

Subject: 2021 Third Quarter Operating Budget Variance Report-City Wide

Reference:

Date to Council: November 1, 2021
Author: David Soave
Manager, Strategic Operating Budget Development & Control
519-255-6100 Ext. 1911
dsoave@citywindsor.ca
Financial Planning
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To: Mayor and Members of City Council

Recommendation:

THAT City Council **RECEIVE FOR INFORMATION** the 2021 3rd Quarter Operating Budget Variance Report, including the updated COVID-19 financial impacts as presented by the Chief Financial Officer & City Treasurer; and,

THAT the Chief Administrative Officer and the Chief Financial Officer & City Treasurer **BE DIRECTED** to monitor the 2021 Operating Budget and continue to seek further means for offsetting any potential variances that may arise; and,

THAT the Mayor and City Council **STRONGLY ADVOCATE** on behalf of the City for continued senior level government relief funding to address the City's significant projected 2021 COVID related deficit; and **TO URGE** senior levels of government for continued COVID financial support funding for municipalities that will assist with the ongoing 2021 COVID financial challenges while also allowing for appropriate budgetary planning for municipalities as they move into the 2022 and future budget cycles and gradually return to more normalized budgetary levels.

Executive Summary:

The projected 3rd Quarter Variance report, including the updated financial implications of the COVID-19 pandemic is summarized in the following chart with the year-end projected variances estimated to the end of 2021. It is projected, inclusive of the grant funding announced by senior levels of government to date that the total net municipal financial impact for 2021 amounts to a projected 2021 deficit of approximately (\$3.0M).

Forgone revenues totaling \$37.5M when combined with additional costs resulting from the COVID-19 pandemic of \$40.8M result in a total COVID related financial impact to the City of \$78.3M. This amount is offset by reduced expenditures resulting from

mitigation measures taken to date of \$15.4M and from grant funding from senior levels of government of \$60.3M, thereby resulting in a projected net municipal financial deficit to the City of (\$2.6M). Once the Non-COVID Y/E estimated negative variance of (\$450,000) is factored in, the total projected municipal variance exclusive of the impacts of the Government Business Enterprises (GBEs) is a **projected deficit of approximately (\$3.0 million) for 2021**.

Due to the continuing extraordinary circumstances surrounding the global pandemic, the 3rd Quarter report this year also includes the financial projections for various GBEs, namely the Windsor-Detroit Tunnel and Windsor Airport (YQG). Given the significant financial impacts to these entities resulting from the protracted COVID restrictions, the City as sole shareholder of these entities will be including these losses in any future grant funding opportunities, which may arise for municipalities. Inclusive of these GBE variances totaling (\$10.1 million), **the overall projected 2021 year end corporate deficit is estimated to be approximately (\$13.1 million)**.

Summary of 2021 COVID Variance (Millions)

City of Windsor (Includes: Off Street Parking & Sewer Surcharge)

	2020 Year-End	2021 2nd Quarter (YE Estimate)	2021 3rd Quarter (YE Estimate)
Forgone Revenue	(\$39.5)	(\$36.8)	(\$37.5)
Additional Expenses	(\$11.9)	(\$36.0)	(\$40.8)
Total COVID Impact	(\$51.4)	(\$72.8)	(\$78.3)
Less:			
Reduced (Mitigated) Expenditures	\$22.0	\$14.8	\$15.4
Provincial / Federal Grants	\$29.4	\$53.4	\$60.3
COVID Deficit to be Offset	\$0.0	(\$4.6)	(\$2.6)
Less:			
Non-Covid Y/E Variance	\$5.8	\$0.8	(\$0.4)
Total Municipal Y/E Variance	\$5.8	(\$3.8)	(\$3.0)
Add: Government Business Enterprises (GBEs)			

Windsor-Detroit Tunnel		(\$7.0)	(\$6.6)
Windsor Airport		(\$3.4)	(\$3.5)
Roseland Golf & Curling Club		(\$0.3)	(\$0.0)
Overall 2021 Projected Year-End Deficit Including GBEs to be Offset by Additional Federal & Provincial Grants		(\$14.5)	(\$13.1)

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 recommended to City Council by Administration.

The significant variable impacting the City of Windsor’s finances in 2021 continues to be the impact of the COVID-19 global pandemic. Since March of 2020, the pandemic has caused significant uncertainty that has impacted many municipal services. As the City of Windsor continues to follow provincial guidelines, many services continue to be modified. As a result, many of the City’s operations have been suspended, altered by restrictions, or increased to meet the demands resulting from the pandemic. In addition, the City has had to deal with the uncertainty of the US Border restrictions that have been in place for approximately 20 months.

City Council will recall that the 2021 budget approved an increase to the corporate contingency budget of \$2M bringing the total annual contingency budget to a level of \$3.5M. This increase was established to assist in mitigating the financial uncertainty and potential impacts on the City’s operating budget resulting from the ongoing pandemic. Additionally, this increase to the contingency budget provided added flexibility if required to leverage senior level government grants that may be announced to stimulate the economy.

Discussion:

The financial position of the Corporation is directly impacted by uncontrollable factors such as COVID-19, 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 31, 2021, Administration is projecting an estimated corporate year-end deficit of (\$3.0M), made up of a COVID deficit of (\$2.6M) and a Non-COVID projected deficit of (\$450,000). This projection does not currently take into account the previously noted \$3.5 million contingency amount, which is normally transferred to the budget stabilization reserve and/or other appropriate reserves as may be determined at year-end. Based on the current year-end projection, and assuming no

additional senior government COVID assistance is announced, approximately \$500,000 of the \$3.5M contingency would be transferred to the appropriate reserves at year-end with the remaining \$3.0M required to offset the current projected yearend deficit.

Table A below provides a summary of the 2021 projected year-end variances as of the 2021 3rd Quarter, from the largest dollar deficit to the largest surplus, for each of the City Departments and Agencies, Boards, and Committees.

DEPARTMENT	2021 Gross Budget	2021 Net Budget	Year-End COVID Variance	Year-End Non-COVID Variance	Year-End Overall Variance	% of Gross Budget
<u>CITY DEPARTMENTS</u>						
Recreation & Culture	\$24,992,464	\$13,042,950	(\$1,573,000)	\$0	(\$1,573,000)	(6.3%)
Public Works	\$56,609,038	\$29,278,810	(\$641,000)	(\$1,257,000)	(\$1,898,000)	(3.4%)
Legal	\$14,231,776	\$6,682,053	(\$250,000)	(\$746,000)	(\$996,000)	(7.0%)
Transit Windsor	\$36,851,094	\$15,586,444	(\$628,000)	(\$110,000)	(\$738,000)	(2.0%)
Housing & Children Services *	\$116,465,816	\$24,858,008	\$239,000	(\$930,000)	(\$691,000)	(0.6%)
Licensing & Enforcement	\$3,781,107	\$1,389,957	(\$530,000)	(\$65,000)	(\$595,000)	(15.7%)
Facilities	\$19,034,729	\$9,693,214	(\$1,083,000)	\$502,000	(\$581,000)	(3.1%)
Fire & Rescue	\$52,177,165	\$50,658,841	(\$171,000)	(\$242,000)	(\$413,000)	(0.8%)
Building	\$7,752,491	\$1,973,235	(\$150,000)	(\$196,000)	(\$346,000)	(4.5%)
Parks	\$21,010,716	\$18,828,507	(\$221,000)	(\$9,000)	(\$230,000)	(1.1%)
Huron Lodge	\$26,132,683	\$8,128,565	(\$390,000)	\$190,000	(\$200,000)	(0.8%)
Engineering	\$27,777,083	\$2,176,061	(\$48,000)	(\$15,000)	(\$63,000)	(0.2%)
Finance	\$11,818,267	\$6,782,600	(\$144,000)	\$93,000	(\$51,000)	(0.4%)
Communications	\$3,914,452	\$3,191,987	(\$7,000)	(\$29,000)	(\$36,000)	(0.9%)
Mayor's Office	\$1,455,705	\$1,455,705	\$0	\$0	\$0	0.0%
Windsor Public Library	\$9,302,368	\$8,269,747	\$211,000	(\$211,000)	\$0	0.0%
CAO's Office	\$1,253,287	\$1,253,287	\$0	\$8,000	\$8,000	0.6%
Human Resources	\$6,556,998	\$6,148,156	\$50,000	\$0	\$50,000	0.8%
City Council	\$1,029,184	\$872,193	\$50,000	\$10,000	\$60,000	5.8%
Information Technology	\$8,702,573	\$7,340,019	(\$23,000)	\$136,000	\$113,000	1.3%
Council Services	\$2,951,250	\$2,358,455	(\$9,000)	\$231,000	\$222,000	7.5%
Planning	\$4,059,564	\$3,161,718	\$0	\$718,000	\$718,000	17.7%
Employment & Social Services	\$116,559,418	\$7,645,864	\$831,000	\$599,000	\$1,430,000	1.2%
Corporate Accounts	\$162,129,721	\$31,002,265	\$3,412,000	\$1,190,000	\$4,602,000	2.8%
Sub-Total: City Depts	\$303,241,995	\$59,781,957	(\$1,075,000)	(\$133,000)	(\$1,208,000)	(0.4%)
<u>AGENCIES, BOARDS & COMMITTEES</u>						
Agencies	\$20,558,892	\$20,458,294	\$0	(\$122,000)	(\$122,000)	(0.6%)
Police Services	\$111,317,082	\$93,932,409	\$0	\$0	\$0	0.0%
Sub-Total: ABC's	\$131,875,974	\$114,390,703	\$0	(\$122,000)	(\$122,000)	(0.1%)
Net Operating Budget Variance	\$435,117,969	\$174,172,660	(\$1,075,000)	(\$255,000)	(\$1,330,000)	(0.3%)
<u>OTHER FUNDING SOURCES</u>						
Off Street Parking Reserve	\$2,797,800	\$0	(\$1,527,000)	\$69,000	(\$1,458,000)	(52.1%)
Sewer Surcharge Reserve	\$80,254,455	\$0	\$37,000	(\$996,000)	(\$959,000)	(1.2%)
Building Permit Reserve	(\$169,408)	\$0	\$0	\$732,000	\$732,000	432.1%
Sub-Total: OFS's	\$82,882,847	\$0	(\$1,490,000)	(\$195,000)	(\$1,685,000)	(2.0%)
Total Municipal	\$518,000,816	\$174,172,660	(\$2,565,000)	(\$450,000)	(\$3,015,000)	(0.6%)
<u>Government Business Enterprises</u>						
Windsor-Detroit Tunnel	n/a	n/a	(\$6,630,000)	\$0	(\$6,630,000)	n/a
Windsor Airport	n/a	n/a	(\$3,500,000)	\$0	(\$3,500,000)	n/a
Roseland Golf & Curling Club	n/a	n/a	(\$300,000)	\$300,000	\$0	n/a
Sub-Total: GBE's	n/a	n/a	(\$10,430,000)	\$300,000	(\$10,130,000)	n/a
Grand Total	n/a	n/a	(\$12,995,000)	(\$150,000)	(\$13,145,000)	n/a

* Includes Windsor Essex County Housing Corporation (WEHC).

Windsor Detroit Tunnel, YQG Windsor Airport & Roseland Golf Course

The City's Government Business Enterprises (GBEs) have been consulted regarding their anticipated year-end variances. Based on current information, the projected year-end operating deficit anticipated for the GBEs is estimated to be (\$10.1 million). This is made up of estimates of (\$6.6 million) for the Windsor-Detroit Tunnel and (\$3.5 million) for the Windsor Airport.

These entities continue to face significant reductions in revenue similar to 2020 given the ongoing pandemic and the ongoing restrictions, which have continued to remain in place, including reduced air travel, extended border restrictions, and required closure of various facilities and services. As sole shareholder of these entities, these losses, while not directly reflected in the City's operating budget, have a significant impact on the City resulting in paused dividends, the requirement for the provision of cash flow loans, and permanent and long term equity/reserve reductions that will impact future capital investments in the facilities.

As these organizations are wholly owned by the City, there is a high likelihood the City would be required to provide them financial assistance due to their losses in order to ensure they remain viable. Given the significant financial impacts to these entities caused by the COVID restrictions, the City will be including these projected losses in any future grant funding opportunities as they become available, similar to the Phase 2- Safe Restart-Municipal Relief Funding application submitted in 2020.

Risk Analysis:

The largest risk by far this year continues to be the implications of the COVID-19 pandemic and its impact on City operations.

Administration has attempted to quantify the impact of the pandemic on the City's finances for the remainder of the year with the use of significant assumptions and ongoing uncertainty. As the situation continues to change, it is extremely difficult to provide any degree of certainty as to the financial impacts to the Corporation. There remain many variables, including:

1. The length of the crisis. It is still unknown when the restrictions will be fully lifted or if additional restrictions will need to be reinstated. Although we have projected the financial impacts to the end of the year, there remain significant uncertainties as to the recovery from this crisis.
2. The length of the transition period for things to return to "normal". In some cases, entire seasons may be lost even if all restrictions are lifted.
3. The residents' hesitation period for things to return to normal once the restrictions are lifted may further delay the financial recovery for the City.
4. The additional requirements and regulations that the City and others must follow as we transition and eventually return to a normal state.
5. The amount of additional senior level funding that will be made available to municipalities to offset the financial burden of the pandemic in 2021 and future years.

As usual in a normal year, there are a number of other potential risks that can impact the year-end financial results as follows:

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. Inflation has been trending upwards over the last six months as the economy starts its recovery from the pandemic. Any significant prolonged increase in inflation will impact City costs going forward.
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 items. 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 judgement in developing budget 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 corporate contingency account.

Climate Change Risks

Climate Change Mitigation:

Climate Change Mitigation initiatives are budgeted throughout the corporation and any variances form part of the departmental and ABC variance descriptions.

Climate Change Adaptation:

Climate Change Adaptation initiatives are budgeted throughout the corporation and any variances form part of the departmental and ABC variance descriptions.

Financial Matters:

Refer to **Appendix A** for detailed descriptions of the projected year-end variances for each department, separated between COVID and Non-COVID impacts, along with any mitigating measures.

Appendix B of this report has been updated to provide additional data. It includes a list of relevant operational and economic statistics (extracted from various sources) as background information and is depicted graphically for the current quarter, along with each of the preceding nine years for ease of reference and comparison purposes. The data used includes the latest available statistics. In some cases, due a lag in the available data, the 3rd quarter statistics may not yet be available.

Consultations:

All departments and ABC's provided comments to augment and clarify the analysis performed by the Finance Department.

Conclusion:

Administration is projecting a municipal net operating year-end budget variance estimated to be (\$3.0 million). Once the GBEs projected deficit of (\$10.1 million) are included, the overall estimated year-end variance is (\$13.1 million).

As indicated throughout the report, given the uncertainty around COVID-19 impacts and additional grant funding that will become available from senior levels of government, the 3rd quarter operating budget year-end variance projection is subject to refinements as the fiscal year nears completion. Measures have been implemented, where possible, in order to mitigate the negative budget risks. This includes applying for additional funding from senior levels of government wherever possible.

Continued efforts are required to ensure Senior Levels of government will provide additional 2021 pandemic relief funding to address the significant projected deficit the City faces in 2021 and to also establish appropriate transitional relief funding which will assist municipalities as they embark on the 2022 and future municipal budget planning cycles.

Planning Act Matters:

N/A

Approvals:

Name	Title
David Soave	Manager, Strategic Operating Budget Development & Control
Tony Ardovini	Deputy Treasurer - Financial Planning
Joe Mancina	Chief Financial Officer & City Treasurer
Jason Reynar	Chief Administrative Officer

Notifications:

Name	Address	Email

Appendices:

Appendix A: 2021 Operating Budget Variance

Appendix B: 2021 Operational & Economic Statistics