Executive Summary

This report provides Council with a forecast of the City’s year-end position based on revenues and expenditures to the end of September 2018. The projected deficit for 2018 is approximately $2.4 million.

Background

The purpose of this report is to provide Council with an updated projection based on results as of September 30th 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 2nd quarter projection provided to the Finance and Administration Committee in the 2019 budget update report in September 2019.

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) Housing Services
The projected year-end net under expenditure in Housing of $910,000 is a result of:
- Recovery of over-funding the Greater Sudbury Housing Corporation for the 2017 fiscal year.

2) Long Term Care
The projected year-end net over expenditure of $630,000 is a result of:
- An unanticipated reduction in the Case Mix Index funding (CMI) resulting in a funding reduction of $290,000.
- An over expenditure in salaries and benefits due to modified work and overtime costs of $690,000, offset by staff shortages of $190,000.
- Under expenditures in energy costs of $160,000 as a result of reduced consumption from converting to LED lighting, as well as significant rebates for being a multi-unit residential facility.

3) Transit
The projected year-end net over expenditure in Transit of $915,000 consists of the following:
- Over expenditure in transit bus parts totaling $645,000 is due to the rise in material prices beyond the rate of inflation, continued component and farebox failures, as well as damage repairs.
- Over expenditure in diesel fuel costs of $310,000 due to increased commodity pricing.
- Additional transit revenue anticipated at $200,000 primarily from monthly passes.
- Increased salary and benefit costs of $100,000 primarily due to unplanned overtime and modified work.
- Other anticipated over expenditures of $70,000 including handi-transit, and increased security as approved by Council.

4) Infrastructure Capital Planning
Infrastructure Capital Planning is projecting an overall net under expenditure of $430,000 as follows:
- An anticipated reduction in salary and benefit costs of $450,000 due to vacancies in year.
- An anticipated increase of $20,000 in miscellaneous expenditures primarily due to paid duty charges for large construction projects.

5) Engineering Services
Engineering Services is projecting an overall net under expenditure of $515,000 as follows:
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- An anticipated under expenditure in salaries and benefits of $470,000 primarily due to vacancies and difficulty filling key positions.
- An anticipated decrease of $45,000 in miscellaneous expenditures including software, fuel, and property expenses.

6) Linear Infrastructure Maintenance
Linear Infrastructure Maintenance is projecting an overall net over expenditure of $860,000 as follows:
- A net over expenditure in roads winter maintenance of $1.25 million is a result of the above average snowfall throughout the first half of the year as reported to Operations Committee in June 2018. In accordance with the Reserves and Reserve Fund By-Law, this over expenditure may be funded from the Roads Winter Control Reserve Fund.
- An anticipated reduction in salary and benefit costs of $375,000 due to vacancies in year.
- Miscellaneous under expenditures of $15,000.

7) Environmental Services
Environmental Services is projecting an overall net over expenditure of $680,000 as follows:
- Global market conditions for recyclable materials continue to be depressed and net revenues are expected to be under budget by approximately $615,000, this is offset by a reduction in the cost to process recyclables of $250,000.
- Based on lower than average tipping fee rates to date, tipping fees are projected to be under budget by $135,000.
- The Household Hazardous Waste program is projected to be over budget due to the new contract costs. However, a portion of the savings from the reassignment of waste collection from contractor crews to in-house crews will mitigate this. The net impact is estimated at $100,000.
- Increase in the cost of collection of $100,000 for fuel and collection contract costs.
- Security expenses are projected to be over budget by $50,000 due to contractual obligations.
- An increase in revenue from the sale of landfill gas of $70,000.

8) Fire Services
Fire Services is projecting an overall net over expenditure of $890,000 as follows:
- Salaries and benefits are anticipated to be $630,000 over budget primarily due to increased overtime costs as a result of modified work and WSIB legislation changes, offset by vacant positions.
- Increased costs for building maintenance and equipment such as rope and hose of $235,000.
- Unbudgeted water rescue training at a cost of approximately $80,000.
- Air quality testing at Fire and Paramedic Stations for health and safety of $55,000.
- Increase in revenues from Fire Marquee net of commission costs of $110,000.

Water / Wastewater Services
Water / Wastewater Services is projecting an overall net under expenditure of $390,000 as follows:
- User fee revenues are projected to be under budget by $550,000 as actual billed consumption is estimated to be 13.55 million cubic metres while the budget for 2018 is 13.675 million cubic metres.
- Administrative salaries and benefits are projected to be under budget by approximately $425,000 due to staffing vacancies in positions approved during the 2018 budget deliberations.
- Distribution and Collection Services is projected to be under budget by approximately $910,000 as a result of City crews assuming the responsibility for performing emergency repairs to its linear infrastructure. Due primarily to favourable weather conditions there were a below average number of breaks in 2016 and 2017. There have been 60 watermain breaks through the end of September 2018. That compares to 70 in 2017 (90 annual) and 67 in 2016 (85 annual). There will be anticipated savings in certain aspects of the purchased service accounts, but there are additional expenses related to rented equipment, cold
patching repairs and the fact that some repair work will be performed by external contractors due to the size and complexity and unavailability of own crews.

- In summary, Water is projecting an under expenditure of $1 million which will be contributed to the Capital Financing Reserve Fund – Water in accordance with policy. Wastewater is projecting an over expenditure of $610,000 which will be funded by a contribution from the Capital Financing Reserve Fund-Wastewater in accordance with policy.

**Storm Costs**
On July 9th, 2018 the City of Greater Sudbury experienced a severe thunderstorm which resulted in significant damage to trees, powerlines, and properties. Greater Sudbury Utilities reported power outages to approximately 4,000 households. In the days after the storm there was significant effort to clean all roadways of fallen trees, debris, and garbage. City staff worked hard and were able to have most areas operating as normal within a few days. Although there is still some work remaining relating to building damage, staff have estimated that the total cost related to storm cleanup is approximately $800,000. A final cost will be available at a later date. Given the circumstances surrounding the storm where the magnitude of the damages did not meet the criteria for individual insurable claims, these costs will be funded from the Insurance Reserve Fund.

**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 $180,000, and approximately $1.8 million to be funded from the Tax Rate Stabilization Reserve in accordance with the Reserves and Reserve Fund by-law. However, this still leaves a potential deficit of $0.4 million unfunded.

Departments have been continually working to mitigate this potential deficit by delaying filling vacant positions, curtailing training and travel, delaying expenditures to future years, and other initiatives all while ensuring the City maintains Council approved service levels. If these efforts are not enough to cover the cost staff must look to other sources to fund the remaining anticipated deficit. Operating departments have identified capital projects that can be cancelled for various reasons or funds can be reallocated for other purposes. It is recommended that the funds from the capital projects be used to fund any deficit over $2.0 million with the remainder being allocated to the newly formed capital holding account.

The year-end surplus/deficit report will inform Council of funds reallocated from capital projects. Staff will continue to implement measures to reduce expenditures wherever possible in order to further reduce this deficit.