

Memorandum

Date: Tuesday, June 18, 2019

To: Members of Council

From: Steven Lee, Financial Analyst, Finance and Infrastructure Services

Subject: 2019 Q1 Operating Budget Variance Report

MEMO HIGHLIGHTS

- There is an overall net favourable variance of \$1,372,732 in the 2019 Operating Budget variance as of March 31, 2019 (Quarter 1, 2019) comprised of:
 - \$673,346 favourable variance in overall revenues; and
 - \$699,386 favourable variance in overall expenditures

DISCUSSION

The purpose of this memo is to provide a high level overview of the 2019 Operating Budget variance (i.e. budget vs. actuals) for the first three months of 2019, from January 1, 2019 to March 31, 2019.

Variances reported during the year may be related to timing differences where the budget for a revenue or expense is in a particular month/quarter and the actuals occur in a different month/quarter. Timing differences reported in a quarter may be offset in another quarter, resulting in no overall surplus or deficit by the end of the year. Any realized surplus or deficit at the end of the year will be reported to Council along with recommendations for transfers to or from the Town's Operating Contingency Reserve, if necessary.

Staff within each department is responsible for the delivery of their programs and/or services while managing their budgets within the Council approved 2019 Operating Budget. The responsibility for monitoring the operating budget variances is shared by Finance and departmental staff.

Finance and Department managers have worked together to review the actual revenues and expenditures as of March 31, 2019 and have compared them to the 2019 approved operating budget to identify trends and provide comments for any issues or budget variances.

2019 Operating Budget Variance (Quarter 1, 2019)

Based on the results for the quarter ending March 31, 2019, the Town has a \$1,372,732 favourable operating budget variance comprised of a \$673,346 favourable variance in revenues and a \$699,386 favourable variance in expenditures. The table below provides an overview of the first quarter variance by department and by revenues/expense:

SUMMARY OF YTD MARCH 2019 OPERATING BUDGET VARIANCE BY DEPARTMENTS

Department		2019 Q1 Budget	2019 Q1 Actuals	Variance Favourable / (Unfavourable)	Variance %
Community Services	Revenue	(2,326,174)	(2,728,204)	402,030	17.3%
	Expense	7,237,009	6,885,505	351,504	4.9%
	Net Budget	4,910,835	4,157,301	753,534	15.3%
Corporate Services	Revenue	(925,650)	(856,715)	(68,935)	(7.4%)
	Expense	3,080,922	2,735,567	345,355	11.2%
	Net Budget	2,155,272	1,878,852	276,420	12.8%
Finance & Infrastructure Services	Revenue	(377,663)	(525,955)	148,292	39.3%
	Expense	6,699,298	6,914,942	(215,644)	(3.2%)
	Net Budget	6,321,635	6,388,987	(67,352)	(1.1%)
Strategic Initiatives	Revenue	(19,557)	(36,066)	16,509	84.4%
	Expense	1,986,527	1,733,196	253,331	12.8%
	Net Budget	1,966,970	1,697,130	269,840	13.7%
Corporate Accounts	Revenue	(33,581,228)	(33,756,678)	175,450	0.5%
	Expense	21,862,500	21,897,660	(35,160)	(0.2%)
	Net Budget	(11,718,728)	(11,859,018)	140,290	(1.2%)
TOTAL	Revenue	(37,230,272)	(37,903,618)	673,346	1.8%
	Expense	40,866,256	40,166,870	699,386	1.7%
	Net Budget	3,635,984	2,263,252	1,372,732	

Note: Included in Community Services is a favourable variance for Building Services for \$124,702. Building Services will net to zero at year-end in accordance with *Bill 124* that mandates Building Services must be fully funded by its revenue from building permits.

The March 31, 2019 operating budget variances are further broken down by division within each department and are available on Schedule A of this memo.

Department Overview

The following comments by department are high-level, relevant explanations of the Quarter 1, 2019 variances. Variance review and explanations are derived through the combined efforts of Finance and department staff.

Community Services

Quarter 1, 2019 favourable variance of \$753,534

- \$517,109 favourable variance in Planning and Development revenue mostly due to higher than budgeted volume of subdivision administration and engineering fees (Digram, Argo), as well as higher volume of site plan application, proposed official plan amendment (POPA) and rezoning fees.
- \$154,627 favourable variance in salaries and wages in Community Services department due to gapping or delays in filling vacant positions in various divisions offset by an increase in fire response incidents.
- \$76,066 favourable variance in maintenance and repairs mainly due to timing of Fire & Emergency Services fleet, building and equipment maintenance.
- \$68,132 favourable variance due to timing of Heritage Grant expenses. This variance includes \$31,128 in previously approved grants for 2017 and \$37,004 for 2018 pending payment to the applicants.
- \$59,702 favourable variance in Fire & Emergency Service revenue mostly due to higher volume of motor vehicle accidents and cost recovery related to the house explosion incident in Caledon Village
- \$178,025 unfavourable variance in Recreation revenues mainly due to timing. Some lower enrollment for fitness memberships and less usage in ice rentals for minor hockey programs.

Corporate Services

Quarter 1, 2019 favourable variance of \$276,420

- \$240,249 favourable variance in salaries, wages and benefits across the department due to salary gapping, vacant positions and delay in hiring for vacancies; partially offset by backfilling vacant positions with contract staffing.
- \$29,423 favourable variance in Parking Fines/Payment as result of proactive enforcement and more timely processing and collection of parking fines.
- \$26,167 favourable variance in Legal from agreement administration fees and registry office recovery as result of higher than expected volume of site plan applications.
- \$58,983 unfavourable variances in POA mainly due to less than budgeted tickets filed by the OPP.

Finance & Infrastructure Services

Quarter 1, 2019 unfavourable variance of \$67,352

- \$122,035 favourable variance in Engineering Fees related to subdivision developments due to unbudgeted fees received from Argo Caledon Corporation and Digram Developments. Engineering fees that are in surplus of the budget at the end of the year may be transferred to the Development Approvals Stabilization Reserve to fund future work on the same development applications.
- The following unfavourable expense variances totaling \$271,077 are due to higher than budgeted costs relating to winter maintenance activities. Compared to the first quarter of 2018, there were 11 more days of precipitation with 55.7cm more snow in the first quarter of 2019. As it is difficult to predict weather conditions, the Town has a Winter Maintenance Reserve that may be used to fund expenses in years when severe weather causes spending in excess of the

budget that is based on historical averages. The unfavourable variance of \$271,077 is further detailed below:

- \$117,183 unfavourable variance in Roads and Fleet Operations overtime costs to manage increased incidents of snow events. The total overtime budget for 2019 has already been exceeded at the end of quarter one/March 2019. Accordingly, this line will be unfavourable at the end of the year after accounting for anticipated November/December 2019 winter maintenance work.
- \$112,617 unfavourable variance in higher salt purchases. The salt inventory on hand at the end of 2018 was depleted and additional purchases were made in the first quarter 2019 to replace the inventory in preparation for further winter activity. Annual salt purchases are predicted to be within budget for the year.
- \$94,466 unfavourable variance in higher diesel fuel usage for extended hours of operations equipment.
- \$53,148 favourable variance in equipment rentals and small equipment purchases mainly due to proactive efforts by Operations staff to manage Town-owned sidewalk plows and avoid rental costs for equipment that could potentially be out of service for repairs.
- \$23,049 favourable salary gapping mainly due to vacant positions in the Facilities and Traffic divisions. This favourable variance is net of a \$32,860 unfavourable variance primarily due to lower than budgeted salaries (related to internal project management) recovered from capital projects which have reached their maximum project management fee budgets.

These first quarter variances do not include an estimated \$34,000 in unbudgeted emergency repair invoices associated with the Town's response to severe flooding in downtown Bolton that started the week-end of March 15th 2019. Invoices related to contractors hired to assist in the Town's response were processed in the second quarter of 2019 and will be reflected in a future operating budget variance report.

Strategic Initiatives

Quarter 1, 2019 favourable variance of \$269,840

- \$104,984 overall favourable variance in salaries, wages and benefits across the department due to salary gapping including \$53,294 in Caledon Public Library.
- \$79,427 favourable variances for Community Improvement Plan (CIP) Grant due to the timing of committed grant payments to grantees.
- \$53,616 favourable variance in Contracted Services, CBIZ Expenses, Training and Development and Marketing and Promotions. The favourable variance is mainly due to timing, with the budget expected to be fully utilized by the end of the year.

Corporate Accounts

Quarter 1, 2019 favourable variance of \$140,290

- \$96,998 favourable variance from higher than anticipated interest revenue earned on investments mainly resulting from higher than budgeted cash balances invested in high interest savings accounts. There were lower than budgeted outgoing payments for purchases/commitments in Q1 which are expected to be paid out later in the year. Also,

proactive cash flow projections helped identify investment opportunities which resulted in more investment revenue being earned.

- \$37,717 favourable variance in corporate insurance due mainly to fewer claims requiring deductible payouts during the first three months of the year as well as lower than budgeted payments for insurance adjustor services due to timing.
- \$26,117 favourable variance in penalties and interest collected on tax arrears due to a higher than budgeted volume of late tax payments in the first quarter of 2019.
- \$22,676 favourable variance in higher than budgeted Payments-In-Lieu (PIL) of taxes received in the first quarter of 2019.
- \$87,319 unfavourable variance in higher than budgeted tax adjustments due mainly to the timing of recording the Region of Peel and school board portions of the charitable rebate adjustment. Tax adjustments are predicted to be within budget for the year.

FINANCIAL IMPLICATIONS

At the end of three months (January to March, 2019), the Town is showing a \$1,372,732 favourable operating variance.

Finance and department staff will continue to review and monitor the Town-wide budget to actual variances and report the results to Council after the end of the second quarter of 2019.

Development Approvals Stabilization Reserve

Included in the \$1,372,732 overall favourable variance at the end of the first quarter, there is a \$517,109 favourable variance in Planning and Development revenue and \$122,035 favourable variance in Engineering Fees which is due to higher than budgeted subdivision application and administration revenues received. Any surplus at year-end is transferred to the Development Approvals Stabilization Reserve Fund. The purpose of this reserve is to collect excess revenues from the Development application in-take, review, and 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

The current uncommitted balance in the Development Approval Stabilization Reserve fund is \$4,130,471.

Building Permit Stabilization Reserve

Included in the \$1,372,732 overall favourable variance is a \$124,702 favourable variance for the Building Services division which is due to greater than expected building permits applications processed in the first quarter of 2019. However, under the *Building Code Act*, the Building division operates at 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, there will be no impact to the Town's year-end financials from the Building division variance.

The current uncommitted balance in the Building Permit Stabilization Reserve fund is \$4,415,160.

COUNCIL WORK PLAN

The matter contained in this memo is not relative to the Council Work Plan.

ATTACHMENTS

Schedule A – 2019 Q1 Operating Variances