



2023 Q3 Forecast Report

Date	November 30, 2023
To	Audit and Finance Committee
From	Financial Strategy & Sustainability
Service Area	Financial Services
Item No.	AFC23-11

RECOMMENDATION

The Audit and Finance Committee recommends that City Council receive and file this report at its December 6, 2023 meeting.

ISSUE

The Third Quarter 2023 General Operating Fund forecast projects a year-end deficit of \$1.6 million, which reflects an increase over the prior mid-year projected deficit of \$237,000. The forecasted deficit of \$1.6 million on budgeted revenues and expenses of \$539.7 million represents a variance of 0.29 per cent.

Key factors continuing to contribute to this deficit include increased expenses for winter road maintenance, increased fuel costs, and various unbudgeted expenses like the emergency shelter. These increased costs are partially offset by salary lag and increased investment revenues. The key changes from the Mid-Year forecast includes recognizing in the forecast the requirement for the City to pay back an overpayment in the municipal surcharge funding received from SaskPower not previously included in the mid-year deficit. This is partially offset by a further increase in forecasted investment income tied to higher interest rates.

It is important to understand that additional unforeseen events may occur that can impact and change this forecast as we continue through the fourth quarter of the fiscal year. The City is legislatively required to balance its budget, and therefore the forecasted operating deficit needs to be addressed. It is

recommended that an approach of accessing funds from the General Fund Reserve be considered to address the current forecasted deficit in the General Operating Fund.

The Third Quarter 2023 Utility Operating Fund forecast projects a year end surplus of \$3.2 million which represents a variance of 1.9% from budget. The surplus reflects the increased water sales and salary lag to date. There has been a minimal change from the mid-year forecast of \$3.6 million.

The Third Quarter 2023 Capital Plan forecast indicates \$167.4 million of General Capital and \$101.3 million of Utility Capital work will be completed in this fiscal period. This reflects a decrease over the Mid-Year forecast of \$29 million and \$18 million respectively. There is an anticipated \$363.0 million carry forward for future years capital work. The key changes from mid-year are reduced forecast expenditures largely related to project delays.

IMPACTS

Financial Impact

The General Fund Reserve is a stabilization reserve used by the City primarily to smooth the financial impact of revenue fluctuation or cost increases, or to fund one-time unanticipated operating requirements. The current uncommitted balance in the reserve is \$23.4 million compared to the guideline minimum limit of \$23 million. Using \$1.6 million of the reserve to cover the 2023 general operating deficit will leave the uncommitted reserve balance at \$21.8 million, just below the guideline minimum limit of \$23 million.

Administration will continue to monitor the General Fund Reserve balance over the next year, including the impact on the reserve once year-end actual results are known, and bring forward for Council's consideration plans to rebuild the balance of the reserve over time should such action be required as part of Administration's Annual Reserve Report and/or the 2025 budget.

The Third Quarter 2023 Utility Operating Fund forecasts a year-end surplus of \$3.2 million. The surplus reflects the increased water sales and salary lag to date. There has been minimal change from the Mid-Year Forecast. The Utility Operating Fund surplus that is currently forecasted will be transferred to the Utility Reserve at fiscal year-end increasing the reserve balance by the forecasted \$3.2 million.

Many of the Capital projects are multi-year and have experienced delays and timing differences between budget and actual expenditures. As a result, there is an anticipated \$363.0 million carry forward for future years capital work which has increased from the Mid-Year Forecast due to an overall decrease in 2023 capital spend of \$47.0 million from the Mid-Year Forecast.

Policy/Strategic Impact

The City is legislatively required to balance its budget, and therefore the forecasted operating deficit needs to be addressed.

Labour Impact

None with respect to this report.

Environmental Impact

None with respect to this report.

OTHER OPTIONS

- 1) Use funds from the General Fund Reserve to cover the 2023 forecasted General Operating Deficit of approximately \$1.6 million. There are sufficient funds in the reserve to cover the deficit amount and the primary purpose of the reserve is to fund unanticipated operating requirements **(recommended)**.
- 2) Use a combination of expenditure restraints for the remainder of 2023 and the General Fund Reserve to address the forecasted deficit.
- 3) Include the amount needed to cover the unfunded portion of the 2023 General Operating deficit in the 2024 Operating Budget, as per Section 129(1)(g) of *The Cities Act*.

COMMUNICATIONS

Media lines will be prepared ahead of the Audit and Finance Committee.

DISCUSSION

City Council approved the 2023 General and Utility Operating and Capital Budgets on December 16, 2022. Revenues and expenses are monitored closely throughout the year. The budget below reflects adjustments tied to the direction of Council to reduce the City's Operating Budget by \$2.9 million and therefore does not match the budget book.

GENERAL OPERATING:

**General Operating (Fund110)
Q3 Forecast (September 30, 2023)
Reported in 000s**

	2023 Budget Book	2023 Amended Budget	2023 Mid-Year Forecast	2023 Q3 Forecast	2023 Variance to Budget	Variance % of Budget	2023 Variance Q3 to Mid-Year	Actuals (Sept 30)	Actuals as % of Budget
Total Operating Revenues	542,212	539,723	550,415	547,318	7,594	1.4%	(3,096)	466,901	86.5%
Total Operating Expenses	542,212	539,723	550,652	548,882	(9,158)	-1.7%	1,770	410,963	76.1%
Net Operating Surplus/ (Deficit)	-	-	(237)	(1,564)	(1,564)	-0.3%	(1,326)	55,938	

Note: Figures presented include reserve transfers

The \$1.6 million deficit in the Third Quarter forecast is an increase of \$1.3 million from the prior forecast. Forecast details are summarized in Appendix A.

The Third Quarter Forecast highlights an overall increase over budget in revenues of \$7.6 million, which is a decrease of approximately \$3.1 million from the Mid-Year Forecast, largely due to a forecasted decrease in municipal surcharge revenue due to previous year's electrical surcharge overpayments made by SaskPower to the City due to a SaskPower calculation error, partially offset by a forecasted increase in interest income due to continued high interest rates.

The forecast also highlights an overall increase over budget in expenses of \$9.2 million, which is a decrease of approximately \$1.8 million from the Mid-Year Forecast. The key changes from the Mid-Year forecast related to expenses include: increases of \$604 thousand for a recent PST audit completed with the province; \$500 thousand in asphalt costs; and \$400 thousand allocated fleet costs. These increases are offset by the following decreases: \$300 thousand in additional salary lag (increasing organization wide amounts to \$3.6 million for the year); forecasted changes in transfers from/to reserves (\$300K tied to Utility Reserve and service agreement administration fees, and \$400K tied to Golf Course Reserve due to increased golf course usage); reduced spend in consulting services and other general operating savings.

Wage subsidies of \$7.5 million received by the Regina Exhibition Association Inc. (REAL) under the Canada Emergency Wage Subsidy program during the COVID-19 pandemic are currently under audit by the Canada Revenue Agency and represent a risk to the Third Quarter Forecast, depending on the outcome of the audit. As, the Administration continues to work with the Saskatchewan Roughriders with the goal of addressing the outstanding receivable from the Riders of \$3.6 million related to rent and other receivables relating to the COVID time period. As Administration expects collection of this receivable, no provisions in allowance for doubtful accounts has been made with respect to this receivable.

Appendix A shows the detailed comparison of the 2023 General Operating Budget to the Third Quarter Forecast by revenue and expenditures.

UTILITY OPERATING:

**Utility Operating (Fund130)
Q3 Forecast (September 30, 2023)
Reported in 000's**

	2023 Budget Book	2023 Mid-Year Forecast	2023 Q3 Forecast	2023 Variance to Budget	Variance % of Budget	2023 Variance Q3 to Mid-Year	Actuals (Sept 30)	Actuals as % of Budget
Total Operating Revenues	166,492	169,247	168,947	2,454	1.5%	(300)	122,306	73.5%
Total Operating Expenses	166,492	165,668	165,703	790	0.5%	35	73,209	44.0%
Net Operating Surplus/ (Deficit)	-	3,579	3,244	3,244	1.9%	(265)	49,097	

The 2023 Third Quarter Forecast projects the Utility Operating Fund with a surplus of \$3.2 million (1.9 per cent) as summarized in Appendix B. There are two key items impacting the Utility forecast. Increased water consumption has resulted in additional revenue of \$2.5 million and savings in salary and benefits costs of \$1.5 million have resulted in a lower than budgeted expenses. The 2023 Utility Operating Budget included a 4.5 per cent utility rate increase.

Appendix B shows the detailed comparison of 2023 Utility Budget to the Third Quarter Forecast.

CAPITAL

The City's 2023 General and Utility Capital approved Budget is \$289.8 million. The City started the year with a capital carry forward of \$342.0 million for both funds, resulting in total available capital funding of \$631.7 million. Total forecasted capital expenditure for 2023 is \$268.7 million, representing 43 per cent of total available funding. The anticipated carry forward to 2024 is \$363.0 million as summarized in the following table; this is a \$47.0 million decrease in forecasted spend from mid-year.

Capital Expenditure Summary (\$000's)

Fund	Opening CFWD	2023 Budget	Total Funding Available	Forecast Expenses	Forecast CFWD	Actual Expenses (Q3)
General	158,137	152,746	310,883	167,418	143,465	110,3856
Utility	183,816	137,024	320,840	101,322	219,518	50,465
Total	341,953	289,770	631.723	268,740	362,983	160,851

Definitions

- **2023 Budget:** excludes RPS capital.
- **Total Funding Available:** combination of prior year's budget carry-forward and approved current year capital budget.
- **Carry Forward (CFWD):** project budget that will not be spent in current year but will be used to offset future project cost. This may be planned or unplanned.

General Capital

The total available capital funding for General Fund Capital is \$310.9 million, including 2023 General Capital Budget of \$152.7 million and the previous year carry forward of \$158.1 million. The General Capital expenditure forecast in Q3 is \$167.4 million, representing 54 per cent of available funding. Total actual expenditures as of September 30, 2023, is \$110.4 million.

The Third Quarter Forecast reflects \$167.4 million in general capital, which is a decrease from the mid-year report of approximately \$29.0 million. This is mainly due to project delays, with the most significant changes in the top ten projects attributed to an increased spend of \$3.0 million for RRI Dewdney/Railyard project. This increase is offset by reduced spend due to project delays related to \$4.0 million in Facilities Asset Management; \$3.8 million in the Residential Renewal Program; and, \$1.8 million in the Saskatchewan Dr. Corridor Plan and Coordination Initiative.

Appendix C provides a summary of the top 10 General Fund capital projects with large capital carry forward.

Transit and Housing Projects and Funding

In January 2023 (report CR 23-7) City Council approved the use of 50% federal and 50% provincial government Transit and Housing Funding to allow the City to commit funds towards the following transit

and housing projects that total \$9.465 million. Many of these projects have progressed in 2023 and some expenditures will be incurred in 2024 and later.

- \$3 million for the purchase of a building which will be transformed into an Indigenous-led Emergency Wellness Centre;
- \$1 million for required infrastructure upgrades to support the development of the new YWCA;
- \$1 million for infrastructure upgrades at the old Taylor Field site to support housing development;
- \$400,000 for the installation and upgrading of transit shelters and the installation of concrete pads to improve the accessibility of transit shelters;
- \$4.065 million for covering the transit operating shortfall from 2019-2021 to be invested in:
 - o \$3 million for a non-vehicular trail system that supports the connectivity within City Centre supporting improved safety, improved use, connecting civic infrastructure and delivering a vibrant multi-modal transit upgrade for the community; and
 - o \$1.065 million investment to support shovel-ready Downtown intensification projects.

In discussion with the Province, it was Administration's understanding the Province's contribution of \$4.733 million would be incremental Municipal Revenue Sharing (MRS) grant funding in addition to the natural increase in the growth in the MRS grant the City expected to receive due to increased PST revenue collected by the Province. The Province recently clarified that the Province's contribution is from the City's normal allocation of MRS funding. As a result, there is a capital funding shortfall of \$4.065 million related to funding the \$3 million for a non-vehicular trail system, and \$1.065 million investment in Downtown intensification projects. Administration is recommending as part of the Proposed 2024 Budget that these projects be funded from the General Fund Reserve. City Council will consider this recommendation as part of its 2024 budget discussion on December 13, 2023. The remaining \$668,000 has been accounted for in the Third Quarter Forecast.

Utility Capital

The total available funding for the Utility Fund Capital is \$320.8 million and the expected expenditure for the year is \$101.3 million, resulting in an expected \$219.5 million carry forward to 2024. The Utility Capital expenditure forecast in Q3 is \$101.3 million, representing 32 per cent of available funding. Total actual expenditures as of September 30, 2023, is \$50.5 million. This forecast reflects a decrease of \$18.3 million from the mid-year report. This is mainly due to project delays, with the most significant changes in the top ten projects attributed to an increased forecasted spend of \$8.0 million for the Eastern Pressure Solution project. This increase is offset by a forecasted reduced spend of \$10.4 million in the Water Infrastructure Renewal project; \$7.2 million in the Wastewater Capacity Upgrade projects; and \$4.1 million in the Heritage Stormwater Improvement Heritage Project.

Appendix C provides a summary of the top 10 Utility Capital projects with large capital carry forward.

DECISION HISTORY


On August 17, 2023, The Audit and Finance Committee considered the 2023 Mid-Year Forecast Report (AFC23-6) and recommended that Council direct Administration to pursue opportunities that reduce costs, with minimal impact to service including potential opportunities can include but are not limited to winter road maintenance, other roadway maintenance, street sweeping, dust suppression and parks maintenance. Council approved this recommendation (CR23-98) on September 13, 2023.

Respectfully Submitted,



Kim Krywulak
Director, Financial Services

Respectfully Submitted,



Barry Lacey
Executive Director, Financial Strategy & Sustainability

Prepared by: Calvin Ear, Financial Business Partner

ATTACHMENTS

Appendix A - General Operating Forecast
Appendix B - General Utility Forecast
Appendix C - Capital Forecast