Meeting Date: October 22, 2019

Subject: 2019 Year-end Operating Budget Forecast

Submitted By: Michelle Xu, Financial Analyst, Finance

RECOMMENDATION

That staff be authorized to draw from the Development Approvals Stabilization Reserve in 2019 to fund any overall operating budget shortfalls related to development application revenues in planning and engineering services;

That $98,793 be transferred from the Development Charges Exemptions and Discounts reserve to partially fund discretionary development charge discounts provided in 2019 in accordance with the Town’s Development Charges By-law;

That any 2019 operating budget shortfall in the Building Services division be funded from the Building Permit Stabilization Reserve fund to ensure that Building operations does not impact the Town’s 2019 Operating Budget; and

That any favourable variances related to the timing of external debenture payments be transferred to the Capital Asset Replacement Reserve;

REPORT HIGHLIGHTS

- On February 5, 2019, Council approved the Town of Caledon’s 2019 budget which included a gross operating budget of $100,627,977 including in-year technical adjustments.
- In September 2019, Finance staff with the assistance of department staffs from across the Town projected 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.
- At present, the Town is projecting a $742,949 favourable variance for the 2019 year-end comprised of:
  - $6,577,973 favourable variance in overall revenues; offset by
  - $5,835,024 unfavourable variance in overall expenditures/transfers.

DISCUSSION

The purpose of this report is to provide a high-level overview of the 2019 Operating Budget year-end variance forecast (i.e. budget vs. actuals) following the first eight months of 2019, ending August 31, 2019.

Staff within each department are responsible for the delivery of programs/services while managing their budgets within the Council approved 2019 Operating budget. The responsibility of monitoring the operating budget variances is shared by Finance and departmental staff. Department managers were given financial information based on
revenues and expenditures to August 31, 2019 and asked to provided comments and projections to Finance staff. Included in expenditures are contributions to reserves which appear as an expense, however it does mean the Town’s reserves have increased.

2019 Operating Year-end Forecast Variance (Based on August 31, 2019 year to date results)

The table below provides a high-level overview of the projected year-end $742,949 favourable budget variance by department, revenues, and expenses (including transfers to reserves):

### SUMMARY OF 2019 YEAR-END OPERATING BUDGET VARIANCE BY DEPARTMENT

<table>
<thead>
<tr>
<th>Department</th>
<th>Total 2019 Budget</th>
<th>2019 Year-End Forecast</th>
<th>Variance Favourable / (Unfavourable)</th>
<th>Variance %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic Initiatives</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenue</td>
<td>(251,956)</td>
<td>(280,207)</td>
<td>28,251</td>
<td>11.2%</td>
</tr>
<tr>
<td>Expense</td>
<td>7,504,896</td>
<td>7,163,226</td>
<td>341,670</td>
<td>4.6%</td>
</tr>
<tr>
<td>Net Budget</td>
<td>7,252,940</td>
<td>6,883,019</td>
<td>369,921</td>
<td>5.1%</td>
</tr>
<tr>
<td>Community Services</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenue</td>
<td>(12,716,173)</td>
<td>(11,578,130)</td>
<td>(1,138,043)</td>
<td>-8.9%</td>
</tr>
<tr>
<td>Expense</td>
<td>31,913,370</td>
<td>31,007,494</td>
<td>905,876</td>
<td>2.8%</td>
</tr>
<tr>
<td>Net Budget</td>
<td>19,197,197</td>
<td>19,429,364</td>
<td>(232,167)</td>
<td>-1.2%</td>
</tr>
<tr>
<td>Corporate Services</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenue</td>
<td>(5,993,876)</td>
<td>(5,280,784)</td>
<td>(713,092)</td>
<td>-11.9%</td>
</tr>
<tr>
<td>Expense</td>
<td>11,662,886</td>
<td>10,676,405</td>
<td>986,481</td>
<td>8.5%</td>
</tr>
<tr>
<td>Net Budget</td>
<td>5,669,010</td>
<td>5,395,621</td>
<td>273,389</td>
<td>4.8%</td>
</tr>
<tr>
<td>Finance &amp; Infrastructure Services</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenue</td>
<td>(2,805,781)</td>
<td>(3,172,465)</td>
<td>366,684</td>
<td>13.1%</td>
</tr>
<tr>
<td>Expense</td>
<td>21,886,459</td>
<td>21,942,433</td>
<td>(55,974)</td>
<td>-0.3%</td>
</tr>
<tr>
<td>Net Budget</td>
<td>19,080,678</td>
<td>18,769,968</td>
<td>310,710</td>
<td>1.6%</td>
</tr>
<tr>
<td>Corporate Accounts</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenue</td>
<td>(78,860,191)</td>
<td>(86,894,364)</td>
<td>8,034,173</td>
<td>10.2%</td>
</tr>
<tr>
<td>Expense</td>
<td>27,660,366</td>
<td>35,673,443</td>
<td>(8,013,077)</td>
<td>-29.0%</td>
</tr>
<tr>
<td>Net Budget</td>
<td>(51,199,825)</td>
<td>(51,220,921)</td>
<td>21,096</td>
<td>0.0%</td>
</tr>
<tr>
<td>TOTAL</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenue</td>
<td>(100,627,977)</td>
<td>(107,205,950)</td>
<td>6,577,973</td>
<td>6.5%</td>
</tr>
<tr>
<td>Expense</td>
<td>100,627,977</td>
<td>106,463,001</td>
<td>(5,835,024)</td>
<td>-5.8%</td>
</tr>
<tr>
<td>Net Budget</td>
<td>-</td>
<td>(742,949)</td>
<td>742,949</td>
<td></td>
</tr>
</tbody>
</table>

2019 Operating Variance forecast by division is available on Schedule A of this staff report.

**DEPARTMENT OVERVIEW**

The comments below by department are high level relevant explanations of the projected 2019 year-end variances and do not contain all issues or details for each area.

**Strategic Initiatives**

2019 Year-end operating budget forecast unfavourable variance of $369,921
$173,411 favourable variance in Salaries and Benefits across the department primarily due to salary gapping, staffing vacancies and delay in filling vacant positions, partially offset by backfilling vacant positions with contract staff.

$26,740 favourable variance in Marketing & Events as the result of delays in strategy development caused by an evolving business environment and also in CBIZ Expenses as fewer scheduled events were held than originally planned.

$24,157 favourable variance in Special Charges under Human Resources due to the fluctuating timing of claims and also in Health and Wellness under Human Resources due to staff exploring different initiatives as the division gauge and adjust to the varying demands from staff.

$101,340 favourable variance for Library is mainly due to salary gapping related to vacancies and delay in filling vacant positions as well as some full-time staff on Long-term disability that are being backfilled by part time staff.

Community Services
2019 Year-end operating budget forecast unfavourable variance of $232,167

$53,846 favourable in Parks revenues mostly in rental revenue due to ideal summer weather and new facilities such as Challenger Diamond and additional field usage at the Caledon East Community Centre Soccer Complex.

$95,487 favourable variance in utilities mainly in Recreation, partially related to an upgrade of a building automation system for refrigeration at Albion Bolton Union Community Centre.

$198,383 favourable variance in Fire and Emergency Services revenue mostly due to higher volume of motor vehicle accidents and burn permits, partially offset by reduced lease revenue for the Bolton EMS station which came in lower than expected due to delays in occupancy and less fire related charge backs to the Town of Mono due to a decrease in fire incidents.

$79,164 favourable variance in other expenses for Community Services due to reduced spending in Park materials, operating supplies and equipment repair in the Recreation division to offset overall projected deficit in the department.

$331,026 unfavourable variance in Recreation revenues mainly due to 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 change in the timing of when revenues are reported since the new system is more accurate with membership revenue reporting. The monthly allocation of budgeted recreation revenues will be adjusted in the 2020 budget to align with the new recreation software. A more detailed breakdown of the variance is provided as follows:

- $189,900 unfavourable revenue in fitness memberships which is expected to be lower in 2019 due to the timing of membership revenue (eg. some 2019 membership revenue recorded in 2018 in the previous system) in the new recreation software.
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- $47,369 unfavourable revenue from general program registrations and special programs due to increased competition from private organizations’ programs.
- $27,975 unfavourable arena board advertising revenue due to the new vinyl boards malfunctioning which caused revenue to be lost until the problem could be rectified.

- $374,093 unfavourable variance in Planning and Development revenue mostly due to lower than budgeted volume of subdivision applications partly due to some applications being appealed therefore not expected to be collected this year. This variance is being offset partially by unbudgeted subdivision administration applications and engineering fees revenue from Digram, Argo and Caledon Development.

- As there is a projected deficit in Planning and Development revenues, it is recommended to draw from the Development Approvals Stabilization Reserve Fund at year-end. There is a related favourable variance in reserve fund to revenue due to the forecasted draw of $374,508 from the Development Approvals Stabilization Reserve Fund. If additional revenue or projections change by year-end this draw from the reserve will be adjusted accordingly.

- $532,021 unfavourable variance in Building Services revenue due to lower than budgeted number of building permits issued. This is partially offset by a favourable variance in salary gapping, vacancies and less expenses in this division overall.

- As there is a deficit in Building, it is recommended to draw $387,913 from the Building Permit Stabilization reserve at year-end. This would result in a favourable variance of $131,497 due to the higher than budgeted withdrawal from reserves. If additional revenue or projections change by year-end this draw from the reserve will be adjusted accordingly.

- $23,112 unfavourable salaries and wages in community Services made up of a $412,093 unfavourable salary and wages variance for the Fire and Emergency Services due to a $220,924 unfavourable variance in Volunteer Firefighter wages caused by increased volume of fire related incidents and $130,815 unfavourable variance in overtime due to coverage for sick leave and vacation coverage. This variance was partially offset by $388,981 favourable salary and wages variance in the other Community Services divisions due to salary gapping and vacancies or delays in filling in various positions within the department.

Corporate Services
2019 Year-end operating budget forecast favourable variance of $273,389

- $640,657 favourable variance in Salaries and Benefits across the department primarily due to salary gapping, staffing vacancies and delay in filling vacant positions, partially offset by backfilling vacant position with contracted staffing.
- $28,060 favourable variance in Regulatory Services Fill Permits due to a large agricultural application.
- $45,459 favourable variance in Contracted Services is due to changing business requirements across the department.
- $117,937 unfavourable variance in Legal from legal services and LPAT Hearings due to more legal matters this year requiring external legal counsel and also partly due to staff vacancies.
- $343,207 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 to budget. Additional collections in Provincial Offences Courts have been in place which has helped reduce the unfavourable variance in Caledon Fines.

Finance & Infrastructure Services

2019 Year-end operating budget forecast favourable variance of $310,710
- $378,166 favourable variance in External Debt Repayment budgets due to the timing of projects being completed and debentured along with the phase in of debt for the 2018 and 2017 enhanced roads program. Staff have forecasted and are recommending transferring this favourable variance to the Capital Asset Replacement Reserve at the end of the year to be utilized in the 2020 capital budget.
- $272,870 favourable salary gapping mainly due to vacant positions in the Facilities, Traffic, Engineering, Purchasing and Energy and Environment divisions. This favourable variance is net of a projected $112,367 unfavourable variance primarily due to lower than budgeted recoveries from capital projects which have reached their maximum project management fee budgets. Project manager vacancies during the year also resulted in less recoveries than anticipated in 2019.
- $46,225 favourable variance in the Facilities division for the building maintenance, and repair expenses mainly due to lower repairs required than budgeted.
- $30,402 favourable variance expected in Base road repairs and $29,325 favourable variance in bridge inspection costs due to favourable contract/tender prices.
- $25,004 favourable variance in Street Lights Electricity cost due to slightly lower streetlight electricity rates and lower usage than budgeted.
- The following unfavourable expense variances totaling $300,585 are 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 more than the budget that is based on historical averages. The breakdown of the unfavourable variance of $300,585 is further detailed below:
  - $46,115 favourable variance in equipment rentals and small equipment due to less breakdown incidents with the sidewalk plows requiring emergency equipment rentals while equipment is being repaired.
There are several unfavourable variances to note:

- **$120,487** unfavourable variance in higher diesel and miscellaneous fuel usage for extended hours of operations equipment due to more winter events and increase usage of trucks than normal.
- **$115,765** unfavourable variance in salt due to more winter events than normal. The salt inventory on hand at the end of last year was depleted and additional purchases were made to replace the inventory in preparation for further winter weather events.
- **$110,448** unfavourable variance in Roads and Fleet Operations overtime costs to manage increased incidence of snow events.

In order to fund the unfavourable variance in winter events operations, **$173,272** of funds is forecasted to be transferred from Winter Maintenance Reserve to the Roads division in 2019.

- **$80,726** unfavourable variance in construction and other vehicle maintenance due to higher than budgeted parts & repairs and expected to be higher this year due to the trending of expenses during the first 6 months.
- **$74,093** unfavourable variance in Engineering division due to lower than budgeted volume of subdivision applications that are not expected to be collected this year as explained above. This variance is offset partially by unbudgeted subdivision applications from Digram, Argo and Caledon development. **$60,626** is forecasted to be transferred from the Development Approvals Stabilization Reserve at year end to fund the unfavourable variance. If additional revenue or projections change by year end, this forecasted transfer will be adjusted accordingly.
- **$70,841** unfavourable variance from recoveries of Caledon Community Services due to the Fuel Tank replacement project that is in progress which results in a favourable variance in unleaded gasoline expense of **$74,809**.
- **$54,671** unfavourable variance from Fire and Other Heavy Duty Vehicle Maintenance expenses in the Roads division due to higher than budgeted maintenance expenses mainly from Fire vehicles which results in a favourable variance in recoveries of Fire vehicle maintenance of **$171,022**.
- **$38,647** unfavourable variance in unanticipated contracted services and repairs due mainly to the Spring 2019 Humber River ice jam/flooding incident in Bolton.
- **$30,294** favourable variance in Town Square Café forecasting higher sales than budgeted due to additional sales from High School students.

### Corporate Accounts

**2019 Year-end operating budget forecast unfavourable variance of $21,096**

- **$1,196,371** 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. Proactive cash flow projections helped identify investment opportunities which resulted in more investment revenue being earned.
• $378,866 favourable variance in taxation revenue due mainly to higher than budgeted payment in lieu (PIL) revenue, taxes and higher supplementary assessments as determined by the Municipal Property Assessment Corporation (MPAC).
• $250,607 favourable variance in Penalties & Interest collected on tax arrears due to a higher than budgeted volume of late tax payments.
• $1,034,071 net unfavourable variance in discretionary Development Charges (DC) exemptions provided to developments that qualified for DC exemption for LEED discounts, on-farm diversified and development that occurred in the Bolton Business Improvement Area (BIA) as per the Town’s DC By-law. The net variance assumes a draw will be made from Development Charges Exemptions and Discounts reserve to partially fund discretionary development charge discounts provided during the year of $98,793. The annual budget for DC discounts and exemptions is $100,000 per year. The main cause for the large variance relates to the exemption provided to residential development in the BIA. Staff recommend increasing the annual budget for DC discounts and exemptions if the DC exemption for residential development in the Bolton BIA continues past the May 28, 2021 expiry period as outlined in DC By-law 2019-31.
• $333,333 unfavourable variance in payroll savings which is the annual budgeted Town-wide salary gapping. The salary gapping has historically been allocated from the various departments based on vacant positions. Due to a change in methodology beginning in 2018, the favourable salary gapping variances remain spread across the Town’s operating departments rather than accumulated in Corporate Accounts.
• $426,317 unfavourable variance in Corporate Accounts due to unplanned contractual personnel matters.

FINANCIAL IMPLICATIONS

Transfer to/from Reserves

Building Permit Stabilization Reserve

There is an overall unfavourable projected year-end variance in Building Services of $387,913, primarily due to fewer building permits issued than anticipated for the year partially offset by salary gapping. However, under Bill 124 of the Building Code Act, the Building Services division operates as a full cost recovery and any surplus or deficit in the department is accounted for by a transfer to/from the Building Permit Stabilization Reserve Fund. The current balance in the Building Permit Stabilization Reserve Fund is $4,415,160. A projected year-end transfer from the Building Permit Stabilization Reserve Fund is expected for $387,913 which will leave $4,027,247 in the reserve at year-end. Accordingly, there will be no impact to the Town’s year-end operating budget financials from the Building Services division variances.
Development Approvals Stabilization Reserve
Due to less than budgeted subdivision revenues, the Town is currently forecasting to draw $435,134 (=\$374,508+\$60,626) from the Development Approvals Stabilization Reserve Fund which currently has an uncommitted balance of $4,130,471. Both the Planning and Development and Infrastructure Services report that works related to development applications may extend up to 4 years from the time revenues are collected. This reserve serves the purpose of collecting excess revenues from the Development approval process and funds future Development approval related-work. The funds will allow future budgets to have budgeted draws from this reserve to fund the direct and indirect costs related to the development approval process.

Winter Maintenance Reserve
As it is difficult to predict future weather conditions, winter maintenance budgets are determined using historical averages but often are not sufficient in years when there are severe winter weather conditions. The Town is currently forecasting to draw $173,372 from the Winter Maintenance Reserve to fund winter maintenance costs that are in excess of the budget. All transfers from the winter maintenance reserve fund will be included in the 2019 Year-end Operating Budget Variance Report. The current balance in the Winter Maintenance Reserve Fund is $1,781,163.

Operating Budget Contingency Reserve
In the past, The Town’s year-end operating budget surpluses have been allocated to the Town’s Operating and Capital contingency reserves. If the Town reports an operating deficit, the town can draw funding from the Operating Budget Contingency Reserve fund which currently has an uncommitted balance of $2,798,857.

COUNCIL WORK PLAN

Not Applicable

Subject matter is not relevant to the Council Workplan.

ATTACHMENTS

Schedule A – 2019 Year-end Operating Budget Forecast – Department/Division