

Subject: 2019 Second Quarter Operating Budget Variance Report

Reference:

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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 2nd 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 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 \$3.5 million corporate contingency line item to help offset any unforeseen variances and contingent liabilities that might 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

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.

Based on information as of May 31st, 2019, Administration is projecting an estimated year end surplus of \$1,873,657. This is not taking into account the previously noted \$3.5 million contingency account, which is expected to be transferred to the budget stabilization reserve and/or other 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 2nd quarter, from the largest dollar deficit to the largest surplus, for each of the City Departments and Agencies, Boards and Commissions.

Table A: 2019 2nd Quarter Operating Budget Variance by Department

Department	2019 Annual Net Budget	2019 Q2 Projected Year End Surplus / (Deficit)	Variance % of Gross Budget
Fire & Rescue	\$50,613,002	(\$340,000)	-0.7%
Engineering	3,236,253	(322,000)	-1.2%
Legal	7,030,325	(190,000)	-1.1%
Council Services	6,976,218	(130,000)	-1.2%
Huron Lodge	7,486,524	(98,000)	-0.4%
Finance	6,727,929	(39,000)	-0.3%
Housing & Children's Services/WECHC	23,642,230	-	0.0%
Recreation & Culture	12,942,576	-	0.0%
Employment & Social Services	7,664,726	-	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%
Windsor Public Library	8,020,055	60,000	0.6%
CAO's Office	1,285,018	125,000	9.5%
Parks	26,745,896	154,000	0.4%
Transit Windsor	14,425,771	405,000	1.1%
Public Works Operations	27,179,197	845,000	1.5%
Corporate Accounts	(330,380,367)	1,937,657	0.8%
Total City Departments	(\$108,099,283)	\$2,407,657	0.3%
Corporate Contingency	3,500,000	0	100.0%
Surplus / (Deficit) Subtotal	(\$104,599,283)	\$2,407,657	0.3%
Agencies, Boards & Commissions			
Windsor Police Services	88,737,654	(474,000)	-0.4%
Agency Grants	19,319,509	-	0.0%
Committees of Council	42,120	-	0.0%
Total Agencies, Boards & Commissions	\$108,099,283	(\$474,000)	-0.4%
Surplus/(Deficit) Subtotal	0	\$1,933,657	0.2%
Less: Windsor Public Library Surplus		(60,000)	
2019 Net Operating Surplus		\$1,873,657	0.2%

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.

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

Table B: 2019 2nd Quarter Operating Budget Variance by Category

Category	Net Favourable/ (Unfavourable) Variance
REVENUE:	
User Fees, Permits & Charges	(\$537,000)
Grants & Subsidies	(424,000)
Other Miscellaneous Revenue	(52,000)
Taxes – Education	-
Taxes – Municipal	-
Transfers from Other Funds	65,000
Investment Income & Dividends	100,000
Recovery of Expenditures	684,509
SUBTOTAL - REVENUE	(\$163,491)
EXPENSES:	
Operating & Maintenance Supplies	(443,000)
Purchased Services	(225,000)
Minor Capital	(56,000)
Financial Expenses	(39,447)
Transfers to External Agencies	-
Transfers to Education Entities	-
Transfer for Social Services	-
Transfers to Reserves & Capital Funds	-
Utilities, Insurance & Taxes	383,000
Other Miscellaneous Expenditures	535,595
Salaries & Benefits	1,882,000
SUBTOTAL – EXPENSES	2,037,148
NET TOTAL	1,873,657
CORPORATE CONTINGENCY	-
2019 PROJECTED YEAR END SURPLUS	\$1,873,657

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 the “Recovery of Expenditures” category, where the sewer surcharge recovery is higher than budgeted due to the timing of the sewer surcharge expenditure increase approved for 2019.

Offsetting this surplus is a substantial shortfall with respect to “User Fees, Permits & Charges”. This is predominantly due to lower than expected casino hosting fees projected to be received by the City in 2019, along with lower than anticipated user fee revenue from property standards and bylaw enforcement. In addition, there is a shortfall expected within the “Grants & Subsidies” category, primarily due to a change in provincial funding priorities and the revision of several grant programs impacting the Windsor Police Services.

Expense Variance

The largest shortfall among the expense categories is in the “Operating & Maintenance Supplies” line item. This projected deficit relates primarily to higher than budgeted fuel prices, impacting departments such as Transit Windsor and Public Works Operations. It should be noted that by way of City Council approval during the 2019 budget process, if these departments are in a deficit position at year-end, there will be a transfer from the Budget Stabilization Reserve (BSR) offsetting the fuel deficit.

These expense deficits are being offset by an overall corporate savings in “Salaries & 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
(\$807,388)	0	\$807,388

Construction statistics as of June 30, 2019 are lower (1,723 permits) compared to that of 2018 (2,461 permits) for the same period. The permit counts in 2018 were largely concentrated in renovations and new housing starts and particularly 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. So far in 2019, the permit counts are about the same or slightly below that of 2018 in all categories except for residential, which is 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, and applications received, Administration is forecasting no draw on the reserve or a possible small contribution to the building permit fee reserve in 2019.

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, prudent management of all controllable operating costs, seeking increased efficiencies, technology enhancements 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
\$926,294	\$1,016,294	\$90,000

Administration is projecting an increase to the reserve transfer for 2019 of approximately \$90,000 related to salaries and overtime. A surplus of \$50,000 is expected related to salary gapping due to vacancies during the year and a surplus of approximately \$40,000 is possible related to overtime costs.

The balance in the On/Off Street Parking Reserve Fund as of December 31, 2018 was \$918,836.59.

Sewer Surcharge Funded Operations

Overall, a budget to actual deficit of **(\$586,300)** is anticipated 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 \$14,500 from its Sewer Surcharge funded operations.

Key Highlights:

- The department is projecting a surplus of \$387,700 in Labour and Benefits, due to gapping of hourly staff.
- Additionally, a small surplus of \$16,800 is anticipated in Operating and Maintenance expenditures.
- Minor Capital costs, largely driven by Maintenance Parts & Materials, is expected to partially offset the previously identified surpluses by (\$311,400).
- A further deficit of (\$68,800) in Purchased Services is anticipated for the Division, due to renovations being undertaken at the Lou Romano Plant for the Electrical Supervisor's office and a temporary crane that was rented to complete some on-site work, also at the Lou Romano Plant.
- Revenues collected from the Towns of LaSalle and Tecumseh are projected to contribute a (\$49,200) deficit for the year due to reduced volumes.
- Miscellaneous surpluses totalling \$39,400 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 surpluses and deficits expected related to salary and wage gapping due to a number of vacancies across the department resulting from retirements and staff appointments into new positions offset with the hiring of extra staff to accommodate heavy work load situations where required. Administration also expects there may be offsetting deficits related to contracted services, but at the time of completing this variance analysis, it is too early in the construction season to project what those total costs may be.

Other Sewer Surcharge-Related Expenses

Other Sewer Surcharge-related expenses are projected to be \$3,056,400 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 \$3,187,800. Appeal Refunds and General Expenses are also expected to be \$210,000 better than budget. However the Sewer Repair and Replacement costs, as well as the EnWin administrative fee are expected to come in higher than budget, thereby offsetting the above surpluses with (\$291,600) and (\$49,800) in 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 (\$3,717,200) lower than the full year's annualized approved budget based simply on the timing of implementation of these changes. This represents a (5.29%) variance to the \$70.3 million revenue budget.

2019 Flooding Prevention

Throughout this spring and summer, 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 it is anticipated that there will be costs associated with this event, it is too early as of the date of this report to project these costs. It is possible that these costs may have an impact on the final corporate variance for 2019, but the magnitude of these costs and impacts are not yet fully known and hence has not been factored into the yearend variance projection.

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. Any remaining surplus from the funding received to date of \$563,173 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

As communicated to City Council on June 3rd, 2019 (Council Report C 91/2019), the provincial budget outlined changes in several areas that may have a direct impact to municipal operations and service delivery. As identified throughout that specific report, the full magnitude of the changes could not be estimated with 100% certainty. Some of the areas impacted include Housing & Children's Services, Public Health, Social Services, Huron Lodge (Long Term Care), EMS, Windsor Police Services the Windsor Public Library and Essex Regional Conservation Authority (ERCA).

The variances and projections presented within this report for 2019, are based on the best information available at this time relative to various provincial funding programs. It is noted however that City Council, given the uncertainty surrounding the Provincial Budget and various other potential contingent liabilities, increased the annual contingency amount within the operating budget by \$2M during the 2019 Operating Budget process in order to help mitigate these potential risks. The overall contingency amount still remains in place and will be transferred to reserves if not required to mitigate a deficit at year end.

Administration continues to monitor the various provincial announcements surrounding funding changes and will advise Council via future variance and/or other Council reports of any impacts as they may arise.

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 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 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 \$1,873,657.

As indicated throughout the report, the second 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 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:

N/A

Appendices:

1. Appendix A – 2019 Q2 Operating Budget Variance by Department
2. Appendix B – 2019 Q2 Operational Economic Stats

Appendices: