

Subject: 2018 Third Quarter Operating Budget Variance Report

Reference:

Date to Council: November 5, 2018
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Financial Planning
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To: Mayor and Members of City Council

Recommendation:

THAT Council **RECEIVE FOR INFORMATION** the 2018 3rd Quarter 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 2018 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, which is 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 they remain at or as close to their approved budget as possible. This assists in mitigating all material variances 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 particular funds.

Discussion:

Property Tax Supported Variances

Based on information as of August 31st, 2018, Administration is projecting an estimated year-end surplus of \$3,320,427. This is not taking into account the previously noted \$1.5 million contingency account, which is expected to be transferred to the budget stabilization reserve at year-end.

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 could occur in the event of significant unforeseen events.

Table A (on the following page) provides a summary of the projected year end variances as of the 2018 3rd quarter, from the largest dollar deficit to the largest surplus, for each of the City Departments and Agencies, Boards & Commissions.

Table A: 2018 3rd Quarter Operating Budget Variance by Department

Department	2018 Annual Net Budget	2018 Q3 Projected Year End Surplus / (Deficit)	Variance % of Gross Budget
Transit Windsor	\$13,271,519	(\$1,118,700)	-3.6%
Legal	6,772,609	(487,000)	-2.8%
Fire & Rescue	45,502,965	(234,000)	-0.5%
Recreation & Culture	12,816,436	(100,000)	-0.4%
Parks	26,330,162	(99,200)	-0.2%
Huron Lodge	7,317,503	(80,000)	-0.3%
Council Administrative Services	639,777	0	0.0%
Mayor's Office	504,753	0	0.0%
Finance	6,467,287	0	0.0%
Human Resources	4,988,419	0	0.0%
Engineering	3,369,287	1,600	0.0%
Information Technology	6,678,895	50,000	0.6%
Council Services	7,150,594	110,000	1.0%
CAO's Office	1,151,348	115,000	8.7%
Windsor Public Library	8,203,937	250,000	2.7%
Planning & Building	3,881,662	435,400	4.5%
Housing & Children's Services/WECHC	23,282,846	363,900	0.3%
Employment & Social Services	7,887,381	623,500	0.5%
Public Works Operations	27,342,112	583,000	1.1%
Corporate Accounts	(316,872,705)	3,581,927	1.6%
Total City Departments	(\$103,313,213)	\$3,995,427	0.5%
Corporate Contingency	\$1,500,000	0	100.0%
Surplus / (Deficit) Subtotal		\$3,995,427	0.5%
Agencies, Boards & Commissions			
Windsor Police Services	\$83,943,525	(\$425,000)	-0.4%
Agency Grants	19,369,688	0	0.0%
Committees of Council	0	0	0.0%
Total Agencies, Boards & Commissions	\$103,313,213	(\$425,000)	-0.4%
Surplus / (Deficit) Subtotal	\$0	\$3,570,427	0.4%
Less: Windsor Public Library Surplus		(250,000)	
2018 Net Operating Surplus		\$3,320,427	0.4%

** The WPL's financial position at the end of each fiscal year is not added together with all other City departments to calculate the final City surplus/deficit.

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

Table B: 2018 3rd Quarter Operating Budget Variance by Category

Category	Net Favourable/ (Unfavourable) Variance
REVENUE:	
**User Fees, Permits & Charges	**(\$1,001,000)
Recovery of Expenditures	245,036
Transfers from Other Funds	-
Taxes – Education	-
Taxes – Municipal	120,600
Other Miscellaneous Revenue	(17,600)
Grants & Subsidies	462,800
Investment Income & Dividends	850,000
SUBTOTAL - REVENUE	\$659,836
EXPENSES:	
Operating & Maintenance Supplies	(\$1,777,700)
Minor Capital	(374,000)
Other Miscellaneous Expenditures	175,300
Financial Expenses	(79,709)
Purchased Services	(325,200)
Transfers to External Agencies	-
Transfers to Education Entities	-
Transfer for Social Services	-
Transfers to Reserves & Capital Funds	-
Utilities, Insurance & Taxes	417,000
Salaries & Benefits	4,624,900
SUBTOTAL – EXPENSES	\$2,660,591
NET TOTAL	\$3,320,427
CORPORATE CONTINGENCY	-
2018 PROJECTED YEAR END SURPLUS	\$3,320,427

** The shortfall in user fees, permits & charges is largely attributed to reduced OLG casino hosting fees received during first two quarters of 2018, due to an unforeseen labour stoppage experienced by Caesars Windsor.

Appendix A identifies each department's variance, including a detailed description of the variance and mitigating measures.

Administration continuously works to reduce the identified projected departmental variances by incorporating appropriate mitigating measures in the departments and reporting to Council on a quarterly basis.

Revenue Variance

The majority of revenue accounts are projecting to be on budget or reflect surpluses at year-end. The largest projected surplus category is within "Investment Income & Dividends" due to the better than expected performance of the Corporation's investments that can be partially attributed to increasing investment interest rates. In addition, there is a healthy projected surplus due to higher than expected revenues received through "Grants and Subsidies".

Offsetting these surpluses is a substantial shortfall with respect to "User Fees, Permits & Charges". This is predominantly due to the unforeseen labour disruption experienced at Caesars Windsor in the spring, which has resulted in lower than expected casino hosting fees received by the City in 2018.

Expense Variance

The largest variance among the expense categories is in the "Operating & Maintenance Supplies" line item. This projected deficit relates primarily to higher than budgeted fuel prices, along with more frequent repairs to older Transit Windsor buses and increasing cost of parts relating to buses that have come out of the warranty period.

These expense deficits are offset by an overall corporate savings in "Salaries and Benefits" due to gapping of vacant positions across the Corporation as well as surpluses within various corporate provisions.

Non-Property Tax Levy Variances

Building Permit Operations

Budgeted Draw on Permit Reserve	Projected Draw on Reserve at Year End	Projected Year End Surplus
(\$898,000)	\$0	\$898,000

Construction statistics as of September 30th, 2018 (3548 permits) are above that of 2017 (2613 permits) for the same period. The permit counts are largely concentrated in renovations, new housing starts and remediation work from the flooding event in late 2017. These types of permits generate lower permit revenues compared to permits for new construction of larger industrial, commercial and institutional (ICI) type projects. The (ICI) categories traditionally represent a large portion of the permit-based revenue for the Corporation.

Based on all current information available, a permit revenue surplus of \$772,000 is being projected for 2018. A further \$126,000 operating surplus is anticipated due to salary expense gapping, as a result of staff turnover and staff time recovered from the e-permits capital project. This amounts to a total projected year-end surplus \$898,000 from the permits funded budget.

So far, the permit counts in 2018 are about the same or slightly below that of 2017 in all categories except for residential, which represents almost all of the permits increase in 2018 to date. Based on permit revenue trends to date, Administration is forecasting potentially little or no draw on reserve funds in 2018 to cover the operating costs of administering building permits.

Mitigating efforts 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 gapping, and elimination of positions where possible, frugal management of all controllable operating costs, seeking increased efficiencies and implementing new fees and cost recovery for services rendered.

On/Off Street Parking Operations

Budgeted Transfer to Reserve	Projected Transfer to Reserve	Projected Year End Surplus
\$757,986	\$982,986	\$225,000

Administration is projecting an increase to the reserve transfer for 2018 of \$225,000. A surplus of \$125,000 is expected related to salary and wage gapping due to vacancies during the year. A net surplus of approximately \$100,000 is expected related to Garage 3 at One Riverside Drive, made up of the net activity related to all unbudgeted revenue and expenses to date.

The balance in the On/Off Street Parking Reserve Fund as of December 31, 2017 was \$175,437. Should the projected year-end surplus materialize, it is expected that the reserve balance could reach \$1,158,423 at year-end.

Sewer Surcharge Funded Operations

Pollution Control is projecting a surplus of \$1,309,000 from its Sewer Surcharge funded operations:

- A line-by-line analysis identified surpluses of \$800,000 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 relatively new, administration will continue to monitor the rates and make adjustments to the budget going forward.
- A further surplus of \$470,700 in processing revenues from WUC is anticipated. Revenues received from this service have previously been directed toward the Strabane sewer rehabilitation work; however, the project is now fully funded and these revenues can instead remain in the Sewer Surcharge fund. The revenue budget will be adjusted in 2019 to reflect the additional revenue.
- Additionally, surpluses of \$403,100 in Labour and Benefits, due to gapping of hourly staff, sewage treatment revenues from LaSalle and Tecumseh totalling \$125,500, maintenance parts & materials of \$107,600 and \$20,600 in chemicals are anticipated.
- The primary contributors offsetting these surpluses are estimated sludge removal costs of (\$445,600), motor fuels (\$65,800) and miscellaneous shortfalls totalling (\$107,100). Sludge removal costs are heavily reliant upon sewage treatment flows and can fluctuate significantly from year-to-year.

PW Operations is projecting a surplus of \$38,000 related to the Sewer Surcharge funded operations. This projection is made up of a \$103,000 surplus for salary gapping resulting from vacancies across the department, and a deficit of (\$65,000) related to sewer locates required under the Ontario One Call program resulting from an increase in locate call volumes of approximately 35% over 2017.

Other Sewer Surcharge related expenses are anticipated to be (\$543,300) more than budgeted, due to the EnWin administrative fee and expenses related to the City's Sewer Repair & Replacement initiative, which are projected to be (\$198,400) and (\$344,900) respectively, more than planned.

Based on current trending, Sewer Surcharge revenue is projected to be slightly under budget, contributing a shortfall of (\$585,900). This represents a (0.98%) variance to the \$60 million annual revenue budget.

In summary, overall, a surplus of \$427,800 is projected for year-end within Sewer Surcharge Funded Operations.

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.
2. Current macro and micro economic conditions such as fuel costs, changes to local unemployment rates, volatility of energy costs, commodity prices and interest rates as well as supply and demand for products and services.
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 of 2018 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 year-end surplus of \$3,320,427 in the property tax funded operations.

As indicated throughout the report, the third quarter operating budget 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
Mark Spizzirri	Manager of Operating Budget Control & Financial Administration
Natasha Couvillon	On behalf of Chief Financial Officer & City Treasurer
Onorio Colucci	Chief Administrative Officer

Notifications:

Name	Address	Email

Appendices:

- 1 Appendix A - 2018 Q3 Operating Budget Variance by Department
- 2 Appendix B - 2018 Q3 Operational Economic Stats