

Subject: 2022 Third Quarter Operating Budget Variance Report - City Wide

Reference:

Date to Council: 11/9/2022
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Financial Planning
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To: Mayor and Members of City Council

Recommendation:

THAT City Council **RECEIVE FOR INFORMATION** the 2022 3rd 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 2022 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 projected 2022 COVID related deficit including the costs incurred by the City to address the border blockade; and further **TO ENCOURAGE** the senior levels of government to establish post pandemic sustainable financial relief for municipalities in order to assist with appropriate planning as they move into the 2023 and future budgets cycles and gradually return to more normalized budgetary levels.

Executive Summary:

Municipal Levy

The projected 3rd Quarter Variance, inclusive of the ongoing financial implications of the COVID-19 pandemic have been estimated to the end of 2022. Detailed departmental write-ups along with a breakdown of the COVID and Non-Covid variances for the individual departments can be found in Appendix A: Operating Budget Variance of this report. ***It is projected that the total overall net municipal financial impact for 2022 amounts to a deficit of approximately (\$13.1M).***

Other Non Tax Levy Funding Sources

Other funding sources (outlined in the table below) include the following estimates; On-Off Street Parking (\$0.6M) deficit, Sewer Surcharge (\$0.2M) deficit, and Building Permit Reserve \$4.9M surplus. **In total, these other funding sources are estimated to end the year in a surplus position of approximately \$4.1M.**

	2022 Gross Budget	2022 Net Budget	Year-End COVID Variance	Year-End Non-COVID Variance	Year-End Overall Variance	% of Gross Budget
On-Off Street Parking	\$0	\$0	(\$725,000)	\$146,000	(\$579,000)	0.0%
Sewer Surcharge Reserve	\$84,128,725	\$0	\$0	(\$170,000)	(\$170,000)	(0.2%)
Building Permit Reserve	(\$169,408)	\$0	\$0	\$4,867,000	\$4,867,000	n/a
Total: OFS's	\$83,959,317	\$0	(\$725,000)	\$4,843,000	\$4,118,000	4.9%

Government Business Enterprises

Due to the continuing circumstances surrounding the global pandemic, the 3rd Quarter variance report also includes the financial projections for various Government Business Enterprises (GBE's), namely the Windsor-Detroit Tunnel and Windsor Airport.

Windsor-Detroit Tunnel: Year-to-date traffic volumes thus far are 62% of pre-pandemic levels and have been limited by the extended duration during 2022 of the ArriveCan App and the requirement for full vaccination to cross the border. Effective October 1st, the Canadian federal government removed all remaining border restrictions including proof of COVID-19 vaccination, in addition to making the ArriveCan App optional. These measures will assist in the recovery of the non-essential discretionary traveller, although traffic volumes are projected overall to end the year at approximately 66% of pre-pandemic levels. As a result, it is projected that the Windsor-Detroit Tunnel will end the year with a deficit of approximately (\$1.7M).

Windsor Airport: The Airport is monitoring revenues closely and mitigating the impact of negative variances where possible. Compared to the pre-pandemic budget, the Airport is expecting an overall shortfall of (\$3.0M) in net revenue driven by the impacts of the pandemic on the airline and travel industry. However, given various mitigation efforts, an overall deficit of (\$2.9M) is projected.

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. **In total, the government business enterprises are projecting a year-end deficit of approximately (\$4.6M).**

	2022 Gross Budget	2022 Net Budget	Year-End COVID Variance	Year-End Non-COVID Variance	Year-End Overall Variance	% of Gross Budget
Windsor-Detroit Tunnel	n/a	n/a	(\$1,682,000)	\$0	(\$1,682,000)	n/a
Windsor Airport	n/a	n/a	(\$3,000,000)	\$124,000	(\$2,876,000)	n/a
Total: GBE's	n/a	n/a	(\$4,682,000)	\$124,000	(\$4,558,000)	n/a

Once the municipal levy funded departments, other non tax levy funding sources and government business enterprises (GBE's) variances have been combined, **the overall**

projected corporate deficit is estimated to be approximately (\$13.6 million) for 2022.

COVID-19 Variance

Forgone revenues totaling (\$11.7M) when combined with additional costs resulting from the COVID-19 pandemic of (\$24.9M) result in a total projected financial impact to the City of (\$36.6M). This amount has been offset by reduced expenditures resulting from mitigation measures taken to date of \$5.0M and from grant funding from senior levels of government of \$18.9M, thereby resulting in a projected net municipal financial deficit to the City of (\$12.7M). It is important to note that Blockade/Convoy related expenditures totaling \$5.5M (identified in Chart B) are included in the COVID variance. Once you add in the COVID variances related to Other Funding Sources; (\$0.7M) and the Government Business Enterprises; (\$4.7M), **the total projected COVID variance is estimated to be a deficit of (\$18.1M).**

Chart A
Summary of 2022 COVID Related Variance (Millions)

	2021 Year-End (Actual)	2022 2nd Quarter (Estimate)	2022 3rd Quarter (Estimate)
Forgone Revenue	(\$35.6)	(\$16.4)	(\$11.7)
Additional Expenses	(\$35.7)	(\$24.4)	(\$24.9)
Total COVID Impact	(\$71.3)	(\$40.8)	(\$36.6)
Less:			
Reduced (Mitigated) Expenditures	\$15.0	\$6.8	\$5.0
Provincial / Federal Grants	\$53.7	\$18.6	\$18.9
COVID Deficit to be Offset	(\$2.6)	(\$15.4)	(\$12.7)
Add: Other Funding Sources			
Sewer Surcharge	\$0.3	\$0.0	\$0.0
Off-Street Parking	\$0.0	(\$0.7)	(\$0.7)
Add: Government Business Enterprises (GBE's)			
Windsor-Detroit Tunnel	(\$6.3)	(\$2.1)	(\$1.7)
Windsor Airport	(\$3.3)	(\$3.0)	(\$3.0)
Roseland Golf & Curling Club	(\$0.4)	\$0.0	\$0.0
Overall 2022 2nd Quarter Projected COVID Related Deficit (Including GBE's) to be Offset by Additional Federal & Provincial Grants	(\$12.3)	(\$21.2)	(\$18.1)

Chart B
COVID Costs Related to Convoy Expenditures (Millions)
(Already Included in Chart A)

	2022 Expenditures To Date
Windsor Police Services	(\$4.70)
Legal Services	(\$0.50)
Public Works	(\$0.13)
Fire & Rescue	(\$0.07)
Parks & Facilities	(\$0.04)
Transit Windsor	(\$0.04)
EMS Costs	(\$0.04)
Total	(\$5.52)

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 2022 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 continued to follow provincial guidelines, many services required modification. As a result, many of the City's operations were suspended, altered by restrictions or increased to meet the demands resulting from the pandemic.

Large inflationary annual increases, currently at 6.8%, have placed significant pressures on many municipal service budgets. These variances are reflected in the departmental year-end variance projections within this report.

Discussion:

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

The table below provides a summary of the 2022 projected year-end variances as of the 3rd Quarter, from the largest dollar deficit to the largest surplus, for each of the City Departments and Agencies, Boards, and Committees.

	2022 Gross Budget	2022 Net Budget	Year-End COVID Variance	Year-End Non-COVID Variance	Year-End Overall Variance	% of Gross Budget
MUNICIPAL						
Transit Windsor	\$39,317,934	\$16,421,543	(\$2,283,000)	(\$1,142,000)	(\$3,425,000)	(8.7%)
Fire & Rescue	\$52,491,089	\$50,538,358	(\$412,000)	(\$2,704,000)	(\$3,116,000)	(5.9%)
Public Works	\$58,680,331	\$29,038,896	(\$786,000)	(\$1,798,000)	(\$2,584,000)	(4.4%)
Housing & Children Services *	\$129,200,728	\$27,582,506	\$185,000	(\$1,588,000)	(\$1,403,000)	(1.1%)
Recreation & Culture	\$25,738,985	\$13,577,045	(\$1,019,000)	\$284,000	(\$735,000)	(2.9%)
Purchasing, Risk & POA	\$12,422,984	\$3,458,819	(\$400,000)	(\$250,000)	(\$650,000)	(5.2%)
Council Services	\$6,585,297	\$3,382,297	(\$300,000)	\$35,000	(\$265,000)	(4.0%)
Parks & Facilities	\$36,841,100	\$27,573,238	(\$56,000)	(\$244,000)	(\$300,000)	(0.8%)
Legal Services	\$3,672,157	\$3,360,201	(\$495,000)	\$0	(\$495,000)	(13.5%)
Taxation	\$3,475,392	\$604,831	\$0	(\$162,000)	(\$162,000)	(4.7%)
Building Services	\$7,871,886	\$2,029,125	(\$150,000)	(\$48,000)	(\$102,000)	(1.3%)
Communications	\$4,058,175	\$3,342,673	(\$226,000)	\$142,000	(\$84,000)	(2.1%)
Asset Planning	\$1,875,527	\$864,607	\$0	(\$30,000)	(\$30,000)	(1.6%)
Security & Special Activities	\$3,701,829	\$1,186,543	(\$32,000)	\$32,000	\$0	0.0%
CAO's Office	\$1,103,044	\$1,103,044	\$0	\$0	\$0	0.0%
City Council	\$1,050,834	\$875,193	\$0	\$0	\$0	0.0%
Mayor's Office	\$505,705	\$505,705	\$0	\$0	\$0	0.0%
Economic Development	\$1,364,556	\$1,364,556	\$0	\$0	\$0	0.0%
Human Resources	\$7,252,526	\$6,333,184	(\$45,000)	\$45,000	\$0	0.0%
Library Services	\$9,284,880	\$8,319,985	\$104,000	(\$104,000)	\$0	0.0%
Pollution Control	\$21,337,790	\$0	\$0	\$0	\$0	0.0%
Engineering	\$7,913,993	\$2,575,065	(\$57,000)	\$96,000	\$39,000	0.5%
Accounting	\$3,162,235	\$2,329,132	\$0	\$56,000	\$56,000	1.8%
Information Technology	\$9,076,667	\$7,367,292	\$0	\$70,000	\$70,000	0.8%
Financial Planning	\$3,971,534	\$2,846,297	\$0	\$125,000	\$125,000	3.1%
Huron Lodge	\$26,521,327	\$8,462,079	\$0	\$570,000	\$570,000	2.1%
Planning & Development	\$4,109,297	\$3,175,026	\$0	\$571,000	\$571,000	13.9%
Corporate Accounts	\$167,712,718	\$32,340,443	(\$2,142,000)	\$3,012,000	\$870,000	0.5%
Employment & Social Services	\$101,037,567	\$7,589,312	\$67,000	\$982,000	\$1,049,000	1.0%
Sub-Total: City Departments	\$751,338,087	\$268,146,995	(\$8,047,000)	(\$2,050,000)	(\$10,001,000)	(1.3%)
Police Services	\$115,019,577	\$96,977,437	(\$4,700,000)	\$800,000	(\$3,900,000)	(3.4%)
Agencies	\$20,858,415	\$20,757,817	\$0	\$780,000	\$780,000	3.7%
Sub-Total: ABC's	\$135,877,992	\$117,735,254	(\$4,700,000)	\$1,580,000	(\$3,120,000)	(2.3%)
Total: Municipal	\$887,216,079	\$385,882,249	(\$12,747,000)	(\$470,000)	(\$13,121,000)	(1.5%)

Windsor Detroit Tunnel, YQG Windsor Airport & Roseland Golf Course

The City's Government Business Enterprises (GBE's) 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 (\$4.6M). This is made up of estimates of (\$1.7M) for the Windsor-Detroit Tunnel and (\$2.9M) for the Windsor Airport.

These entities continue to face shortfalls in revenues related to the ongoing pandemic impacts notwithstanding improvements from the easing of border restrictions and increased levels of travel. As sole shareholder of these entities, these losses, while 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.

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 certainty as to the financial impacts to the Corporation. There remain many variables, including:

1. Although we have projected the financial impacts to the end of the year, there continues to remain significant uncertainties as it relates to ongoing inflationary pressures and the pace of recovery from the pandemic.
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 as the restrictions are lifted may further delay the financial recovery for the City.
4. Any remaining 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 2022 and future years and most notably the significant \$5.5 million financial deficit faced by the City to address the border blockade earlier this year with no formal commitment from senior levels of government to address this matter.

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 increased significantly in 2022 to levels not seen in decades as the economy

recovers from the pandemic. Any long term increase in inflation will materially 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 (\$13.1M). Once the other funding sources surplus of \$4.1M and GBEs projected deficit of (\$4.6M) are included, the overall estimated year-end variance is (\$13.6M).

As indicated throughout the report, given the uncertainty around the COVID-19 recovery, inflationary pressures, and additional grant funding from senior levels of government, the 3rd quarter operating budget year-end variance projection is still subject to significant refinements over the remainder of the year. 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. This includes expected Transit Safe Restart Funding to offset the \$2.3M Transit Windsor projected COVID variance and advocacy to ensure the City is reimbursed for the \$5.5M in Border Convoy related costs incurred by the City earlier this year.

Continued efforts are required to ensure Senior Levels of government will continue to provide sustainable levels of relief funding which will assist municipalities as they embark on the 2023 and future municipal budget planning cycles. The Final 2022 Year-end report will update City Council on any additional grant funding received, along with funding options for any remaining budget variance, if required.

Planning Act Matters:

N/A

Approvals:

Name	Title
David Soave	Manager, Operating Budget Development & Control
Tony Ardovini	Deputy Treasurer - Financial Planning
Joe Mancina	Chief Financial Officer & City Treasurer
Onorio Colucci	Chief Administrative Officer (A)

Notifications:

Name	Address	Email

Appendices:

- 1 Appendix A - 2022 Operating Budget Variance
- 2 Appendix B - 2022 Operational & Economic Statistics