

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 #: S 182/2016	Report Date: 10/6/2016
Author's Contact: Stephen Cipkar Manager of Operating Budget Control & Financial Administration (A) 519-255-6100 ext. 6613 scipkar@citywindsor.ca	Date to Council: 11/7/2016
	Clerk's File #: APM/9795

To: Mayor and Members of City Council

Subject: 2016 Third Quarter Operating Budget Variance Report - City-wide

RECOMMENDATION:

THAT Council **RECEIVE FOR INFORMATION** the 2016 3rd 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 2016 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 can occur if any unforeseen event occurs or the event is of an unforeseen magnitude.

Based on information as of August 31, 2016, Administration is projecting an estimated year end surplus of approximately \$2,997,370 inclusive of the noted \$1.5 million contingency and other approved / recommended reserve funding.

Table A below provides a summary of the 2016 projected year end variances as of the 2016 3rd quarter, from the largest deficit to largest surplus, for each of the City departments and Agencies, Boards & Commissions.

Table A: 2016 Third Quarter Operating Budget Variance by Department

Department	2015 Year End Surplus/(Deficit)	2016 Annual Net Budget	2016 Q3 Projected Surplus/(Deficit) to Year End	Variance % Of Gross Budget
Corporate Human Resources Accounts	(\$2,910,466)	(\$13,548,693)	(\$2,042,100)*	-4.2%
Legal	(\$685,736)	\$5,877,591	(\$981,000)	-5.8%
Huron Lodge	(\$161,208)	\$7,012,896	(\$260,600)	-1.2%
Recreation & Culture	(\$317,025)	\$9,790,969	(\$260,000)	-1.2%
Fire & Rescue	(\$1,233,288)	\$42,838,231	(\$203,800)	-0.5%
Engineering	\$12,330	\$15,594,102	(\$117,400)	-0.3%
Mayor's Office	\$0	\$561,809	\$0	0.0%

Council Administrative Services	\$12,392	\$567,767	\$0	0.0%
Finance	\$290,844	\$6,371,531	\$0	0.0%
Windsor Public Library	\$0	\$7,831,216	\$0	0.0%
Human Resources	\$28,423	\$4,084,062	\$30,000	0.7%
Information Technology	\$75,002	\$6,130,187	\$40,000	0.5%
Council Services	\$362,335	\$6,765,674	\$135,100	1.4%
CAO's Office	\$193,914	\$1,190,282	\$161,000	13.5%
Parks	\$191,343	\$14,833,635	\$195,000	1.2%
Planning & Building	\$413,336	\$3,331,740	\$249,000	3.1%
Transit Windsor	(\$352,112)	\$14,216,829	\$270,000	0.8%
Housing & Children's Services/WECHC	\$208,531	\$22,029,359	\$657,000	0.7%
Employment & Social Services	\$618,295	\$10,972,614	\$1,048,500	0.9%
Public Works Operations	\$673,701	\$25,900,040	\$1,326,086	2.6%
Corporate Financial Accounts	\$1,456,038	(\$290,532,10 4)	\$1,564,584	1.0%
Total City Departments	(\$1,123,351)	(\$98,180,263)	\$1,811,370	0.2%
Agencies, Boards & Commissions				
Agency Grants	\$223,464	\$17,186,329	(\$314,000)	-1.8%
Windsor Police Services	\$523,060	\$79,444,014	\$0	0.0%
Committees of Council	\$23,606	\$49,920	\$0	0.0%
Total Agencies, Boards & Commissions	\$770,130	\$96,680,263	(\$314,000)	-0.3%
Corporate Contingency	\$2,500,000	\$1,500,000	\$1,500,000	100%
Net Operating Budget Surplus	\$2,146,779	\$0	\$2,997,370	0.4%

*Relates to the allocation of fringe benefit costs and is completely offset by corresponding surpluses in the various departments.

Administration is working to reduce the identified projected departmental deficits 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.

On July 24, 2016, Council received Report #133/2016, titled "2016 Q2 Operating Budget Variance Report." At that time, administration was projecting a year end surplus of approximately \$117,000. In the quarter that elapsed since then, there has been significant improvement in the Public Works Operations, Employment & Social Services and Parks departments as well as the Corporate Financial and Corporate Human Resources accounts. The drivers of these budgetary improvements vary, but are primarily due to salary gapping, fuel price savings, lower than expected social services caseloads, better than expected utility costs and interest income on the Corporation's investments.

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

Table B: 2016 Third Quarter Operating Budget Variance by Category

Category	Net Favourable/ (Unfavourable) Variance
REVENUE:	
Recovery of Expenditures	(\$2,130,000)
Taxes – Municipal	(\$495,000)
Transfers from Other Funds	(\$59,416)
Taxes – Education	\$0
Other Miscellaneous Revenue	\$142,600
User Fees, Permits & Charges	\$440,500
Investment Income & Dividends	\$725,000
Grants & Subsidies	\$1,040,000
SUBTOTAL - REVENUE	(\$336,316)
EXPENSES:	
Purchased Services	(\$468,500)
Transfers to External Agencies	(\$314,000)

Transfers to Reserves & Capital Funds	(\$100,000)
Utilities, Insurance & Taxes	(\$87,100)
Other Miscellaneous Expenditures	(\$40,700)
Transfers to Education Entities	\$0
Transfer for Social Services	\$0
Minor Capital	\$0
Financial Expenses	\$38,000
Operating & Maintenance Supplies	\$761,000
Salaries & Benefits	\$2,044,986
SUBTOTAL – EXPENSES	\$1,833,686
NET TOTAL	\$1,497,370
CORPORATE CONTINGENCY	\$1,500,000
2016 PROJECTED YEAR END SURPLUS	\$2,997,370

Revenue Variance

The largest deficit among the revenue categories is the “Recovery of Expenditures” category and is largely due to the centralized recovery of fringes from operating departments, which is largely offset by the surplus in the “Salaries & Benefits” category in the “Expenses” section. Additionally, the deficit in “Taxes – Municipal” can be attributed to decreases in interest and penalty revenues on property tax accounts in arrears due to a significant downward trend in the balance of property tax arrears. This and other minor revenue deficits are more than offset by better than expected performance of the Corporation’s investments as well as better than expected collection of user fees, permits and other charges. Finally, there is a surplus due to higher than expected grants and subsidies.

Expense Variance

The deficit in the “Purchased Services” category is made up of increased payments for external legal counsel, but this has been partially offset by savings from other departments, such as reduced winter control costs due to mild winter conditions in early 2016. The projected deficit in “Transfers to External Agencies” category is due to higher than expected Land Ambulance costs. Utilities are projected to be in a modest deficit

position by year end. This is due partly, to higher than budgeted energy costs. It is also partly due to the Citywide LED Streetlight Conversion project being delayed. It was originally budgeted to be complete at the beginning of 2016 but is now projected to be complete by the end of this year. This deficit is largely offset by the related reduction in the expected contributions (from the savings generated by the streetlight conversion) to the Citywide LED Streetlight Conversion capital project for the balance of 2016. The surplus in the "Operating & Maintenance Supplies" category is largely due to lower than budgeted fuel costs in the Fleet Division and Transit Windsor. Finally, the surplus in the "Salaries & Benefits" category is due to salary gapping across the Corporation but is largely offset by the fringe rate recovery deficit discussed in the "Revenue" section above.

August 2016 Tornado Damage

Cost of Response by City Departments

On the evening of August 24, 2016, two separate tornados touched down in the Windsor area. In the immediate aftermath and for some time afterwards, several City departments and divisions provided services that ranged from emergency response, clean-up, damage assessment and inspections and provision of emergency shelter to displaced persons. A summary of the costs associated with this response by department is presented in Table C below.

Table C: Total Tornado Costs by Department/Division

Department	Costs Incurred as of Report Date	Estimated Additional Costs	Total Projected Costs
Fire & Rescue	\$13,085	\$0	\$13,085
Windsor Police Service	\$12,734	\$0	\$12,734
Planning & Building	\$2,118	\$0	\$2,118
Public Works – Maintenance Division	\$10,366	\$0	\$10,366
Public Works – Traffic Division	\$27,211	\$60,000	\$87,211

Parks	\$23,543	\$25,000	\$48,543
Public Works – Environmental Services Division	\$2,998	\$0	\$2,998
Employment & Social Services	\$250	\$0	\$250
Communications	\$153	\$0	\$153
TOTAL	\$92,458	\$85,000	\$177,458

Administration has attempted to gather all known costs that have been entered into the financial system as of the date of this report. Thus far, costs of \$177,458 have been identified. These costs consist of staff time, including overtime, as well as contracted services. However, it should be noted that it is anticipated that additional costs of up to \$85,000 will be incurred due to damage sustained to the traffic sign structure on EC Row Expressway at Central Avenue. Initial inspection of the structure is expected to cost \$3,000 and temporary repairs another \$2,000. When the analysis of the structure is complete, one option is likely to be continued ongoing repairs until its life cycle is complete. The second, and preferred, option would be the full replacement of the structure, which could cost between \$45,000 and \$55,000. The higher amount has been assumed in Table C above. Additionally, approximately \$25,000 is being estimated as the cost of contracted services for tree removal and replanting.

It is not anticipated that the costs summarized and presented in Table C above will contribute to an overall deficit for the Corporation by year end.

Administration gathered information on the Province of Ontario's Disaster Recovery Assistance Program in the aftermath of the storm to determine if the City qualified for relief funding from the Province. Due to the relatively modest costs experienced by the City (see Table C above), it has been determined that this program will not apply and disaster relief funding will not be forthcoming.

Damage to Transit Windsor Roof & Solar Panel Array

The tornado caused significant damage to the roof of the Transit Windsor building on North Service Road East, including the installed solar panel array. The estimated loss is expected to be approximately \$2 million, most of which will be covered by the City's property insurance. This will have a minimal or no impact on Transit Windsor's 2016 operating budget.

The solar panels on the roof of the Transit Windsor building were generating revenues which were being used to pay back the initial investment required for their purchase and installation. Unfortunately, the revenues are not insured by the Corporation's insurance, although administration is exploring options for including solar panel revenues in the insurance coverage in the future. It is anticipated that the time required to repair the panels (approximately 6 months) will similarly delay the payback period for the capital project. Additionally, as a consequence of this delay in the payback, the capital project will incur additional financing costs of approximately \$10,500. This impact will be on the capital project and not on the City's operating budget.

Flood Damage on September 29-30

The east side of Windsor experienced heavy rainfall and severe flooding on September 29 and 30 as this report was being prepared and finalized. Consequently, although it is anticipated that there will be costs associated with this weather event, it is too early as of the date of this report to estimate these costs. It is possible that these costs may have an impact on the final Corporate surplus/deficit for 2016, but these impacts are not yet known. Although it is still early to quantifying the costs associated with this event, it is likely that the City's flood costs will not be high enough to meet the Ontario Disaster Recovery Assistance Program's relatively high thresholds for a municipality to qualify. It is therefore expected that relief funding for the Corporation will not materialize.

Non-Property Tax Levy Variances

Building Permit Operations

2016 Budgeted Draw on Reserve	2016 Projected Draw on Reserve	2016 Projected Year End Surplus
\$413,000	\$386,000	\$27,000

Construction statistics as of September 30, 2016 (1,954 permits) are slightly below that of 2015 (1,984 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. Thus far in 2016, the number of commercial projects is similar to the same period in 2015. The number of government and institutional projects is higher than the 2015 total. Collectively, permit

revenue is in line with the budgeted target and on track for possibly a minor surplus of \$27,000. This would result in a similarly reduced draw on 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, close management oversight of all controllable operating costs, seeking increased efficiencies and implementing new fees and cost recoveries for services rendered.

The total accumulated deficit in the building permits reserve is \$10,250,000 million at August 31, 2016. This is largely offset by the related offsetting contra reserve account which has a balance of \$9,780,000 million at August 31, 2016.

On/Off Street Parking Operations

2016 Budgeted Transfer to Reserve	2016 Projected Transfer to Reserve	2016 Projected Transfer Reduction (Year End Deficit)
\$1,476,504	\$1,146,504	(\$330,000)

Administration is projecting an overall reduction to the reserve transfer for 2016 of (\$330,000) related to revenue shortfalls and potential expense account surpluses.

Revenue shortfalls are expected to be approximately (\$586,000) overall, and the shortfalls are related to the 2016 increase in hourly parking, the reinstatement of the cash-in-lieu of parking program, and to a general shortfall in monthly and daily revenues. Due to the By-Law changes required, the revenue adjustments for the 2016 hourly parking increase did not begin to materialize until June 27, 2016 when the hourly increase went into affect resulting in only a partial year revenue increase of approximately 50%. The cash-in-lieu of parking program will be deferred to the 2017 budget pending a report to Council detailing a sustainable funding model. In addition, both monthly and daily revenues continue to be lower than budget stemming from required adjustments to past year's budget estimates. Administration plans to analyse all revenues and submit the required budget adjustments during the 2018 budget development process to allow for more accurate revenue projections related to the On/Off Street Parking Reserve 10-year plan including both operating and capital needs and projections.

Offsetting the expected revenue shortfalls for 2016 are several projected surpluses in various accounts related to maintenance, machinery & equipment, construction, and taxes. The total expected surplus in these accounts will be \$256,000 and these funds will be used to mitigate a portion of the revenue shortfalls for the year. Should any emergency type repairs or equipment replacement be required during the balance of the year, Administration will have to access these funds and the transfer amount for the year will decrease further.

The balance in the On/Off Street Parking Reserve Fund as of July 31st, 2016 is (\$1,554,289). It should be noted that the 2016 transfer to reserve will occur in January / February 2017 yearend timeframe. A transfer of approximately \$1,146,504 for 2016 will leave the reserve balance at approximately (\$411,277) for 2016 considering all outstanding transactions for the year.

Sewer Surcharge Operating Fund

Overall, a deficit of approximately (\$532,000) is projected for Sewer Surcharge Funded Operations, largely due to an anticipated shortfall in Sewer Surcharge revenues resulting from a decrease in water consumption.

Pollution Control

Pollution Control is projecting to end the year with a \$682,000 surplus. This is due to larger surpluses of \$500,400 and \$94,900 projected for the Little River Pollution Control Plant (LRPCP) and Lou Romano Water Reclamation Plant (LRWRP), respectively, as well as smaller anticipated surpluses of \$79,600 in Electrical, and \$21,000 in Pumping Stations. Partially offsetting these surpluses is an expected deficit of (\$13,900) in Environmental Quality Services.

For the LRPCP, the largest contributor to the \$500,400 projected surplus is the anticipated surplus in Sewage Treatment revenues collected from the Town of Tecumseh totalling \$267,400. Smaller surpluses are projected in Labour and Benefit expenses, Sludge Removal expenses, Maintenance Parts & Materials expenses, and Chemical expenses of \$106,600, \$80,700, \$61,300 and \$60,000, respectively. Partially offsetting these surpluses are expected deficits in Other Professional Services totalling (\$61,200), and miscellaneous line by line variances, (\$14,400).

With respect to the LRWRP surplus of \$94,900, Labour and Benefit expenses are projected to contribute \$338,400 to the surplus. This \$338,400 surplus is made up of gapping and in year pay band adjustments of \$266,500, Workers Comp expenses of \$41,100, and underutilization of temporary staff of \$30,800. Utility costs and Sewage Treatment revenues from the Towns of LaSalle and Tecumseh are also anticipated to contribute \$55,300 and \$37,000, respectively. Partially offsetting these surpluses are projected deficits of (\$165,300) in Sludge Removal expenses and (\$155,200) in Other Professional Services. A deficit of (\$15,300) in miscellaneous line item variances makes up the remaining balance.

Public Works Operations

PW Operations will be projecting an overall surplus of \$85,000 related to their sewer surcharge funded operations. This projected surplus is made up of \$150,000 related to salary gapping due to sewer surcharge budgeted wage and fringe payments for Local 82 staff expensed under the levy funded operations and a deficit of (\$65,000) related to an expense adjustment made back to the department for unrecoverable work.

Appeals

Sewer surcharge appeal refunds from commercial accounts, based on trending, are projected to contribute a (\$447,900) deficit. This relates to commercial accounts that are eligible for rebates for water that is not returned to the sewer system. The amount has been increasing steadily and the budget will be recommended for adjustment during the 2017 Budget.

Sewer Surcharge Revenue

Revenues received from the Sewer Surcharge rates are anticipated to be below budget by (\$851,100) at the end of the year. This deficit represents 1.46% of the revenue budget of \$58.4 million. These projections take into account the sharp decline in Sewer Surcharge revenue experienced in the second half of prior years, and are consistent with the trend towards lower water usage as a result of water conservation.

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 2016 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 \$2,997,370.

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
Stephen Cipkar	Manager of Operating Budget Control & Financial Administration (A)

Name	Title
Natasha Couvillon	Deputy Treasurer – Financial Planning (A)
Joe Mancina	Chief Financial Officer & City Treasurer
Onorio Colucci	Chief Administrative Officer

APPENDICES:

- 1 Appendix A - 2016 Q3 Operating Budget Variance Department Descriptions
- 2 Appendix B - 2016 Q3 Operational & Economic Statistics