

**Subject: 2023 Third Quarter Operating Budget Variance - City Wide**

**Reference:**

Date to Council: December 11, 2023  
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Financial Planning  
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**To:** Mayor and Members of City Council

**Recommendation:**

THAT City Council **RECEIVE FOR INFORMATION** the 2023 3<sup>rd</sup> Quarter Operating Budget Variance Report as presented by the Chief Financial Officer & City Treasurer; and,

THAT the Chief Administrative Officer and the Chief Financial Officer & City Treasurer **BE DIRECTED** to continue to monitor the 2023 Operating Budget's projected variance and to continue to seek further means for offsetting any potential variances that may arise.

**Executive Summary:**

N/A

**Background:**

Annual operating budgets for all City Departments are traditionally set at the beginning of the calendar year based on best available information and trends. Professional estimates, the current legislative environment, macroeconomic trends (such as currency fluctuations, commodity prices, unemployment figures and business investment, etc.) and other local information available at the time approval is granted are significant inputs to the operating budget. Larger than normal Consumer Price Index (CPI) inflationary annual increases, currently at 4.1% (average for January to September) and the continuing recovery of several key city services from the COVID 19 pandemic, have placed significant pressures on many municipal service budgets. Further to this, and as discussed later in the report, the recent announcement of an unexpected funding shortfall related to the Ambassador Bridge convoy expenses incurred by the City has

created additional pressures. These variances are reflected in the departmental year-end variance projections within this report.

## **Discussion:**

### ***General Considerations***

The financial position of the Corporation is directly impacted by uncontrollable factors such as weather conditions, pandemic recovery, unemployment rates, tax appeals, fuel and utility costs, interest rates, settlement of litigation brought against the City and general inflationary pressures. As of the writing of this report, CPI for the period January to September has been published at 4.1%. This measure is for a basket of goods and does not reflect specific items which impact City services being fuel and utility rates. The trend for these specific items has been higher than the stated 4.1% and while CPI may be projected to fall over the last quarter of the year, the impact may not translate into operating expenditures prior to year end. As a result, material fluctuations in the projected variances could still occur in the wake of significant unforeseen events.

### ***Municipal Levy***

As at Q3, Administration projects that the total overall net municipal year-end financial impact for 2023 will result in a deficit of approximately \$2.0 million (rounded). Details by department are provided in the Table below. To mitigate external pressures noted above, included as part of the 2023 Approved Operating Budget, is a Budget Stabilization Contingency of \$2.7M. As in past practice, this contingency can be used to offset any budget variances at year-end. Should the actual year end variance result in a surplus, any unused Budget Stabilization Contingency may be transferred to the Budget Stabilization Reserve. Conversely, any year-end deficit may be funded from an additional draw from the Budget Stabilization Reserve.

### **Covid Recovery Financial Impacts**

Included in the projected year-end deficit is approximately \$5 million (rounded) in Covid related revenue shortfalls for several areas of the Corporation, including Transit, Recreation, and Public Works. Further to the revenue shortfalls, dividends from YQG and Windsor-Detroit Tunnel Corporation are not likely to materialize in 2023. These financial pressures are no longer covered through upper level of government assistance and have been mitigated to the extent possible by expenditure reductions and/or other revenue generating options. Administration expects that these pressures will continue to impact 2024 and future years operating results until the revenues recover to pre-pandemic levels and/or the revenue budgets are reduced to reflect the lower revenues going forward.

### **Ambassador Bridge Convoy Costs**

As Council will recall, on February 7, 2022 a group of protestors demonstrating against public health measures meant to curb the spread of COVID-19, staged a blockade at the entrance to the Ambassador Bridge at the intersection of Huron Church and College Avenue. This resulted in complete gridlock along the Huron Church corridor along with major disruptions to the surrounding area.

In the period of time following the start of the blockade of the area, significant costs were incurred by the City to manage this emergency. As at December 2022, not all costs had been finalized and the City was estimating a total incremental cost of approximately \$6.9M.

On December 29, 2022, The Honourable Marco Mendicino, then the Minister of Public Safety announced Federal funding up to \$6.9M to cover the City's costs for the blockade, including for policing that helped restore public safety at the bridge and surrounding area.

In March 2023, Administration was contacted by staff at Public Safety Canada (PSC) and requested to provide details and further explanation of the costs incurred as a result of the blockade. Administration was advised that, given there was no existing program that could be used to administer the funding, PSC would need to issue an ex gratia payment for the costs. At this time, finalized costs related to the Ambassador Convoy totalled \$6,995,406.

At the end of the review, PSC advised that funding could not exceed the previously announced \$6.9M resulting in a shortfall of \$95,406.

On September 11, 2023, The Mayor's Office received a letter from the Minister of Public Safety announcing that an ex gratia payment of \$6,094,915 had been approved to assist Windsor with these extraordinary expenses, a shortfall of \$900,491. To reconcile the shortfall, Administration was informed that the requested \$10,000 for foregone transit revenue was not approved. In addition, only 50% of the \$1,780,982 in legal costs were approved.

Despite the City's best efforts to provide timely and accurate information to PSC and further despite recent attempts to contact the Ministry no additional funding is being considered. As such, the shortfall of \$900,491 has been factored into the overall projections for third quarter reducing the projected surplus in Corporate Accounts.

The Table below provides a summary of the 2023 projected year-end variances as of the 3<sup>rd</sup> Quarter, from the largest dollar deficit to the largest surplus, for each of the City Departments and Agencies, Boards, and Committees.

*Please note that detailed departmental variance write-ups for the individual departments can be found in Appendix A: Operating Budget Variance of this report.*

Operating Budget Variance Summary by Department							
Department	2023 Gross Budget	2023 Net Budget	Q1 Projected Variance	Q2 Projected Variance	Q3 Projected Variance	Year-End Final Variance	% of Gross Budget
Transit Windsor	\$42,357,601	\$17,581,466	n/a	(\$1,026,000)	(\$2,629,000)	\$0	(6.2%)
Fire & Rescue	\$52,507,897	\$50,506,467	n/a	(\$1,255,000)	(\$1,354,000)	\$0	(2.6%)
Housing & Children Services *	\$166,764,770	\$29,268,555	n/a	\$301,000	(\$661,000)	\$0	(0.4%)
Recreation & Culture	\$26,551,319	\$13,788,238	n/a	(\$1,400,000)	(\$500,000)	\$0	(1.9%)
Purchasing, Risk & POA	\$10,639,956	\$3,367,337	n/a	(\$1,135,000)	(\$453,000)	\$0	(4.3%)
Parks & Facilities	\$39,883,357	\$30,070,610	n/a	(\$204,000)	(\$379,000)	\$0	(1.0%)
Taxation	\$3,704,444	\$697,709	n/a	\$0	(\$241,000)	\$0	(6.5%)
Building Services	\$8,633,939	\$1,313,075	n/a	(\$342,000)	(\$225,000)	\$0	(2.6%)
Legal Services	\$3,790,714	\$3,470,976	n/a	(\$22,000)	(\$180,000)	\$0	(4.7%)
Council Services	\$6,646,823	\$3,681,446	n/a	(\$412,000)	(\$154,000)	\$0	(2.3%)
Financial Planning	\$4,270,004	\$3,011,664	n/a	\$7,000	(\$131,000)	\$0	(3.1%)
Human Resources	\$7,543,216	\$6,700,452	n/a	\$0	\$0	\$0	0.0%
CAO's Office	\$1,070,193	\$1,070,193	n/a	\$0	\$0	\$0	0.0%
City Council	\$1,125,767	\$968,776	n/a	\$0	\$0	\$0	0.0%
Mayor's Office	\$504,338	\$504,338	n/a	\$0	\$0	\$0	0.0%
Economic Development	\$2,116,390	\$1,852,867	n/a	\$0	\$0	\$0	0.0%
Library Services	\$9,210,381	\$8,249,186	n/a	\$0	\$0	\$0	0.0%
Security & Special Activities	\$3,883,870	\$1,213,106	n/a	\$0	\$0	\$0	0.0%
Pollution Control	\$24,120,651	\$0	n/a	\$0	\$0	\$0	0.0%
Asset Planning	\$1,547,581	\$744,370	n/a	\$2,000	\$2,000	\$0	0.1%
Accounting	\$3,218,530	\$2,585,974	n/a	\$0	\$16,000	\$0	0.5%
Communications	\$4,264,283	\$3,545,355	n/a	\$39,000	\$50,000	\$0	1.2%
Engineering	\$9,443,767	\$2,845,960	n/a	(\$66,000)	\$152,000	\$0	1.6%
Information Technology	\$9,879,728	\$8,170,353	n/a	\$135,000	\$162,000	\$0	1.6%
Planning & Development	\$5,178,686	\$3,328,256	n/a	\$59,000	\$200,000	\$0	3.9%
Employment & Social Services	\$123,194,263	\$8,006,689	n/a	\$351,000	\$403,000	\$0	0.3%
Public Works	\$64,764,224	\$32,290,011	n/a	\$950,000	\$900,000	\$0	1.4%
Huron Lodge	\$31,984,347	\$9,573,835	n/a	\$945,000	\$1,100,000	\$0	3.4%
Corporate Accounts	\$188,467,125	\$90,453,576	n/a	\$168,000	\$1,542,000	\$0	0.8%
<b>Sub-Total: City Departments</b>	<b>\$857,268,164</b>	<b>\$338,860,840</b>	<b>n/a</b>	<b>(\$2,905,000)</b>	<b>(\$2,380,000)</b>	<b>\$0</b>	<b>(0.3%)</b>
Agencies	\$22,634,432	\$22,533,834	n/a	\$346,000	\$346,000	\$0	1.5%
Police Services	\$117,868,133	\$99,005,478	n/a	\$0	\$0	\$0	0.0%
<b>Sub-Total: ABC's</b>	<b>\$140,502,565</b>	<b>\$121,539,312</b>	<b>n/a</b>	<b>\$346,000</b>	<b>\$346,000</b>	<b>\$0</b>	<b>0.2%</b>
<b>Total: Municipal</b>	<b>\$997,770,729</b>	<b>\$460,400,152</b>	<b>n/a</b>	<b>(\$2,559,000)</b>	<b>(\$2,034,000)</b>	<b>\$0</b>	<b>(0.2%)</b>

\* Includes Windsor Essex County Housing Corporation (WEHC).

**Other Non-Tax Levy Funding Sources**

In addition to the Municipal levy variance, other non-tax levy funding sources (summarized in the table below) are estimated to result in a \$7.3 million (rounded) net surplus. Included in this amount are the following which will be transferred to noted Reserves; Building Permit Reserve \$6.6M surplus, On-Off Street Parking (\$260,000) deficit, and Sewer Surcharge \$1.0M surplus.

	2023 Gross Budget	2023 Net Budget	Q1 Projected Variance	Q2 Projected Variance	Q3 Projected Variance	Year-End Final Variance	% of Gross Budget
Building Permit Reserve	\$1,100,244	\$0	n/a	\$6,954,000	\$6,551,000	\$0	595.4%
On-Off Street Parking Res.	\$0	\$0	n/a	(\$335,000)	(\$260,000)	\$0	n/a
Sewer Surcharge Reserve	\$96,922,179	\$0	n/a	\$877,000	\$1,024,000	\$0	1.1%
<b>Total: Other Funding Sources</b>	<b>\$98,022,423</b>	<b>\$0</b>	<b>n/a</b>	<b>\$7,496,000</b>	<b>\$7,315,000</b>	<b>\$0</b>	<b>7.5%</b>

**Risk Analysis:**

There are a number of potential risks that can impact the year-end financial results as follows:

1. Current macro and micro economic conditions such as fuel costs, changes to local unemployment rates, volatility of energy costs, commodity prices and interest rates, as well as supply and demand for products and services. Inflation increased significantly in 2022 to levels not seen in decades as the economy recovered from the pandemic. Although inflation rates have been decreasing in 2023 (currently at 4.1%) from the highs in 2022, CPI rates continue to remain higher than pre-pandemic levels and will continue to materially impact City costs going forward.
2. Remaining financial impacts still contributing to budget variances from the pandemic recovery that are taking longer to return to pre COVID levels (i.e. Transit revenue, Recreation participation and Tunnel & YQG Dividends)
3. Seasonal variability with respect to revenues (e.g. recreation fees) and expenses (e.g. winter control & storm damage).
4. Potential increase 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, health benefit usage (Green Shield) and such other. Some of these costs may be covered by corporate provisions/reserves.
5. Potential increase to unavoidable expenditures such as emergency repairs and maintenance, related purchases of materials and supplies, legal expenses, streetlight maintenance, etc.

6. The significant use of estimates, historical knowledge and judgement in developing budget 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 corporate contingency budget.

## **Climate Change Risks:**

### **Climate Change Mitigation**

Climate Change Mitigation initiatives are budgeted throughout the corporation and any variances form part of the departmental and ABC variance descriptions.

### **Climate Change Adaptation**

Climate Change Adaptation initiatives are budgeted throughout the corporation and any variances form part of the departmental and ABC variance descriptions.

## **Financial Matters:**

Refer to **Appendix A** of this report for detailed descriptions of the projected year-end variances for each department along with any mitigating measures.

Refer to **Appendix B** of this report for additional statistical data. Included in Appendix B are a list of relevant operational and economic statistics (extracted from various sources) as background information and is depicted graphically for the current quarter, along with each of the preceding nine years for ease of reference and comparison purposes.

## **Consultations:**

All departments and ABC's provided comments to augment and clarify the analysis performed by the Financial Planning Department.

## **Conclusion:**

Administration is projecting a municipal levy net operating year-end deficit estimated to be \$2.0 million., As part of the 2023 budget, City Council approved a Budget Stabilization Contingency budget of \$2.7 million. Save and except the funding shortfall related to the Ambassador Bridge convoy costs, Administration will continue to monitor expenditures and revenues to the end of the year with a vision to mitigate any final deficit that may result. As is past practice, the Corporate Contingency could be used to mitigate any budget variances at year-end, with any remaining balance transferred to/from the Budget Stabilization Reserve.

A surplus as it relates to other funding sources of approximately \$7.3 million is projected however as noted, any surplus or deficit within these other funding sources will be

retained within the specified reserve. Administration will continue to monitor the year-end projections inclusive of mitigation measures that may be required.

**Planning Act Matters:**

N/A

**Approvals:**

Name	Title
David Soave	Manager, Operating Budget Development & Control
Tony Ardovini	Deputy Treasurer - Financial Planning
Janice Guthrie	Chief Financial Officer & City Treasurer
Joe Mancina	Chief Administrative Officer

**Notifications:**

Name	Address	Email

**Appendices:**

- 1 Appendix A--2023 Operating Budget Variance
- 2 Appendix B - 2023 Operational & Economic Statistics