

Subject: 2019 Third Quarter Operating Budget Variance Report

Reference:

Date to Council: November 18, 2019
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Financial Planning
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To: Mayor and Members of City Council

Recommendation:

THAT Council **RECEIVE FOR INFORMATION** the 2019 3rd Quarter Operating Budget Variance Report from the Chief Financial Officer and City Treasurer; and,

THAT the Chief Administrative Officer and the Chief Financial Officer & City Treasurer **BE DIRECTED** to monitor the 2019 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 that 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 tends to increase as the year progresses and more information and data becomes available.

The City's 2019 annual budget includes a \$3.5 million corporate contingency line item to help offset any unforeseen variances and contingent liabilities that might materialize

throughout the year. It is noted that the annual base contingency budget has traditionally been set at \$1.5M however Council did approve an increase of \$2M to the contingency budget for 2019 to mitigate the uncertainties surrounding Provincial budget cuts.

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

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 wake of significant unforeseen events.

Based on information as at August 31st, 2019, Administration is projecting an estimated year end surplus of \$1,634,891. This does not take into account the previously noted \$3.5 million contingency amount which is expected to be transferred to the budget stabilization reserve and/or other appropriate reserves as required at year end.

Table A (on the following page) provides a summary of the 2019 projected year end variances as of the 2019 3rd quarter, from the largest dollar deficit to the largest surplus, for each of the City Departments and Agencies, Boards and Commissions.

Table A: 2019 3rd Quarter Operating Budget Variance by Department

Department	2019 Annual Net Budget	2019 Q3 Projected Year End Surplus / (Deficit)	Variance % of Gross Budget
Recreation & Culture	12,942,576	(\$390,000)	-1.6%
Fire & Rescue	\$50,613,002	(299,000)	-0.6%
Parks & Facilities	26,745,896	(244,000)	-0.6%
Finance	6,727,929	(170,000)	-1.5%
Huron Lodge	7,486,524	(103,000)	-0.4%
Engineering	3,236,253	(27,000)	-0.1%
Transit Windsor	14,425,771	-	0.0%
Information Technology	6,845,055	-	0.0%
Human Resources	5,409,401	-	0.0%
Planning & Building	4,456,479	-	0.0%
Mayor's Office	905,325	-	0.0%
Council Administrative Services	689,104	-	0.0%
Council Services	6,976,218	30,000	0.3%
Windsor Public Library	8,020,055	60,000	0.6%
CAO's Office	1,285,018	80,000	6.1%
Employment & Social Services	7,664,726	166,000	0.1%
Legal	7,030,325	275,000	1.6%
Housing & Children's Services/WECHC	23,642,230	308,000	0.3%
Public Works Operations	27,179,197	822,000	1.5%
Corporate Accounts	(330,380,367)	1,391,891	0.6%
Total City Departments	(\$108,099,283)	\$1,899,891	0.2%
Corporate Contingency	\$3,500,000	-	100.0%
Surplus / (Deficit) Subtotal	(\$104,599,283)	\$1,899,891	0.2%
Agencies, Boards & Commissions			
Windsor Police Services	88,737,654	(474,000)	-0.4%
Committees of Council	42,120	-	0.0%
Agency Grants	19,319,509	269,000	1.4%
Total Agencies, Boards & Commissions	\$108,099,283	(\$205,000)	-0.2%
Surplus/(Deficit) Subtotal	0	\$1,694,891	0.2%
**Less: Windsor Public Library Surplus		(60,000)	
2019 Net Operating Surplus		\$1,634,891	0.2%

** 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.

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, along with mitigating measures.

Non-Property Tax Levy Variances

Building Permit Operations

Budgeted Draw on Permit Reserve	Projected Contribution to Reserve	Projected Year End Surplus
(\$807,388)	\$543,000	\$1,350,388

Construction statistics forecasted as of September 30, 2019 are lower (2,629 permits) compared to that of 2018 (3,548 permits) for the same period. The permit counts in 2018 were largely concentrated in renovations and new housing starts and in particular involved substantial 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. The (ICI) categories traditionally represent a large portion of the permit based revenue for the Corporation.

Thus far in 2019, the permit counts are about the same or slightly below that of 2018 in all categories except for residential and commercial, which are significantly lower to date. However, construction value to date is almost 50% greater than at this same time in 2018. Based on permit revenue trends to date, particularly since late July, Administration is projecting a contribution to the building permit fee reserve of approximately \$543,000.

The primary reasons for this have been some large value permit applications for a number of projects including, but not limited to: ADM Milling Facility, WFCU addition on Marentette Avenue, Ford Motor Company sight servicing project, development at the former Union Gas property, a new large apartment building on Banwell Road, St. Clair College soccer complex and tennis facility, Massey High School alteration, Farhi development on Riverside Drive W., Valente residence project on Ouellette Avenue and the new University of Windsor athletic building.

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 during economic cycles, frugal management of all controllable operating costs, seeking increased efficiencies, technology enhancements such as the digital permits system as well as implementing new fees and cost recoveries for services rendered.

On/Off Street Parking Operations

Budgeted Transfer to Reserve	Projected Transfer to Reserve	Projected Year-End Surplus
\$926,294	\$1,018,066	\$91,772

Administration is projecting an increase to the reserve transfer for 2019 of approximately \$91,772 related to net surpluses and deficits for municipal taxes, salaries, overtime, and revenue. A surplus of \$126,611 is expected related to municipal taxes paid for garages and lots for the year as well as a surplus of approximately \$135,000 related to salary gapping and reduced overtime costs due to vacancies and redistribution of maintenance staff following the sale of a parking garage in 2018. Offsetting the expected surpluses for the year are expected deficits of (\$77,139) related to lost lease revenue in the Goyeau St. parking garage due to reduced occupancy, and (\$92,700) in monthly revenues related to implementation delays of the approved 2019 monthly rate increases for garages and lots.

The balance in the On/Off Street Parking Reserve Fund as at August 31, 2019 is \$271,845.

Sewer Surcharge Funded Operations

Overall, a budget to actual surplus of \$123,200 is anticipated for Sewer Surcharge Funded Operations. Key components of the sewer funded operations and results are detailed below:

Pollution Control

Pollution Control is projecting a \$68,400 surplus from its Sewer Surcharge funded operations.

Key Highlights:

- The department is projecting a surplus of \$585,400 in Labour and Benefits, due to gapping of hourly staff.
- Revenues received from the towns of LaSalle and Tecumseh, due to wetter than anticipated weather, is expected to contribute a \$266,100 surplus.

- Additionally, revenues received from WUC for the processing of backwash are anticipated to add a \$74,300 surplus.
- Minor Capital costs, largely driven by Maintenance Parts & Materials, is expected to partially offset the previously identified surpluses by (\$542,400).
- A further deficit of (\$363,100) is anticipated in Operating & Maintenance costs, comprised mostly of increased Chemicals usage and pricing.
- Miscellaneous surpluses totalling \$48,100 make up the remaining balance.

Public Works Operations

Public Works Operations is projecting an overall surplus of \$60,000 related to their sewer surcharge funded operations. The projected surplus is the net total of the projected surpluses and deficits related to salary and wage gapping. This is due to a number of vacancies across the department from retirements and staff appointments into new positions, offset by the hiring of extra staff to accommodate heavy workload situations, where required. Administration anticipates there could be additional variances related to contracted services for sewer repairs and maintenance, however, it remains too early in the construction season to project what the total costs may be.

Other Sewer Surcharge-Related Expenses

Other Sewer Surcharge-related expenses are projected to be \$5,031,400 better than planned. This is mainly due to Capital Expenditures which, in anticipation of the delayed implementation of the 2019 fixed and variable rates, were reduced by \$5,036,600. This is simply a timing difference applicable solely to 2019 and is entirely offset by the reduced Sewer Surcharge Revenues as noted below. Refunds and General Expenses are also expected to be \$324,300 better than budget. Sewer Repair and Replacement costs, as well as the EnWin administrative fee, are expected to partially offset the above surpluses with (\$279,700) and (\$49,800) deficits, respectively.

Sewer Surcharge Revenues

Given the Sewer Surcharge fixed and variable rate changes approved in 2019 were not implemented until May 1st the Sewer Surcharge Revenues collected are projected to be (\$5,036,600) lower than the full year's annualized approved budget largely based on the timing of implementation of this change. This represents a (7.16%) variance to the \$70.3 million revenue budget. These reduced revenues are entirely offset by the reduction in expenditures as noted above.

2019 Flooding Prevention

Throughout this year, water levels have remained extremely high, bringing with it the risk of localized flooding. The City has undertaken various flood mitigation measures, including offering sand and sandbags, where and as needed.

Although there will be costs associated with this event, departments have been able to generally absorb these expenditures within their departmental budgets. It is however possible that these costs may have an impact on the final corporate variance for 2019. Any variances will be reported at year end.

Cannabis Implementation

With the legalization of cannabis in Canada in October 2018, the Corporation has received funding through the province's Cannabis Implementation Fund program, which is intended to offset costs associated with this initiative. The province reserves the right to request justification (i.e. related costs) for this revenue.

Various accounts have been established and discussion continues with the Windsor Police Services and other areas with respect to specifying and quantifying any additional costs they have incurred to deal with enforcement and various other issues resulting from the legalization of cannabis which impact the municipality. While it appears that related expenditures are projected to be approximately \$700,000 at year end, any remaining surplus from the funding received to date of \$692,296 from the province, will be transferred to a new reserve to be established in order to offset any future potential one-time costs incurred.

Provincial Funding Cuts

The provincial budget has outlined changes in several areas that may have a direct impact to municipal operations and service delivery. While some planned reductions in provincial funding have now been deferred to 2020 and beyond, there still remains a great deal of uncertainty as to what the impacts to municipalities will be going forward. Some of the areas that may be impacted include Housing & Children's Services, Public Health, Social Services, Huron Lodge (Long Term Care), Emergency Medical Services (EMS), Windsor Police Services and the Essex Regional Conservation Authority (ERCA). Administration continues to monitor any changes in the provincial budget and will consider such impacts in the upcoming 2020 operating budget. As noted above any surplus in the increased 2019 contingency budget related to the provincial budget cuts will be transferred to appropriate reserves at yearend.

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 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, 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 \$3.5 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 2019, along with 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 \$1,634,891.

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

Approvals:

Name	Title
Mark Spizzirri	Manager, Operating Budget Control & Financial Admin.
Joe Mancina	Chief Financial Officer & City Treasurer
Onorio Colucci	Chief Administrative Officer

Notifications:

Name	Address	Email

Appendices:

1. Appendix A – 2019 Q3 Operating Budget Variance by Department
2. Appendix B – 2019 Q3 Operational Economic Statistics