

# Memorandum

Date: September 17, 2019

To: Members of Council

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

Subject: Quarter 2, 2019 Operating Budget Variance Report

## REPORT HIGHLIGHTS

- There is an overall net favourable variance of \$1,162,689 in the 2019 Operating Budget variance as of June 30, 2019 (Quarter 2, 2019) comprised of:
  - \$614,217 unfavourable variance in overall revenues; and
  - \$1,776,906 favourable variance in overall expenditures
- In September 2019, Finance staff, with the assistance of staff from across the Town, will project year-end revenues and expenses for each account based on year-to-date (August 31, 2019) spending, historical trends and commitments for the balance of the year. Results of the year-end forecast will be presented to Council.

## DISCUSSION

The purpose of this report is to provide a high-level overview of the 2019 Operating Budget variance (i.e. budget vs. actuals) for the first six months of 2019, January 1 to June 30, 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 June 30, 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 2, 2019)

Based on the results for the quarter ending June 30, 2019, the Town has a \$1,162,689 favourable operating budget variance comprised of a \$614,217 unfavourable variance in revenues and a \$1,776,906

favourable variance in expenditures. The table below provides an overview of the second quarter variance by department and by revenues/expense:

#### SUMMARY OF YEAR-TO-DATE JUNE 2019 OPERATING BUDGET VARIANCE BY DEPARTMENTS

Department		June Year-to-date Budget	June Year-to-date Actuals	Variance Favourable / (Unfavourable)	Variance %
Community Services	Revenue	(5,256,760)	(4,849,393)	(407,367)	(7.7%)
	Expense	15,294,300	14,563,912	730,388	4.8%
	Net Budget	10,037,540	9,714,519	323,021	3.2%
Corporate Services	Revenue	(2,853,453)	(2,285,175)	(568,278)	(19.9%)
	Expense	5,840,295	5,089,059	751,236	12.9%
	Net Budget	2,986,842	2,803,884	182,958	6.1%
Finance & Infrastructure Services	Revenue	(1,117,139)	(1,288,193)	171,054	15.3%
	Expense	11,750,284	11,785,669	(35,385)	(0.3%)
	Net Budget	10,633,145	10,497,476	135,669	1.3%
Strategic Initiatives	Revenue	(77,191)	(66,021)	(11,170)	(14.5%)
	Expense	3,591,060	3,227,474	363,586	10.1%
	Net Budget	3,513,869	3,161,453	352,416	10.0%
Corporate Accounts	Revenue	(73,259,163)	(73,460,707)	201,544	0.3%
	Expense	22,724,066	22,756,985	(32,919)	(0.1%)
	Net Budget	(50,535,097)	(50,703,722)	168,625	-0.3%
TOTAL	Revenue	(82,563,706)	(81,949,489)	(614,217)	(0.7%)
	Expense	59,200,005	57,423,099	1,776,906	3.0%
	Net Budget	(23,363,701)	(24,526,390)	1,162,689	

Note: Included in Community Services is an unfavourable variance for Building Services of \$9,048. 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 June 30, 2019 operating budget variances are further broken down by division within each department and are available on Schedule A of this report.

#### Department Overview

The following comments by department are high-level, relevant explanations of the Quarter 2, 2019 variances. Variance review and explanations are derived through the combined efforts of Finance and department staff.

## **Community Services**

### **Quarter 2, 2019 favourable variance of \$323,021**

- \$518,539 favourable variance in Planning and Development revenue mostly due to higher than budgeted volume of subdivision administration and engineering fees (Digram, Argo, Caledon Development), as well as additional telecommunication site plans, subdivision, and rezoning applications.
- \$377,323 favourable variance in salaries and wages due to gapping or delays in filling vacant positions in various divisions which was partially offset by an increase in Fire and Emergency Services response incidents.
- \$122,887 favourable variance in other expenses related to timing on Park materials and printing and advertising expenses for Recreation.
- \$77,418 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.
- \$67,606 favourable variance in utilities mainly in Recreation, and partially related to an upgrade of a building automation system for refrigeration at Albion Bolton Union Community Centre.
- \$58,330 favourable variance in Fire and Emergency Services revenue mostly due to higher volume of motor vehicle accidents and cost recovery related to the house explosion incident in Caledon Village
- \$46,383 favourable variance in maintenance and repairs mainly due to timing of fleet charges to Fire and Emergency Services, and expenses related to building and equipment maintenance.
- \$385,781 unfavourable variance in Building Permit revenue due to lower than budgeted number of building permits issued in the second quarter. Building activity is expected to increase in the second half of the year to coincide with construction season. Any net shortfall in Building Services revenues at the end of 2019 will be offset by a draw from the Building Permit Stabilization fund so that there will be no impact on property taxes, in accordance with Bill 124.
- \$617,162 unfavourable variance in Recreation revenues mainly due timing, (e.g. the 2019 budget was allocated based on timing of revenues historically reported by the previous recreation software. An upgrade to new recreation software resulted in a minor change in the timing of when revenues are reported) and a \$47,256 unfavourable variance related to lower enrollment for fitness programs. Overall revenue for general programs, rentals, pool registrations, and camps are expected to be on target with the 2019 budget by the end of the year. The monthly allocation of budgeted recreation revenues will be adjusted in the 2020 budget to align with the new recreation software.

## **Corporate Services**

### **Quarter 2, 2019 favourable variance of \$182,958**

- \$462,351 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.
- \$21,110 favourable variance in Parking Fines/Payment as result of additional ticketing efforts.
- \$299,069 unfavourable variance in Caledon Fines due to a reduction in fines assessed through the court process which resulted from reduced tickets filed by the Caledon OPP compared with the budget. Additional collections in Provincial Offences Courts have been in place with results from those efforts expected in the second half of 2019, which may help reduce the unfavourable variance in Caledon Fines.
- \$32,136 unfavourable variance in Property Standards Administration Fees due to fewer compliance matters performed. This also leads to a \$154,653 offsetting variance in both revenue and expenses for recoverable property standards expenses.

- \$44,174 offsetting variance in both revenues and expenses from interdepartmental chargebacks in Information Technology as the result of changes in business requirements with Building Services.

## **Finance & Infrastructure Services**

### **Quarter 2, 2019 favourable variance of \$135,669**

- \$172,177 favourable variance in summer road operations mainly due to timing; summer calcium, gravel road work and base repair work were delayed due to rainy weather.
- \$153,357 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 will be contributed to the Development Approvals Stabilization Reserve to fund future work on in-progress applications in years with lower development revenues.
- \$140,105 favourable variance in streetlight maintenance, transit, and traffic operations mainly due to timing of expenses. This includes \$21,140 favourable variance in streetlight electricity costs due to the reduction in cost per kilowatt hour (kwh) and usage.
- \$70,591 favourable salary gapping mainly due to vacant positions in the Facilities, Traffic, Purchasing & Energy/Environment divisions. This favourable variance is net of a \$70,043 unfavourable variance primarily due to lower internal project management (salary) recoveries from capital projects which have reached their maximum project management fee budgets.
- \$47,895 favourable variance in overall maintenance and repair of building expenses due to timing of purchases and maintenance
- \$30,513 favourable variance in Sweeping Contract work delays due to contract negotiations.
- The following unfavourable expense variances totaling \$275,740 are mainly due to higher than budgeted costs relating to winter maintenance activities. 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. Unfavourable variance of \$275,740 is further detailed below:
  - \$59,854 favourable variance in equipment rentals and small equipment purchases mainly due to the efforts by Operations staff to safely operate Town sidewalk plows thus avoiding rental costs to replace equipment that could potentially be out of service for repairs.
  - \$116,446 unfavourable variance in higher diesel and miscellaneous fuel usage for extended hours of operations equipment due to increased amount of snow and ice events.
  - \$115,765 unfavourable variance in higher salt purchases. With winter weather extending into quarter 2, the salt inventory on hand at the end of 2018 was depleted and additional purchases were made to replace the inventory in preparation for further winter weather events. Annual salt purchases are predicted to be within budget for the year, weather pending.
  - \$103,383 unfavourable variance in Roads and Fleet Operations overtime costs to manage increased incidence of snow events. The total overtime budget for 2019 has already been exceeded.
- There is a \$214,422 unfavourable variance in the Engineering division related to the timing of debt transactions (e.g. transactions in one month and budget in a later month). The timing will be adjusted in the 2020 budget.
- \$37,220 unfavourable variance in unanticipated contracted services and repairs due mainly to the Humber River flooding incident in Bolton.

## **Strategic Initiatives**

### **Quarter 2, 2019 favourable variance of \$352,416**

- \$170,594 overall favourable variance in salaries, wages and benefits across the department due to salary gapping including \$76,100 in Caledon Public Library.
- \$71,927 favourable variance for Community Improvement Plan (CIP) Grant due to the timing of committed grant payments to grantees.
- \$45,660 favourable variance in Contracted Services, CBIZ Expenses and Marketing and Promotions. The favourable variances are mainly due to timing, with the budget expected to be fully utilized by the end of the year.
- \$34,909 favourable variance in Legal Expense, Health and Wellness and Special Charges due to timing of scheduled activities, events and fluctuation of expenses.

## **Corporate Accounts**

### **Quarter 2, 2019 favourable variance of \$168,625**

- \$549,709 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 end of Q2 which are expected to be paid out later in the year. Also, proactive cash flow projections helped identify investment opportunities which had resulted in more investment revenue being earned.
- \$130,248 favourable variance in Penalties & Interest collected on tax arrears due to a higher than budgeted volume of late tax payments at the end of second quarter of 2019.
- \$513,220 unfavourable variance in timing of Payments in Lieu (PIL) revenue, Supplementary revenue, Railway right of way taxes, Elderly Tax Assistance adjustments to low income seniors and higher than budgeted tax billing adjustments due to adjustments based on Municipal Property Assessment Corporation (MPAC) assessments

## **FINANCIAL IMPLICATIONS**

At the end of six months (January to June 2019), the Town is showing a \$1,162,689 favourable operating variance.

Finance and department staff will continue to review the Town-wide budget to actual variances. In September, staff will project year-end revenues and expenses for each account based on year-to-date (August 31, 2019) spending, historical trends and commitments for the balance of the year. Results of the year-end forecast will be presented to Council.

### Development Approvals Stabilization Reserve

Included in the \$1,162,689 overall favourable variance at the end of the second quarter, there is a \$518,539 favourable variance in Planning and Development revenue and \$153,359 favourable variance in Engineering Fees which is due to higher than budgeted subdivision administration applications and engineering 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 \$1,162,689 favourable variance is a \$9,048 unfavourable variance for the Building Services division which is due to lower than expected building permits applications processed in the second quarter of 2019. However, under *Bill 124* of 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 report is not relative to the Council Work Plan.

### **ATTACHMENTS**

Schedule A – 2019 Q2 Operating Budget Variances