Finance Administration Committee

Type of Decision									
Meeting Date	August 11th, 2020				Report Date	August 6th, 2020			
Decision Requested		Yes	X	No	Priority		High		Low
	Direction Only				Type of Meeting	X	Open		Closed

Report Title
2020 Operating Budget Variance Report – June

Resolution	Relationship to the Strategic Plan/Health Impact Assessment
For Information Only.	This report refers to operational matters.
Resolution Continued	**Background Attached**

Report Summary	Financial Implications
This report provides the Finance and Administration Committee with a forecast of the City's year-end position based on revenues and expenditures to the end of June 2020. The projected deficit for 2020 is approximately $6.2 million.	There are no financial implications associated with this report.

Report Prepared By	Division Review
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Recommended by the Department	Financial Implications
Name: Kevin Fowke Title: General Manager of Corporate Services	Name: Steve Facey Title: Manager of Financial Planning & Budgeting

Recommended by the C.A.O.
Ed Archer Chief Administrative Officer

2020 Year End Operating Budget Variance Report

Executive Summary

This report provides a projection of the corporation's year-end financial results, which currently includes a projected deficit of $6.2 Million. As Council is aware, staff are actively managing service levels and resources to mitigate, as much as possible, the negative financial impacts created by the COVID-19 virus.

Opportunities exist to further reduce the projected deficit. Based on projections across the corporation, the year-end deficit forecast is largely the result of increased expenditures, or lost revenues, associated with the corporation's Covid-19 response. With Council's support, staff have taken several steps to reduce or minimize negative financial impacts. To date, this includes delaying hiring processes for vacant positions, suspending some services and the related staffing costs associated with them and reducing service levels and laying off staff. Funds generated from the Capital Levy have not yet been applied in contemplation of their use as a funding source to offset a year-end deficit. There have also been additional revenues, such as investment earnings, that help offset unplanned, but necessary, cost increases.

Council approved a financing plan, should one be required, to address any remaining year-end deficit. This plan anticipates drawing up to $5.2 million from the Capital Holding Account. The remainder of the 2020 deficit will be funded from the Tax Rate Stabilization and the Capital Financing Reserve Fund - General in accordance with the Reserve and Reserve Fund By-law.

Background

The purpose of this report is to provide Council with an overview of year-end variances in accordance with the Operating Budget Policy. In the last forecast, provided in June, staff identified areas where material year-end variances may occur. This report updates Council on actions taken since then to further mitigate the 2020 deficit.

As Council requested in June, there is an additional schedule included in this report that reflects the annual net operating 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 is anticipated/resulted within a division or section.

Variance Explanations

1) Revenue Summary

This department includes items such as the taxation levy, revenues in lieu of taxes, provincial grants (such as OMPF) as well as tax write-offs, tax grants and rebates.

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

- Increase in PIL, or payment in lieu, taxation revenue totaling $285,000. This variance is due to increasing assessments of properties belonging to the municipality.

Delays in MPAC's inspections of properties as a result of COVID-19 has affected the information received with respect to supplemental taxation. Tax write-offs may be an area of concern. Staff continue to analyze these situations as more updated information is received.

2) Other Revenues and Expenses

This department includes the following items:

- Other revenues – includes slot revenue, investment income, interest on overdue tax accounts etc.
- Large Projects
- COVID-19 Cost Centre

This area is reflecting a net over expenditure of $6.6 million as follows:

- Decrease in interest revenue on all overdue tax accounts of $595,000.
- Increase in investment earnings of $1.8 million
- Decrease in Municipal Accommodation Tax of $670,000.
- Decrease in slot revenue of $880,000.
- The original salary gapping budget of $1 million is reflected in this but the actual savings are presented within each division. Staff expect the actual salary gapping result to be in line with the revised target of $2.5 million.
- Lower than anticipated debt repayments of $1 million.
- Over expenditures related to the Junction project totaling $170,000 primarily due to salaries and benefits.
- Expenditures directly related to the COVID-19 pandemic of $9.3 million.
- Additional revenues related to the COVID-19 pandemic of $3.2 million in the form of Federal and Provincial grants. The additional revenues act as a flow through such as Pandemic Pay and enhanced Social Services programs.

3) Office of the CAO

This department includes the following divisions:

- Strategic Initiatives
- Communications and Community Engagement
- Citizen Services (Libraries/Museums)

This area is reflecting a net under expenditure of $1.36 million as follows:

- Decreased revenue for Library Services totaling $85,000.
- Under expenditure in salaries and benefits of $1.4 million due to vacancies and redeployed personnel.

4) Legal & Clerks Services

This area is reflecting a net over expenditure of $270,000 as follows:

- Under expenditures in salaries and benefits of $650,000 due to vacancies and redeployed personnel.
- Decreased user fees and licensing fees of $90,000.
- Under expenditures for the Integrity Commissioner of $50,000.
- Under expenditure in legal counsel of $100,000.
- Decreased POA revenue of $1.2 million. A portion of this is due to the delayed start of the Red Light Camera Program. These decreased revenues are partially offset by under expenditures within the Infrastructure Capital Planning division.
- Under expenditure in adjudication and victim fine surcharges totaling $175,000.

5) Security, By-law and Parking

This area is reflecting a net over expenditure of $1.0 million as follows:

- Decreased parking user fees of $1.1 million.
- Under expenditure in the contribution to the Parking Improvements Reserve Fund of $800,000 because of the reduced revenues.
- Decreased user fee and licensing revenues totaling $700,000.

6) Human Resources and Organizational Development

This area is reflecting a net over expenditure of $775,000 as follows:

- Over expenditure of legal services and counsel totaling $230,000.
- Over expenditure of early retirement fringes and allowances totaling $685,000.
- Under expenditure in job evaluation costs totaling $85,000.

7) Housing Services & Operations

This area is reflecting net under expenditure of $800,000 as follows:

- Housing Services is projecting a net under expenditure of $680,000.
    - An under expenditure in the non-profit program is expected for $400,000.
    - An under expenditure is expected to the Greater Sudbury Housing Corporation totaling $210,000. This under expenditure is due to a 2019 under expenditure in the rent supplement program that is being returned to the Service Manager.
- Housing Operations is projecting a net under expenditure of $120,000
    - Increased revenues are anticipated totaling $435,000.
    - Under expenditures in salaries and benefits are anticipated totaling $185,000.
    - Over expenditures in maintenance costs are anticipated totaling $530,000.
    - Under expenditures in energy costs are anticipated totaling $120,000.

8) Long Term Care – Senior Services

This area is reflecting a net under expenditure of $585,000 as follows:

- Increased revenues are anticipated totaling $595,000.

The majority of additional costs are included in the COVID-19 cost centre which is included in Other Revenues & Expenses.

9) Social Services
This area is reflecting a net under expenditure of $900,000 as follows:
- Under expenditure in salaries and benefits of $890,000 due to vacancies.

10) Transit Services
This area is reflecting a net over expenditure of $2.5 million as follows:
- Decreased user fee revenue of $3.9 million as a result of decreased ridership and the discontinuing of collecting bus fares from March 20, 2020 to June 15, 2020.
- Under expenditures in salaries and benefits of $385,000 due to vacancies.
- Under expenditures in energy costs (primarily fuel) of $785,000 because of adapting service levels.
- Under expenditures in purchased services of $960,000 as a result of adapting service levels.
- Increased Transit Maintenance is approximately $620,000. These overages are due to the continued maintenance of the City's aging fleet.

11) Infrastructure Capital Planning
This area is reflecting a net under expenditure of $335,000 resulting as follows:
- An under expenditure in salaries and benefits of $140,000 because of vacancies.
- Under expenditures as a result of the delayed Red Light Camera Program totaling $240,000. Delays were due to the agreements being finalized with the City of Toronto and the equipment vendor.

12) Engineering Services
This area is reflecting a net under expenditure of $570,000 as follows:
- Under expenditures in salaries and benefits of $575,000 due to vacancies.

13) Linear Infrastructure Maintenance
This area is reflecting a net over expenditure of $345,000 as follows:
- Over expenditures due to 2020 winter control. The report previously presented at Operations Committee on June 15, 2020 reflected an over expenditure of $290,000. Expenses since that report are attributed to additional street sweeping costs with some offsetting savings of salary expenditures related to the pandemic.

14) Environmental Services
This area is reflecting a net under expenditure of $215,000 as follows:
- Lower than anticipated revenues totaling $140,000.
- Under expenditure in salaries and benefits of $100,000 due to vacancies.
- Under expenditure in purchased services of $265,000, primarily waste collection.

15) Planning and Development
This area is reflecting a net under expenditure of $235,000 as follows:
- Lower than anticipated revenues of $115,000.
- Under expenditures in salaries and benefits totaling $300,000 due to vacancies.
- Under expenditure in purchased services totaling $30,000.

16) Community Safety – General Manager's Office
This area is reflecting a net under expenditure of $250,000 as follows:

- Under expenditure in salaries and benefits totaling $250,000 as these are reflected in the COVID-19 cost centre.

17) Fire Services
This area is reflecting a net over expenditure of $550,000 as follows:

- Over expenditure in salaries and benefits totaling $670,000 due to overtime costs, limitations in hiring due to COVID-19, and absences.
- Increased user fee revenue of $95,000.

18) Police Services
This area is reflecting a net over expenditure of $500,000 as follows:

- Overall, there is a net over expenditures of $500,000, which is due primarily due to unbudgeted COVID-19 expenditures related to PPE, cleaning and decontamination and equipment required for virtual work needs. These costs are not included in the organization's COVID cost centre.
- Other operating accounts with over expenditures are offset by grant funding received for specialized equipment for use in Forensics.
- Revenue losses are forecasted due to reduced paid duty recoveries and record check fees which is somewhat offset by savings in training and professional development and fuel.

Water / Wastewater Services

Water / Wastewater Services is projecting an overall net over expenditure of $761,000 for 2020.

User fee revenues are projected to be under budget by $1.1 million with consumption projected at 12.950 million cubic metres on a budget of 13.355 million cubic metres, based upon information supplied by our billing partner at GSU. Commercial consumption has decreased during the COVID outbreak but is being partially offset by increases in residential consumption, as previously assumed. April and May production was down between 6% and 7% over previous years, but June showed an increase of 1% over previous years, which is encouraging for consumption figures going forward.

Infrastructure Capital Planning and Business Improvement sections are projected to be under budget by $350,000 due to vacancies in long term contract positions dedicated to the Asset Management Task Force that were previously approved by Council, which will result in delays in implementing Master Plan recommendations.

Water is projecting an over expenditure of $174,000 which will be funded by a contribution from the Capital Financing Reserve Fund – Water in accordance with the Reserves and Reserve Funds By-Law, if required. Wastewater is projecting an over expenditure of $587,000 which will be funded by a contribution from the Capital Financing Reserve Fund- Wastewater in accordance with the By-law, if required.

Additional Information

COVID-19

Included in the 'Other Revenues and Expenses' category is the COVID-19 cost centre. Based on information provided by operating departments, COVID-19 related costs total approximately $9.3 million with revenues totaling $3.2 million, bringing the net impact to $6.1 million to the end of the year. The majority of expenditures included in this cost centre are salaries and benefits where budgets remain within their home operating departments. The majority of expenses were mitigated by redeploying staff. The 2020 deficit is primarily a result of lost revenues.

Previous iterations of the Financial Implications of COVID-19 ranged from a year-end position of a $14 million deficit to a $10.1 million deficit. Previous reports included a projected impact of COVID-19 and cost mitigation strategies to offset lost revenues and additional expenses. However, this report uses updated estimates and projections on the organization's overall financial position, not just the impact of COVID-19. Additional items that were not included in the Financial Implications of COVID-19 include:

- Over expenditures in Winter Control
- Leisure and Cemetery Services' mitigation savings
- Energy Savings
- Professional Development & Training Savings

The projections provided in this report were completed with updated and recent information.

Municipal Funding Announcement

On July 27th, the Ontario government, in partnership with the federal government, will be providing up to $4 billion in one-time assistance to municipalities. The $4 billion is split between two categories.

Funding for Operating Municipal Relief

This funding includes $777 million from the federal government and $1.22 billion from the Province, totaling $2 billion. This funding includes the previously announced $350 million for social services and $100 million for public health. This investment supports municipalities and addresses shortfalls.

Funding for Transit

Shared equally between the Province and federal government, up to $2 billion will be provided to assist transit operators addressing revenue losses and help maintain operations in a safe manner.

The City of Greater Sudbury has not yet received the allocation of these funds.

Salaries & Benefits

Previous reports highlighted a number of estimates for the Committee's information. They are as follows:

- Salary Gapping - $2.5 million (revised target)
- Not hiring of Summer Students - $1.7 million
- Savings from laying off part-time and casual employees - $2.2 million

The 2020 Budget included a plan to avoid $1M in salary and benefit costs by delaying the hiring process for positions that become vacant, where it is appropriate to do so. This is known as 'salary gapping'.

The effect of salary gapping on services and service levels are not insignificant. Cycle times, delays, service level reductions as well as overall availability of services are all impacted by this exercise. There are also impacts on staff that are currently in place. The remaining workload is spread amongst those who are currently providing services, and may create bottlenecks and/or capacity issues.

Staff continue to analyze the progress of salary gapping compared to the revised target. As of the end of June, the total amount of gapped salaries was approximately $1.8 million. Staff continue to analyze projections against the remaining two targets.

Service and Budget Management

Directors and Managers throughout the organization, with ELT's support, have curbed spending because of the projected financial position. The explanations included in this report highlight the collaboration and teamwork that management has implemented. Expenditure reductions and controls listed above consist of the following examples:

- Reduced salaries and benefits to meet revised salary gapping target
- Adapting service levels (such as Transit and Leisure Services)

A prime example of this is Leisure and Cemetery Services. This division has not been highlighted as a variance. Even with lost revenues of approximately $5 million, mitigation strategies have negated the variance to approximately $115,000. Below are highlights of Leisure and Cemetery Services' year-end position:

Leisure and Cemetery Services	Budget	Projected	Variance
Revenues			
User Fees	8,417,859	4,062,600	4,355,259
Licensing & Lease	667,420	282,561	384,859
Other	489,629	211,565	278,064
Total Revenues	**9,574,908**	**4,556,726**	**5,018,182**
Expenses			
Salaries & Benefits	16,325,728	12,780,657	3,545,071
Operating Expenses	4,948,364	4,376,475	571,889
Energy Costs	5,386,815	4,609,369	777,446
Purchased Services	1,205,321	941,179	264,142
Total Expenses	**27,866,228**	**22,707,680**	**5,158,548**
Net Budget	**18,291,320**	**18,150,954**	**140,366**

Parking

As a result of decreased revenues, Parking Services is projected to negatively impact the levy. Historically, this section is budgeted to have a positive impact on the levy of $200,000. The Parking Improvements Reserve Fund has historically been funded by the net operating revenues and expenses.

As stated above, the contribution to the Parking Improvements Reserve Fund has been removed due to lost revenues. This reserve fund is now in a deficit position due to 2020 budget commitments. This impacts the ability to fund future capital projects from this reserve. It also means that future commitments may be funded by the tax levy, rather than the Parking Improvements Reserve Fund. Staff will continue to provide updates in subsequent reports.

Summary

The City's 2020 net year-end operating deficit is projected to be $6.2 million. Staff continue to analyze and mitigate the 2020 deficit as much as possible.

References

2020 Operating Variance Report – April
https://agendasonline.greatersudbury.ca/index.cfm?pg=feed&action=file&attachment=30621.pdf

Financial Implications Associated with the Corporation's COVID-19 Response - July
https://agendasonline.greatersudbury.ca/index.cfm?pg=agenda&action=navigator&id=1512&itemid=19140&lang=en

Financial Implications Associated with the Corporations' COVID-19 Response – June
https://agendasonline.greatersudbury.ca/index.cfm?pg=agenda&action=navigator&id=1558&itemid=18864&lang=en

City of Greater Sudbury
Net Operating Revenue and Expenditure Projection
For the year ended December 31, 2020

	Net Operating Budget	YE Position	Surplus (Deficit)	Notes
Corporate Rev and Exp Summary				
Revenue Summary	(319,766,143)	(320,052,011)	285,868	1
Other Revenues and Expenses	34,392,713	40,998,077	(6,605,364)	2
TOTAL CORPORATE REVENUES	**(285,373,430)**	**(279,053,934)**	**(6,319,496)**	
Executive and Legislative				
Office of the Mayor	736,903	689,318	47,585	
Council Memberships & Travel	77,729	78,223	(494)	
Council Expenses	1,210,725	1,146,516	64,209	
Auditor General	394,713	394,713	0	
Office of the C.A.O. Summary	11,931,973	10,574,389	1,357,584	3
Executive and Legislative	**14,352,043**	**12,883,159**	**1,468,884**	
Corporate Services				
Corporate Services -GM Office	548,692	548,692	0	
Legal & Clerks Services	1,314,909	1,583,473	(268,564)	4
Security, By-Law & Parking	643,120	1,652,384	(1,009,264)	5
Information Technology	152,491	190,109	(37,618)	
Human Resources and O.D.	0	773,682	(773,682)	6
Finance, Assets and Fleet	13,966,262	13,904,057	62,205	
Corporate Services	**16,625,474**	**18,652,397**	**(2,026,923)**	
Economic Development Summary				
Economic Development	4,880,056	4,685,495	194,561	
Economic Development Summary	**4,880,056**	**4,685,495**	**194,561**	
Community Development Services				
G.M. Office	406,263	270,858	135,405	
Housing Services & Operations	19,507,210	18,706,920	800,290	7
Long Term Care-Senior Services	5,967,986	5,383,069	584,917	8
Social Services	5,594,800	4,697,043	897,757	9
Children Services	1,820,243	1,820,242	1	
Leisure & Cemetery Services	21,483,811	21,369,834	113,977	
Transit	15,972,457	18,425,807	(2,453,350)	10
Community Development Services	**70,752,770**	**70,673,773**	**78,997**	
Growth and Infrastructure				
Growth I.S. Other	220,402	220,400	2	
Inf Capital Planning	6,752,296	6,416,307	335,989	11
Engineering Services	0	(570,898)	570,898	12
Water - Wastewater	(0)	0	(0)	
Linear Infr Maintenance	41,938,847	42,282,980	(344,133)	13
Environmental Services	15,694,885	15,480,076	214,809	14
Planning and Development	5,782,361	5,548,871	233,490	15
Treatment & Compliance	(0)	0	(0)	
Building Services	0	0	0	
Growth and Infrastructure	**70,388,790**	**69,377,736**	**1,011,054**	

City of Greater Sudbury
Net Operating Revenue and Expenditure Projection
For the year ended December 31, 2020

	Net Operating Budget	YE Position	Surplus (Deficit)	Notes
Community Safety				
C.S. G.M.'s Office	0	(250,921)	250,921	16
Emergency Management	486,799	380,926	105,873	
CLELC Section	(809,371)	(746,149)	(63,222)	
Emergency Medical Service	11,277,641	11,162,371	115,270	
Fire Services	26,750,607	27,299,714	(549,107)	17
Community Safety	**37,705,676**	**37,845,941**	**(140,265)**	
Outside Boards				
Outside Boards Other	7,967,865	7,967,865	0	
Police Services	62,700,756	63,200,322	(499,566)	18
Outside Boards	**70,668,621**	**71,168,187**	**(499,566)**	
TOTAL EXPENDITURES	**285,373,430**	**285,286,688**	**86,742**	
TOTAL	**$0**	**$6,232,754**	**($6,232,754)**	