

Subject: 2024 Third Quarter Operating Budget Variance - City Wide

Reference:

Date to Council: 11/25/2024

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Financial Planning

Report Date: 10/24/2024

Clerk's File #: AF/14854

To: Mayor and Members of City Council

Recommendation:

That City Council **RECEIVE FOR INFORMATION** the 2024 3rd Quarter Operating Budget Variance Report; and further,

That the Chief Administrative Officer and the City Treasurer **BE DIRECTED** to continue to monitor the 2024 Operating Budget's projected variance and continue to seek further means for offsetting any potential variances that may arise.

Executive Summary:

N/A

Background:

Annual operating budgets are traditionally established at the beginning of the calendar year and are based on the best available information and trends. Key inputs to the operating budget include professional estimates, the current legislative environment, macroeconomic trends (such as currency fluctuations, commodity prices, unemployment figures, and business investment), and other relevant local information available at the time of approval. Inflationary pressures related to municipal expenditures and services continue to place significant pressures on service budgets. Impacts of inflation are reflected in the departmental year-end variance projections within this report.

Discussion:

General Considerations

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 in addition to general inflationary pressures. As a result, material fluctuations in the projected variances provided as at 3rd quarter could still occur in the wake of significant unforeseen events.

Municipal Levy

As at Q3, Administration projects that the total overall net municipal year-end financial impact for 2024 will result in a deficit of approximately (\$56,000). The overall projected corporate variance is comprised of a projected surplus of \$3,262,000 for city departments offset by a projected deficit of (\$3,318,000) for Agencies, Boards & Committees (ABCs). Many of the City Department surpluses are one-time in nature with departments having mitigated cost increases, while still delivering services to the public. The overall projected year-end deficit is largely the result of ABCs that are outside of City Administration's control.

Details by department are provided in Appendix A to the report. To mitigate external pressures, which arise after the budget has been approved, is a Budget Stabilization Contingency of \$2.4 million. As in past practice, this contingency can be used to offset any negative budget variances at year-end. Alternatively, should the actual year-end variance result in a surplus, any unused Budget Stabilization Contingency may be transferred to the Budget Stabilization Reserve.

Administration will continue to monitor both positive and negative variances to mitigate any unanticipated events, which may materially change the projections as currently provided. Mitigation strategies as outlined will be utilized to maximize available funding while maintaining service levels across the Corporation.

One Time Funding Approved in 2024 Budget

The final approval of the 2024 Budget included \$7.8 million in one-time funding from the Budget Stabilization Reserve (BSR), capital and other sources. It is important to note that these recoveries will only be made if the department ends the year in a deficit. Based on the current Q3 projections, \$3.7 million of the total one-time funding has been included in the variance projections leaving a projected balance of \$4.1 million to be retained within the reserve for unexpected or unanticipated events, which may occur prior to the end of the year.

Other Non-Tax Levy Funding Sources

In addition to the Municipal levy variance, other non-tax levy funding sources are estimated to result in a \$7.7 million net surplus. Included in this amount are the following which will be transferred to/from noted Reserves; On-Off Street Parking

Reserve deficit \$397,000, Sewer Surcharge \$638,000 surplus, and Building Permit Reserve \$7.5 million surplus. Details are also included in Appendix A.

Hiring Freeze

In anticipation of significant 2025 budget pressures, the Mayor announced a hiring freeze for all permanent full-time positions in the City of Windsor on September 12, 2024, in accordance with Part VI.1 of the Municipal Act, 2001. This decision was made in advance of anticipated 2025 budget pressures. While a hiring freeze will result in some immediate operational savings, it also gives the Mayor, Council and Administration options when developing the 2025 Operating Budget.

It is however, recognized that it may be essential to fill certain positions so as to not interrupt municipal services, and therefore the CAO has made exemptions under certain circumstances. The Q3 Variance report includes gapping savings resulting from the hiring freeze that were quantifiable at the time of this report.

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. Although Consumer Price Index rates have been decreasing in 2024 (currently at 2.6% average for the year), inflationary factors, which affect municipal expenditures continue to remain high and will continue to impact City costs going forward. Municipal costs drivers and service pressures have resulted in a higher inflation rate than the basic basket of goods used to calculate the standard CPI rates.
2. Seasonal variability with respect to revenues (e.g. recreation fees) and expenses (e.g. winter control & storm damage) could impact current year end projections.
3. Continued increase in staffing costs due to factors such as sick leave 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) may require additional funding. Some of these costs may be covered by corporate provisions/reserves.
4. Potential increase to unavoidable expenditures such as emergency repairs and maintenance, related purchases of materials and supplies, legal expenses, streetlight maintenance, etc.
5. 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.

Mitigation strategies have been identified and will be implemented as required to manage the year-end final financial position.

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:

As at Q3, Administration has highlighted significant factors, which are projected to impact the 2024 year-end operating results including transfers to various reserve accounts. Details with regards to each operating departmental variance is included in Appendix A. 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 an overall corporate levy operating year-end deficit estimated to be (\$56,000). As part of the 2024 budget, City Council approved a Budget Stabilization Contingency budget of \$2.4 million. Administration will continue to monitor expenditures and revenues to the end of the year with a vision to mitigate any final deficit that may result. As is past practice, the Corporate Contingency could be used to mitigate any budget variances at year-end, with any remaining balance transferred to/from the Budget Stabilization Reserve.

A surplus as it relates to other funding sources of approximately \$7.7 million 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	On behalf of Commissioner, Finance & City Treasurer
Joe Mancina	Chief Administrative Officer

Notifications

Name	Address	Email

Appendices:

- 1 Appendix A - 2024 Operating Budget Variance (Q3)
- 2 Appendix B - 2024 Operational & Economic Statistics