

Subject: 2017 Year-End Operating Budget Variance Report

Reference:

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Financial Planning

Report Date: 4/9/2018

Clerk's File #: AS/10122

To: Mayor and Members of City Council

Recommendation:

THAT Council **RECEIVE FOR INFORMATION** the 2017 Year-End Operating Budget Variance Report, dated April 9th, 2018; and,

THAT the final 2017 Operating Budget surplus of \$1,629,760 **BE TRANSFERRED** to the Budget Stabilization Reserve (\$1,129,760) and the Succession Planning Reserve (\$500,000); and,

THAT in order to avoid the need to re-budget for various items, Council **APPROVE** \$1,307,062 in budget carryovers as detailed in Appendix C: 2017 Budget Carry-Forwards; and,

THAT Council **APPROVE** the balancing of and transfers from Capital Projects, as detailed in Appendix D: 2017 Capital Closeouts; and,

THAT Council **APPROVE** the attached Development Charges 2017 Income Statement Schedule (Appendix E); and,

THAT Council **APPROVE** a recommendation from administration to create a Commodity Tax Reserve account and provide authority to the City Treasurer to transfer any budget variances related to the commodity tax account to/from the reserve, as required annually; and,

THAT Council **APPROVE** the establishment of a new reserve account 1797 entitled "Defib. Tiered Response Grant" for the purpose of purchase and maintenance of defibrillators, CPR certifications and first aid supplies and that the year-end

surplus/deficit from the Fire Operations department 0191110 product 5389 be transferred annually to the newly established reserve account; and,

THAT Council **APPROVE** the following housekeeping items and various transfers from reserve accounts/funds:

- a. \$8,061.68 (50% of the annual 2017 rental fees) from Showmobile reserve account (1752) to operating department ID 0280021;
- b. \$142,000 annual transfer (2 of 5yrs) from reserve account (1756) – Reserve for tree planting to operating department ID 0280301;
- c. \$23,951.00 from reserve account (1768) to project 7171088 to partially fund the purchase of a Mobile Live Fire Training Simulator, as per CR438/2017;
- d. \$2,507.39 from the Riverfront Brick Program reserve account (1777) for relevant activities and costs incurred in the installation of bricks along the riverfront, as per CR29/2009;
- e. \$47,951.48 from the Non-Union Salary Review reserve account (1783) to operating department ID 0124110;
- f. \$183,373.58 from the Firefighter Recruitment reserve account (1787) to operating department ID 0145008;
- g. \$51,756.64 from the Driver Simulation Training reserve account (1788) for costs related to training of corporate drivers;
- h. \$20,000.00 from the Capital Expenditure reserve (Fund 160) to operating department ID 0122950;
- i. \$17,055.00 from the Building Permit reserve (Fund 180) to operating department ID 0152710.

Executive Summary:

The Corporation ended the 2017 fiscal year with an operating surplus of \$1,629,760. It is recommended that \$500,000 of this surplus be transferred to the Succession Planning Reserve, with the remaining balance of \$1,129,760 to be transferred to the Budget Stabilization Reserve (BSR) to replenish this reserve in order to be able to fund one-time costs and avoid potential future property tax rate spikes. In addition, given the positive year-end results, the corporate contingency of \$1,500,000 was not required and was transferred to the BSR at year-end. It should be noted that these financial results are still subject to finalization of the annual external audit.

Table A provides a summary of the budgets and year-end variances for City Departments, Corporate Accounts, and Agencies, Boards and Commissions for 2017. The year-end variances have been sorted from largest deficit to largest surplus (in dollars). Please refer to **Appendix A** for detailed variance explanations for each department/division.

Table A: 2017 Year-End Operating Budget Variance by Department

Department	2017 Annual Net Budget Expense/ (Revenue)	Year-End Surplus/ (Deficit)	Variance % of Gross Budget
Legal	\$6,018,338	(\$1,522,981)	-9.0%
Public Works Operations	\$26,900,403	(\$1,332,256)	-2.5%
Parks	\$24,815,537	(\$401,766)	-1.0%
Transit Windsor	\$13,108,590	(\$133,396)	-0.4%
Huron Lodge	\$7,283,223	(\$77,582)	-0.3%
Mayor's Office	\$504,157	-	0.0%
Grants to the Windsor Public Library	\$8,109,957	-	0.0%
Finance	\$6,229,178	\$877	0.0%
Council Administrative Services	\$604,938	\$1,282	0.2%
Recreation & Culture	\$11,953,684	\$38,751	0.2%
Fire & Rescue Services	\$45,201,199	\$52,982	0.1%
Information Technology	\$6,469,296	\$88,104	1.1%
CAO's Office	\$1,176,539	\$172,228	12.9%
Human Resources	\$4,723,763	\$209,632	4.2%
Engineering	\$7,712,486	\$323,829	1.0%
Council Services	\$6,988,231	\$341,293	3.3%
Planning & Building	\$3,613,431	\$553,784	6.3%
Housing & Children's Services	\$22,841,372	\$641,991	0.6%
Employment & Social Services	\$9,398,178	\$1,032,339	0.9%

Corporate Accounts	(\$315,541,718)	\$1,245,868	0.6%
Total City Departments	(\$101,889,218)	\$1,234,979	0.2%
Corporate Contingency	\$1,500,000	-	0.0%
Surplus/(Deficit) Subtotal	(\$100,389,218)	\$1,234,979	0.2%
Agencies, Boards & Commissions			
Windsor Police Services	\$82,437,022	(\$148,382)	-0.2%
Committees of Council	\$42,120	\$39,159	93.0%
Agency Grants	\$17,910,076	\$504,004	2.8%
Total Agencies, Boards & Commissions	\$100,389,218	\$394,781	0.4%
2017 Net Operating Budget Surplus	-	\$1,629,760	0.19%

*The Windsor Public Library reported variance is as it relates to the Annual Grant provided by the City. It does not refer to the Library's own Operating Budget Variance.

Background:

Appendix B includes a list of relevant operational and economic statistics (extracted from various sources) that have been presented in previous variance reports to Council. The data is provided as background information and is depicted graphically by quarter, by year, for ease of reference and comparison purposes.

Appendix C includes a list of the recommended budget carry-forwards that relate to 2017. These are budgeted items that, due to timing, were committed but not expended in 2017 and as a result, the related budgets for those items have been carried forward into 2018. These expenditure line items are expected to be paid in 2018 or beyond.

Table B provides a five year historical picture of the City's year-end operating variances for the Corporation, as well as the percentage variance to the annual gross budget inclusive of the budget stabilization contingency account.

Table B: Operating Variance by Year as Previously Reported

Year	Variance Surplus	Variance as a % of Gross Budget
2012	\$1,708,605	0.20%
2013	\$5,461,778	0.80%
2014	\$691,606	0.10%
2015	\$2,146,779	0.30%
2016	\$3,934,036	0.47%
2017	\$1,629,760	0.19%

Discussion:

Tax Supported Variances

The Corporation ended the 2017 fiscal year with an operating surplus of \$1,629,760. This figure is net of budget carryovers in the amount of \$1,307,062. Administration recommends transferring \$1,129,760 of the operating surplus to the Budget Stabilization Reserve, with the remaining \$500,000 transferred to the Succession Planning Reserve.

The Succession Planning Reserve is used for both the talent management program and for job shadowing by new recruits as employees retire, thus providing up to three months of overlap to ensure continuity and the transfer of knowledge between a new recruit and retiree. The reserve receives a nominal amount of \$5,000 in annual funding through the operating budget each year and given the number of recent retirees, the current uncommitted balance of the reserve has been depleted to a balance of \$9,650.

This one-time transfer would provide some additional funding within the reserve to address the continued challenges being experienced relative to the number of retirements and assist to ensure appropriate succession planning is in place to provide a seamless transition for the vital services being provided to residents. Without these succession planning initiatives service to residents would be negatively impacted given the unprecedented staff turnover that the corporation, along with most other large organizations, is experiencing.

Table C provides an alternative view of the 2017 year-end financial results by major account category. A brief analysis of the items included in each of the significant dollar categories augment this table.

Table C: 2017 Year-End Operating Budget Variance by Category

Category	Net Favourable/(Unfavourable) Variance
REVENUE:	
Taxes – Municipal	(\$167,138)
Recovery of Expenditures	\$185,478
User Fees, Permits & Charges	260,090
Other Miscellaneous Revenue	531,452
Transfers from Other Funds	541,128
Grants & Subsidies	829,053
Investment Income & Dividends	1,143,064
SUBTOTAL REVENUE:	\$3,323,127
EXPENSE	
Purchased Services	(\$2,646,158)
Minor Capital	(176,766)
Other Miscellaneous Expenditures	(62,417)
Operating & Maintenance Supplies	(30,737)
Salaries & Benefits	53,301
Financial Expenses	277,579
Utilities, Insurance & Taxes	387,827
Transfer to External Agencies	504,004
SUBTOTAL – EXPENSES	(\$1,693,367)
Net Total – 2017 Year-End Surplus	\$1,629,760

Revenue Variance

The “Investment Income & Dividends” category is the largest revenue variance and the surplus is primarily due to rising interest rates resulting in better than expected performance of the Corporation’s investments. In addition, there are significant surpluses in the “Grants and Subsidies” category being reported in the Housing Services, Windsor Essex Community Housing Corporation and Employment Services departments. A minor negative variance in the “Taxes – Municipal” category is primarily due to a downward trend with respect to property tax in arrears as a result of enhanced collection efforts and an improved economy resulting in lower than budgeted Penalty and Interest on Taxes.

Expenditure Variance

The most significant expense variance is found within the “Purchased Services” category. The primary contributors to this variance are services from the August 2017 flood event that resulted in higher than expected costs for garbage collection including tipping fees, staff time and other contracted services. Furthermore, several winter events in the latter portion of 2017 resulted in a higher than average number of main route and full residential roll outs.

This variance is slightly offset by a surplus in the “Transfer to External Agencies” category due to surplus funding provided to the Windsor-Essex County Health Unit, along with a surplus in the “Utilities, Insurance & Taxes” category primarily related to reduced consumption and increased conservation efforts.

Capital Closeouts

Appendix D contains a summary of capital projects that were either closed, completed or consolidated during 2017. The Corporation does not budget for any variance with respect to capital closeouts. Surplus balances normally offset deficits in other projects provided that consistent funding guidelines are being followed. Usual practice calls for surpluses to be returned back to the original funding source(s) and deficits drawn from their original funding source, where such funds are available. If funding is not available, alternate funding sources are identified and reported to City Council.

Development Charge Reserve Income Statements

Appendix E provides City Council with detailed revenue and expenses for all the development charge reserves in 2017, as required by the Development Charges Act.

Miscellaneous Housekeeping Transfer To/From Reserves

Throughout the course of the year, costs related to certain initiatives are captured in operating accounts/funds and then transferred at year-end to/from various specific reserves. The following miscellaneous housekeeping transfers have occurred and a summary is provided in the following table:

Table D: Summary of Transfers from Reserve Accounts/Funds

RESERVE FUND/ACCOUNT	AMOUNT
Showmobile Reserve (Account 1752)	\$8,061.68
Tree Planting Reserve (Account 1756)	\$142,000.00
Ont. Fire Services Grant Reserve (Account 1768)	\$23,951.00
Riverfront Brick Program Reserve (Account 1777)	\$2,507.39
Non-Union Salary Review Reserve (Account 1783)	\$47,951.48
Firefighter Recruitment Reserve (Account 1787)	\$183,373.58
Driver Simulation Training Reserve (Account 1788)	\$51,756.64
Capital Expenditure Reserve (Fund 160)	\$20,000.00
Building Permit Reserve (Fund 180)	\$17,055.00
Development Charges Reserve (Fund 114-128)	\$90,693.99

Commodity Tax Reserve Account

Administration is also recommending via this council report the establishment of a commodity tax reserve account. The City’s commodity tax consultants undertake a review each year of financial transactions completed by the City in order to ensure that we have captured all available commodity tax rebates and credits that are available to the municipality. This amount is currently being held within a deferred revenue account and has a current balance of approximately \$380,000.

It is proposed that this amount be transferred into a newly created Commodity Tax Reserve account so that funds are available to offset the retroactive assessment cost(s) of any future Canada Revenue Agency (CRA) audits or to address any instances where retroactive tax payments may be required to be remitted by the City. This report also recommends that authority be provided to the City Treasurer to transfer any budget variances related to commodity tax recoveries or retroactive payments to/from the commodity tax reserve account on an annual basis, as required.

Fire Defibrillator Tiered Response Reserve Account

City of Windsor and Essex Windsor EMS have an ongoing Medical Tiered Response agreement. The agreement states that Essex Windsor EMS grants Fire Services \$1,000 per defibrillator, per year for a total of \$17,000 or 17 defibrillators. Grant funding is intended for ongoing preventative maintenance programs of each defibrillator, replacement of defibrillators, ongoing First Aid supplies and associated CPR training/certification.

If approved, this new reserve account would be used to transfer annual surplus/deficit from the operating account, Product 5389 Dept ID 0191110. The 2017 accumulated surplus of \$56,185 will be transferred to Reserve account once it is established.

Non-Tax Supported Variances

Building Permit Operations

<i>2017 Budgeted Draw on Building Permit Fee Reserve</i>	<i>Actual Contribution to Reserve</i>	<i>Year-End Surplus</i>
(\$771,285)	\$430,259	\$1,201,544

Key Highlights:

- Construction statistics as of December 31, 2017 (4,135 permits) far exceeded that of 2016 (2,662 permits).
- Permit counts in the residential category were up approximately 50%, but total construction value was down slightly due to many of the permits being for renovation and expansion projects, which cost less than new buildings.
- Industrial permit activity was similar to 2016, but total construction value was down by approximately 30%, again due to more renovation type work taking place.
- Commercial permits were higher in 2017 and total construction value was higher by approximately 60%.
- Institutional activity in 2017 was slightly above 2016 levels in terms of the number of permits issued, as well as a 28% increase in total construction value.
- Mitigating efforts by Administration have assisted to reduce and control any draw against the Building Permit Fee Reserve each year. Those efforts include staffing adjustments where feasible, frugal management of all controllable operating costs, seeking increased efficiencies wherever possible and implementing new fees, or raising fees as well as cost recovery for services rendered.
- The Building Permit Fee Reserve deficit balance is currently approximately \$9.9 million, offset by the Contra Reserve account balance of approximately \$9.9 million.

On/Off Street Parking Operations

Budgeted Transfer to Reserve	Actual Transfer to Reserve	Year End Negative Variance
\$1,802,313	\$1,178,351	(\$623,962)

On/Off Street Parking has completed the year with a reduced transfer to the Off Street Parking Reserve of (\$623,962) as compared to budget due to several variances related to revenue, taxes, repairs & maintenance and several other minor line-by-line variances.

Key Highlights:

- All revenue sources (daily, monthly, lease and user fee) were lower than anticipated for 2017 resulting in an overall revenue shortfall of (\$853,891).
- Due to the by-law changes required, the revenue adjustments for the monthly parking rate increase, group discounts, and administrative penalties on parking tickets materialized in August and September 2017, resulting in only a partial year revenue increase of approximately 33% to 42%.
- The department also finished 2017 with surpluses of \$134,927 related to repairs and maintenance, \$124,738 related to utilities, \$121,188 related to property taxes and other line-by-line variances netting a surplus of \$13,838.
- The 2017 year-end balance in the On/Off Street Parking Reserve Fund is \$175,436.63.

Sewer Surcharge Funded Operations

Overall, a deficit of (\$247,805) is being reported for Sewer Surcharge Funded Operations, largely due to a shortfall in Sewer Surcharge revenues resulting from a decrease in water consumption. Key components of the sewer funded operations and results are noted below:

Pollution Control

Pollution Control ended the year with a surplus of \$348,170 from its Sewer Surcharge funded operations.

Key Highlights:

- A line-by-line analysis identified surpluses of \$1,015,400 in utilities, largely due to the Industrial Conservation Initiative (ICI), which was introduced in the spring of 2017. This program lowers the Global Adjustment rate for electricity customers using an average monthly demand in excess of 1MW.
- Additionally, surpluses of \$451,500 in Labour and Benefits, due to gapping of hourly staff, \$281,500 in Sewage Treatment revenues from the towns of Tecumseh and LaSalle, and \$97,900 in property taxes contributed to the overall surplus.
- The primary contributors offsetting these surpluses were maintenance parts and materials (\$576,000) and sludge removal costs (\$399,000). These costs are heavily reliant upon sewage treatment flows and can fluctuate significantly from year-to-year.
- Additionally, deficits in construction costs (\$129,000), chemicals (\$123,000), machinery & equipment (\$81,900), consulting (\$58,400) and other professional services (\$54,000) partially offset the surpluses, along with miscellaneous deficits totalling (\$76,830).

PW Operations

Public Works Operations ended 2017 with an overall sewer surcharge deficit of (\$118,417).

Key Highlights:

- The surplus of \$308,039 related to materials and contracted services are the result of efforts to mitigate the large deficit of (\$386,241) related to the sewer cave in repair at Ojibway.
- The salary and wage surplus of \$384,198 is the net result of several vacancies in the department offset by the hiring of additional temporary staff to assist with heavy workload situations.
- The deficit in sewer surcharge expenditures of (\$376,380) is related to transfers for the Environmental and Maintenance Divisions and are completely offset with surpluses in the levy Operating Fund. Required adjustments to the levy and sewer surcharge budgets for 2018 was approved by Council during the 2018 budget deliberations.
- The deficit of (\$12,672) for the flood during August 2017 relates to additional sewer maintenance services provided including eeling, flushing, catch basin cleaning, interceptor inspections, etc.
- Other miscellaneous accounts totalling (\$35,361).

Other Expenses

Other Sewer Surcharge related expenses contributed a surplus of \$984,987. Appeal refunds and general expenses were \$839,963 lower than anticipated. Additionally, Administrative Fees were \$337,836 better than budget, along with miscellaneous surpluses totalling \$4,416. These surpluses were offset by a (\$197,228) deficit in sewer repair and replacement expenditures.

Sewer Surcharge Revenue

Revenues received from the Sewer Surcharge rates, as a result of reduced consumption, were (\$1,415,041) lower than budget. This represents a shortfall of (2.4%) compared to the \$59.7 million budget.

Risk Analysis:

While this report represents the final year-end variance for the City's 2017 operating budget, it is important to note that there are potential risks that can have a significant impact on the year-end financial results in any particular year:

1. The Net Tax Additions/Reductions account is extremely difficult to project with certainty. There are still some significant appeals in progress and any variances in this account will vary dramatically based on the outcomes and timing of the settlements.
2. Current macro and micro economic conditions such as changes to local unemployment rates, volatility of energy costs, commodity prices and interest rates, as well as supply and demand for products and services.
3. Seasonal variability with respect to revenues (e.g. Recreation fees) and expenses (e.g. winter control).
4. Potential increases in staffing costs due to factors such as sick call replacement, modified duties (particularly in mandated or 24/7 operational areas), WSIB, joint job evaluation or other arbitration decisions, and health benefit usage (Green Shield). Some of these costs may be covered by corporate provisions/reserves.
5. Potential increase to unavoidable expenditures such as unavoidable repairs and maintenance, along with related purchases of materials and supplies, legal expenses, streetlight maintenance, etc.
6. The significant use of estimates, historical knowledge and judgement in developing budgets and projecting actual expenses for the year implies that actual year-end revenues and expenditures may differ significantly from quarterly projections. One way to mitigate this risk and help to offset any unexpected or one-time variances is by way of the annual \$1.5 million corporate contingency account.

Financial Matters:

Refer to **Appendix A** for detailed descriptions to support the departmental year-end variances along with mitigating measures.

Appendix B of this report includes a list of relevant operational and economic statistics (extracted from various sources) as background information and is depicted graphically by quarter, by year, for ease of reference and comparison purposes.

Consultations:

All City Departments provided comments to augment the analysis performed by the Finance Department.

Conclusion:

A projected quarterly variance summary throughout 2017 is presented in Table E, along with the actual year-end results.

Table E: 2017 Year-End Projections and Actual Results

	Year-End Projection at Q1	Year-End Projection at Q2	Year-End Projection at Q3	Year-End Actuals
2017 Surplus/(Deficit) (Including Budget Stabilization Contingency Account)	N/A	\$3,374,902	\$2,396,524	\$1,629,760

Overall, the Corporation of the City of Windsor ended the 2017 fiscal year with an operating surplus of \$1,629,760, with Administration recommending that \$1,129,760 be transferred to the Budget Stabilization Reserve, with the remaining \$500,000 transferred to the Succession Planning Reserve.

Furthermore, Administration is putting forth a recommendation to Council to establish a commodity tax reserve account and a fire defibrillator tiered response reserve account.

Planning Act Matters:

N/A

Approvals:

Name	Title
Mark Spizzirri	Manager of Operating Budget Control & Financial Administration (A)
Tony Ardovini	Deputy Treasurer – Financial Planning
Joe Mancina	Chief Financial Officer & City Treasurer
Onorio Colucci	Chief Administrative Officer

Notifications:

Name	Address	Email

Appendices:

Appendix A – Components of the 2017 Year-End Operating Budget Variance Report

Appendix B – 2017 Operational & Economic Statistics

Appendix C – 2017 Budget Carry-Forwards

Appendix D – 2017 Capital Closeouts

Appendix E – Development Charge Reserve Funds Income Statement for 2017