

2018 Mid-Year Financial Report



BACKGROUND

This report provides a high-level summary on how the City is performing in relation to its 2018 Operating and Capital Budgets. The report shows that the City is effectively managing its operations within the current economic climate and is forecast to be under budget for the 2018 fiscal year.

The 2018 budgets approved by Council anticipated a level of funding required to provide the level of services established in the plan. The mid-year forecast reflects an estimated General Fund Operating surplus of \$2 million (0.5% from budget). The Utility Fund Operating surplus is forecast to be \$4.5 million (3.4% from budget) and is mainly due to unanticipated revenue from the Coop Refinery and Hauled Wastewater Station (HWS), and lower than anticipated electrical and natural gas costs for the Waste Water Treatment Plant (WWTP).

The forecast surplus is unaudited and is a projection of the expected results for the City of Regina. Yearend surpluses represent one-time funding and are transferred to the appropriate reserves at yearend. General Fund Operating surpluses are transferred to the General Fund Reserve and Utility Fund Operating surpluses to the Utility Reserve Fund.

Two main reserves, the Asset Revitalization Reserve and the General Fund Reserve, provide Council with the most flexibility to address immediate and unexpected opportunities. The anticipated balance at the end of 2018 for these reserves is \$0 in the Asset Revitalization Reserve and \$8 million in the General Fund Reserve. In the past, these reserves have been used by Council to take advantage of opportunities that have presented themselves like the purchase of the former STC building to address the Regina Police Service's facility needs, the highest priority project for facility renewal. However, looking forward, the ability to access these two key reserves to fund capital projects will be limited over the short to medium term compared to previous years.

Over the past five years, the City of Regina has reported yearend surpluses that have mainly been the result of investment income and capital gains on bonds. Investment income has decreased substantially from previous years and is expected to continue to decrease in the future. This combined with improved forecasting and budgeting systems is expected to result in smaller surpluses in future years resulting in less funding being transferred to reserves at yearend than in the past. As a result, rebuilding of these reserves will take time.

FINANCIAL FORECAST OVERVIEW

Throughout the year, Administration prepares and closely monitors the progress of achieving the annual budget approved by Council. The information included in this report is the mid-year budget and financial forecast.

The 2018 budget approved by Council anticipates a level of funding required to provide the level of services established in the plan. As the corporation works toward delivering services to the community, a variance between the budgeted cost and the projected yearend cost is created. The variance, over or under the established budget, is the result of controllable and uncontrollable factors. These factors include, but are not limited to:

- Changes to funding or revenues received during the year that were not anticipated at the time of developing the budget;
- Staff vacancies;
- Price differences in supplies;
- Timing of implementing new initiatives or in capital construction.

General Fund Operating Forecast Overview

The General Fund Operating surplus is forecast to be \$2 million. As describe below, revenues are projected to be under budget, offset by decreases in expenses due to a combination of factors.

Table 1: General Fund Operating Financial Forecast (in \$ thousands)

Financial Performance Measures June 30, 2018				
General Fund Forecast	Revenue	Expense	Surplus (Deficit)	% of Budget
	\$ 440,913	\$ 438,733	\$ 2,180	0.5%

Operating Revenue

Table 2: General Fund Operating Revenue Forecast (in \$ thousands)

Financial Performance Measures June 30, 2018				
General Fund Revenue	Budget	Forecast	Variance	% of Budget
	\$ 442,887	\$ 440,913	(1,974)	-0.4%

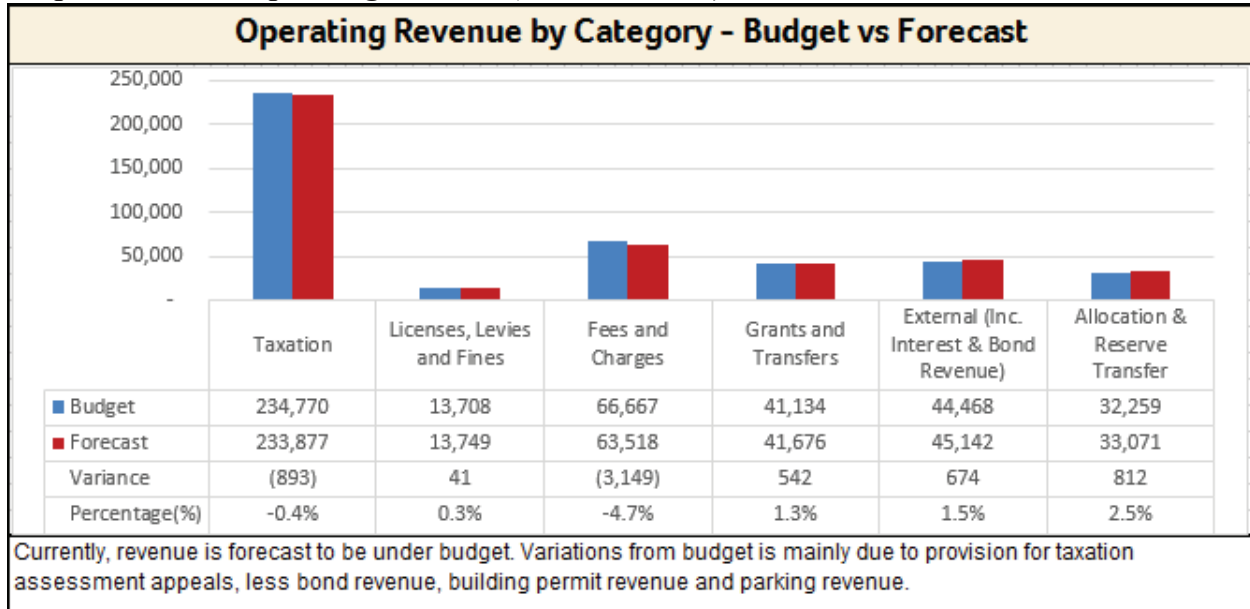
The majority of the City services are financed by General Fund Operating revenue. About half of the General Operating revenue comes from property taxes, but the City also charges user fees, secures grants from other levels of government and collects revenues from a variety of smaller sources.

Revenues are currently tracking to be slightly below the approved budget by \$2 million (0.4%). Revenues are projected to be lower than budget in various areas including the provision for taxation assessment appeals, less bond revenue, decreases in building permit revenue and parking revenue.

As identified earlier in this report, historical yearend surpluses have been the result of high investment income and capital gains on bonds. These revenues have decreased substantially with the recent increases in interest rates from the Bank of Canada. There is an inverse effect on bond earnings as interest rates rise. While the City is actively managing this item, further interest rate increases could impact the projected surplus.

Taxation revenue is projected to be under budget as a result of potential assessment appeals. Appeals are a normal part of business and throughout the year, the amount is adjusted as appeals progress through the process. Graph 1 below presents the revenue by category or source.

Graph 1: General Operating Revenue (in \$ thousands)



Operating Expense

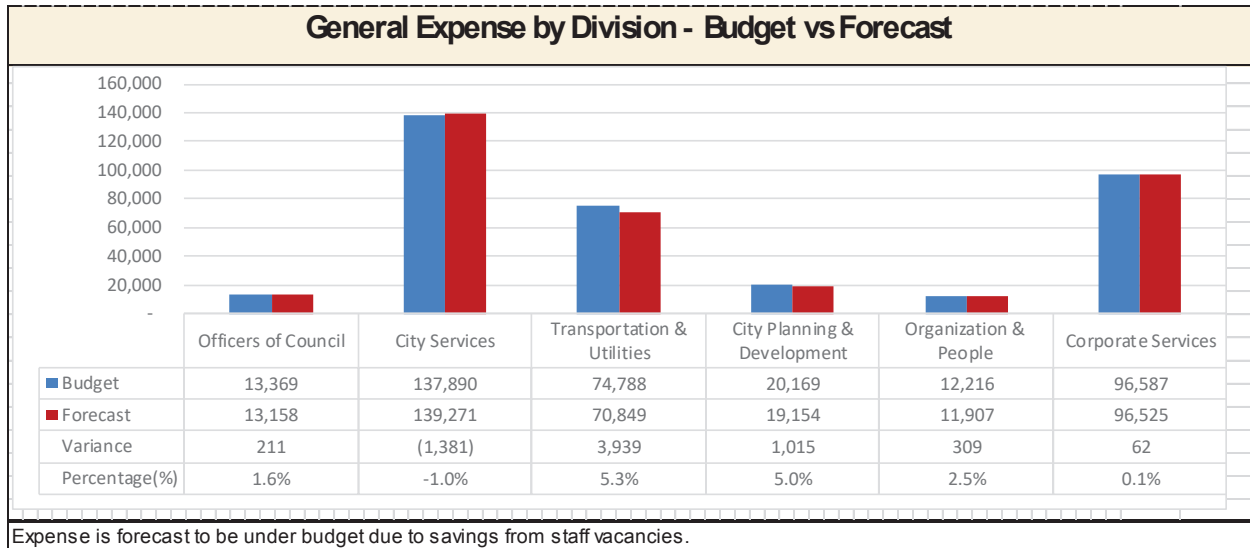
Table 3: General Fund Operating Expense Forecast (in \$ thousands)

Financial Performance Measures				
June 30, 2018				
General Fund Expense	Budget	Forecast	Variance	% of Budget
	\$ 442,887	\$ 438,733	\$ 4,154	0.9%

General Fund operating expenses support the majority of the services provided by the City. Expenses are driven by controllable and uncontrollable factors. Some costs are driven by environmental factors such as the weather and their impact on the services, such as Winter Road Maintenance and are managed by the City by establishing reserves specifically for the purpose of supporting unanticipated costs in any given year.

The current projection reflects operating expenses to be under budget by \$4 million (0.9%). The majority of the expense savings is on salaries. Salaries and benefit account for 47% (excluding police) of the total general operating budget.

Graph 2: General Fund Operating Expense (in \$ thousands)



Utility Fund Operating Forecast Overview

The Utility Fund operating surplus is forecast to be \$4.5 million. As described below, revenues are projected to be three per cent higher than budget while expenses will be slightly lower than budget.

Table 4: Utility Operating Financial Forecast (in \$ thousands)

Financial Performance Measures				
June 30, 2018				
Utility Fund Forecast	Revenue	Expense	Surplus (Deficit)	% of Budget
	\$ 136,753	\$ 132,228	\$ 4,525	3.4%

Utility Revenue

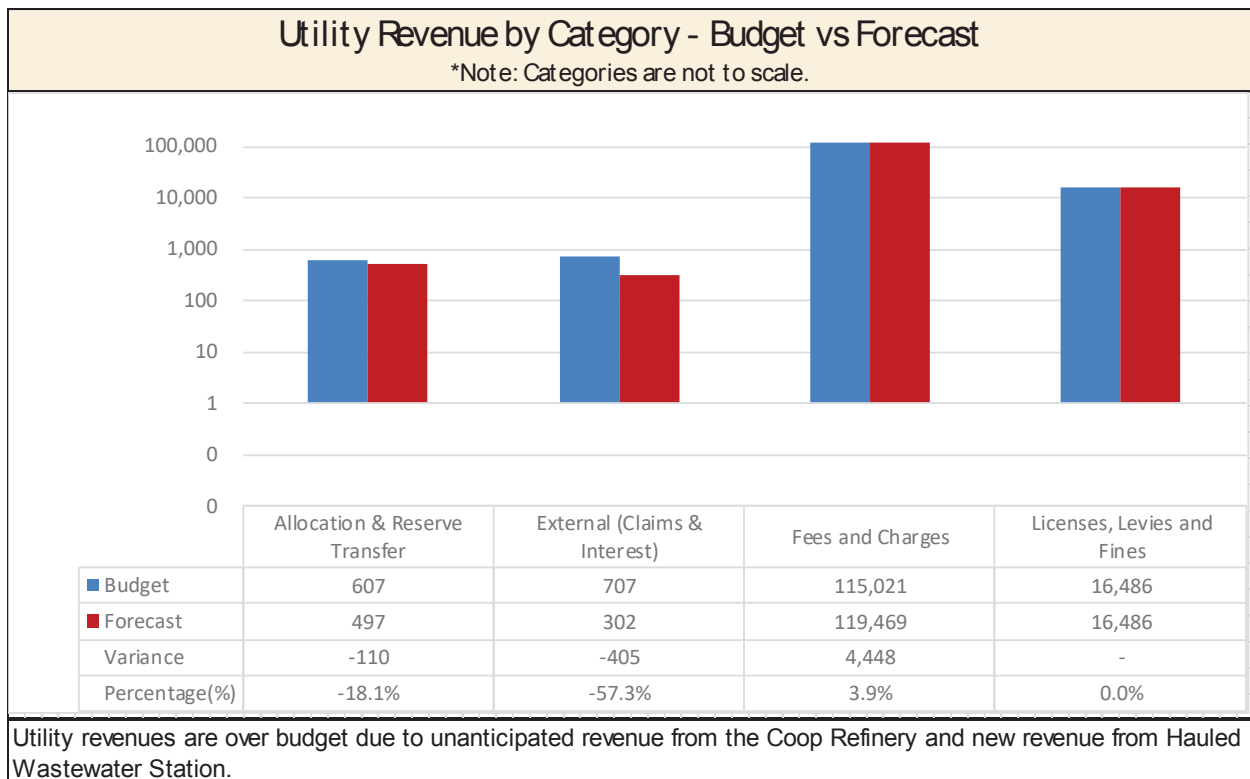
Table 5: Utility Operating Revenue Forecast (in \$ thousands)

Financial Performance Measures				
June 30, 2018				
Utility Fund Revenue	Budget	Forecast	Variance	% of Budget
	\$ 132,820	\$ 136,753	\$ 3,933	3.0%

The Water and Sewer Utility provides water, wastewater and drainage services primarily to customers in Regina. It is operated on a full cost-recovery, user-pay basis. Revenues collected from customers account for the majority of the revenue (88%) with the remainder of the revenue being derived from licenses and levies.

Utility revenues are mainly the result of fees and charges paid by customers through a daily base rate and through a volume (usage) charge. Revenues are influenced by environmental factors and customers are able to reduce their costs by conserving water which will reduce revenues. The mid-year forecast shows that revenues are currently projected to be almost \$4 million (3.0%) above the approved budget. The revenue is mainly unanticipated revenue from the Coop Refinery and the Hauled Wastewater Station. 2018 is the first year of operation of the Hauled Wastewater Station and revenues are expected to increase as the program becomes more established. Graph 3 presents the revenue by category.

Graph 3: Utility Operating Revenue (in \$ thousands)



Utility Expense

Table 6: Utility Operating Expense (in \$ thousands)

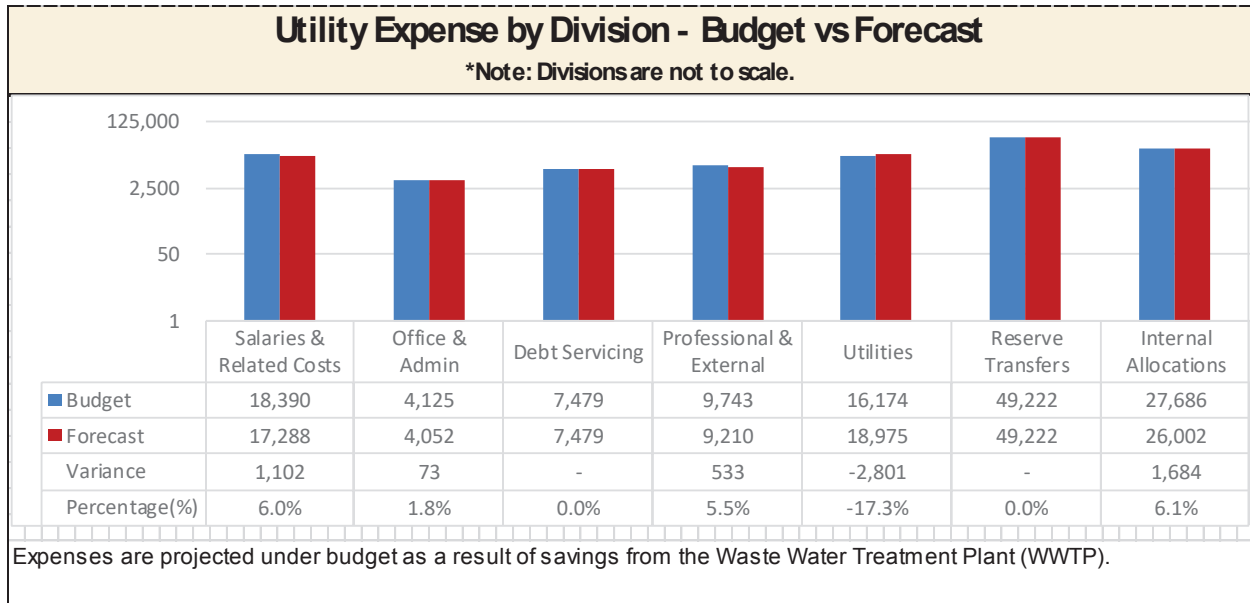
Financial Performance Measures				
June 30, 2018				
Utility Fund	Budget	Forecast	Variance	% of Budget
Expense	\$ 132,820	\$ 132,228	\$ 592	0.4%

Utility Fund Operating expenses support the costs of delivering services in four main service areas:

- **Water Supply and Distribution:** The system provides water for residential, institutional, commercial and industrial customers, as well as for fire protection.
- **Wastewater Collection and Treatment:** The wastewater system collects wastewater from all residential, institutional, commercial and industrial customers in the City and treats wastewater in accordance with the Provincial and Federal governments' environmental regulations and industrial standards.
- **Storm Water Collection and Flood Protection:** The drainage system controls water runoff from rainfall and melting snow in and around the City.
- **Customer Service:** Customer service has two elements – Utility Billing (producing and collecting on utility billings) and Communications (being responsive to customer inquiries and needs).

Many factors influence the costs of delivering the utility services. The mid-year forecast currently reflects almost \$600 thousand (0.4%) savings in approved operating costs. The savings are mainly due to lower than anticipated electrical and natural gas costs for the Waste Water Treatment Plant. Graph 4 details the budget and forecast expenses by division.

Graph 4: Utility Operating Expense (in \$ thousands)



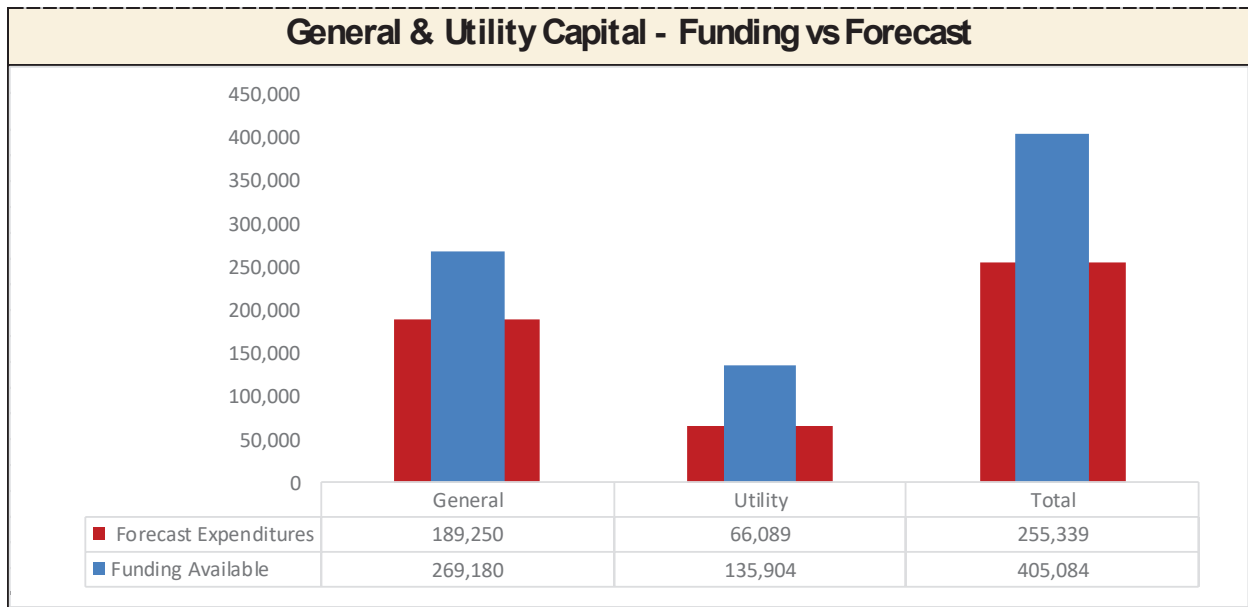
CAPITAL OVERVIEW

The delivery of services requires well maintained capital assets. The City continues to maintain and enhance its assets by prioritizing the investment in capital that will create improved services or service levels.

The City’s capital budget is a multi-year (five year) program comprising an approved capital plan for the current year and a planned program for the succeeding four years. With the multi-year approach, some projects are designed to be completed over a number of years resulting in unspent capital funding at the end of the year that will be carried forward to the future year. The City is continuing to complete a number of multi-year projects and utilizing the majority of the funds available.

The City’s capital spending is represented in two groups: General Fund and Utility Fund (Graph 5).

Graph 5: General and Utility Capital (in \$ thousands)



General and Utility Capital

1. General Capital

The General Fund capital budget is primarily focused on the renewal of infrastructure, a priority of the strategic plan and linked to *Design Regina: The Official Community Plan* priority of long-term financial viability. General Fund capital spending is in two categories: programs and projects. Programs are mainly ongoing capital costs that are designed to support the maintenance and renewal of assets to enhance and/or prolong their useful life. Capital projects are one-time costs with a defined start and end date, such as the cost of constructing a new asset.

The current 2018-2022 General Capital plan totals \$584 million. The General Capital Fund plans to spend \$189 million in 2018. This includes completing and/or advancing a number of projects including, but not limited to:

- Street infrastructure renewal
- Residential road renewal program
- Regina Police Services new headquarter development
- Transit maintenance garage relocation
- South East land development
- Civic fleet replacement

2. Utility Capital

The Utility Fund capital budget supports the delivery of the utility service through maintenance, renewal and replacements of a diverse infrastructure including water mains, storage reservoirs, pumping stations, building service connections, a wastewater treatment plant, wastewater and

storm drainage sewers as well as drainage channels and creeks. The City is also a joint owner of the Buffalo Pound Water Treatment Plant with the City of Moose Jaw.

The 2018-2022 Utility Capital Plan totals \$313 million and is fully funded by the Utility Reserve over the five-year plan. The majority of the \$66 million in Utility Capital Fund focuses on infrastructure renewal projects in 2018, such as:

- Buffalo Pound Water Treatment Plant electrical upgrade
- Various water infrastructure renewal
- Wastewater collection renewal
- The Creeks wastewater pump station expansion
- Water pumping station upgrades and expansion

The City has seen a reduction in the amount of unspent capital funding in the last few years. This unspent funding is largely for a number of multi-year projects scheduled to be completed over more than one year. Recently, the City has begun to budget capital based on the cash flow requirements of the project. This change along with the completion of major projects such as Mosaic Stadium and Wastewater Treatment Plant have allowed the City to better manage the capital funding requirements and reduce the unspent capital funding at yearend. Overall, all General and Utility Fund capital projects are on schedule.

There has been a significant increase in capital expenditures over the past five years in order to bridge the infrastructure gap faced by the City. This increase in capital expenditures has been funded primarily from an allocation of current year operating costs, reserves, debt, and third party funding. The current year contribution (including one per cent per year mill rate increase commitment to the Residential Road Renewal Program) to capital has increased from \$12 million to \$45 million in the last five years.

The weather in 2018 has cooperated for the delivery of the capital program and as of mid-August, planned capital work was 60% complete – on schedule according to the plan.

CONCLUSION

The City of Regina is committed to accountability and transparency. This is the second mid-year report released by the organization. The results of this report show the City is projecting a small surplus at yearend.

The surplus is a point in time projection of the yearend results. There are a number of variables that could influence the surplus on both the operating and utility results that were not known at the time of the establishment of the mid-year forecast. Administration has used the best information available to predict the outcomes to the end of the year.

As the year progresses, the results will change based on decisions made and uncontrollable factors such as weather that impact City operations. Administration will continue to monitor the financial situation and balance fiscal stewardship with providing the services that citizens of Regina need.