

Subject: 2018 Second Quarter Operating Budget Variance Report

Reference:

Date to Council: August 27, 2018
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Financial Planning
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To: Mayor and Members of City Council

Recommendation:

THAT Council **RECEIVE FOR INFORMATION** the 2018 2nd Quarter 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 2018 Operating Budget and continue to seek further means of offsetting any potential variances that may arise.

Executive Summary:

N/A

Background:

Annual operating budgets for all City departments are set at the beginning of the calendar year based on Council direction. Professional estimates, the current legislative environment, macroeconomic trends (such as currency fluctuations, commodity prices, unemployment figures and business investment, etc.) and other local information available at the time are significant inputs to the operating budget which is recommended to City Council by administration.

All departments monitor revenues and expenditures on an ongoing basis and project through to the end of the year to ensure they remain at or as close to their approved budget as possible. This assists in mitigating all material variances as effectively as possible. As is typical with most forecasts, accuracy increases as the year progresses and more information and data becomes available.

The City's annual budget includes a 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 particular funds.

Discussion:

Property Tax Supported Variances

The financial position of the Corporation is directly affected by uncontrollable factors such as weather conditions, unemployment rates, tax appeals, fuel and utility costs, interest rates, settlement of litigation brought against the City and social assistance caseloads. As a result, material fluctuations in the projected variances could occur in the event of significant unforeseen events.

Based on information as of May 31st, 2018, Administration is projecting an estimated year end surplus of \$1,626,527. This is not taking into account the previously noted \$1.5 million contingency account, which is expected to be transferred to the budget stabilization reserve at year end.

Table A (on the following page) provides a summary of the 2018 projected year end variances as of the 2018 2nd quarter, from the largest dollar deficit to the largest surplus, for each of the City Departments and Agencies, Boards & Commissions.

Table A: 2018 2nd Quarter Operating Budget Variance by Department

Department	2018 Annual Net Budget	2018 Q2 Projected Year End Surplus / (Deficit)	Variance % of Gross Budget
Transit Windsor	\$13,271,519	(\$710,000)	-2.1%
Legal	6,772,609	(333,000)	-1.9%
Fire & Rescue	45,502,965	(332,000)	-0.7%
Recreation & Culture	12,816,436	(100,000)	-0.4%
Engineering	3,369,287	(61,500)	-0.2%
Huron Lodge	7,317,503	(43,000)	-0.2%
Council Administrative Services	639,777	0	0.0%
Mayor's Office	504,753	0	0.0%
Finance	6,467,287	0	0.0%
Human Resources	4,988,419	0	0.0%
Windsor Public Library	8,203,937	0	0.0%
Information Technology	6,678,895	14,500	0.2%
Council Services	7,150,594	65,000	0.6%
CAO's Office	1,151,348	85,000	6.4%
Parks	26,330,162	111,000	0.3%
Planning & Building	3,881,662	220,000	2.3%
Housing & Children's Services/WECHC	23,282,846	350,600	0.3%
Employment & Social Services	7,887,381	520,500	0.4%
Public Works Operations	27,342,112	625,500	1.1%
Corporate Accounts	(316,872,705)	1,638,927	0.7%
Total City Departments	(\$103,313,213)	\$2,051,527	0.3%
Corporate Contingency	\$1,500,000	0	100.0%
Surplus / (Deficit) Subtotal		2,051,527	0.3%
Agencies, Boards & Commissions			
Windsor Police Services	83,943,525	(425,000)	-0.4%
Agency Grants	19,369,688	0	0.0%
Committees of Council	0	0	0.0%
Total Agencies, Boards & Commissions	103,313,213	(425,000)	-0.4%
2018 Net Operating Surplus	\$0	\$1,626,527	0.2%

Administration is working to reduce the identified projected departmental variances by incorporating appropriate mitigating measures in the departments and reporting to Council on a quarterly basis. **Appendix A** identifies each department's variance, a detailed description of the variance and mitigating measures.

The projected year end variance is broken down by major account category and presented on the following page in Table B.

Table B: 2018 2nd Quarter Operating Budget Variance by Category

Category	Net Favourable/ (Unfavourable) Variance
REVENUE:	
**User Fees, Permits & Charges	**(\$2,492,700)
Recovery of Expenditures	(75,964)
Transfers from Other Funds	-
Taxes – Education	-
Taxes – Municipal	120,600
Other Miscellaneous Revenue	145,800
Grants & Subsidies	459,500
Investment Income & Dividends	850,000
SUBTOTAL - REVENUE	(\$992,764)
EXPENSES:	
Operating & Maintenance Supplies	(\$1,765,800)
Minor Capital	(328,000)
Other Miscellaneous Expenditures	(140,100)
Financial Expenses	(79,709)
Purchased Services	(75,100)
Transfers to External Agencies	-
Transfers to Education Entities	-
Transfer for Social Services	-
Transfers to Reserves & Capital Funds	-
Utilities, Insurance & Taxes	438,000
Salaries & Benefits	4,570,000
SUBTOTAL – EXPENSES	\$2,619,291
NET TOTAL	\$1,626,527
CORPORATE CONTINGENCY	-
2018 PROJECTED YEAR END SURPLUS	\$1,626,527

** The shortfall in user fees, permits & charges is largely attributed to reduced OLG casino hosting fees received during first two quarters of 2018, due to an unforeseen labour stoppage.

Revenue Variance

The majority of revenue accounts are projecting to be on budget or reflect surpluses at year end. The largest projected surplus category is within “Investment Income & Dividends” due to the better than expected performance of the Corporation’s investments which can be partially attributed to increasing investment interest rates. In addition, there is a healthy projected surplus due to higher than expected “Grants and Subsidies”. Offsetting these surpluses is a substantial shortfall with respect to “User Fees, Permits & Charges”. This is predominantly due to the unforeseen labour disruption experienced at Caesars Windsor in the spring which has resulted in lower than expected casino hosting fees being received by the City in 2018.

Expense Variance

The largest shortfall among the expense categories is in the “Operating & Maintenance Supplies” line item. This projected deficit relates primarily to higher than budgeted fuel prices, along with more frequent repairs to older Transit Windsor buses as well as the increasing cost of parts relating to buses that have come out of the warranty period. These expense deficits are being offset by an overall corporate savings in “Salaries and Benefits” due to gapping of vacant positions across the Corporation as well as surpluses within various corporate provisions.

Non-Property Tax Levy Variances

Building Permit Operations

Budgeted Draw on Permit Reserve	Projected Draw on Reserve at Year End	Projected Year End Surplus
(\$898,000)	(\$413,000)	\$485,000

Construction statistics as of June 30th, 2018 (2561 permits) are above that of 2017 (1766 permits) for the same period. The permit counts are largely concentrated in renovations, new housing starts and remediation work from the flooding event in late 2017. These types of permits generate lower permit revenues compared to permits for new construction of the larger industrial, commercial and institutional (ICI) type projects. The (ICI) categories traditionally represent a large portion of the permit based revenue for the Corporation.

So far in 2018, the permit counts are about the same or slightly below that of 2017 in all categories except for residential, which represents all of the permits increase in 2018 to date. Collectively, permit revenue net of expenses is in line with the budgeted target and on track for a surplus of \$485,000. This would result in a smaller draw on the Reserve than budgeted.

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 Surplus
\$757,986	\$917,986	\$160,000

Administration is projecting an increase to the reserve transfer for 2018 of \$160,000. A surplus of \$120,000 is expected related to salary and wage gapping due to vacancies during the year. A net surplus of \$40,000 is expected related to Garage 3 at 1 Riverside Dr which is made up of the net of all unbudgeted revenue and expenses to date netting \$210,000 less an expected one-time payment of (\$170,000) related to pending repairs in the garage.

The balance in the On/Off Street Parking Reserve Fund as of December 31, 2017 was \$175,437. Based on the projected 2018 year-end surplus (as noted above), it is expected the reserve fund could end the year with a cumulative surplus balance in excess of \$300,000.

Sewer Surcharge Funded Operations

Overall, a surplus of \$1,481,500 is being projected for year end within Sewer Surcharge Funded Operations.

Pollution Control

Pollution Control is projecting a surplus of \$1,679,900 from its Sewer Surcharge funded operations.

Key Highlights:

- A line-by-line analysis identified surpluses of \$779,000 in utilities, largely due to the Industrial Conservation Initiative (ICI), which was introduced in the spring of 2017. This program lowers the Global Adjustment rate for electricity customers using an average monthly demand in excess of 1MW. Given this program is relatively new, administration will continue to monitor the rates and make adjustments to the budget going forward.
- A further surplus of \$455,400 in processing revenues from WUC is anticipated. Revenues received from this service have previously been directed toward the Strabane sewer rehabilitation work; however, the project is now fully funded and these revenues can instead remain in the Sewer Surcharge fund. The revenue budget will be adjusted in 2019 to reflect the additional revenue.
- Additionally, surpluses of \$544,100 in Labour and Benefits, due to gapping of hourly staff, sewage treatment revenues from LaSalle and Tecumseh totalling \$57,000, and \$48,200 in chemicals are anticipated.
- The primary contributors offsetting these surpluses are estimated sludge removal costs of (\$182,900) and miscellaneous shortfalls totalling (\$20,900). Sludge removal costs are heavily reliant upon sewage treatment flows and can fluctuate significantly from year-to-year.

PW Operations

Currently, no variance is projected for year end within Public Works Operations sewer surcharge funded areas.

Other Expenses

Other Sewer Surcharge related expenses are anticipated to be (\$198,400) more than budgeted, due to the EnWin administrative fee, which is projected to be more than originally estimated.

Sewer Surcharge Revenue

Revenues of \$60 million received from the Sewer Surcharge rates are projected to be on budget.

Risk Analysis:

There are a number of potential risks that can have a significant impact on the year-end financial results:

1. The Net Tax Additions/Reductions account is extremely difficult to project with certainty. There are still some significant appeals in progress and any variances in this account will vary dramatically based on the outcomes and timing of the settlements.
2. Current macro and micro economic conditions such as fuel costs, changes to local unemployment rates, volatility of energy costs, commodity prices and interest rates as well as supply and demand for products and services.
3. Seasonal variability with respect to revenues (e.g. Recreation fees) and expenses. (e.g. winter control)
4. Potential increase in staffing costs due to factors such as sick call replacement, modified duties (particularly in mandated or 24/7 operational areas), WSIB, joint job evaluation or other arbitration decisions, health benefit usage (Green Shield) and such other. Some of these costs may be covered by corporate provisions/reserves.
5. Potential increase to unavoidable expenditures such as unavoidable repairs and maintenance and related purchases of materials and supplies, legal expenses, streetlight maintenance, etc.
6. The significant use of estimates, historical knowledge and judgment in developing budgets and projecting actual expenses for the year implies that actual year end revenues and expenditures may differ significantly from quarterly projections. One way to mitigate this risk and help to offset any unexpected or one-time variances is by way of the annual \$1.5 million corporate contingency account.

Financial Matters:

Refer to **Appendix A** for detailed descriptions of the projected year-end variances for each department along with mitigating measures.

Appendix B of this report includes a list of relevant operational and economic statistics (extracted from various sources) as background information and is depicted graphically for each quarter of 2018 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 \$1,626,527.

As indicated throughout the report, the second quarter operating budget variance projection is subject to significant refinements as the fiscal year progresses. Mitigating measures and steps have and will be implemented where possible in order to mitigate negative budget risks.

Approvals:

Name	Title
Mark Spizzirri	Manager of Operating Budget Control
Janice Guthrie	On behalf of Chief Financial Officer & City Treasurer
Onorio Colucci	Chief Administrative Officer

Notifications:

Name	Address	Email

Appendices:

- 1 Appendix A - 2018 Q2 Operating Budget Variance by Department
- 2 Appendix B - 2018 Q2 Operational Economic Stats