

## **Executive Summary**

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 September 2017. The projected deficit for 2017 is approximately \$2.45 million. With the \$850,000 contribution from the Roads Winter Control Reserve Fund, the projected year end deficit is approximately \$1.6 million.

## **Background**

The purpose of this report is to provide Council with an updated projection based on third quarter results of the municipality's year end position including potential year-end variances. The monitoring and reporting of variances has been conducted in accordance with the Operating Budget Policy and Bylaw. Council is provided with a variance report after each quarter end. This report is an update from the 2<sup>nd</sup> quarter projection provided to the Finance and Administration Committee in September 2017.

The Reserves and Reserve Funds By-law allows certain operations to keep the surpluses generated in their respective areas, only if this does not put the municipality in a deficit position; these areas include Information Technology, Land Reclamation Services, Housing Services, Libraries, Police Services and professional development. Based on the preliminary projection for 2017, these areas will not be able to retain their respective surpluses as the municipality is projecting a deficit at year end.

Attached is an additional chart that reflects the annual net budget, 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**

### **1) Revenue Summary**

This area is reflecting a projected net over expenditure of \$170,000. This differs from what was previously reported as increased supplemental taxation revenue in the amount of \$840,000 above what was previously projected has been realized. In addition, there was \$220,000 received from the Ministry of Finance related to changes to the exempt status for non-profit Long Term Care Facilities. These additional revenues are offset by the following:

- Increased tax write offs of \$670,000 as a result of recent assessment review board decisions on property appeals, specifically the province wide ARB decision on big box store appeals.
- Payments in lieu of taxes (PIL) are expected to be \$560,000 below budgeted specifically for provincial, federal, and public utility properties. The 2017 PIL budget was based on 2016 revenues. The assessment roll returned with reassessed values was made available the after tabling of the 2017 budget. The PIL revenues will be adjusted in the 2018 budget to more accurately reflect the new current value assessments.

### **2) Other Revenues and Expenses**

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

- One-time unbudgeted funding provided to the Sudbury Theater Centre in the amount of \$200,000 as approved by Council on October 24, 2017
- Revenue from OLG slots is projected to be \$40,000 below budget based on actuals received to date.

### **3) Legal & Clerks Services**

The projected year end net under-expenditure of \$740,000 is a result of:

- Revenues from Provincial Offences Act (POA) are projected to be over the budgeted amount by approximately \$870,000 due to a number of factors including increased collection efforts, as well as fines laid by the Ministry of Labour to local mining companies.
- Increased revenues of \$50,000 from Freedom of Information requests, marriage solemnization, and miscellaneous archive revenues.

- Wages and benefits are projected to be under budget by approximately \$50,000 due to vacancies in year.
- An increase in legal costs of \$230,000 for external legal resources resulting from a significant increase in the amount and uniqueness of protracted litigation files, and to cover off vacancies in prosecution. In order to address this issue, the 2018 budget will provide additional financial resources for outside legal counsel and an additional prosecutor to accommodate the provincial download of POA Part III prosecutions. In addition, the use of assistant city solicitors will provide backup prosecution services and should mitigate future over expenditures relating to prosecution.

#### **4) Security and By-Law**

The projected year end net over expenditure of \$200,000 is a result of:

- Canine Licenses sales are projected to be under budget by \$90,000 due to it being the first year of new rates, licensing options and the difficulty projecting demand for these new options.
- Taxi Licenses are projected to be under by \$15,000 due to the elimination of inspection fees that were previously included. The budget for 2018 has reflected this change.
- Wages and benefits are projected to be over budget by approximately \$65,000 due to increased overtime required to resolve sensitive matters and respond to the service demand of Animal Control.
- Office expenses are projected to be over budget by approximately \$30,000 due to the necessary tools required based on the additional staff previously approved by Council.

#### **5) Human Resources and Organizational Development**

The projected year end net over expenditure of \$300,000 is a result of:

- Retirement fringe benefits are projected to be over budget by approximately \$200,000 due to the rise of health and dental benefit costs, and increased number of retirees.
- Legal Services are also projected to be over budget by approximately \$100,000 and can be attributed to the following: higher number of arbitration cases, human rights cases, employee changes and departures, issues related to health and safety and expenditures related to interest arbitration with IAFF.

#### **6) Finance, Assets & Fleet**

This area is projecting a combined net over expenditure of \$900,000. The variances per section are as follows:

Finance – under expenditure of \$200,000; Assets – over expenditure of \$40,000; and Fleet – over expenditure of \$1.06 million

The projected year end under expenditure in Finance of \$200,000 is a result of vacancies throughout the year.

The projected year end over expenditure in Fleet of \$1.06 million is a result of:

- Over expenditures in vehicle/equipment parts and contracted servicing costs are projected to be approximately \$940,000. This is largely a result of an aging fleet remaining in service beyond its useful life, welding services, and unforeseen damage to fleet vehicles. Staff have taken steps to mitigate these pressures in the short term, with additional long term solutions to be implemented. Some of these initiatives include an increased focus on inventory management, expanding the breadth of procurement contracts to include parts and supplies, rationalization of vehicles, and others. Fleet Services has been historically over budget and therefore in concert with these initiatives, there has been a proposed modest increase in the 2018 budget to address the underfunding of this service.
- Over expenditures in shop supplies and tire replacements costs of \$120,000.

#### **7) Long Term Care (Pioneer Manor)**

The projected year end net over expenditure of \$200,000 is a result of:

- The over expenditure is due to WSIB New Experimental Experience Rating (NEER) surcharge.

#### **8) Transit**

The projected year-end net over expenditure in Transit of \$680,000 for fleet maintenance consists of the following:

- Over expenditure in transit bus parts, contracting out, and salaries totaling \$630,000 is due to the rise in material prices beyond the rate of inflation, continued unexpected component failures, and unexpected collision and damage repairs.
- Over expenditure in contracting out, lubricants, shop supplies and tire replacement totalling \$70,000 will be mitigated going forward as fleet services will procure these expenses during 2017-2018 in an attempt to receive lower unit pricing.
- Transit operations are projecting an under expenditure of \$20,000 as a result of staffing vacancies.

#### **9) Roads Maintenance**

Roads maintenance is projecting an overall net over expenditure of \$900,000 as follows:

- The more frequent freeze thaw cycle and above average snowfall in the first four months of the year contributed to an over expenditure of approximately \$850,000 in winter control activities. Large over expenditures occurred in sanding/salting/plowing, winter ditching and winter asphalt patching. In accordance with the Reserve and Reserve Fund by-law, any Roads Winter Control over expenditures may be funded from the Roads Winter Control Reserve Fund.
- Summer Maintenance is projecting a net under expenditure of \$40,000 due a combination of activities performed for rural and urban storm water management
- Increased utility costs are contributing to a projected \$160,000 over expenditure in street lighting. This area has been historically underfunded and an adjustment will be made to the 2018 budget to more accurately reflect current expenditures.
- Roads engineering costs are projecting an under expenditure of \$70,000 due to vacancies in year.

#### **Summary**

As per the attached chart, the City's projected net year end position will result in a draw from the Winter Control Reserve Fund of \$850,000, and approximately \$1.6 million to be funded equally from the Tax Rate Stabilization Reserve and the Capital Financing Reserve Fund – General in accordance with the Reserve and Reserve Fund by-law. Departments have been continually working to mitigate this potential deficit. Staff will continue to implement measures to reduce expenditures wherever possible in order to further reduce this deficit.