

Staff Report 2021-0151

Meeting Date: May 18, 2021

Subject: 2020 Year End Operating Budget Variance

Submitted By: Michelle Xu, Financial Analyst, Finance

RECOMMENDATION

That the 2020 operating surplus of \$3,375,114 be transferred to the following reserves:

- a) \$56,813 to the Firefighter Post-Retirement Benefits Reserve Fund;
- b) \$1,458,100 of the COVID-19 Safe Restart funding to the Operating Contingency Reserve for 2021 budget pressures; and
- c) \$1,860,201 to the Tax Funded Capital Contingency Reserve.

REPORT HIGHLIGHTS

- On December 17, 2019, Council approved the Town of Caledon's 2020 budget which included a gross operating budget of \$104,400,989.
- By March 31, 2021 each department had performed a review of their 2020 year- end actuals to budget operating variances and provided Finance with explanations for each general ledger account having an operating variance (+/-) \$20,000 or 20%.
- This report reflects the Town's old corporate structure since the restructure occurred late in 2020 and it was considered prudent to perform the budget transfers to the new department structure for the purposes of the 2021 budget.
- Overall, the Town of Caledon's 2020 net operating budget surplus is \$3,375,114. This surplus is comprised of:
 - \$1,587,864 favourable variance in overall revenues; and
 - \$1,787,250 favourable variance in overall expenditures and transfers to reserves.

DISCUSSION

The purpose of this report is to provide an overview of the 2020 year-end actual results as compared to the operating budget. Staff within each department is responsible for the delivery of programs and services while managing their budgets within the Council-approved 2020 operating budget. While accountability for financial performance (e.g. actual revenues and expenditures) belongs with the Corporate Management Team, both Finance and department staff share the responsibility of monitoring operating budget variances throughout the year.

Based on year end results, the Town has a 2020 operating surplus of \$3,375,114. As noted in the Staff Report 2020-0262 - Q2 2020 Operating Variance and Year-end Projection, the Town implemented cost mitigation measures early in the pandemic which included placing staff on Declared Emergency Leave and implemented recruitment freeze. Based on 2020 year end results, these measures have saved approximately \$8 million or 19% on Salaries & Wages (excluding Benefits) which offset revenue losses throughout the Town.

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There is a significant favourable variance of \$2,705,045 when comparing actual surplus of \$3,375,114 to the projected year end surplus of \$670,069 per staff report 2020-0372. The main reason for this change is due to the following:

- \$1,458,100 Safe Restart funding received in fall of 2020 from the federal and provincial government to assist municipalities which was not included in the projected revenue due to uncertainty regarding timing of revenue recognition;
- \$556,772 in additional payment in lieu (PIL) taxes and higher supplementary assessments as determined by the Municipal Property Assessment Corporation (MPAC) and less tax adjustments then expected due to favourable outcomes at the Assessment Review Board in the fourth quarter.
- \$386,492 favourable variance due to less interest being contributed to reserves than planned due to the Bank of Canada minimum interest rate declining more than was forecasted which the Town uses to calculate interest on Obligatory Reserves (eg Development Charges) and non-Obligatory Reserves.

This report reflects the Town's old corporate structure since the restructure occurred late in 2020 and it was considered prudent to perform the budget transfers to the new department structure for the purposes of the 2021 budget. Table 1 below provides an overview of the year end \$3,375,114 favourable budget variance by department, split by revenue and expenses (expenses include transfers to reserves):

Table 1: Summary of 2020 Year-End Operating Budget Variance by Department

SUMMARY OF 2020 YEAR-END OPERATING BUDGET VARIANCE BY DEPARTMENT

Department		2020 Budget	2020 Actuals	Variance Favourable / (Unfavourable)	Variance %
Strategic Initiatives (including Library)	Revenue	(139,256)	(124,523)	(14,733)	-10.6%
	Expense	7,917,779	7,071,557	846,222	10.7%
	Net Budget	7,778,523	6,947,034	831,489	10.7%
Community Services	Revenue	(12,753,512)	(9,479,876)	(3,273,636)	-25.7%
	Expense	30,973,899	25,594,501	5,379,398	17.4%
Community Services Pre-Transfer	Sub-Total	18,220,387	16,114,625	2,105,762	11.6%
Transfer to Development Approval Stabilization Reserve	Expense	-	1,943,239	(1,943,239)	
	Net Budget	18,220,387	18,057,864	162,523	0.9%
Corporate Services	Revenue	(5,979,480)	(4,947,481)	(1,031,999)	-17.3%
	Expense	12,248,464	10,868,097	1,380,367	11.3%
	Net Budget	6,268,984	5,920,616	348,368	5.6%
Finance & Infrastructure Services	Revenue	(3,226,041)	(4,231,930)	1,005,889	31.2%
	Expense	26,035,037	24,751,072	1,283,965	4.9%
Finance & Infrastructure Services Pre-Transfer	Sub-Total	22,808,996	20,519,143	2,289,853	10.0%
Transfer to Development Approval Stabilization	Expense	-	1,158,846	(1,158,846)	
	Net Budget	22,808,996	21,677,989	1,131,007	5.0%
Corporate Accounts	Revenue	(82,185,500)	(87,087,842)	4,902,342	6.0%
	Expense	27,108,610	31,109,226	(4,000,616)	-14.8%
	Net Budget	(55,076,890)	(55,978,616)	901,726	-1.6%
TOTAL	Revenue	(104,283,789)	(105,871,653)	1,587,864	1.5%
	Expense	104,283,789	102,496,539	1,787,250	1.7%
	Net Budget	-	(3,375,114)	3,375,114	

Please note: Table 1 is also attached as Schedule B to this report. The 2020 budget operating variance is further broken down by division within each department and is available on Schedule A of this report.

Department Overview

The following comments by department are high level, relevant explanations of the 2020 budget operating variance. Variance review and explanations are performed and provided through the combined efforts of Finance and the department staff.

Strategic Initiatives

2020 favourable variance of \$831,489

- \$995,862 favourable variance in salaries, wages and benefits across the department due to staff being placed on Declared Emergency Leave as Town facilities were closed on account of the COVID-19 pandemic and a Town-wide freeze on recruitment; partially offset by backfilling vacant positions with contract staffing.
- \$32,714 favourable variance in communications for contracted services due to a delay in spending due to COVID-19.
- \$24,412 unfavourable variance in emergency management pertaining to COVID-19 specific expenses that were incurred over and above the department's normal operations.
- \$31,810 unfavourable variance in Library for Fines/Fees due to elimination of overdue fines triggered by COVID-19 Pandemic. 2020 Town's Fees By-law was amended to reflect the change as proposed under COVID-19 Community Recovery Plan (Staff Report 2020-0268).
- \$52,522 unfavourable variance in Human Resources for legal services due to requirements to utilize legal consultants on matters related to COVID-19.
- \$233,139 unfavourable variance in Library for the contribution to the Operating Contingency Reserve related to the delayed opening of the Southfields Library branch as part of the phase-in of the operating budget.

Community Services

2020 favourable variance of \$162,523

- \$4,629,183 favourable variance in salaries, wages and benefits across the department due to salary gapping, vacant positions and delays in hiring for vacancies due to Town-wide freeze on recruitment as well as staff placed on declared emergency leave; partially offset by backfilling vacant positions and staff reassignment. A significant portion of the of variance was the result of the declared emergency due to the COVID-19 pandemic in March closing many of the town facilities to the public, resulting in temporary staff furloughs. Furthermore, the effects of the COVID-19 pandemic left many Recreation programs unable to resume at capacity nor restarted at all, resulting in many program roles left unfilled throughout the year.
- \$1,450,497 favourable variance for Planning and Development as the result of higher revenues from additional planning applications. Two significant unbudgeted Engineering Fees were received: The east-west Spine Road Project and the Anatolia Tile development. This is partially offset by planned development registrations that did not materialize due to the economic slowdown and other regulatory hurdles faced by applicants.
- \$680,811 favourable variances in recreation operational savings notably in contracted services, facility/program supplies, equipment and other personnel costs that were not required due recreation facilities closure and recreation program stoppage.
- \$437,892 favourable variance in recreation facility utilities usage as result of closures.
- \$155,112 favourable variance in Fire and Emergency Services auxiliary revenues due to higher than expected automobile accident chargebacks, burn permits applications and false fire alarms chargebacks.

- \$116,992 favourable variance in training development throughout the department due to staffing vacancies, not hiring seasonal staff, postponement of training resulting from COVID-19 restrictions and the timing of the new water/ice rescue program in Fire and Emergency Services.
- \$115,344 unfavourable variances in building permit revenues due to the delays and timing of construction activity.
- \$265,186 unfavourable variances in fire vehicle fleet repairs due to higher than expected repairs necessary to the aging fire rescue fleet.
- \$275,983 unfavourable departmental variance due to unbudgeted COVID-19 related operating supplies to acquire personal protective equipment, sanitizer, cleaners and contracted safety protocols.
- \$2,190,257 unfavourable variance in Transfers to Reserves relating to transferring the year-end surplus in Planning and Development to the Development Approvals Stabilization Reserve and surplus in Building Services to the Building Permit Stabilization Fund. More information is provided in the Financial Implications section of the report.
- \$4,437,352 unfavourable variance in recreation revenues due to facilities closures, program stoppage, capacity limits and previously approved rental fee waiver.

Corporate Services

2020 favourable variance of \$348,368

- \$1,397,306 favourable variance in salaries, wages and benefits across the department due to salary gapping, vacant positions, delay in hiring for vacancies due to Town-wide freeze on recruitment as well as staff on declared emergency leave; partially offset by backfilling vacant positions with contract staffing.
- \$91,605 favourable variance in POA Caledon for contracted services from savings in Adjudication and Part III prosecution costs due to the court closures.
- \$89,175 favourable variance in Legal Services for agreement admin fees revenue due to significant agreements for the MW2 area executed in 2020.
- \$92,335 favourable variance in Training/Development/Seminars across the department from cancellations of conferences and events due to COVID-19.
- \$28,756 favourable variance in Legal Services for unbudgeted litigation costs for which the Town was ultimately fully successful in litigation, which resulted in cost recovery of the Town's legal services costs above the estimated budget.
- \$24,167 favourable variance in IT for contracted services resulting from a change in priorities and some projects being put on hold due to the pandemic.
- \$24,036 unfavourable variance in Regulatory Services for Parking Fines/Payments due to a modified approach focused on public education and emergency parking issues during the first quarter of 2020 due to the pandemic.
- \$60,491 unfavourable variance in emergency management pertaining to COVID-19 specific expenses that were incurred over and above the department's normal operations such as new technology to better allow Staff to work remotely and conduct electronic council meetings.
- \$75,576 unfavourable variance in Regulatory Services for Property Standards Admin Fees due to a significant reduction in property standards recoveries related to compliance management due to a shift in enforcement priorities over the course of the

- pandemic. This also led to a \$376,564 offsetting variance in both revenue and expenses for recoverable property standards expenses.
- \$82,607 unfavourable variance in Legal Services for OMB Hearings related to unbudgeted expert witness costs arising out of the ultimate settlement of the ROPA 30 hearing. The original budget for ROPA 30 anticipated additional funding as the hearing advanced. Since Council endorsed settlement of the hearing, additional budget for expert witnesses and legal costs for the hearing were not sought and instead funds for the ROPA 30 settlement were drawn from the OMB Hearings account.
 - \$1,281,449 unfavourable variance in POA fine revenues due to unsettled matters and a decrease in fine collection as a result of the court closures throughout the pandemic.

Finance and Infrastructure Services

2020 year-end favourable variance of \$1,131,007

- \$2,436,835 favourable variance in salaries, wages and benefits across the department due to staff vacancies, backfilling, and pandemic cost mitigation measures partially offset by overtime for Winter maintenance and less project management time recovered from capital projects.
- \$1,038,942 favourable variance as Engineering Fee revenue higher than budgeted (refer to Community Services – Planning variance for details).
- \$260,497 favourable variance as lack of opportunity to debenture through the Region of Peel in 2020 due to the pandemic and market uncertainty; debenturing occurred in February 2021.
- \$161,465 favourable variance in Parks due to cost savings for materials, electricity, equipment, and contracted service mainly due to the closure of the parks (staffing savings included in overall salaries/wages/benefits variance).
- \$135,915 favourable variance related to the pandemic as less training and seminars undertaken and lower than usual mileage.
- \$117,235 favourable variance in Engineering studies/consultants with the Stormwater Master Plan Update deferred to 2021 budget as approved by Council.
- \$92,689 favourable variance in transit costs as the Mayfield West bus service was temporarily halted by the Town's service provider, the City of Brampton, due to the COVID-19 pandemic. The Mayfield West service re-started on November 2, 2020.
- \$78,550 favourable variance in Roads for structures, drainage maintenance and contracted services for culverts as focus was on ditch and catch basin cleaning to mitigate drainage issues.
- \$45,787 favourable variance as non-salary related concession expense savings due to pandemic and town facilities being closed.
- \$34,258 favourable variance for electricity costs due to lower usage at Town hall due to the pandemic.
- \$31,000 favourable variance in Transportation for Streetlight Maintenance as the winter beautification program not fully implemented in 2020 due to limited staffing resources in the division.
- \$23,696 unfavourable variance for summer road maintenance activities as additional paved road maintenance work undertaken and street sweeping covered a larger scope of work.
- \$49,992 unfavourable variance as concession revenues have been impacted by the closure of the recreation facilities and the cafeteria closure.
- \$53,179 unfavourable variance for Tree Maintenance as unplanned emergency costs occurred from the January ice storm and autumn tree maintenance costs.

- \$237,248 unfavourable variance in Parks due to lost revenue from pandemic closures.
- \$238,955 unfavourable variance in the Emergency Management for pandemic supplies such as disposable and cloth masks, cleaning supplies, and plexiglass along with contract services for additional facility and vehicle cleaning.
- \$273,263 unfavourable variance for Fleet - Heavy Duty and standard vehicle maintenance supplies as increased repairs required partly from retaining vehicles beyond expected useful life.
- \$886,147 unfavourable variance for Winter Road Maintenance Program driven by \$689,095 additional costs from utilizing contracted services to supplement delivery of the program and \$300,583 more spent on salt as November and December had steady treatment requirements. Overages are offset by \$49,547 higher revenue from winter maintenance of unassumed subdivisions and approximately \$27,000 fuel savings. The Winter Maintenance Reserve is not being proposed to be used given the size of the departmental and Town overall surplus position and drawing from the reserve would significantly reduce the current Winter Maintenance reserve balance of \$1,317,170.
- \$1,594,343 unfavourable variance for Council approved contributions to reserve: \$1,158,846 Development Engineering Fee revenue to Development Approvals Stabilization Reserve, \$260,497 savings due to deferring the 2020 debenture to February 2021 to ensure favourable repayment terms to Capital Asset Replacement Reserve, and \$175,000 to Operating Contingency Reserve for stormwater project manager position and stormwater master plan update.

Corporate Accounts

2020 favourable variance of \$901,726

- \$1,458,100 favourable variance for 2020 COVID-19 Safe Restart Funding received from the Federal and Provincial Government to assist municipalities to continue to operate safely and assist with COVID-19 2020 and 2021 budget pressures.
- \$754,697 favourable variance in Taxation due mainly to higher revenue than budgeted payment in lieu (PIL) taxes and higher supplementary assessments as determined by the Municipal Property Assessment Corporation (MPAC).
- \$447,833 net favourable variance as interest income had a shortfall of \$494,692 mainly from lower interest rates caused by the pandemic is offset by \$942,525 less interest being contributed to reserves than planned due to the minimum interest rate declining more than was forecasted.
- \$299,730 favourable variance for centralized costs driven by \$124,901 savings in IT maintenance contracts as some contract renewals were lower than expected and the balance related to the pandemic and staff working from home meant lower copier, telephone, courier, postage and supplies costs.
- \$79,990 favourable variance forecast for insurance related expenses with less insurance adjustment services required than planned and insurance premium increase lower than originally estimated.
- \$59,036 favourable variance as bank fees lower than planned due to the decrease in town revenues.
- \$85,957 unfavourable revenue variance due to fewer statement and certificate requests.
- \$365,352 unfavourable variance comprised of budgeted Town-wide salary gapping, benefits and human resources contingencies. The salary gapping budget, or budgeted savings due to vacancies/delays in hiring new staff during the year, has historically

- been recovered from the various departments based on actual vacant positions. The salary gapping variances remain spread across the Town's operating departments rather than accumulated in Corporate Accounts.
- \$550,790 unfavourable variance for tax adjustments due to more tax write-offs than anticipated due to the Assessment Review Board working through a backlog of appeals near the end of the year and into 2021.
 - \$1,198,432 unfavourable variance related to penalties and interest for property tax payments due to pandemic related tax deferral program by-law that waived interest and penalty on late property taxes to provide relief to Caledon taxpayers.

Emergency Cost Incurred due to COVID-19

The Year-end Variance included specific pandemic-related cost incurred totaling \$599,841 for the Town at the end of the year as shown in Table 2. Costs include cleaning supplies, contracted services for enhanced cleaning services, personal protective equipment (PPE) including masks and gloves, plexiglass barriers, and technology investments to support staff seamlessly working from home.

Table 2: Pandemic Emergency Costs Summary

Department	2020 Actual Expenses (\$)	Types of Expenses
Strategic Initiatives	\$24,412	Equipment for hold pick up service, ongoing procurement of sanitizing supplies/PPE, contracted services which includes virtual meeting supports as well as wages and benefits for greeters who coordinate appointments and complete active screening
Community Services	\$275,983	Personal protective equipment, cleaning/disinfectant supplies, caretaking services, signage, physical separation barriers and training
Corporate Services	\$60,491	IT related such as purchasing earbuds, Hotspots, Webex, softphone setup, public WIFI project, Bell conferencing and monitors
Finance and Infrastructure Services	\$238,955	Pandemic supplies such as disposable and cloth masks, cleaning supplies, and plexiglass along with contract services for additional facility and vehicle cleaning.
Total	\$599,841	

Transit Cost Impact due to Pandemic

Transit for the Town is provided by both Brampton Transit (Mayfield Road service – Route 81 and Tullamore service – Route 30) and Voyago (Bolton service). At the end of 2020, there have been no cost pressures due to pandemic and mainly due to reducing the level of service on Route 81. Based on COVID-19 constraints, Brampton Transit decided to halt Route 81 servicing on Mayfield Road from March 23 to November 1, 2020. Since transit fares recover only a fraction of the costs to provide the service, the closure has resulted in savings per month of approximately \$10,000 for an estimated total of approximately \$86,000.

From November 1, 2020, all three local services are in operation, with a total operating cost of \$302,846. and ridership revenues of \$47,629. Total ridership, as shown in Table 3, is 16,733.

Table 3: 2020 Caledon Route Ridership

Q1	4,687
Q2	2,987
Q3	4,261
Q4	4,798
Total	16,733

FINANCIAL IMPLICATIONS

Transfer to/from Reserves

Development Approvals Stabilization Reserve

Due to higher than budgeted subdivision application, engineering and administration revenues received in 2020, the Town has transferred \$3,102,085 to the Development Approvals Stabilization Reserve Fund as authorized in the 2020 Year-End Operating Budget Forecast Staff Report 2020-0372. The purpose of this reserve is to collect excess revenues from the Development approval process and fund future Development approval related work which may extend up to 4 years from the time revenues are collected. The funds contributed to this reserve will allow for future budgets to draw from the reserve to fund the direct and indirect costs related to development application approval process/ activities should there be a slow-down in development applications in those future years.

Community Improvement Plan (CIP) Reserve

The CIP Grant Payments total \$37,509 as of Dec 31, 2020, which was funded from the Community Improvement Plan Reserve. Transfers from the CIP Reserve was authorized as part of the 2020 budget. The current, uncommitted balance of the Community Improvement Plan Reserve is \$134,688.

Building Permit Stabilization Reserve

There was a net contribution of \$247,018 to the Building Permit Stabilization Reserve Fund at the end of 2020 due to staff vacancies and salary gapping, offset by lower than budgeted Building Permit Fee revenues.

The Building Permit Stabilization reserve was established from the 2005 implementation of the *Building Code Statute Law Amendment Act* (Bill 124). The purpose of the reserve is to allow a municipality to stabilize slow years in terms of building activity and permit revenue. The Building Services division operates as full cost recovery and any surplus or deficit in the division is accounted for by a transfer to/from the Building Permit Stabilization Reserve Fund. Accordingly, the Building division operations do not have an impact on property taxes.

The balance in the Building Permit Stabilization Reserve Fund after the transfer of \$247,018 to the Building Permit Stabilization Reserve in 2020 is summarized below:

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Building Permit Stabilization Reserve -			
Opening Balance			\$4,827,862
Building Services:	Revenue	\$3,165,395	
	Expense	(\$2,918,377)	

2020 Amount transferred to the Building Permit Stabilization Reserve -			\$247,018
Transfer to Capital			(\$507,427)
Interest Earned			\$28,727

Building Permit Stabilization Reserve -			
Closing Balance			\$4,596,180

Post-Retirement Benefits to age 65 for Full-Time Firefighters

The Town entered into an agreement with the Caledon Professional Firefighters Association in 2015 to award post-retirement employment benefits effective December 31, 2018 for eligible full-time firefighters up-to age 65. The most current actuarial estimate of the total post-employment benefits liability as of December 31, 2020 is \$198,397. Staff recommend fully funding the increase in the liability by allocating \$56,813 of the 2020 year-end surplus to the Firefighter Post-Retirement Benefits reserve.

Year End Surplus

Staff is recommending that the \$3,375,114 operating surplus for 2020 be transferred as follows:

- \$56,813 to the Firefighter Post-Retirement Benefits reserve;
- Funds from the COVID-19 Safe Restart funding of \$1,458,100 be transferred to the Operating Contingency Reserve to assist with 2021 COVID-19 budget pressures as approved in the 2021 budget;
- Remaining funds of \$1,860,201 will be allocated to the Tax Funded Capital Contingency Reserve to fund unexpected, unanticipated or emergency capital expenses if required.

With uncertainty about revenues and additional Operating/Capital expenditures related to the COVID-19 pandemic in 2021, additional funding transferred to the Town's Operating/Capital Contingency Reserve will help financially offset a potential 2021 deficit related to the pandemic. The pandemic has resulted in significant increases in construction costs which will likely impact Town projects in the future.

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The current balances in the reserves before and after the recommended transfers are listed below:

Reserve Fund	Unaudited Uncommitted Balance as of March 31, 2021	2020 Operating Surplus	Reserve Fund Balance - after surplus transfer
Post-Retirement Benefits to age 65 for Full-Time Firefighters	\$141,584	\$56,813	\$198,397
Tax Funded Operating Contingency Reserve	\$7,220,635	\$1,458,100	\$8,678,735
Tax Funded Capital Contingency Reserve	\$5,565,159	\$1,860,201	\$7,425,360

NEXT STEPS

In order to improve relevance and efficiency of regular reporting to council, staff will be reporting future operating variance reports on a Tri-annual basis. Staff will be providing following update on Operating and Forecast variances for 2021:

- Tri-annual Operating Variance report for period ending April 30th;
- Tri-annual Operating Variance and Forecast report for period ending August 31st;
- Year-end Operating Variance report for December 31st.

As the pandemic situation evolves additional reporting may be added in the last quarter of the year, if the impacts of the pandemic are still prevalent.

COUNCIL WORK PLAN

Subject matter is not relevant to the Council Workplan.

ATTACHMENTS

Schedule A: 2020 Year End Operating Budget Variance by Department/Division

Schedule B: Summary of 2020 Year End Operating Budget Variance by Department