

**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"*

<b>REPORT #: CM 39/2017</b>	<b>Report Date: 10/4/2017</b>
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	<b>Clerk's File #: AF/11247</b>

**To: Mayor and Members of City Council**

**Subject: 2017 Third Quarter Operating Budget Variance Report**

**RECOMMENDATION:**

THAT Council **RECEIVE FOR INFORMATION** the 2017 3<sup>rd</sup> Quarter Operating Budget Variance Report from the Chief Financial Officer and City Treasurer.

**BACKGROUND:**

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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 can occur if any unforeseen event occurs or the event is of an unforeseen magnitude.

Based on information as of August 31, 2017, Administration is projecting an estimated year end surplus of approximately \$2,396,524 (net of the \$1.5 million contingency).

Table A below provides a summary of the 2017 projected year end variances as of the 2017 3<sup>rd</sup> quarter, from the largest deficit to largest surplus, for each of the City departments and Agencies, Boards & Commissions.

**Table A: 2017 Third Quarter Operating Budget Variance by Department**

Department	2017 Annual Net Budget	Year Surplus (Deficit)	End /	Variance % of Gross Budget
Legal	6,018,338	(1,589,740)		-9.3%
Transit Windsor	13,108,590	(465,000)		-1.4%
Fire & Rescue Services	45,201,199	(286,000)		-0.6%
Recreation & Culture	11,953,684	(195,000)		-0.8%
Huron Lodge	7,283,223	(117,000)		-0.5%
Finance	6,229,178	0		0.0%
Mayor's Office	504,157	0		0.0%
Council Administrative Services	604,938	0		0.0%
Windsor Public Library	8,109,957	0		0.0%
Information Technology	6,469,296	45,000		0.6%
Housing & Children's Services/WECHC	22,841,372	96,100		0.1%
Human Resources	4,723,763	100,000		2.0%
Council Services	6,988,231	125,000		1.2%
Parks	24,815,537	153,500		0.4%
CAO's Office	1,176,539	170,000		12.7%
Engineering	7,712,486	415,900		1.3%
Planning & Building	3,613,431	540,600		6.2%
Employment & Social Services	9,398,178	751,000		0.6%
Public Works Operations	26,900,403	1,241,000		2.3%
Corporate Accounts	(315,541,718)	1,502,120		0.7%
<b>Total City Departments</b>	<b>(101,889,218)</b>	<b>2,487,480</b>		<b>0.3%</b>
Corporate Contingency Approved in 2017 Budget	1,500,000	0		0%
<b>Surplus (Deficit) Subtotal</b>	<b>(100,389,218)</b>	<b>2,487,480</b>		<b>0.3%</b>
Windsor Police Services	82,437,022	(300,000)		-0.3%
Agency Grants	17,910,076	209,044		1.2%
Committees of Council	42,120	0		0.0%
<b>Total Agencies, Boards &amp; Commissions</b>	<b>100,389,218</b>	<b>(90,956)</b>		<b>-0.1%</b>

<b>2017 Net Operating Budget Surplus</b>	<b>0</b>	<b>2,396,524</b>	<b>0.3%</b>
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**Appendix A** identifies each department's variance, a detailed description of the variance and mitigating measures.

On August 8<sup>th</sup>, 2017, Council received Report #111/2017, titled "2017 Q2 Operating Budget Variance Report." At that time, administration was projecting a year end surplus of approximately \$3,375,000 not taking into account the \$1.5M contingency budget. Since second quarter there have been additional savings being realized primarily with streetlight maintenance and utility accounts. These savings are expected to continue. Contributing to the swing since second quarter is the one-time \$1M Enwin dividend that was included in the 2<sup>nd</sup> Quarter Variance, but has since been redirected to the Capital fund by City Council.

The projected year end variance is broken down by major account category and presented below in Table B.

**Table B: 2017 Third Quarter Operating Budget Variance by Category**

<b>Category</b>	<b>Net Favourable/ (Unfavourable) Variance</b>
<b>REVENUE:</b>	
Taxes – Municipal	(453,800)
Recovery of Expenditures	(41,190)
Transfers from Other Funds	475,000
Other Miscellaneous Revenue	298,001
Investment Income & Dividends	620,000
User Fees, Permits & Charges	292,600
Grants & Subsidies	63,700
<b>SUBTOTAL - REVENUE</b>	<b>1,254,311</b>
<b>EXPENSES:</b>	
Salaries & Benefits	672,701
Purchased Services	(912,740)
Transfers to External Agencies	209,044
Utilities, Insurance & Taxes	1,796,300
Minor Capital	(211,000)
Other Miscellaneous Expenditures	(54,200)
Financial Expenses	245,836
Operating and Maintenance Supplies	(603,728)
<b>SUBTOTAL – EXPENSES</b>	<b>1,142,213</b>
<b>NET TOTAL</b>	<b>2,396,524</b>
<b>CORPORATE CONTINGENCY</b>	<b>-</b>
<b>2017 PROJECTED YEAR END SURPLUS</b>	<b>2,396,524</b>

### **Revenue Variance**

Overall revenue accounts are projected to end the year in a net surplus position. Contributing to this favourable variance is higher than budgeted return on investments due to a higher than anticipated blended rate of return, as well as higher than expected

user fees in Building and Planning due to the increase uptake of building permits in 2017. Also contributing to the surplus is the recovery from Sewer Surcharge which is reflected in the Transfer from Other Funds line item. Offsetting these surpluses is a projected deficit in tax accounts from shortfalls in revenue projections related to interest and penalties, and a variance in the Community Improvement Plan incentive account.

***Expense Variance***

Expense accounts are also projecting to end the year in an overall surplus. This is primarily due to corporate savings in utilities from decreased consumption. An overall savings in salaries and benefits due to gapping and vacant positions across the corporation is contributing to the overall surplus as is a reduction in the annual amount identified as bad debts due to continued monitoring of trade accounts receivables. The largest deficit among the expense categories offsetting the surplus relates primarily to costs of legal fees for external legal counsel. Additionally, increased maintenance costs for older Transit buses that require more regular repairs as well as the increasing cost of parts for buses that have come out of the warranty period is offsetting the overall corporate surplus.

**Non-Property Tax Levy Variances**

***Building Permit Operations***

<b>2017 Budgeted Draw on Reserve</b>	<b>2017 Projected Contribution to the Reserve</b>	<b>2017 Projected Year End Surplus</b>
(\$771,285)	\$117,556	\$888,841

Construction statistics as of August 31, 2017 (2,251 permits) are slightly above that of 2016 (1,954 permits) for the same period. The permit counts are largely concentrated on 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. Thus far in 2017, the number of commercial projects is also slightly higher with 260 permits compared to 206 in the same period in 2016. Collectively, permit revenue net of expenses is in line with the budgeted target and on track for a surplus \$117,556. 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, frugal management of all controllable operating costs,

seeking increased efficiencies and implementing new fees and cost recovery for services rendered.

The total accumulated deficit in the building permits reserve is \$10,272,000 million at August 31, 2017. This is largely offset by the related offsetting contra reserve account which has a balance of \$ 9,872,000 million at August 31, 2017.

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

<b>Budgeted Transfer to Reserve</b>	<b>Projected Transfer to Reserve</b>	<b>Projected Year-End Deficit</b>
\$1,802,313	\$1,102,313	(\$700,000)

Administration is projecting an overall reduction to the reserve transfer for 2017 of (\$700,000) related to revenue shortfalls expected in 2017. Revenue shortfalls expected in 2017 are related to the 2017 increase in monthly parking rates, the elimination of group discounts, the introduction of an administrative penalty on parking tickets, the reinstatement of the cash-in-lieu of parking program and budgeted revenue targets not being met. Due to the By-Law changes required, the revenue adjustments for the monthly parking rate increase, group discounts, and administrative penalties on parking tickets materialized in August and September 2017 resulting in only a partial year revenue increase of approximately 33% to 42%. Budget adjustments will be recommended in the 2018 budget recommendations to bring budgets in line with actual revenues achieved.

The balance in the On/Off Street Parking Reserve Fund as of December 31, 2016 is a deficit of (\$626,799).

### ***Sewer Surcharge Operating Fund***

Overall, Administration is projecting a (\$373,500) deficit for the City's Sewer Surcharge funded operations.

### **Pollution Control**

Pollution Control is projecting a surplus of \$618,000 in its' Sewer Surcharge funded operations. This surplus is driven by projected surpluses at the Lou Romano Water Reclamation Plant, Little River Pollution Control Plant, and Environmental Quality Services, of \$256,000, \$206,100, and \$10,300, respectively. This surplus is partially offset by projected deficits in Electrical, Pump Stations, and Pollution Control Administration of (\$229,500), (\$15,400), and (\$9,500), respectively.

A line-by-line analysis identified projected surpluses of \$558,500 in Labour and Benefits, due to gapping of hourly staff, as well as a \$162,600 surplus in Sewage Treatment Revenues and a \$87,400 surplus in Operating and Maintenance Expenses. These surpluses are partially offset by a (\$343,500) deficit in Contracted Services, largely due to sludge removal costs. These costs are heavily reliant upon sewage treatment flows and can fluctuate significantly from year to year. Additionally, Minor Capital costs are anticipated to contribute a further (\$201,000) to the deficit. Miscellaneous deficits totalling (\$46,000) comprise the balance.

The Industrial Conservation Initiative (ICI) 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. Savings from this new program is expected to result in a budget surplus of approximately \$400,000 in 2017.

## **Public Works Operations**

Public Works Operations is projecting an overall deficit of (\$915,000) for several variances related to their sewer surcharge funded operations including a surplus of \$48,000 related to salary and wage gapping, a deficit of (\$100,000) related to the 2017 Flood, 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 were under 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 2017 flood is related to all applicable staff, equipment, and contracted service costs for additional sewer maintenance services provided including eeling, flushing, catch basin cleaning, interceptor inspections etc.

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) related to transfers for the Environmental Division are expected to be completely offset in the levy

Operating fund for Public Works Operations. An adjustment to the levy and sewer surcharge budgets will be submitted for Council consideration during the 2018 budget deliberations.

### **Other Expenses**

Other Sewer Surcharge related expenses are anticipated to contribute a surplus of \$577,200. 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 as a result of reduced consumption are currently trending slightly lower than budget. With this in mind, revenues are projected to be (\$653,700) lower than plan. This represents a shortfall of (1.1%) compared to the \$59.7 million 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 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 similar expenditures. 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 \$2,396,524.

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

## **PLANNING ACT MATTERS:**

**N/A**

## **APPROVALS:**

Tony Ardovini	Deputy Treasurer, Financial Planning
Joe Mancina	CFO & City Treasurer
Onorio Colucci	Chief Administrative Officer

## **APPENDICES:**

- 1 Appendix A: 2017 Q3 Operating Budget Variance by Department
- 2 Appendix B: 2017 Q3 Operational Economic Stats