

Subject: 2019 Year-End Operating Budget Variance Report - City Wide

Reference:

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Financial Planning

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Clerk's File #: AFB/13467

To: Mayor and Members of City Council

Recommendation:

THAT Council **RECEIVE FOR INFORMATION** the 2019 Year-End Operating Budget Variance Report, dated March 31st, 2020; and,

THAT the final 2019 Operating Budget surplus of \$1,954,982 **BE TRANSFERRED** to the Budget Stabilization Reserve (transfer of \$1,454,982) and as previously directed by City Council to the Transit Windsor Garage Feasibility Study (transfer of \$250,000) and the Electric Vehicle Charging Pilot Project (transfer of \$250,000); and,

THAT in order to avoid the need to re-budget for various items, Council **APPROVE** \$2,229,461 in budget carryovers as detailed in Appendix C: 2019 Budget Carry-Forwards; and,

THAT Council **APPROVE** the balancing of and transfers from Capital Projects, as detailed in Appendix D: 2019 Capital Closeouts; and,

THAT Council **APPROVE** the attached Development Charges 2019 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 account, titled the Flood Protection Education Program; and,

THAT in order to address future Social or Affordable Housing funding pressures, the City Treasurer **BE AUTHORIZED** at this discretion as part of the year-end process, to transfer any year end surplus occurring in the Housing Services budget and/or any reconciled year end surplus in the Windsor-Essex Community Housing Corporation's

City approved budget to the City's Housing Reserve, to be retained and applied as may be required to fund future Social or Affordable Housing costs; and,

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

- a. \$13,780.09 to the Fire Education account (1755) from operating department ID 0191310;
- b. \$1,692.21 from the Tree Planting Reserve account (1756) to operating department ID 0152710;
- c. \$20,958.09 from the Municipal Elections reserve account (1762) to operating department ID 0111511;
- d. \$21,016.07 to the Class – Parks & Recreation reserve account (1763) from operating department ID consisting of annual 1% fee deposits less upgrades for technology development;
- e. \$13,426.26 from the Mapping reserve account (1771) to operating department ID 0161035;
- f. \$2,468.12 to the Riverfront Brick Program reserve account (1777) for relevant activities and costs incurred in the installation of bricks along the riverfront, as per CR 29/2009;
- g. \$24,791.56 to the Flood Protection Education Program reserve account (1799) related to a budget surplus for service line warranty commissions from operating department ID 0161049;
- h. \$56,984.23 from the Development Charges reserves (Funds 114-128) to operating department ID 0152710;
- i. \$805,845 to the Building Permit Fee reserve (Fund 180) from operating department ID 0152710;
- j. \$432,295.76 from the Capital Expenditure reserve (Fund 160) to operating department ID 0280601 for grass cutting and snow removal of vacant properties, and to operating department ID 0125240 for grass cutting and snow removal of transitional properties;
- k. \$1,018,370.21 to the Pollution Control reserve (Fund 208) resulting from the transfer of funds from the transfer of operations from American Water to Synagro;
- l. \$1,040,000 to the City Housing reserve (Fund 216) resulting from the Windsor Essex Community Housing Corporation (WECHC) and Housing Services 2019 year end surpluses.

Executive Summary:

The Corporation ended the 2019 fiscal year with an operating surplus of \$1,954,482. It is recommended that the majority of this surplus 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 potential future property tax rate spikes. In addition, given the positive year-end results, the corporate contingency of \$3,500,000 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 which is currently underway by the City's external auditors KPMG.

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 2019. The year-end variances have been sorted from largest deficit to largest surplus (in dollars).

(The report continues on the following page)

Table A: 2019 Year-End Operating Budget Variance by Department

Department	2019 Annual Net Budget	2019 Year End Surplus / (Deficit)	Variance % of Gross Budget
Parks & Facilities	\$26,745,896	(\$419,133)	-1.0%
Finance	6,727,929	(120,985)	-1.1%
Fire & Rescue	50,613,002	(87,219)	-0.2%
Recreation & Culture	12,942,576	(81,695)	-0.3%
Council Administrative Services	689,104	(8,275)	-0.9%
Mayor's Office	905,325	-	0.0%
Huron Lodge	7,486,524	2,296	0.0%
Planning & Building	4,456,479	2,777	0.0%
Information Technology	6,845,055	17,909	0.2%
Council Services	6,976,218	27,925	0.3%
Engineering	3,236,253	45,851	0.2%
Public Works Operations	27,179,197	46,727	0.1%
Housing & Children's Services/WECHC	23,642,230	50,377	0.0%
CAO's Office	1,285,018	123,090	9.4%
Transit Windsor	14,425,771	123,288	0.3%
Human Resources	5,409,401	141,250	2.2%
Legal	7,030,325	165,609	0.9%
Windsor Public Library	8,020,055	278,838	3.0%
Employment & Social Services	7,664,726	346,682	0.3%
Corporate Accounts	(330,380,367)	1,682,005	0.7%
Total City Departments	(\$108,099,283)	\$2,337,317	0.3%
Corporate Contingency	\$3,500,000	-	0.0%
Surplus / (Deficit) Subtotal	(\$104,599,283)	\$2,337,317	0.3%
Agencies, Boards & Commissions			
Windsor Police Services	88,737,654	(480,124)	-0.5%
Committees of Council	42,120	-	0.0%
Agency Grants	19,319,509	376,627	1.9%
Total Agencies, Boards & Commissions	\$108,099,283	(\$103,497)	-0.1%
Surplus/(Deficit) Subtotal	0	\$2,233,820	0.2%
**Less: Windsor Public Library Surplus		(278,838)	
2019 Net Operating Surplus		\$1,954,982	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.

Please refer to **Appendix A** for detailed variance explanations for each department/division.

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 2019. These are budgeted items that, due to timing, were committed but not expended in 2019 and as a result, the related budgets for those items have been carried forward into 2020. These expenditure line items are expected to be paid in 2020 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
2015	\$2,146,779	0.30%
2016	\$3,934,036	0.47%
2017	\$1,629,760	0.19%
2018	\$2,466,375	0.27%
2019	\$1,954,982	0.21%

Discussion:

Property Tax Supported Variances

The Corporation ended the 2019 fiscal year with an operating surplus of \$1,954,982. This figure is net of budget carryovers in the amount of \$2,229,461. Administration recommends transferring \$1,454,982 of the operating surplus to the Budget Stabilization Reserve, with \$250,000 of the remaining surplus transferred to the Transit Windsor Garage Feasibility Study and \$250,000 to the Electric Vehicle Charging Pilot Program.

Capital Closeouts

Appendix D contains a summary of capital projects that were either closed, completed or consolidated during 2019. 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 2019, 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 **Table D** on the following page.

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

RESERVE FUND/ACCOUNT	AMOUNT
Reserve for Fire Education (Account 1755)	\$13,780.09
Tree Planting Reserve (Account 1756)	(\$1,692.21)
Municipal Elections Reserve (Account 1762)	(\$20,958.09)
Class Reserve – Parks & Recreation (Account 1763)	\$21,016.07
Mapping Reserve (Account 1771)	(\$13,426.26)
Riverfront Brick Program (Account 1777)	\$2,468.12
Flood Protection Education Program (Account 1799)	\$24,791.56
Development Charges Reserves (Funds 114-128)	(\$56,984.23)
Capital Expenditure Reserve (Fund 160)	(\$432,295.76)
Building Permit Reserve (Fund 180)	\$805,485.00
Pollution Control Reserve (Fund 208)	\$1,018,370.21
City Housing Reserve (Fund 216)	\$1,040,000.00

City Housing Reserve

The establishment of a City Social Housing Reserve (F216) was created in 2018 to retain 100% City of Windsor funded contributions, for the purpose of funding future Social or Affordable Housing costs. The name of this reserve fund is being changed from the City Social Housing Reserve fund to the City Housing Reserve to more accurately reflect the intent of the reserve.

In 2019, due to lower than anticipated mandated subsidy payments required by service providers, a transfer of \$1,040,000 was made to the City Housing reserve from the 2019 year end surpluses in the Windsor Essex Community Housing Corporation (WECHC) and Housing Services department.

Non-Tax Supported Variances

Building Permit Operations

2019 Budgeted Draw on Building Permit Fee Reserve	Actual Contribution to Reserve in 2019	2019 Actual Year-End Surplus
(\$807,388)	\$805,845	\$1,612,873

Key Highlights:

- Construction statistics as of December 31, 2019 (3,391 permits) are below that of 2018 (4,501 permits)
- In 2018, the permit counts were largely concentrated in renovations and new housing starts and particularly remediation work from a 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.
- For 2019, the permit counts in residential (2,904) and ICI (487) were below that of 2018 (3,902 residential) and (599 commercial), however, total construction value associated with 2019 projects in both categories were 50% higher than that of 2018.
- A major contributor to the residential total was the multi dwelling (apartment building) approvals issued in 2019 and a spike in new single family dwellings (233 in 2019 vs 134 in 2018).
- 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 staffing adjustments in sync with economic cycles, frugal management of all controllable operating costs, seeking increased

efficiencies and implementing new fees and cost recovery for services rendered as well as technology enhancements.

- The Building Permit Fee Reserve deficit balance is currently approximately \$9.6 million and is more than offset by the Contra Reserve account balance of approximately \$10.3 million.

On/Off Street Parking Operations

Budgeted Transfer to Reserve	Actual Transfer to Reserve	Year-End Surplus
\$926,294	\$1,257,705	\$331,411

On-Off Street Parking has finished the year with an increased transfer to the Off Street Parking Reserve of \$331,411.

Key Highlights:

- On-Off Street Parking finished 2019 with several surpluses for the year including a surplus of \$172,605 related to salary and fringe resulting from gapping throughout the year; \$126,611 related to municipal taxes; \$85,163 related to less than anticipated equipment purchases; and \$31,535 related to all utility accounts.
- Offsetting the surpluses was a deficit of (\$7,364) related to all immaterial line-by-line variances and a (\$77,139) related to reduced lease revenues in the Goyeau Garage.
- The balance in the On/Off Street Parking Reserve Fund as of December 31, 2019 is \$1,532,078.37.

Sewer Surcharge Funded Operations

Overall, a deficit of (\$581,999) is being reported for Sewer Surcharge Funded Operations. The balance of the Sewer Surcharge Reserve fund at December 2019, once commitments of approximately \$2M are deducted, is \$244,022. Key components of the sewer funded operations and results are noted below:

Pollution Control

Pollution Control is reporting a deficit of (\$845,325) from its Sewer Surcharge funded operations.

Key Highlights:

- The department is reporting a surplus of \$542,822 in Labour and Benefits, due to gapping of hourly staff.
- The department is also reporting a surplus of \$288,758 in Utilities and Taxes. The Utilities surplus was a result of various process and equipment upgrades that increased utilities efficiencies within Pollution Control. The Taxes surplus was due to the transfer of the service agreement at the Pelletizer Facility from Prism Berlie to Synagro. The reassessed tax amount had not been finalized at year-end and was not accrued.
- Revenues received from the towns of LaSalle and Tecumseh, due to wetter than anticipated weather, contribute a \$165,217 surplus.
- Additionally, revenues received from WUC for the processing of backwash resulted in a \$143,717 surplus.
- Miscellaneous surpluses totalling \$39,121 make up the remaining net surpluses in the area. Maintenance Parts & Materials partially offset the previously identified surpluses by (\$809,959). This was primarily due to a number of large emergency projects.
 - RS Pump rebuilt (\$150,000) – refurbishing 50 year old pumps
 - UV lamps rebuilt (\$150,000) – rebuilt due to end of life hourly use of existing bulbs.
 - Replacement of incline stainless steel screw conveyor (\$100,000) – unexpected collapse
 - BioRem emergency repair (\$100,000) – emergency repair due to Health and Safety issues
 - SFP rebuilds (\$250,000) – media and grease build up caused damaged to the 8 – 10 Sludge Feeding pumps
- Additionally, offsetting these surpluses was a shortfall in Purchased Services of (\$763,118), largely due to sludge removal and processing expenses. Sludge removal costs are heavily reliant upon sewage treatment flows and can fluctuate significantly from year-to-year. For 2020, these costs were (\$101,622) over budget. Additionally, a deficit of (\$490,215) was realized due to a variance in the budgeted versus actual tonnes of sludge processed. In 2020, budget adjustments will be made to accommodate the change in both tonnage and to reflect the new contract with Synagro.
- A further deficit of (\$451,883) occurred in Operating & Maintenance costs, comprised mostly of increased Chemicals usage and pricing.

PW Operations

The Public Works Operations sewer surcharge funded operations has finished 2019 with an overall surplus of \$354,348.

Key Highlights:

- Public Works Operations finished 2019 with a surplus of \$437,041 for salary, wage, and fringe benefits due to vacancies and retirements causing gapping throughout the year.
- Offsetting the salary surplus for the year is a deficit of (\$245,966) for contracted services required to perform sewer maintenance and repairs in the Maintenance Division.
- The Maintenance division also finished 2019 with a surplus of \$217,999 related to materials because of the increased contracted services performed.
- The Ontario One Call program had a deficit of (\$81,195) for 2019 as the level of locates required continues to increase under this program.
- Lastly, Public Works realized a surplus of \$100,855 for WSIB costs, and a deficit of (\$42,764) related to vehicle and equipment utilization costs.
- The balance of the 2019 variance of (\$31,621) is a deficit for the sum of all other immaterial line-by-line variances for the year.

Other Sewer Surcharge Related Expenses

Other Sewer Surcharge-related expenses are \$3,541,151 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. 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, as well as EnWin administrative fee, are also better than budget with \$484,152 and \$187,998 in surpluses, respectively. Sewer Repair and Replacement costs partially offset the above surpluses with (\$323,760) deficit.

Sewer Surcharge Revenue

Given the Sewer Surcharge fixed and variable rate changes approved in 2019 were not implemented until May 1st the Sewer Surcharge Revenues collected were (\$3,632,173) lower than the full year's annualized approved budget largely based on the timing of implementation of this change. This represents a (5.2%) variance to the \$70.3 million revenue budget. These reduced revenues are entirely offset by the reduction in expenditures as noted above.

Risk Analysis:

While this report represents the final year-end variance for the City's 2019 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 \$3.5 million corporate contingency account. It is noted that this contingency amount was increased by \$2M in 2019 to mitigate the uncertainties surrounding provincial budget cuts and reduced to the \$1.5M level in 2020.

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 2019 is presented in **Table E**, along with the actual year-end results.

Table E: Summary of 2019 quarterly variances

	Year-End Projection at Q2	Year-End Projection at Q3	Year-End Actuals
2019 Surplus/(Deficit) (Including Budget Stabilization Contingency Account)	\$1,873,657	\$1,634,891	\$1,954,982

Overall the Corporation of the City of Windsor ended the 2019 fiscal year with an operating surplus of \$1,954,982, with Administration recommending that the entire amount be transferred to the Budget Stabilization Reserve along with transfers to the Transit Windsor Garage Feasibility Study and the Electric Vehicle Charging Pilot Project as previously directed by City Council.

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 – 2019 Year-End Operating Budget Variance Description

Appendix B – 2019 Operational & Economic Statistics

Appendix C – 2019 Budget Carry-Forwards

Appendix D – 2019 Capital Closeouts

Appendix E – Development Charges Reserve Funds Income Statement for 2019

Appendix F – Development Charges Reserve – Listing of Outstanding Credits