

**THE CORPORATION OF THE CITY OF WINDSOR
Executive Committee – Administrative Report**



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.”

LiveLink REPORT #: 17141	Report Date: March 26, 2014
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To: Executive Standing Committee

Subject: 2014 First Quarter Operating Budget Variance Report

1. RECOMMENDATION: City Wide: X Ward(s):

That Council RECEIVE FOR INFORMATION the 2014 1st Quarter Operating Budget Variance Report dated March 26, 2014 from the CFO and City Treasurer and;

That the CAO in concert with the CFO & City Treasurer BE DIRECTED to continue monitoring the 2014 Operating Budget and continue to seek further means of offsetting the projected variances.

EXECUTIVE SUMMARY:

N/A

2. BACKGROUND:

Administration monitors the operating budget on an ongoing basis. As with any annual forecasts, variance projections will become more accurate as the year unfolds. **The 1st Quarter variance projection is inherently highly speculative due to the limited data available early in the year.** Significant use of estimates, historical knowledge and judgment is used in projecting budget versus actual variances to year-end.

Second and third quarter reports are normally more detailed and include better estimates, due to the fact that more information and financial activity is available and known as the year progresses.

The last first quarter variance report was brought forward in 2010, prior to Council’s acceptance of a guideline calling for the report to be prepared only in years where the operating budget has been approved prior to February 28th (CR224/2011).

It should be noted that budgets are estimates based on best available information at the time of the estimate. The following comments are extracted from the 2014 budget transmittal report, whereby certain risks were identified as being inherent in the 2014 budget estimates:

1. Tax Appeals is a difficult account to budget accurately as it is impossible to predict which taxpayers will appeal assessments and the eventual outcome of those appeals. Million dollar swings are not unusual in these matters.
2. Fuel related costs have been extremely volatile over the last several years and current prices are close to all time highs. There is always the risk that a global crisis and/or shifts in supply/demand may further increase fuel costs in the future resulting in additional variances for departments that heavily rely on fleet vehicles.
3. Pension funding is another high risk area. Over the last several years, the global market collapse has negatively impacted the value of assets contained in the pension funds. Any delay in the market recovery may put additional pressure in the value of these pension funds, causing an increased contribution requirement from the corporation or special funding contributions.
4. In recent years, the operating budget has been approved by Council in March of the budget year. This year the budget was approved prior to the start of the budget year. Therefore, there are more unknowns as the budget is printed and therefore more potential for variances. To mitigate this risk, administration has increased the normal budget contingency account by \$1 million, from \$1.5m to \$2.5m.
5. Transit Windsor's budget has been balanced by the expectation that maintenance costs will not be as high as projected due to a number of initiatives. These include expedited purchases of additional buses, and one-time \$400,000 funding of proactive maintenance for mid life buses. However, actual maintenance costs will only be known with certainty as operations unfold throughout the year.

3. DISCUSSION:

Tax Supported Variances

As part of the 2014 first quarter variance report, departments were asked to identify any projected year end variances when compared to their annual budgets. Based on all known and available information at the time of this report, departments have quantified and estimated their year-end variances, using a threshold of approximately +/- \$100,000 as a guideline. **Section A** provides those details.

Other departments are projecting to be on budget by year end. However, some are identifying potential risks that may not be currently quantifiable due to the fact that certain expenses and revenues may not materialize until later in the year and/or are unknown at this time. Reference **Section B** for more details.

SECTION A – Departments and Agencies Currently Projecting a Year End Variance

Department	Projected Year End Variance
<u>Department</u>	
Council Services	\$ (639,000)
Public Works - Operations	(530,000)
Engineering	(377,000)
Legal	(280,000)
Planning	(100,000)
Fire & Rescue	200,000
Employment & Social Services	380,000
Total City of Windsor Departments	\$ (1,346,000)
<u>Corporate Accounts</u>	
Corporate Utilities	\$ (1,350,000)
Municipal Share of Education Taxes	(100,000)
Corporate Provisions for JJE, WSIB and non-union overtime	955,000
Total Corporate Accounts	\$ (495,000)
<u>Agencies & Boards</u>	
Police Services	\$ (600,000)
Transit Windsor	(420,000)
Land Ambulance	(305,000)
Health Unit	(196,720)
Total Agencies & Boards	\$ (1,521,720)
Total Gross Variance	\$ (3,362,720)
Budget Stabilization Contingency	2,500,000
Total Net Variance	\$ (862,720)

Explanations & Support

Council Services = (\$639,000)

At this time the Provincial Offences Division is projecting a year end deficit of (\$638,946). This deficit is based on the review of historical trends for Court Fines collected in the first quarter of every year since 2010 and can be attributed to an overall decline in charging volumes and the level of outstanding Court Fines. The result is a budgetary shortfall of (\$1,221,296) with an estimated projected total of \$6,000,000 Court Fines to be collected.

To offset this deficit, there is a projected \$422,000 surplus in the Administrative Services account that represents the cost sharing payment to the County and Pelee Island. Also, a budgetary surplus of \$70,000 is estimated in the litigation account and in Collection Agency fees account and salary gapping savings of up to \$90,000.

Mitigating Steps: The division has implemented the Court Administration Management System Software as a solution to streamline current business processes and provide increased reporting capabilities in the collection area. This system will assist the division to effectively deploy the necessary resources towards the collection of outstanding Court Fines. As with any new system there will be a time of adjustment and the benefits should be realized towards the end of the year.

The operating expenses are being diligently monitored in order to offset the projected year end deficit position.

Public Works - Operations = (\$530,000)

The PW Operations department is projecting an overall deficit for 2014 resulting from variances related to depreciation, fuel, road maintenance, and winter control.

The City of Windsor has experienced above-average winter conditions in the 1st quarter of 2014, which will result in an overall deficit in 2014 for both the Maintenance and Fleet Divisions of PW Operations. At the time of writing this report, PW Operations has a winter control deficit of (\$135,000). Based on 2013 actual costs for 4th quarter and the current level of winter control costs, Administration is projecting a final year-end deficit of (\$1,600,000) in the Maintenance Division. In addition, it is expected that the deficit related to extra fuel and parts used for the winter control fleet charged in the Fleet Division will total approximately (\$100,000). Additional costs and claims related to the severe winter may materialize, but are not quantifiable at this time. In January of 2014, Council indicated that an additional \$1M was approved for winter maintenance expenditures due to the severe winter. This type of one-time funding is normally allocated from the Budget Stabilization Reserve Fund. Therefore, the projected variance for winter maintenance has been reduced by \$1 million to (\$700,000).

The Maintenance Division will also end 2014 with a deficit related to additional road maintenance required as a result of the extreme winter conditions, i.e. frost damage. Again, the department is unable to accurately project the magnitude of this variance at this time, but it should be noted that the Division is currently patching potholes 24 hours / day. A report will be brought to Council in the 2nd quarter identifying the impacts of the winter conditions with recommendations for the pothole patching / road maintenance program for the remainder of 2014.

The Fleet Division will end 2014 with an overall surplus of approximately \$170,000. A surplus of \$290,000 is projected in the depreciation account based on the 10-year depreciation forecast completed during the 2014 operating budget development process. This surplus will be partially offset by a projected deficit of (\$120,000) for fuel purchases related to fuel pricing and the budgeted fuel consumption for 2014 based on the average pricing for 2014 as of March 15th.

Engineering = (\$377,000)

The budget for Street Light Maintenance assumed that approximately \$500,000 in savings would be achieved in 2014 by converting to LED light fixtures. Given that the department is still in the very preliminary stages of developing the RFP for the conversion, it doesn't appear that the entire \$500,000 in savings will be realized this year and will be dependent on when the LED installation can begin. One-time funding was approved by Council to account for an anticipated mid-year start date, and will partially mitigate this variance.

Legal = (\$280,000)

Insurance costs rose significantly for the 2014 policy year. As the City's main insurer, OMEX, is a not-for-profit entity, the increase comes from direct cost. OMEX has experienced a marked growth in member claims exceeding \$1M, which affects the premiums needed to fund claims within their risk sharing layer, and the cost and availability of reinsurance. Reinsurance is a form of insurance purchased to cover very high cost losses over and above those handled through OMEX or any other insurer. As claim costs go up generally, the reinsurance policies get used more frequently. As they get used, the costs associated with obtaining them also increase. This trend is not expected to reverse, and is being seen throughout the insurance industry as a whole.

As actual rates were unknown during the 2014 budget process, the insurance premium budget was estimated based on a 3% increase in property values and a 10% increase over 2013 budgeted premium rates. For property and transit vehicle insurance premiums, these amounts closely approximated actual budgetary requirements. General liability premiums, however, rose 30% over 2013 rates while City vehicle insurance premiums rose 25%. As a result of these premium increases as well as an increased Police vehicle count, there will be a negative variance of (\$240,000) in the insurance premium account in 2014.

Additionally, and as previously disclosed in the 2013 year end variance report, a calculation error made by the landlord in respect of the CPI increase required by the Canderel lease resulted in underpayments by the City to the landlord. Prior to discovery of this issue a budget reduction was taken in respect of this item, which will now result in a negative variance of approximately (\$70,000) in this account in 2014. Further, one of the City's sub-tenants vacated the premises in early 2013 and a new tenant has yet to be found to occupy the space. If this vacancy persists, an additional deficit of approximately (\$70,000) will result, for a total projected deficit of (\$140,000) relating to the leased Canderel property.

These deficits will be partially offset by departmental salary gapping of approximately \$100,000 in 2014.

It should be stressed that external legal and consulting fees are very difficult to project as it is impossible to determine what legal actions will be brought forward against the city and which the City would then be obliged to defend. As a result, although a variance in these accounts is not projected at this time this continues to represent a significant risk to the operating budget.

Mitigating steps: Some mitigating steps identified include utilizing internal legal department resources where staffing levels and competing priorities allow for it and ensuring external legal expenses are recovered from specific projects, where possible.

Planning = (\$100,000)

Overall, the Planning Department is projecting a 2014 deficit of (\$100,000) primarily due to revenue shortfalls as a result of lower than projected construction and development work. Year to date revenues are below those levels observed historically for the same time period with Administration strongly suspecting it is because of the unusually cold weather experienced this past winter. It is believed that revenue levels will catch up as the weather improves and development plans ensue, but will likely still fall short of budget by year end as stated above.

Mitigating steps: The Department will continue to mitigate any operating deficit through staff gapping where feasible and other controllable spending.

Fire & Rescue = \$200,000

WFRS has experienced significant overtime in the first quarter of 2014 as Fire Rescue personnel have worked to cover absences due to a higher than usual number of firefighter injuries and illnesses. In addition, 12 firefighter positions were vacant to begin the year and two firefighters have been seconded for new recruit training, resulting in further overtime requirements in the Fire Rescue division. The need for overtime is anticipated to decrease in the second quarter as some of the injured/sick firefighters return to work and the new recruits complete their training and join the floor.

It is anticipated that the overtime deficit will be fully offset by salary gapping savings in the department related to the vacant firefighter positions in the beginning of the year and other vacancies including the Assistant Deputy Chief and the second Assistant Chief positions.

The net budgetary impact of these factors is estimated to be a \$200,000 surplus.

Employment & Social Services = \$380,000

Ontario Works (OW) Program Delivery is projected to have a net city surplus of \$280,000 at year end. This is comprised of an \$80,000 net city surplus attributed to staffing and benefits. Significant improvements have been made to reduce surplus staffing variances in comparison to prior years. Currently there is a slight gapping of vacant positions but the department continues to monitor and fill these positions in a timely manner. The remaining \$200,000 net city surplus is attributed to Employment Initiatives. There is a continued effort in the department to seek opportunities to utilize these funds effectively. The development of new employer contracts or employment programs in the latter part of the year may reduce the projected year end surplus.

Ontario Works Financial Assistance is expected to end the year with a \$100,000 surplus due to the 2014 actual average Ontario Works caseload trending lower than the budgeted average caseload.

Corporate Accounts

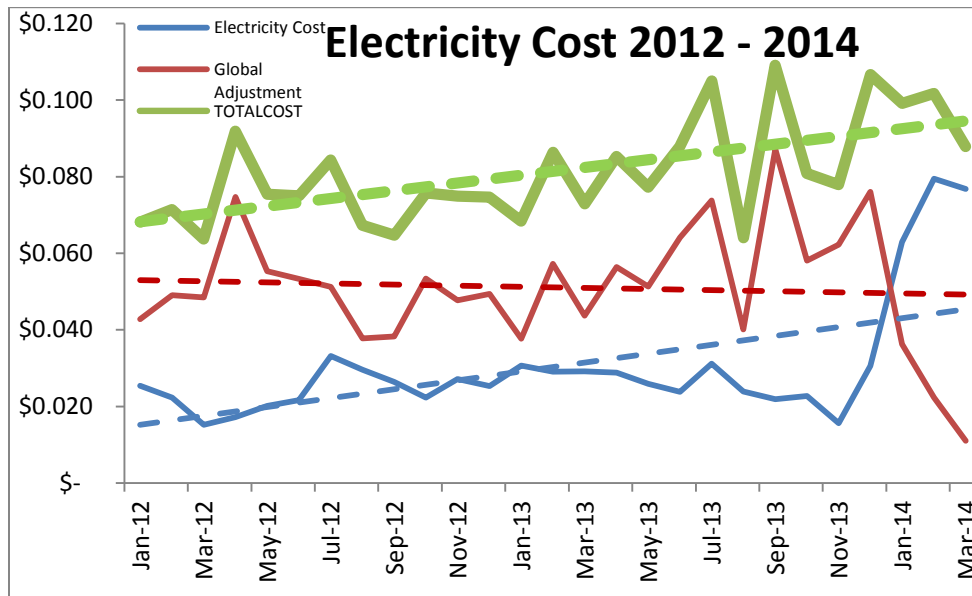
Utilities = (1,350,000)

As the 1st Quarter variance was analysed during the last week in March, energy data is not reflective of costs nor consumption for the period January to March but rather a combination of January to February and in some cases only January data was available. The analysis is further complicated by the extremely cold temperatures experienced during the first part of 2014. Temperatures in January to March averaged 5 degrees Celsius lower per month than the comparable period in 2013.

Hydro

While available consumption data indicates a slight decrease in electricity usage, costs however are trending towards a significant increase compared to prior years. This was anticipated during budget development and a 6% increase was included in the budget. The volatility of the prices for hydro and global adjustment (GA) are difficult to predict and use for quarterly variance projections. The Ontario Power Authority sets the GA. GA is the difference between the total payments made to certain contracted or regulated suppliers of electricity and conservation programs/services and any offsetting revenues they receive from sales to customers. The wholesale price of electricity plus the GA equals the commodity price of electricity. The charts below clearly show the fluctuations as well as the increases in costs from 2012 to 2014. Our projections are only as good as what information is available at that point in time. To put this into context, based on activity in the first two months of 2014, the cost of electricity has increased by approximately 22% compared to the same period in 2013. To use data available up to end of March would lead to a projected \$2m deficit assuming consumption and price remained consistent throughout the balance of the year. Further analysis utilizing recently received April hydro cost projections and Global Adjustment, which has been established at \$-.01 for April, indicates a 5.17% cost increase for the comparable period January – April 2013. Generating a projection based on this new information results in a conservative projected deficit of a \$1.1 million. That is a swing of \$900K directly attributable to new information just released on pricing. Given the challenges in these projections we are recommending a conservative estimate of \$1.1 million projected deficit. Continued monitoring of consumption and pricing will assist in

the 2nd quarter variance projections, bearing in mind climate and pricing influence these. Efforts to reduce consumption are critical to being able to offset as much of these variables as possible, and continues to be a focus of the Corporate Energy Division of Finance.



Natural Gas

As a result of prolonged colder than expected winter weather conditions January to March, there is a risk that the Gas accounts could end the year end in a deficit in the range of (\$200,000) to (\$250,000).

It should be noted that weather conditions and the volatility of rates throughout the remainder of the year will continue to have an impact on cost despite continued efforts to reduce consumption. Updated projections will be communicated in subsequent variance reports.

Municipal Share of Education Taxes = (\$100,000)

The Municipal Share of Education Taxes account for Payment in Lieu properties is projected to be in a deficit of (\$100,000) due to declining Education Rates which were provided by the province in early 2014 after the 2014 municipal budget had been approved.

Corporate Provision for JJE Retro, Unanticipated WSIB costs and NU Overtime = \$955,000

The approved budget contains corporate provisions for JJE retro payments of \$500,000, unanticipated WSIB costs of \$150,000, and overtime provision for eligible non-union members of \$305,000. The actual expenditures are charged to the appropriate department, but as noted the budget is contained in the corporate accounts, therefore there is typically a surplus in these accounts offset by the charges in the various departments.

Agencies & Boards

Police Services = (\$600,000)

Windsor Police Service is projecting to be over budget by \$600,000 for 2014. Windsor Police Services advises as follows:

“This can be attributed to unforeseen overtime that arises due to major crimes and other events that can occur. Further, due to other uncontrollable personnel costs such as workers compensation claims, pay equity adjustments, retirement and other one-time payouts, and legal

costs for settlement of claims, it is difficult to provide an accurate budget figure to anticipate these issues. Lastly, as has been reported over the past couple of years, aging equipment has reached the point where it can no longer be repaired or maintained and the department is now obligated to replace it for the health and safety of employees and to be able to provide efficient and effective service to the community. As always, the department will ensure mitigating measures are put in place where possible to offset the overages”

Transit Windsor = (\$420,000)

The fuel and lubricants account is currently projected to exceed budget estimates and, if prices continue at this level, a potential deficit of (\$420,000) may be incurred. The 2014 approved budget amount for fuel was \$1.00 per litre. Based on approximately 3,000,000 litres of diesel consumed annually, every \$0.01 increase above the budget figure of \$1.00 per litre translates to a cost of approximately \$30,000. Transit's average cost for diesel to date is \$1.14 per litre. This represents a \$0.14 increase or a price variance of approximately (\$420,000) for diesel fuel for the Transit Windsor fleet.

There are other key risks in the department which have the potential to impact the budget variance, but are not known with certainty at this time. Therefore, these risks and their estimated financial impact are not included in the first quarter variance projection, but are described below:

- Salary and wages accounts are reflecting a potential deficit of approximately (\$212,000) largely due to the projected number of detours on the existing routes, combined with reacting to late buses and overloaded buses on the main lines and special events. Efforts will be made to mitigate this potential variance.
- Revenue trends are currently projecting to be below budget estimates and could result in a projected deficit of approximately (\$100,000). Transit was impacted by three snow days (days in which school buses were cancelled, resulting in many high school students not attending school and therefore not using city bus service) in 2014. Transit Windsor is hopeful that revenue projections can recover and still be within budget estimates.

Land Ambulance = (\$305,000)

The land ambulance budget was not available from the County when the City's budget was approved in December 2013, and a status quo budget estimate was made for the City's share of costs. Based on the 2014 land ambulance budget approved by the County on February 19, 2014, the City's share will be approximately \$305,000 higher than budgeted by the City. This deficit is subject to change based on actual land ambulance financial results for 2014.

Health Unit = (\$196,720)

At their regular meeting held on January 16, 2014, the Windsor-Essex County Health Unit Board approved a 2014 Budget. The approved budget was \$17,708,251, inclusive of a one-time request of \$100,000. The City's share of the base budget is \$2,619,862 and \$13,561 of the one-time request, bringing the total to \$2,633,423 and thereby resulting in a budget deficit of **(\$196,720)**.

Budget Stabilization Contingency = \$2,500,000

A \$2.5 million 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. It is estimated that this amount will be used to help offset the projected year end variance.

SECTION B – Departments Currently Projecting to be On-Budget at Year End (With Some Identified Risks)

Public Works - Environmental

In the PW Environmental Area, both Environmental Services and Pollution Control are projecting to be on budget thus far through 2014. However, there are several key risk areas from a budgetary perspective that could impact budget variances as we progress through the calendar year. For the Environmental Services division, these include waste tonnages for landfill tipping fees, contractor costs for waste collection and street sweeping overtime wages. For the Pollution Control division, risks include chemical usage at sewage treatment plants, sludge removal costs, equipment maintenance materials for sewage treatment plants and wages at sewage treatment plants. Although currently these areas appear to be on budget through the opening quarter of the year, they are accounts administration will continue to monitor carefully in order to avoid a significant budget variance.

Huron Lodge

Huron Lodge is expecting to end the year on budget. However there are some line items and unknowns at this time that may impact the overall budget at year end.

As part of an interim agreement negotiated with the current linen service provider, the cost for linen services may result in higher than expected costs for Huron Lodge. The City was notified of an increase in rates in late 2013 and was unable to include as part of the 2014 budget. An RFP will be issued in the spring of 2014 for this service. Any necessary budget adjustments will be brought forward as part of the 2015 budget and any anticipated variances will also be communicated.

In addition, late in January 2014, the Ministry of Health and Long Term Care (MOHLTC) announced changes to the Case Mix Index (CMI) that is used to calculate the nursing and personal care per diem amount funded to Long Term Care Homes. Huron Lodge's continuous commitment to prudent and accurate resident assessments has resulted in a CMI increase. As a result, Huron Lodge will receive higher than expected funding for the 2014 – 2015 year. This additional funding will be used to offset any variances in salaries that have traditionally been experienced as a result of staff replacements for a variety of reasons.

Parks & Facility Operations

The Parks department 2014 winter control budget is \$309,000 with actual costs of \$611,405 as at March 28th. Although the winter control budget presents a large deficit, the majority of these costs are wages which will be offset the remainder of the year in non-Winter work. With the wages removed, the deficit is reduced to approximately (\$90,000) with an end of year season remaining.

The department anticipates that this variance will be mitigated with budgetary savings in other areas, and that the department as a whole will come in on budget in 2014.

Recreation & Culture

It should be noted that this is the first year of operations for the WIATC and Adventure Bay and therefore the projection to year end is done without the benefit of historical information. Generally, the drop-in attendance and food revenues have been much better than projected. Conversely, some expenses (largely related to utility costs) are trending above previous projections. Overall, the best estimate at this time is that the facility will operate within the

overall budget for the year. This assumes that volumes and trends will continue at the current levels and there are no material changes to the daily operations.

Finance

The department is currently projecting to be on budget by year end with the main risk being the attainment of budgeted revenues related to user fee charges.

CAO's Office, Housing & Children Services, Building, Information Technology, Human Resources, Community Development & Health Office

These departments are currently projecting to be on budget by year end with no significant identified risks.

Penalty and Interest on Taxes

Based on current analyses, the Penalty and Interest on Taxes account may incur a year-end deficit of approximately (\$250,000).

Non-Tax Supported Variances

Building Permit Reserve

The Building Permits funded portion of the budget is projected to incur a deficit similar to 2013 in the amount of (\$370,044). This is the amount in excess of the 2014 budgeted draw on Reserve of \$529,956. Therefore, the projected 2014 draw on the reserve is \$900,000. 2014 has had a slow start due to the extreme cold weather but indications are that the volume of activity will increase significantly as the warmer weather arrives but overall permit revenues are not expected to deviate from that seen in 2013.

Concerted mitigating efforts are continually being practiced by the Building Department to help reduce and control expenses each year. Those efforts include staff gapping where feasible, frugal management of all controllable operating costs, increased efficiencies, implementing new fees as well as cost recovery of services rendered.

Off Street Parking Reserve

Administration is projecting to be on budget with respect to the Off Street Parking Reserve funded operations. Based on results in the first quarter, no significant variances are projected at this time.

Sewer Surcharge Reserve

Administration is projecting to be on budget with respect to the Sewer Surcharge Reserve funded operations. Based on results in the first quarter, no significant variances are projected at this time.

Other Issues/Comments

Handi Transit

During the 2010 Budget deliberations, it was approved by Council that Handi Transit be included as part of the regular quarterly reports to Council. Handi Transit is currently projecting to be on budget by year end, although high gasoline prices and continued maintenance of aging fleet vehicles to MTO standards do pose risks.

Temporary Borrowing of Money

On January 6, 2014, Council approved (CR8/2014) the authorization of temporary borrowing of money for current expenditures for the year 2014, 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. As of March 31st, the City of Windsor has not used the Scotiabank line of credit and the current balance owing is zero.

4. RISK ANALYSIS:

Departmental projections tend to be conservative in the early part of the year as departments focus on disclosure of negative variances and positive variances are not as readily projected. Projections will be refined in the second quarter variance report.

5. FINANCIAL MATTERS:

Administration's best estimate calls for a projected year end deficit of approximately (\$862,720), which includes the use of the budget stabilization contingency of \$2.5 million. Mitigation efforts including a continued focus on hydro and gas consumption reduction measures and disciplined control over discretionary spending will be employed to offset the projected deficit.

6. CONSULTATIONS:

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

7. CONCLUSION:

The first quarter 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 reduce the projected variance by year end. Administration will continue to keep Council updated.

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APPENDICES:
NA

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