

Subject: 2025 Third Quarter Operating Budget Variance Report – City Wide

Reference:

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City Treasurer
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To: Mayor and Members of City Council

Recommendation:

THAT City Council **RECEIVE FOR INFORMATION** the 2025 3rd Quarter Operating Budget Variance Report

Executive Summary:

N/A

Background:

Annual operating budgets are required to be tabled for consideration prior to February 1 of each year and traditionally are based on the best available information and trends at that time. 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. Inflationary pressures related to municipal expenditures and services, which can be very different from general consumer price increases, continue to place significant pressures on service budgets at the time budgets are developed and approval as well as during the fiscal year.

Due to the seasonal nature of some municipal operations, it is very difficult to accurately predict the financial position at year end. However, there are matters which may arise that should be highlighted and monitored so as to proactively address and implement any mitigation measures that must be taken. This report highlights to City Council those matters which have been brought to the forefront as of Q3 which will require mitigation and alternative funding sources so as to ensure that the year end position for 2025 aligns with the overall approved budget. Mitigation strategies have been actioned that help to offset some of the pressures.

Discussion:

General Considerations

As previously advised, the financial position of the Corporation in any given year can be directly impacted by uncontrollable factors such as weather conditions, unemployment rates, fuel and utility costs, interest rates, settlement of litigation brought against the City in addition to general inflationary pressures.

Following the adoption and approval of the 2025 Budget, the announcement of US tariffs, restrictions on International Students as well as changes in resident and consumer behaviours has impacted municipal operations adding further pressure on anticipated expenditures and revenues.

Municipal Levy

As at Q3, the total overall net municipal year-end financial impact for 2025 is estimated to be a deficit of approximately \$5.2 million. This projection is significantly less than the \$7.4 million which was presented as part of the Q2 variance. This projection is comprised of anticipated deficits of \$4.4 million for city departments and \$0.8 million for Agencies, Boards & Committees (ABCs). The operating departmental deficits are further offset by an estimated overall salary gapping of \$1.5 million bringing the net Q3 operating variance to \$3.7 million. The anticipated salary gapping savings is currently being monitored on a corporate wide basis rather than individual departmental basis. Actual savings, once determined, will be reflected within departmental year end details presented to City Council at a future date. Details of reportable variances as at Q3 by individual department are provided in Appendix A to the report (exclusive of salary gapping).

Consistent with prior years, and 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.

While some mitigating measures have been actioned to address the anticipated deficit, to ensure that the 2025 year end financial position is appropriately managed, Administration will continue to monitor both positive and negative to mitigate any unanticipated events which may materially change the projections as currently provided. Mitigation strategies as outlined below will continue to be utilized to maximize available funding while maintaining service levels across the Corporation.

One Time Funding Approved in 2025 Budget

The final approval of the 2025 Budget included approximately \$6.8 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, in the opinion of the City Treasurer, a transfer is required. Based on the current Q3 projections, approximately

\$4.0 million of the total one-time funding has been approved in principle by the City Treasurer to be incorporated in operating department the variance projections. This approval will leave a projected balance of approximately \$2.8 million to be retained within the reserve(s) to offset any deficit as needed.

As of September 30, 2025, the balance available within the BSR is \$1,493,951 (net of encumbrances). As previously advised further use of the BSR is not being recommended until such time as the balance can be increased to a more reasonable and sustainable level.

Mitigating Measures

A number of mitigation strategies have been identified and will continue to be applied as needed to help manage the City's final year-end financial position. As a result of the projected deficit as of Q2, all departments have been requested to consider the need to fill positions prior to undertaking a recruitment. In addition, departments have been directed to closely monitor and restrict discretionary spending to help reduce overall pressures and offset the projected corporate variance. Administration will also seek alternative funding sources which are non-levy related through the balance of the year.

Beyond these measures, the Administration may need to consider further options if required which may include limiting or deferring planned transfers to various reserve funds.

These measures will support Administration's efforts in balancing the overall year-end position such that additional draws from existing reserves are not required.

Other Non-Tax Levy Variance

In addition to the Municipal levy variance, other non-tax levy variances are estimated to result in \$3.2 million being transferred to other operating reserves. Included in this amount are the following: On-Off Street Parking Reserve \$0.3 million draw, and the Building Permit Reserve a transfer of \$2.1 million. The remaining balance is made up of a projected transfer of \$1.2 million to the Wastewater reserve and \$0.2 million to the Stormwater reserve. The projected transfers to the various reserves are a legislative requirement and cannot be utilized to offset any projected tax levy pressures. Details regarding these transfers are also outlined in Appendix A.

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 2025 (currently at 2.0%), inflationary factors which affect municipal expenditures continue to remain high and will continue to impact City costs going forward.

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.

Climate Change Risks

Climate Change Mitigation:

N/A

Climate Change Adaptation:

N/A

Financial Matters:

As at Q3, Administration has highlighted additional significant factors which are projected to impact the 2025 year-end operating results. 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. These statistics help inform the 2025 year-end projections.

Consultations:

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

Conclusion:

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.

Planning Act Matters:

N/A

Approvals:

Name	Title
Tony Ardovini	Deputy Treasurer – Financial Planning
Janice Guthrie	Commissioner of Finance & City Treasurer
Ray Mensour	Chief Administrative Officer

Notifications

Name	Address	Email

Appendices:

- 1 Appendix A - 2025 Operating Budget Variance
- 2 Appendix B - 2025 Operational & Economic Statistics