

**THE CORPORATION OF THE CITY OF WINDSOR**  
**Office of the City Treasurer - Finance**



**MISSION STATEMENT:**

*"The City of Windsor, with the involvement of its citizens, will deliver effective and responsive municipal services, and will mobilize innovative community partnerships"*

<b>LiveLink REPORT #: 15839</b>	<b>Report Date: March 23, 2012</b>
<b>Author's Name: Andrew Daher</b>	<b>Date to Council: April 2, 2012</b>
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**To: Mayor and Members of City Council**

**Subject: 2011 Year-End Operating Budget Variance Report**

**1. RECOMMENDATION: City Wide: \_\_\_\_\_ Ward(s): \_\_\_\_\_**

1. THAT Council **RECEIVE FOR INFORMATION** the 2011 Year-end Operating Budget Variance Report, dated March 23, 2012;
2. THAT the unused budget Contingency of \$3,000,000 **BE TRANSFERED** into the Property Tax Appeals Reserve Fund in order to help finance the potential future costs relating to the significant property tax appeals that are currently in process;
3. THAT the final operating surplus of \$644,450 (which is net of \$404,171 one time funding requirements that were approved by Council for various 2012 budget items) **BE TRANSFERED** to the Budget Stabilization Reserve Fund;
4. THAT, in order to avoid the need to re-budget for various items, Council **APPROVE** \$2,686,575 in budget carryovers as detailed in Appendix C – 2011 Budget Carry-Forwards;
5. THAT pursuant to Bill 124 legislation, Council **APPROVE** the transfer of \$757,880 from the Building Permit Reserve to the Operating Fund, in order to recover the net building permits related expenditures incurred during 2011 in the Operating Fund;
6. THAT Council **APPROVE** the transfer of \$131,173 from the Budget Stabilization Reserve Fund to Handi Transit in order to fund their 2011 annual operating deficit.
7. THAT Council **APPROVE** the transfer of \$4,700,000 from the Reserve for Tax Appeals Fund (Fund #192) to the Net Tax Additions/Reductions operating account (Dept ID# 0224140), as previously reported to Council.

8. THAT Council **APPROVE** the following transfers, of a housekeeping nature, to/from various reserves:
- a. The transfer of \$32,370.41 from the Capital Expenditure Reserve Fund #160 to Legal Property Operating Account (Dept ID #0122960) to fund transitional costs related to the temporary upkeep of Riverside and Adstoll Arenas and Edward Community Centre
  - b. The transfer of \$121,110 from the Capital Expenditure Reserve (Fund #160) to the City Owned Vacant Lands (Dept ID #0122623), in order to fund the lawn maintenance and grounds upkeep of vacant land owned by the City of Windsor

### **EXECUTIVE SUMMARY:**

The Corporation ended the 2011 fiscal year with an operating surplus of \$4,048,621. After adjusting for one time transfers and approvals, the adjusted year end surplus that was transferred to the Budget Stabilization Reserve was \$644,450. These results are still subject to the annual external audit.

Table A provides a summary of the budgets and year-end variances for City Departments, Corporate Accounts, and Agencies & Boards for 2011. The 2011 year-end variances have been sorted from largest deficit to largest surplus. Refer to Appendix A of the report for detailed variance explanations for each department/division.

**TABLE A - 2011 YEAR END OPERATING VARIANCE SUMMARY BY DEPT/DIVISION**

<b>Departments/Divisions</b>	<b>Annual Net Budget</b>	<b>Year End Surplus/ (Deficit)</b>	<b>% Var. of Gross Bgt.</b>
Parks & Facility Operations	16,200,386	(1,374,876)	-5.4%
Environmental	11,988,948	(854,424)	-2.6%
PW Operations	10,270,634	(679,173)	-2.3%
Corporate Human Resource Accounts	(1,051,741)	(615,600)	-58.5%
Legal	4,748,105	(445,958)	-5.7%
Finance	5,419,390	(434,199)	-5.5%
Engineering	7,085,544	(300,464)	-3.0%
Fire & Rescue Services	33,681,149	(177,851)	-0.5%
Planning	2,401,159	(62,566)	-1.9%
Council Administrative Services	530,594	(24,807)	-4.7%
Comm. Development & Health Office	95,453	(6,922)	-1.4%
Recreation & Culture	8,802,986	(2,836)	0.0%
Building	1,635,959	(2,712)	0.0%
Huron Lodge	8,244,298	7,267	0.0%
Human Resources	3,646,208	127,611	3.4%
Information Technology	5,146,744	180,384	2.9%
CAO's Office	1,515,666	219,889	14.5%
Housing & Children's Services	21,385,512	379,407	0.5%
Employment & Social Services	18,928,063	803,957	0.7%
Council Services	3,330,478	1,000,509	8.2%
Corporate Financial Accounts	(269,556,893)	3,252,508	1.5%
<b>Total City Departments</b>	<b>(105,551,358)</b>	<b>989,144</b>	<b>0.2%</b>
<b>Agencies, Boards &amp; Commissions</b>			
Transit Windsor	11,272,079	(500,551)	-1.7%
Auditor General's Office	586,885	(20,139)	-3.4%
Windsor Public Library	7,939,359	0	0.0%
Agency Grants	14,915,034	5,230	0.0%
Committees of Council	61,558	77,625	126.1%
Windsor Police Services	67,776,443	497,312	0.7%
<b>Total Agencies, Boards &amp; Commissions</b>	<b>102,551,358</b>	<b>59,477</b>	<b>0.0%</b>
<b>Total Corporation</b>	<b>(3,000,000)</b>	<b>1,048,621</b>	<b>0.1%</b>
Budget Contingency	3,000,000	3,000,000	100%
<b>2011 Net Operating Budget Surplus (Before Tax Appeal Transfer)</b>	<b>0</b>	<b>4,048,621</b>	<b>0.53%</b>
Transfer To Tax Appeals Reserve Fund		(3,000,000)	
<b>2011 Adj. Net Operating Budget Surplus (Before One-Time Funding)</b>	<b>0</b>	<b>1,048,621</b>	<b>0.14%</b>
<b>Less: 2012 Budget One-Time Approved Funding</b>			
Reduction in Economic Development Initiative		(41,500)	
Multi-Residential Tax Adjustment		(93,100)	
Elimination of Retiree Gifts		(15,000)	
Sidewalk Café Fees		(100,000)	
Roseland Golf Sponsorship		(10,000)	
Customer Service/Other Professional Services Account		(14,000)	
Skunk Removal Program		(80,000)	
Closure of Sandpoint Beach / Convert to Park		(50,571)	
<b>2011 Adjusted Net Operating Budget Surplus</b>	<b>0</b>	<b>644,450</b>	<b>0.08%</b>

Note: 2011 financial results are still subject to an annual external audit

## **2. 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 approved carry-forwards that relate to 2011. These are budgeted items that, due to timing, were committed but not expended in 2011 and as a result the related budgets for those items have been carried forward in 2012. These expenditure line items are expected to be paid in 2012.

The table below provides a five year historical picture of the City's year end operating variances for the corporation, as well as the percentage variance to budget. These reported year end variances all include the budget stabilization contingency account.

### **CITY OF WINDSOR'S YEAR END REPORTED OPERATING VARIANCE**

<b>Year</b>	<b>Surplus</b>	<b>% of Gross Budget</b>
2007	\$5,422,794	0.70%
2008	\$ 418,624	0.05%
2009	\$2,740,013	0.36%
2010	\$2,307,758	0.30%
2011	\$4,048,621	0.53%

## **3. DISCUSSION:**

### Tax Supported Variances

As noted in the Executive Summary, The Corporation ended the 2011 fiscal year with an operating surplus of \$4,048,621. This figure includes budget carryovers in the amount of \$2,686,575. Consistent with City Council's decisions in prior years, the net surplus will be transferred to the Budget Stabilization Reserve (BSR) Fund.

As Council will recall, a \$3,000,000 contingency is included in the budget to mitigate the impact of changes to estimates and judgements made, in many cases with incomplete information, during the budget development process. Because the corporation ended the year in a surplus position, this contingency was not required to offset any deficit. However, there still remains very significant property tax appeals, whose disposition cannot be quantified with certainty at this time. Therefore a transfer of \$3,000,000 to the Tax Appeals Reserve Fund was completed at year end. This resulted in an adjusted year end surplus of \$1,048,621.

Further, during the budget meeting deliberations held on February 27, 2012 (Executive Committee Meeting) and March 5, 2012 (Regular City Council Meeting), City Council approved to re-instate eight budgeted line items that were proposed to be cut as part of the 2012 budget. These items one-time items were approved to be funded from the surplus funds realized as part of the 2011 year end variance. This total amounted to \$404,171, leaving a final adjusted 2011 Net Year End Operating Surplus of \$644,450.

Table B is also included below and provides another view of the 2011 year-end financial results (prior to the one-time approved funded items) by major account categories. A brief analysis and the items included in each of the significant dollar categories augment this table.

**TABLE B**  
**2011 YEAR END OPERATING VARIANCE SUMMARY BY CATEGORY**

<b>CATEGORIES (NET)</b>	<b>FAVOURABLE/ (UNFAVOURABLE)</b>
<b><u>REVENUE</u></b>	
User Fees, Permits & Charges	\$ (350,520)
Taxes - Municipal	988
Other Miscellaneous Revenue	259,901
Recovery of Expenditures	289,090
Grants & Subsidies	545,624
Investment Income & Dividends	948,434
<b>SUBTOTAL - REVENUE</b>	<b>\$ 1,693,517</b>
<b><u>EXPENSE</u></b>	
Operating & Maintenance Supplies	\$ (2,408,373)
Purchased Services	(1,347,947)
Utilities, Insurance & Taxes	(920,253)
Debt & Financial Expenses	(311,713)
Transfers to External Agencies	5,230
Transfer for Social Services	33,908
Other Miscellaneous Expenditures	72,251
Minor Capital	189,084
Transfers to Reserves & Capital Funds	381,940
Salaries & Benefits	3,660,977
<b>SUBTOTAL - EXPENSES</b>	<b>\$ (644,896)</b>
<b>TOTAL NET PROJECTED YE VARIANCE</b>	<b>\$ 1,048,621</b>

Revenue Analysis:

As can be noted from the table above, the bulk of the projected revenue surplus is comprised of *Investment Income & Dividends* which is primarily due to capital interest income surplus relating to the timing of project funding and expenditures as well as better than expected income on investments. In addition, *Grants & Subsidies* also helped contribute to the overall surplus as new funding announcements in Huron lodge and one-time adjustments to prior year assessments were realized. The largest deficit is in the *User Fees, Permits, & Charges* line item which is mainly comprised of lower revenues in the Operations, Legal, Planning, Engineering, Recreation, and Fire Department.

### Expense Analysis:

On the expenditure side, the largest unfavourable variance is found in the *Operating and Maintenance Supplies*. The bulk of these variances relate to higher than budgeted landfill tipping fee, leachate treatment costs, fuel costs, as well as material & vehicle maintenance costs. In addition, there was a variance relating to the *Purchased Services* category, which is mainly comprised of the winter control costs, legal and labour arbitration costs, external consulting and other external professional costs. *Utility & Insurance* expenditures (gas, water, hydro) were also higher due to inflationary rate increases, slight consumption increases and an unanticipated increase in special levy by Ontario Hydro (Global Adjustment charge). Offsetting these negative expenditure variances are savings in *Minor Capital* as a result of reduced or deferred building and plants repairs as departments continued to mitigate expenses throughout the year. The bulk of the noted expenditure savings have been realized in *Salaries & Benefits*, through salary gapping efforts as well as lower than budgeted wage provisions.

### ***Miscellaneous Housekeeping Transfers To/From Reserves***

Throughout the course of the year, costs related to certain initiatives are captured in operating accounts and are then transferred at year-end to reserves. The following miscellaneous housekeeping transfers to/from reserves have occurred and further descriptions are provided:

- a. Certain temporary and non-recurring transitional costs have been incurred related to the temporary upkeep of Riverside and Adstoll Arenas and Edward Community Centre in the amount of \$32,370.41. Therefore, a transfer in this amount from the Capital Expenditure Reserve Fund to the Legal Property account was done.
- b. The responsibility for maintaining the city owned vacant lots and right-of-ways are the responsibility of the Parks and Facilities Department. Parks and Facilities are tasked with providing all lawn care and site clean-up services as necessary to maintain the properties in accordance with all Federal/Provincial regulations and City of Windsor bylaws. It has always been the past practice to offset all costs incurred throughout the year to service vacant property from the capital expenditure reserve (Fund 160) at year-end, as the department would otherwise incur an operating deficit.

## Other Comments/Notes

### ***PARKING ENFORCEMENT TRANSITION COST UPDATE (as at December 31, 2011)***

A capital project, #7105002, was established as per CR292/2010 to track transition costs related to the approved outsourcing of Parking Enforcement. To date, \$136,116 in revenue related fleet cost savings have been deposited to this account as per the business plan. This revenue was partially offset by \$4,471 in budgeted costs related to accommodation reviews, and EFAP expenses charged to the project, leaving a current positive balance of \$131,645.

The original Parking Enforcement transition projections included staffing transition cost estimates of \$701,376 and \$293,904 for 2011 and 2012 respectively. Staff transition costs for the former Parking Enforcement employees have since been absorbed within the annual departmental budgets. Therefore the \$701,376 was not required to be funded from the transition project in 2011. It is expected that the 2012 estimate of \$293,904 will also not be required. This savings to the transition project allowed the full anticipated savings of moving to the contractor model to be achieved earlier than the projected 2013 date and was included as a savings in the 2011 operating budget. In addition, Human Resources also previously reported to Council the status of employee bumping across the corporation as part of the 2012 Operating Budget.

The transitional analysis also included savings of \$182,000 as the present value of future post retirement benefit savings. As indicated in the previous report to Council, dated July 9, 2010, these post retirement benefit savings represent a avoidance of future costs, which will not be realized during the life of the 5 year agreement.

### ***WASTE & RECYCLING TRANSITION COST UPDATE (as at December 31, 2011)***

On July 12, 2010, City Council awarded tenders #51-10 (residential waste and yard waste collection) and #84-10 (recycling collection services) to Turtle Island Recycling Corporation ("Turtle Island), as per CR 270-2010. As part of that resolution, City Council approved the establishment of a Capital Project (#7105001) to track all one-time, transitional revenues and expenditures related to the contracting out of residential waste and yard waste collection services and recycling collection services. Turtle Island began recycling collection services on October 19th, 2010 and residential waste and year waste collection on December 13th, 2010.

The waste and recycling collection business case projected net annual savings over the term of the contract of \$8,950,904. At the time, it was noted that significant assumptions and estimates were required in order to develop the financial implications with respect to the various contracting out scenarios that were explored. These included the use of projected retirements in the analysis, as well as other related estimates. In addition, the savings were projected over a seven year period; which, as with any projection, lends to increased uncertainty and variability.

As part of the business case development, detailed year-by-year forecasts were prepared for both the anticipated revenues and expenditures as a result of contracting out. The following table summarizes Year 1 of the Waste/Recycling Collection transition capital project.

<b>Waste Collection Contracting Out Project Transition Costs</b>	<b>YEAR 1 BUDGET</b>	<b>YEAR 1 ACTUALS</b>	<b>VARIANCE SURPLUS / (DEFICIT)</b>
<b>REVENUES</b>			
Transfer from Fleet Depreciation Reserve	\$ 2,833,183	\$ 2,833,183	\$ -
Transfer from Parks Depreciation Fund	\$ 30,000	\$ 30,000	\$ -
Sale of City-Owned Fleet	\$ 971,500	\$ 1,082,702	\$ 111,202
Annual City Savings in Direct Service Costs	\$ 1,005,520	\$ 1,005,520	\$ -
<b>Total Project Revenues</b>	<b>\$ 4,840,203</b>	<b>\$ 4,951,405</b>	<b>\$ 111,202</b>
<b>EXPENSES</b>			
Wages, Benefits, WSIB & Allowances	(\$2,611,924)	(\$2,283,731)	\$328,193
Machinery, Equipment and Fleet	(\$1,196,000)	(\$1,145,532)	\$50,468
Groundskeeping, Materials, Supplies & Maint.	(\$246,000)	(\$178,477)	\$67,523
Transitional Funding for Fleet Staffing Costs	(\$309,914)	(\$91,650)	\$218,264
Legal Fees (Tender Development)	(\$342,402)	(\$311,422)	\$30,980
Financing Costs	\$0	(\$427)	(\$427)
Contingency	(\$100,000)	\$0	\$100,000
<b>Total Project Expenses</b>	<b>(\$4,806,240)</b>	<b>(\$4,011,239)</b>	<b>\$795,001</b>
<b>PROJECT SURPLUS/(DEFICIT)</b>	<b>\$ 33,963</b>	<b>\$ 940,166</b>	<b>\$ 906,203</b>

As at December 31, 2011, the project is in a surplus position of \$906,203 (i.e. the savings are greater than the year one projections). A number of factors have contributed to this favourable result and the major variances are explained below:

- The final sale price related to the City of Windsor packer fleet was better than originally estimated by \$68,500. In addition, unbudgeted interest related to this transaction of \$42,702 added to the final revenue surplus in this account.
- While wages, benefits and other employee-related costs were generally within budget estimates, WSIB charges did not materialize at the levels originally projected. The net impact of all employee-related charges was an overall surplus of \$328,193.
- Machinery and Equipment costs were generally on target with original budget estimates.
- As a result of contracting out and the sale of the City-owned packers, it was noted that the Fleet Division would be impacted. Transitional funding requirements related to this were not fully required due to better than anticipated placement of Fleet employees impacted by the contracting out.

While the first year operating results are favourable against the business case projections, it should be re-emphasized that the business case model covers seven years and relies heavily on the use of estimates. A comprehensive report is being prepared for Council and will provide updates on the operational impact, including staffing and service levels, of the transition plan.



*HANDI TRANSIT (as at December 31, 2011)*

**2011 Year End Financial Summary - Handi Transit**

	<u><b>Budget</b></u>		<u><b>Actuals</b></u>		<u><b>Variance</b></u>
Total Operating Revenues	\$ 1,091,675	\$	1,116,667	\$	24,992
Total Operating Expenses	1,127,400		1,247,840		(120,440)
<b>Net Operating Surplus/(Deficit)</b>	<b>\$ (35,725)</b>	<b>\$</b>	<b>(131,173)</b>	<b>\$</b>	<b>(95,448)</b>

Handi Transit's year end net operating deficit was approximately (\$95,000) more than the initial budget for 2011. The increase in fuel prices in 2011 resulted in a (\$35,000) unfavourable variance to the annual fuel budget of approximately \$100,000. In addition, employee related costs were approximately (\$55,000) more than budget as a result of ridership increasing by 10% during the year (53,062 rides in 2011 vs. 47,709 in 2010). Handi Transit also had a full-time driver take off 40 sick days for an operation. Those 40 days had to be replaced by other part-time drivers. Repairs and maintenance were also (\$10,000) more than budget due to the increased ridership (rides and km up 10%). Professional fees were (\$10,000) more than budgeted due to the lengthy operational review with the City of Windsor and Transit Windsor. Insurance costs also exceeded the budget by (\$10,000). It should be noted that the Board and management tried obtaining other quotes for insurance but found it very difficult to get a better rate. On a positive note, Handi Transit managed to decrease their cost per ride to \$25.98 (versus \$26.75 in 2010 and \$27.30 in 2009).

The increases in operating costs due to increased ridership were partially offset by an additional \$25,000 received in passenger fees during the year.

Therefore, based on the 2011 financial performance, Handi Transit is requesting that City Council fund their 2011 actual variance shortfall of (\$131,173), which is being recommended to come from the Budget Stabilization Reserve.

***TEMPORARY BORROWING OF MONEY***

On January 4, 2010, Council approved (CR4/2010) the authorization of temporary borrowing of money for current expenditures for the year 2010, if and when required, as provided for under the provisions of Section 407 of the Municipal Act. In addition, administration is to provide Council with a quarterly update on the use of borrowed funds. Therefore, as of December 31, 2011, the City of Windsor has not used the Scotiabank line of credit usage and the current balance owing is zero.

## Non-Tax Supported Variances

### ***Building Permit Operations***

The Legislated Permits portion of the Departmental budget saw 2011 permit revenues reached \$2.6 million which is an improvement of nearly \$600,000 compared to 2010. The 2011 draw on the Building Permit Fee Reserve was \$757,880 which was significantly less than the forecasted draw of \$1.115 million. While 2011 construction statistics of 3,214 permits are positive compared to the same period in 2010 (1,915), the increased permit counts are largely concentrated in property renovations which generate lower permit revenue amounts as opposed to new construction which includes larger industrial, commercial and institutional (ICI) type projects. The latter categories (ICI) traditionally represent the bulk of the permit based revenue for the Corporation. Mitigating efforts are continuously being implemented by the Building Department to help reduce and control any draw against the Reserve each year. Those efforts include gapping and elimination of positions where possible, frugal management of all controllable operating costs, increased efficiencies and implementing new fees and cost recovery of services rendered. The Department received City Council endorsement (September 19, 2011 – Council Report #15110 Building Permit Fee Reserve Deficit Reduction Action Plan) of a detailed plan to address and reduce the annual operating deficit. The impacts of this plan will begin to materialize in 2012. As part of the noted report, Council also approved the establishment of an independent contra reserve fund (offsetting placeholder) to the Building Permit Fee Reserve fund as another mitigating action. The funding is to come from future Corporate Reserve Enhancement Funding, in the amount of \$3.6 million in 2012 and \$3.6 million in 2013.

The deficit balance in the Building Permit Fee Reserve as of December 31, 2011 was approximately (\$7.9 million).

### ***On/Off Street Parking Operations***

In 2011, there was a required transfer of \$96,204 (actual expenditures less actual revenues) from the On/Off Street Parking Reserve Fund #138 (In 2010, the transfer to the reserve was approximately \$240,000). The On/Off Street Parking operating division budgeted transfer in 2011 was \$712,279. The resulting 2011 deficit of (\$808,483) was largely a result of the following items noted below:

- A deficit of (\$561,298) in rental, garage, daily, and monthly revenue
- A deficit of (\$210,579) for construction and consulting costs primarily related to one-time construction projects in the parking garages
- A surplus of \$22,161 in vehicle rental charges as a result of a complete vehicle breakdown with subsequent replacement completed eleven months later
- A deficit of (\$83,859) in property taxes primarily related to MPAC assessment changes
- Other immaterial line by line variances netting to an overall surplus of \$25,092.

The receipts for On/Off Street Parking are seasonal with expected increases over the summer and early fall months due to heavier traffic downtown and in other BIA's for festivals, parades, etc. For 2011, the seasonal increases were offset by reductions in parking revenue due to construction

on metered streets, economic conditions, and the replacement of an elevator in one parking garage.

As of December 31, 2011, the year-end balance in the Parking Reserve Fund 138 is a deficit of \$1,588,167.

### ***Sewer Surcharge***

The Sewer Surcharge operating fund ended the year with a small overall surplus of \$104,429 or 0.19% of the \$54.2 million gross expenditures. This surplus, as per normal practice, was transferred to the Sewer Surcharge Reserve Fund at year-end. As of December 31st, the Sewer Surcharge Reserve Fund balance is 1,996,257 (excluding encumbrances).

The budgeted sewer surcharge revenue of \$54.2 million was largely achieved, with the year ending in a slight deficit of (\$71,447) or (0.13%) due to slightly lower than projected water consumption.

Overall, expenditures were slightly below budget resulting in a year-end surplus of \$175,876. The Environmental Services area ended the year with a surplus of \$391,771. This was largely due to a surplus at the Little River Pollution Control Plant (LRPCP), partially offset by small deficits at the Lou Romano Water Reclamation Plant (LRWRP) and pump stations.

The surplus at the LRPCP is primarily due to extra sewage treatment revenue earned during 2011, due in large part to the high amount of rainfall in the area during the year. The five year average for sewage treatment revenues at the Little River Plant from 2006-2010 is \$1,319,788, which is well below the \$2,018,481 earned in 2011. The five year average for sewage treatment revenues at the Lou Romano Plant from 2006-2010 is \$1,170,618, which is also well below the \$1,501,960 earned in 2011.

The revenue surpluses at the pollution control plants were partially offset by higher than anticipated expenditures related to chemicals and equipment maintenance materials. It should be noted that during the 2012 budget process, the budget for chemical usage at the Lou Romano Plant was revised based on a three year historical actual usage average.

## **4. RISK ANALYSIS:**

Departments/Divisions monitor their operating budgets on an ongoing basis to ensure that their expenditures and revenue are in line with budget. It should be stressed that significant use of estimates, historical knowledge and judgment is used in projecting budget versus actual variances to year-end and as a result actual year end variances may be different from the approved budget. One way to mitigate this risk and help to offset any unexpected or one-time variances is by way of the annual \$3.0 million budget stabilization contingency account. Due to the favourable year end surplus balance, this contingency line item was not needed in 2011.

In addition, there a number of other potential risks that can have a significant impact on the year end financial results. These risks and other considerations have been identified below:

1. Seasonal variability with respect to revenues (i.e. Recreation fees) and expenses (i.e. winter control)
2. Current macro and micro economic conditions such as changes to unemployment and GDP rates as well as supply and demand for products and services
3. Volatility in commodity prices and interest rates (i.e. oil, gas, steel, Bank of Canada Rate, CPI, etc)
4. Potential increase in costs related to salaries due to several uncontrollable factors such as sick call replacement, WSIB, health benefit usage (Green Shield), and mandatory training personnel on modified duties etc.
5. Potential increase in other expenditures such as material costs, energy costs, tipping fees, legal litigation expenses, Streetlight Maintenance, etc.
6. The Net Tax Additions/Reductions account is extremely difficult to project with certainty and variances can run into the millions of dollars. There are still some significant appeals in progress as previously reported to Council. Any variances in this account will vary dramatically based on the outcomes and timing of these settlements. Until an MPAC or Assessment Review Board (ARB) decision is rendered, the cost cannot be quantified with a high degree of certainty.

In order to address this risk, Recommendation #7 within this report seeks Council approval for a \$4.7 million transfer from the Reserve for Tax Appeals Fund (Fund #192) to the Net Tax Additions/Reductions. As Council was made aware in January 2012, a significant tax appeal settlement was arrived at subsequent to year end. Accordingly an accrual was made in the financial records at the end of 2011 which was posted to the provision for tax write-offs. This amount caused the 2011 provision to be in a deficit position. This deficit was reduced through the use of the \$4.7 million established in 2010 as a reserve for future tax write-offs.

## **5. FINANCIAL MATTERS:**

Financial matters were discussed throughout the report. For further information, refer to Appendix A for detailed descriptions to support the department's actual year end variance.

## **6. CONSULTATIONS:**

All City Departments provided comments to augment the analysis performed by the Finance Department.

## 7. CONCLUSION:

As indicated throughout this report, the 2011 year-end operating budget surplus is \$3,848,621, which is a significant improvement over the projected 3<sup>rd</sup> quarter variance of (\$545,748). The combination of better than expected revenues/income as well as department's ability to continue to mitigate expenditures where possible contributed significantly to the positive year end results. The comparison table below summarizes the projected quarterly variances throughout 2011 as well as the final year-end results.

<b>2011 Year-end Projections By Quarter</b>	<b>1st Quarter</b>	<b>2nd Quarter</b>	<b>3rd Quarter</b>	<b>Year-End Actual</b>
2011 Projected Year-end (Deficit)/Surplus	\$ (2,045,000)	\$ (1,518,000)	\$ (3,545,748)	\$ 1,048,621
Budget Stabilization Contingency Account	\$ 3,000,000	\$ 3,000,000	\$ 3,000,000	\$ 3,000,000
<b>2011 Projected Year-end (Deficit)/Surplus (including Budget Stabilization Contingency Account)</b>	<b>\$955,000</b>	<b>\$1,482,000</b>	<b>(\$545,748)</b>	<b>\$4,048,621</b>

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**Manager, Operating Budget Control & Financial Administration**

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**Onorio Colucci**  
**Chief Financial Officer/City Treasurer and Corporate Leader Finance and Technology**

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**Ronna Warsh**  
**Community Development and Health Commissioner and Corporate Leader Social Development, Health, Recreation and Culture**

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**George Wilkki**  
**City Solicitor and Corporate Leader Economic Development and Public Safety**

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**Mario Sonogo**  
**City Engineer and Corporate Leader Environmental Protection and Transportation**

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**Valerie Critchley**  
**City Clerk/Licence Commissioner and Corporate Leader Public Engagement and Human Services**

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**Helga Reidel**  
**Chief Administrative Officer**

**J/B**

**APPENDICES:**

**Appendix A – Components of the 2011 Year End Operating Budget Variance Report**

**Appendix B – Operational & Economic Statistics**

**Appendix C – 2011 Budget Carry-Forwards**

**DEPARTMENTS/OTHERS CONSULTED:**

**Name:**

**Phone #: 519            ext.**

**NOTIFICATION :**

Name	Address	Email Address	Telephone	FAX