



## The Corporation of the Town of Tecumseh

### Financial Services

**To:** Mayor and Members of Council

**From:** Tom Kitsos, Director Financial Services & Chief Financial Officer

**Date to Council:** October 11, 2022

**Report Number:** FS-2022-08

**Subject:** Budget Variance Report – June 2022

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### Recommendations

It is recommended:

**That** report FS-2022-08, Budget Variance Report – June 2022, showing a projected tax-supported surplus of \$287,000 and a rate-supported deficit of \$52,000 be received.

### Executive Summary

Administration has reviewed year-to-date financial activity and completed a forecast of the Town's financial position to year-end. Based on projections and assumptions through to the end of December 31, 2022, Administration is projecting a year-end surplus in the Operating Fund of \$235,597. This is made up of a tax-supported surplus of \$287,456 and a rate-supported deficit of \$51,859.

Key drivers of the projected surplus include:

- Tax Supported:
  - o Grant Revenue (\$352K Surplus) – Represents use of remaining balance of the 2021 COVID-19 Relief funding (\$145K) and incremental government grants projected to support major one-time events, use of

summer students, and improvements to our digital strategy, records management, and transit system.

- User Fees, Permits & Charges (\$385K Deficit) – Two major developments anticipated to commence in 2022 will proceed in early 2023, resulting in a decrease in building permit revenue (\$224K). We also anticipate a loss in lottery licenses revenue (\$40K), arena rentals (\$65K) and a decrease in revenue from Provincial Offences collections (\$69K) all primarily resulting from the impacts of COVID-19 restrictions. 2021 COVID-19 Relief grant funding of \$145K deferred from 2021, will be used to offset these variances.
  - Operating & Maintenance Supplies (\$44K Deficit) – Projecting gasoline and diesel expenditures to cause a \$70K deficit (\$76K attributable to rate increase, slightly offset by a \$6K decrease in usage).
  - Net Transfers To/From Reserves (\$144K Deficit) – Compared to budget, the projection shows us requiring \$144K less from Reserves to fund operations. This is due to lower projected legal fees, increased Investment Income as well as Grant & Donation revenues.
- Rate supported:
- Contract Services (\$138K Deficit) – The projected deficit is due to a higher than budgeted rate being charged by the City of Windsor for wastewater treatment. This is partially offset by lower consumption.
  - Salaries & Benefits (\$145K Surplus) – Favourability stemming from multiple vacancies.

The Capital/Lifecycle analysis consists of reviewing the status of approved projects comparing approved funding to current activity. A complete listing of all capital projects planned for 2022 as identified within department five-year capital plans is detailed in Attachments 3 and 4.

In total, over 120 projects are included in this variance report having a total budgeted cost of \$38M.

## Background

Annual operating budgets for all Town departments are set at the beginning of the calendar year based on Council direction. Budget inputs consist of numerous professional estimates based on information available at the time (including the legislative environment, and macroeconomic trends such as currency fluctuations, commodity prices, unemployment figures, business investment, etc.).

Departments continuously monitor financial results and provide revised year-end forecasts. This helps us identify potential exposures and provides an opportunity to create or adjust our risk mitigation strategies to remain at, or as close to, the approved budget as possible.

## **Impact of COVID-19**

During the 2022 budget preparation process, COVID-19 related restrictions were being lifted and the local Health Unit's data was showing favourable trending. With this information in mind, the 2022 Budget was established with the assumption that there would be minimal financial impact due to COVID-19. As of June 2022, the Town has experienced some COVID-19 related financial hardships, mainly stemming from facility closures in January 2022. Significant variances to budget that are directly linked to COVID-19 are mentioned throughout Attachment 2. The Town has approximately \$145K of grant funding carried forward from 2021 to offset these costs/lost opportunities.

## **Comments**

### **Operating Fund**

**Attachment 1** provides a summary of the 2022 projected year-end variances by department, listed in order from the largest dollar deficit to the largest dollar surplus. As of our June 2022 variance analysis, we project a year-end surplus of \$235,597 (tax-supported surplus of \$287,456 and a rate-supported deficit of \$51,859).

**Attachment 2** provides a description of significant variances for each department.

### **Tax Supported Variances**

As of June 30, 2022, Administration is projecting a year-end surplus of \$287,456. **Table 1** below shows the impact each department/division has on our projected position.

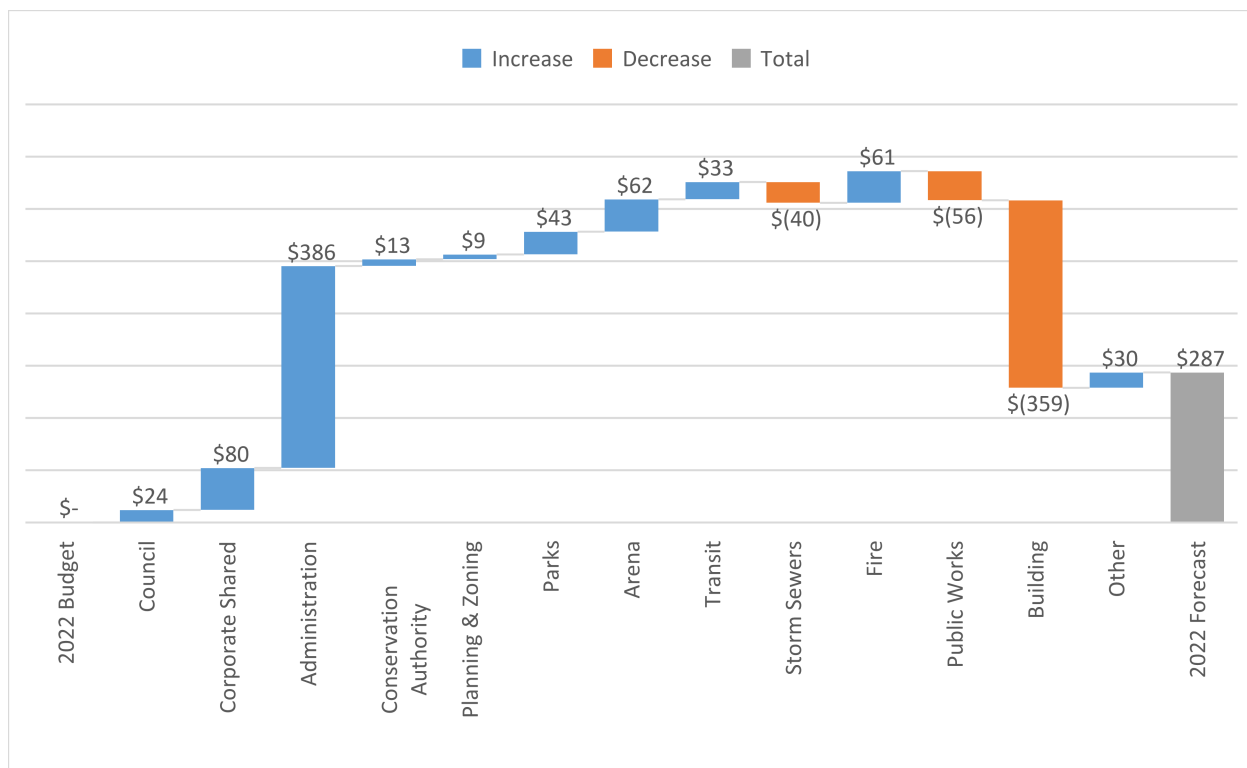


Table 1 - Projected Fiscal 2022 Surplus (Deficit) in 000's

The largest shortfall among the departments/divisions is in the “Building” budget. The projected deficit primarily relates to compensation and permit revenue. Professional fees and wages & benefits are projected to be net unfavourable by \$128K (\$39K favourable and \$167K unfavourable respectively). This is a result of greater than budgeted costs for temporary staff needed to process plans and inspections for several multi-unit residential structures permitted in 2021 and fill temporary vacancies. Permit revenue is projected to be \$224K unfavourable due to two major developments anticipated for 2022, now commencing in early 2023.

The projected year-end variance broken down by major account category is presented below in **Table 2**.

Account Category		Net Favourable/ (Unfavourable) Variance
<b>Revenue</b>		
User fees, Permits & Charges	\$	(372,791)
Transfers from Reserves		57,695
Taxes		65,427
Investment Income		133,791
Grants		351,816
<b>Subtotal - Revenue</b>	<b>\$</b>	<b>235,938</b>
<b>Expenses:</b>		
Transfers to Reserves	\$	(201,422)
Operating & Maintenance Supplies		(43,852)
Utilities & Insurance		19,866
Other		21,858
Salaries & Benefits		37,489
Grants & Donations		106,301
Professional Services		111,278
<b>Subtotal - Expenses</b>	<b>\$</b>	<b>51,518</b>
<b>2022 Forecasted Year-End Surplus</b>	<b>\$</b>	<b>287,456</b>

Table 2 - Projected Operating Budget Variance by Category – Tax Rate Supported

## Explanation of Key Variances

### Revenue Variance

The largest projected surplus is within the “Grants” category. Of this, \$145K represents COVID-19 Relief funding that was carried forward from 2021 to offset costs/lost opportunities in Arena (\$50K), Financial Services (\$55K), and Corporate Services & Clerks (\$40K) departments. The remainder consists of additional projected revenue from the province for major one-time events, improvements to our digital strategy and records management, and from the Canadian government to cover summer students and improvements to our transit system.

Offsetting this surplus is a substantial deficit within the “User fees, Permits & Charges” category. As noted above, the “Building” department is anticipating a \$224K decrease in permit revenue. We are also anticipating a \$69K decrease in revenue from Provincial Offences based on year-to-date activity, and a \$40K shortfall in lottery licenses revenue however, the greater part of these losses are funded through the COVID-19 Relief grant noted above.

The “Transfers from Reserves” deficit is mainly driven by increased grant revenue (\$82K for Tecumseh’s 100<sup>th</sup> Year Celebration).

### **Expense Variance**

Overall, a budget to actual surplus of \$52K is anticipated for expenditures. The deficit projected for “Transfers to Reserves” mainly represents an offset to the surpluses in “Grants & Donations” and “Investment Income” categories.

A notable variance for a common expenditure that is affecting many departments is Gasoline and Diesel costs. Projected gasoline and diesel expenditures result in a deficit of \$70K. Of this, \$76K is attributable to rate increase, slightly offset by a \$6K decrease in usage.

### **Rate Supported Variances**

As of June 30, 2022, Administration is projecting a year-end rate-support deficit of \$51,859. The projected year-end variance broken down by major account category is presented in **Table 3** below.

Account Category	Net Favourable/ (Unfavourable) Variance	
Revenue		
User fees, Permits & Charges	\$	3,727
Subtotal - Revenue	\$	3,727
Expenses:		
Contracted Services	\$	(138,325)
Operating & Maintenance Supplies		(71,647)
Other		(21,592)
Professional Services		(4,558)
Utilities & Insurance		(1,276)
Grants & Donations		36,704
Salaries & Benefits		145,108
Subtotal - Expenses	\$	(55,586)
2022 Forecasted Year-End Deficit	\$	(51,859)

Table 3 - Projected Operating Budget Variance by Category – Rate Supported

## **Explanation of Key Variances**

### **Expense Variance**

The projected deficit for “Contract Services” is due to a higher than budgeted rate being charged by the City of Windsor for wastewater treatment. This is partially offset by lower anticipated volumes.

Salaries & Benefits are projected to have a \$145K surplus mainly stemming from multiple vacancies.

## **Capital/Lifecycle Variances**

The Capital/Lifecycle analysis consists of reviewing the status of approved projects, comparing approved funding to current activity. A complete listing of all capital projects planned for 2022 as identified within department five-year capital plans is detailed in **Attachments 3 and 4**.

In total, over 120 projects are included in this variance report having a total budgeted cost of \$38M. Projects in this report are either included in the 2022 Capital Works Plan and/or included in prior year Capital Works plans incurring 2022 costs.

Project surplus/deficits impact the amount of reserve funds required resulting in lesser/greater use of capital reserve funding.

## **Consultations**

All Departments

## Financial Implications

Summary of projected year-end variance is as follows:

<b>Tax supported services</b>	<b>Amount</b>
Operating Surplus	\$287,456

<b>Rate supported services</b>	<b>Amount</b>
Operating surplus - Water	\$105,623
Operating deficit - Wastewater	\$(157,482)

<b>Total surplus</b>	<b>\$235,597</b>
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## Link to Strategic Priorities

<b>Applicable</b>	<b>2019-22 Strategic Priorities</b>
<input type="checkbox"/>	Make the Town of Tecumseh an even better place to live, work and invest through a shared vision for our residents and newcomers.
<input type="checkbox"/>	Ensure that Tecumseh's current and future growth is built upon the principles of sustainability and strategic decision-making.
<input type="checkbox"/>	Integrate the principles of health and wellness into all of Tecumseh's plans and priorities.
<input checked="" type="checkbox"/>	Steward the Town's "continuous improvement" approach to municipal service delivery to residents and businesses.
<input type="checkbox"/>	Demonstrate the Town's leadership role in the community by promoting good governance and community engagement, by bringing together organizations serving the Town and the region to pursue common goals.



## Communications

Not applicable ☒

Website ☐ Social Media ☐ News Release ☐ Local Newspaper ☐

This report has been reviewed by Senior Administration as indicated below and recommended for submission by the Chief Administrative Officer.

Prepared by:

Vanessa DaDalt, CPA, CA  
Deputy Treasurer & Manager Revenue Services

Reviewed by:

Tom Kitsos, CPA, CMA, BComm  
Director Financial Services & Chief Financial Officer

Recommended by:

Margaret Misek-Evans, MCIP, RPP  
Chief Administrative Officer

Attachment Number	Attachment Name
1	Projected Fiscal 2022 Surplus (Deficit)
2	Projected Fiscal 2022 Variance Report – Operating Items
3	June 2022 Variance - Capital Summary by Department (Excluding PWES)
4	June 2022 Variance – Capital Summary by Cost Centre (PWES)