

**THE CORPORATION OF THE CITY OF WINDSOR
Executive Committee - Administrative Report**



MISSION STATEMENT:

"Our City is built on relationships – between citizens and their government, businesses and public institutions, city and region – all interconnected, mutually supportive, and focused on the brightest future we can create together."

LiveLink REPORT #: 17669 AFB/11935	Report Date: April 15, 2015
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To: Executive Standing Committee

Subject: 2015 First Quarter Preliminary Operating Budget Variance Projection

1. RECOMMENDATION: City Wide: Ward(s): _____

That Council RECEIVE FOR INFORMATION the 2015 First Quarter Preliminary Operating Budget Variance Projection dated April 15, 2015 from the Chief Financial Officer and City Treasurer and;

That the Chief Administrative Officer along with the Chief Financial Officer and City Treasurer BE DIRECTED to monitor the 2015 Operating Budget and continue to seek further means of offsetting any potential variances that may arise.

EXECUTIVE SUMMARY:

N/A

2. BACKGROUND:

Administration monitors the operating budget on an ongoing basis. As with any annual forecasts, variance projections will become more accurate as the year unfolds. **The 1st Quarter variance projection is inherently highly speculative due to the limited data available early in the year.** Significant use of estimates, historical knowledge and judgment is used in projecting budget versus actual variances to year-end.

Second and third quarter reports are normally more detailed and include better forecasts, due to the fact that more information and financial activity is available and known as the year progresses.

It should be noted that budgets are estimates based on best available information at the time of the estimate. The following issues are extracted from the 2015 operating budget transmittal report, whereby certain risks were identified as being inherent in the 2015 budget estimates with the details provided in the Risk Analysis section of this report:

1. Tax Appeals
2. Fuel related costs
3. Pension Funding
4. Winter control costs
5. Collective Bargaining agreements
6. Utility costs
7. General Inflationary pressures
8. Timing of the operating budget approval
9. Employment Services program funding

These identified risks are presented and should be considered given that it is difficult to quantify potential full year outcomes based on only three months of operations.

3. DISCUSSION:

Tax Supported Variances

For the 2015 first quarter variance report, departments, working with their Finance Department Financial Planning Administrators, were asked to identify any projected year end variances when compared to their annual budgets. Based on all known and available information at the time of this report, departments have quantified and estimated their year-end variances, using a threshold of approximately +/- \$100,000 as a guideline (given the noted difficulty of providing exact estimates this early in the fiscal year). Those departments/ABCs currently projecting full year budget variances are presented in **Table A: Departments/ ABCs Currently Projecting Potential Operating Budget Variances.**

Departments/ABCs not shown in Table A departments are currently projecting to be on budget by year end. However, some are identifying potential risks that may not be currently quantifiable due to the fact that certain expenses and revenues may not materialize until later in the year and/or are unknown at this time which is outlined in the **Operating Budget Variances Comments by Department** on page 6 of the report.

Table A: Departments/ABCs Currently Projecting Potential Operating Budget Variances

Department	Projected Year End Variance
Department	
Fire and Rescue	\$ (2,000,000)
Engineering	\$ (700,000)
Facility Operations	\$ (200,000)
Total City of Windsor Departments	\$ (2,900,000)
Corporate Accounts	
Corporate Provisions for JJE and WSIB	\$ 955,000
Total Corporate Accounts	\$ 955,000
Agencies & Boards	
Windsor Police Services	\$ (275,000)
Total Agencies & Boards	\$ (275,000)
Total Gross Variance	\$ (2,220,000)
BSR Funding For Fire CR55/2015	\$ 435,046
Budget Stabilization Contingency	\$ 2,500,000
Total Net Surplus	\$ 715,046

Fire and Rescue Services (\$2,000,000)

The Fire Department is projecting to incur a significant deficit in its overtime account in 2015 as the department implements the conversion of the division to a 42 hour work week in accordance with the arbitrator's award of October 25, 2013. Additional costs will be incurred by the department based on the February 2, 2015 arbitrator's award arising from grievances filed by the Association relative to the proposed implementation plan which aimed to minimize costs to the taxpayers. In total these costs are expected to exceed budget by approximately \$2.6 million

Council, by way of CR55/2015 provided one time funding of \$435,046 from the Budget Stabilization Reserve fund to address the **one-time** 2015 costs of the February 2nd arbitrator's decision. Additionally, the noted variances are expected to be partially offset by an estimated \$600,000 in salary savings resulting from vacancies, leaves of absence and salary stepping relating to new recruits hired in the latter half of 2014.

Engineering (\$700,000)

Infrastructure and Geomatics (\$500,000)

Streetlight maintenance expenditures had typically been trending (\$250,000) over budget in previous years. In 2014, the budget was reduced by (\$245,800) in anticipation of approximately (\$500,000) in annual savings that were expected to be eventually achieved as a result of this conversion initiative. The estimated savings based on the conversion timelines expected at the time of the 2015 budget development, along with the \$245,800 in one-time funding approved in the 2015 budget, were expected to keep this line item on budget for the year. However, given the

revised project completion timelines (mid 2016) and escalating maintenance costs on the dated infrastructure, the current year-end projection is a deficit of (\$500,000).

It should be noted that these first quarter projections are based on only a few months of data. The account will be monitored closely and the projection revised as additional maintenance information, along with clearer status of the implementation of the LED conversion, becomes available.

Facility Operations (\$200,000)

The WIATC/AB complex is a unique facility that attracts some 200,000 visitors annually. In order to provide for the required level of maintenance to properly showcase this important Windsor attraction, the expenditures may be greater than budgeted for the year based on preliminary estimates in the first quarter. Management will continue to monitor all costs closely and identify any and all cost savings throughout the year to attempt to minimize this variance. The department is also committed to looking for efficiencies across all its operations to help address this issue.

Corporate Accounts \$955,000

Corporate Provision for Joint Job Evaluation Retroactive Payments, Unanticipated WSIB costs and Eligible NU Overtime \$955,000

The approved budget contains corporate provisions for JJE retro payments of \$500,000, unanticipated WSIB costs of \$150,000, and overtime provision for eligible non-union members of \$305,000. The actual expenditures are charged to the appropriate department, but as noted the budget is contained in the corporate accounts to maintain expenditure control; therefore, there is typically a surplus in these accounts offset by the charges in the various departments.

Agencies & Boards

Windsor Police Services (\$275,000)

The following operating variance description was provided by the Windsor Police Service (WPS) administration, as the Finance department does not provide financial support to the WPS.

"It is difficult to predict what issues could come up in any given year especially considering the nature of the service that we provide and the size of our operations. Typically, the areas that have been contributing to our variances are attributable to uncontrollable or unforeseen events.

The contributing factors that we have been experiencing fall under the following categories:

- *Overtime associated with major crimes and other events that arises throughout the year.*
- *Personnel costs such as workers compensation claims, pay equity adjustments, retirements and other one-time payouts, and this year in particular, potential collective bargaining impacts.*
- *Larger than anticipated legal costs for settlement of claims.*
- *Aging equipment that has reached the point where it can no longer be repaired or maintained, and we are now obligated to replace for the health and safety of our employees and to provide efficient and effective service to the community.*
- *Unrealistic revenue projections where anticipated grants or funding may not come to fruition.*

At this point in time and to the best of our ability, Windsor Police Service is projecting to be over budget by approximately \$275,000 for 2015. As always, we will ensure mitigating measures are put in place where possible to offset the overages.

Budget Contingency \$2,500,000

A \$2.5M contingency is included in the budget to mitigate the impact of changes to estimates and judgements made, in many cases with incomplete information, during the budget development process. The surplus in this line item is used to help offset variances that may arise.

Operating Budget Variance Comments by Departments

Public Works Operations

The Environmental Services division is projecting to be on budget for 2015. There are several key risk areas, however, that could have significant budgetary impacts such as waste tonnages for landfill tipping fees and contractor costs for waste collection. As mentioned, the area is projecting to be on budget for the year; however, monitoring will continue to ensure that any significant variances that may arise are dealt with appropriately.

Legal

External legal services and consulting fees are very difficult to project as it is impossible to predict what legal actions will be brought forward against the City and which the City would then be obliged to defend. As a result, although a variance in these accounts is not projected at this time this continues to represent a significant risk to the operating budget.

Additionally, the Provincial Offences Administration division is highlighting a potential risk in achieving its revenue target in 2015. It is very early in the year to forecast the revenue with any certainty, however charging volumes experienced year to date are currently below the levels experienced in 2014 (year to date). It should be noted that 2014 charging volume levels were also at a record low. The division will diligently review all discretionary spending to help offset and mitigate any variances. As Council is aware, any net variance to budget at year end is split 48.01% County and 51.99% City.

Huron Lodge

In September 2014, the Ministry of Health and Long Term Care (MOHLTC) announced an increase in funding to the nursing and personal care funding envelope as well as an increase in physiotherapy funding and funding for raw food retroactive back to April 2014. Due to the timing and submission of the 2015 budget, this revenue increase was not factored into the 2015 Budget. In February of 2015 the Ministry also announced changes to the Case Mix Index (CMI) that is used to calculate the nursing and personal care per diem amount funded to Long Term Care Homes. Huron Lodge's continuous commitment to prudent and accurate resident assessments has resulted once again in a CMI increase this year from 1.0141 to 1.0274. As a result, Huron Lodge will receive higher than expected funding for the 2015 year. Based on an estimated calculation, with all other things being equal, the additional funding for 2015 will offset unanticipated costs for the upcoming year.

Recreation & Culture

Overall attendance at recreation facilities appears to be somewhat below projection in the first quarter. At different times during the year there are varying fluctuations in attendance throughout all facilities. Some facilities tend to have an increase in attendance, while some may experience a decrease in attendance at various times. Overall the department is projecting to be on budget as mitigating measures are being implemented to reduce the affects of these fluctuations.

Employment and Social Services

The Employment & Social Services Department cautions there is a risk that both the Ontario Works (OW) Financial Assistance and OW Program Delivery budgets may be negatively impacted by the Province's November 2014 implementation of the Social Assistance Management System (SAMS). As outlined in Standing Committee Report LL# 17636, dated April 8, 2015, the Employment & Social Services department is incurring above average expenditures including additional staffing, overtime, and training costs in an attempt to mitigate many of the SAMS post-conversion issues. If the current SAM's staffing model continues until the end of the year, salary costs including significant overtime, plus other SAM's related costs could be as high as \$1.45 million gross. The Province recently announced another \$151,500 in 100% funding to offset expenditures incurred before March 31, 2015. Any SAMS related cost incurred in excess of this allocation, would draw down on the regular Program Delivery budget at a cost of 50% to the municipality (shared by City and County using the arbitrated assessment formula). **Should no additional 100% Provincial funding be received to offset the current staffing model**, the municipal budget impact could be as high as \$650,000, **with the City's share of the projected deficit estimated at \$461,000** and the County's share estimated at \$189,000. This potential deficit could be lower depending on how much of the City's 2015 Ontario Works Program Delivery budget is utilized.

There is also a potential budget risk in the OW Financial Assistance area. However there is insufficient and unreliable information at this time to quantify the impact. The subsidy claims process using SAMS technology has been delayed by the Province until the back-end financials are tested and validated. The Province has acknowledged that the SAM's OW expenditure and caseload reports that were generated for the period of November 2014 to January 2015 may be flawed and will be reissuing these reports in the near future. Subsidy claims since November 2014 have yet to be submitted to the Province for reimbursement. In addition, in order to close Fiscal 2014, estimates based on data from the SAMS reports, historical trends, and/or subject matter experts' judgement were used. When SAMS reports are reconciled, there is the risk that the estimates used for November and December may be over or understated which could result in a variance related to the prior year.

Transit Windsor

The fuel and lubricants account is currently projected to be below budget estimates and, if prices continue at this level, a potential surplus may be realized. The 2015 approved budget amount for fuel was \$0.95 per litre. Based on approximately 3,260,000 litres of diesel consumed annually, every \$0.01 variance from the budget figure of \$0.95 per litre translates to a variance of approximately \$32,600. Transit's average cost for diesel as at February 28, 2015 was \$0.87.

There are other key risks in Transit which have the potential to impact the budget variance, but are not known with certainty at this time. Therefore, these risks and their estimated financial impact are not included in the first quarter variance projection, but are described below:

- Transit commission revenue, realized primarily through sales made at the Windsor International Transit Terminal for Greyhound customers, are trending to be below budget estimates by approximately \$100,000. Transit Windsor is looking at ways to mitigate the greyhound shortfall and recommendations will be made in Q2.
- Revenue trends are currently projecting to be below budget estimates and could result in a projected deficit of approximately \$150,000. Transit was impacted by one snow day (days in which school buses were cancelled, resulting in many high school students not attending school and therefore not using city bus service), and several additional inclement weather days in 2015. Transit Windsor is hopeful that revenue projections can recover and still be within budget estimates.

Overall, a variance is not being reported at this time.

The remainder of the Departments are currently projecting to be on budget by year end with no significant identified risks.

Land Ambulance

The approved land ambulance budget was not available from the County when the City's budget was approved in January 2015. A Budget estimate was made for the City's share of costs. Based on the 2015 land ambulance budget approved by the County, the City's share is expected to be \$62,000 lower than budgeted resulting in a yearend surplus.

Agencies & Boards

The following Agencies, Boards and Commissions are currently projecting to be on budget by year end with no significant identified risks.

Health Unit
Handi Transit
Committees of Council

Non - Tax Supported Variances

Building Permit Reserve Fund

Administration is projecting to be on budget with respect to the Building Permit Reserve funded operations with the 2015 budgeted draw of \$412,844. Based on results in the first quarter, no significant variances are projected at this time.

Off Street Parking Operating Reserve Fund

On/Off Street Parking Operations is not expecting to transfer the full budgeted transfer amount of \$762,580 to the On/Off Street Parking Reserve as Administration is expecting a final year-end revenue deficit related to parking in line with the revenue variance trends of recent years. Administration is unable to quantify the expected reserve transfer reduction at this time, and it should be noted that the final transfer is also dependent upon any other unforeseen change in revenues or expenditures before year-end.

Sewer Surcharge Operating Reserve Fund (\$300,000)

Environmental Services portion of PW Operations:

Environmental Services is projecting to be on budget for 2015, with no significant risks identified at this time.

Pollution Control portion of Engineering:

Pollution Control is expecting to end the year with a deficit of (\$300,000). This is entirely due to work that must be completed at the Malden Landfill, and is required by the Ministry of the Environment (MOE). Through the City's MOE-mandated monitoring efforts, gases were detected in a well on the site, which is in close proximity to an adjacent off-site facility. The MOE requires that the City investigate the source of these gases and develop a plan to prevent migration of gases from the site. The projected deficit is based on pre-committed consultant fees and a preliminary cost estimate for the work to be completed.

Currently, other areas within Pollution Control are anticipated to be on budget for the year. There are several key risk areas, however, that have budgetary impacts which may materialize throughout the year, such as sludge removal, chemicals usage, equipment maintenance, and wages / benefits at sewage treatment facilities.

Sewer Surcharge Revenue:

Administration is projecting to be on budget with respect to the revenue for the sewer surcharge operating reserve.

4. RISK ANALYSIS:

The following risk analysis was presented and endorsed by Council on January 19, 2015 in the Approval of the 2015 Operating Budget Report (#17508, B21-2015).

At its core, a municipal budget is a projection of inflows and outflows for the coming year. Due to the timing of the budget preparation and approval, many of these projections need to be made with less than complete information. Additionally, these projections need to take into account future events and circumstances which are often out of the control of the municipality. Therefore, as with any budget, there are risk factors associated with the recommended 2015 City of Windsor operating budget. The following is a list of some of the most important of those risks along with related mitigating measures.

1. Tax Appeals is a difficult account to budget accurately as it is impossible to predict which taxpayers will appeal assessments and the eventual outcome of those appeals. Multimillion dollar swings are not unusual in these matters. The likelihood of this risk materializing is likely or almost certain; the likely impact of the consequences is moderate. Therefore this should be considered a significant risk. To mitigate this risk, the City has set up a dedicated reserve fund (current balance of \$4.3 million) which is currently replenished each year. Additional mitigation could come from the \$2.5 million contingency provision within the annual operating budget or the Budget Stabilization Reserve (BSR).

2. Fuel related costs have been extremely volatile over the last several years. While fuel prices have fallen from their all time high, there remains the risk that prices could spike in 2015. Furthermore, there is always the risk that global crisis may increase fuel costs in the future. The likelihood of this risk materializing is rated as possible; the likely impact of the consequences is rated as moderate. Therefore this should be considered a moderate risk. Mitigation for this risk comes from the BSR and the \$2.5 million contingency provision in the operating budget.
3. Pension funding is another high risk area. Over the last several years, the global market collapse has negatively impacted the value of assets contained in the pension funds. Delay in the market recovery may put additional pressure in the value of these pension funds, causing an increased contribution requirement from the corporation or special funding contributions. The likelihood of this risk materializing is rated as possible; the likely impact of the consequences is rated as moderate. Therefore this should be considered a moderate risk. Mitigation for this risk comes by way of the \$2.5 million budget contingency, the Fringe Rates Stabilization reserve and the BSR.
4. Winter control costs have been generally escalating in recent years. The last winter season was the worst on record with record snowfall amounts. Though the submitted budget includes an increase in this line item of some \$400,000, the potential does exist for significant negative variances if particularly severe winter season is experienced for a second year in a row. The likelihood of this risk materializing is rated as possible; the likely impact of the consequences is rated as moderate. Therefore this should be considered a moderate risk. Mitigation comes from the approved increase in the 2015 winter control budget line item of approximately \$400,000 (a 10% increase over the budget approved for 2014). Further mitigation could come from the \$2.5 million contingency and the BSR.
5. Negotiations leading to new wage settlements across various collective bargaining groups with wage settlements well above the rate of inflation being awarded by arbitrators to the public safety groups (Police, Fire & Ambulance). This is especially important as public safety services account for the largest share of the property tax levy and given that all contracts with our emergency services are open for bargaining at this time. The likelihood of this risk materializing is rated as likely to almost certain; the likely impact of the consequences is rated as high. Therefore this should be considered a significant risk. Mitigation for this risk can come from successful collective bargain. Additional mitigation is provided by reasonable provisions included in the recommended budget for this line item as well as the BSR. Continued advocacy for an improvement to the arbitration process is also an additional longer term mitigation strategy.
6. Increasing utility costs, especially for the provincial portion of the hydro bill. All utility costs are estimated at the start of the year. The likelihood of this risk materializing is rated as likely to almost certain; the likely impact of the consequences is rated as moderate. Therefore this should be considered a significant risk. This risk is mitigated by a reasonable increase recommended for these accounts in the 2015 budget. As well further mitigation can come from the \$2.5 million contingency and the BSR.
7. General inflationary pressures which may increase as the economy continues to improve. The likelihood of this risk materializing is rated as possible; the likely impact of the consequences is rated as moderate. Therefore this should be considered a moderate risk. Mitigation comes

from increased allocations in many budget line items relative to known increased costs, as well as the \$2.5 million contingency and the BSR.

8. Budgets that are approved early in the budget year carry additional risks because there are more unknowns as the budget is printed based on information that was available in the fall of the previous year; this has the potential to generate greater budget variances that might otherwise be experienced. Mitigation comes from the fact that the projections are made using informed professional judgements, as well as the \$2.5 million contingency and the BSR.
9. Over the last several years, the program funding for Employment Services has allowed the City the ability to recover corporate overhead charges applicable to these programs. Should these provincial funding envelopes change, we would need to absorb the significant revenue reductions elsewhere by cutting services or by raising fees or taxes. The likelihood of this risk materializing in the coming year is rated as rare to unlikely; the likely impact of the consequences is rated as moderate. Therefore this should be considered a moderate risk. Mitigation comes from continued advocacy for the program and the \$2.5 million contingency as well as the BSR.

5. FINANCIAL MATTERS:

Corporate financial impact is discussed throughout the report.

6. CONSULTATIONS:


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

7. CONCLUSION:

The first quarter variance projection is subject to significant refinements as the fiscal year progresses.



Sonia Bajaj
Financial Planning Administrator



Onorio Colucci
Chief Financial Officer & City Treasurer/
Corporate Leader Finance and Technology



Helga Reidel
Chief Administrative Officer

SKB

APPENDICES:

DEPARTMENTS/OTHERS CONSULTED: Name: Phone #: 519 ext.

NOTIFICATION :				
Name	Address	Email Address	Telephone	FAX