

**Subject: 2021 Year-End Operating Budget Variance Report - City Wide**

**Reference:**

Date to Council: May 9, 2022

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Financial Planning

Report Date: April 22, 2022

Clerk's File #: AF/14148

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

**Recommendation:**

1. THAT Council **RECEIVE FOR INFORMATION** the 2021 Year-End Operating Budget Variance Report.
2. THAT the final 2021 Property Tax Levy Operating Budget surplus of \$2,491,344 **BE TRANSFERRED** as follows: \$1,741,344 to the Budget Stabilization Reserve Fund, and \$750,000 to the Capital Improvement Plan (CIP) Grant Reserve Fund.
3. THAT in order to avoid the need to re-budget for various items, Council **APPROVE** \$4,382,077 in Budget Carry-Forwards as detailed in Appendix C.
4. THAT Council **APPROVE** the balancing of and transfers from Capital Project Closeouts as detailed in Appendix D.
5. THAT Council **APPROVE** the attached Development Charges 2021 Income Statement Schedule as detailed in Appendix E.
6. THAT Council **APPROVE** the attached Development Charge Reserve Fund Statement – Listing of Credits as detailed in Appendix F.
7. THAT Council **APPROVE** the following housekeeping items and various transfers to/(from) the various reserve accounts/funds:
  - a. \$7,950,270 to Fund 180 - Building Permit Reserve
  - b. \$2,681,208 to Account 1750 - Working Funds

- c. \$2,279,779 to Fund 153 - Sanitary Sewer Surcharge
  - d. \$67,971 to Account 1756 - Reserve for Tree Planting
  - e. \$4,911 to Account 1755 - Reserve for Fire Education
  - f. (\$5,542) from Account 1785 - BIA Maint-PW Operations
  - g. (\$10,432) from Account 1762 - Municipal Elections Reserve
  - h. (\$71,837) from Fund 160 - Capital Expenditure Reserve
  - i. (\$87,613) from Account 1798 - Commodity Tax Reserve Account
  - j. (\$2,357,954) from Fund 107-128 - Development Charge Reserves
  - k. (\$7,413,769) from Fund 225 – Transit Safe Restart Reserve for Transit Windsor
  - l. (\$7,950,270) from Fund 194 - Building Permit Fee Contra Reserve
  - m. (\$14,463,000) from Fund 224 - Safe Restart-Municipal Operating
8. THAT Council **APPROVE** the creation of a National Urban Park Designation reserve fund in order to facilitate the contribution agreement between The Corporation of the City of Windsor and Parks Canada Agency for the National Urban Park Designation of Parklands within the City of Windsor, including the Ojibway Prairie Complex.
9. THAT Council **APPROVE** the closure of the Building Permit Fee Contra Reserve (Fund 194) and that the remaining funds are to be transferred to the Working Capital Reserve Account (Reserve Account #1750).

### **Executive Summary:**

Once all available 2021 COVID financial relief funding is applied to address the impacts of the pandemic on the City, the Corporation has ended the 2021 fiscal year with an overall operating surplus of \$2,491,344. It is recommended that \$1,741,344 of this surplus be transferred to the Budget Stabilization Reserve (BSR), and \$750,000 to the Capital Improvement Plan (CIP) Grant Reserve Fund. In addition, given the positive year-end results, the corporate contingency amount of \$3,500,000 was not required in 2021 and as such has been transferred to the BSR at year-end. This will replenish the reserve to fund future one-time costs, avoid potential future property tax rate spikes, and offset any additional COVID related variances in 2022 that may remain unfunded. **Given this report reflects the direct financial results of the 2021 municipal budget and excludes GBE's, it should be noted that these financial results do not reflect impacts of COVID related deficits for the Windsor Tunnel or YQG approximating \$10M which still remain unfunded.** It is further noted that these results are still subject to finalization of the annual external audit, which is currently underway by the City's external auditors KPMG.

The 2021 year-end financial implications of the City's response to the COVID-19 Pandemic are summarized in the following chart. Due to the extraordinary circumstances in 2021

resulting from the pandemic, as noted above this year's year-end report also includes the financial impacts for various Government Business Enterprises (GBEs), namely the Windsor Detroit Tunnel Corporation (WDTC) and YQG Windsor International Airport.

<b>Summary of 2021 COVID Variance (Millions)</b>			
	<b>2021 2nd Quarter (Estimate)</b>	<b>2021 3rd Quarter (Estimate)</b>	<b>2021 Year-End (Actual)</b>
Forgone Revenue	(\$36.8)	(\$37.5)	(\$35.6)
Additional Expenses	(\$36.0)	(\$40.8)	(\$35.7)
<b>Total COVID Impact</b>	<b>(\$72.8)</b>	<b>(\$78.3)</b>	<b>(\$71.3)</b>
Less:			
Reduced (Mitigated) Expenditures	\$14.8	\$15.4	\$15.0
Provincial / Federal Grants	\$53.4	\$60.3	\$53.7
<b>COVID Deficit to be Offset</b>	<b>(\$4.6)</b>	<b>(\$2.6)</b>	<b>(\$2.6)</b>
Add: Other Funding Sources			
Sewer Surcharge	\$0.0	\$0.0	\$0.3
Add: Government Business Enterprises (GBE's)			
Windsor-Detroit Tunnel	(\$7.0)	(\$6.6)	(\$6.3)
Windsor Airport	(\$3.4)	(\$3.5)	(\$3.3)
Roseland Golf & Curling Club	(\$0.3)	\$0.0	(\$0.4)
<b>Overall 2021 Year-End COVID Deficit (Including GBE's) to be Offset by Additional Federal &amp; Provincial Grants</b>	<b>(\$15.3)</b>	<b>(\$12.7)</b>	<b>(\$12.3)</b>

Forgone revenues totalling (\$35.6M), when combined with additional costs resulting from the COVID pandemic of (\$35.7M), result in a total financial impact to the City in 2021 of (\$71.3M). This amount has been offset by reduced expenditures, resulting from mitigation measures taken by the City of \$15.0M as well as from grant funding from senior levels of government totalling \$53.7M, thereby resulting in a 2021 pandemic related financial impact of (\$2.6M) for City Departments.

In addition, a surplus related to the Sewer Surcharge totalling \$0.3M, a Windsor Detroit Tunnel Corporation (WDTC) deficit of (\$6.3M), a YQG Windsor International Airport deficit of (\$3.3M), and a Roseland Golf & Curling Club deficit of (\$0.4M) brings the overall 2021 COVID related deficit to (\$12.3M). It is noted that existing funding from senior levels of government has been fully exhausted and there has been no further communication related to additional

funding from the federal and provincial ministries as to the potential for further relief funding related to the financial challenges resulting from the pandemic.

## **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.

For 2021, the significant unanticipated variable continued to be the impact of the COVID-19 global pandemic. Since January 2020, the pandemic has spread around the world causing significant uncertainty, and impacting human behaviour and the world's economy. Furthermore, the City of Windsor, along with the rest of the province has just recently begun to emerge from the most recent shutdown that saw increased restrictions on all daily activities.

As a result of this continuing crisis, many of the City's operations were suspended, altered, continued with major restrictions, or increased to meet the demands resulting from the pandemic in 2021. This report to Council provides 2021 year-end results on the COVID-19 financial challenges and other Non-COVID related Y/E variances for each area.

All departments monitor revenues and expenditures on an ongoing basis and undertake projections 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 tends to increase as the year progresses and more information and data becomes available.

In addition to the City's operating budget, which is primarily 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. It is noted that for this report, YQG and Windsor Tunnel operations have also been included in the variance projections given the magnitude of 2021 financial impacts these two entities faced because of the COVID-19 travel restrictions. The discussion section of this report provides additional detail for the year-end variances for all departments.

## **Discussion:**

### ***Property Tax Supported Variance***

**Table A** below provides a summary of the budgets and year-end variances for City Departments, Agencies, Boards & Committees for 2021. The year-end variances have been sorted from largest deficit to largest surplus (in dollars).

The Corporation ended the 2021 fiscal year with an operating surplus of \$2,491,344. This figure is net of budget carryovers in the amount of \$4,382,077 and does not take into account the previously noted \$3.5M contingency amount, which will also be transferred to the budget

stabilization reserve. Administration recommends transferring this entire operating surplus as follows: \$1,741,344 to the Budget Stabilization Reserve Fund, and \$750,000 to the Capital Improvement Plan (CIP) Grant Reserve Fund.

**Table A: 2021 Corporate Variance Summary**

Municipal	2021 Gross Budget	2021 Net Budget	Year-End COVID Variance	Year-End Non-COVID Variance	Year-End Overall Variance	% of Gross Budget
<b><u>CITY DEPARTMENTS</u></b>						
Public Works	\$56,609,038	\$29,278,810	(\$2,388,116)	(\$218,103)	(\$2,606,219)	(4.6%)
On-Off Street Parking	\$0	\$0	(\$1,417,504)	\$0	(\$1,417,504)	0.0%
Fire & Rescue	\$52,177,165	\$50,658,841	(\$196,875)	(\$615,422)	(\$812,297)	(1.6%)
Licensing & Enforcement	\$3,781,107	\$1,389,957	(\$538,179)	(\$51,637)	(\$589,816)	(15.6%)
Legal	\$14,231,776	\$6,682,053	(\$300,000)	(\$55,488)	(\$355,488)	(2.5%)
Recreation & Culture	\$24,992,464	\$13,042,950	(\$157,936)	\$0	(\$157,936)	(0.6%)
Communications	\$3,914,452	\$3,191,987	(\$18,000)	(\$50,774)	(\$68,774)	(1.8%)
Mayor's Office	\$1,455,705	\$1,455,705	\$0	\$0	\$0	0.0%
CAO's Office	\$1,253,287	\$1,253,287	\$0	\$3,656	\$3,656	0.3%
Finance	\$11,818,267	\$6,782,600	(\$301,803)	\$305,746	\$3,943	0.0%
Human Resources	\$6,556,998	\$6,148,156	(\$74,000)	\$80,783	\$6,783	0.1%
Facilities	\$19,034,729	\$9,693,214	(\$183,812)	\$196,561	\$12,750	0.1%
Engineering	\$27,777,083	\$2,176,061	(\$85,604)	\$102,712	\$17,108	0.1%
Parks	\$21,010,716	\$18,828,507	(\$209,256)	\$233,827	\$24,571	0.1%
Housing & Children Services *	\$116,465,816	\$24,858,008	\$308,466	(\$265,043)	\$43,423	0.0%
City Council	\$1,029,184	\$872,193	\$57,963	\$0	\$57,963	5.6%
Building	\$7,752,491	\$1,973,235	(\$150,000)	\$211,833	\$61,833	0.8%
Council Services	\$2,951,250	\$2,358,455	(\$21,020)	\$126,416	\$105,396	3.6%
Information Technology	\$8,702,573	\$7,340,019	(\$7,800)	\$187,578	\$179,778	2.1%
Huron Lodge	\$26,132,683	\$8,128,565	\$0	\$522,202	\$522,202	2.0%
Windsor Public Library	\$9,302,368	\$8,269,747	\$115,000	\$0	\$115,000	1.2%
Transit Windsor	\$36,851,094	\$15,586,444	\$0	\$792,839	\$792,839	2.2%
Planning	\$4,059,564	\$3,161,718	\$0	\$793,151	\$793,151	19.5%
Employment & Social Services	\$116,559,418	\$7,645,864	\$912,492	\$656,313	\$1,568,805	1.3%
Corporate Accounts	\$162,129,721	\$31,002,265	\$1,078,351	\$1,413,583	\$2,491,934	1.5%
<b>Sub-Total: City Depts</b>	<b>\$736,548,949</b>	<b>\$261,778,641</b>	<b>(\$3,577,632)</b>	<b>\$4,370,733</b>	<b>\$793,101</b>	<b>0.1%</b>
<b><u>AGENCIES, BOARDS &amp; COMMITTEES</u></b>						
Agencies	\$20,558,892	\$20,458,294	\$0	\$167,535	\$167,535	0.8%
Police Services	\$111,317,082	\$93,932,409	\$1,000,708	\$530,000	\$1,530,708	1.4%
<b>Sub-Total: ABC's</b>	<b>\$131,875,974</b>	<b>\$114,390,703</b>	<b>\$1,000,708</b>	<b>\$697,535</b>	<b>\$1,698,243</b>	<b>1.3%</b>
<b>Total: Municipal</b>	<b>\$868,424,923</b>	<b>\$376,169,344</b>	<b>(\$2,576,924)</b>	<b>\$5,068,268</b>	<b>\$2,491,344</b>	<b>0.29%</b>

**Table B** provides a five-year historical picture of the City’s year-end operating variances for the Corporation, as well as the percentage variance to the annual gross budget inclusive of the budget stabilization contingency account.

<b>Table B: 5-Year Historical Year-End Operating Variance</b>					
<b>Year</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>
<i>Variance Surplus / Deficit</i>	\$1,629,760	\$2,466,375	\$1,954,982	\$5,805,949	\$2,491,344
<i>As a % of Gross Budget</i>	0.19%	0.27%	0.21%	0.61%	0.29%

***Operational & Economic Statistics***

**Appendix B** includes a list of relevant operational and economic statistics (extracted from various sources) that have been presented in previous variance reports to Council. The data is provided 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. It is important to note that many of the operational and economic statistics are showing significant variances as compared to historical trends because of the COVID pandemic. It is expected that these measures will return to more historical levels as we recover from the pandemic over the next few years. Administration will continue to monitor and report on these statistics as part of the regular variance reporting to Council.

***Budget Carry-Forwards***

**Appendix C** includes a list of the recommended budget carry-forwards that relate to 2021. These are budgeted items that, due to timing, were committed but not expended in 2021 and as a result, the related budgets for those items have been carried forward into 2022. These expenditure line items are expected to be paid out in 2022 or beyond.

***Capital Closeouts***

**Appendix D** contains a summary of capital projects that were either closed, completed or consolidated during 2021. The Corporation does not budget for any variance with respect to capital closeouts. Surplus balances normally offset deficits in other projects provided that consistent funding guidelines are being followed. Usual practice calls for surpluses to be returned back to the original funding source(s) and deficits drawn from their original funding source, where such funds are available. If funding is not available, alternate funding sources are identified and reported to City Council.

***Development Charge Reserve Income Statements***

The final two appendices (**Appendix E & Appendix F**) provide City Council with detailed revenues and expenses for all of the development charge reserves in 2021, as required by the Development Charges Act, along with a listing of outstanding development charge credits at year-end.

### **Miscellaneous Housekeeping Transfer To/From Reserves**

Throughout the course of the year, costs related to certain initiatives are captured in operating accounts/funds and then transferred at year-end to/from various specific reserves consistent with past practice. The following miscellaneous housekeeping transfers have occurred and a summary is provided below in **Table C**.

<b>RESERVE FUND / ACCOUNT</b>	<b>AMOUNT</b>
Fund 180 - Building Permit Reserve	\$7,950,270
Account 1750 - Working Funds	\$2,681,208
Fund 153 - Sanitary Sewer Surcharge	\$2,279,779
Account 1756 - Reserve for Tree Planting	\$67,971
Account 1755 - Reserve for Fire Education	\$4,911
Account 1785 - BIA Maint-PW Operations	(\$5,542)
Account 1762 - Municipal Elections Reserve	(\$10,432)
Fund 160 - Capital Expenditure Reserve	(\$71,837)
Account 1798 - Commodity Tax Reserve Account	(\$87,613)
Fund 107-128 - Development Charge Reserves	(\$2,357,954)
Fund 225 – Transit Safe Restart Reserve for Transit Windsor	(\$7,413,769)
Fund 194 - Building Permit Fee Contra Reserve	(\$7,950,270)
Fund 224 - Safe Restart-Municipal Operating	(\$14,463,000)

### **National Urban Park Designation Reserve Account**

A new reserve fund is required as a result of the contribution agreement between Parks Canada Agency and the Corporation of the City of Windsor. Per this agreement, Parks Canada Agency will permit advance payments to be made to the City of Windsor which will be deposited in an interest-bearing bank account. Therefore, a reserve fund will be established in order to accumulate interest on the advance payments.

### **Closure of the Building Permit Fee Contra Reserve**

The Building Permit Fee Contra Reserve is recommended to be closed out and any remaining surplus, estimated to be \$2.7 million will be transferred to the Working Capital Reserve Account (Reserve Account #1750), from which the funding originally came. The balance in the Building Permit Fee Reserve Fund at December 31, 2021 was approximately a (\$6.9 million) deficit. City Council previously approved the establishment of a placeholder reserve (Building Permit Fee Reserve Contra Fund) to offset the deficit. The Contra Account had a December 31, 2021 balance of \$10.6 million, of which \$7.9 million was transferred to

the Building Permit Fee Reserve, resulting in a surplus of approximately \$1 million in the Building Permit Fee Reserve Fund at December 31, 2021.

### **Risk Analysis:**

The largest risk by far this year has been the implications of the COVID 19 Pandemic and its impact on City operations.

Administration has attempted to quantify and mitigate the impact of the pandemic to the City's finances throughout 2021. Inclusive of the Government Business Enterprises, the overall 2021 COVID related financial impact totalling (\$81.3M) was partially mitigated by \$15.3M in reduced corporate expenditures and \$53.7 in financial assistance from Provincial & Federal grants for a total overall net deficit impact of (\$12.3M).

As the situation continues to change daily due to COVID 19, it is extremely difficult to provide any degree of certainty as to the full financial impacts to the Corporation going forward into 2022 and beyond. Administration is closely tracking the estimated financial impacts of the pandemic for 2022 and will update City Council in conjunction with the upcoming quarterly variance reporting.

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. There remain significant uncertainties as to the recovery from the COVID 19 crisis.
2. The length of the transition period for things to return to "normal". In some cases, partial seasons may be lost even if all restrictions are lifted.
3. The residents' hesitation to return to their normal activities 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 government funding that will be made available to municipalities to offset the financial burden of the COVID Pandemic in 2021 and future budget 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. There may also be unique pressures resulting from the pandemic that the City may need to fund going forward.



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. Inflationary increases in April 2022 have hit 6.7%, and are expected to continue to increase for the rest of the year. This has become a significant risk that is being monitored and will be reported in the next variance report to Council.
3. Seasonal variability with respect to revenues (e.g. Recreation Fees) and expenses (e.g. winter control).
4. Potential increases 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, and health benefit usage (Green Shield). Some of these costs may be covered by corporate provisions/reserves.
5. Potential increase to unavoidable expenditures such as unavoidable repairs and maintenance, along with related purchases of materials and supplies, legal expenses, streetlight maintenance, etc.
6. The significant use of estimates, historical knowledge and judgement 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 \$3.5 million corporate contingency account. It is noted that this contingency amount was increased by \$2M in 2021 to mitigate on-going uncertainties surrounding the COVID-19 pandemic and to provide a source of funding for matching capital grants. Given the municipal surplus in 2021, the \$3.5 million corporate contingency was transferred to the Budget Stabilization Reserve to assist in mitigating COVID and inflationary pressures in 2022.

## **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 to support the departmental year-end variances separated between COVID 19 and Non COVID 19 impacts, along with any mitigating measures.

**Consultations:**

All City Departments, ABCs, and GBEs provided comments to augment and clarify the analysis performed by the Finance Department.

**Conclusion:**

Overall, the Corporation of the City of Windsor ended the 2021 fiscal year with an operating surplus of \$2,491,344, with Administration recommending that the entire amount be transferred as follows: \$1,741,344 to the Budget Stabilization Reserve Fund, and \$750,000 to the Capital Improvement Plan (CIP) Grant Reserve Fund.

**Planning Act Matters:**

N/A

**Approvals:**

Name	Title
David Soave	Manager, Strategic Operating Budget Development & Control
Tony Ardovini	Acting Commissioner, Corporate Services Chief Financial Officer & City Treasurer
Joe Mancina	Acting Chief Administrative Officer

**Notifications:**

Name	Address	Email

**Appendices:**

1. Appendix A - 2021 Operating Budget Variance
2. Appendix B - 2021 Operational & Economic Statistics
3. Appendix C - 2021 Budget Carry-Forwards
4. Appendix D - 2021 Capital Project Close-Outs for Year-End
5. Appendix E - 2021 Development Charges Reserve Funds Income Statement
6. Appendix F - 2021 Statement of Activity - Development Charge Credits