

Subject: 2023 Second Quarter Operating Budget Variance - City Wide

Reference:

Date to Council: August 8, 2023
Author: David Soave
Manager, Operating Budget Development & Control
519-255-6100 Ext. 1911
dsoave@citywindsor.ca
Financial Planning
Report Date: 2023-07-18
Clerk's File #: AF/14372 & AF/14508

To: Mayor and Members of City Council

Recommendation:

THAT City Council **RECEIVE FOR INFORMATION** the 2023 2nd Quarter Operating Budget Variance Report 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 continue to monitor the 2023 Operating Budget's projected variance.

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. Larger than normal inflationary annual increases, currently at 4.6% (average for January to May), 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 weather conditions, unemployment rates, tax appeals, fuel and utility costs, interest rates, settlement of litigation brought against the City and general inflationary pressures. As a result, material fluctuations in the projected variances could still occur in the wake of significant unforeseen events.

Municipal Levy

As at Q2, Administration projects that the total overall net municipal year-end financial impact for 2023 will result in a deficit of approximately (\$2.6M). As part of the 2023 Budget, City Council approved a Budget Stabilization Contingency budget of \$2.7M. As in past practice, this contingency can be used to mitigate any budget variances at year-end, with any remaining balance transferred to the Budget Stabilization Reserve.

The table below provides a summary of the 2023 projected year-end variances as of the 2nd Quarter, from the largest dollar deficit to the largest surplus, for each of the City Departments and Agencies, Boards, and Committees.

Please note that detailed departmental variance write-ups for the individual departments can be found in Appendix A: Operating Budget Variance of this report.

	2023 Gross Budget	2023 Net Budget	Q1 Projected Variance	Q2 Projected Variance	Q3 Projected Variance	Year-End Final Variance	% of Gross Budget
Recreation & Culture	\$26,551,319	\$13,788,238	n/a	(\$1,400,000)	\$0	\$0	(5.3%)
Fire & Rescue	\$52,507,897	\$50,506,467	n/a	(\$1,255,000)	\$0	\$0	(2.4%)
Purchasing, Risk & POA	\$10,639,956	\$3,367,337	n/a	(\$1,135,000)	\$0	\$0	(10.7%)
Transit Windsor	\$42,357,601	\$17,581,466	n/a	(\$1,026,000)	\$0	\$0	(2.4%)
Council Services	\$6,646,823	\$3,681,446	n/a	(\$412,000)	\$0	\$0	(6.2%)
Building Services	\$8,633,939	\$1,313,075	n/a	(\$342,000)	\$0	\$0	(4.0%)
Parks & Facilities	\$39,883,357	\$30,070,610	n/a	(\$204,000)	\$0	\$0	(0.5%)
Engineering	\$9,443,767	\$2,845,960	n/a	(\$66,000)	\$0	\$0	(0.7%)
Legal Services	\$3,790,714	\$3,470,976	n/a	(\$22,000)	\$0	\$0	(0.6%)
Human Resources	\$7,543,216	\$6,700,452	n/a	\$0	\$0	\$0	0.0%
CAO's Office	\$1,070,193	\$1,070,193	n/a	\$0	\$0	\$0	0.0%
City Council	\$1,125,767	\$968,776	n/a	\$0	\$0	\$0	0.0%
Mayor's Office	\$504,338	\$504,338	n/a	\$0	\$0	\$0	0.0%
Economic Development	\$2,116,390	\$1,852,867	n/a	\$0	\$0	\$0	0.0%
Accounting	\$3,218,530	\$2,585,974	n/a	\$0	\$0	\$0	0.0%
Taxation	\$3,704,444	\$697,709	n/a	\$0	\$0	\$0	0.0%
Library Services	\$9,210,381	\$8,249,186	n/a	\$0	\$0	\$0	0.0%
Security & Special Activities	\$3,883,870	\$1,213,106	n/a	\$0	\$0	\$0	0.0%
Pollution Control	\$24,120,651	\$0	n/a	\$0	\$0	\$0	0.0%
Asset Planning	\$1,547,581	\$744,370	n/a	\$2,000	\$0	\$0	0.1%
Financial Planning	\$4,270,004	\$3,011,664	n/a	\$7,000	\$0	\$0	0.2%
Communications	\$4,264,283	\$3,545,355	n/a	\$39,000	\$0	\$0	0.9%
Planning & Development	\$5,178,686	\$3,328,256	n/a	\$59,000	\$0	\$0	1.1%
Information Technology	\$9,879,728	\$8,170,353	n/a	\$135,000	\$0	\$0	1.4%
Corporate Accounts	\$188,467,125	\$90,453,576	n/a	\$168,000	\$0	\$0	0.1%
Housing & Children Services *	\$166,764,770	\$29,268,555	n/a	\$301,000	\$0	\$0	0.2%
Employment & Social Services	\$123,194,263	\$8,006,689	n/a	\$351,000	\$0	\$0	0.3%
Huron Lodge	\$31,984,347	\$9,573,835	n/a	\$945,000	\$0	\$0	3.0%
Public Works	\$64,764,224	\$32,290,011	n/a	\$950,000	\$0	\$0	1.5%
Sub-Total: City Departments	\$857,268,164	\$338,860,840	n/a	(\$2,905,000)	\$0	\$0	(0.3%)
Agencies	\$22,634,432	\$22,533,834	n/a	\$346,000	\$0	\$0	1.5%
Police Services	\$117,868,133	\$99,005,478	n/a	\$0	\$0	\$0	0.0%
Sub-Total: ABC's	\$140,502,565	\$121,539,312	n/a	\$346,000	\$0	\$0	0.2%
Total: Municipal	\$997,770,729	\$460,400,152	n/a	(\$2,559,000)	\$0	\$0	(0.3%)

* Includes Windsor Essex County Housing Corporation (WECHC).

Other Non-Tax Levy Funding Sources

Other funding sources (summarized in the table below) include the following estimates; Building Permit Reserve \$6.9M surplus, On-Off Street Parking (\$335,000) deficit, and Sewer Surcharge (\$6,000) deficit. In total, the other funding sources are projected to end the year in a surplus position of approximately \$6.6M. It should be noted that any surplus or deficit within these other funding sources will be retained within the specified reserve.



2023 Operating Budget Variance (Q2)

	2023 Gross Budget	2023 Net Budget	Q1 Projected Variance	Q2 Projected Variance	Q3 Projected Variance	Year-End Final Variance	% of Gross Budget
Building Permit Reserve	\$1,100,244	\$0	n/a	\$6,923,000	\$0	\$0	629.2%
On-Off Street Parking Reserve	\$0	\$0	n/a	(\$335,000)	\$0	\$0	0.0%
Sewer Surcharge Reserve	\$96,922,179	\$0	n/a	(\$6,000)	\$0	\$0	(0.0%)
Total: Other Funding Sources	\$98,022,423	\$0	n/a	\$6,582,000	\$0	\$0	6.7%

Risk Analysis:

There are a number of potential risks that can impact the year-end financial results as follows:

1. 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 increased significantly in 2022 to levels not seen in decades as the economy recovered from the pandemic. Although inflation rates have been decreasing in 2023, any long term increases will continue to materially impact City costs going forward.
2. Remaining financial impacts still contributing to budget variances from the pandemic recovery that are taking longer to return to pre COVID levels (i.e. Recreation participation and Tunnel & YQG Dividends)
3. Seasonal variability with respect to revenues (e.g. recreation fees) and expenses (e.g. winter control & storm damage).
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 emergency 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 budget.

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** of this report for detailed descriptions of the projected year-end variances for each department along with any mitigating measures.

Refer to **Appendix B** of this report for additional statistical data. Included in Appendix B are 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 Financial Planning Department.

Conclusion:

Administration is projecting a municipal levy net operating year-end deficit estimated to be (\$2.6 million). A surplus as it relates to other funding of approximately \$6.6M is projected however as noted any surplus or deficit within these other funding sources will be retained within the specified reserve. Administration will continue to monitor the year end projections inclusive of mitigation measures that may be required.

Planning Act Matters:

N/A

Approvals:

Name	Title
David Soave	Manager, Operating Budget Development & Control
Tony Ardovini	Deputy Treasurer - Financial Planning
Janice Guthrie	Chief Financial Officer & City Treasurer
Joe Mancina	Chief Administrative Officer

Notifications:

Name	Address	Email

Appendices:

- 1 Appendix A - 2023 Operating Budget Variance
- 2 Appendix B - 2023 Operational & Economic Statistics