



Report to: General Committee

Meeting Date: April 8, 2019

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**SUBJECT:** 2018 Year-End Review of Operations  
**PREPARED BY:** Andrea Tang, Senior Manager of Financial Planning  
Jay Pak, Senior Business Analyst

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**RECOMMENDATION:**

- 1) THAT the report entitled “2018 Year-End Review of Operations” be received;
- 2) THAT the City’s 2018 net favourable variance of \$3.58M be transferred as follows, as per the approved Financial Planning and Budgeting Policy :
  - a. \$1.40M to the Corporate Rate Stabilization Reserve to achieve a balance equal to 15% of the local tax levy as per City policy;
  - b. \$2.18M to the Life Cycle Capital Replacement and Capital Reserve Fund;
- 3) THAT Staff be authorized and directed to do all things necessary to give effect to this resolution.

**EXECUTIVE SUMMARY:**

Council approved the 2018 annual operating budget of \$378.45M on December 12, 2017 which includes the City’s primary operating budget (including the Library operating budget), Planning & Design operating budget, Engineering operating budget, Building Standards operating budget and Waterworks operating budget.

This report provides an overview of the 2018 year-end operating results comparing actual to the annual operating budget.

**Primary Operating Budget (Appendix 1)**  
**(Includes Library, excludes Planning & Design, Engineering, Building Standards and Waterworks)**

The 2018 results of operations incurred a net surplus of \$3.58M and the breakdown is shown below:

| (\$ in millions)                                 | 2018               |                    | Variance             | % of          |
|--------------------------------------------------|--------------------|--------------------|----------------------|---------------|
|                                                  | <u>Actual</u>      | <u>Budget</u>      | <u>fav./(unfav.)</u> | <u>Budget</u> |
| Revenues                                         | 222.36             | 218.27             | 4.09                 | 101.9%        |
| Expenses                                         | <u>207.60</u>      | <u>207.13</u>      | <u>(0.47)</u>        | 100.2%        |
| <b>Surplus excluding winter maintenance</b>      | <b>14.76</b>       | <b>11.14</b>       | <b>3.62</b>          |               |
| Year-End Accounting Accruals & Other Adjustments | <u>2.67</u>        | <u>1.44</u>        | <u>(1.23)</u>        |               |
| Subtotal                                         | 12.09              | 9.70               | 2.39                 |               |
| Winter Maintenance                               | <u>8.51</u>        | <u>9.70</u>        | <u>1.19</u>          |               |
| <b>Net surplus including winter maintenance</b>  | <b><u>3.58</u></b> | <b><u>0.00</u></b> | <b><u>3.58</u></b>   |               |

### **City's Surplus excluding year-end accounting accruals and other adjustments and winter maintenance**

**City's surplus excluding year-end accounting accruals and other adjustments and winter maintenance = Favourable variance \$3.62M**

The major variances are outlined in the chart below:

| <b>Revenues</b>                | <b>Fav. / (Unfav.)</b> |          | <b>Expenditures</b>                                      | <b>Fav. / (Unfav.)</b> |          |
|--------------------------------|------------------------|----------|----------------------------------------------------------|------------------------|----------|
| Investment income              | 2.98                   | M        | Salaries & benefits                                      | 1.39                   | M        |
| Penalty & interest             | 0.32                   | M        | Corporate contingency                                    | 2.62                   | M        |
| Legal administrative fees      | 0.27                   | M        | Utilities & streetlight hydro                            | 1.34                   | M        |
| Theatre, Art Centre and Museum | 0.20                   | M        | Property tax adjustments                                 | 0.68                   | M        |
| Tax Levies                     | 0.10                   | M        | Maintenance & repairs                                    | 0.45                   | M        |
| Federal and Provincial grants  | 0.09                   | M        | Professional services/ office supplies/ training/ travel | 0.32                   | M        |
| Licenses & permits             | 0.07                   | M        | Operating materials & supplies                           | 0.12                   | M        |
| Recreation Services            | (0.03)                 | M        | Theatre artist fees                                      | (0.30)                 | M        |
| Supplemental property taxes    | (0.03)                 | M        | Fuel                                                     | (0.16)                 | M        |
| Parking fines                  | (0.34)                 | M        | Advertising and promotion                                | (0.13)                 | M        |
| One time lease agreements      | 0.51                   | M        | Transfer to reserves                                     | (6.24)                 | M        |
| Other                          | (0.05)                 | M        | Other                                                    | (0.55)                 | M        |
| <b>Total</b>                   | <b>4.09</b>            | <b>M</b> | <b>Total</b>                                             | <b>(0.47)</b>          | <b>M</b> |

### **Year-End Accounting Accruals and Other Adjustments**

**Year-end accounting accruals and other adjustments = Unfavourable variance (\$1.23M)**

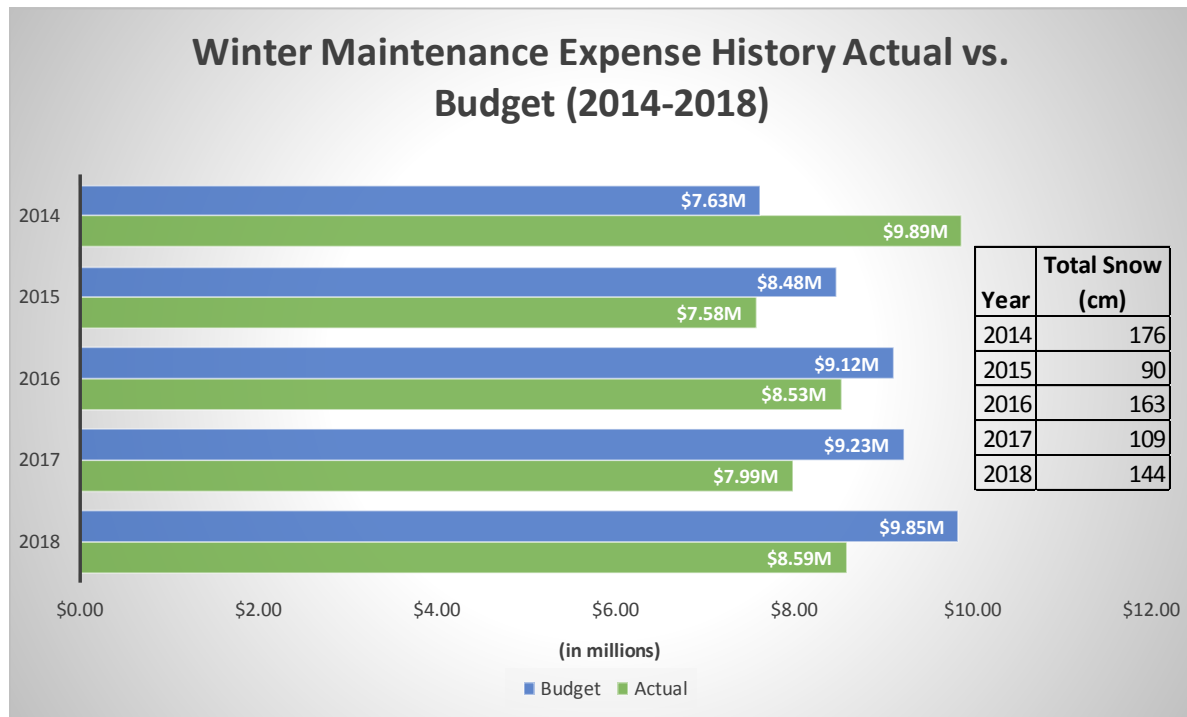
The 2018 year-end accounting accruals and other adjustments totaled \$2.67M against a budget of \$1.44M resulting in an unfavourable variance of (\$1.23M) due to the continuation of the ramp-up in the base budget which is anticipated to be fully ramped up by 2022. The year-end accounting accruals and other adjustments include severance, salary continuance payments, firefighter sick leave payouts, post employment benefits and salary accrual.

### **Winter Maintenance**

**Winter maintenance = Favourable variance \$1.19M**

The 2018 actual winter maintenance expenditures totaled \$8.51M against a budget of \$9.70M, resulting in a favourable variance of \$1.19M.

The exhibit below compares the 5 year historical actuals vs. budget for winter maintenance expenses from 2014-2018 as well as the total snow fall per year as per the Government of Canada's environment and natural resources site.



As the exhibit above shows, the actuals compared to budget have fluctuated over the past 5 years with 2014 being the peak of snowfall (176cm) with actual expenses of \$9.89M. Although 2018 was favourable by \$1.19M, as of Feb YTD 2019, winter maintenance is \$1.40M unfavourable to budget which further illustrates the unpredictable nature of weather conditions from year to year. Staff will continue to monitor the trends to determine whether future adjustments to the winter maintenance budget are necessary.

### **Planning & Design (Appendix 3)**

Actual \$5.68M – Budget \$0.90M = Favourable variance \$4.78M

Planning & Design incurred a surplus of \$5.68M against a budgeted surplus of \$0.90M. The favourable variance of \$4.78M was mainly due to higher than budgeted planning and design fees of \$3.40M from higher volume of applications submitted in June in anticipation of higher Regional development charges effective July 1, 2018, and lower personnel costs of \$1.38M from an average of seven temporary net vacancies.

### **Engineering (Appendix 4)**

Actual \$2.63M – Budget \$0.13M = Favourable variance \$2.50M

Engineering incurred a surplus of \$2.63M against a budgeted surplus of \$0.13M. The favourable variance of \$2.50M was mainly due to higher than budgeted Engineering fees from a higher volume of applications submitted in June in anticipation of higher Regional development charges effective July 1, 2018.

**Planning & Engineering Development Fee Reserve (Appendix 5)**

The 2018 budget anticipated a surplus of \$0.90M for Planning and a surplus of \$0.13M for Engineering totaling \$1.03M.

The Planning & Design and Engineering departments ended the year with a surplus of \$8.31M (Planning \$5.68M and Engineering \$2.63M). A transfer of \$8.31M will be made to the Reserve increasing the balance from (\$7.77M) to \$0.27M. (see Appendix 5)

**Building Standards (Appendix 6)**

|                                                               |
|---------------------------------------------------------------|
| Actual \$3.40M – Budget \$0.94M = Favourable variance \$2.46M |
|---------------------------------------------------------------|

The Building Standards department incurred a surplus of \$3.40M against a budgeted surplus of \$0.94M. The favourable variance of \$2.46M was mainly due to higher building permit fees than budgeted of \$1.85M from a higher volume of applications submitted in June in anticipation of higher Regional development charges effective July 1, 2018 and lower personnel costs of \$0.60M from an average of three temporary net vacancies.

A transfer of \$3.40M will be made from the Reserve increasing the balance from \$9.36M to \$12.94M (see Appendix 7).

**Waterworks (Appendix 8)**

|                                                                 |
|-----------------------------------------------------------------|
| Actual \$15.79M – Budget \$15.28M = Favourable variance \$0.51M |
|-----------------------------------------------------------------|

The Waterworks department incurred a surplus of \$15.79M against a budgeted surplus of \$15.28M. The main drivers for the favourable variance of \$0.51M were as follows:

- Lower non-personnel costs resulting in a favourable variance of \$1.00M due to lower operating and construction materials and supplies costs;
- Lower personnel costs from an average of four temporary net vacancies resulting in a favourable variance of \$0.35M;
- Lower than budgeted water sales is offset by lower than budgeted water purchases, resulting in a net sales and purchase of (\$0.56M). The 2018 actual non-revenue water (NRW) was on budget at 11%.
- Lower than budgeted other revenues of (\$0.28M) due to lower volume in water meter installations and hydrant bulk water sales

A transfer of \$15.79M will be made to the Reserve increasing the balance from \$60.68M to \$69.18M. (see Appendix 9)

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The 2018 draft consolidated financial statements will be presented to General Committee in April 2019. The year-end results presented in this report are subject to change based on the results of the external audit.

**PURPOSE:**

To report on the year-end actual 2018 operating budget results versus the budgeted 2018 operating budget.

**BACKGROUND:****Operating Budget Controls and Monitoring Process**

On a monthly basis, Finance Staff distribute operating statements to all department Directors. As well, Finance Staff review the results of operations department by department. Based on pre-established variance thresholds, departments are contacted for explanations and to determine mitigating strategies, if required. Finance Staff will advise the Executive Leadership Team (ELT) immediately should significant variances arise. As well, Finance Staff meets with Directors every quarter to review the department operating results.

Finance staff work collaboratively with all business units to develop year-end forecasts in the latter half of the fiscal year. The close monitoring of the operating budget throughout the year identifies opportunities and budget adjustment requirements for the upcoming budget. The 2018 and 2019 Operating Budgets included \$0.73M and \$0.16M respectively totaling \$0.89M from rightsizing expenditure and revenue budgets that reduced the tax rate increases.

On a quarterly basis, a results of operations report is tabled to General Committee based on March (tabled in May), July (tabled in September), September (tabled in November) and year-end results (tabled in March of the following year). Year-end forecasts are provided in the July and September reports.

**Capital Budget Controls and Monitoring Process**

Finance Staff prepares semi-annual reports on the status of capital projects to General Committee in accordance to the Capital Budget Control Policy. The policy provides guiding principles on management, administration, and reporting of capital projects. It also promotes timely closure and return of surplus funds to the original funding source(s).

The policy outlines that all capital projects requested and approved through the annual capital Budget process must be initiated in the calendar year of approval.

As well, the policy also recognizes the life of a capital project can range anywhere from months to several years depending on the size and scope of the project. In order to effectively manage capital projects and cash flow, capital projects are categorized according to the project nature and the amount of time required to complete the project as outlined below:

| Project Category | Guiding Principles                                                                                                                                                                                                                                                                                                                                                     |
|------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Annual           | <ul style="list-style-type: none"> <li>• Recurring</li> <li>• Completed within the calendar year of approval plus no more than 3 months in order to pay outstanding invoices.</li> </ul> <p>(e.g. 2018 approved project must be completed by December 31, 2018 and will be closed by March 31, 2019).</p>                                                              |
| Minor            | <ul style="list-style-type: none"> <li>• Non-recurring</li> <li>• Completed within 12 months from date of initiation plus no more than 3 months in order to pay outstanding invoices.</li> </ul> <p>(e.g. 2018 approved projects must be initiated within 2018, example initiated in May 2018 and must be completed by April 2019 and will be closed by July 2019)</p> |
| Major            | <ul style="list-style-type: none"> <li>• Multi-year</li> <li>• Non-recurring</li> </ul>                                                                                                                                                                                                                                                                                |

Other guiding principles include:

1. Remaining surplus funds at time of an award are returned to source(s)
2. Project shortfalls are not funded from surplus funds from other projects.
3. Project shortfalls are funded from the corresponding Capital Contingency accounts
4. Standardized Capital Contingency percentages by project type and approval thresholds are applied where applicable

The level of open capital projects has remained consistently around 550 at year end including the addition of approximately 250 projects upon approval of each year's capital budget.

In summary, internal controls and monitoring processes are in place to manage the operating and capital budgets. Each business unit has support from a dedicated Business Analyst to provide expertise and advice on all financial related matters including budget development and monitoring, year-end forecasts, reports to Council, business cases and financial modelling.

This report provides a variance analysis by:

1. City's primary operating budget by Commission/Department; and
2. City's primary operating budget by major accounts

## **DISCUSSION:**

### **1. CITY'S PRIMARY OPERATING BUDGET BY COMMISSION/DEPARTMENT**

Net results (revenues – expenses) for the twelve months ended December 31, 2018 by each Commission and Department, summarized by personnel expenditures, non-personnel expenditures and revenues, are provided in Appendices 10 to 14.

The following table is a summary of all commissions' year-end December results excluding year-end accounting accruals and other adjustments and winter maintenance:

| <b><u>Commission</u></b>                             | <b>2018</b>          |                      | <b>Variance</b>             |
|------------------------------------------------------|----------------------|----------------------|-----------------------------|
|                                                      | <b><u>Actual</u></b> | <b><u>Budget</u></b> | <b><u>fav./(unfav.)</u></b> |
| CAO's Office, Human Resources and Legal              | 5.28                 | 5.54                 | 0.26                        |
| Community & Fire Services (excl. winter maintenance) | 96.27                | 96.81                | 0.54                        |
| Corporate Services                                   | 20.27                | 20.44                | 0.17                        |
| Development Services                                 | 6.74                 | 6.67                 | (0.07)                      |
| Winter Maintenance                                   | 8.51                 | 9.70                 | 1.19                        |
| Corporate Items                                      | (140.65)             | (139.16)             | 1.49                        |
| <b>Net Expense/ (Revenue)</b>                        | <b>(3.58)</b>        | <b>0.00</b>          | <b>3.58</b>                 |

Explanations for variances greater than \$0.10M by each Commission and Department are provided below.

### **CAO's Office, Human Resources, Legal and Sustainability Office (Appendix 10)**

| <b><u>Department</u></b> | <b>2018</b>          |                      | <b>Variance</b>             |
|--------------------------|----------------------|----------------------|-----------------------------|
|                          | <b><u>Actual</u></b> | <b><u>Budget</u></b> | <b><u>fav./(unfav.)</u></b> |
| CAO's Office             | 0.76                 | 0.78                 | 0.02                        |
| Human Resources          | 3.12                 | 2.98                 | (0.14)                      |
| Legal                    | 1.40                 | 1.78                 | 0.38                        |
| <b>Net Expense</b>       | <b>5.28</b>          | <b>5.54</b>          | <b>0.26</b>                 |

**Human Resources** (Actual \$3.12M – Budget \$2.98M = Variance (\$0.14M))

Unfavourable variance of (\$0.14M) is mainly due to approved overage in part time salaries and management consultant expenses to accommodate work related to EPIC in the compensation and benefit area.

**Legal** (Actual \$1.40M – Budget \$1.78M = Variance \$0.38M)

Favourable variance of \$0.38M is mainly due to higher legal administration fees from a higher volume of applications submitted in June in anticipation of higher Regional development charges effective July 1, 2018.

**Community and Fire Services – excluding winter maintenance (Appendix 11)**

| <b><u>Department</u></b> | <b>2018</b>          |                      | <b>Variance</b>             |
|--------------------------|----------------------|----------------------|-----------------------------|
|                          | <b><u>Actual</u></b> | <b><u>Budget</u></b> | <b><u>fav./(unfav.)</u></b> |
| Operations               | 24.02                | 25.20                | 1.18                        |
| Fire Services            | 37.42                | 36.25                | (1.17)                      |
| Library                  | 12.94                | 13.21                | 0.27                        |
| Recreation Services      | 12.39                | 12.65                | 0.26                        |
| Environmental Services   | 0.84                 | 0.91                 | 0.07                        |
| Waste                    | 8.03                 | 7.90                 | (0.13)                      |
| Commissioner's Office    | 0.63                 | 0.69                 | 0.06                        |
| <b>Net Expense</b>       | <b>96.27</b>         | <b>96.81</b>         | <b>0.54</b>                 |

**Operations** (Actual \$24.02M – Budget \$25.20M = Variance \$1.18M)

Favourable variance mainly due to an average of six temporary net vacancies \$0.53M, streetlight hydro \$0.49M, streetlight maintenance and repairs \$0.23M mainly from lower streetlight maintenance repairs being covered under warranty from the LED conversion project (warranty will expire in 2019), and utility locates \$0.22M.

**Fire Services** (Actual \$37.42M – Budget \$36.25M = Variance (\$1.17M))

Unfavourable variance mainly due to an unfavourable variance in Personnel costs (\$0.49M), overtime (\$0.51M), and budgeted salary gapping of (\$0.15M).

**Library** (Actual \$12.94M – Budget \$13.21M = Variance \$0.27M)

Favourable variance mainly due to an average of seven temporary net vacancies \$0.13M and part time salaries \$0.14M.

**Recreation** (Actual \$12.39M – Budget \$12.65M = Variance \$0.26M)

Favourable variance mainly due to an average of three temporary net vacancies \$0.45M offset by unfavourable part-time salaries due to aquatics at the Aaniin Community Centre & Library (\$0.13M) (this will be addressed in the 2019 Operating budget). Recreation achieved 99.9% of the total revenue budget.

**Waste** (Actual \$8.03M – Budget \$7.90M = Variance (\$0.13M))

Unfavourable variance mainly due to WDO grant lower than budgeted (\$0.09M) and waste contract renewal for 2019 recognized in December of 2018 (\$0.05M).



**Corporate Services (Appendix 12)**

| <b><u>Department</u></b>                        | <b>2018</b>          |                      | <b>Variance</b>             |
|-------------------------------------------------|----------------------|----------------------|-----------------------------|
|                                                 | <b><u>Actual</u></b> | <b><u>Budget</u></b> | <b><u>fav./(unfav.)</u></b> |
| Legislative Services & Corporate Communications | 4.87                 | 4.41                 | (0.46)                      |
| Financial Services                              | 4.35                 | 4.54                 | 0.19                        |
| ITS                                             | 7.33                 | 7.53                 | 0.20                        |
| Sustainability & Asset Management               | 3.33                 | 3.55                 | 0.22                        |
| Commissioner's Office                           | 0.39                 | 0.41                 | 0.02                        |
| <b><u>Net Expense</u></b>                       | <b>20.27</b>         | <b>20.44</b>         | <b>0.17</b>                 |

**Legislative Services & Corporate Communications** (Actual \$4.87M – Budget \$4.41M = Variance (\$0.46M))

Unfavourable variance mainly due to parking fines (\$0.34M) and lower net sponsorships (\$0.19M), offset by favourable variances in tow truck licences of \$0.15M mainly due to a change in requirement from CAA for tow truck drivers to be licensed in each municipality where the tow is initiated.

**Financial Services** (Actual \$4.35M – Budget \$4.54M = Variance \$0.19M)

Favourable variance mainly due to an average of two temporary net vacancies and personnel costs \$0.38M offset by an unfavourable variance of (\$0.10M) in ownership changes, administration fees and tax certificates (\$0.07M) impacted by lower home sales.

**ITS** (Actual \$7.33M – Budget \$7.53M = Variance \$0.20M)

Favourable variance due to one time savings in software and computer hardware maintenance \$0.15M.

**Sustainability & Asset Management** (Actual \$3.33M – Budget \$3.55M = Variance \$0.22M)

Favourable variance mainly due to an average of three temporary net vacancies \$0.19M.

**Development Services (Appendix 13)**

| <b><u>Department</u></b>       | <b>2018</b>          |                      | <b>Variance</b>             |
|--------------------------------|----------------------|----------------------|-----------------------------|
|                                | <b><u>Actual</u></b> | <b><u>Budget</u></b> | <b><u>fav./(unfav.)</u></b> |
| Culture & Economic Development | 4.09                 | 3.89                 | (0.20)                      |
| Traffic Operations             | 1.49                 | 1.57                 | 0.08                        |
| Commissioner's Office          | 1.16                 | 1.21                 | 0.05                        |
| <b><u>Net Expense</u></b>      | <b>6.74</b>          | <b>6.67</b>          | <b>(0.07)</b>               |

**Culture & Economic Development** (Actual \$4.09M – Budget \$3.89M = Variance (\$0.20M))

Unfavourable variance mainly due to lower revenue at the Art Centre due to program registrations and Museum camps (\$0.07M) and lower net revenue from Theatre shows (\$0.10M).

**Corporate Items (Appendix 14)**

|                          | <b>2018</b>          |                      | <b>Variance</b>             |
|--------------------------|----------------------|----------------------|-----------------------------|
| <b><u>Department</u></b> | <b><u>Actual</u></b> | <b><u>Budget</u></b> | <b><u>fav./(unfav.)</u></b> |
| Corporate Items          | (140.65)             | (139.17)             | 1.48                        |
| <b>Net Revenue</b>       | <b>(140.65)</b>      | <b>(139.17)</b>      | <b>1.48</b>                 |

Favourable variances in corporate contingency \$2.60M, higher investment income \$2.98M, property tax adjustment \$0.68M due to the change in ARB rules and scheduling, resulting in less appeals processed during the year than forecasted, utilities favourability \$0.52M, one-time lease agreements \$0.51M, and penalty and interest \$0.32M offset by a one-time transfer of \$6.81M for repayment to the Land Acquisition Reserve for York University Land Donation: (Purchase Price \$19.9M x 4.45 acres (York U portion) / total 13 acres).

**2. CITY'S PRIMARY OPERATING BUDGET BY MAJOR ACCOUNTS (excl. year-end accounting accruals and other adjustments and winter maintenance)**

|                                             | <b>2018</b>          |                      | <b>Variance</b>             | <b>% of</b>          |
|---------------------------------------------|----------------------|----------------------|-----------------------------|----------------------|
| <b><u>(\$ in millions)</u></b>              | <b><u>Actual</u></b> | <b><u>Budget</u></b> | <b><u>fav./(unfav.)</u></b> | <b><u>Budget</u></b> |
| Revenues                                    | 222.36               | 218.27               | 4.09                        | 101.9%               |
| Expenses                                    | 207.60               | 207.13               | (0.47)                      | 100.2%               |
| <b>Surplus excluding winter maintenance</b> | <b>14.76</b>         | <b>11.14</b>         | <b>3.62</b>                 |                      |

The 2018 actual operating results, excluding year-end accounting accruals and other adjustments and winter maintenance, against budget netted a favourable variance of \$3.62M (revenue of \$4.09M + expenses of (\$0.47M)) and the breakdown is as follows:

**REVENUES**

**In 2018, revenues totaled \$222.36M against a budget of \$218.27M resulting in a favourable variance of \$4.09M (101.9% of budget).**

| <b>Revenues</b>             | <b>Actual</b>     | <b>Budget</b>     | <b>Fav./(Unfav.)</b> |
|-----------------------------|-------------------|-------------------|----------------------|
| Property Taxation Revenues  | \$ 156.29M        | \$ 156.26M        | \$ 0.03M             |
| General Revenues            | \$ 28.43M         | \$ 25.77M         | \$ 2.66M             |
| User Fees & Service Charges | \$ 29.69M         | \$ 29.25M         | \$ 0.44M             |
| Grant & Subsidy Revenues    | \$ 2.23M          | \$ 1.97M          | \$ 0.26M             |
| Other Income                | \$ 5.72M          | \$ 5.02M          | \$ 0.70M             |
| <b>Net Variance</b>         | <b>\$ 222.36M</b> | <b>\$ 218.27M</b> | <b>\$ 4.09M</b>      |

**Property Taxation Revenues** (Actual \$156.29M – Budget \$156.26M = Variance \$0.03M)

Property taxation revenue budget includes property taxes.

**General Revenues** (Actual \$28.43M – Budget \$25.77M = Variance \$2.66M)

The general revenues budget includes investment income (budget \$16.24M), interest and penalties on property taxes (budget \$4.16M), parking fines (budget \$3.40M), and business, taxi, marriage and other licences (budget \$1.97M).

General revenues totaled \$28.43M at the end of December against a budget of \$25.77M. The main drivers for the favourable variance of \$2.66M is investment income totaling \$2.98M from higher interest rate \$0.68M and portfolio balance \$2.28M, offset by parking fines (\$0.34M).

**User Fees and Service Charges** (Actual \$29.69M – Budget \$29.25M = Variance \$0.44M)

The user fees and services charges budget of \$29.25M includes revenues from programs offered by Recreation, Culture and Library departments and service fees such as new property tax account set-up fees, ownership change administrative fees and utility permit fees (budget \$19.09M), and facility rentals for arenas, pools, gym and halls (budget \$9.54M).

User fees and service charges were favourable by \$0.44M mainly due to higher legal administration fees revenue of \$0.27M from a higher volume of applications submitted in June (in anticipation of higher Regional development charges effective July 1, 2018) and higher Theatre revenues of \$0.14M and Recreation revenues of \$0.14M.

**Grants & Subsidy Revenues** (Actual \$2.23M – Budget \$1.97M = Variance \$0.26M)

The budget includes provincial and federal grants of \$1.97M. The favourable variance of \$0.26M resulted from the receipt of one-time federal and provincial grants offset by corresponding expenses.

**Other Income** (Actual \$5.72M – Budget \$5.02M = Variance \$0.70M)

The favourable variance of \$0.71M was from various one time items such as short-term lease agreements.

**PERSONNEL EXPENDITURES**

**In 2018 personnel expenditures were favourable by \$1.39M or 98.9% of the year-to-date budget.**

| <b>Personnel</b>                                          | <b>Actual</b>    | <b>Budget</b>    | <b>Fav./(Unfav.)</b> |
|-----------------------------------------------------------|------------------|------------------|----------------------|
| Full time net of vacancy backfills and part time salaries | \$124.74M        | \$126.86M        | \$2.12M              |
| Overtime and other personnel costs                        | \$ 2.57M         | \$ 1.84M         | (\$0.73M)            |
| <b>Total</b>                                              | <b>\$127.31M</b> | <b>\$128.70M</b> | <b>\$1.39M</b>       |

In 2018, there was an average of 40 net temporary vacancies resulting in a favourable variance of \$2.02M. As well, part-time salaries was favourable by \$0.12M. This was offset by full year budgeted salary gapping of (\$0.46M).

Overtime was unfavourable by (\$0.62M) mainly due to coverage for approved absences in the Fire Department.

### **NON-PERSONNEL EXPENDITURES**

**In 2018, non personnel expenditures were unfavourable by (\$1.86M) (102.3% of budget).**

| <b>Non Personnel Items</b> | <b>Actual</b>    | <b>Budget</b>    | <b>Fav./(Unfav.)</b> |
|----------------------------|------------------|------------------|----------------------|
| Materials & Supplies       | \$ 5.61M         | \$ 5.55M         | (\$ 0.06M)           |
| Purchased Services         | \$ 37.99M        | \$ 39.12M        | \$ 1.13M             |
| Transfers to Reserves      | \$ 35.00M        | \$ 28.76M        | (\$ 6.24M)           |
| Other Expenditures         | \$ 1.69M         | \$ 5.00M         | \$ 3.31M             |
| <b>Total</b>               | <b>\$ 80.29M</b> | <b>\$ 78.43M</b> | <b>(\$ 1.86M)</b>    |

**Materials & Supplies** (Actual \$5.61M – Budget \$5.55M = Variance (\$0.06M))

Materials & supplies budget of \$5.55M includes facility maintenance supplies, uniforms, recreation and other program supplies (budget \$2.67M), vehicle supplies such as fuel and repair parts (budget \$1.59M), and printing and office supplies (budget \$0.42M).

The unfavourable variance of (\$0.06M) was primarily due higher than budgeted vehicle parts, and gasoline and diesel fuel (\$0.31M) offset by operating materials and supplies (eg. building maintenance supplies, uniforms, program expenses) \$0.10M, blue boxes and greenbins for resale \$0.08M and printing and office supplies of \$0.04M.

**Purchased Services** (Actual \$37.99M – Budget \$39.12M = Variance \$1.13M)

Purchased services budget of \$39.12M includes utilities and streetlight hydro (budget \$12.02M), waste collection (budget \$8.40M), maintenance & repairs (\$5.53M), professional services such as Theatre artist/entertainer fees, school crossing guards and external legal services (budget \$2.81M), insurance (\$2.43M), communications (\$1.28M) and promotion and advertising (budget \$1.35M).

Purchased Services were favourable \$1.13M mainly due to:

- \$1.34M favourable in utilities and streetlight hydro due to lower than budgeted rates
- \$0.45M favourable in maintenance and repairs mainly from lower streetlight maintenance repairs being covered under warranty from the LED conversion project (warranty will expire in 2019) \$0.23M, and utility locates \$0.22M
- \$0.04M which is included under materials & supplies)
- Offset by unfavourable variance in advertising and promotion (\$0.26M) and Theatre artist and other professional fees (\$0.31M)

**Transfers to Reserves** (Actual \$35.00M – Budget \$28.76M = Variance (\$6.24M)

A one-time transfer of \$6.81M was made to the Land Acquisition reserve fund for repayment of the York University land donation.

**Other Expenditures** (Actual \$1.69M – Budget \$5.00M = Variance \$3.31M)

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Other expenditures budget of \$5.00M includes corporate contingency (budget \$2.65M), property tax adjustments and property vacancy rebates (budget \$1.27M), non-personnel ramp ups (\$0.55M) and grants (\$0.50M).

Other expenditures were favourable by \$3.31M due to favourable variance in corporate contingency \$2.62M, property tax adjustments \$0.68M due to the change in ARB rules and scheduling, resulting in less appeals processed during the year than forecasted and other variances of less than \$0.05M across various departments.

### **Summary of One-Time Items**

There were several one-time items affecting the City's 2018 year-end results. These items are either one-time revenues or expenses incurred in 2018. In some cases, budgets have been adjusted in 2019 where needed. They have been summarized below:

- \$2.98M in investment income resulting from a higher than budgeted rate of return and a higher portfolio balance (2019 Budget was adjusted to increase by \$0.65M and any favourable variance will be transferred to reserves)
- \$2.62M favourable in corporate contingency (Budget \$2.65M, 1.2% of the City's Operating Budget of \$218.28M)
- \$1.39M favourable in personnel primarily due to temporary net vacancies (average 40 net temporary vacancies out of the total tax funded full-time complement of 884, or 4.5% of the full-time complement)
- \$1.34M favourable in hydro and streetlight hydro (no incremental increase in the 2019 budget required)
- \$0.68M favourable in property tax adjustments due to fewer assessments than budgeted in 2018
- \$0.51M favourable from one-time items such as short-term lease agreements
- \$0.27M one-time favourable variance in legal administrative fees due to a higher volume of applications submitted in June (in anticipation of higher Regional development charges effective July 1, 2018)
- (\$6.81M) one-time transfer to reserve for the repayment of the York University land donation

Total: \$2.98M favourable variance

After adjusting for the above items, and the transfer to the Corporate Rate Stabilization Reserve of approximately \$1.40M in order to maintain it at 15% of the local tax levy, the City's projected surplus including year-end accounting accruals and other adjustments will be fully depleted.

### **Year-End Accounting Accruals and Other Adjustments**

|                                                                                      |
|--------------------------------------------------------------------------------------|
| Year-end accounting accruals and other adjustments = Unfavourable variance (\$1.23M) |
|--------------------------------------------------------------------------------------|

The 2018 year-end accounting accruals and other adjustments totaled \$2.67M against a budget of \$1.44M resulting in an unfavourable variance of (\$1.23M). They included

severance and salary continuance payments, firefighter sick leave payouts, post employment benefits and salary accrual.

### **Winter Maintenance**

|                                                  |
|--------------------------------------------------|
| Winter maintenance = Favourable variance \$1.19M |
|--------------------------------------------------|

The 2018 actual winter maintenance expenditures totaled \$8.51M against a budget of \$9.70M, resulting in a favourable variance of \$1.19M.

### **Planning & Design (Appendix 3)**

|                                                               |
|---------------------------------------------------------------|
| Actual \$5.68M – Budget \$0.90M = Favourable variance \$4.78M |
|---------------------------------------------------------------|

Planning & Design incurred a surplus of \$5.68M against a budgeted surplus of \$0.90M. The favourable variance of \$4.78M was mainly due to higher than budgeted planning and design fees of \$3.40M from higher volume of applications submitted in June in anticipation of higher Regional development charges effective July 1, 2018, and lower personnel costs of \$1.38M from an average of seven temporary net vacancies.

### **Engineering (Appendix 4)**

|                                                               |
|---------------------------------------------------------------|
| Actual \$2.63M – Budget \$0.13M = Favourable variance \$2.50M |
|---------------------------------------------------------------|

Engineering incurred a surplus of \$2.63M against a budgeted surplus of \$0.13M. The favourable variance of \$2.50M was mainly due to higher than budgeted Engineering fees from a higher volume of applications submitted in June in anticipation of higher Regional development charges effective July 1, 2018.

### **Planning & Engineering Development Fee Reserve (Appendix 5)**

The 2018 budget anticipated a surplus of \$0.90M for Planning and a surplus of \$0.13M for Engineering totaling \$1.03M.

The Planning & Design and Engineering departments ended the year with a surplus of \$8.31M (Planning \$5.68M and Engineering \$2.63M). A transfer of \$8.31M will be made to the Reserve increasing the balance from (\$7.77M) to \$0.27M. (see Appendix 5)

### **Building Standards (Appendix 6)**

|                                                               |
|---------------------------------------------------------------|
| Actual \$3.40M – Budget \$0.94M = Favourable variance \$2.46M |
|---------------------------------------------------------------|

The Building Standards department incurred a surplus of \$3.40M against a budgeted surplus of \$0.94M. The favourable variance of \$2.46M was mainly due to higher building permit fees than budgeted of \$1.85M from a higher volume of applications submitted in June in anticipation of higher Regional development charges effective July

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1, 2018 and lower personnel costs of \$0.60M from an average of three temporary net vacancies.

A transfer of \$3.40M will be made from the Reserve increasing the balance from \$9.36M to \$12.94M (see Appendix 7).

**Waterworks (Appendix 8)**

|                                                                 |
|-----------------------------------------------------------------|
| Actual \$15.79M – Budget \$15.28M = Favourable variance \$0.51M |
|-----------------------------------------------------------------|

The Waterworks department incurred a surplus of \$15.79M against a budgeted surplus of \$15.28M. The main drivers for the favourable variance of \$0.51M were as follows:

- Lower non-personnel costs resulting in a favourable variance of \$1.00M due to lower operating and construction materials and supplies costs;
- Lower personnel costs from an average of four temporary net vacancies resulting in a favourable variance of \$0.35M;
- Lower than budgeted water sales is offset by lower than budgeted water purchases, resulting in a net sales and purchase of (\$0.56M). The 2018 actual non-revenue water (NRW) was on budget at 11%.
- Lower than budgeted other revenues of (\$0.28M) due to lower volume in water meter installations and hydrant bulk water sales

A transfer of \$15.79M will be made to the Reserve increasing the balance from \$60.68M to \$69.18M. (see Appendix 9)

**FINANCIAL CONSIDERATIONS:**

The Council approved Financial Planning and Budgeting Policy states any year-end operating surplus will first be transferred to the Corporate Rate Stabilization Reserve to achieve a level equivalent to 15% of local tax revenues, secondly to replenish the expenditures in the Environmental Land Reserve Fund and finally transferred to the Life Cycle Replacement and Capital Reserve Fund.

The 2018 operating surplus of \$3.58M will be transferred as follows:

- a. \$1.40M to the Corporate Rate Stabilization Reserve to achieve a balance equal to 15% of the local tax levy;
- b. \$2.18M to the Life-Cycle Capital Repair and Replacement Reserve.

The 2018 draft consolidated financial statements will be presented to General Committee in April 2019. The year-end results presented in this report are subject to change based on the results of the external audit.

## **RECOMMENDED**

Joel Lustig  
Treasurer

Trinela Cane  
Commissioner, Corporate Services

## **ATTACHMENTS:**

### **Appendices 1 to 14:**

Appendix 1 – Primary Operating Budget - Financial Results for the Twelve Months Ended December 31, 2018

Appendix 2 – Library Operating Budget - Financial Results for the Twelve Months Ended December 31, 2018

Appendix 3 – Planning & Design Operating Budget - Financial Results for the Twelve Months Ended December 31, 2018

Appendix 4 – Engineering Operating Budget - Financial Results for the Twelve Months Ended December 31, 2018

Appendix 5 – Planning & Engineering Development Fee Reserve Balance as at December 31, 2018

Appendix 6 – Building Standards Operating Budget - Financial Results for the Twelve Months Ended December 31, 2018

Appendix 7 – Building Fee Reserve Balance as at December 31, 2018

Appendix 8 – Waterworks Operating Budget - Financial Results for the Twelve Months Ended December 31, 2018

Appendix 9 – Waterworks Reserve Balance as at December 31, 2018

Appendix 10 – Variances by Commission and Department for the twelve months ended December 31, 2018 – CAO's Office, Human Resources, Legal and Sustainability

Appendix 11 – Variances by Commission and Department for the twelve months ended December 31, 2018 – Community and Fire Services

Appendix 12 – Variances by Commission and Department for the twelve months ended December 31, 2018 – Corporate Services

Appendix 13 – Variances by Commission and Department for the twelve months ended December 31, 2018 – Development Services

Appendix 14 – Variances by Commission and Department for the twelve months ended December 31, 2018 – Corporate Items