

MISSION STATEMENT

"Our City is built on relationships – between citizens and their government, businesses and public institutions, city and region – all interconnected, mutually supportive, and focused on the brightest future we can create together"

REPORT #: C 111/2017	Report Date: 7/4/2017
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	Clerk's File #:

To: Mayor and Members of City Council

Subject: 2017 Q2 Operating Budget Variance Report

RECOMMENDATION:

THAT Council **RECEIVE FOR INFORMATION** the 2017 Q2 Operating Budget Variance Report from the Chief Financial Officer and City Treasurer and;

THAT the Chief Administrative Officer and Chief Financial Officer & City Treasurer **BE DIRECTED** to monitor the 2017 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 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 that they remain at or as close to their approved budget as possible and that all material variances are mitigated 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 modest \$1.5 million corporate contingency line item to help offset any unforeseen variances that 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 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 31, 2017, Administration is projecting an estimated year end surplus of approximately \$3,374,902. This is not taking into account the noted \$1.5 million contingency account which is expected to be transferred to the budget stabilization reserve at year end.

Table A provides a summary of the 2017 projected year end variances as of the 2017 2nd quarter, from the largest deficit to largest surplus, for each of the City departments and Agencies, Boards & Commissions.

Table A: 2017 Second Quarter Operating Budget Variance by Department

Department	2017 Annual Net Budget	Year End Surplus / (Deficit)	Variance % of Gross Budget
Legal	6,018,338	(1,738,000)	-10.2%
Engineering	7,712,486	(428,700)	-1.4%
Transit Windsor	13,108,590	(363,000)	-1.1%
Fire & Rescue Services	45,201,199	(299,600)	-0.6%
Recreation & Culture	11,953,684	(35,000)	-0.1%
Huron Lodge	7,283,223	(15,000)	-0.1%
Mayor's Office	504,157	0	0.0%
Council Administrative Services	604,938	0	0.0%
Council Services	6,988,231	10,000	0.1%
Information Technology	6,469,296	45,000	0.6%
Windsor Public Library	8,109,957	50,000	0.5%
Finance	6,229,178	137,000	1.5%
CAO's Office	1,176,539	140,000	10.5%
Human Resources	4,723,763	170,000	3.4%
Housing & Children's Services/WECHC	22,841,372	246,000	0.2%
Parks	24,815,537	259,800	0.5%
Planning & Building	3,613,431	574,400	6.6%
Employment & Social Services	9,398,178	741,000	0.6%
Public Works Operations	26,900,403	1,578,000	2.9%
Corporate Accounts	(315,541,718)	2,818,972	1.3%
Total City Department	(101,889,218)	3,891,772	0.5%
Corporate Contingency	1,500,000	0	0%

Surplus / (Deficit) Subtotal	(100,389,218)	3,891,772	0.5%
Agencies, Boards & Commissions			
Windsor Police Services	82,437,022	(300,000)	-0.3%
Agency Grants	17,910,076	(166,870)	-0.9%
Committees of Council	42,120	0	0.0%
Total Agencies, Boards & Commissions	100,389,218	(466,870)	-0.4%
2017 Net Operating Surplus		3,424,902	0.40%
Less: Windsor Public Library		(50,000)	
2017 Net City Operating Surplus		3,374,902	0.40%

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 and mitigating measures.

In order to provide an alternative view, the projected year end variance is also broken down by major account category and presented below in Table B.

Table B: 2017 Second Quarter Operating Budget Variance by Category

Category	Net Favourable/ (Unfavourable) Variance
REVENUE:	
Taxes – Municipal	(8,800)
Recovery of Expenditures	(41,190)
Transfers from Other Funds	475,155
Other Miscellaneous Revenue	1,188,929
Investment Income & Dividends	170,000
User Fees, Permits & Charges	317,800
Grants & Subsidies	379,000
SUBTOTAL - REVENUE	2,480,894
EXPENSES:	

Salaries & Benefits	2,025,496
Purchased Services	(544,500)
Transfers to External Agencies	(166,870)
Utilities, Insurance & Taxes	157,100
Minor Capital	(200,000)
Other Miscellaneous Expenditures	(48,054)
Financial Expenses	45,836
Operating & Maintenance Supplies	(375,000)
SUBTOTAL – EXPENSES	894,008
NET TOTAL	3,374,902
CORPORATE CONTINGENCY	-
2017 PROJECTED YEAR END SURPLUS	3,374,902

Revenue Variance

The majority of revenue accounts are projecting to be on budget or reflect surpluses at year end. One of the largest surpluses projected is in relation to the recovery from Sewer Surcharge which is reflected in the Transfer from Other Funds line item. Included in other Miscellaneous Revenue is the \$1M dividend from EnWin relating to the 2016. The volume of development applications is higher than normal in the Building department which is expected to continue throughout the year creating a surplus in our User Fee accounts as well. A surplus in grant funding in Social Services is also projected primarily due to lower mandated subsidy payments required by service providers in Housing Services as well as projected increases in RGI rental income for the Public Housing portfolio. There is also a projected savings in OW financial assistance due to Ontario Works Caseloads trending lower than budgeted.

Expense Variance

The largest deficit among the expense categories is in the operating and maintenance supplies line item. This projected deficit relates primarily to repairs to older Transit buses that require more regular repairs as well as the increasing cost of parts relating to buses that have come out of the warranty period. The deficit being projected in the minor capital line item relates to expenses being incurred by Police. Expense deficits are being offset by an overall corporate savings in salaries and benefits due to gapping and vacant positions across the corporation.

Non-Property Tax Levy Variances

Building Permit Operations

Budgeted Draw on Permit Reserve	Projected Transfer to Reserve at Year End	Projected Year End Surplus
(\$771,285)	\$136,564	\$907,849

Construction statistics as of May 31, 2017 (1343 permits) are above that of 2017 (989 permits) for the same period. The permit counts are largely concentrated in renovations and new housing starts. 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 2017, the permit counts are significantly higher in all categories compared to the same period in 2017. Collectively, permit revenue net of expenses is in line with the budgeted target and on track for a surplus \$136,564. This would be a contribution to the Reserve.

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, frugal management of all controllable operating costs, seeking increased efficiencies 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 Deficit
\$1,802,313	\$1,598,450	(\$203,863)

Administration is projecting an overall reduction to the reserve transfer for 2017 of (\$203,863) related to revenue shortfalls related to the 2017 increase in monthly parking, elimination of group discounts, introduction of an administrative penalty on parking tickets, and the reinstatement of the cash-in-lieu of parking program. Due to the By-Law changes required, the revenue adjustments for the monthly parking increase and group discounts will not begin to materialize until June 2017 resulting in only a partial year revenue increase of approximately 58%, and the revenue adjustment for the administrative penalties on parking tickets will not begin to materialize until July 2017 resulting in only a partial year revenue increase of approximately 50%. The cash-in-lieu of parking program budget will be submitted to Council for elimination during the 2018 budget deliberations.

The balance in the On/Off Street Parking Reserve Fund as of December 31, 2017 is a deficit of (\$626,799).

Sewer Surcharge Funded Operations

Currently, no variance is projected for the Sewer Surcharge funded operations.

Pollution Control

Pollution Control is projecting a surplus of \$410,300 in its' Sewer Surcharge funded operations. This surplus is made up of projected surpluses of \$335,300 at the Little River Pollution Control Plant, \$72,900 in Electrical, and \$30,100 at the Lou Romano Water Reclamation Plant. These surpluses are partially offset by projected deficits of (\$20,700) in Pump Stations, (\$3,800) in Pollution Control Admin, and (\$3,500) in Environmental Quality Services.

A line-by-line analysis identified projected surpluses of \$562,500 in Labour and Benefits, largely due to gapping of hourly staff. Additionally, surpluses of \$94,700 in Sewage Treatment Revenues, \$63,200 in Chemicals, and miscellaneous line item variances of \$20,900 are expected. These surpluses are partially offset by deficits in Contracted Services of (\$285,800) and Maintenance Parts & Materials of (\$45,200). Please note that the deficit in Contracted Services is driven by sludge removal expenses, which are reliant upon sewage treatment flows and can fluctuate significantly from year to year.

Public Works Operations

Public Works Operations is projecting an overall deficit of (\$833,000) for several variances related to their sewer surcharge funded operations including a surplus of \$30,000 related to salary and wage gapping, a deficit of (\$388,000) related to a sewer

cave in repair, and a deficit of (\$475,000) related to sewer surcharge funded costs that are not currently budgeted.

The overall salary and wage surplus is the net result of several vacancies offset by the hiring of additional temporary staff to assist with heavy workload situations.

The deficit related to the sewer cave in repair on Ojibway is expected to be at least partially mitigated within the departments overall sewer surcharge operations, however, Administration is not able to project what level of mitigation may be possible at this time as this level of emergency repair is not supported by the current funding levels for the sewer surcharge operations.

The deficit in sewer surcharge expenditures of approximately (\$475,000) relates to transfers for the Environmental Division which are expected to be completely offset in the levy Operating fund. An adjustment to the levy and sewer surcharge budgets will be submitted for Council consideration during the 2018 budget deliberations in order to realign this matter.

Other Expenses

Other Sewer Surcharge related expenses are anticipated to contribute a surplus of \$422,700. Appeal refunds and general expenses have decreased substantially compared to budget but are partially offset by increased sewer repair and replacement expenditures.

Sewer Surcharge Revenue

Revenues received from the Sewer Surcharge rates are currently trending slightly lower than budget; however, given that only three full months of revenue have been received, it is projected that revenues will be in line with budget at year end. Analysis will continue and further updates will be communicated as part of the Q3 Operating Variance Report.

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 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 for 2017 and 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 approximately \$3,374,902.

As indicated throughout this report, the second quarter operating 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 negative budget risks.

APPROVALS:

Name	Title
Rosanna Pellerito	Manager of Operating Budget Control
Joe Mancina	Chief Financial Officer & City Treasurer
Onorio Colucci	Chief Administrative Officer

NOTIFICATIONS:

Name	Address	Email

APPENDICES:

- 1 Appendix A - 2017 Q2 Operating Budget Variance by Department
- 2 Appendix B - 2017 Q2 Operational Economic Statistics