

**Executive Committee of Council
meeting held Monday, July 25, 2016**

2016 Q2 Operating Budget Variance Report

Moved by: Councillor Sleiman

Seconded by: Councillor Bortolin

Decision Number: **EC 265**

That Council **RECEIVE FOR INFORMATION** the 2016 Q2 Operating Budget Variance Report from the Chief Financial Officer and City Treasurer; and,

That the Chief Administrative Officer and Chief Financial Officer & City Treasurer **BE DIRECTED** to monitor the 2016 Operating Budget and continue to seek further means of offsetting any potential variances that may arise.

Carried.

Report No. S 133/2016
Clerk's File: AFB/12131
(Administrative Report attached which was
previously distributed as part of the
Standing Committee Agenda)

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”

REPORT #: S 133/2016	Report Date: 7/7/2016
Author’s Contact: Stephen Cipkar Manager of Operating Budget Control (A) 519-255-6100 ext. 6613 scipkar@citywindsor.ca	Date to Council: 7/25/2016
	Clerk’s File #: AFB/12131

To: Mayor and Members of City Council

Subject: 2016 Q2 Operating Budget Variance Report

RECOMMENDATION:

THAT Council **RECEIVE FOR INFORMATION** the 2016 Q2 Operating Budget Variance Report from the Chief Financial Officer and City Treasurer and;

THAT the Chief Administrative Officer and Chief Financial Officer & City Treasurer **BE DIRECTED** to monitor the 2016 Operating Budget and continue to seek further means of offsetting any potential variances that may arise.

EXECUTIVE SUMMARY:

N/A.

BACKGROUND:

Annual operating budgets for all City departments are set at the beginning of the calendar year based on Council direction. 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 are significant inputs to the operating budget recommended to City Council by administration. All departments monitor revenues and expenditures on an ongoing basis and project through to the end of the year to ensure that they remain at or as close to their approved budget as possible and that all material variances are mitigated as effectively as possible. As is typical with most forecasts, accuracy increases as the year progresses and more information and data becomes available.

The City's annual budget includes a modest \$1.5 million corporate contingency line item to help offset any unforeseen variances that materialize throughout the year.

In addition to the City's main operating budget, which is funded by the property tax levy, certain expenditures are funded by specific non-property tax levy sources such as Legislated Building Permits, On/Off Street Parking Operations, and the Sewer Surcharge Operating Fund. The discussion section of this report provides additional detail and analysis of the current and projected status of these other funds.

DISCUSSION:

Property Tax Supported Variances

The financial position of the Corporation is directly affected by uncontrollable factors such as weather conditions, unemployment rates, tax appeals, fuel and utility costs, interest rates, settlement of litigation brought against the City and social assistance caseloads. As a result, material fluctuations in the projected variances can occur if any unforeseen event occurs or the event is of an unforeseen magnitude.

Based on information as of May 31, 2016, Administration is projecting an estimated year end surplus of approximately \$117,000 after the use of the noted \$1.5 million contingency account and other approved / recommended reserve funding.

Table A provides a summary of the 2016 projected year end variances as of the 2016 2nd quarter, from the largest deficit to largest surplus, for each of the City departments and Agencies, Boards & Commissions.

Table A: 2016 Second Quarter Operating Budget Variance by Department

Department	2015 Year End Surplus/(Deficit)	2016 Annual Net Budget	2016 Q2 Projected Surplus/(Deficit) to Year End	Variance % Of Gross Budget
Corporate Human Resources Accounts	(\$2,910,466)	(\$13,548,693)	(\$3,090,200)*	-6.3%
Legal	(\$685,736)	\$5,877,591	(\$1,110,000)	-6.5%
Engineering	\$12,330	\$15,594,102	(\$320,000)	-0.6%
Huron Lodge	(\$161,208)	\$7,012,896	(\$205,000)	-0.9%
Fire & Rescue	(\$1,233,288)	\$42,838,231	(\$192,000)	-0.4%
Parks	\$191,343	\$14,833,635	(\$100,000)	-0.6%
Mayor's Office	\$0	\$561,809	\$0	0.0%
Council Administrative Services	\$12,392	\$567,767	\$0	0.0%

Human Resources	\$28,423	\$4,084,062	\$0	0.0%
Finance	\$290,844	\$6,371,531	\$0	0.0%
Council Services	\$362,335	\$6,765,674	\$0	0.0%
Windsor Public Library	\$0	\$7,831,216	\$0	0.0%
Recreation & Culture	(\$317,025)	\$9,790,969	\$0	0.0%
Information Technology	\$75,002	\$6,130,187	\$40,000	0.5%
CAO's Office	\$193,914	\$1,190,282	\$111,000	9.3%
Transit Windsor	(\$352,112)	\$14,216,829	\$296,000	0.9%
Planning & Building	\$413,336	\$3,331,740	\$365,000	4.5%
Housing & Children's Services/WECHC	\$208,531	\$22,029,359	\$578,000	0.6%
Employment & Social Services	\$618,295	\$10,972,614	\$640,000	0.5%
Corporate Financial Accounts	\$1,456,038	(\$290,532,104)	\$958,584	0.6%
Public Works Operations	\$673,701	\$25,900,040	\$960,000	1.9%
Total City Departments	(\$1,123,351)	(\$98,180,263)	(\$1,068,616)	-0.1%
Agencies, Boards & Commissions				
Agency Grants	\$223,464	\$17,186,329	(\$314,000)	-1.8%
Windsor Police Services	\$523,060	\$79,444,014	\$0	0.0%
Committees of Council	\$23,606	\$49,920	\$0	0.0%
Total Agencies, Boards & Commissions	\$770,130	\$96,680,263	(\$314,000)	-0.3%
Corporate Contingency	\$2,500,000	\$1,500,000	\$1,500,000	100%
Net Operating Budget Surplus	\$2,146,779	\$0	\$117,384	0.0%

*Relates to the allocation of fringe benefit costs and is completely offset by corresponding surpluses in the various departments.

Administration is working to reduce the identified projected departmental variances by incorporating appropriate mitigating measures in the departments and reporting to

Council on a quarterly basis. **Appendix A** identifies each department's variance, a detailed description of the variance and mitigating measures.

The projected year end variance is broken down by major account category and presented below in Table B.

Table B: 2016 Second Quarter Operating Budget Variance by Category

Category	Net Favourable/ (Unfavourable) Variance
REVENUE:	
Taxes – Municipal	(\$495,000)
Recovery of Expenditures	(\$200,000)
Transfers from Other Funds	(\$59,416)
Taxes – Education	\$0
Other Miscellaneous Revenue	\$120,400
Investment Income & Dividends	\$200,000
User Fees, Permits & Charges	\$426,200
Grants & Subsidies	\$809,000
SUBTOTAL - REVENUE	\$801,184
EXPENSES:	
Salaries & Benefits	(\$1,790,900)
Purchased Services	(\$558,000)
Transfers to External Agencies	(\$314,000)
Transfers to Reserves & Capital Funds	(\$100,000)
Utilities, Insurance & Taxes	(\$13,900)
Minor Capital	\$0
Transfers to Education Entities	\$0
Transfer for Social Services	\$0
Other Miscellaneous Expenditures	\$35,000
Financial Expenses	\$38,000

Operating & Maintenance Supplies	\$520,000
SUBTOTAL – EXPENSES	(\$2,183,800)
NET TOTAL	(\$1,382,616)
CORPORATE CONTINGENCY	\$1,500,000
2016 PROJECTED YEAR END SURPLUS	\$117,384

Revenue Variance

The largest deficit among the revenue categories is the “Taxes – Municipal” category and can be attributed to decreases in interest and penalty revenues on property tax accounts in arrears due to a significant downward trend in the balance of property tax arrears. This and other minor revenue deficits are more than offset by better than expected performance of the Corporation’s investments as well as better than expected collection of user fees, permits and other charges. Finally, there is a surplus due to higher than expected grants and subsidies.

Expense Variance

The largest deficit among the expense categories is for salaries and benefits. Although operating departments have realized some savings due to gapping vacancies, this is more than offset by a deficit in the Corporate fringe benefit recovery account. The “Purchased Services” category is made up of increased payments for external legal counsel, but this has been partially offset by savings from other departments. The projected deficit in “Transfers to External Agencies” category is due to higher than expected Land Ambulance costs. Utilities are projected to be in a deficit position by year end. Partly, this is due to higher than budgeted energy costs. It is also partly due to the Citywide LED Streetlight Conversion project being delayed. It was originally budgeted to be complete at the beginning of 2016 but is now projected to be complete by the end of this year. This deficit is largely offset by the related reduction in the expected contributions (from the savings generated by the streetlight conversion) to the Citywide LED Streetlight Conversion capital project for the balance of 2016.

Non-Property Tax Levy Variances

Building Permit Operations

2016 Budgeted Draw on Reserve	2016 Projected Draw on Reserve	2016 Projected Year End Surplus
\$413,000	\$407,000	\$6,000

Construction statistics as of June 30, 2016 (1,288 permits) are above that of 2015 (1,248 permits) for the same period. The permit counts are largely concentrated in renovations and new housing starts. These types of permits generate lower permit revenues compared to permits for new construction of the larger industrial, commercial and institutional (ICI) type projects. The (ICI) categories traditionally represent a large portion of the permit based revenue for the Corporation. Thus far in 2016, the number of commercial projects is similar to the same period in 2015. The number of government and institutional projects is higher than the 2015 total. Collectively, permit revenue is in line with the budgeted target and on track for possibly a minor surplus of \$6,000 after taking into consideration the current recruitment of temporary staff to address the existing work backlog. This would result in a similarly reduced draw on the reserve.

The total accumulated deficit in the building permits reserve is \$10,226,050 million at May 31, 2016. This is largely offset by the related offsetting contra reserve account which has a balance of \$9,757,000 million at May 31, 2016.

On/Off Street Parking Operations

2016 Budgeted Transfer to Reserve	2016 Projected Transfer to Reserve	2016 Projected Transfer Reduction (Year End Deficit)
\$1,476,504	\$1,200,374	(\$276,130)

Administration is projecting an overall reduction to the reserve transfer for 2016 of (\$276,130) related to the timing of the increase in hourly parking rates and the reinstatement of the cash-in-lieu of parking program. Due to the By-Law changes

required, the revenue adjustments for the hourly parking increase will not begin to materialize until June 27, 2016 when the hourly increase goes into affect resulting in only a partial year revenue increase of approximately 50%. The cash-in-lieu of parking program will be recommended for deferral to the 2017 budget through a report to Council expected in late summer.

The deficit balance in the On/Off Street Parking Reserve Fund as of May 31st, 2016 is (\$1,551,837).

Sewer Surcharge Operating Fund

Overall, a deficit of approximately (\$983,000) is projected for Sewer Surcharge Funded Operations, largely due to an anticipated shortfall in Sewer Surcharge revenues resulting from a decrease in water consumption.

Pollution Control

Pollution Control is projecting to end the year with a \$485,000 surplus. This is due to larger surpluses of \$219,300 and \$261,200 projected for the Lou Romano Water Reclamation Plant (LRWRP) and Little River Pollution Control Plant (LRPCP), respectively, as well as smaller anticipated surpluses of \$33,600 in Environmental Quality Services and \$6,300 in Electrical. Partially offsetting these surpluses is an expected deficit of (\$35,400) in Pumping Stations.

With respect to the LRWRP surplus of \$219,300, Labour and Benefit expenses are projected to contribute \$220,200 to the surplus. This \$220,200 surplus is made up of gapping / movement between pay bands, \$161,100, underutilization of temporary staff, \$35,700, and other miscellaneous line-by-line variances, \$23,400. Sewage Treatment revenues from the Town of LaSalle and Town of Tecumseh are also anticipated to be \$145,700 better than plan. Miscellaneous line-by-line variances are expected to contribute a further \$10,100 surplus. Partially offsetting these surpluses are projected deficits of (\$96,700) and (\$60,000) in other professional services and utility costs, respectively.

For the LRPCP, the largest contributor to the \$261,200 projected surplus is the anticipated surplus in Sewage Treatment revenues collected from the Town of Tecumseh totalling \$225,000. Smaller surpluses are projected in Chemicals, Labour and Benefit expenses, and Maintenance Parts & Materials, for \$54,500, \$37,400, and \$30,000, respectively. Partially offsetting these surpluses are expected deficits in Contracted Services, due to sludge removal costs, totalling (\$59,100), and miscellaneous line-by-line variances, (\$26,600).

PW Operations

PW Operations is projecting an overall surplus of \$100,000 related to their sewer surcharge funded operations. This projected surplus is made up of \$165,000 related to salary gapping due to sewer surcharge budgeted wage and fringe payments for Local 82 staff partially offset by a deficit of (\$65,000) related to an expense adjustment made back to the department for unrecoverable work.

Appeals

Sewer surcharge appeal refunds from commercial accounts, based on trending, are projected to contribute a (\$469,300) deficit. This relates to commercial accounts that are eligible for rebates for water that is not returned to the sewer system. The amount has been increasing steadily and the budget will be recommended for adjustment during the 2017 Budget

Sewer Surcharge Revenue

Revenues received from the Sewer Surcharge rates are anticipated to be below budget by (\$1,099,100) at the end of the year. This deficit represents 1.88% of the revenue budget of \$58.4 million. These projections take into account the sharp decline in Sewer Surcharge revenue seen in the second half of prior years, and are consistent with the trend towards lower water usage as a result of water conservation.

RISK ANALYSIS:

There are a number of potential risks that can have a significant impact on the year-end financial results:

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 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 unavoidable repairs and maintenance and related purchases of materials and supplies, legal expenses, streetlight maintenance, etc.
6. The significant use of estimates, historical knowledge and judgment 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 of the projected year-end variances for each department 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 for each quarter for 2016 and each of the preceding two years for ease of reference and comparison purposes.

CONSULTATIONS:

All departments provided comments to augment and clarify the analysis performed by the Finance Department.

CONCLUSION:

Administration is projecting a potential estimated year end surplus of approximately \$117,000 after the application of the \$1.5 million Corporate contingency account and other Council approved reserve funding.

As indicated throughout this report, the second quarter operating variance projection is subject to significant refinements as the fiscal year progresses. Mitigating measures and steps have and will be implemented where possible in order to mitigate negative budget risks.

APPROVALS:

Name	Title
Stephen Cipkar	Manager of Operating Budget Control (A)
Joe Mancina (Onorio Colucci Acting)	Chief Financial Officer & City Treasurer
Onorio Colucci	Chief Administrative Officer

NOTIFICATIONS:

N/A.

APPENDICES:

- 1 Appendix A - 2016 Q2 Operating Budget Variance by Department
- 2 Appendix B - 2016 Q2 Operational & Economic Statistics