

For Information Only

2019 Operating Budget Variance Report - December

Presented To: Audit Committee

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Resolution

For Information Only

Relationship to the Strategic Plan / Health Impact Assessment

This report refers to operational matters.

Report Summary

This report provides Council with an analysis of the City's year-end position. The 2019 year end deficit is approximately \$5.9 Million. This deficit can be reduced using \$2.85 million of budgeted but unused debt payments. As a result, the remaining \$3.1 million is funded equally from the Tax Rate Stabilization Reserve and Capital Financing Reserve Fund – General, in accordance with the Reserves and Reserve Funds By-Law.

Financial Implications

There are no financial implications associated with this report.

Signed By

Report Prepared By

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Division Review

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2019 Year End Operating Budget Variance Report

Executive Summary

This report provides Council with an analysis of the City's year-end financial position and related service outcomes for 2019. The 2019 year end deficit is \$5.9 Million. The key drivers of the 2019 deficit are as follows:

- Increased expenditures due exceptional snowfall during the Winter seasons
- Additional costs due to maintaining aging assets
- Increased costs due to benefit changes (specifically WSIB)
- Offset by additional revenues (specifically investment income) and reduced expenditures due to vacancies throughout the corporation

This deficit will be funded by debt repayment budgeted amounts not utilized in 2019 as well as contribution from reserves. The remaining deficit will be funded equally from Tax Rate Stabilization Reserve and General Capital Financing Reserve Fund – General in accordance with the Reserves and Reserve Funds By-Law.

Background

The purpose of this report is to provide Council with an overview of year end variances and the variations in service outcomes versus planned 2019 objectives. The monitoring and reporting of variances has been conducted in accordance with the Operating Budget Policy. Council is provided with a variance report after each quarter end. This report is an update from the year end forecast provided to Council in October 2019 and the projections included in the 2020 budget binder.

Attached is an additional schedule that reflects the annual net budget (Appendix 1), year-end position and variance for each area. In accordance with the Operating Budget Policy, the following explanations relate to areas where a variance of greater than \$200,000 resulted within a division or section.

Variance Explanations and 2019 Service Performance

1) Revenue Summary

This area is reflecting a net under expenditure of \$315,000 relating to property taxes as follows:

- Decrease in tax write off expenses of \$125,000 as a result of staff's expertise and experience in defending property assessment appeals
- Unbudgeted transitional property tax mitigation funding for Non-Profit Long-Term Care Homes of \$225,000.
- Decrease in supplemental taxation revenue of \$190,000.
- Increase in OMPF provincial grant of \$130,000.

2) Other Revenues and Expenses

This area is reflecting a net under expenditure of \$840,000 as follows:

- Over expenditures related to the Junction project totaling \$180,000 primarily due to salaries and benefits.

- Increase in investment income of \$870,000 resulting from capital gains on the sale of bonds as well as better than expected interest rates on other investments.
- Increase in revenue from interest added to tax arrears of \$135,000.
- Increase in aggregate resource funding of \$170,000.
- Reduction in slot revenue of \$60,000.
- Over expenditure in miscellaneous costs including legal, credit/debit charges of \$95,000.

3) Legal & Clerks Services

This area is reflecting a net under expenditure of \$305,000 as follows:

- Under expenditure in salaries and benefits due to vacancies totaling \$390,000.
- Lower than anticipated POA revenues resulting in a net impact of \$130,000.

The corporation has been experiencing lower POA revenues for a number of years and that is a function of the charges laid by external enforcement entities. This section had a number of vacancies last year however they were spread throughout numerous sections which minimized the impact on services levels.

4) Human Resources and Organizational Development

This area is reflecting a net over expenditure of \$285,000 as follows:

- Over expenditure in Legal Services of \$210,000.
 - Expenditures in legal fees were over budget due to increased costs associated with various labour relations and employment matters, including Fire Interest Arbitration, individual employment matters, and costs associated with grievance mediation and arbitration. There is no impact on service levels and is in large part due to contractual obligations.
- Over expenditure in Job Evaluation (JE) expense of \$130,000.
 - The HR job evaluation account is only used when a job evaluation spans a number of years and multiple departments. The over expenditure is due to the resolution of the evaluations of more jobs that increased in value and had multiple incumbents and spanned more than one year for retroactivity. These outcomes can vary from year to year depending on the number of JE outcomes, arbitration awards and motion lost awards where the retroactive outcome can span multiple years and involve multiple incumbents. Once the JE outcome is known, operating budgets are adjusted for the following year to reflect JE outcomes.
- Under expenditure in Administrative Service Only fees of \$40,000.
 - The Early Referral Service (ERS/ASO) was initially used by both Fire and Pioneer Manor (bargaining units that have frozen sick leave credits instead of Short Term Disability). Pioneer Manor transitioned to STD and LTD Plans as a result of negotiated changes to their Collective Bargaining Agreement. As a result, Pioneer Manor employees no longer access ERS/ASO services. ERS/ASO only applies to Fire Services as of April 1, 2019. This has resulted in a reduction of costs related to ERS/ASO.

There we no impacts on service levels arising from these variances.

5) Housing Services

This area is reflecting a net under expenditure of \$240,000 as follows:

- Recovery of unspent GSHC 2018 Rent Supplement funding of \$90,000.
- Under expenditure in non-profit subsidy costs of \$190,000.
- Over expenditure of \$40,000 in Housing administration for consulting costs.

The net under expenditure of \$240,000 did not have an impact on service levels. It is difficult to determine if the variance will continue for future years or not since the budget is contingent upon various factors that are outside of the City's control. For instance, non-profit subsidy costs are based on provincial indices that are set annually. In addition, there are new regulations coming into effect regarding Rent Geared to Income calculations and the impact of these changes is unknown at this time.

After 2020, future rent supplement recoveries are not expected since the corporation will be taking up additional units in order to maintain our legislated service level requirements. In addition, future rent levels will increase along with the rent control guidelines.

The over expenditure of \$40,000 in Housing administration is not expected to continue into the future. It was mainly a result of one-time costs related to a council directed occupancy standard study as well as costs incurred due to regulation changes.

6) Long Term Care

This area is reflecting a net over expenditure of \$895,000 as follows:

- Over expenditure of \$900,000 for short-term and long-term sick benefits.
- An unanticipated reduction in the Case Mix Index, resulting in a funding reduction of \$370,000.
- Unbudgeted grants and contributions totaling \$225,000.
- Energy savings of \$190,000, as a result of reduced consumption from converting to LED lighting, as well as significant rebates for being a multi-unit residential facility.

The over expenditure on sick benefits was part of an arbitrated award with respect to the structure of the CUPE 148 Collective Bargaining Agreement. A significant portion of the unbudgeted grants relates to incentives with regard to a new supplier contract. Service levels have not been impacted by the above variances. Future budgets will be adjusted to reflect the change in circumstances; therefore, there are no anticipated future variances for short-term and long-term benefits.

7) Social Services

This area is reflecting a net under expenditure of \$750,000 as follows:

- Under expenditure of \$250,000 in salaries and benefits due to staff absences and vacancies in year.
- Under expenditure of \$485,000 in Service Contract expenses as the 2019 budget submission with the Provincial government was not approved until August 2019. Expenses incurred were cautiously made based on budget cut announcements

with other provincial programs in April 2019 and operating without an approved budget.

The Ontario Works Service Contract from the province has been frozen at 2018 budget levels. The Ministry of Community and Social Services did not provide a signed service contract to the Administrator until August 2019. The City provided services with an abundance of caution in the early part of 2019, based on the fact that the service was being provided without a signed agreement. This resulted in a higher than normal gap in salaries and benefits.

8) Children and Citizen Services

This area is reflecting net under expenditure of \$435,000 as follows:

- An under expenditure in Services Administration totaling \$335,000. This is primarily salaries and benefits due to vacancies of \$150,000, an under expenditure in software amounting to \$100,000, an under expenditure in electronic materials of \$60,000 and under expenses in office and furniture of \$25,000.
 - Service levels were not impacted. Projects were re-prioritized to reflect staffing levels and vacancies were backfilled internally where possible.
- An under expenditure in Museums and Libraries for \$60,000.
 - Museums are showing a net under expenditure due to under expenditures at Anderson Farm and Copper Cliff Museums. Grants received were higher than budgeted and maintenance costs were lower due a capital project that reduced maintenance costs. The remaining surplus funds were an amalgam of higher than budgeted revenues (primarily user fees) and reduced maintenance expenditures. These variances did not result in an impact on service levels.

9) Leisure - Recreation

This area is reflecting a net over expenditure of \$695,000 as follows:

- A shortfall in user fee revenue of \$170,000, primarily recreation centres.
- An over expenditure of \$250,000 due to winter control and roof top snow removal at Leisure facilities.
- An over expenditures of \$360,000 due to additional buildings and equipment maintenance, primarily arenas.
- An over expenditure of \$350,000 due to additional ground and turf maintenance.
- An under expenditure of \$435,000 in energy costs.

Overall, the net over expenditure did not have any impact on service level. As over expenditure was due to unexpected snow removal and additional repairs of aging facilities.

10) Transit

This area is reflecting a net over expenditure of \$1,650,000 as follows:

- Over expenditure in bus operator salary and benefits of \$245,000 due to changes as a result of the Collective Bargaining process and unplanned resources required for the successful launch of the new GOVA services.
- Over expenditure due to increased shelter and bus stop winter maintenance of \$180,000 as a result of harsh winter conditions.
- Over expenditure in transit bus maintenance of \$140,000 mainly due to unanticipated increases in fare box component failures and vehicle body work requirements.
- Surplus in transit fare revenues of \$140,000 as a result of increased ridership of 4% from 2018. Major contributors to this difference are due to route optimization and the overall launch of the new GOVA service, as well as continued ridership demands from post-secondary institutions.
- Transit maintenance represents an over expenditure of \$1,250,000 primarily from expenditures relating to parts/supplies \$775,000, additional contractual services \$425,000 and over expenditures of salaries and benefits \$50,000. These variances are the result of excessive snow and poor road conditions during the spring, added costs of maintaining an aging bus fleet (no replacement buses during the year), Collective Bargaining changes implemented mid-year and added resources and contracting out efforts to support the GOVA launch and ensure reliability of new schedules and response to breakdowns.

11) Engineering Services

This area is reflecting a net over expenditure of \$375,000, this is a result of the following:

- An over expenditure in salaries and benefits of \$230,000, due to an increase in part-time hours.
 - An over expenditure of \$230,000 in salaries and benefits due to an increase in part-time hours. In 2019, additional gas tax funding of \$10.2 million was approved after the budget process. This, combined with a larger than average capital program resulted in an increase in salaries and benefits over budget. For 2020, a business case was approved for additional labour resources for capital project delivery to ensure that our 2020 budget variance expectation was addressed.
- An over expenditure in operating expenses of \$100,000, specifically office, software and cellular expenses.
- An over expenditure in miscellaneous accounts totaling \$45,000.

There were no impacts on service levels arising from these variances.

12) Linear Infrastructure Maintenance

This area is reflecting a net over expenditure of \$5.9 million resulting as follows:

- The net over expenditure of \$6.1 million in roads winter maintenance is a result of record setting snowfalls, with 2019 reaching a total of 424 cm of snow compared to a 30-year average of 263 cm.
 - Staff maintained a safe roadway network and ensured compliance with provincial regulations and/or Council approved service levels.

- The annual winter control budget is adjusted based on known contract price changes and negotiated general wage increases. LIS staff further analyze a five year average of costs in five winter control work activities (Plow/Spread - City Crews, Plow/Spread - Contractors, Plow Routes - Grader Mounted, Snow Plowing - 4x4s and Loaders, Pothole Patching). This budget proposal is submitted for review and adjusted to suit Council's budget direction.
- An under expenditure in roads summer maintenance and street lighting totaling \$55,000.
- An under expenditure in public works depot maintenance of \$125,000 primarily due to energy cost savings and under expenditures in contract services.

13) Environmental Services

This area is reflecting a net under expenditure of \$865,000 as follows:

- An increase in Tipping Fee revenues of \$490,000.
 - The year-end surplus is attributed to an increase from tipping fee revenues. Tipping fee revenues can vary from year to year and a three year rolling average is typically used for future annual budgets.
- An under expenditure of \$290,000 in Blue Box Recycling processing and an under expenditure of \$80,000 in yard processing at various sites.
 - The year-end surplus is attributed to a reduction for blue box recycling and leaf & yard trimmings processing costs. These costs can vary from year to year and as a result, historical averages along with specific contractual terms and conditions will be evaluated in order to determine the impact to future annual budgets.

There we no impacts on service levels arising from these variances.

14) Planning and Development

This area is reflecting a net under expenditure of \$415,000 as follows:

- An under expenditure in Salaries and Benefits of \$335,000 as a result of vacancies.
 - Notwithstanding these vacancies, service levels were maintained through work re-prioritization, work re-allocation and non-union overtime.
- An under expenditure in Purchased Services of \$55,000, relating to Policy Development Review.
 - Notwithstanding these extensions, policy development review service levels were maintained.
- An increase in Community Energy and Emissions Plan funding totaling \$40,000, which was applied to the community Energy and Emissions Plan Project.

15) Fire Services

This area is reflecting a net over expenditure of \$640,000 as follows:

- Salaries & benefits were \$780,000 over budget due to increased overtime costs as a result of modified work and new mental health and presumptive WSIB legislation changes, partially offset by vacant positions.

- In recent years, WSIB legislation was amended by Bill 163, Supporting Ontario's First Responders Act (Posttraumatic Stress Disorder). The City of Greater Sudbury Fire Service began to realize the effects of this legislation change in 2018, continued to see this specific impact in 2019, and further expects the realization of increased WSIB claims to impact all future staffing costs. Due to the increased number of absences for extended periods of time, the current approved staffing complement of 104 career suppression firefighters does not support the minimum daily staffing complement as outlined in the SPFFA Collective Bargaining Agreement without incurring significant overtime. This challenge has become an ongoing trend that suggests a requirement to realign the budgeted staffing complement for all future years.
- Over expenditure in snow removal services due to the significant snow fall in 2019 of \$65,000, offset by a savings in materials & supplies of \$205,000 for a net savings of \$140,000.
 - The savings in materials & supplies was achieved through strategic purchases, one time operational changes, and selective deferred projects which are not available as options moving forward in future years without impacting council set service levels.

Non Tax Levy Supported Areas:

In addition to the operating variances reported above, there are a number of areas, which are not funded by the municipal tax levy, and therefore, any over or under expenditures result in increased contributions to or from Reserves. The chart below indicates the variances between the budgeted and actual contributions to reserve for these areas.

Area	Budgeted Contribution to Reserve	Actual Contribution to Reserve	Increase in Contribution to Reserve
Parking Services	\$730,204	\$594,668	(\$135,536)
Cemetery Services	\$0	\$162,030	\$162,030
Water / Wastewater	\$0	(\$234,134)	(\$234,134)

Area	Budgeted Contribution (from) Reserve	Actual Contribution (from) Reserve	Decrease in Contribution from Reserve
Building Services	(\$913,781)	(\$531,632)	\$382,149
RBC Business Centre	(\$143,710)	(\$40,776)	\$102,934

Building Services

This section experienced a net under expenditure of \$382,149. In accordance with Bill 124, revenues generated from building permits are to be used to support the Building Services department. Therefore, any surplus is contributed to the reserve to fund future deficits. In 2019 the Building Services budget included a draw from reserve of \$913,781 to balance the budget, however a slight increase in building permit revenues as well as

a decrease in salaries and benefits due to vacancies in year resulted in a lesser draw than anticipated. There were no impacts on service levels arising from these variances.

Water Wastewater Services

- User fee revenues were under budget by \$2.0 million as actual billed consumption was 12.950 million cubic metres while the budget for 2019 was 13.495 million cubic metres.
- Treatment and Compliance was over budget by \$434,000 on budgeted expenditures of \$25.5 million;
 1. Salaries and benefits were under by \$500,000 due to vacancies.
 2. Purchased Services were over by \$320,000.
 3. Energy costs were under budget by \$320,000.
 4. Chemical costs were over budget by \$410,000.
 5. Revenues in the division were under budget by \$180,000.
- Distribution and Collection was under budget by \$1.4 million on budgeted net expenditures of \$11.5 million;
 1. Underspending in road restoration costs of \$355,000.
 2. Underspending in locate costs of \$340,000.
 3. Underspending in linear repair of \$700,000.
- Infrastructure Capital Planning reflected savings in salaries and benefits of \$750,000 due to vacancies.
- In summary, there was a net over expenditure of \$234,000 in Water and Wastewater Services for 2019. Water had an under expenditure of \$1,243,000 which was contributed to the Capital Financing Reserve Fund – Water in accordance with the Reserves and Reserve Funds By-Law. Wastewater had an over expenditure of \$1,477,000 which was funded by a contribution from the Capital Financing Reserve Fund- Wastewater in accordance with the By-Law.

The above variances did not result in material service level impacts, however vacancies did delay implementing some Master Plan recommendations. Not all scheduled service cut repairs were completed in 2019 which resulted in underspending road restoration. Lastly, there were a lower number of watermain breaks in 2019 which resulted in underspending in Linear.

Summary

The City's 2019 net year end deficit was \$5.9 million. This deficit can be reduced using 2.85 million of budgeted but unused debt payments. As a result, the remaining \$3.1 million is funded equally from the Tax Rate Stabilization Reserve and Capital Financing Reserve Fund – General, in accordance with the Reserves and Reserve Funds By-Law.

City of Greater Sudbury
Net Revenue and Expenditure Projection
For the year ended December 31, 2019



	Annual Budget	YE Position	Surplus (Deficit)	Notes
Corporate Rev and Exp Summary				
Revenue Summary	(304,099,814)	(304,416,174)	316,359	1
Other Revenues and Expenses	31,421,149	30,579,152	841,997	2
TOTAL CORPORATE REVENUES	(272,678,666)	(273,837,022)	1,158,357	
Executive and Legislative				
Office of the Mayor	696,664	703,559	(6,895)	
Council Memberships & Travel	77,411	74,347	3,065	
Council Expenses	1,194,363	1,152,289	42,074	
Auditor General	382,911	385,461	(2,550)	
Office of the C.A.O. Summary	3,165,232	3,106,060	59,172	
Executive and Legislative	5,516,582	5,421,716	94,865	
Corporate Services				
Corporate Services -GM Office	542,040	457,008	85,032	
Legal & Clerks Services	2,096,100	1,789,717	306,383	3
Security and By-Law	426,612	594,260	(167,648)	
Information Technology	110,644	83,323	27,321	
Human Resources and O.D.	1,044	287,400	(286,356)	4
Finance, Assets and Fleet	13,449,802	13,259,052	190,750	
Corporate Services	16,626,242	16,470,760	155,482	
Economic Development Summary				
Economic Development	4,724,491	4,645,793	78,699	
Economic Development Summary	4,724,491	4,645,793	78,699	
Community Development Services				
G.M. Office	404,084	449,004	(44,920)	
Housing Services	21,125,986	20,883,602	242,385	5
Long Term Care-Senior Services	4,636,257	5,529,490	(893,233)	6
Social Services	5,561,819	4,812,933	748,886	7
Children and Citizen Services	10,059,155	9,624,770	434,385	8
Leisure-Recreation	20,545,864	21,241,028	(695,164)	9
Transit	14,238,559	15,886,795	(1,648,237)	10
Community Development Services	76,571,724	78,427,621	(1,855,898)	
Growth and Infrastructure				
Growth I.S. Other	215,028	206,778	8,250	
Inf Capital Planning	6,043,315	5,967,044	76,271	
Engineering Services	0	376,278	(376,278)	11
Water - Wastewater	(0)	0	(0)	
Linear Infr Maintenance	39,237,367	45,128,255	(5,890,888)	12
Environmental Services	14,873,908	14,010,975	862,933	13
Planning and Development	5,512,700	5,099,690	413,010	14
Treatment & Compliance	(0)	0	(0)	
Building Services	0	0	0	
Growth and Infrastructure	65,882,318	70,789,021	(4,906,703)	

City of Greater Sudbury
Net Revenue and Expenditure Projection
For the year ended December 31, 2019



	Annual Budget	YE Position	Surplus (Deficit)	Notes
Community Safety				
C.S. G.M.'s Office	0	0	0	
Emergency Management	471,758	436,803	34,955	
CLELC Section	(854,896)	(830,607)	(24,288)	
Emergency Medical Service	10,755,750	10,800,275	(44,525)	
Fire Services	25,725,100	26,364,237	(639,137)	15
Community Safety	36,097,712	36,770,708	(672,995)	
Outside Boards				
Outside Boards Other	7,271,988	7,271,988	0	
Police Services	59,987,608	59,987,608	0	
Outside Boards	67,259,596	67,259,596	0	
TOTAL EXPENDITURES	272,678,666	279,785,215	(7,106,549)	
TOTAL	\$0	\$5,948,193	(\$5,948,193)	

Total Deficit	(5,948,193)
Funding from Tax Rate Stabilization Reserve	1,549,096
Funding from Capital Financing Reserve Fund - General	1,549,096
Debt Repayment	2,850,000
	<u>(0)</u>