The Regional Municipality of York

Committee of the Whole
Finance and Administration
September 19, 2019

Report of the Commissioner of Finance

2019 Operating and Capital Budget Mid-Year Progress Report

1. Recommendations

1. Council approve the gross capital expenditure changes and associated changes in funding sources, as well as changes to 2019 Capital Spending Authority (CSA) and associated funding sources, including a decrease of $6,436,500 in CSA debt, as detailed in Attachments 3 and 4.

2. Council approve the reallocation of excess debenture funding to other capital projects as detailed in Attachment 5 of this report.

2. Summary

This report outlines mid-year financial results and provides an update on progress towards the objectives outlined in the 2019 Budget. Regular performance monitoring helps ensure that York Region's 2019 service mandate of $3.2 billion (operating and capital) will be delivered in a cost efficient and effective manner.

In addition, this report seeks Council's approval of reallocations between capital projects in a program group where there is a change in debt requirements, and approval of additional reallocations and expenditure requests that are beyond the scope of program group authority. Under the Municipal Act, Council approval of any debt for capital projects is required.

3. Background

On February 28, 2019, Council approved the 2019 Budget. This report provides a summary of 2019 budget-to-actual results as at June 30, 2019, and a 2019 year-end forecast for both operating and capital budgets.

A number of factors influenced mid-year results, some of which are common to all departments and others are specific to individual departments. To establish the anticipated spending profile over the year, departments allocate their budgets to the months in which the expenditures and revenues are expected to occur. The mid-year results included in this report are relative to this "calendarized" budget for the first six months of 2019.

4. Analysis

OPERATING MID-YEAR RESULTS

Regional net (tax levy) operating expenditures were 95% of the year-to-date budget at mid-year and are expected to reach 97% at year-end

For the first six months of 2019, net expenditures were $553.9 million or $28.4 million lower than the mid-year budget of $582.3 million. This variance reflects both gross expenditure and revenue variances, which are highlighted in Table 1 below. Mid-year expenditures represented 95% of budgeted expenditures, which was in line with the ratio reported at mid-year for 2018, and slightly below the ratio of 97%, on average, reported over the last four years.

Year-end expenditures are forecasted to be closer to the budgeted amounts as some of the timing and delay challenges reported at mid-year are addressed, and as key pressures are accommodated. On a net basis, year-end operating expenditures are forecasted to be at 97% of the budget, which is slightly below the ratio of 98% reported last year. This would result in a surplus of $35.7 million.

Departments identified potential risks that could affect the projected year-end results. There is less certainty associated with the likelihood and timing of these risks compared to expenditure pressures included in the year-end forecast. Examples include lower than expected transit fare revenues due to ongoing construction on rapidway routes, reduced revenue from the sale of blue box recyclables due to market price and volume changes, increasing frequency and severity of storms, reduction in provincial funding for police due to the re-purposing of legacy grants into the new Community Safety and Policing grant, and potentially higher software licensing, support and maintenance costs due to changes in the timing and forecasted needs of capital projects. Department staff will continue to work with Finance staff to monitor risks to ensure the overall net expenditures are managed within approved levels.

Please refer to Attachment 1 for the Consolidated 2019 Mid-Year Operating Summary.

Table 1

2019 Mid-Year Results - Operating

Department	Mid-Year Budget $ Millions	Mid-Year Variance* $ Millions	Expended % Mid-Year	Expended % Year-End Forecast	Expended % Year-End 2018 Actual
NET EXPENSE VARIANCES					
Transportation Services	175.3	8.2	95%	97%	97%
Environmental Services (excluding Water and Wastewater)	30.4	1.4	95%	100%	100%
Community and Health Services	106.2	12.4	88%	95%	92%
Corporate Services	19.7	4.2	79%	97%	80%
Finance	24.6	3.3	87%	89%	86%
York Region Rapid Transit Corporation	2.2	0.6	71%	100%	86%
YorkNet	0.6	0.1	82%	88%	121%
York Regional Police	166.6	(5.8)	104%	98%	98%
Other**	56.7	4.0	93%	96%	102%
TOTAL (Expenditures less Revenues)	582.3	28.4	95%	97%	97%

* Numbers without brackets indicate an expense that is under-budget; brackets indicate over-budget expenditures

** Other includes contributions to reserves as part of the Fiscal Strategy ($25.1M), External Partners ($22.1M), smaller departments ($4.4M) and corporately budgeted items ($5.1M)

Net expenditures were $28.4 million lower than budget at mid-year

Transportation Services reported lower-than-budgeted spending in transit operation contract costs, salaries and benefits, roads maintenance and administrative expenses. Lower transit operation contract costs resulted mainly from contract rate adjustments and the timing of service implementation. Lower costs in roads maintenance included savings from fewer snow removal operations. Lower spending in computer software and hardware maintenance resulted mainly from savings from the use of in-house resources and timing of new system implementation.

Environmental Services reported lower expenses mainly due to lower residual waste and blue box processing costs (resulting from lower tonnages), delays in the Urban Forestry program contracted services, and lower administrative expenses. Lower revenue was primarily a result of less than expected fee revenue due to lower tonnes at the Community Environmental Centres.

Lower expenditures in Community and Health Services were due to the prioritization of provincial grants as a funding source for childcare service delivery resulting in some tax levy savings. Savings in Housing Services were due to lower than anticipated non-profit housing payments and savings in the Rent Supplement program. Program and hiring delays led to lower than budget net spending in homelessness prevention. The department reported savings from measures to reduce staffing costs and general expenses. These proactive measures were taken in response to recent provincial announcements of cost-share changes that will come in to effect in 2020. This underspending is partially offset by lower than budgeted Community Homelessness Prevention Initiative (CHPI) funding, as the planned 2019 funding increase was delayed by one year, to April 2020.

Corporate Services reported lower-than-expected spending in facilities operations, salaries and benefits, professional contracted services and payments to external partners. Corporate Services is expected to be closer to budget by year end as expenditures planned for the first half of the year are later realized.

Finance reported underspending in salaries and benefits, professional contracted services, telecommunications, and other administrative expenses (e.g. lower travel and training expenses).

York Regional Police reported higher-than-budgeted spending in benefits and overtime, debt principal payments, and lower provincial grant funding. The lower than budget provincial grant revenues were partially offset by services fees and charges collected from third parties. Benefits and debt principal payments are expected to be on budget at year end as the mid-year overage is due to the timing of expenses relative to budget.

Factors contributing to below-budget net spending in other areas included higher ticket revenue due to increased volume of fine payments and increased collection efforts for default fines reported by Court Services, timing of project management fees recovered by York Region Rapid Transit Corporation (which are expected to be resolved by year end), and lower contribution to hospital capital funding as a result of an interest adjustment related to the prior year.

Water and Wastewater expenditures are lower than budget and revenues are higher than budget at mid-year and are anticipated to be on budget by year-end 2019

User rates fund Water and Wastewater expenditures. This service has no tax levy impact. Any operating variances are addressed by contributions to or draws from water and wastewater reserves. Table 2 outlines mid-year results for Water and Wastewater.

Table 2
Mid-Year Results – Water and Wastewater

Water and Wastewater	Budget $ Thousands	Actuals $ Thousands	Variance $ Thousands
Expenditures			
Expenditures*	214,143	207,868	6,275
Contributions to reserves	76,299	85,038	(8,740)
Gross Expenditures	**290,441**	**292,906**	**(2,465)**
Revenues			
Revenues*	(290,441)	(291,998)	1,556
Draws from reserves	-	(909)	909
Total Revenues	**(290,441)**	**(292,906)**	**2,465**
TOTAL (After contributions to reserves)	-	-	-

* Excluding corporate allocations recovered from user rates

Water and wastewater expenditures were $6.3 million lower than budget mainly due to:

- Longer than expected recruitment cycle time for vacant positions
- Lower Duffin Creek Wastewater Treatment Facility costs due to credit received for 2018 year-end reconciliation process (payments are made to Durham based on budget and are trued-up based on actual expenditures in the following year)

Revenue is $1.6 million higher than budget mainly as a result of higher municipal flows revenue.

To address the variances, reserve contributions and draws were higher than budget by $8.7 million and $0.9 million, respectively.

By 2019 year-end, water and wastewater flow revenues and expenditures are expected to be on budget. Any unplanned variances at year end will be offset by contributions to or draws from reserves, as required.

CAPITAL MID-YEAR RESULTS

Significant progress is being made on delivering the 2019 Capital Plan

As of June 30, 2019, gross capital expenditures were $215.4 million, or 80% of the year-to-date capital budget of $270.9 million. Most of the mid-year variance is due to timing issues that are typical in the budget cycle, and are expected to be resolved in the second half of the year. The Regional year-end forecast for gross capital expenditures is $780 million, or 89% of the capital budget. The mid-year expenditures are down from last year's forecast of 85% while the year-end forecast is expected to be similar to last year's at 87%.

On June 27, 2019, Council approved the Mid-Year Capital Reprofiling report. This report reallocated funding from capital projects that were progressing slower than anticipated to those progressing faster than expected or that were rescheduled to proceed more quickly. As part of the report, changes to Capital Spending Authority and/or the current year capital budget for reprofiled projects were approved. Capital reprofiling helps departments maximize delivery of the capital plan.

The budget figures contained in this report reflect reallocations and adjustments approved in the Mid-Year Capital Reprofiling report in June but do not reflect the additional capital reprofiling requests outlined later in this report.

As of June 30, 2019, Regional capital expenditures were under budget by $55.5 million

The underspending of $55.5 million was mainly due to delays in various Transportation projects, Yonge Subway Extension planning and design, Toronto York Spadina Subway Extension project wrap-up and a Marine Headquarters for York Regional Police. Table 3 summarizes year-to-date results by department. Further details of mid-year departmental results and year-end forecasts are provided in Attachment 2.

Table 3

Mid-Year Results - Capital

Department	Mid-Year Budget $ millions	Mid-Year Variance* $ millions	Expended % Mid-Year	Expended % Year-End Forecast	Expended % Year-End 2018 Actual
Transportation Services	75.9	15.3	80%	99%	66%
Environmental Services	61.7	4.1	93%	97%	93%
Community and Health Services	30.5	(0.7)	102%	66%	50%
Information Technology Services	4.7	0.5	90%	50%	58%
Corporate Services	32.7	0.9	97%	92%	74%
Court Services	-	-	-	100%	66%
York Region Rapid Transit Corporation	56.0	32.9	41%	82%	55%
YorkNet	0.6	(0.2)	129%	57%	6%
York Regional Police	8.9	2.6	71%	65%	62%
TOTAL	**$270.9**	**$55.5**	**80%**	**89%**	**69%**

*Numbers without brackets indicate an expense that is under-budget, brackets indicate over-budget expenditures.
Note: numbers may not add due to rounding

Transportation Services and York Region Rapid Transit Corporation account for most of the mid-year variance

Mid-year spending for Transportation Services reflected several projects proceeding faster than anticipated including the road widening on Rutherford Road (Jane Street to Westburne Drive), and an intersection improvement on Bathurst Street and Davis Drive. This was offset by other projects that experienced timing delays compared to the budget, mainly due to inclement spring weather, delays in utility relocations and work not progressing as quickly as expected.

York Region Rapid Transit Corporation’s mid-year underspending was primarily due to delayed development of a Memorandum of Understanding for the Yonge North Subway Extension and slower-than-anticipated receipt of contractor claim invoices for the Toronto York Spadina Subway Extension.

Community and Health Services and YorkNet were also above their budgeted mid-year planned spending.

Departments forecasted year-end expenditures of 89% of the 2019 capital budget compared to the 2018 actual year-end expenditures of 69%

Capital expenditures are forecasted to be $780 million, or 89% of the $878.4 million budget. This is similar to the forecasted year-end expenditures of 87% in 2018. Actual expenditures at 2018 year-end were 69% of the budget. Due to the nature of capital construction, some variance of actual spending relative to budget at mid-year is a normal occurrence.

Transportation Services has forecasted delivery of 99% of its capital plan in 2019. Actual year-end expenditures on construction projects, which form the bulk of the capital plan, may change due to unusual weather conditions, such as higher frequency of storms and early onset of winter and unexpected site conditions.

Environmental Services forecasted year-end underspending of $5.5 million mainly due to a reduced scope on the Yonge Street Aquifer Project with one of two wells being put on hold to evaluate appropriate treatment technologies and a preferred servicing scenario. The underspending is also attributable to schedule changes for the York Durham Sewage System Duffin Creek Digester Mixing Upgrades to accommodate current on-going works at the plant. The estimated cost for the Asset Management Equipment Upgrade for the Waste Management Centre has also been reduced due to completion of a more refined scope of work.

Community and Health Services has forecasted year-end underspending of $32.6 million, or 34% of its capital budget. $21.8 million of the underspending is in Housing Services, due to construction delays on the Unionville Seniors Affordable Housing project resulting from later than expected property acquisition. Paramedic Services accounts for $5.7 million, mainly driven by design and construction delays on paramedic response stations ($4.3 million). Public Health and Seniors Services are forecasting underspending of $2.9 million and $2.1 million respectively, due mostly to project and procurement delays.

IT Services forecasted year-end underspending of $14.4 million, or 50% of the 2019 budget. This is primarily due to delays in a PC and printer refresh, as well as other various corporate and department systems projects.

Corporate Services forecasted year-end underspending of $6.7 million. This is primarily due to costs for exterior building work at 9060 Jane Street that were covered under warranty and the timing of renovation and capital construction projects at Regional facilities.

York Regional Police forecasted underspending of their capital plan by $11.6 million due to delays in construction of the #3 District Marine Headquarters ($2.6 million) and the #1 District Multi-Function Facility ($2.9 million). Land acquisition for a potential West Vaughan substation is also delayed to 2020 because of delays in evaluating and identifying a suitable site.

YorkNet forecasted year-end underspending of $4.1 million due to the timing of federal funding approval for the Connect to Innovate project which has caused the start of construction to be delayed to 2020.

York Region Rapid Transit Corporation forecasted year-end underspending of $20.8 million, or 18% of its capital budget. This is primarily due to Yonge Subway Extension preliminary design and engineering, which is $16.1 million under budget because of a delay in the development of a Memorandum of Understanding. Delayed receipt of contractor claim invoices for the Toronto York Spadina Subway Extension along with cost and timing changes for rapid transit terminals and development opportunities account for the rest of the underspending.

MID-YEAR REPROFILING

Council approval is required to reallocate expenditures, funding or CSA outside of a program group, leading to a $6.4 million decrease in 2019 CSA debt

Attachment 3 provides details on the proposed reallocations, where expenditures, funding or CSA is being reallocated outside of a program group. Both the expenditure requests (including changes to Capital Spending Authority) and associated changes in funding sources require Council approval as they fall outside of the authority provided under the budget approval.

One new project is included on Attachment 3. Metrolinx has notified York Region of its intent to dispose of the existing bus terminal in Newmarket, at Davis Drive West and Eagle Street. Transportation Services has budgeted $14 million to purchase the terminal to ensure business continuity.

The reallocations in Attachment 3 result in no change to 2019 expenditures and 2019 Capital Spending Authority (CSA), and a decrease of $6.4 million in 2019 CSA debt.

Council approval is required to increase 2019 Capital Spending Authority by $6.5 million

In select cases, an increase to the budget or Capital Spending Authority (CSA) may be requested where no offset is available from the capital budget. These requests, outlined in Attachment 4, are considered on an individual basis. They are reviewed in relation to the Region's fiscal strategy, particularly the impact on debt and reserve levels.

Transportation Services is requesting $3.7 million in additional 2019 CSA for Road Asset and Renewal and Replacement. The additional CSA is needed to cover projects identified in the program and due to costs being higher than originally anticipated.

YorkNet is requesting $2.8 million in additional 2019 CSA for Fibre Network Delivery in order to proceed with the release of a Design-Build tender for a significant project in Markham. The project will be tendered in 2019 and requires CSA approval for the full design and construction for the project, although much of the construction will happen in 2020. The project will connect Regional and Town of Markham facilities and will result in revenue generating opportunities. This change affects CSA only and does not change the total project budget.

REALLOCATION OF EXCESS DEBENTURE FUNDING

Excess debenture funding will be used to reduce the need to debt finance three other capital projects

Excess debenture funding of $22.4 million has been identified for five capital projects. These projects were either deferred or had scope changes subsequent to acquiring the debenture financing.

The *Municipal Act, 2001* states that debenture proceeds that are no longer required can be applied to fund the capital expenditure of other projects, as long as the repayment will be raised from the same class of ratepayers.

It is recommended the surplus funds available from the debenture proceeds of the five projects be reallocated as outlined in Attachment 5. In each case, the funding for the new capital project is the same as the project with the surplus debenture proceeds. If approved, the debt authority for the new project will be reduced by the amount of surplus proceeds attributed to it.

5. Financial

As of June 30, 2019, total net expenditures for Regional operations were $553.9 million, or 95% of the year-to-date budget. Departmental year-end projections indicate that total net expenditures will be $1,102.3 million or 97% of budget.

As of June 30, 2019, gross capital expenditures were $215.4 million, or 80% of the year-to-date capital budget. The departmental year-end forecast for gross capital expenditures is $780 million, or 89% of the 2019 capital budget of $878.4 million.

Reprofiling and reallocation of the 2019 capital budget as outlined in Attachments 3 and 4 will not result in a change of 2019 budgeted capital expenditures but will result in a net decrease of $6.437 million in 2019 CSA debt. The changes outlined in Attachment 4 will result in 2019 CSA increasing by $6.485 million.

Surplus funds of $22.4 million available from debenture proceeds of projects will be reallocated as outlined in Attachment 5.

Department staff will continue to work with Finance staff to monitor expenditures and risks to ensure that overall expenditures are managed within approved levels.

6. Local Impact

There is no direct local municipal impact associated with this report. The Region's budget funds essential services and capital infrastructure for residents and businesses in all local municipalities in the Region.

7. Conclusion

The Region is on track to deliver on the commitments outlined in the 2019 Budget. Many of the variances reported at mid-year are due to timing issues that are typical in the budget cycle, and are expected to be addressed in the second half of the year. Year-end expenditures are forecasted to be within the budgeted amounts. Summaries of the operating and capital financial results have been appended to this report.

Reallocations between capital projects are an established practice. As the budget year progresses, the intent is to reallocate funding from projects that are progressing more slowly than anticipated or where cost savings have been realized to projects that are progressing faster than planned or experiencing cost pressures, thereby maximizing the delivery of the capital plan. The reprofiling projects have been appended to this report.

For more information on this report, please contact Kelly Strueby, Director, Office of the Budget at 1-877-464-9675 ext. 71611. Accessible formats or communication supports are available upon request.

Recommended by: **Laura Mirabella, FCPA, FCA**
Commissioner of Finance and Regional Treasurer

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Chief Administrative Officer

September 4, 2019
Attachments (5)
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