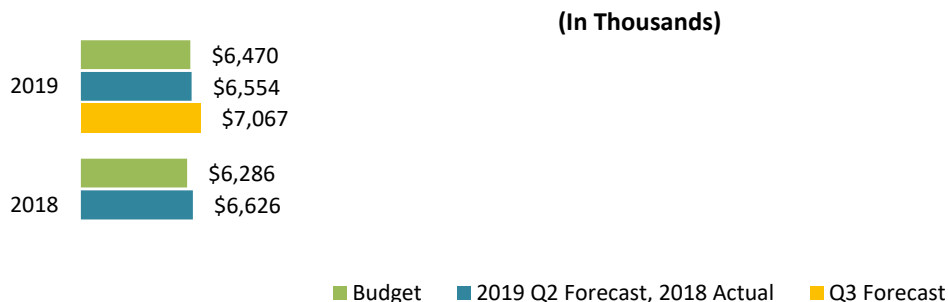
Minor unfavourable variance of \$159,000 due to assessment appeals resulting in downwards revision to assessment values and corresponding property taxes. In 2019 a number of appeals were successful in relation to affordable housing assessments. There are still a number of outstanding appeals for Metro Vancouver owned properties, which may potentially decrease assessment values and property taxes for 2020. The 2020 budget will be revised accordingly.

### Utility Charges



No significant variances forecasted.

### Sales of Services

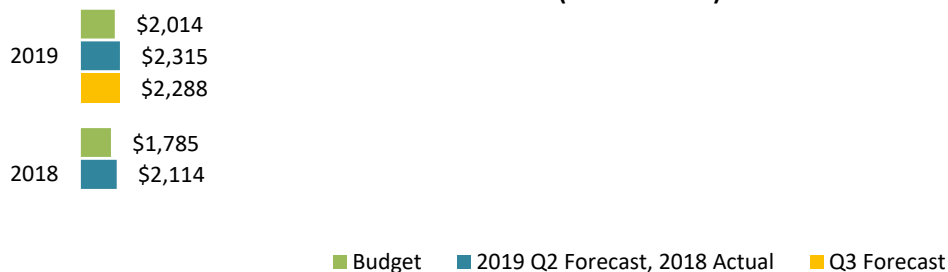


Favourable variance primarily due to more municipal services connection work than anticipated (\$411,000) and higher development services inspection revenues (\$161,000) resulting in higher revenues. This favourable variance in revenues for service connections is offset by a matching unfavourable variance in Engineering & Public Works expenses (no net loss).

## 2019 Q3 Operating Variance

### Contributions

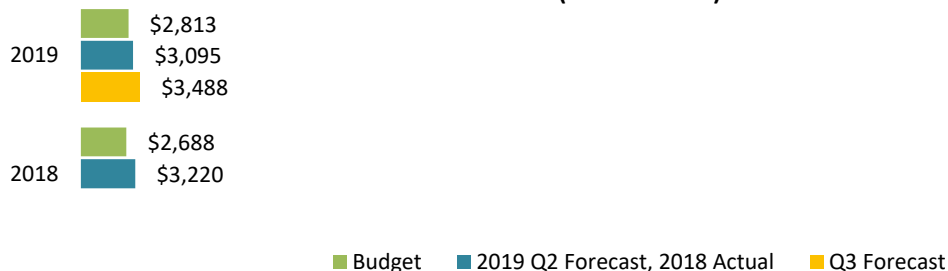
(In Thousands)



Favourable variance primarily due to an increase in TransLink Major Road Network funding (\$221,000) as a result of the addition of Kingsway Avenue to the funding formula.

### Permits and Licenses

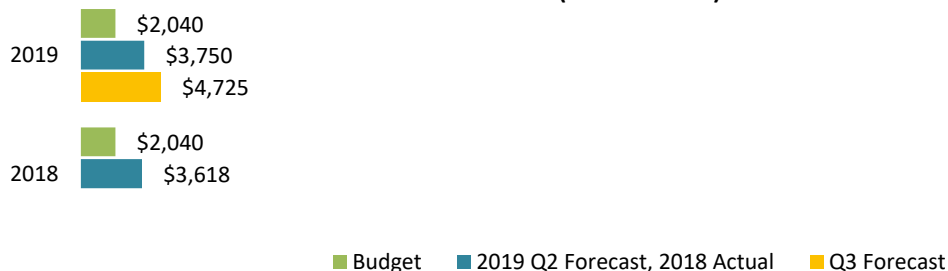
(In Thousands)



Favourable variance of \$675,000 due to higher than anticipated building and other development, , revenues (\$580,000) and business licence revenue (\$124,000), which is partially offset by minor variances in other areas.

### Investment Income

(In Thousands)

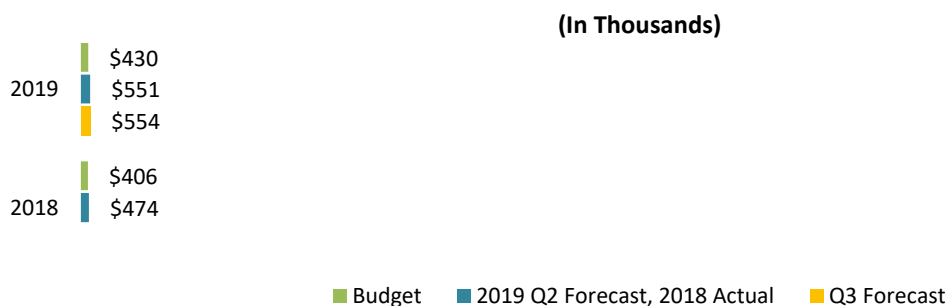


Favourable variance of \$2,685,000 due to higher than anticipated investment rates which have offset a decreasing investment balance as the City continues to fund a large capital program. Since

## 2019 Q3 Operating Variance

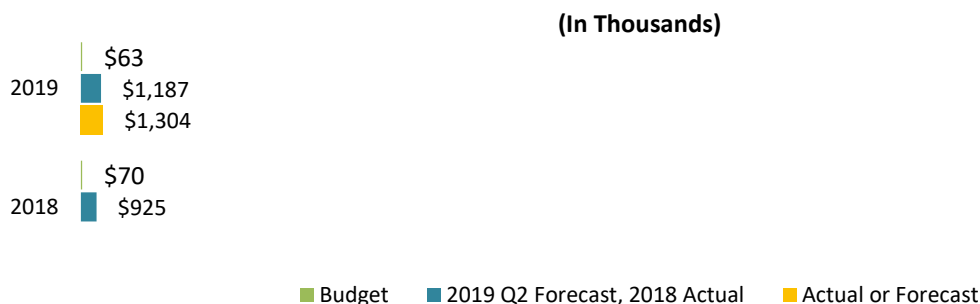
much of this investment income is earned on reserve funds, it is anticipated that at least \$1,000,000 of this variance will be transferred to the corresponding reserves (i.e it does not contribute to the available cash surplus at the end of the year).

### Penalties and Fines



Favourable variance of \$124,000 due to higher than budgeted revenues from penalties on late property tax payments.

### Other Revenue



Favourable variance of \$1,241,000 due to unbudgeted reserve contributions for watercourse compensation, parking, cemetery expansion and bonus density.

### Expenses by Function

Overall, operations are expected to fall within \$356,000 or 0.42% of budget with some areas over budget and some areas under budget. Of this unfavourable variance, the majority is attributable to higher costs in Engineering & Public Works (\$716,000) due to increased municipal services connection work and higher fleet operating costs, and Human Resources (\$460,000) due to arbitrations. These are offset in part by favourable variances in Solid Waste (\$246,000) due to less

## 2019 Q3 Operating Variance

green waste tonnage than expected, Sanitary Sewer (\$204,000) due to lower repair costs and Common Services (\$131,000) due to lease cost savings.

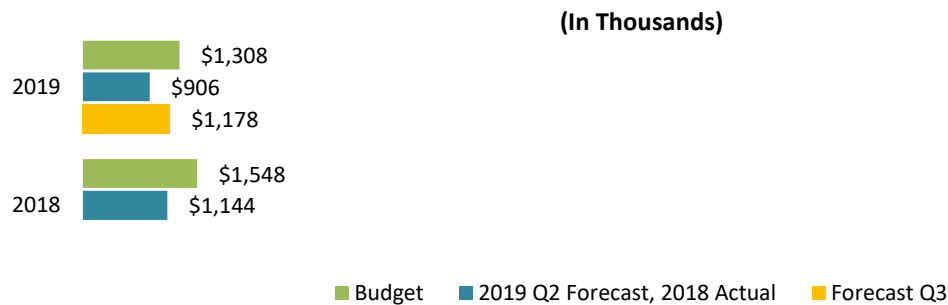
Explanations for any significant variances have been provided in the department summaries below. These summaries also include supporting graphs which show 2019 Q3 forecasts, 2019 Q2 forecasts, and 2018 budget and actuals for comparative purposes.

As this is the Q3 report, there remains a degree of uncertainty in the forecast, especially as it relates to costs that are not directly under the City's control (for example weather-related costs such as snow clearing and water consumption).

	2019 Budget	2019 Annual Forecast	Annual Forecast Variance	Forecast % of Budget	2019 YTD	YTD % of Budget
Common Services	\$1,308,400	1,177,550	130,850	90.00%	795,678	60.81%
Office of the CAO	313,100	330,000	(16,900)	105.40%	255,080	81.47%
Corporate Support	3,895,700	3,889,488	6,212	99.84%	3,181,056	81.66%
Finance	2,178,350	2,200,678	(22,328)	101.02%	1,661,155	76.26%
Human Resources	1,001,400	1,460,906	(459,506)	145.89%	1,266,907	126.51%
Engineering & Public Works	9,747,312	10,463,409	(716,097)	107.35%	8,319,034	85.35%
Recreation	13,342,292	13,253,400	88,892	99.33%	9,960,180	74.65%
Police Services	15,628,635	15,575,883	52,752	99.66%	7,441,451	47.61%
Fire & Emergency Services	12,633,200	12,631,677	1,523	99.99%	9,661,219	76.47%
Development Services	3,392,900	3,351,334	41,566	98.77%	2,575,982	75.92%
Solid Waste Operations	4,139,000	3,893,249	245,751	94.06%	3,034,664	73.32%
Water Operations	9,278,800	9,191,730	87,070	99.06%	6,454,173	69.56%
Sanitary Sewer Operations	7,547,400	7,343,050	204,350	97.29%	6,884,988	91.22%
<b>Total Operating Expenses</b>	<b>\$84,406,489</b>	<b>84,762,354</b>	<b>(355,864)</b>	<b>100.42%</b>	<b>61,491,567</b>	<b>72.85%</b>

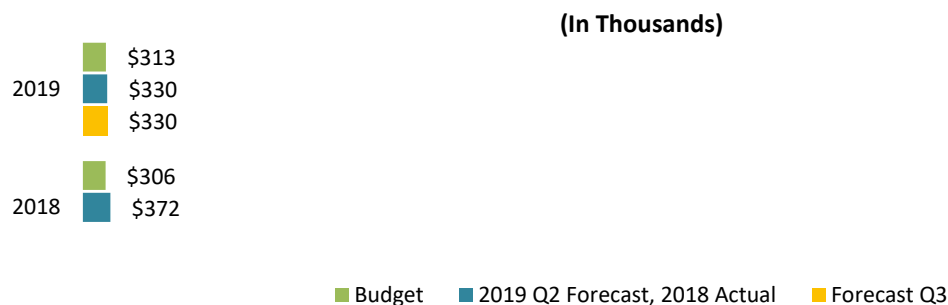
# 2019 Q3 Operating Variance

## Common Services



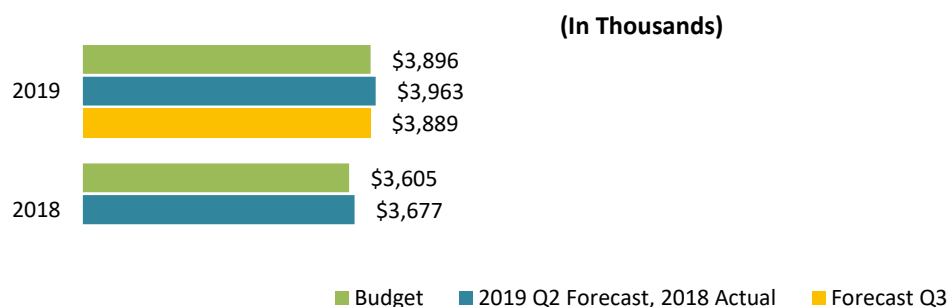
There is a favourable variance of \$130,000 due primarily to lower postage costs (\$27,900) and savings on the photocopier lease (\$90,000). The budget for the photocopier lease will be adjusted for 2020.

## Office of the CAO



No significant variances forecasted.

## Corporate Support



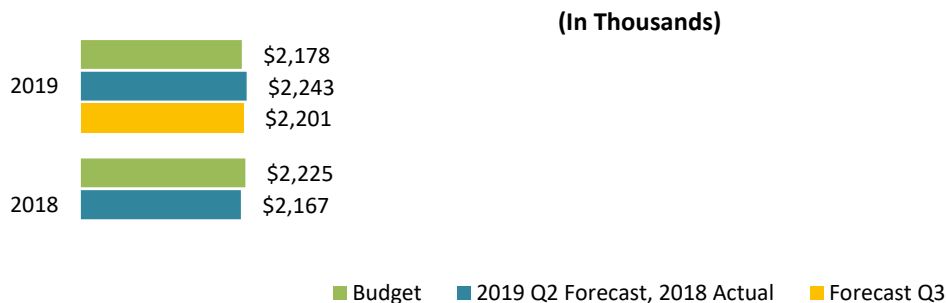


## 2019 Q3 Operating Variance

Minor favourable variance of \$7,000 due primarily to Information and Bylaw Services (vacancies), offset by unfavourable variances for Corporate Office (legal expenses).

Note - A portion (\$17,000) of the city's \$100,000 offset for contracted services has been allocated against the information services budget.

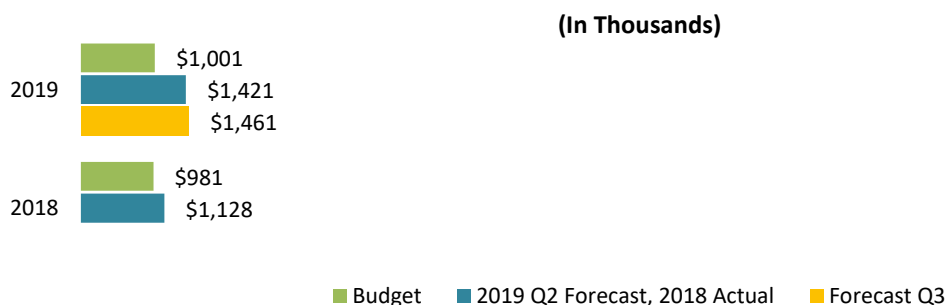
### Finance



No significant variances forecasted.

Note - A portion (\$33,000) of the city's \$100,000 offset for contracted services has been allocated against the Finance budget.

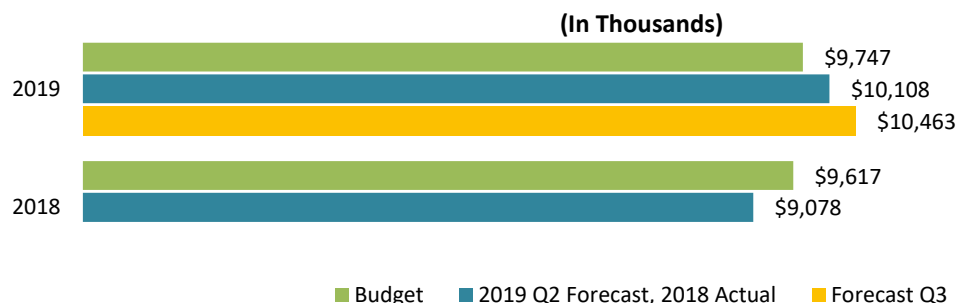
### Human Resources



Unfavourable projected variance of \$460,000 is due to higher than budgeted legal costs (\$558,000) due to arbitrations. Increased costs are partially offset by lower other personnel costs for training and development (\$104,000) as the city wide BCIT and Supervisory skills programs have not been delivered in 2019 due to instructor scheduling challenges and other operational conflicts.

## 2019 Q3 Operating Variance

### Engineering and Public Works



An unfavourable variance of \$716,000 can be broken down in to the following elements:

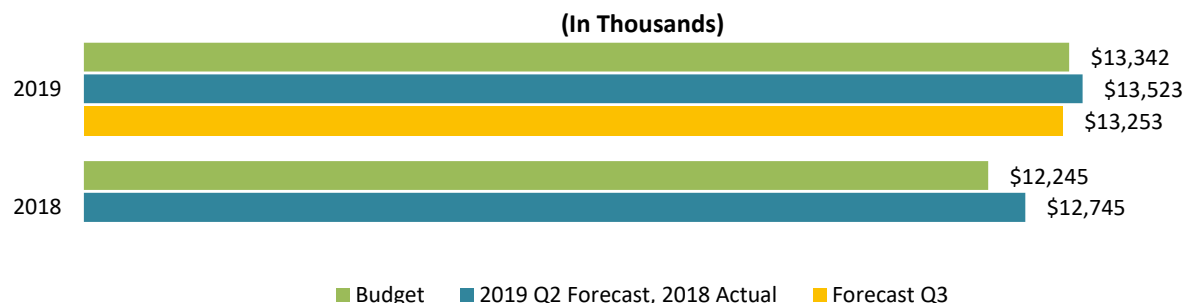
- Increased municipal services connection work (completed in 2019 resulting in an unfavourable variance of \$481,000. These expenses are offset by increased revenues as the work is done on a cost-recovery basis.
- Increased costs of \$212,000 are anticipated for fleet operating costs as a result of life cycle maintenance for four solid waste collection trucks, and repairs to the pump/rescue truck and a backhoe.
- Increased snow removal costs of \$150,000 due to extended weather conditions early in the year. Year-to-year anomalies in the snow and ice budget are managed through a separate operating reserve (and therefore do not directly impact the accumulated surplus).
- Increased vegetation maintenance costs of \$122,000 as a result of a significantly longer growing season. This area will be monitored to determine if the longer season represents an anomaly or a new trend.
- Higher than expected cemetery related costs of \$98,000 resulting from an increased number of internments in the year. These costs are also offset by increased revenues from fees for service.

These unfavourable variances are offset mainly by favourable Drainage Utilities variances of \$314,000 due to fewer than anticipated repair activities as a result of CCTV video monitoring initiated in 2018. Where repairs were required, lack of contractor availability resulted in delays in completing some work.

Note - A portion (\$20,000) of the city's \$100,000 offset for contracted services has been allocated against the Engineering and Public Works budget.

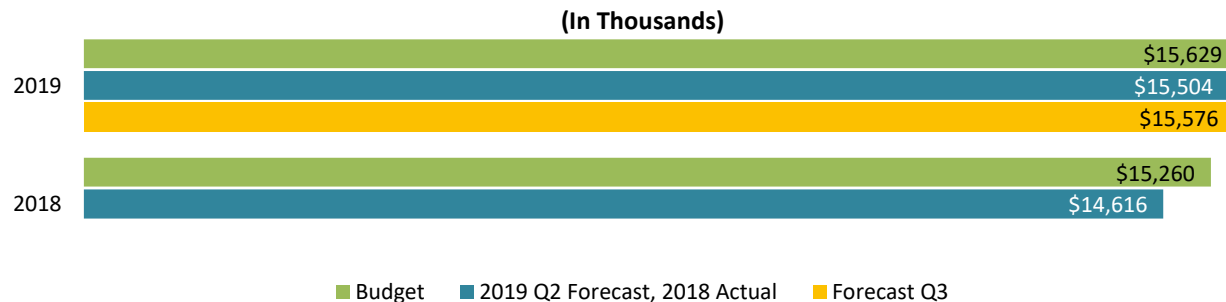
## 2019 Q3 Operating Variance

### Recreation



Minor favourable variance of \$89,000 is driven from the Facilities division forecasting to be under budget by \$210,000 due to staff vacancies and lower than expected utilities costs which is offset by the Arts and Culture division forecasting to be over budget by \$145,000 as a result of special events activities due to increased contractor costs (for example fireworks and traffic management) as well as an increase in the number of supported events. The Recreation division is forecasting a favourable variance of \$22,000 that reflects certain anticipated additional costs for the PCCC opening not being realized due to later than expected opening dates of the fitness and pool areas.

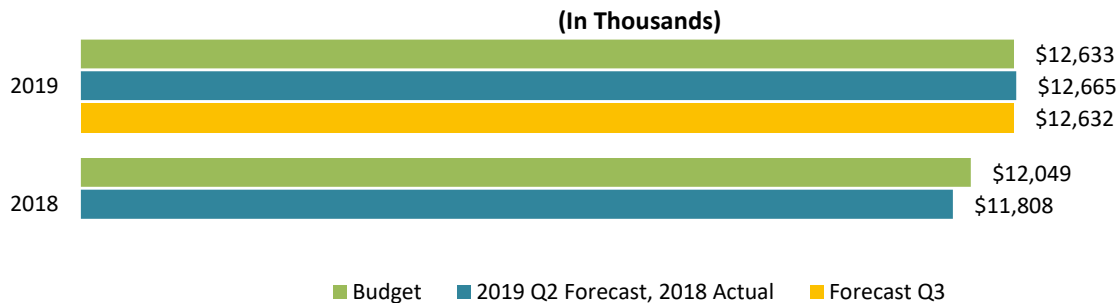
### Police Services



Minor favourable variance of \$53,000 due to vacancies in the public safety building (\$205,000) and RCMP staffing (\$225,000) which are offset by an unfavourable variance (\$377,400) as a result of a difference in the cost share percentage between budgeted (31.22%) and actual (32.07%) due to a higher proportion of police activities occurring in Port Coquitlam than budgeted.

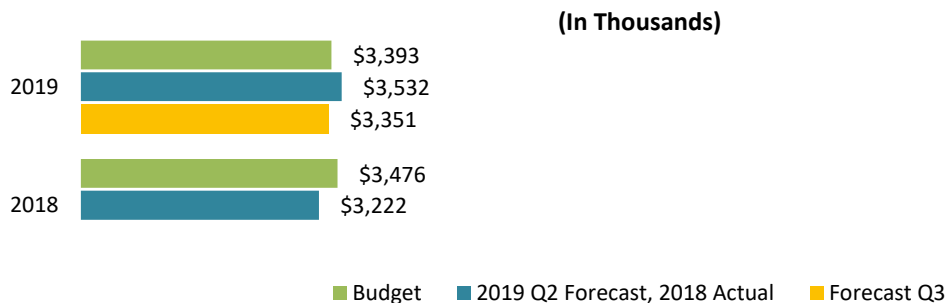
## 2019 Q3 Operating Variance

### Fire & Emergency Services



No significant variances forecasted.

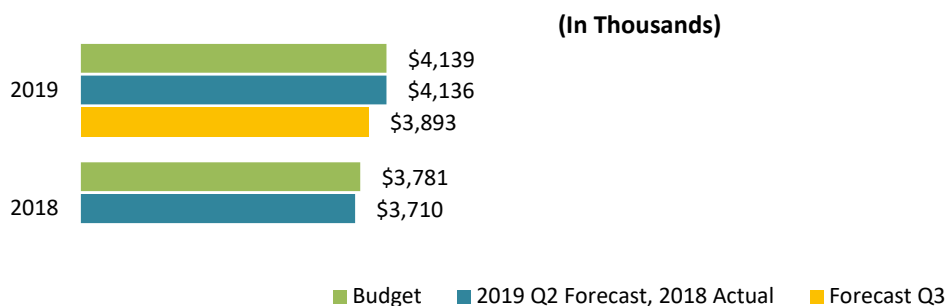
### Development Services



Favourable variance of \$42,000 due to vacancies (Planning and Development Engineering) and less contracted services work required (land surveys) than anticipated in the Development Engineering area.

Note - The City's \$200,000 offset for vacancies and a portion (\$30,000) of the city's \$100,000 offset for contracted services has been allocated against the Development Services budget.

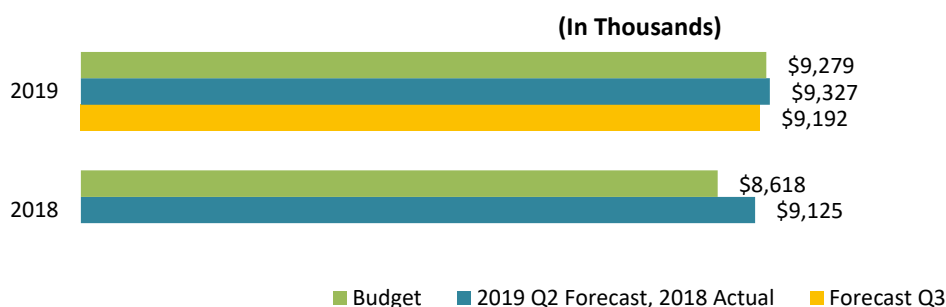
### Solid Waste Operations



## 2019 Q3 Operating Variance

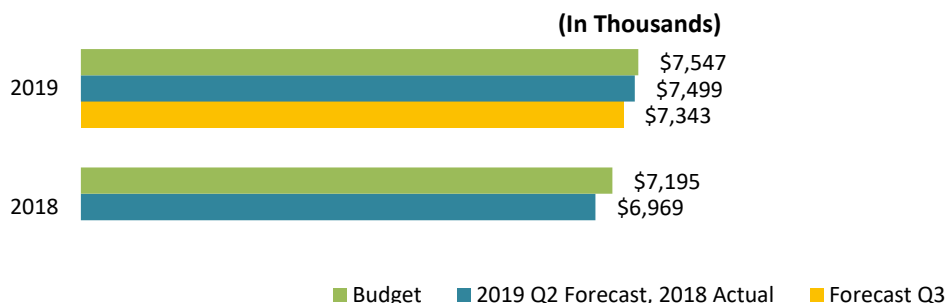
Favourable variance of \$246,000 due to lower than expected green waste tonnage (6,800 tonnes forecasted to be processed vs budget of 7,000 tonnes).

### Water Operations



Minor favourable variance of \$87,000 due to lower than anticipated water general maintenance activities required in the year.

### Sewer Operations



Favourable variance of \$204,000 due mainly to lower sewer main repair costs (\$158,000) and less reactive emergency repairs of the sanitary lift stations than anticipated (\$86,000). This favourable variance is offset by increased sewer connection repairs of \$40,000.

### FINANCIAL IMPLICATIONS

In the past, we have not amended the financial plan simply because we expected larger than budgeted revenues as there is no legislative requirement for revenues not to exceed budget. However, because this year we are expecting to exceed our budgetary approval for expenses, we are recommending the 2019-2023 financial plan be amended. A large portion of the forecasted overage (\$579,000) relates to work where there is a corresponding fee for service, therefore by

## 2019 Q3 Operating Variance


adjusting both revenues and expenditures by this amount, the city will fulfill our legislative requirement to spend within our authorized amount, while maintaining a balanced budget.

As an alternative to amending the financial plan, Committee could direct staff to reduce expenditures for the remainder of the year. Where possible, staff would work to accomplish this reduction through delaying or deferring any non-critical work to 2020, however it may be necessary to reduce service levels in order to stay within the current approved expenditure amount.

Given that the final amount of expenditures is not exactly known, it may be unnecessary to amend the financial plan if costs ultimately remain below the expenditure amount. A second alternative would be to wait until the end of the year and amend the financial plan only if required. The Community Charter allows Council to amend a financial plan at any time, therefore it would be possible to amend the 2019-2023 financial plan in 2020, if required, once final costs are certain.

Of the three options available, staff recommend amending the financial plan. The Q3 forecast, which represents management's best estimate based on the information available, indicated a slight overrun in expenses based on higher than expected fee for service work. Taking a pro-active approach to amend the financial plan allows the City to stay on-side of its legislative requirements while continuing to maintain service levels.

### **OPTIONS** (✓ = Staff Recommendation)

	#	Description
	1	Amend the financial plan
	2	Direct staff to reduce expenditures
	2	Wait until the year is complete and amend the financial plan if necessary

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