

Subject: 2018 Year-End Operating Budget Variance Report - City Wide

Reference:

Date to Council: April 15, 2019

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Financial Planning

Report Date: March 28, 2019

Clerk's File #: AFB/12937

To: Mayor and Members of City Council

Recommendation:

THAT Council **RECEIVE FOR INFORMATION** the 2018 Year-End Operating Budget Variance Report, dated March 28th, 2019; and,

THAT the final 2018 Operating Budget surplus of \$2,466,375 **BE TRANSFERRED** to the Budget Stabilization Reserve; and,

THAT in order to avoid the need to re-budget for various items, Council **APPROVE** \$1,730,467 in budget carryovers as detailed in Appendix C: 2018 Budget Carry-Forwards; and,

THAT Council **APPROVE** the balancing of and transfers from Capital Projects, as detailed in Appendix D: 2018 Capital Closeouts; and,

THAT Council **APPROVE** the attached Development Charges 2018 Income Statement Schedule (Appendix E); and,

THAT Council **APPROVE** the attached Development Charge Reserve Fund Statement – Listing of Credits (Appendix F); and,

THAT Council **APPROVE** the establishment of a new reserve fund, titled the City Social Housing Reserve Fund; and,

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

- a. \$733,811.12 from the Municipal Elections reserve account (1762) to operating department ID 0111511;
- b. \$12,460.89 from the Mapping reserve account (1771) to operating department ID 0161035;
- c. \$1,276.60 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;
- d. \$1,831.68 from the Non-Union Salary Review reserve account (1783) to operating department ID 0124110;
- e. \$17,529.00 to the Defib. Tiered Response reserve account (1797), which relates to a 2017 fund balance correction;
- f. \$7,145.63 from the Parkland Acquisition reserve (Fund 151) to operating department ID 0152710;
- g. \$127,148.25 from the Building Permit reserve (Fund 180) to operating department ID 0152710;
- h. \$103,012.81 from the Development Charges reserves (Funds 114-128) to operating department ID 0152710;
- i. \$1,000,000 to the City Social Housing reserve (Fund 216) resulting from the Windsor Essex Community Housing Corporation (WECHC) surplus.

Executive Summary:

The Corporation ended the 2018 fiscal year with an operating surplus of \$2,466,375. It is recommended that this surplus 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 (*on the following page*) provides a summary of the budgets and year-end variances for City Departments, Corporate Accounts, and Agencies, Boards and Commissions for 2018. 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: 2018 Year-End Operating Budget Variance by Department

Department	2018 Annual Net Budget Expense/ (Revenue)	Year-End Surplus/ (Deficit)	Variance % of Gross Budget
Fire & Rescue Services	\$45,502,965	(\$457,162)	-1.0%
Engineering	\$3,369,287	(\$454,241)	-1.7%
Transit Windsor	\$13,271,519	(\$195,008)	-0.6%
Huron Lodge	\$7,317,503	(\$131,868)	-0.6%
Legal	\$6,772,609	(\$87,047)	-0.5%
Planning & Building	\$3,881,662	(\$42,184)	-0.4%
Parks	\$26,330,162	(\$4,890)	0.0%
Grants to the Windsor Public Library *	\$8,203,937	-	0.0%
Finance	\$6,467,287	\$873	0.0%
Public Works Operations	\$27,342,112	\$2,391	0.0%
Human Resources	\$4,988,419	\$4,268	0.1%
Mayor's Office	\$504,753	\$9,687	1.9%
Council Administrative Services	\$597,657	\$28,205	4.7%
Information Technology	\$6,678,895	\$114,264	1.4%
CAO's Office	\$1,151,348	\$170,118	12.9%
Council Services	\$7,150,594	\$182,128	1.7%
Housing & Children's Services	\$23,282,846	\$217,503	0.2%
Recreation & Culture	\$12,816,436	\$238,860	1.0%

Employment & Social Services	\$7,887,381	\$691,753	0.6%
Corporate Accounts	(\$316,872,705)	\$2,329,094	1.0%
Total City Departments	(\$103,355,333)	\$2,616,744	0.3%
Corporate Contingency	\$1,500,000	-	0.0%
Surplus/(Deficit) Subtotal	(\$101,855,333)	\$2,616,744	0.3%
Agencies, Boards & Commissions			
Windsor Police Services	\$83,943,525	(\$587,065)	-0.6%
Committees of Council	\$42,120	\$6,782	16.9%
Agency Grants	\$19,369,688	\$429,914	2.1%
Total Agencies, Boards & Commissions	\$103,355,333	(\$150,369)	-0.1%
2018 Net Operating Budget Surplus		\$2,466,375	

*The Windsor Public Library reported variance 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 2018. These are budgeted items that, due to timing, were committed but not expended in 2018 and as a result, the related budgets for those items have been carried forward into 2019. These expenditure line items are expected to be paid in 2019 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
2014	\$691,606	0.10%
2015	\$2,146,779	0.30%
2016	\$3,934,036	0.47%
2017	\$1,629,760	0.19%
2018	\$2,466,375	0.27%

Discussion:

Tax Supported Variances

The Corporation ended the 2018 fiscal year with an operating surplus of \$2,466,375. This figure is net of budget carryovers in the amount of \$1,730,467. Administration recommends transferring the entire operating surplus to the Budget Stabilization Reserve.

Table C (on the following page) provides an alternative view of the 2018 year-end financial results by major account category. A brief analysis of the items included in each of the significant dollar categories augments this table.

Table C: 2018 Year-End Operating Budget Variance by Category

Category	Net Favourable/(Unfavourable) Variance
REVENUE:	
Grants & Subsidies	\$1,102,075
Investment Income & Dividends	896,494
User Fees, Permits & Charges	606,696
Taxes – Municipal	317,043
Other Miscellaneous Revenue	(151,849)
Recovery of Expenditures	(356,219)
SUBTOTAL REVENUE:	\$2,414,240
EXPENSE	
Salaries & Benefits	1,088,403
Utilities, Insurance & Taxes	1,077,749
Other Miscellaneous Expenditures	(75,240)
Minor Capital	(75,748)
Financial Expenses	(83,383)
Operating & Maintenance Supplies	(894,563)
Purchased Services	(\$985,083)
SUBTOTAL – EXPENSES	\$52,135
Net Total – 2018 Year-End Surplus	\$2,466,375

Revenue Variance

The “Grants & Subsidies” category is the largest revenue variance and the surplus is primarily due to lower mandated subsidy payments required by the Windsor Essex Community Housing Corporation. In addition, there are additional surpluses in this category being reported within Huron Lodge, along with program support recoveries in relation to the Children’s Services and Ontario Works programs.

The “Investment Income & Dividends” category is also reporting a healthy surplus in 2018, primarily due to higher than projected interest rates resulting in better than expected performance of the Corporation’s investments.

Expenditure Variance

The most significant expense variance is a substantial surplus found within the “Salaries & Benefits” category. Several departments across the Corporation incurred surpluses related to salary gapping. However, the most significant contributors to this variance were the Public Works Operations department, along with the Employment & Social Services area.

In addition, there was a large surplus in the “Utilities, Insurance & Taxes” category primarily related to reduced consumption and increased conservation efforts and lower than anticipated legal claims costs in 2018. Offsetting these expense surpluses were two negative variances in the “Purchased Services” and “Operating & Maintenance Supplies” categories.

Capital Closeouts

Appendix D contains a summary of capital projects that were either closed, completed or consolidated during 2018. 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

The final two appendices (Appendix E & Appendix F) provide City Council with detailed revenues and expenses for all of the development charge reserves in 2018, as required by the Development Charges Act, along with a listing of outstanding development charge credits at year-end.

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 consistent with normal practice. The following miscellaneous housekeeping transfers have occurred and a summary is provided in the following table:

Table D: Summary of Transfers to / (from) Reserve Accounts/Funds

RESERVE FUND/ACCOUNT	AMOUNT
Municipal Elections Reserve (Account 1762)	(\$733,811.12)
Mapping Reserve (Account 1771)	(\$12,460.89)
Riverfront Brick Program Reserve (Account 1777)	(\$1,276.60)
Non-Union Salary Review Reserve (Account 1783)	(\$1,831.68)
Defib. Tiered Response Reserve (Account 1797)	\$17,529.00
Parkland Acquisition Reserve (Fund 151)	(\$7,145.63)
Building Permit Reserve (Fund 180)	(\$127,148.25)
Development Charges Reserve (Fund 114-128)	(\$103,012.81)
City Social Housing Reserve (Fund 216)	\$1,000,000.00

City Social Housing Reserve

Administration is also recommending via this council report, the establishment of a City Social Housing Reserve. While an existing Social Housing Reserve is currently in place to hold funds that are jointly funded by the City and County, this new reserve is being established to assist to separately track those funds, which have been 100% funded by the City.

Establishing two distinct Reserve Funds allows for better tracking of the various types of funding (Provincial and City funding), thereby assisting in the future allocation of funds from the Reserves based on either City/County shareable expenditures or solely City related expenditures. The separate reserve funds will also assist to ensure proper allocations of interest earned/surplus transfer allocations.

Non-Tax Supported Variances

Building Permit Operations

<i>2018 Budgeted Draw on Building Permit Fee Reserve</i>	<i>Actual Draw on Reserve in 2018</i>	<i>2018 Actual Year-End Surplus</i>
(\$898,000)	(\$127,148)	\$770,852

Key Highlights:

- Construction statistics as of December 31, 2018 (4,501 permits) exceeded that of 2017 (4,135 permits) by approximately 9%.
- Permit counts were largely concentrated in new housing starts and renovations, in particular remediation work from the flooding event in late 2017. These types of permits generate lower permit revenues compared to permits for new construction of the larger industrial, commercial and institutional (ICI) type projects.
- Industrial permit activity was down in 2018, but the total construction value increased by approximately 42%, primarily due to some large new construction in comparison to 2017.
- Commercial permits were higher in 2018, but the total construction value in this sector was lower than the previous year by approximately 41%.
- Institutional activity in 2018 was slightly below 2017 levels in terms of the number of permits issued, however the overall construction value saw a 99% decrease in total construction value when compared to the previous year.
- Mitigating efforts by Administration are continually being implemented by the Building Department to help reduce and control any draw against the Building

Permit Fee Reserve each year. Those efforts include staffing adjustments in sync with economic cycles, frugal management of all controllable operating costs, seeking increased efficiencies wherever possible through technology enhancement and cost recovery for services rendered.

- The Building Permit Fee Reserve deficit balance is currently approximately \$10.216 million, materially offset by the Contra Reserve account balance of approximately \$10.114 million.

On/Off Street Parking Operations

Budgeted Transfer to Reserve	Actual Transfer to Reserve	Year-End Surplus
\$757,986	\$1,174,259	\$416,273

On/Off Street Parking has completed the year with an increased transfer to the Off Street Parking Reserve of \$416,273 as compared to budget due to several variances related to the sale of Garage #3, salary gapping, taxes, construction contracts, maintenance materials, professional services, revenue and other minor line-by-line variances.

Key Highlights:

- On-Off Street Parking had a net surplus of \$250,745 from the sale of Garage #3 due to the collection of unbudgeted revenue net of unbudgeted costs from the operation of the garage until it was sold mid-year.
- The Division also had a surplus related to salary and benefits of \$162,958 from several vacancies throughout the year, a surplus of \$111,127 related to property taxes, a surplus of \$115,865 related to construction and material costs and lastly a surplus of \$48,441 from several minor line-by-line variances.
- Deficits offsetting these surplus amounts included all revenue sources (daily, monthly, lease and user fee) which were lower than anticipated for 2018 resulting in an overall revenue shortfall of (\$197,180).
- A deficit related to increased professional services provided to the Division for the year of (\$75,683) also contributed to a reduction in the amount transferred to the reserve.
- The 2018 year-end balance in the On/Off Street Parking Reserve Fund is \$918,837.

Sewer Surcharge Funded Operations

Overall, a surplus of **\$862,696** is being reported for Sewer Surcharge Funded Operations. Key components of the sewer funded operations and results are noted below:

Pollution Control

Pollution Control is reporting a surplus of \$443,464 from its Sewer Surcharge funded operations.

Key Highlights:

- A line-by-line analysis identified surpluses of \$936,700 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. Given this program is still relatively new, administration will continue to monitor the rates and make adjustments to the budget going forward.
- A surplus of \$469,500 in processing revenues from WUC also benefitted the Department. Revenues received from this service have previously been directed towards Strabane sewer rehabilitation work; however, the project is now fully funded and these revenues were kept within the Sewer Surcharge fund.
- Additionally, the department is reporting surpluses of \$330,200 in Labour and Benefits, due to gapping of hourly staff, \$160,000 in Sewage Treatment revenues from the towns of Tecumseh and LaSalle, and \$88,100 in property taxes contributed to the overall surplus.
- The primary contributor offsetting these surpluses included a shortfall in Purchased Services (\$866,300), largely due to sludge removal expenses. These costs are heavily reliant upon sewage treatment flows and can fluctuate significantly from year-to-year.
- Additionally, deficits in the minor capital (\$437,000) and operating & maintenance expense (\$214,000) categories were incurred due to expenses in accounts such as maintenance parts & materials, motor fuels and chemicals. Miscellaneous deficits totalling (\$23,736) make up the remaining balance.

PW Operations

Public Works Operations ended 2018 with an overall sewer surcharge deficit of (\$191,189).

Key Highlights:

- An overall salary and wage surplus of \$545,877 was realized as a result of several vacancies in the Right-of-Way (ROW) Maintenance and Environmental Services divisions throughout 2018.
- A surplus of \$293,435 related to materials purchased for the ROW Maintenance division is the result of efforts to mitigate the large deficit within contracted services for sewer repairs, along with the reduced service provided by internal staff due to vacancies throughout the year.
- An equipment surplus of \$41,816 is from lower than anticipated equipment utilization in the ROW Maintenance and Environmental Services divisions as a result of staff vacancies throughout the year.
- Offsetting these surpluses included a deficit of (\$905,773) related to contracted services in the ROW Maintenance division for sewer repairs due to both an increased volume in repairs and flushing due to issues discovered during the zoom cam inspections performed across the City in 2018. Vacancies throughout the year limited the ability to complete repairs with in-house staff.
- The Ontario One Call program for sewer locates ended the year with a deficit of (\$103,943) due to increases in the volume of legislated locates required during 2018.
- All other miscellaneous line-by-line variances for the department netted to a deficit of (\$62,601).

Other Sewer Surcharge Related Expenses

Other Sewer Surcharge related expenses contributed a surplus of \$279,841. This was largely due to Appeal refunds and general expenses, as well as the EnWin administrative fee, which contributed \$534,723 and \$250,492, respectively to the surplus. Partially offsetting these surpluses was a (\$509,468) deficit in Sewer Repair & Replacement expenses. A minor surplus of \$4,094 in miscellaneous line items makes up the balance.

Sewer Surcharge Revenue

Revenues received from the Sewer Surcharge rates, were \$330,580 better than expected. This represents a 0.55% variance to the \$60.0 million budget.

Risk Analysis:

While this report represents the final year-end variance for the City's 2018 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 2018 is presented in Table E, along with the actual year-end results.

Table E: 2018 Year-End Projections and Actual Results

	Year-End Projection at Q1	Year-End Projection at Q2	Year-End Projection at Q3	Year-End Actuals
2018 Surplus/(Deficit) (Including Budget Stabilization Contingency Account)	N/A	\$1,626,527	\$3,320,427	\$2,466,375

Overall, the Corporation of the City of Windsor ended the 2018 fiscal year with an operating surplus of \$2,466,375, with Administration recommending that the entire amount be transferred to the Budget Stabilization Reserve.

In addition, Administration is recommending the establishment of a City Social Housing Reserve Fund, as detailed within the report.

Planning Act Matters:

N/A

Approvals:

Name	Title
Mark Spizzirri	Manager of Operating Budget Control & Financial Administration
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 – 2018 Year-End Operating Budget Variance Description

Appendix B – 2018 Operational & Economic Statistics

Appendix C – 2018 Budget Carry-Forwards

Appendix D – 2018 Capital Closeouts

Appendix E – Development Charges Reserve Funds Income Statement for 2018

Appendix F – Development Charges Reserve – Listing of Outstanding Credits