

Subject: 2021 Second Quarter Operating Budget Variance Report - City Wide

Reference:

Date to Council: July 5, 2021

Author: Dave Soave

Manager, Strategic Operating Budget Development & Control

519-255-6100 Ext. 1911

dsoave@citywindsor.ca

Financial Planning

Report Date: May 31, 2021

Clerk's File #: AFB/13698

To: Mayor and Members of City Council

Recommendation:

THAT City Council **RECEIVE FOR INFORMATION** the 2021 2nd Quarter Operating Budget Variance Report, including the updated COVID-19 financial impacts as presented by the Chief Financial Officer & City Treasurer; and,

THAT the Chief Administrative Officer and the Chief Financial Officer & City Treasurer **BE DIRECTED** to monitor the 2021 Operating Budget and continue to seek further means for offsetting any potential variances that may arise; and,

THAT the Mayor and City Council strongly advocate on behalf of the City for continued senior level government relief funding to address the City's significant projected 2021 COVID related deficit; and further **TO ENCOURAGE** the senior levels of government to establish a post pandemic transitional financial relief plan for municipalities that will assist with appropriate planning as they move into the 2022 and future budgets cycles and gradually return to more normalized budgetary levels.

Executive Summary:

The projected 2nd Quarter Variance report, including the updated financial implications of the COVID-19 pandemic is summarized in the following chart with the year-end projected variances estimated to the end of 2021. It is projected that once the grant funding announced by senior levels of government is factored in, the total net municipal financial impact for 2021 amounts to a preliminary deficit of approximately \$3.8M.

Forgone revenues totaling \$36.8M when combined with additional costs resulting from the COVID-19 pandemic of \$36M result in a total financial impact to the City of \$72.8M.

This amount has been offset by reduced expenditures resulting from mitigation measures taken to date of \$14.8M and from grant funding from senior levels of government of \$53.4M, thereby resulting in a projected net municipal financial deficit to the City of \$4.6M. Once the Non-COVID Y/E estimated positive variance of \$786,000 is factored in, the total projected municipal variance exclusive of the impacts of various GBE's is a **projected deficit of approximately (\$3.8 million) for 2021**.

Due to the continuing extraordinary circumstances surrounding the global pandemic, the 2nd Quarter report this year also includes the financial projections for various Government Business Enterprises (GBE's), namely the Windsor-Detroit Tunnel, Windsor Airport and also Roseland Golf & Curling Club. Given the significant financial impacts to these entities caused by the COVID restrictions, the City as sole shareholder of these entities will be including these losses in any future grant funding opportunities which may arise for municipalities. Once these GBE variances totaling (\$10.7 million) are included, **the overall projected corporate deficit is estimated to be approximately (\$14.5 million) for 2021**.

Summary of 2021 COVID Variance (Millions)

City of Windsor (Includes: Off Street Parking & Sewer Surcharge)

	2020 Year-End	2021 2nd Quarter (YE Estimate)
Forgone Revenue	(\$39.5)	(\$36.8)
Additional Expenses	(\$11.9)	(\$36.0)
Total COVID Impact	(\$51.4)	(\$72.8)
Less:		
Reduced (Mitigated) Expenditures	\$22.0	\$14.8
Provincial / Federal Grants	\$29.4	\$53.4
COVID Deficit to be Offset	\$0.0	(\$4.6)
Less:		
Non-Covid Y/E Positive Surplus	\$5.8	\$0.8
Total Municipal Y/E Variance	\$5.8	(\$3.8)
Add: Government Business Enterprises (GBE's)		
Windsor-Detroit Tunnel		(\$7.0)
Windsor Airport		(\$3.4)
Roseland Golf & Curling Club		(\$0.3)
Overall 2021 Projected Year-End Deficit Including GBE's to be Offset by Additional Federal & Provincial Grants		(\$14.5)

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.

The significant variable impacting the City of Windsor's finances in 2021 continues to be the impact of the COVID-19 global pandemic. Since March of 2020, the pandemic has caused significant uncertainty that has impacted many municipal services. As the City of Windsor continues to follow provincial guidelines, many services continue to be modified. As a result, many of the City's operations have been suspended, altered by restrictions or increased to meet the demands resulting from the pandemic. In addition, the City continues to deal with the uncertainty of the US Border restrictions that have been in place for approximately 15 months.

Over and above the City's annual \$1.5 million contingency put in place to help offset any unforeseen variances and contingent liabilities that may materialize, the 2021 budget includes an additional \$2 million contingency for on-going COVID-19 related budget impacts and matching capital grants. As recommended by Administration and approved by City Council, during the 2021 budget deliberations, this increase was put in place to assist in mitigating the anticipated financial pressures on the City's operating budget resulting from the uncertainty surrounding the on-going global pandemic. In addition, it is expected that the senior levels of government will be releasing grants in 2021 to stimulate the economy. The increase in the contingency budget will also provide the City added flexibility to leverage these funds and maximize the funding that can be used to maximize capital investments.

Discussion:

The financial position of the Corporation is directly impacted by uncontrollable factors such as COVID-19, 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 wake of significant unforeseen events.

Based on information as at April 30, 2021, Administration is projecting an estimated corporate year-end deficit of (\$3.8M), made up of a COVID deficit of (\$4.6M) offset by Non-COVID projected surplus of \$786,000. This projection does not currently take into account the previously noted \$3.5 million contingency amount, which is expected to be transferred to the budget stabilization reserve and/or other appropriate reserves as may be determined at year-end. Based on the current year-end projection resulting from the financial impacts of the COVID-19 pandemic on City operations, this annual transfer will not be feasible this year, unless additional grant funding is received from senior levels of government to address the impacts of the pandemic on the City. It is expected that in such a scenario that the \$3.5 million contingency would be required to offset 2021 deficits resulting from COVID-19 impacts.

Table A below provides a summary of the 2021 projected year-end variances as of the 2021 2nd Quarter, from the largest dollar deficit to the largest surplus, for each of the City Departments and Agencies, Boards, and Committees.

DEPARTMENT	2021 Gross Budget	2021 Net Budget	Year-End COVID Variance	Year-End Non-COVID Variance	Year-End Overall Variance	% of Gross Budget
CITY DEPARTMENTS						
Recreation & Culture	\$24,992,464	\$13,042,950	(\$3,713,000)	\$0	(\$3,713,000)	(14.9%)
Public Works	\$56,609,038	\$29,278,810	(\$810,000)	(\$1,307,000)	(\$2,117,000)	(3.7%)
Huron Lodge	\$26,132,683	\$8,128,565	(\$1,565,000)	\$45,000	(\$1,520,000)	(5.8%)
Parks & Facilities	\$40,045,445	\$28,521,721	(\$1,282,000)	\$565,000	(\$717,000)	(1.8%)
Fire & Rescue	\$52,177,165	\$50,658,841	(\$168,000)	(\$182,000)	(\$350,000)	(0.7%)
Council Services	\$11,026,327	\$7,319,917	(\$460,000)	\$150,000	(\$310,000)	(2.8%)
Legal	\$14,231,776	\$6,682,053	(\$250,000)	\$0	(\$250,000)	(1.8%)
Engineering	\$27,777,083	\$2,176,061	(\$44,000)	(\$85,000)	(\$129,000)	(0.5%)
Transit Windsor	\$36,851,094	\$15,586,444	\$0	(\$115,000)	(\$115,000)	(0.3%)
City Council	\$1,029,184	\$872,193	\$0	\$0	\$0	0.0%
Mayor's Office	\$1,455,705	\$1,455,705	\$0	\$0	\$0	0.0%
Human Resources	\$6,177,480	\$5,768,638	\$0	\$0	\$0	0.0%
Windsor Public Library	\$9,302,368	\$8,269,747	\$250,000	(\$250,000)	\$0	0.0%
Information Technology	\$8,702,573	\$7,340,019	(\$49,000)	\$122,000	\$73,000	0.8%
Finance	\$11,818,267	\$6,782,600	(\$125,000)	\$244,000	\$119,000	1.0%
CAO's Office	\$1,253,287	\$1,253,287	\$0	\$131,000	\$131,000	10.5%
Planning & Building	\$11,812,055	\$5,134,953	(\$150,000)	\$370,000	\$220,000	1.9%
Housing & Children Services	\$116,465,816	\$24,858,008	\$172,000	\$142,000	\$314,000	0.3%
Employment & Social Services	\$116,559,418	\$7,645,864	\$648,000	\$468,000	\$1,116,000	1.0%
Corporate Accounts	\$162,129,721	\$31,002,265	\$4,113,000	\$1,150,000	\$5,263,000	3.2%
Sub-Total: City Depts	\$736,548,949	\$261,778,641	(\$3,433,000)	\$1,448,000	(\$1,985,000)	(0.3%)
AGENCIES, BOARDS & COMMITTEES						
Agencies	\$20,558,892	\$20,458,294	\$0	(\$122,000)	(\$122,000)	(0.6%)
Police Services	\$111,317,082	\$93,932,409	\$0	\$0	\$0	0.0%
Sub-Total: ABC's	\$131,875,974	\$114,390,703	\$0	(\$122,000)	(\$122,000)	(0.1%)
Net Operating Budget Variance	\$868,424,923	\$376,169,344	(\$3,433,000)	\$1,326,000	(\$2,107,000)	(0.2%)
OTHER FUNDING SOURCES						
Off Street Parking Reserve	\$2,844,276	\$0	(\$1,177,000)	\$39,000	(\$1,138,000)	(40.0%)
Sewer Surcharge Reserve	\$80,254,455	\$0	\$6,000	(\$528,000)	(\$522,000)	(0.7%)
Building Permit Reserve	(\$169,408)	\$0	\$0	(\$51,000)	(\$51,000)	(30.1%)
Sub-Total: OFS's	\$82,929,323	\$0	(\$1,171,000)	(\$540,000)	(\$1,711,000)	(2.1%)
Total Municipal	\$951,354,246	\$376,169,344	(\$4,604,000)	\$786,000	(\$3,818,000)	(0.4%)
Government Business Enterprises						
Windsor-Detroit Tunnel	n/a	n/a	(\$7,000,000)	\$0	(\$7,000,000)	n/a
Windsor Airport	n/a	n/a	(\$3,400,000)	\$0	(\$3,400,000)	n/a
Roseland Golf & Curling Club	n/a	n/a	(\$300,000)	\$0	(\$300,000)	n/a
Sub-Total: GBE's	n/a	n/a	(\$10,700,000)	\$0	(\$10,700,000)	n/a
Grand Total	n/a	n/a	(\$15,304,000)	\$786,000	(\$14,518,000)	n/a

Windsor Detroit Tunnel, YQG Windsor Airport & Roseland Golf Course

The City's Government Business Enterprises (GBE's) and Roseland have been consulted regarding their anticipated year-end variances. Based on current information, the projected year-end operating deficit anticipated for the GBE's is estimated to be (\$10.7 million). This is made up estimates of (\$7 million) for the Windsor-Detroit Tunnel, (\$3.4 million) for the Windsor Airport, and (\$300,000) for Roseland Golf & Curling Club.

These entities are all continuing to face significant reductions in revenue similar to 2020 given the ongoing pandemic and the various restrictions which have continued to remain in place including reduced air travel, extended border restrictions imposed, and required closure of various facilities and services. As sole shareholder of these entities, these losses, while perhaps not directly reflected in the City's operating budget, have a significant impact on the City resulting in paused dividends, the requirement for the provision of cash flow loans, and permanent and long term equity/reserve reductions that will impact future capital investments in the facilities.

As these organizations are wholly owned by the City, there is a high likelihood the City would be required to provide them financial assistance due to their losses in order to ensure they remain viable. Given the significant financial impacts to these entities caused by the COVID restrictions, the City will be including these projected losses in any future grant funding opportunities as they become available, similar to the Phase 2-Safe Restart-Municipal Relief Funding application submitted in 2020.

Risk Analysis:

The largest risk by far this year continues to be the implications of the COVID-19 pandemic and its impact on City operations.

Administration has attempted to quantify the impact of the pandemic on the City's finances for the remainder of the year with the use of significant assumptions and uncertainty. As the situation continues to change, it is extremely difficult to provide any degree of certainty as to the financial impacts to the Corporation. 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. Although we have projected the financial impacts to the end of the year, there remain significant uncertainties as to the recovery from this crisis.
2. The length of the transition period for things to return to "normal". In some cases, entire seasons may be lost even if all restrictions are lifted.
3. The residents' hesitation period for things to return to normal once the restrictions are lifted may further delay the financial recovery for the City.

4. The additional requirements and regulations that the City and others must follow as we transition and eventually return to a normal state.
5. The amount of additional senior level funding that will be made available to municipalities to offset the financial burden of the pandemic in 2021 and future years.

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.
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. Inflation has been trending upwards over the last few months as the economy start its recovery from the pandemic. Any significant increase in inflation will impact City costs going forward.
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, related purchases of materials and supplies, legal expenses, streetlight maintenance, etc.
6. The significant use of estimates, historical knowledge and judgement in developing budget 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 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 of the projected year-end variances for each department, separated between COVID and Non-COVID impacts, along with any mitigating measures.

Appendix B of this report has been updated to provide additional data. It includes a list of relevant operational and economic statistics (extracted from various sources) 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.

Consultations:

All departments and ABC's provided comments to augment and clarify the analysis performed by the Finance Department.

Conclusion:

Administration is projecting a municipal net operating year-end budget variance estimated to be (\$3.8 million). Once the GBEs and Roseland Golf Course projected deficits of (\$10.7 million) are included, the overall estimated year-end variance is (\$14.5 million).

As indicated throughout the report, given the uncertainty around COVID -19 impacts and additional grant funding from senior levels of government, the 2nd quarter operating budget year-end variance projection is subject to significant refinements as the fiscal year nears completion. Measures have been implemented, where possible, in order to mitigate the negative budget risks. This includes applying for additional funding from senior levels of government wherever possible.

Continued efforts are required to ensure Senior Levels of government will provide additional 2021 pandemic relief funding to address the significant projected deficit the City faces in 2021 and to also establish appropriate transitional relief funding which will

assist municipalities as they embark on the 2022 and future municipal budget planning cycles.

Planning Act Matters:

N/A

Approvals:

Name	Title
David Soave	Manager, Operating Budget Development & Financial Admin.
Tony Ardovini	Deputy Treasurer - Financial Planning
Joe Mancina	Chief Financial Officer & City Treasurer
Jason Reynar	Chief Administrative Officer

Notifications:

Name	Address	Email

Appendices:

- 1 Appendix A - 2021 Operating Budget Variance (Q2)
- 2 Appendix B - 2021 Operational & Economic Statistics (Q2)