






Subject: **2024 Second Quarter Variance Report**
 Meeting Date: Tuesday, August 20, 2024
 Prepared By: Marika von Mirbach, Manager of Financial Planning
 Presented By: Marika von Mirbach, Manager of Financial Planning

STRATEGIC PLAN ALIGNMENT: (Check all that apply)

	<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>
High Quality Infrastructure		Economic Resilience		Quality of Life		Effective Leadership		Level of Service	

RELEVANT LEGISLATION:

Provincial Financial affairs of the municipality are governed by the *Municipal Government Act*
Council Bylaw/Policy Internal policy states that Corporate Services will provide Council with a quarterly financial report and preliminary year-end report.

BACKGROUND/PROPOSAL:

Council receives quarterly financial reports during the year. These reports are intended to inform Council of financial transactions to date and how expenditures, revenues, and other financial indicators compare to the annual operating budget and plan that Council previously approved.

The purpose of this report is to:

- Report on the 2024 Operating Budget performance to date.
- Report on the Operating Budget Projects approved in the 2024 Operating Budget.
- Report on the status of all approved 2024 Capital Projects.
- Provide other supplementary information on key financial indicators for the municipality.

This report is for the period ending June 30, 2024 (Second Quarter).

DISCUSSION/OPTIONS/BENEFITS/DISADVANTAGES/OTHER CONSIDERATIONS:

The County is required under the *Municipal Government Act (MGA)* to approve both an Operating and Capital budget which are balanced and fully funded. To achieve this, the budget is prepared on a fiscal viability basis and is monitored and controlled to achieve the desired outcome of a balanced budget. As such, all budgeted revenues must equal budgeted expenditures.

The budgeting process allows municipalities to prioritize projects, programs, and service levels based on anticipated revenue and expenses. A municipality’s annual budget routinely consists of two components:

- The **Operating Budget** plans for a municipality’s day-to-day expenditures (e.g., salaries, wages, benefits, heat, electricity, and maintenance of buildings and infrastructure, etc.).
- The **Capital Budget** plans for the purchase and financing of assets or improvement of infrastructure (e.g., roads, water and wastewater facilities, county facilities, major projects, etc.)



This RFD includes the following Financial Reports:

- Operating Budget Summary by Function (Appendix A)
- Operating Budget Summary by Department (Appendix B)
- Operating Project Summary (Appendix C)
- Capital Project Summary (Appendix D)
- Cash and Investment Summary (Appendix E)
- Reserve Continuity Schedule (Appendix F)

Operating Budget Summary by Function (Appendix A)

Appendix A provides Council with a corporate summary of the Operating Budget performance for the six months ending June 30, 2024, and explains unfavourable or favourable corporate results forecasted to year-end.

This section of the report will focus on *Appendix A*, which provides operating results by classifying the revenue source or nature of expenditure. *Appendix B*, presented by organizational unit, provides information on each department's individual performance; a high-level summary of the driving factors behind departmental results is also included within this report.

The total net forecasted revenue/expenditure year-end result anticipates a surplus of \$4,015,961. Of this surplus, \$3,110,522 (77.5%) relates to the receipt of unbudgeted funds from investment revenues; this aligns with the preliminary reserve strategy presented to Council in October of 2023. An additional \$433,267 (10.8%) relates to the receipt of unbudgeted funds for the sale of capital equipment. The remaining projected surplus on the core operating budget is \$472,172, representing a 1.5% overall variance from the budget.

Revenue Summary - \$3,727,288 favourable forecasted to the end of the year

The driving factors of the favourable revenue variance are:

- Licenses and Permits* - \$8,025 favourable related to planning and development permits.
- Other Revenue* - \$108,250 favourable for oilfield water licensing revenues.
- Sale of Goods and Services* - \$86,275 favourable consisting of:
 - \$60,000 favourable from the dust control program.
 - \$26,300 favourable related to other small variances across departments, including water distribution, paid parking, scrap metal sales, tax notification fees, and map sales.
- Sales to Other Governments* - \$6,950 favourable consisting of:
 - \$13,000 favourable with respect to waste transfer site agreements.
 - \$6,000 unfavourable related to enforcement callouts.
- Penalties and Fines* - \$5,212 unfavourable related to penalties on property taxes.
- Property Taxes* - \$38,458 favourable related to assessment adjustments.
- Special Taxes and Frontage* - \$41,875 favourable relating to riser fees received, which are not included in the approved budget due to their unpredictability and for which the revenues will be contributed to the water reserve during the fourth quarter report.
- Return on Investments* - \$3,110,522 favourable. This significant variance aligns with the preliminary reserve strategy presented to Council in October of 2023, whereby investment returns are intended to be utilized as a reserve growth mechanism rather than an operating budget funding source. *Motion #1* recommends the contribution of \$1,695,637 to reserves, representing the income above the expected amount as of June 30, 2024.



- ix. *Transfer from Reserves* - \$100,385 **unfavourable** relates to:
- \$52,000 **favourable** for an additional reserve draw approved within Council motion 387/23 to fund repairs to the Trochu fire truck for which there is an offsetting unfavourable expenditure variance under *Transfers to Individuals and Organizations*.
 - \$152,385 **unfavourable** represents reserve funding not anticipated to be utilized by operating projects.
- x. *Capital Equipment Plan Sales* - \$433,267 **favourable** relates to the sale of capital equipment. *Motion #2* recommends contributing these funds to the Capital Equipment Plan reserve.

All other revenue streams align with expectations; no significant year-end variances are anticipated.

Expense Summary \$288,673 **favourable** forecasted to the end of the year.

The driving factors of the favourable expenditure variance are:

- i. *Contract Goods and Services* - \$67,443 **favourable**. This variance has a number of contributing factors, including:
- \$22,000 **favourable** related to advertising and PR.
 - \$16,000 **favourable** related to training, conferences, and memberships.
 - \$14,000 **favourable** related to professional contracted services.
 - \$12,000 **favourable** for land care programming.
 - \$6,000 **favourable** for contracted shop repairs.
 - \$5,000 **favourable** for insurance.
 - \$4,000 **favourable** related to ground maintenance.
 - \$4,000 **favourable** in major maintenance initiatives.
 - \$12,000 **unfavourable** in building repair and maintenance expenditures.
- ii. *Materials, Goods, Supplies, and Utilities* - \$131,987 **favourable**. This variance has a number of contributing factors, including:
- \$25,000 **favourable** in shop supplies.
 - \$24,000 **favourable** for fuel.
 - \$20,000 **favourable** in utilities.
 - \$19,000 **favourable** for water for resale.
 - \$18,000 **favourable** related to small tools and equipment.
 - \$16,000 **favourable** for general goods and supplies across various departments.
 - \$5,000 **favourable** in extension program expenses.
 - \$5,000 **favourable** related to park supplies.
- iii. *Salaries and Wages* - \$42,621 **favourable**. The year-end forecast reflects the implementation of the 50% market adjustment. Based on current salary trends with position vacancies, the full impact of that implementation is anticipated to be funded through the operating budget; however, implementation may put some departments over budget due to position allocations. The forecast predicts that the reserve funds set aside from the 2023 surplus may not be required to implement the market adjustment.
- iv. *Purchases from Other Governments* - \$38,821 **unfavourable** relates to an unbudgeted Drumheller Waste Commission payment increase.
- v. *Transfer to Individuals and Organizations* - \$66,796 **unfavourable** includes:
- \$3,000 **favourable** related to grant programs.
 - \$52,000 **unfavourable** for repairs to a Trochu fire unit, for which reserve funds have been utilized in accordance with Council motion 387/23.
 - \$18,000 **unfavourable** for repairs to a Linden fire unit.
- vi. *Non-TCA Operating Projects* - \$152,385 **favourable** representing operating projects anticipated to be under budget; further details can be found in *Appendix C* and the associated section of this report.



All other expenditure classes align with expectations; no significant year-end variances are anticipated.

Operating Budget Summary by Department (Appendix B)

Whereas *Appendix A* discussed the operational results by classification of revenue or nature of expenditure, *Appendix B* provides an overview of operational results by department. This section will highlight key trends affecting each department's year-end forecast.

Council

- *Revenues* – no forecasted variance; revenue relates to the Strategic Initiatives operating project.
- *Expenses* – \$20,017 favourable relates to cost savings in contracted services and grant programming, partially offset by an \$8,000 forecasted unfavourable variance in salaries and wages.

Corporate Items

- *Revenues* - \$3,613,526 favourable primarily relates to higher than budgeted investment returns which are recommended to be contributed to reserves in alignment with the Reserve Strategy currently in progress. It also includes the favourable variance relating to the sale of capital equipment.
- *Expenses* - \$12,695 favourable relates to small variances in corporate contracted services and materials and supplies.

Office of the CAO

- *Revenues* - N/A
- *Expenses* - \$3,653 favourable relates to contracted services.

Corporate Services

- *Revenues* - \$80,000 unfavourable relates to the required funding for the IT Master Plan operating project; further details can be found in *Appendix C* and the associated section of this report.
- *Expenses* - \$66,532 favourable includes favourable variances in operating projects and material costs, offset by unfavourable variances in contracted services and salaries; the unfavourable salaries component relates to market adjustment implementation.

Transportation

- *Revenues* - \$171,184 favourable primarily relates to higher than budgeted dust control and water access agreement revenues.
- *Expenses* - \$108,056 favourable includes an unfavourable variance in contracted services offset by favourable variances in materials and supplies, and salaries.

Environmental Services

- *Revenues* - \$36,893 favourable primarily relates to water connection fees.
- *Expenses* - \$11,302 favourable includes favourable variances in contracted services, materials, and supplies, offset by an unfavourable variance in the Drumheller Waste Commission payment.

Facilities

- *Revenues* – no forecasted variance; the revenue relates to operating projects.
- *Expenses* - \$12,341 unfavourable relates to higher than budgeted building repair costs.

Enforcement

- *Revenues* - \$9,000 unfavourable relating to fines and callout services.
- *Expenses* - \$77,054 favourable primarily relates to salaries and wages due to vacancies.



Fire

- *Revenues* - \$41,929 **favourable** primarily relates to the reserve draw approved by Council to fund repairs to a Trochu fire unit.
- *Expenses* - \$46,475 **unfavourable** primarily relates to repairs on the Trochu fire unit.

Disaster

- *Revenues* - N/A
- *Expenses* - \$979 **favourable** relates to materials and supplies.

Planning

- *Revenues* - \$13,636 **favourable** relates to licenses and permits.
- *Expenses* - \$5,250 **favourable** includes favourable variances in contracted services offset by an unfavourable salary variance relating to market adjustment implementation.

Agricultural Services (ASB)

- *Revenues* - \$58,580 **unfavourable** relates to reserve funding not being utilized for Growing Kneehill.
- *Expenses* - \$112,416 **favourable** includes favourable variances in contracted services, salaries, and operating project expenditures.

Parks

- *Revenues* - \$100 **favourable** relating to the sale of services.
- *Expenses* - \$34,309 **favourable** relates to contracted services, materials, and salaries.

Cemetery

- *Revenues* - \$2,400 **unfavourable** relates to plot sales.
- *Expenses* - \$2,840 **favourable** includes seasonal wages.

Economic Development

- *Revenues* – N/A
- *Expenses* - \$107,614 **unfavourable** primarily relates to salaries and wages due to the addition of an unbudgeted position by Council motion.

Operating Project Summary (Appendix C)

The County is undertaking 17 operating projects in 2024. The specific details of each project including budget, expenditures to date, funding source, projected final cost, projected variance, start date, projected end date, and comments on project status are detailed in *Appendix C*.

Overall, Operating Projects have a projected **favourable** variance of \$152,385 (~ 11% of the total Operating Project budget); the contributing factors are:

- Ten (10) have no projected variance based on the project progress as of June 30, 2024.
- Five (5) are projected to be completed under budget.
- One (1) is to be completed in-house.
- One (1) is projected to be over budget by \$204.

Any operating projects which are completed under budget will reduce the funds drawn from the associated reserve. Any projects completed over budget will be funded with unallocated funds from completed projects during the fourth quarter report.



Funding Reallocation Request

Motion #3 requests that \$20,000 of funding originally intended for the IT Master Plan be repurposed for building security upgrades. This includes installing card scanners for which keypad access is currently utilized. The remaining \$80,000 of funding allocated for this project will not be utilized, as the IT Master Plan is being developed with internal resources.

Capital Project Summary (Appendix D)

The County is undertaking 27 capital projects in 2024. The specific details of each project including budget, expenditures to date, funding source, projected final cost, projected variance, start date, projected end date, and comments on project status are detailed in *Appendix D*.

Capital projects overall have a projected favourable variance of \$1,420,455 (~12% of the total Capital Projects budget); the contributing factors are:

- Thirteen (13) are projected to be completed under budget.
- Thirteen (13) have no projected variance based on the project progress as of June 30, 2024.
- One (1) is projected to be over budget by \$2,965.

Any capital projects completed under budget will reduce the funding drawn from the allocated reserve or the amount of grant funding utilized for the project. Any projects completed over budget will be funded during the fourth quarter report.

STIP Grant Approvals

Two bridge projects (#1 - BF 75910 and #24 – BF13477) have received approval for STIP grant funding, which provides 75% of total project costs. Both projects were originally budgeted to be funded 100% through reserves. The STIP grant approval will decrease the reserve funds required for the bridge projects.

Funding Reallocation Request

Within the 2024 Capital Equipment Plan purchases, the Calcium Applicator/Water Truck item is under budget by \$273,326 due to purchasing a used vehicle. *Motion #4* requests that \$55,000 of the remaining funds be reallocated to replace Calcium Storage Tanks that are reaching the end of their useful life.

Cash and Investment Summary (Appendix E)

Due to an ongoing high prime interest rate and improved investment strategies, the County continues to generate strong rates of return on its investments. As detailed in *Appendix E*, the rate of return on cash investments ranges from 5.30% to 6.20% as of June 30, 2024. These returns will decrease in the third quarter due to decreases in the prime interest rate.

Reserve Continuity (Appendix F)

This schedule tracks the movements, based on Council approvals, of each of the County's reserves. The financial information reported in this schedule will only change if:

- Council approves new expenditures or amends project budgets.
- Projects are completed under budget.
- Unanticipated external funding, mainly grants, are approved post-budget.

These changes will be reflected and reported on in the schedule as "Post Budget Approvals".



Administration has included a column to display funds anticipated to be returned to reserves based on estimated project surpluses/deficits. These transfers will not occur until projects are finalized, or Council approves motions to amend project funding, but have been included to better align the various appendices of this report.

Based on budget approvals, motions recommended within this report, and investments in the County's infrastructure, the utilization of reserves is anticipated to be approximately \$11.9 million, with offsetting contributions to reserves of \$11.0 million.

Other Items and Recommended Motions

Draw for Acme Gymnasium Project

During the September 26, 2023, Council meeting Council received a request from the Acme Alumni Association to provide support for the Acme School Gymnasium project. Council motion 325/23 indicated, "That Council confirm total funding in the amount of \$100,000 for the Acme School Gymnasium project, and direct staff to develop recommended funding options".

During the preparation of this report, it was noted that Administration had not yet officially recommended a funding source for this amount. The payment was made to the Acme Alumni Association on February 13, 2024.

In 2018 Council previously approved \$50,000 toward this initiative; those original funds are currently in the Transitional Funds reserve. Administration recommends that the additional \$50,000 also be funded through the Transitional Funds reserve as all funds in that reserve relate to completed projects for which total funding was not utilized. *Motion #5* recommended the necessary reserve draw to fund this payment.

Funding for Disallowed Canada Community Building Fund (CCBF) Grant Expenditures

In the 2022 Budget Council approved a project for the Ron Gorr Memorial Arena which included various upgrades to the arena; project costs were incurred in 2022 and 2023. The approved funding source for the project was the CCBF grant.

During the final grant reporting on the project, expenditures related to the Zamboni shed re-tinning were disallowed based on the grant criteria. This amounted to \$19,574 (\$10,620 in 2022, and \$8,954 in 2023) of disallowed expenditures that do not have an official funding source.

Motion #6 recommends a draw from the Building Capital Replacement reserve to fund the disallowed expenditures related to this project.

FINANCIAL & STAFFING IMPLICATIONS:

The overall financial position of the County continues to be positive with Administration and Council exercising prudent financial management.

The recommendations in this report will ensure a continuation of forward financial planning and value for the dollar for ratepayers.

RECOMMENDED ENGAGEMENT:

Directive Decision (Information Sharing, One-Way Communication)			
Tools:	Individual Notification	Other:	



ATTACHMENTS:

- Operating Budget Summary by Function (Appendix A)
- Operating Budget Summary by Department (Appendix B)
- Operating Project Summary (Appendix C)
- Capital Project Summary (Appendix D)
- Investment Report (Appendix E)
- Reserve Continuity Schedule (Appendix F)

COUNCIL OPTIONS:

1. Adopt the report as presented and approve the recommended motions.
2. Receive report for information.
3. Provide directions to amend the recommended motions.

RECOMMENDED MOTION:

1. The Council approves reserve contributions related to investment returns of \$695,637 to the Infrastructure reserve, \$500,000 to the Bridges reserve, and \$500,000 to the Water reserve.
2. That Council approves a contribution of \$433,267 to the Capital Equipment Plan reserve in relation to the sale of capital equipment.
3. That Council approves reallocating \$20,000 of funding related to the IT Master Plan for security upgrades.
4. The Council approves \$55,000 of funding related to 2024 Capital Equipment Plan Purchases to be reallocated to replace calcium storage tanks which are reaching the end of their useful life.
5. That Council approves a draw of \$100,000 from the Transitional Funds reserve in relation to the Acme School Gymnasium funding contribution as referenced in motion 385/23.
6. That Council approves a draw of \$19,574 from the Building Capital Replacement reserve to fund expenditures related to the 2022/2023 Ron Gor Memorial Arena project for which CCBF grant funding was not approved.

FOLLOW-UP ACTIONS:

Internal action is required by Administration to make any approved financial transaction entries.

APPROVAL(S):

Mike Haugen, Chief Administrative Officer

Approved-

