

# DECISION/DIRECTION NOTE

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**Title:** Report on Revenue and Expenditure for Fiscal 2019

**Date Prepared:** August 24, 2020

**Report To:** His Worship, The Mayor, & Members of Council

**Councillor and Role:** Dave Lane, Finance and Administration

**Ward:** N/A

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## **Decision/Direction Required:**

Adoption of the Executive Summary Report on Revenues and Expenditures for the year ended December 31, 2019.

## **Discussion – Background and Current Status:**

The City of St. John's 2019 Executive Summary Report on Revenue and Expenditure is presented and discussed herein. It is important to distinguish between the Executive Summary Report presented in this note and the 2019 Audited Financial Statements that were approved by Council on August 17th, 2020. The Audited Financial Statements are prepared using Accrual based accounting, whereas the Executive Summary report, while still based on audited information, is presented using Cash based accounting. The City's budget is also prepared using cash-based accounting meaning the financial results presented herein allow the City to be held accountable against its planned operating budget as approved by Council each year. This enforces the City's commitment to openness and transparency.

It is also worth noting, the budget presented in the Executive Summary Report is the City's adjusted budget. The adjusted budget is based on the original approved budget, adjusted to reflect transfers and changes that occur throughout the year for items not known at the time the budget is approved. They are reflective of "one-off" transactions, net to zero, and do not result in a permanent increase to the City's budget. These adjustments are made to prevent skewed expenditure or revenue variances that could result for example if a program budget were to incur expenses that are funded from an external source (i.e. a Federal or Provincial grant, or a reserve). A summary of adjustments that occurred during 2019 is presented in the table below.

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# ST. JOHN'S

|                                                                                  | Revenue            | Expenditure        | Net      |
|----------------------------------------------------------------------------------|--------------------|--------------------|----------|
| <b>2019 Approved Budget - As Approved by Council on December 10, 2018</b>        | <b>304,677,022</b> | <b>304,677,022</b> | <b>-</b> |
| <b>Budget Adjustments:</b>                                                       |                    |                    |          |
| Transfer from prior years' surplus to reduce pension debt                        | 4,488,660          | 4,488,660          | -        |
| Transfer from Reserve from Fire Trucks - SJRFD Fleet Replacement Program         | 1,604,585          | 1,604,585          | -        |
| Federal Homelessness Partnership Program funding and expenditures                | 1,520,156          | 1,520,156          | -        |
| Accommodation tax transfers                                                      | 606,483            | 606,483            | -        |
| Transfer from Winter Salt Reserve for the purchase of 2 Sanders                  | 583,651            | 583,651            | -        |
| Transfers from Water and Wastewater System Equipment Replacement Reserves        | 757,241            | 757,241            | -        |
| Transfers from Robin Hood Bay Regional Landfill Equipment Replacement Reserves   | 199,750            | 199,750            | -        |
| Victoria Park Foundation capital grants and expenditures                         | 82,965             | 82,965             | -        |
| GIC investment interest earned on reserves                                       | 75,474             | 75,474             | -        |
| Transfer from Parks & Open Spaces Reserve for Veterans Square reconfiguration    | 60,000             | 60,000             | -        |
| Transfer from Churchill Square Improvement Fund for street furniture & amenities | 30,000             | 30,000             | -        |
| Other miscellaneous transfers and departmental adjustments                       | 148,312            | 148,312            | -        |
| <b>Subtotal - Budget Adjustments</b>                                             | <b>10,157,276</b>  | <b>10,157,276</b>  | <b>-</b> |
| <b>2019 - Adjusted Budget - As at December 31, 2019</b>                          | <b>314,834,298</b> | <b>314,834,298</b> | <b>-</b> |

The report for 2019 shows a cash surplus of \$13,929,231, which equates to 4.6% of the City's total gross adjusted budget of \$314,834,298. The surplus is primarily the result of expenditure savings that occurred within several departments during the year, as well as delaying a bond issue that was planned in 2019, into the 2020 fiscal year. The major revenue and expenditure variances are summarized below.

### **Revenue Variances**

Overall, revenues were less than budgeted by \$565K (0.2%) of the gross adjusted revenue budget of \$314,834,298.

Within the revenue category, notable variances included;

1. **Residential Realty:** Favourable variance of \$2.73M (3.0%). With 2019 being the first year of a new assessment roll an allowance for revenue loss was provided based on assessment appeals. This loss was lower than anticipated which contributed favourably to the City's revenue.
2. **Commercial Realty:** Favourable variance of \$2.31M (3.3%) due to lower than anticipated assessment appeals as mentioned above, lower than estimated vacancy allowance claims, and growth in the assessment roll.
3. **Transportation:** Unfavourable variance of \$1.36M (60.1%) as less revenue was collected due to challenges with the City's parking meters. As a result, the City collected less revenue from parking meter receipts and sales of parking permits and parking meter smart cards.

4. **Tipping fees:** Unfavourable variance of \$1.13M (8.2%) due to lower than expected volumes at the Robin Hood Bay waste facility.
5. **Construction permits:** Unfavourable variance of \$324K (8.8%) due to less than budgeted revenue from building & repair permits.
6. **Fines:** Unfavourable variance of \$459K (23.4%) resulting from fewer parking violations than normal due to broken and vandalized meters.
7. **Rents & Concessions:** Unfavourable variance of \$699K (18.7%) due to less than anticipated Non-Profit Housing rental income.
8. **Investment Interest:** Favourable variance of \$1.00M (252.4%) due to higher than anticipated interest earned on City bank accounts, and GIC investments as the City had excess cash on hand for a period of time early in 2019.
9. **Interest on tax arrears:** Favourable variance of \$224K (12.5%) as interest earned on tax arrears was higher than anticipated.
10. **Other Grants:** Favourable variance of \$558K (29.7%) due miscellaneous capital grants and capital contributions from developers.
11. **Recovery Debt Charges:** Unfavourable variance of \$1.62M (6.5%) due to a bond issue anticipated for 2019 not occurring. Revenues that would have been billed to external parties for their share of the debt charges did not occur.

For further detail regarding 2019 revenue variances, including a breakdown by revenue category, please see the Revenue section of the attached 2019 Executive Summary Report.

### **Expenditure Variances**

For 2019, actual expenditures were less than budgeted by \$14.5M or 4.6% of the gross adjusted expenditure budget of \$314,834,298. By expenditure category, notable variances included;

1. **General Government:** Favourable variance of \$1.78M (4.4%) due primarily to salary savings resulting from several temporarily vacant positions as well as favourable variances in various materials and supplies and contractual services budgets in various programs including Information Services, Legal Services, Corporate Communications, and Organizational Development.

2. **Protective Services:** Unfavourable variance of \$496K (1.4%) due primarily to labor and overtime, and a one-time payment against pension debt (\$897K). These overages were mitigated partially by savings in Traffic (\$504K) which were primarily due to less tickets being issued and hence less ticket processing costs.
3. **Transportation Services:** Favourable variance of \$400K (0.7%) due primarily to savings in maintenance of Parking Meters (\$228K), and electricity costs for Street Lighting (\$290K).
4. **Environmental Health Services:** Favourable variance of \$5.25M (7.0%). Drinking water treatment reported a \$3.98M (9.2%) favourable variance due to lower than anticipated expenditure under contractual services, chemical use, electricity consumption, as well as debt service charges related to a budgeted bond issue that did not occur in 2019. Waste-water treatment reported a favourable variance of \$188K (2.2%) due to favourable variances in light & power, repairs to electrical, engineering consultants, and various chemicals. Sanitary services reported a favourable variance of \$1.08M (4.7%) due primarily to not requiring the use of pit run fill at the Robin Hood Bay facility in 2019.
5. **Environmental Development Services:** Favourable variance of \$909K (5.5%). Planning reported a favourable variance of \$161K (25.8%) due to less than anticipated expenditures under planning consultants, and heritage grants. Community Development reported an unfavourable variance of \$114K (25.4%) due primarily to greater than anticipated expenditure under Claims. Tourism Marketing Levy Expenditures reported a favourable variance of \$186KK (3.9%) due to debt service charges related to the planned bond issue that did not occur in 2019. Non-Profit Housing Units reported a favourable variance of \$373K (6.9%) due primarily to savings in unit turnover expenditures. Tourism Development reported a favourable variance of \$156K (11.5%) resulting from favourable variances in personnel services (\$23K), professional & special services (\$52K), rental of property (\$28K) and grants to other groups (\$18K).
6. **Parks, Recreation & Cultural Services:** Favourable variance of \$1.20M (4.7%). Parks reported a favourable variance of \$506K due to lower than anticipated expenditures on contractual services related to maintenance of municipal parks, sports facilities, and pools and community centers. Recreation reported a favourable variance of \$538K due primarily to favourable salaries and benefits variances under Children, Family & Youth programs, Aquatics & Fitness programs, as well as various community center operating and administrative programs. Cultural Services reported

a favourable variance of \$159K (2.7%) due primarily to savings under Railway Coastal Museum Operations (116K).

7. **Fiscal Services:** Favourable variance of \$3.88M (10.1%) due to a planned 2019 bond issue that is occurring in 2020. The bond issue is required to fund the City's previously completed cost shared capital projects however as the City had enough cash on hand throughout 2019 the borrowing was deferred to 2020.
8. **Transfers to Reserves & Other Funds:** \$406K (1.8%) favourable due primarily fewer written-off uncollectible accounts in 2019.
9. **Payroll Costs:** Favourable variance of \$672K (11.4%) resulting from less than budgeted expenditures related to employer share of CPP, EI, workers compensation, group insurance and pension costs.
10. **Fleet – Mechanical:** Favourable variance of \$478K (25.2%) due primarily to savings in gasoline and diesel fuel.

Further detail regarding 2019 variances, including a breakdown by functional area and program, can be found in the Expenditure section of the attached 2019 Executive Summary Report.

### Summary

The net result of the above, as mentioned, is a cash surplus for 2019 of \$13,929,231, which equates to 4.6% of the City's gross adjusted budget. Cumulatively, the City's unallocated surplus is \$22,187,859.

### Key Considerations/Implications:

#### 1. Budget/Financial Implications:

Information from the 2019 review of revenue and expenditures informs budget development in future years. Where significant variances exist, they are investigated and discussed with the relevant departments, and where necessary, budgets are adjusted in subsequent years.

#### 2. Partners or Other Stakeholders:

All residents and business living and operating within the City of St. John's, as well as neighboring municipalities availing of regional water, waste water, fire protection, and waste management services.

3. Alignment with Strategic Directions/Adopted Plans:

A Sustainable City - Be financially responsible and accountable.

An Effective City - Ensure accountability and good governance through transparent and open decision making.

4. Legal or Policy Implications:

5. Privacy Implications:

6. Engagement and Communications Considerations:

7. Human Resource Implications:

8. Procurement Implications:

9. Information Technology Implications:

10. Other Implications:

**Recommendation:**

1. The 2019 Executive Summary Report on Revenues and Expenditures be adopted by Council.

2. The accumulated surplus be maintained in reserve as the financial impacts of Covid-19 are still being assessed and it is likely some of this money will be needed to mitigate the impact on the City's finances in 2020.

**Prepared by: Kris Connors – Manager, Budget & Treasury**

**Approved by: Derek Coffey – Deputy City Manager, Finance & Administration**

**Report Approval Details**

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|----------------------|----------------------------------------------------------------|
| Document Title:      | Report on Revenue and Expenditure for Fiscal 2019.docx         |
| Attachments:         | - 2019 Executive Summary Report on Revenue and Expenditure.pdf |
| Final Approval Date: | Aug 25, 2020                                                   |

This report and all of its attachments were approved and signed as outlined below:

**Derek Coffey - Aug 25, 2020 - 11:02 AM**