



Report to: General Committee

Report Date: March 19, 2024

SUBJECT: 2023 Year-End Results of Operations
PREPARED BY: Ameen Khan, Manager Financial Planning
Jay Pak, Senior Manager, Financial Planning and Reporting

RECOMMENDATION:

- 1) THAT the report titled “2023 Year-End Results of Operations” be received;
- 2) THAT the City’s 2023 operations net favourable variance of \$4.86M be transferred to the Life Cycle Capital Replacement and Capital Reserve Fund, as per the approved Financial Planning and Budgeting Policy; and further,
- 3) THAT Staff be authorized and directed to do all things necessary to give effect to this resolution.

EXECUTIVE SUMMARY:

Council approved the 2023 annual operating budget of \$444.7M in April 2023, which includes the City’s primary operating budget, and operating budgets for Planning & Design, Engineering, Building Standards and Waterworks.

This report provides an overview of the 2023 year-end operating results, comparing actuals to the annual operating budget.

Primary Tax-Funded Operating Budget (Appendix 1)

(Includes winter maintenance, excludes Planning & Design, Engineering, Building Standards and Waterworks)

The total operating surplus for 2023 including winter maintenance is \$4.86M.

The winter maintenance budget, which was favorable by \$0.78M at year end, contributed to the total operating surplus for 2023.

The surplus for 2023 represents 1.8% of the total operating budget, and is within an acceptable range from a fiscal stewardship perspective.

The 2023 overall variance is summarized below:

<u>(\$ in millions)</u>	<u>2023</u>		<u>Variance</u>	<u>% of</u>
	<u>Actual</u>	<u>Budget</u>	<u>fav./ (unfav.)</u>	<u>Budget</u>
Revenues	\$284.34	\$267.62	\$16.72	106.2%
Expenses	<u>263.08</u>	<u>253.23</u>	<u>(9.85)</u>	103.9%
Subtotal	\$21.26	\$14.39	\$6.87	
Year-End Accounting Accruals & Other Adjustments	<u>5.27</u>	<u>2.48</u>	<u>(2.79)</u>	
Surplus excluding winter maintenance	15.99	11.91	4.08	
Winter Maintenance	<u>\$11.13</u>	<u>\$11.91</u>	<u>\$0.78</u>	
Net surplus including winter maintenance	\$4.86	\$0.00	\$4.86	

After the transfer of \$4.86M to the City's Life Cycle Capital Replacement and Capital Reserve Fund, as per the approved Financial Planning and Budgeting Policy, the surplus, including year-end accounting accruals and other adjustments is fully depleted.

Operating Results for Non-Tax Funded Departments

Development Services (Appendices 2 to 6)

The Development Services Commission includes Planning and Design, Engineering and Building Standards Departments.

Any identified surpluses/deficits from the Planning and Design and Engineering Department operating results are transferred to/from the Development Fee Reserve at year-end.

Any surplus/deficit from the Building Standards operating results is transferred to/from the Building Fee Reserve at year-end.

In 2023, the non-tax funded departments under the Development Services Commission collectively had a surplus of \$6.69M due to revenues exceeding expenses.

The primary drivers of revenue were from higher than anticipated development activity, and engineering fees which resulted in a favorable variance of \$10.70M, against budget.

The following chart lists each of the non-tax Development Services Commission Department results in terms of net revenues against budget:

Development Services Commission	YTD Dec 2023		Variance
	<u>Actual</u>	<u>Budget</u>	<u>fav./ (unfav.)</u>
Department:			
Planning and Design	\$ 2.48	\$ (1.66)	\$ 4.14
Engineering	\$ 3.82	\$ (1.55)	\$ 5.37
Building Standards	\$ 0.39	\$ (0.80)	\$ 1.19
Surplus/(Deficit) Before Transfer to/Draw (from) Reserve	\$ 6.69	\$ (4.01)	\$ 10.70
Transfer to Reserve	\$ 6.69	\$ (4.01)	\$ 10.70
Surplus After Transfer to Reserve	\$ -	\$ -	\$ -

Environmental Services - Waterworks (Appendix 7 and 8)

The Environmental Services (ES) – Waterworks Department incurred a surplus of \$21.65M against a budgeted surplus of \$16.83M, which represents a favourable variance of \$4.82M. The full amount of the surplus will be transferred to the Waterworks Reserve.

Environmental Services – Waterworks had a surplus of \$21.65M mainly due to revenues exceeding expenses, primarily due to higher than anticipated sales of water.

PURPOSE:

The purpose of this report is to provide an overview of the 2023 year-end actual results of operations against the 2023 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. In addition, Finance Staff meet with Directors every quarter to review the department operating results. Finance Staff will advise the Executive Leadership Team (ELT) immediately should significant variances arise.

Council approved the 2023 annual operating budget of \$444.7M on April 5, 2023 which included the City's primary operating budget, Planning & Design operating budget, Engineering operating budget, Building Standards operating budget and Waterworks operating budget.

The Planning & Design, Engineering, Building Standards and Waterworks operating budgets are primarily user fee funded, including planning and engineering fees, building permit fees and

water billings. Separate reserves have been established to support the department's day-to-day operations and capital programs.

This report identifies actual performance against the annual budget including an explanation of variances. All budgets are monitored monthly and departments provide details of material variances (actual to budget). The variances are reviewed, analyzed and consolidated by the Financial Planning and Reporting Department.

This report provides a variance analysis by Primary Tax Funded Operating Budget by major accounts. A more detailed breakdown by Commission is available in Appendices 9 through 14.

DISCUSSION:

Primary Operating Budget

CITY'S PRIMARY OPERATING BUDGET BY MAJOR ACCOUNTS

(including year-end accounting accruals and other adjustments and winter maintenance)

<u>(\$ in millions)</u>	<u>2023</u>		Variance	% of
	<u>Actual</u>	<u>Budget</u>	<u>fav./ (unfav.)</u>	<u>Budget</u>
Revenues	\$284.34	\$267.62	\$16.72	106.2%
Expenses	<u>263.08</u>	<u>253.23</u>	<u>(9.85)</u>	103.9%
Subtotal	<u>\$21.26</u>	<u>\$14.39</u>	<u>\$6.87</u>	
Year-End Accounting Accruals & Other Adjustments	<u>5.27</u>	<u>2.48</u>	<u>(2.79)</u>	
Surplus excluding winter maintenance	<u>15.99</u>	<u>11.91</u>	<u>4.08</u>	
Winter Maintenance	<u>\$11.13</u>	<u>\$11.91</u>	<u>\$0.78</u>	
Net surplus including winter maintenance	<u>\$4.86</u>	<u>\$0.00</u>	<u>\$4.86</u>	

The 2023 actual operating results, including year-end accounting accruals and other adjustments and winter maintenance, netted a favourable variance of \$4.86M (\$16.72M favourable revenue and \$11.86M unfavourable expense) against budget.

The major variances are outlined in the chart below:

Revenues	Fav. / (Unfav.)		Expenditures	Fav. / (Unfav.)	
Investment income	\$16.48	M	Salaries & benefits	(\$0.48)	M
Property tax penalty and interest	\$1.52	M	COVID Reserve funding	\$3.71	M
Federal and Provincial grants	\$1.34	M	Corporate Contingency	\$2.94	M
Supplementary Taxes	\$0.96	M	Tax Adjustments	\$0.97	M
MECO Utility Incentive	\$0.36	M	Winter Maintenance	\$0.78	M
Payments-in-lieu	\$0.34	M	Utilities and Streetlight hydro	\$0.73	M
Recreation Services revenue	(\$3.87)	M	Municipal Contracted Services	\$0.28	M
Theatre, Art Centre and Museum revenue	(\$0.56)	M	Transfer to Reserves	(\$15.48)	M
Parking fines	(\$0.46)	M	Year-End Accounting Adjustments	(\$2.79)	M
Library revenue	(\$0.30)	M	Contract service agreements	(\$0.83)	M
			Maintenance & Repairs	(\$0.66)	M
Other	\$0.91	M	Other	(\$1.03)	M
Total	\$16.72	M	Total	(\$11.86)	M

The following sections break down the net favourable variance of \$4.08M (excluding winter maintenance) by major accounts.

REVENUES

At the end of December, revenues totalled \$284.34M against a budget of \$267.62M resulting in a favourable variance of \$16.72M or 106.2% of the annual budget. This was mainly due to higher general revenues from investment income.

<u>Revenues</u>	<u>Actual</u>	<u>Budget</u>	<u>Fav./(Unfav.)</u>
Property Taxation Revenues	\$ 181.67 M	\$ 180.30 M	\$ 1.37 M
General Revenues	\$ 61.28 M	\$ 43.78 M	\$ 17.50 M
User Fees & Service Charges	\$ 30.68 M	\$ 35.46 M	(\$ 4.78 M)
Grant & Subsidy Revenues	\$ 3.46 M	\$ 2.12 M	\$ 1.34 M
Other Income	\$ 7.25 M	\$ 5.96 M	\$ 1.29 M
Net Variance	\$ 284.34 M	\$ 267.62 M	\$ 16.72 M

Property Taxation Revenues (Actual \$181.67M – Budget \$180.30M= Variance \$1.37M)
Property taxation revenues were favourable by \$1.37M mainly due to supplemental taxes.

For 2023, the total outstanding tax receivable for all taxation years as of December 31st, 2023 was \$39.2 million or 4.8% of total taxes levied, meaning the City collected 95.2% of all taxes levied. For comparison, prior year collections were 2022: 95.5%, 2021: 95.6%, 2020: 95.3%, 2019: 96.6%, 2018: 96.6%.

General Revenues (Actual \$61.28M – Budget \$43.78M = Variance \$17.50M)

The general revenues budget includes investment income (annual budget \$33.19M), penalties and interest on property taxes (annual budget \$4.78M), fines including parking and by-law

infractions (annual budget \$3.51M), and business, taxi, marriage and other licenses (annual budget \$2.30M).

General revenues also include Alectra Inc. interest and dividends (annual budget of \$18.69M) with a corresponding transfer to the Life Cycle Replacement and Capital Reserve Fund. At year-end, a net \$1.00M is retained in the Operating Budget from Alectra interest and dividends.

General revenues totaled \$61.28M at the end of December against a budget of \$43.78M. The main drivers for the favourable variance of \$17.50M are due to investment income \$16.48M, and property tax penalty and interest of \$1.52M. The latter resulted from higher than average tax accounts in arrears net of approved property tax deferrals, partially offset by lower parking fines revenue (\$0.46M).

User Fees and Service Charges (Actual \$30.68M – Budget \$35.46M= Variance (\$4.78M))

The user fees and services charges budget of \$35.46M includes revenues from programs offered by Recreation, Culture Departments and the Markham Public Library, and service fees such as new property tax account set-up fees, ownership change administrative fees and utility permit fees (budget \$22.67M), and facility rentals for arenas, pools, gym and halls (budget \$12.16M).

User fees and service charges were unfavourable by (\$4.78M), the main drivers of which were unfavourability in Recreation (\$3.77M), Theatre, Museum and Arts Centres (\$0.67M) and Library programs and fines (\$0.35M) mainly due to lagging demand following the COVID-19 pandemic.

Grants & Subsidy Revenues (Actual \$3.46M – Budget \$2.12M = Variance \$1.34M)

The favourable variance of \$1.34M resulted primarily from the receipt of one-time federal and provincial grants offset by corresponding expenses.

Other Income (Actual \$7.25M – Budget \$5.96M = Variance \$1.29M)

The favorable variance of \$1.29M is mainly due to MECO utility incentives, finance administrative fees and service to other agencies.

PERSONNEL EXPENDITURES

In 2023, personnel expenditures were unfavourable by \$0.48M which represents 100.3% of the year-end budget.

While full-time and part-time salaries were favorable due to 50 net vacancies, Fire overtime and year-end accounting adjustments contributed to the overall unfavourable variance.

<u>Personnel</u>	<u>Actual</u>	<u>Budget</u>	<u>Fav./(Unfav.)</u>
Full time net of vacancy backfills and part time salaries	\$ 143.19 M	\$ 146.47 M	\$ 3.28 M
Overtime and other personnel costs	\$ 4.56 M	\$ 0.80 M	(\$ 3.76 M)
Total	\$ 147.75 M	\$ 147.27 M	(\$ 0.48 M)

NON-PERSONNEL EXPENDITURES

In 2023, non-personnel expenditures were unfavourable by \$9.37M (108.8% of budget). This was mainly driven by higher than anticipated one-time transfers to reserves, including the Capital Gains Reserve related to higher investment income, and Life Cycle and the Ramp-Up Reserve to provision for future expenditures.

<u>Non Personnel Items</u>	<u>Actual</u>	<u>Budget</u>	<u>Fav./(Unfav.)</u>
Materials & Supplies	\$ 7.02 M	\$ 6.79 M	(\$ 0.23 M)
Procured Services	\$ 47.99 M	\$ 47.78 M	(\$ 0.21 M)
Transfers to Reserves	\$ 58.70 M	\$ 45.75 M	(\$ 12.95 M)
Other Expenditures	\$ 1.62 M	\$ 5.64 M	\$ 4.02 M
Total	\$ 115.33 M	\$ 105.96 M	(\$ 9.37 M)

Materials & Supplies (Actual \$7.02M – Budget \$6.79M = Variance (\$0.23M))

Materials & supplies budget of \$6.79M includes facility maintenance supplies, uniforms, recreation and other program supplies (annual budget \$3.98M), vehicle supplies such as fuel and repair parts (annual budget \$2.32M), and printing and office supplies (annual budget \$0.49M).

The Materials & Supplies expenses were \$0.23M unfavourable mainly due to vehicle related costs such as vehicle parts and shop materials.

Procured Services (Actual \$47.99M – Budget \$47.78M = Variance (\$0.21M))

The Procured Services budget of \$47.78M includes utilities and streetlight hydro (annual budget \$11.09M), waste collection (annual budget \$15.04M), maintenance & repairs (annual budget \$6.19M), professional services such as Theatre artist/entertainer fees, school crossing guards and external legal services (annual budget \$3.10M), insurance (annual budget \$3.27M),

communications (annual budget \$1.48M) and promotion and advertising (annual budget \$1.36M).

Procured Services were unfavourable \$0.21M mainly due to:

- (\$0.83M) unfavourable in contract service agreements mainly related to road repair and parks.
- Partially offset by \$0.64M favourable in utilities primarily due to lower than budgeted usage

Transfers to Reserves (Actual \$58.70M – Budget \$45.75M = Variance (\$12.95M))

The majority of funds transferred are directed to the Life Cycle and Capital Reserve Fund. The unfavourable variance of \$12.95M is mainly driven by one-time transfers to the Capital Gains Reserve (\$5.29M), the Ramp up Reserve to provision for future expenses (\$4.0M), Life Cycle Reserve for future IT provisions (\$2.0M), and repayment of the Combined Heat and Power (CHP) system at Angus Glen CC (\$1.8M) partially offset by COVID-19 relief funding for continued shortfalls in Recreation and Culture programs as a result of the pandemic \$3.71M.

Other Expenditures (Actual \$1.62M – Budget \$5.64M = Variance \$4.02M)

Other expenditures budget of \$5.64M includes contingency expense and non-personnel ramp ups \$2.78M and property tax adjustments \$1.27M. The variance of \$4.02M is mainly due to lower corporate contingency expenditures of \$2.94M.

Summary of One-Time Items

There were a number of one-time items affecting the City's 2023 year-end results which are included in the year-end surplus of \$4.86M. One-time items include favourability in investment income and winter maintenance and a transfer from the COVID Relief Fund for Recreation and Culture programs, partially offset by unfavourability from increased transfers to reserves. In some cases, budgets have been adjusted in 2024 where needed.

The one-time items affecting the City's 2023 year-end results are summarized in Appendix 15.

After adjusting for the one-time items and transferring the remaining \$4.86M to the City's Life Cycle Capital Replacement and Capital Reserve Fund, as per the approved Financial Planning and Budgeting Policy, the surplus including year-end accounting accruals and other adjustments is fully depleted.

Year-End Accounting Accruals and Other Adjustments

Year-end accounting accruals and other adjustments = Unfavourable variance \$2.79M

In 2023, the year-end accounting accruals and other adjustments totaled \$5.27M against a budget of \$2.48M resulting in an unfavourable variance of (\$2.79M). As required by the Public Sector Accounting Board (PSAB), the Workplace Safety and Insurance Board (WSIB) actuarial valuation was updated in 2023 resulting in an additional top-up cost for the year in the amount of \$1.87M due to an increase in the number of presumptive claims to be approved by WSIB. The

year-end accounting accruals and other adjustments also include severance, salary continuance payments, firefighter sick leave payouts, post-employment benefits and salary accrual.

The City received a total of \$18.47M in Safe-Restart funding and COVID-19 Recovery funding. By the end of 2023, \$15.47M was allocated, with the remaining balance of \$3.00M to be allocated in 2024.

An exhibit outlining the funding received since 2020 and how the funding has been and will be utilized in 2024 is available in Appendix 16.

Winter Maintenance

The 2023 actual winter maintenance expenditures was \$11.13M against a budget of \$11.91M, resulting in a favourable variance of \$0.78M.

The City’s winter maintenance budget includes personnel expenditures, salt and sand purchases as well as five service contracts:

1. Supply and operation of tandem/single combination plow to sand and plow the City’s primary road network;
2. Supply and operation of loaders to assist in the snow removal in cul-de-sacs, wide corners and rear lanes;
3. Grader rentals to remove snow on the City’s local road networks;
4. Sidewalk snow removal; and
5. Windrow snow clearing services for eligible applicants

Variances between actual costs and budgeted costs in the period of 2018-2023 are impacted by a range of external factors including, but not limited to, the amount of snowfall and the number of snow events which require City roads to be cleared or salted.

The following chart provides details of the \$0.78M favourable variance:

<u>Description</u>	<u>Actual</u>	<u>Budget</u>	<u>Variance Fav./(Unfav.)</u>	
			<u>Hours</u>	<u>\$M</u>
Sidewalk (per unit of equipment)	189 hrs	336 hrs	147 hrs	0.74
Tandem (per unit of equipment)	182 hrs	290 hrs	109 hrs	0.56
Graders and windrows (per unit of equipment)	89 hrs	119 hrs	30 hrs	0.28
Loader (per unit of equipment)	123 hrs	119 hrs	(4) hrs	(0.05)
Salt & Sand	35,484 tonnes	24,506 tonnes	(10,977) tonnes	(0.96)
Part-time & overtime costs				(0.11)
Other winter maintenance costs				0.32
Winter maintenance favourable variance				0.78

Staff will continue to monitor the trends to determine whether future adjustments to the winter maintenance budget are necessary.

Operating Results for Non-Tax Funded Departments

Development Services (Appendices 2 to 6)

The Development Services Commission includes Planning and Design, Engineering and Building Standards Departments.

Any identified surpluses/deficits from the Planning and Design and Engineering Department operating results are transferred to/from the Development Fee Reserve at year-end.

Any surplus/deficit from the Building Standards operating results is transferred to/from the Building Fee Reserve at year-end.

In 2023, the non-tax funded departments under the Development Services Commission collectively had a surplus of \$6.69M due to revenues exceeding expenses.

The primary drivers of revenue were from higher than anticipated development activity, and engineering fees which resulted in a favorable variance of \$10.70M, against budget.

The following chart lists each of the non-tax Development Services Commission Department results in terms of net revenues against budget:

Development Services Commission	<u>YTD Dec 2023</u>		Variance
	<u>Actual</u>	<u>Budget</u>	<u>fav./ (unfav.)</u>
<u>Department:</u>			
Planning and Design	\$ 2.48	\$ (1.66)	\$ 4.14
Engineering	\$ 3.82	\$ (1.55)	\$ 5.37
Building Standards	\$ 0.39	\$ (0.80)	\$ 1.19
<u>Surplus/(Deficit) Before Transfer to/Draw (from) Reserve</u>	<u>\$ 6.69</u>	<u>\$ (4.01)</u>	<u>\$ 10.70</u>
Transfer to Reserve	\$ 6.69	\$ (4.01)	\$ 10.70
<u>Surplus After Transfer to Reserve</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Further details with regards to the DSC non-tax departments can be found within Appendices 2 to 6.

ES-Waterworks (Appendix 7 and 8)

The Environmental Services (ES) – Waterworks Department incurred a surplus of \$21.65M against a budgeted surplus of \$16.83M, which represents a favourable variance of \$4.82M. The full amount of the surplus will be transferred to the Waterworks Reserve.

Environmental Services – Waterworks had a surplus of \$21.65M mainly due to revenues exceeding expenses, primarily due to higher than anticipated sales of water.

Further details with regards to Waterworks can be found in Appendix 7 and 8.

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.

Due to the one-time transfer of \$1.14M to the Corporate Rate Stabilization Reserve from the cancellation of holdback pertaining to expired contracts, the City's 2023 net operations favourable variance of \$4.86M will be transferred to the Life Cycle Capital Replacement and Capital Reserve Fund, as per the approved Financial Planning and Budgeting Policy.

The audited 2023 draft consolidated financial statements will be presented to General Committee in April 2024. The year-end results presented in this report are subject to change based on the results of the external audit.

RECOMMENDED

Joseph Silva
Treasurer

Trinela Cane
Commissioner, Corporate Services

ATTACHMENTS:

Appendices 1 to 16

Appendix 1 – Primary Operating Budget - Financial Results for the Twelve Months Ended December 31, 2023

Appendix 2 – Planning & Design Operating Budget - Financial Results for the Twelve Months Ended December 31, 2023

Appendix 3 – Engineering Operating Budget - Financial Results for the Twelve Months Ended December 31, 2023

Appendix 4 – Planning and Engineering Development Fee Reserve Balance for the Twelve Months Ended December 31, 2023

Appendix 5 – Building Standards Operating Budget - Financial Results for the Twelve Months Ended December 31, 2023

Appendix 6 – Building Fee Reserve Balance for the Twelve Months Ended December 31, 2023

Appendix 7 – Waterworks Operating Budget - Financial Results for the Twelve Months Ended December 31, 2023

Appendix 8 – Waterworks Reserve Balance for the Twelve Months Ended December 31, 2023

Appendix 9 – Variances by Commission and Department for the Twelve Months Ended December 31, 2023 – CAO’s Office, Corporate Communications, Fire Services, People Services and Legal

Appendix 10 – Variances by Commission and Department for the Twelve Months Ended December 31, 2023 – Community Services

Appendix 11 – Variances by Commission and Department for the Twelve Months Ended December 31, 2023 – Corporate Services

Appendix 12 – Variances by Commission and Department for the Twelve Months Ended December 31, 2023 – Development Services

Appendix 13 – Variances by Commission and Department for the Twelve Months Ended December 31, 2023 – Mayor and Council

Appendix 14 – Variances by Commission and Department for the Twelve Months Ended December 31, 2023 – Corporate Items

Appendix 15 – One-Time Items Impacting Surplus / (Deficit) for the Twelve Months Ended December 31, 2023

Appendix 16 – Safe Restart and COVID-19 Recovery Funding Availability as of December 31, 2023