



Report to: General Committee

Report Date: March 6, 2017

SUBJECT: 2016 Year-End Review of Operations
PREPARED BY: Andrea Tang, Senior Manager of Financial Planning

RECOMMENDATION:

- 1) THAT the report entitled “2016 Year-End Review of Operations” be received;
- 2) THAT the City’s 2016 net favourable variance of \$4.70M be transferred as follows, as per the approved Financial Planning and Budgeting Policy :
 - a. \$0.73M to the Corporate Rate Stabilization Reserve to achieve a balance equal to 15% of the local tax levy as per City policy;
 - b. \$0.47M to the WSIB Reserve to fund the projected 2019 liability based on the 2016 actuarial valuation;
 - c. \$3.50M to the Life-Cycle Capital Repair and Replacement Reserve;
- 3) THAT Staff be authorized and directed to do all things necessary to give effect to this resolution.

EXECUTIVE SUMMARY:

Council approved the 2016 annual operating budget of \$345.64M on December 15, 2015 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 2016 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 2016 results of operations incurred a net surplus of \$4.70M and the breakdown is shown below:

	<u>2016</u>		Variance	% of
<u>(\$ in millions)</u>	<u>Actual</u>	<u>Budget</u>	<u>fav./ (unfav.)</u>	<u>Budget</u>
Revenues	207.71	206.54	1.17	100.6%
Expenses	<u>192.53</u>	<u>196.25</u>	<u>3.72</u>	98.1%
Surplus excluding year-end accounting accruals & other adjustments and winter maintenance	15.18	10.29	4.89	147.5%
Year-end accounting accruals & other adjustments	<u>1.54</u>	<u>0.94</u>	<u>(0.60)</u>	163.8%
Surplus excluding winter maintenance	13.64	9.35	4.29	145.9%
Winter Maintenance	<u>8.94</u>	<u>9.35</u>	<u>0.41</u>	95.6%
Net surplus including winter maintenance	<u>4.70</u>	<u>0.00</u>	<u>4.70</u>	

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 \$4.89M

The major variances are outlined in the chart below:

Revenues	Fav. / (Unfav.)		Expenditures	Fav. / (Unfav.)	
Federal and Provincial grants	0.55	M	Salary & benefit costs	1.56	M
OMERS type 6 rebate (one-time)	0.40	M	Corporate contingency	1.14	M
Property tax penalty and interest	0.38	M	Waste collection	0.59	M
LED streetlight retrofit rebate from PowerStream (one-time)	0.30	M	Transfer to reserves	0.51	M
Theatre revenues (ticket sales, technical support services and rental)	0.22	M	Professional services/ office supplies/ training/ travel	0.45	M
Financial services admin. fees & Legal fees	0.20	M	Operating materials & supplies	0.36	M
Finance Department user fees	0.16	M	Communications	0.21	M
Supplemental property taxes	(0.34)	M	Maintenance & repairs	0.17	M
Corporate sponsorship	(0.35)	M	Fuel (gas & diesel)	0.14	M
Recreation Department revenues	(0.56)	M	Contract service agreements	0.11	M
Other	0.21	M	Credit card charges	(0.10)	M
			Insurance	(0.26)	M
			Property tax adjustments	(1.02)	M
			Other	(0.14)	M
Total	1.17	M	Total	3.72	M

Year-End Accounting Accruals and Other Adjustments

Year-end accounting accruals and other adjustments = Unfavourable variance (\$0.60M)

The 2016 year-end accounting accruals and other adjustments totaled \$1.54M against a budget of \$0.94M for an unfavourable variance of (\$0.60M) 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 and salary continuance payments, post retirement benefits and the firefighter sick leave plan.

The results of operations including the year-end accounting accruals and other adjustments were projected to be favourable \$3.53M in September. The year-end actual results represent an improvement of \$0.76M (\$4.29M - \$3.53M) due to lower severance and salary continuance of \$0.37M, additional vacancy savings of \$0.27M, maintenance and repairs \$0.27M, waste collection savings \$0.19M and other variances of less than \$0.05M across various departments, partially offset by additional property tax adjustments of (\$0.57M).

Winter Maintenance

Winter maintenance = Favourable variance \$0.41M

The 2016 actual winter maintenance expenditures totaled \$8.94M against a budget of \$9.35M, resulting in a favourable variance of \$0.41M which was lower than the projection of \$1.21M due to higher than budgeted winter storm activities in December.

Planning & Design (Appendix 3)

Actual \$1.41M – Budget (\$0.22M) = Favourable variance \$1.63M
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Planning & Design incurred a surplus of \$1.41M against a budgeted deficit of (\$0.22M). The favourable variance of \$1.63M was mainly due to higher planning fees from subdivision and site plan agreements in the fourth quarter of the year.

Engineering (Appendix 4)

Actual (\$0.52M) – Budget (\$0.79M) = Favourable variance \$0.27M
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Engineering incurred a deficit of (\$0.52M) against a budgeted deficit of (\$0.79M). The favourable variance of \$0.27M was mainly due to lower personnel costs from a full year average of 5 temporary net vacancies (six temporary net vacancies as of December 31).

Planning & Engineering Development Fee Reserve (Appendix 5)

The 2016 budget anticipated a deficit of (\$0.22M) for Planning and a deficit of (\$0.79M) for Engineering totaling (\$1.01M).

The Planning & Design and Engineering departments ended the year with a total surplus of \$0.89M (Planning surplus of \$1.41M and Engineering deficit of (\$0.52M)). In order to balance the 2016 budget, a transfer of \$0.89M will be made to the Reserve. The Reserve has a deficit balance of (\$10.74M) at year-end.

Building Standards (Appendix 6)

Actual \$1.25M – Budget (\$1.61M) = Favourable variance \$2.86M
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The Building Standards department incurred a surplus of \$1.25M against a budgeted deficit of (\$1.61M). The favourable variance of \$2.86M was mainly due to a higher number of building permits issued in the fourth quarter of 2016.

In order to balance the 2016 budget, a transfer of \$1.25M will be made to the Reserve, resulting in a surplus Reserve balance of \$10.22M at year-end (see Appendix 7).

Waterworks (Appendix 8)

Actual \$15.21M – Budget \$15.96M = Unfavourable variance (\$0.75M)
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The Waterworks department incurred a surplus of \$15.21M against a budgeted surplus of \$15.96M in 2016. The main drivers for the unfavourable variance of (\$0.75M) were as follows:

- Lower water/wastewater sales than budget resulting in an unfavourable “net sales and purchases” variance of (\$0.99M);
- Higher personnel costs resulting in an unfavourable variance of (\$0.12M)
- Lower non-personnel costs resulting in a favourable variance of \$0.41M due to lower operating and construction materials and supplies costs.

In order to balance the 2016 budget, a transfer of \$15.21M will be made to the Reserve, resulting in a surplus Reserve balance of \$51.02M at year-end (see Appendix 9).

PURPOSE:

To report on the year-end actual 2016 operating budget results versus the budgeted 2016 operating budget.

BACKGROUND:

Council approved the 2016 annual operating budget of \$345.64M on December 15, 2015 which includes the City’s primary operating budget, Library operating budget, Planning & Design operating budget, Engineering operating budget, Building Standards operating budget and Waterworks operating budget. The primary operating budget is mainly tax funded to support the City’s day-to-day operations.

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 departments’ day-to-day operations and capital programs.

All budgets are monitored on a monthly basis and departments provide details of material variances (actual to budget). The variances are reviewed, substantiated and summarized by the Financial Planning department.

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, 2016 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:

<u>Commission</u>	<u>2016</u>		<u>Variance</u> <u>fav./(unfav.)</u>
	<u>Actual</u>	<u>Budget</u>	
CAO's Office, Human Resources, Legal and Sustainability Office	5.01	5.94	0.93
Community & Fire Services (excl. winter maintenance)	93.00	95.31	2.31
Corporate Services	15.13	15.98	0.85
Development Services	5.13	5.27	0.14
Corporate Items	(133.45)	(132.79)	0.66
Net Expense/ (Revenue)	(15.18)	(10.29)	4.89

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)

<u>Department</u>	<u>2016</u>		<u>Variance</u> <u>fav./(unfav.)</u>
	<u>Actual</u>	<u>Budget</u>	
CAO's Office	0.82	0.92	0.10
Human Resources	2.76	3.12	0.36
Legal	1.23	1.55	0.32
Sustainability Office	0.20	0.35	0.15
Net Expense	5.01	5.94	0.93

CAO's Office (Actual \$0.82M – Budget \$0.92M = Variance \$0.10M)

Favourable variance of \$0.10M mainly due to professional fees \$0.04M and training \$0.02M.

Human Resources (Actual \$2.76M – Budget \$3.12M = Variance \$0.36M)

Favourable variance of \$0.36M mainly due to a year-to-date average of two temporary net vacancies (one temporary net vacancy as of December 31) of \$0.26M and recruitment advertising of \$0.07M.

Legal (Actual \$1.23M – Budget \$1.55M = Variance \$0.32M)

Favourable variance mainly due to a year-to-date average of one temporary net vacancy \$0.18M and legal fee revenue \$0.12M.

Sustainability Office (Actual \$0.20M – Budget \$0.35M = Variance \$0.15M)

Favourable variance mainly due to a year-to-date average of two temporary net vacancies.

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

<u>Department</u>	<u>2016</u>		<u>Variance</u>
	<u>Actual</u>	<u>Budget</u>	<u>fav./(unfav.)</u>
Operations	19.32	20.22	0.90
Asset Management	7.92	8.54	0.62
Fire Services	35.54	35.27	(0.27)
Library	12.09	12.25	0.16
Recreation Services	10.42	10.24	(0.18)
Waste	7.08	7.96	0.88
Commissioner's Office	0.63	0.83	0.20
Net Expense	93.00	95.31	2.31

Operations (Actual \$19.32M – Budget \$20.22M = Variance \$0.90M)

Favourable variance mainly due to a year-to-date average of five temporary net vacancies \$0.50M, part time salaries of \$0.44M and fuel (gas and diesel) \$0.14M driven by lower oil prices partially offset by unfavourable asphalt repairs (\$0.13M) due to contract renewal (adjusted in the 2018 budget).

Asset Management (Actual \$7.92M – Budget \$8.54M = Variance \$0.62M)

Favourable variance mainly due to streetlight hydro and maintenance \$0.22M and utility locates \$0.22M due to lower construction activity in Markham in 2016.

Fire Services (Actual \$35.54M – Budget \$35.27M = Variance (\$0.27M))

Unfavourable variance mainly due to higher overtime costs (\$1.56M) to cover for absences and full year salary gapping (\$0.15M) partially offset by a year-to-date average of thirteen temporary net vacancies (seven temporary net vacancies as of December 31) \$1.42M to a net unfavourable variance of (\$0.14M), and lower than budgeted revenues of (\$0.06M).

Library (Actual \$12.09M – Budget \$12.25M = Variance \$0.16M)

Favourable variance mainly due to a year-to-date average of eight temporary net vacancies.

Recreation (Actual \$10.42M – Budget \$10.24M = Variance (\$0.18M))

Recreation revenues were unfavourable by (\$0.56M) in user fees and other service charges mainly due to facility rentals (\$0.51M), programs (\$0.12M) and fitness classes (\$0.11M) partially offset by favourable camps of \$0.19M. This was partially offset by a favourable variance of \$0.07M from provincial grants, for a net unfavourable variance in revenues of (\$0.49M) (actual \$19.21M, budget \$19.70M).

The unfavourable variance in revenue was partially offset by favourable personnel costs \$0.13M and non-personnel costs of \$0.18M from operating materials & supplies. In summary, the Recreation department incurred a net unfavourable variance of (\$0.18M). For comparison, the December 2015 year-end net variance was unfavourable by (\$0.66M).

Waste (Actual \$7.08M – Budget \$7.96M = Variance \$0.88M)

Favourable variance mainly due to lower waste tonnage \$0.58M and the additional Waste Diversion Ontario (WDO) grant of \$0.29M.

Commissioner's Office (Actual \$0.63M – Budget \$0.83M = Variance \$0.20M)

Favourable variance mainly due to a year-to-date average of one temporary net vacancy and various non-personnel accounts.

Corporate Services (Appendix 12)

<u>Department</u>	<u>2016</u>		Variance
	<u>Actual</u>	<u>Budget</u>	<u>fav./(unfav.)</u>
Legislative Services	2.97	2.77	(0.20)
Financial Services	3.74	4.31	0.57
ITS	6.59	7.02	0.43
Corp. Communications & Community Engagement	1.47	1.49	0.02
Commissioner's Office	0.36	0.39	0.03
Net Expense	15.13	15.98	0.85

Legislative Services (Actual \$2.97M – Budget \$2.77M = Variance (\$0.20M))

Unfavourable variance mainly due to lower revenues in licences (taxi and business) (\$0.13M) and higher personnel costs related to accommodations (\$0.05M) and full year salary gapping (\$0.03M).

Financial Services (Actual \$3.74M – Budget \$4.31M = Variance \$0.57M)

Favourable variance mainly due to a year-to-date average of three temporary net vacancies (two temporary net vacancies as of December 31) of \$0.34M and higher volume in user fees from ownership changes, non-property tax related charges and tax certificates totalling \$0.16M.

ITS (Actual \$6.59M – Budget \$7.02M = Variance \$0.43M)

Favourable variance mainly due to a year-to-date average of two temporary net vacancies (one temporary net vacancy as of December 31) \$0.18M and communications (telephone data charges and services) \$0.16M.

Development Services (Appendix 13)

<u>Department</u>	<u>2016</u>		Variance
	<u>Actual</u>	<u>Budget</u>	<u>fav./(unfav.)</u>
Culture & Economic Development	3.94	4.07	0.13
Commissioner's Office	1.19	1.20	0.01
Net Expense	5.13	5.27	0.14

Culture & Economic Development (Actual \$3.94M – Budget \$4.07M = Variance \$0.13M)
Favourable variance mainly due to Theatre revenue \$0.22M and additional provincial and federal grants \$0.14M partially offset by professional fees (\$0.08M), promotion and advertising (\$0.08M) and higher personnel costs due to part-time salaries (\$0.08M).

Corporate Items (Appendix 14)

	<u>2016</u>		Variance
<u>Department</u>	<u>Actual</u>	<u>Budget</u>	<u>fav./(unfav.)</u>
Corporate Items	(133.45)	(132.79)	0.66
Net Revenue	(133.45)	(132.79)	0.66

Favourable variance mainly due to corporate contingency \$1.14M, transfer to reserves \$0.51M, OMERS type 6 rebate (one-time) \$0.40M, property tax penalties and interest \$0.38M and LED streetlight retrofit rebate from PowerStream (one-time) \$0.30M partially offset by property tax adjustments (\$1.02M), HRIS project implementation costs (one-time) (\$0.50M), supplemental taxes (\$0.34M) and insurance (\$0.26M).

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

<u>(\$ in millions)</u>	<u>2016</u>		Variance	% of
	<u>Actual</u>	<u>Budget</u>	<u>fav./(unfav.)</u>	<u>Budget</u>
Revenues	207.71	206.54	1.17	100.6%
Expenses	<u>192.53</u>	<u>196.25</u>	<u>3.72</u>	98.1%
Surplus excluding year-end accounting accruals & other adjustments and winter maintenance	15.18	10.29	4.89	147.5%

The 2016 actual operating results, excluding year-end accounting accruals and other adjustments and winter maintenance, against budget netted a favourable variance of \$4.89M (revenue of \$1.17M + expenses of \$3.72M) and the breakdown is as follows:

REVENUES

In 2016, revenues totalled \$207.71M against a budget of \$206.54M resulting in a favourable variance of \$1.17M (100.6% of budget).

Revenues	Actual	Budget	Fav./(Unfav.)
Property Taxation Revenues	\$ 143.65 M	\$ 143.90 M	(\$ 0.25 M)
General Revenues	\$ 30.68 M	\$ 30.31 M	\$ 0.37 M
User Fees & Service Charges	\$ 25.17 M	\$ 25.38 M	(\$ 0.21 M)
Grant & Subsidy Revenues	\$ 2.15 M	\$ 1.60 M	\$ 0.55 M
Other Income	\$ 6.06 M	\$ 5.35 M	\$ 0.71 M
Net Variance	\$ 207.71 M	\$ 206.54 M	\$ 1.17 M

Property Taxation Revenues (Actual \$143.65M – Budget \$143.90M= Variance (\$0.25M))
Property taxation revenue includes property taxes (budget \$142.69M) and payments-in-lieu of taxes (budget \$1.21M).

The unfavourable variance of (\$0.25M) is mainly from supplemental taxes (\$0.34M) due to construction delays resulted from the drywall tradesstrike earlier in the year. Supplemental assessment represents new properties that are completed each year, which generate new assessment and tax dollars for the City. Supplemental assessment is included as assessment growth for the following year.

General Revenues (Actual \$30.68M – Budget \$30.31M = Variance \$0.37M)

The general revenues budget includes investment income (budget \$21.63M), interest and penalties on property taxes (budget \$3.80M), parking fines (budget \$3.06M), and business, taxi, marriage and other licences (budget \$1.82M).

General revenues also include PowerStream interest and dividends (budget \$12.14M) with a corresponding transfer in expenditures to the Life Cycle Replacement and Capital Reserve Fund. At year-end, a net \$1.00M is retained in the Operating Budget from PowerStream interest income and dividends.

General revenues totaled \$30.68M at the end of December against a budget of \$30.31M. The main driver for the favourable variance of \$0.37M was due to property tax penalty and interest.

User Fees and Service Charges (Actual \$25.17M – Budget \$25.38M= Variance (\$0.21M))

The user fees and services charges budget of \$25.38M includes revenues from programs offered by Recreation, Culture Services and Library departments and service fees such as new property tax account set-up fees, ownership change administrative fees and utility permit fees (budget \$16.48M), and facility rentals for arenas, pools, gym and halls (budget \$8.90M).

User fees and service charges were unfavourable by (\$0.21M), the main drivers of which were:

Recreation

Recreation revenues were unfavourable by (\$0.56M) in user fees and other service charges mainly due to facility rentals (\$0.51M), programs (\$0.12M) and fitness classes (\$0.11M) partially offset by favourable camps of \$0.19M. This was partially offset by a favourable variance of \$0.07M from provincial grants, for a net unfavourable variance in revenues of (\$0.49M) (actual \$19.21M, budget \$19.70M).

The unfavourable variance in revenue was partially offset by favourable personnel costs \$0.13M and non-personnel costs of \$0.18M due to operating materials & supplies. In summary, the Recreation department incurred a net unfavourable variance of (\$0.18M). For comparison, the December 2015 year-end net variance was unfavourable by (\$0.66M).

There were favourable variances in Theatre of \$0.22M and Finance user fees of \$0.16M which partially offset the above unfavourable variances.

Grants & Subsidy Revenues (Actual \$2.15M – Budget \$1.60M = Variance \$0.55M)

The budget includes provincial and federal grants of \$1.60M. The favourable variance of \$0.55M resulted from the receipt of one-time federal and provincial grants.

Other Income (Actual \$6.06M – Budget \$5.35M = Variance \$0.71M)

The favourable variance of \$0.71M resulted primarily from a one-time OMERS type 6 rebate of \$0.40M and a one-time LED streetlight retrofit rebate from PowerStream of \$0.30M.

PERSONNEL EXPENDITURES

In 2016 personnel expenditures were favourable by \$1.56M or 98.7% of the year-to-date budget.

Personnel	Actual	Budget	Fav./(Unfav.)
Full time net of vacancy backfills and part time salaries	\$114.66 M	\$117.78 M	\$3.12 M
Overtime and other personnel costs	\$3.20 M	\$1.64 M	(\$1.56 M)
Total	\$117.86 M	\$119.42 M	\$1.56 M

At the end of December, there were 46 net temporary vacancies (of which 13 were vacancies from approved leaves of absence and secondments) and a full year average 47 net temporary vacancies resulting in a favourable variance of \$4.13M. This was offset by full year budgeted salary gapping of (\$0.46M), HRIS one-time implementation costs (\$0.50M) and an unfavourable variance of (\$0.20M) in part-time salaries netting a favourable variance of \$3.12M.

Overtime and other personnel costs were unfavourable by (\$1.56M) mainly due to coverage for approved absences in the Fire Department (\$1.56M) (offset by a corresponding favourable full-time variance of \$1.42M).

NON-PERSONNEL EXPENDITURES

In 2016, non personnel expenditures were favourable by \$0.60M (97.2% of budget).

Non Personnel Items	Actual	Budget	Fav./(Unfav.)
Materials & Supplies	\$ 4.86 M	\$ 5.65 M	\$ 0.79 M
Purchased Services	\$ 34.69 M	\$ 35.84 M	\$ 1.15 M
Transfers to Reserves	\$ 31.10 M	\$ 31.61 M	\$ 0.51 M
Other Expenditures	\$ 4.02 M	\$ 3.73 M	(\$ 0.29 M)
Total	\$ 74.67 M	\$ 76.83 M	\$ 2.16 M

Materials & Supplies (Actual \$4.86M – Budget \$5.65M = Variance \$0.79M)

Materials & supplies budget of \$4.36M includes facility maintenance supplies, uniforms, recreation and other program supplies (budget \$2.62M), vehicle supplies such as fuel and repair parts (budget \$1.59M), and printing and office supplies (budget \$0.58M).

The favourable variance of \$0.79M is primarily due to operating materials and supplies (eg. building maintenance supplies, uniforms, program expenses) \$0.36M, printing and office supplies of \$0.23M and fuel (gas and diesel) \$0.14M driven by lower oil prices.

Purchased Services (Actual \$34.69M – Budget \$35.84M = Variance \$1.15M)

Purchased services budget of \$35.84M includes utilities and streetlight hydro (budget \$10.20M), waste collection (budget \$8.23M), maintenance & repairs (\$4.89M), professional services such as Theatre artist/entertainer fees, school crossing guards and external legal services (budget \$2.81M), insurance (\$2.27M), communications (\$1.35M) and promotion and advertising (budget \$1.26M).

Purchased Services were favourable \$1.15M mainly due to:

- \$0.59M favourable in waste collection
- \$0.25M favourable due to communications (telephone data charges and services)
- \$0.22M favourable in professional fees, training, and travel
- \$0.17M favourable in maintenance & repairs

These are partially offset by an insurance unfavourable variance of (\$0.26M) due to higher costs associated with claim settlements.

Transfers to Reserves (Actual \$31.10M – Budget \$31.61M = Variance \$0.51M)

The majority of funds are transferred to the Life Cycle Replacement and Capital Reserve Fund.

Other Expenditures (Actual \$4.02M – Budget \$3.73M = Variance \$0.31M)

Other expenditures budget of \$3.73M includes property tax adjustments and property vacancy rebates (budget \$0.97M), corporate contingency (budget \$1.24M), non-personnel ramp ups (\$0.40M) and grants (\$0.49M).

Other expenditures were favourable \$0.31M due to corporate contingency \$1.14M, grants \$0.10M and other variances of less than \$0.05M across various departments partially offset by property tax adjustments (\$1.02M).

Property tax adjustments are due to an acceleration in the processing of Assessment Review Board (ARB) cases in an effort to eliminate backlog as previously communicated in 2014 and 2015.

Summary of One-Time Items

There are several one-time items affecting the City's 2016 year-end results. These items are either one-time revenues or expenses incurred in 2016. In some cases, budgets have been adjusted in 2017 where needed. They have been summarized below:

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- \$1.10M favourable for corporate contingency
 - \$0.59M favourable in waste collection (adjusted in the 2017 Budget)
 - \$0.51M from transfers to reserves (adjusted in 2017 Budget)
 - \$0.40M favourable for one-time OMERS type 6 rebate
 - \$0.38M favourable for property tax penalty and interest (adjusted in 2017 Budget)
 - \$0.30M favourable one-time LED streetlight retrofit rebate from PowerStream
 - (\$0.13M) due to asphalt repairs contract (adjusted in 2017 Budget)
 - (\$0.15M) unfavourable component in Recreation revenue (adjusted in 2017 Budget)
 - (\$0.25M) unfavourable in supplemental taxes due to construction delays from the drywall trades strike earlier in the year
 - (\$0.26M) unfavourable in insurance due to the cost associated with claim settlements (adjusted in 2017 Budget)
 - (\$0.26M) unfavourable variance due to year-end accounting accruals and other adjustments (continuing to be ramped up in 2017 Budget)
 - (\$0.34M) unfavourable for property tax adjustments (continuing to be ramped up in 2017 Budget)
 - (\$0.50M) unfavourable from HRIS project one time implementation costs

Total: \$1.39M favourable variance

After adjusting for the above items, the City's results of operations including year-end accounting accruals and other adjustments would result in a surplus of \$2.90M (\$4.29M - \$1.39M).

Year-End Accounting Accruals and Other Adjustments

Year-end accounting accruals and other adjustments = Unfavourable variance (\$0.60M)

The 2016 year-end accounting accruals and other adjustments totaled \$1.54M against a budget of \$0.94M for an unfavourable variance of (\$0.60M). They include severance and salary continuance payments, post retirement benefits and the Firefighter sick leave plan.

The results of operations including the year-end accounting accruals and other adjustments were projected to be favourable \$3.53M in September. The results represent an improvement of \$0.76M (\$4.29M - \$3.53M) due to lower severance and salary continuance of \$0.37M, additional vacancy savings of \$0.27M, maintenance and repairs \$0.27M, waste collection savings \$0.19M and other variances of less than \$0.05M across various departments, partially offset by additional property tax adjustments of (\$0.57M).

Winter Maintenance

Winter maintenance = Favourable variance \$0.41M

The 2016 actual winter maintenance expenditures totaled \$8.94M against a budget of \$9.35M, resulting in a favourable variance of \$0.41M which was lower than the year-end projection of \$1.21M due to higher than budgeted winter storm activities in December.

Planning & Design (Appendix 3)

Actual \$1.41M – Budget (\$0.22M) = Favourable variance \$1.63M
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In 2016, Planning & Design incurred a surplus of \$1.41M against a budgeted deficit of (\$0.22M). The favourable variance of \$1.63M was mainly due to higher planning fees from subdivision and site plan agreements in the fourth quarter of the year.

Engineering (Appendix 4)

Actual (\$0.52M) – Budget (\$0.79M) = Favourable variance \$0.27M
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In 2016, Engineering incurred a deficit of (\$0.52M) against a budgeted deficit of (\$0.79M). The favourable variance of \$0.27M was mainly due to lower personnel costs from a full year average of 5 temporary net vacancies (six temporary net vacancies as of December 31).

Planning & Engineering Development Fee Reserve (Appendix 5)

The 2016 budget anticipated a deficit of (\$0.22M) for Planning and a deficit of (\$0.79M) for Engineering totaling (\$1.01M).

The Planning & Design and Engineering departments ended the year with a total surplus of \$0.89M (Planning surplus of \$1.41M and Engineering deficit of (\$0.52M)). In order to balance the 2016 budget, a transfer of \$0.89M will be made to the Reserve. The Reserve has a deficit balance of (\$10.74M) at year-end.

Building Standards (Appendix 6)

Actual \$1.25M – Budget (\$1.61M) = Favourable variance \$2.86M
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The Building Standards department incurred a surplus of \$1.25M against a budgeted deficit of (\$1.61M). The favourable variance of \$2.86M was mainly due to a higher number of building permits issued in the fourth quarter of 2016.

In order to balance the 2016 budget, a transfer of \$1.25M will be made to the Reserve, resulting in a surplus Reserve balance of \$10.22M at year-end (see Appendix 7).

Waterworks (Appendix 8)

Actual \$15.21M – Budget \$15.96M = Unfavourable variance (\$0.75M)
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The Waterworks department incurred a surplus of \$15.21M against a budgeted surplus of \$15.96M in 2016. The main drivers for the unfavourable variance of (\$0.75M) were as follows:

- Lower water/wastewater sales than budget resulting in an unfavourable “net sales and purchases” variance of (\$0.99M);

- Higher personnel costs resulting in an unfavourable variance of (\$0.12M)
- Lower non-personnel costs resulting in a favourable variance of \$0.41M due to lower operating and construction materials and supplies costs.

In order to balance the 2016 budget, a transfer of \$15.21M will be made to the Reserve, resulting in a surplus Reserve balance of \$51.02M at year-end (see Appendix 9).

FINANCIAL CONSIDERATIONS:

The 2016 draft consolidated financial statements will be presented to General Committee in April 2017. The year-end results presented in this report are subject to change based on the results of the external audit.

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 2016 operating surplus of \$4.70M will be transferred as follows:

- a. \$0.73M to the Corporate Rate Stabilization Reserve to achieve a balance equal to 15% of the local tax levy;
- b. \$0.47M to the WSIB Reserve to fund the projected 2019 liability based on the 2016 actuarial valuation;
- c. \$3.50M to the Life-Cycle Capital Repair and Replacement Reserve;

Based on the 2016 WSIB actuarial valuation, the 2019 liability is projected to be \$3.84M against the 2016 ending WSIB reserve balance of \$3.37M. Staff recommends that the projected shortfall of \$0.47M be funded from the 2016 operating surplus. The remaining surplus of \$3.50M will be transferred to the Life Cycle Replacement and Capital Reserve Fund.

RECOMMENDED

2/28/2017

28/02/2017

X

Joel Lustig
Treasurer

X

Trinela Cane
Commissioner, Corporate Services

ATTACHMENTS:

[Appendices 1 to 14:](#)

Appendix 1 – Primary Operating Budget - Financial Results for the Twelve Months Ended December 31, 2016

Appendix 2 – Library Operating Budget - Financial Results for the Twelve Months Ended December 31, 2016

Appendix 3 – Planning & Design Operating Budget - Financial Results for the Twelve Months Ended December 31, 2016

Appendix 4 – Engineering Operating Budget - Financial Results for the Twelve Months Ended December 31, 2016

Appendix 5 – Planning & Engineering Development Fee Reserve Balance as at December 31, 2016

Appendix 6 – Building Standards Operating Budget - Financial Results for the Twelve Months Ended December 31, 2016

Appendix 7 – Building Fee Reserve Balance as at December 31, 2016

Appendix 8 – Waterworks Operating Budget - Financial Results for the Twelve Months Ended December 31, 2016

Appendix 9 – Waterworks Reserve Balance as at December 31, 2016

Appendix 10 – Variances by Commission and Department for the twelve months ended December 31, 2016 – CAO's Office, Human Resources, Legal and Sustainability

Appendix 11 – Variances by Commission and Department for the twelve months ended December 31, 2016 – Community and Fire Services

Appendix 12 – Variances by Commission and Department for the twelve months ended December 31, 2016 – Corporate Services

Appendix 13 – Variances by Commission and Department for the twelve months ended December 31, 2016 – Development Services