



COUNCIL INFORMATION ITEM

MEETING DATE: November 16, 2020

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REPORT TITLE: Third Quarter Financial Variance Report

EXECUTIVE SUMMARY

It is imperative that Administration keeps Council informed throughout the year of the financial health of the City of Leduc ("City"). This report outlines the third quarter operational variance report for the City of Leduc for the period January 1, 2020 to September 30, 2020. As of September 30, 2020, the majority of revenue streams are between 36% and 76% of budget and overall revenue is at 71% of budget. Expenditures are between 39% and 80% of budget with overall expenditures at 70% of budget. As a result, it is anticipated that both revenues and expenditures will be below budget at year-end.

BACKGROUND

OPERATIONAL REPORTING

The attached report outlines operational revenues collected and operational expenses incurred up to the end of September 2020 in contrast to the 2020 operational budget allocations and the previous year's actual operational revenues and expenses for the same time period. Reports for individual Councillor's expenditures are also attached.

At this time, expectations are that revenue and expenses would be at approximately 75% by the end of September, representing three quarters of the fiscal year. However, certain factors can affect this, such as seasonality or timing. In 2020, COVID-19 and economic conditions have had a significant impact on City operations resulting in decreased revenue and decreased expenditures across the organization. Some of the areas that differ materially from budget either by dollar value or percentage will be discussed further below.

On May 25, 2020, Council approved the use of \$790K from the Mill Rate Stabilization Fund to offset lost revenue due to COVID-19. Indications for the remainder of 2020 show that the City may not require the usage of the Mill Rate Stabilization Funds. Some of the areas where the variances differ materially are as follows:

Revenue

Enforcement Services

At this time Enforcement Services Revenue is at 36% of budget. To date the enforcement contributions have been lower than anticipated due to the discontinuation of the Intersection Safety Device program and not issuing enforcement fines from mid-March to June as a result COVID-19 impacts. Early projections are indicating this will be at about 50% of budget at year-end.

Interest & Penalties

Interest and penalties are at 220% of budget to date. This is mainly attributable to interest on investments being at 272% of budget. In early January and again in August, bonds were redeemed and reinvested to take advantage of favorable market rates upon guidance from the City's investment advisors. In addition, timing continues to be a contributor as the City's investment portfolio is reconciled as part of the year-end process. It's important to highlight that interest revenue

earned in excess of \$175K is transferred to reserves at year-end and therefore will not contribute to the City's annual surplus/deficit.

Other Income

Overall other income is at 5% of budget. Off-site levy revenue is the largest component which is at 0% of budget. It is anticipated that \$219K in off-site levy revenue will be collected by year-end compared to a budget of \$3.0 million. Of this projected amount, \$219K is associated with levies collected on existing subdivisions meaning the growth has already been captured. An additional note of consideration is that the revenue collected and projected for 2020 is all residential in nature and at this time there is no indication that there will be non-residential offsite activity.

Rent Revenue

Overall rent revenue is at 41% of budget. This is largely due to the Leduc Recreation Centre ("LRC"), the Alexandra Arena and the Maclab Theatre closing in March due to the COVID-19 pandemic. This revenue stream is projected to be at 61% of budget at year end.

Sale of Services

Revenue from sale of services is at 55% of budget. This is also largely due to the impacts of the COVID-19 pandemic. Transit was free from late March to the end of June. The LRC and the Maclab Theatre were closed in mid-March. Maclab continues to be closed and the LRC reopened in July at a reduced capacity. The opening of the Alexandra Pool was also delayed until July and opened at a reduced capacity.

Expenses

Salaries, Wages and Benefits

Overall, salaries, wages and benefits are at 72% of budget. This is due largely to hiring freeze and temporary layoffs at the LRC due to COVID-19.

Contract Services

Contract services is at 66% of budget. This is due to timing, seasonality, economic conditions and the impact of COVID-19 in 2020. Finance is at 69% because audit fees are not booked until year end. Information technology is at 38% of budget due to project delays. Communications and Marketing will realize a savings of \$130K due to cancellation and deferral of projects. Economic development is at 55% of budget and is largely impacted by economic conditions and COVID-19. Enforcement services is at 16% of budget due to an estimated savings of \$137K from the elimination of the intersection safety device program. Engineering is at 40% of budget due to an expected reduction in the Council-generated request for work on the offsite levy model due to the economic situation. Transit is anticipated to be at approximately 67% of budget by year end due to COVID related service reductions. Overall, contract services for the LRC is at 19% of budget due to COVID. The facility closed to the public in March and reopened in July at reduced capacity.

General Services

General services is at 67% of budget. Insurance premiums are lower than anticipated and is expected to be at approximately 88% of budget at year end.

Materials and Supplies

Materials and supplies is at 62% of budget. This is due to timing of expenditures, seasonality and in 2020 it is impacted by COVID-19. Expenditures in some areas increased due to the purchase of additional personal protective equipment (PPE) to protect employees and patrons against the virus. However, as a result of City facilities being closed to the public, events being cancelled and the majority of office staff working from home, most areas experienced a decline in materials and supplies purchases. Some of the areas that deviate away from the expected 75% include administration/records at 44% of budget due to lower postage cost. Communications and marketing is at 24% of budget due to lower advertising and promotional costs. There were \$183K of unbudgeted materials and supplies purchased across all departments which are directly related to COVID-19. Equipment repairs is at 54% of budget and transit is at 44% of budget due largely to a decrease in fuel purchases as a result of reduced services. Community services administration is at 9% of budget due to many special projects such as Canada Day celebrations, Rock the Rails and the Sports Hall of Fame Gala being cancelled due to COVID-19. LRC materials and supplies are below budget at 46% due to the facility closing in March and reopening in July at a reduced capacity. Although, seasonality and timing affect these variances, many third quarter variances are a result of the impacts of COVID-19 on City operations. Overall, materials and supplies is anticipated to be below budget at year-end.

Repairs and Maintenance

Repairs and maintenance is at 69% of budget. Overall most departments are under budget but it is important to highlight a couple of areas that are over budget. Enterprise technology services is at 83% of budget due to maintenance contracts being renewed earlier in the year. Equipment repairs is at 115% of budget due to several unexpected major repairs and a large parts purchase to mitigate scarcity concerns. Transportation services is at 39% of budget and is anticipated to be below budget at year end due to reduced service as a result of COVID. The LRC is at 65% of budget due to COVID related impacts.

Training and Development

Training and development is at 39% of budget due to the cancellation of some internal and all external training opportunities as a result of the COVID-19 pandemic. This expense stream will be below budget at year end.

Utilities Expense

Utilities expense is at 66% of budget to date and includes all utilities expense for City facilities and parks. This is lower largely due to the temporary closure of City facilities to the public for several months and the majority of office staff working from home for the entirety of the second quarter and continuing to work from home on rotational schedules in quarter three.

Municipal Operating Support Transfer (MOST)

In late September, the Alberta Government announced the Municipal Operating Support Transfer (MOST). Through the MOST, the Government of Alberta (GOA) and the Government of Canada are providing funding to support municipalities, which have experienced significant operating impacts due to the COVID-19 pandemic. Funding will be used to offset incremental operating costs incurred due to COVID-19 response and restart, as well as other operating losses or deficits incurred as a result of COVID-19 impacts on revenues and operations. This funding is provided through two separate allocations: general operating, and public transit support.

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The MOST funding is a one-time allocation that will help the City recover some of the incremental general operating and transit expenses incurred for PPE's, additional cleaning of facilities and busses, communications to the public and additional grants to provide supports to vulnerable populations. It will also help the City offset decreases in revenue from sale of services and rent revenue due to free public transit, facility closures and reopening of facilities at reduced capacity.

At this time, it is too soon to estimate the overall financial impact of COVID-19 on City operations. However, Administration is certain that the full allotment of MOST funding available to the City, including approximately \$3.3 million for operating and \$86K for Transit, will be utilized.

Operational Closing Remarks

Administration has worked closely with Council since March, 2020 to understand, continually monitor and mitigate the financial impacts of COVID-19 on the City's budget. As a result, it is anticipated that revenues and expenditures will be below budget at year-end.

CAPITAL REPORTING

The total capital expenditures at the end of September 30, 2020 represent 37% of the 2020 capital budget. Current forecasts are suggesting that by year end 62% of the City's capital plan will be completed. The offsite levies portion of the capital plan is \$5.9M and is expected to be at 56% completion at year end.

The RCMP Expansion project has a large effect on this percentage as it is a multi-year project in the early stages of construction and represents 26% of the City's capital plan. As of September, the RCMP Expansion project is 44% complete.

It is important to recognize that there are currently numerous outstanding projects as the construction season extends well into October and often into November. Weather conditions for the remainder of the year may impact a number of projects that are forecasted to be completed this year as it may slow the progress of some projects. It is common for the majority of project-related invoices to be received during the fourth quarter.

It is forecasted that there will be an overall capital cost savings of approximately \$3.9 million, which is 5% of the total budget. The West Campus capital program has a savings of \$1.7M which represents a large portion of the overall cost savings. This is due to the tender coming in lower than expected and will result in the City borrowing less than required. These savings also take into consideration capital projects that were cancelled, no longer required, or experienced lower prices than budgeted, resulting in realized savings. The savings are funded through:

- City reserves (\$1.0M)
- Grant sources (\$1.1M)
- Debenture (\$1.0M)
- Offsite levies (\$570K)

It is imperative to understand that the capital program includes multi-year projects and that these projects are approved in their entirety in year one, which results in the need to carry these funds forward for the term of the project. These multi-year projects are affected by timing and cannot be completed within our fiscal year (January 1 to December 31).

Provided below are some projects that are expected to span several years.

- RCMP Expansion
- Protective Services Capital Program

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- Collector Reconstruction
- Golf Course Facility

As part of the projected to year end review, Administration has identified projects that did not start as of September 30, 2020. This encompasses circumstances such as delays due to COVID-19, currently in the design phase before other portions of the capital program can begin, the need to have a commitment of funding from other sources prior to the City commencing, or agreements needing to be finalized. Below are some projects that have not been started at the end of September:

- 65th Avenue West Capital Program (\$1.4M)
- Leduc Village Storm Water Management (\$306K)
- Outdoor Rinks (\$210K)

Several large projects have been re-budgeted as part of a project, scope, and cost refinement process. Also, delays were experienced due to COVID-19 (which may be an ongoing issue into 2021). As a result, \$23M in projects were deferred and re-budgeted in later years. Examples of these projects include:

- Collector Reconstruction Project (\$2.3M)
- Protective Services Building Capital Renewal (\$1.7M)
- Cemetery Development (\$1.6M)

A summary of the capital program is attached.

COUNCIL EXPENSES BY COUNCILLOR

At Council's direction, council expense reports for the mayor and each council member have been attached to this report. This is intended to create enhanced transparency for council expenditures. It is important to note that council variances are favorable for both training and meeting expenses due to the cancellation of training opportunities and reduced face-to-face meetings as a result of COVID-19.

ATTACHMENTS

1. City of Leduc Operating Variance Report from January 1, 2020 to September 30, 2020.
2. City of Leduc Capital Project Report from January 1, 2020 to September 30, 2020.
3. City of Leduc Council Expenses by Council Member from January 1, 2020