

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 #: C 58/2017	Report Date: 3/22/2017
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	Clerk's File #: AFB/12131

To: Mayor and Members of City Council

Subject: 2016 Year-End Operating Budget Variance Report

RECOMMENDATION:

THAT Council **RECEIVE FOR INFORMATION** the 2016 Year-End Operating Budget Variance Report, dated March 22nd, 2017;

THAT the final 2016 Operating Budget surplus of \$3,934,036 **BE TRANSFERRED** to the Budget Stabilization Reserve (\$3,768,536) and the Capital Expenditure Reserve (\$165,500);

THAT in order to avoid the need to re-budget for various items, Council **APPROVE** \$1,429,697 in budget carryovers as detailed in Appendix C: 2016 Budget Carry-Forwards;

THAT Council **APPROVE** the balancing of and transfers from Capital Projects, as detailed in Appendix D: 2016 Capital Closeouts;

THAT Council **APPROVE** the attached Development Charges 2016 Income Statement Schedule (Appendix E);

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

- a. \$8,668.92 (50% of the annual 2016 rental fees) from the Showmobile reserve account (1752) to operating department ID 0280021;

- b. \$2,972.43 from the Municipal Elections reserve account (1762) to operating department ID 0111511;
- c. \$9,344.67 payment to AOYS Fire Training Ltd. from the Ontario Fire Service Grant reserve account (1768);
- d. \$41,366.69 from the Mapping reserve account (1771) to operating department ID 0161035;
- e. \$7,662.07 from the Firefighter Recruitment reserve account (1787) to operating department ID 0145008;
- f. \$154,216 from the Development Charges reserve funds to operating department ID 0152710;
- g. \$10,497,874 from Fund 192 – Reserve for Tax Appeals to fund the approved tax appeals settlements during the year;
- h. \$235,012 from the Capital Expenditure Reserve Fund (160) to department ID 0122956 – (Facility Operations – Non-Campus) and department ID 0125240 – (Real Estate-Operating);
- i. \$800,000 from reserve fund 195 – Police Equipment Replacement to capital project 7061930 – East End Police Station Relocation (\$400,000) and 7161011 – WPS Workplace Ergonomic & Efficiency Reconstruction (\$400,000), as authorized by the Windsor Police Services Board at its meeting on February 25, 2016;

That Council **APPROVE** the following transfers relative to the Windsor International Aquatic Training Centre (WIATC) project surplus of \$700,266:

- a. \$242,507 be directed to fund WIATC roof enhancements that were made to support the solar photovoltaic panels that have been installed;

AND

- b. The remaining \$457,769 project surplus be directed to a new WIATC Capital Maintenance reserve to fund future capital maintenance costs of the facility;

THAT Council **APPROVE** a recommendation from administration to discontinue the requirement as per CR 224/2011, for a corporate First Quarter Variance report to be prepared in years where the operating budget has been approved prior to February 28th.

EXECUTIVE SUMMARY:

The Corporation ended the 2016 fiscal year with an operating surplus of \$3,934,036. It is being recommended that \$165,500 of this surplus be transferred to the Capital Expenditure Reserve, with the remaining balance of \$3,768,536 to be transferred to the Budget Stabilization Reserve (BSR) to replenish this reserve in order to be able to fund future one-time costs and avoid property tax rate spikes.

It should be noted that these results are still subject to 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 2016. 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: 2016 Year-End Operating Budget Variance by Department

Department	2016 Annual Net Budget Expense/ (Revenue)	Year-End Surplus/(Deficit)	Variance % of Gross Budget
Legal	\$ 5,877,591	\$ (2,941,174)	-17.3%
Corporate Human Resource Accounts	\$ (13,548,693)	\$ (2,305,873)	-4.7%
Engineering	\$ 15,594,102	\$ (719,538)	-1.4%
Parks	\$ 14,833,635	\$ (221,975)	-1.4%
Fire & Rescue Services	\$ 42,838,231	\$ (201,539)	-0.5%
Huron Lodge	\$ 7,012,896	\$ (170,611)	-0.8%
Mayor's Office	\$ 511,809	\$ -	0.0%
Grants to the Windsor Public Library	\$ 7,831,216	\$ -	0.0%
Council Administrative Services	\$ 567,767	\$ 35,035	6.2%
Information Technology	\$ 6,130,187	\$ 35,456	0.5%
CAO's Office	\$ 1,190,282	\$ 80,244	6.7%

Finance	\$ 6,371,531	\$ 106,279	1.1%
Recreation & Culture	\$ 9,790,967	\$ 108,939	0.5%
Human Resources	\$ 4,084,062	\$ 194,002	4.4%
Planning & Building	\$ 3,331,740	\$ 282,086	3.5%
Council Services	\$ 6,765,674	\$ 352,729	3.6%
Transit Windsor	\$ 14,216,829	\$ 644,326	2.0%
Public Works	\$ 25,900,040	\$ 890,988	1.7%
Employment & Social Services	\$ 10,972,614	\$ 1,280,031	1.1%
Housing & Children's Services	\$ 22,029,359	\$ 1,472,024	1.5%
Corporate Financial Accounts	\$ (290,482,102)	\$ 2,801,584	1.7%
Total City Departments	\$ (98,180,263)	\$ 1,723,013	0.2%
Unused Corporate Contingency	\$ 1,500,000	\$ 1,500,000	100.0%
Surplus / (Deficit) Subtotal	\$ (96,680,263)	\$ 3,223,013	0.4%
Agencies, Boards & Commissions			
Windsor Police Services	\$ 79,444,014	\$ 1,181,533	1.3%
Agency Grants	\$ 17,186,329	\$ (481,970)	-2.8%
Committees of Council	\$ 49,920	\$ 11,460	23.0%
Total Agencies, Boards & Commissions	\$ 96,680,263	\$ 711,023	0.7%
2016 Net Operating Budget Surplus	\$ -	\$ 3,934,036	0.5%

* 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 carry-forwards that relate to 2016. These are budgeted items that, due to timing, were committed but not expended in 2016 and as a result, the related budgets for those items have been carried forward into 2017. These expenditure line items are expected to be paid in 2017 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
2011	\$4,048,621	0.60%
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%

DISCUSSION:

Tax Supported Variances

The Corporation ended the 2016 fiscal year with an operating surplus of \$3,934,036. This figure is net of budget carryovers in the amount of \$1,429,697. This surplus is recommended to be transferred to the Budget Stabilization Reserve and Capital Equipment Reserve.

Table C provides an alternative view of the 2016 year-end financial results by major account categories. A brief analysis of the items included in each of the significant dollar categories augment this table.

Table C: 2016 Year-End Operating Budget Variance by Category

Category	Net Favourable/ (Unfavourable) Variance
REVENUE:	
Recovery of Expenditures	\$ (2,493,445)
Taxes – Municipal	\$ (857,179)
Transfers from Other Funds	\$ 203,463
Other Miscellaneous Revenue	\$ 607,063
User Fees, Permit & Charges	\$ 1,013,679
Investment Income & Dividends	\$ 1,957,536
Grants & Subsidies	\$ 2,814,736
SUBTOTAL REVENUE:	\$ 3,245,853

EXPENSE	
Utilities, Insurance & Taxes	\$ (1,861,471)
Purchased Services	\$ (1,002,664)
Transfers to External Agencies	\$ (481,970)
Operating & Maintenance Supplies	\$ (84,167)
Minor Capital	\$ (46,000)
Other Miscellaneous Expenditures	\$ 218,516
Financial Expenses	\$ 368,067
Salaries & Benefits	\$ 2,077,872
SUBTOTAL – EXPENSES	\$ (811,817)
Net Total	\$ 2,434,036
Corporate Contingency	\$ 1,500,000
2016 Year-End Surplus	\$ 3,934,036

Revenue Variance

The “Recovery of Expenditures category” is the largest revenue deficit and is primarily due to the centralized recovery of fringes from operating departments (largely offset by similar surpluses in the various departments). To offset this deficit are one time Grant & Subsidy surpluses being reported in the Housing Services, Windsor Essex Community Housing Corporation and Huron Lodge departments. Additionally, the deficit in “Taxes – Municipal” can be attributed to decreases in interest and penalty revenues on property tax accounts in arrears due to a significant reduction 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.

Expenditure Variance

The most significant expense variance is found within the “Utilities, Insurance & Taxes” category. The deficit position is primarily due to higher than anticipated claims costs within the Legal Department, as there were several sizeable settlements finalized in 2016 which had been ongoing for several years. These settlements were primarily related to slip & fall or trip & fall incidents that occurred in the previous 2-3 year period. In addition, this deficit is also partially due to the delayed 2017 completion of the Citywide LED Streetlight Conversion project. It was originally budgeted with expected completion at the beginning of 2016 but is now projected to be completed in early 2017. As a result, projections of the resulting savings in energy costs have contributed to the deficit within this category.

The deficit in the “Purchased Services” category consists of increased payments for external legal counsel. The deficit in the “Transfers to External Agencies” category is due to higher than expected Land Ambulance costs. The surplus in the “Salaries & Benefits” category is due to salary gapping across the Corporation, but is largely offset by the fringe rate recovery deficit discussed in the “Revenue Variance” section above.

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 reserves. The following miscellaneous housekeeping transfers have occurred and further descriptions are provided:

Showmobile Reserve (Reserve Account 1752)

All rentals received from the renting of the Parks Dept. Showmobile are directly deposited into the reserve throughout the year and then transferred to operating at 50% at the end of the year to offset incurred operating costs.

Municipal Elections Reserve (Reserve Account 1762)

These expenses related to municipal elections include conference charges (ranked ballot training) that were initially charged to operating and are funded from the Municipal Elections dedicated reserve.

Ontario Fire Service Grant (Reserve Account 1768)

Expenditures for the Blue Card Annual Instructor Support Program and On-line Subscription renewal used to train all Fire & Rescue Officers as Incident Commanders is required and charged initially to operating and funded from Fire’s dedicated Ontario Fire Service Grant reserve.

Mapping Reserve (Reserve Account 1771)

Expenditures including the 2015 aerial map, an updated Digital Elevation Model (DEM) and various GIS layers (contours, bldg. outlines, all trees) were incurred and charged to operating and funded from the dedicated Mapping reserve.

Firefighter Recruitment Reserve (Reserve Account 1787)

Firefighter recruitment costs were incurred and charged to operating and funded from Fire’s dedicated reserve at the end of the year.

Development Charges Reserve

Bank charges related to the collection of development charges were incurred and charged to the Site Development department ID within the operating budget. A breakdown of the transfer from the Development Charges reserve is as follows:

Transfer from Development Charges Reserve to Operating Dept. ID 0152710	
Fund 114	\$447.09
Fund 115	\$76,639.18
Fund 116	\$13,907.31
Fund 117	\$35,818.86
Fund 118	\$11,534.50

Fund 121	\$931.65
Fund 122	\$1,614.17
Fund 123	\$1,352.31
Fund 124	\$1,059.39
Fund 125	\$4,583.50
Fund 126	\$4,721.47
Fund 127	\$935.42
Fund 128	\$671.15
TOTAL	\$154,216.00

Tax Appeals Reserve (Reserve Fund 192)

The Tax Appeals Reserve was established to fund refunds to property owners as a result of retroactive settlements of ongoing property tax and assessment appeals which exceed the annual operating provision for property tax write-offs. In 2016, \$10,497,874 was transferred from the reserve for this purpose.

Capital Expenditure Reserve (Reserve Fund 160)

The responsibility for maintaining the city owned transitional buildings, vacant lots and right-of-ways are the responsibility of the Parks Department and the Facility Operations Division. They are tasked with providing all care and site clean-up services to maintain the properties, in accordance with all Federal/Provincial regulations and City of Windsor bylaws. In 2016, \$235,012 was transferred from the reserve for this purpose. It should be noted that the reserve fund is credited with revenues generated by City owned facilities and the sale of land or properties.

Police Equipment Replacement Reserve (Reserve Fund 195)

The Windsor Police Services Board authorized at its meeting on February 25, 2016 to transfer \$800,000 from this specific reserve fund to capital project 7061930 – East End Police Station Relocation (\$400,000) and 7161011 – WPS Workplace Ergonomic & Efficiency Reconstruction (\$400,000).

Capital Closeouts

Appendix D contains a summary of capital projects that were either closed, completed or consolidated during 2016. The Corporation does not budget for any variance with respect to capital closeouts. Surplus balances normally offset deficits in other projects as long as 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 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 2016, as required by the Development Charges Act.

Economic Development Office

On March 7th, 2016, Council approved via CR 120/2016, that the City’s Economic Development Office be funded from the “Economic Development & Employment” reserve account pending a report back on permanent funding options. Furthermore, a summary of the transactions in the reserve account were to be presented to Council at year-end.

Table D: Summary of 2016 Economic Development Office Expenditures

Expenditure	Amount
Salaries & Benefits	\$44,240
Advertising	\$3,791
Computers/Phone	\$1,957
Travel/Training	\$1,146
TOTAL EXPENSES	\$51,134

Non-Tax Supported Variances

Building Permit Operations

2016 Budgeted Draw on Building Permit Fee Reserve	Actual Contribution to Reserve	Year-End Surplus
\$ (413,500)	\$ 79,300	\$ 492,800

Key Highlights:

- Construction statistics as of December 31, 2016 (2,662 permits) are above that of 2015 (2,524 permits).
- Permit counts in the residential, industrial and commercial categories were slightly higher than in 2015, while commercial activity was about the same as 2015.
- The total construction values in the residential and institutional categories were 10% and 15% higher respectively, in comparison to the values from the previous year.
- Construction value for industrial and commercial activity remained the same for 2016 as that observed in 2015.
- Mitigating efforts by Administration have assisted to reduce and control any draw against the Building Permit Fee Reserve each year. Those efforts include gapping and staffing reductions where feasible, frugal management of all controllable operating costs, seeking increased efficiencies where ever 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 \$10.2 million, offset by the Contra Reserve account balance of approximately \$9.8 million.

On/Off Street Parking Operations

Budgeted Transfer to Reserve	Actual Transfer to Reserve	Reduced Transfer (Year-End Deficit)
\$1,476,504	\$900,992	(\$575,512)

On/Off Street Parking has completed the year with a reduced transfer to the Off Street Parking Reserve of (\$575,512) due to several variances related to revenue, taxes, utilities, parts, equipment, other professional services, and several other minor line-by-line variances.

Key Highlights:

- Both daily and monthly revenues were lower than anticipated for 2016 in garages, lots, and at parking meters resulting in an overall revenue deficit of (\$788,648).
- The majority of this revenue variance relates to the late (August) implementation of the increased hourly parking rate in 2016, as well as reduced monthly parking revenue resulting from the relocation of employee parking due to the construction of the new City Hall and the loss of revenue realized due to the closing of Lot 17 due to City Hall construction.
- Also contributing to the year-end position was a deficit of (\$114,463) related to required elevator repairs that were completed in the garages, and a deficit of (\$48,401) relative to various minor line-by-line variances.
- Offsetting the deficits for revenue and repairs was an overall surplus of \$198,940 related to various accounts that Administration under-spent in an effort to mitigate some of the under-realized revenue for 2016. These accounts included parts, materials, machinery & equipment, construction, salary and fringe, and other pay.
- The department also finished 2016 with surpluses of \$57,681 related to property taxes and \$119,379 related to utilities.
- The 2016 year-end balance in the On/Off Street Parking Reserve Fund is a deficit of \$ (626,798.88).

Sewer Surcharge Funded Operations

Overall, a deficit of (\$49,786) 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 \$159,234 surplus.

This is due to larger surpluses of \$234,256 and \$155,591 the Little River Pollution Control Plant (LRPCP) and Electrical departments, respectively. Partially offsetting these surpluses were deficits of (\$99,653) in Pumping Stations, (\$70,090) at the Lou Romano Water Reclamation Plant (LRWRP), and (\$60,870) in Environmental Quality Services.

Key Highlights:

- An overall surplus of \$234,256 at the Little River Pollution Control Plant (LRPCP) was largely driven by increased sewage treatment revenues collected from the Town of Tecumseh and a decrease in labour and benefits costs due to vacancies in hourly positions at the plant.
- Despite a surplus of additional sewage treatment revenues collected from the Towns of LaSalle and Tecumseh, the Lou Romano Water Reclamation Plant (LRWRP) ended the year with a deficit of (\$70,090).
- The primary contributor to the plant's deficit were sludge and chemical expenses, which were attributed to the higher than anticipated flows at the facility, along with a flooding incident at the plant's main pump house resulting in an unplanned expense being incurred.

Typically, a breakdown is only provided for the LRWRP and LRPCP facilities. However, Administration would also like to make Council aware of some significant expenses incurred for Pumping Stations in Q4. The Grand Marais Pump Station required unanticipated expenditures totalling \$139,174. These expenses included the necessary equipment and labour to repair the unit, as well as the rental of an emergency pump while the repair work was completed.

PW Operations

Public Works Operations has finished 2016 with an overall surplus of \$119,299 related to their sewer surcharge funded operations.

Key Highlights:

- The main drivers of the surplus involved reduced costs related to salary, wage, and fringe costs due to extended vacancies across the department and lower than anticipated WSIB costs for the year.
- Offsetting these surpluses were deficits for various equipment repairs and purchases along with street sanitation service and litter & debris collection.

Other Expenses

A surplus in Administrative Fees offset by Other Sewer Surcharge related expenses including sewer surcharge appeals, overhead costs and sewer repair/replacement costs resulted in a further deficit of (\$76,249).

Sewer Surcharge Revenue

Revenues received from the Sewer Surcharge rates were below budget by (\$252,071) for the year. The variance represents (0.43%) of the revenue budget of \$58.4 million, and is consistent with the trend towards lower water usage resulting from water conservation.

RISK ANALYSIS:

While this report represents the final year-end variance for the City's 2016 operating budget, it is important to note that there are a number of 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, 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 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 2016 is presented in Table D, along with the actual year-end results.

Table D: 2016 Year-End Projections and Actual Results

	Year-End Projection at Q1	Year-End Projection at Q2	Year-End Projection at Q3	Year-End Actuals
2016 Surplus/(Deficit) (including Budget Stabilization Contingency Account)	N/A	\$117,384	\$2,997,377	\$3,934,036

Overall, the Corporation of the City of Windsor ended the 2016 fiscal year with an operating surplus of \$3,934,036, which is proposed to be transferred to the Budget Stabilization Reserve and Capital Expenditure Reserve.

In recent years, administration has presented a first quarter variance report for the period ending March 31st. However, due to the limited usefulness of the March 31st report (due to the bulk of the year's transactions not having occurred by that date), it is being recommended that the next formal variance report to Council will be for the period ending May 31st, 2017. Administration will continually monitor the departmental variances and any significant issues will be promptly reported to Council.

Furthermore, Administration is putting forth a recommendation to Council that discontinues the requirement for an annual first quarter variance report in future years.

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 2016 Year-End Operating Budget Variance Report

Appendix B – 2016 Operational & Economic Statistics

Appendix C – 2016 Budget Carry-Forwards

Appendix D – 2016 Capital Closeouts

Appendix E – Development Charge Reserve Funds Income Statement for 2016