

Subject: 2022 Year-End Operating Budget Variance Report - City Wide

Reference:

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Author: David Soave

Manager, 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:

1. THAT Council **RECEIVE FOR INFORMATION** the 2022 Year-End Operating Budget Variance Report.
2. THAT the final 2022 Property Tax Levy Operating Budget surplus of \$632,250 **BE TRANSFERRED** to the Budget Stabilization Reserve Fund.
3. THAT in order to avoid the need to re-budget for various items, Council **APPROVE** \$3,814,444 in Budget Carry-Forwards as detailed in Appendix C.
4. THAT Council **APPROVE** the balancing of and transfers from Capital Project Closeouts as detailed in Appendix D.
5. THAT Council **APPROVE** the attached Development Charges 2022 Income Statement Schedule as detailed in Appendix E.
6. THAT Council **APPROVE** the attached Development Charge Reserve Fund Statement – Listing of Credits as detailed in Appendix F.
7. That Council **SEND A FORMAL REQUEST** for additional judicial resources for the Provincial Offences Court to ensure continued equal and timely access to justice.
8. THAT Council **APPROVE** the following housekeeping items and various transfers to/(from) the various reserve accounts/funds:
 - a. \$1,586,506 to Fund 180 (Building Permit Reserve)
 - b. \$81,711 to Account 1756 (Reserve for Tree Planting)
 - c. \$5,300 to Account 1755 (Reserve for Fire Education)

- d. (\$2,370) from Fund 194 (Building Permit Fee Contra Reserve)
- e. (\$68,864) from Fund 114-128 (Development Charge Reserves)
- f. (\$75,465) from Account 1788 (Driver Simulation Training)
- g. (\$120,353) from Account 1784 (Succession Planning Reserve)
- h. (\$437,535) from Fund 160 (Capital Expenditure Reserve)
- i. (\$791,659) from Account 1762 (Municipal Elections Reserve)

Executive Summary:

The Corporation has ended the 2022 fiscal year with an overall operating surplus of \$632,250 or 0.1% of the gross budget, once the \$2.7M corporate contingency is included. It is recommended that the surplus be transferred to the Budget Stabilization Reserve (BSR). Given the year-end results, and the need to fund approximately \$8 million in COVID-19 related expenditures, the corporate contingency amount of \$2.7 million was required to assist in offsetting the \$2,067,750 budget shortfall and therefore, was not fully transferred to the BSR at year-end. It is noted that these results are still subject to finalization of the annual external audit, which is currently underway by the City’s external auditors KPMG.

The 2022 year-end financial implications of the City’s response to the COVID-19 Pandemic are summarized in the following chart.

Summary of 2022 COVID Related Variance (Millions)

	2021 Year-End (Actual)	2022 2nd Quarter (Estimate)	2022 3rd Quarter (Estimate)	2022 Year-End (Actual)
Forgone Revenue	(\$35.6)	(\$16.4)	(\$11.7)	(\$14.5)
Additional Expenses	(\$35.7)	(\$24.4)	(\$24.9)	(\$14.4)
Total COVID Impact	(\$71.3)	(\$40.8)	(\$36.6)	(\$28.9)
Less:				
Reduced (Mitigated) Expenditures	\$15.0	\$6.8	\$5.0	\$3.8
Provincial / Federal Grants	\$53.7	\$18.6	\$18.9	\$17.1
COVID Deficit to be Offset	(\$2.6)	(\$15.4)	(\$12.7)	(\$8.0)

Forgone revenues totalling (\$14.5M), when combined with additional costs resulting from the COVID pandemic of (\$14.4M), result in a total financial impact to the City in 2022 of (\$28.9M). This amount has been offset by reduced expenditures, resulting from mitigation measures taken by the City of \$3.8M as well as from grant funding from senior levels of government totalling \$17.1M, thereby resulting in a 2022 pandemic related financial impact of (\$8.0) for City Departments.

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, inflationary trends, 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.

For 2022, the significant unanticipated variable continued to be the impact of the COVID-19 global pandemic. Since January 2020, the pandemic has spread around the world causing significant uncertainty, and impacting human behaviour and the world's economy. As a result, many of the City's operations were suspended, altered, continued with restrictions, or increased to meet the demands resulting from the pandemic in 2022. The largest impact to budget variances in 2022 was the increased inflationary impacts as a result of the economy recovering from the pandemic. This report to Council provides 2022 year-end results on the COVID-19 financial challenges and other Non-COVID related Y/E variances for each area.

All departments monitor revenues and expenditures on an ongoing basis and undertake projections 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 tends to increase as the year progresses and more information and data becomes available.

In addition to the City's operating budget, which is primarily 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 for the year-end variances for all departments.

Discussion:

Property Tax Supported Variance

Table A below provides a summary of the budgets and year-end variances for City Departments, Agencies, Boards & Committees for 2022. The year-end variances have been sorted from largest deficit to largest surplus.

The Corporation ended the 2022 fiscal year with an operating surplus of \$632,250. This figure is net of budget carryovers totalling \$3,814,444 and includes the previously noted \$2.7M corporate contingency amount, which was not fully transferred to the budget stabilization reserve as in previous years. Administration recommends transferring the \$632,250 operating surplus to the Budget Stabilization Reserve Fund (BSR).

Table A: 2022 Corporate Variance Summary

	2022 Gross Budget	2022 Net Budget	Year-End COVID Variance	Year-End Non-COVID Variance	Year-End Overall Variance	% of Gross Budget
Fire & Rescue	\$52,491,089	\$50,538,358	(\$363,423)	(\$3,101,393)	(\$3,464,816)	(6.6%)
Public Works	\$58,680,331	\$29,038,896	(\$378,050)	(\$2,557,870)	(\$2,935,920)	(5.0%)
Housing & Children Services *	\$129,200,728	\$27,582,506	\$160,443	(\$1,567,404)	(\$1,406,961)	(1.1%)
Transit Windsor	\$39,317,934	\$16,421,543	(\$889,820)	(\$158,596)	(\$1,048,416)	(2.7%)
Council Services	\$6,585,297	\$3,382,297	(\$315,986)	(\$79,088)	(\$395,074)	(6.0%)
Parks & Facilities	\$36,841,100	\$27,573,238	(\$126,475)	(\$200,378)	(\$326,853)	(0.9%)
Taxation	\$3,475,392	\$604,831	\$0	(\$268,259)	(\$268,259)	(7.7%)
Engineering	\$7,913,993	\$2,575,065	(\$101,714)	(\$142,144)	(\$243,858)	(3.1%)
Purchasing, Risk & POA	\$12,422,984	\$3,458,819	(\$79,209)	(\$119,833)	(\$199,042)	(1.6%)
Building Services	\$7,871,886	\$2,029,125	(\$75,000)	(\$38,227)	(\$113,227)	(1.4%)
Communications	\$4,058,175	\$3,342,673	(\$148,800)	\$36,659	(\$112,141)	(2.8%)
Asset Planning	\$1,875,527	\$864,607	\$0	(\$35,651)	(\$35,651)	(1.9%)
Information Technology	\$9,076,667	\$7,367,292	\$0	(\$31,070)	(\$31,070)	(0.3%)
Mayor's Office	\$505,705	\$505,705	\$0	\$0	\$0	0.0%
Economic Development	\$1,364,556	\$1,364,556	\$0	\$0	\$0	0.0%
Library Services	\$9,284,880	\$8,319,985	\$24,000	(\$24,000)	\$0	0.0%
Pollution Control	\$21,337,790	\$0	\$0	\$0	\$0	0.0%
Recreation & Culture	\$25,738,985	\$13,577,045	(\$1,189,800)	\$1,192,933	\$3,133	0.0%
Human Resources	\$7,252,526	\$6,333,184	(\$107,439)	\$111,448	\$4,009	0.1%
Accounting	\$3,162,235	\$2,329,132	\$0	\$55,004	\$55,004	1.7%
Financial Planning	\$3,971,534	\$2,846,297	\$0	\$100,336	\$100,336	2.5%
CAO's Office	\$1,103,044	\$1,103,044	\$0	\$160,731	\$160,731	14.6%
City Council	\$1,050,834	\$875,193	\$164,560	\$0	\$164,560	15.7%
Security & Special Activities	\$3,701,829	\$1,186,543	(\$22,576)	\$365,858	\$343,282	9.3%
Legal Services	\$3,672,157	\$3,360,201	\$0	\$398,605	\$398,605	10.9%
Planning & Development	\$4,109,297	\$3,175,026	\$0	\$622,677	\$622,677	15.2%
Huron Lodge	\$26,521,327	\$8,462,079	(\$23,428)	\$1,084,195	\$1,060,768	4.0%
Employment & Social Services	\$101,037,567	\$7,589,312	\$45,187	\$1,222,317	\$1,267,504	1.3%
Corporate Accounts	\$167,712,718	\$84,554,440	(\$4,626,777)	\$9,923,987	\$5,297,210	3.2%
Sub-Total: City Departments	\$751,338,087	\$320,360,992	(\$8,054,306)	\$6,950,837	(\$1,103,469)	(0.1%)
Agencies	\$20,858,415	\$20,757,817	\$0	\$1,114,860	\$1,114,860	5.3%
Police Services	\$115,019,577	\$96,977,437	\$0	\$620,859	\$620,859	0.5%
Sub-Total: ABC's	\$135,877,992	\$117,735,254	\$0	\$1,735,719	\$1,735,719	1.3%
Total: Municipal	\$887,216,079	\$438,096,246	(\$8,054,306)	\$8,686,556	\$632,250	0.1%

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: 5-Year Historical Year-End Operating Variance

<i>Year</i>	<i>2018</i>	<i>2019</i>	<i>2020</i>	<i>2021</i>	<i>2022</i>
<i>Variance Surplus / Deficit</i>	\$2,466,375	\$1,954,982	\$5,805,949	\$2,491,344	\$632,250
<i>As a % of Gross Budget</i>	0.27%	0.21%	0.61%	0.29%	0.07%

Operational & Economic Statistics

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 for the current quarter, along with each of the preceding nine years for ease of reference and comparison purposes. It is important to note that many of the operational and economic statistics are showing significant variances as compared to historical trends because of the COVID pandemic. It is expected that these measures will return to more historical levels as we recover from the pandemic over the next few years. Administration will continue to monitor and report on these statistics as part of the regular variance reporting to Council.

Budget Carry-Forwards

Appendix C includes a list of the recommended budget carry-forwards that relate to 2022. These are budgeted items that, due to timing, were committed but not expended in 2022 and as a result, the related budgets for those items have been carried forward into 2023. These expenditure line items are expected to be paid out in 2023 or beyond.

Capital Closeouts

Appendix D contains a summary of capital projects that were either closed, completed or consolidated during 2022. 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 2022, as required by the Development Charges Act, along with a listing of outstanding development charge credits at year-end.

Revenue Loss in Provincial Offences Division (POA)

The Provincial Offences Division (POA) experienced a (\$798k) revenue shortfall in 2022, following a (\$2.1m) revenue shortfall in 2021. A large portion of this reduction in revenue can be attributed to less court time due to dwindling Judicial resources. Over the last few years court time has significantly decreased due to a lack of Judicial resources to preside in court leading to a decrease in the volume of matters heard in a year. This caused delays in the conviction of offences and the payment of the fines. In 2023, Judicial Resources continue to decrease and court time has been significantly reduced once again. Communication with the Local Administrative Justice of the Peace have indicated that there will continue to be a lack of Judicial resources. No timeframe has been provided as to when the resources will be back to regular staffing levels and no other solutions have been implemented to deal with the backlog of matters. POA is seeking further direction from City Council to assist with the necessary advocacy to move forward with solutions to ensure equal and timely access to Justice for the public. There is also a risk that as matters remain outstanding past 18 months without hearing, there will be an increase in charges being thrown out resulting in even further revenue loss.

The decrease in revenue can also be attributed to a significant decline over the last three years in offences filed in POA by ticketing agencies. Although our ticket volumes increased by 8.9% year over year, this increase is largely due to Red Light Camera (RLC) Offences that made up 23.5% of overall offences filed. We note that RLC offences have not brought in the amount of revenue expected (2022 shortfall \$77,177). Although the program started in January of 2022 each camera had staggered start dates and we also experienced equipment issues during parts of the year where cameras were not operational for short periods of time which contributed to this shortfall. Ticketing volumes by policing agencies has affected revenue generated and will continue to do so in the future if this trend continues. It should be noted that policing agencies control the number of tickets issued based on operational resources and this is beyond the operating departments' control.

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 past practice. The following miscellaneous housekeeping transfers have occurred and a summary is provided below in **Table C**.

Table C: 2022 Summary of Transfers (To)/From Reserve Accounts/Funds

RESERVE FUND / ACCOUNT	AMOUNT
Fund 180 - Building Permit Reserve	\$1,586,506
Account 1756 - Reserve for Tree Planting	\$81,711
Account 1755 - Reserve for Fire Education	\$5,300
Fund 194 - Building Permit Fee Contra Reserve	(\$2,370)
Fund 114-128 - Development Charge Reserves	(\$68,864)
Account 1788 - Driver Simulation Training	(\$75,465)
Account 1784 - Succession Planning Reserve	(\$120,353)
Fund 160 - Capital Expenditure Reserve	(\$437,535)
Account 1762 - Municipal Elections Reserve	(\$791,659)

Risk Analysis:

The largest risk by far this year has been the implications of the COVID 19 Pandemic and its impact on City operations.

As the situation continues to change daily due to COVID 19, it is extremely difficult to provide any degree of certainty as to the full financial impacts to the Corporation going forward into 2023 and beyond

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. There remain significant uncertainties as to the recovery from the COVID 19 crisis.
2. The length of the transition period for things to return to “normal”. In some cases, partial seasons may be lost even if all restrictions are lifted.
3. The residents’ hesitation to return to their normal activities may further delay the financial recovery for the City.
4. The additional requirements and regulations that the City and others must follow as we eventually return to a normal state.
5. The amount of additional senior level government funding that will be made available to municipalities to offset the financial burden of the COVID Pandemic in 2023 and future budget years specifically as it relates to Homelessness, and Long Term Care areas.

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. There may also be unique pressures resulting from the pandemic that the City may need to fund going forward.
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. Inflationary increases in 2022 hit 6.8% on an annualized basis. This has become a significant risk that is being monitored and will be reported in the next variance report to Council.
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 \$2.7 million 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 to support the departmental year-end variances separated between COVID 19 and Non COVID 19 impacts, along with any mitigating measures.

Consultations:

All City Departments provided comments to augment and clarify the analysis performed by the Financial Planning Department.

Conclusion:

Overall, the Corporation of the City of Windsor ended the 2022 fiscal year with an operating surplus of \$632,250, once the \$2.7M corporate contingency is included. Administration is recommending that the entire amount be transferred to the Budget Stabilization Reserve Fund.

Planning Act Matters:

N/A

Approvals:

Name	Title
David Soave	Manager, Operating Budget Development & Control
Tony Ardovini	Commissioner, Corporate Services, Chief Financial Officer & City Treasurer (A)
Joe Mancina	Chief Administrative Officer

Notifications:

Name	Address	Email

Appendices:

- 1 Appendix A - 2022 Operating Budget Variance
- 2 Appendix B - 2022 Operational & Economic Statistics
- 3 Appendix C - 2022 Budget Carry-Forwards
- 4 Appendix D - 2022 Capital Project Close-Outs for Year-End
- 5 Appendix E - 2022 Development Charges Reserve Funds Income Statement
- 6 Appendix F - 2022 Statement of Activity - Development Charge Credits