



Report to: **General Committee – Finance & Admin.** Date of Meeting: March 28, 2011

SUBJECT: 2010 Year End Review of Operations
PREPARED BY: Andrea Tang, Manager Financial Planning

RECOMMENDATION:

- 1) THAT the report dated March 28, 2011 entitled “2010 Year End Review of Operations” be received.
- 2) AND THAT the final 2010 operating variances for the Town of Markham (“Town”), Planning and Design, Engineering, Building Standards and Waterworks departments, be transferred in 2011 to the Town’s respective reserves in accordance with the Town’s reserve policy.

EXECUTIVE SUMMARY:

Town

At the end of December 31, 2010, the operating budget results (excluding Planning & Design, Engineering, Building Standards and Waterworks) reflect a favourable variance of \$4.368M. The \$4.368M favourable variance is comprised of a \$1.544M favourable variance in Revenues and a \$2.824M favourable variance in Expenditures, as shown below:

Revenues	Fav./ (Unfav.)	Expenditures	Fav./ (Unfav.)
Supplemental Property Taxes	0.632 M	Salary & Benefit Costs	2.060 M
Assessment Tax Revenue (one time)	0.447 M	Salary Gapping Allocation	(0.455) M
Financial Services Administration Fees	0.343 M	Winter Maintenance	0.681 M
Legal Revenue from Developer Agreements	0.079 M	Travel/Promotion/Advertising/ Professional Fees/Office Supplies	0.440 M
Provincial & Federal Grants (WDO)	0.287 M	Operating Materials and Supplies	0.358 M
Provincial Offenses Act Revenue (one time)	0.376 M	Contracted Services Agreements	0.259 M
Recreation Revenue	(0.387) M	Fuel	0.207 M
Other	(0.233) M	Utilities	0.139 M
		Streetlight Hydro	(0.178) M
		External Legal Services	(0.356) M
		Other	(0.331) M
Total	1.544 M	Total	2.824 M

Town’s Net Favourable Variance = \$4.368M
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It has been the Town’s practise to include year end accounting adjustments in the results of operations. In 2010, these accounting adjustments totalled \$2.285M, resulting in a net operating surplus of \$2.083M.

Town’s net favourable variance after year end accounting adjustments = \$2.083M
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Further details of all variances are available in the Discussion Section of this report.

Planning & Design

Planning & Design ended the year with a net favourable variance compared to budget of \$1.814M. The 2010 budget projected a surplus of \$0.157M, and the department ended the year with a surplus of \$1.971M. This resulted in an additional transfer of \$1.814M to reserve in order to achieve a balanced budget.

The favourable variance of \$1.814M was due to higher revenues of \$1.878M resulting from higher development application activities, offset by unfavourable variances of (\$0.064M) in personnel and non-personnel costs (see Appendix 2).

Planning & Design Net Favourable Variance = \$1.814M

Engineering

Engineering ended the year with a net favourable variance compared to budget of \$3.933M. The 2010 budget projected a deficit of (\$1.570M), and the department ended the year with a surplus of \$2.363M. This resulted in a transfer to reserve of \$2.363M as compared to a budgeted draw from reserve of (\$1.570M).

This was due to favourable variance of \$3.703M in Engineering fees, favourable variance of \$0.230M in personnel and non-personnel costs (see Appendix 3).

Engineering Net Favourable Variance = \$3.933M

The surplus in Planning & Design \$1.971M and Engineering \$2.363M, resulted in a total transfer to reserve of \$4.334M. The 2010 year end combined reserve balance will be (\$1.476M) (see Appendix 5).

Building Standards

Building Standards ended the year with a net favourable variance of \$2.169M compared to budget. The 2010 budget projected a deficit of (\$2.724M), and the department ended the year with a deficit of (\$0.555M). This resulted in a lesser draw of \$2.169M from the reserve to achieve a balanced budget. The variance was due to higher building permit revenues of \$1.725M, and favourable variances of \$0.444M in personnel and non-personnel costs (see Appendix 4).

The draw of \$0.555M from the reserve will bring the 2010 year end reserve balance to (\$0.090M) (see Appendix 5).

Building Standards Net Favourable Variance = \$2.169M
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Waterworks

Waterworks ended 2010 with a net favourable variance compared to budget of \$0.442M. The 2010 budget projected a surplus of \$9.432M, and the department ended the year with a surplus of \$9.874M. This resulted in an additional transfer to the reserve in the amount of \$0.442M.

The results from Waterworks operations yielded a favourable variance of \$0.442M, due to a favourable variance of \$0.311M in personnel costs, \$0.770M in non-personnel costs, and \$1.178M in other revenues; offset by unfavourable variance of (\$1.817M) in the net sales and purchases of water. The department is working with the Region of York to analyze the water purchases and is withholding \$1.063M of water invoices as the purchases are higher than previous years. Should the discussion/analysis conclude the invoices need not be paid, the additional \$1.063M will be added to the year end surplus.

Waterworks Net Favourable Variance = \$0.442M

PURPOSE:

To provide an overview of the year end financial results at the end of December 31, 2010.

BACKGROUND:

There are 6 operating budgets that are monitored on a monthly basis. The Town's primary operating budget (excluding Planning & Design, Engineering, Building Standards and Waterworks) supports the Town's day-to-day operations.

The remaining 5 budgets include Planning & Design, Engineering, Building Standards and Waterworks Operating Budgets, and they are shown separate from the Town's Operating Budget as they are primarily user fee funded (e.g. planning and engineering fees, building permit revenue and revenues based on water consumption, respectively) and separate reserves have been established for each.

In November 2010, staff reported the September 2010 year-to-date review of operations and year end projections for each of the 6 operating budgets.

Each quarter, departments provided details of significant financial variances (actual to budget) in their areas. The variances were reviewed, substantiated and summarized by the Financial Planning department. Minor variances were reviewed by staff, but not discussed in detail in this report.

OPTIONS/ DISCUSSION

YEAR END OPERATING BUDGET VARIANCES:

Town

The 2010 operating budget (excluding Planning & Design, Engineering, Building Standards and Waterworks) results reflected an overall \$4.368M favourable variance.

The \$4.368M favourable variance was comprised of variances in three main areas of the Town's operating budget:

\$1.544M	favourable variance in Revenues (Section 1)
\$1.605M	favourable variance in Personnel Expenditures (Section 2)
<u>\$1.219M</u>	favourable variance in Non-Personnel Expenditures (Section 3)
<u>\$4.368M</u>	

The remainder of the report provides more details on the variances above, and details of the Planning & Design, Engineering, Building Standards and Waterworks year end variances.

SECTION 1 - REVENUES

At the end of December 2010, revenues were favourable by \$1.544M due to the followings:

Revenue Items	Fav./ (Unfav.)
Taxation Revenues	\$1.079 M
Grant & Subsidy Revenues	\$0.287 M
General Revenues	\$0.012 M
User Fees & Service Charges	(\$0.405) M
Other Income	\$0.571 M
Net Favourable Variance	\$1.544 M

Taxation Revenues

The favourable variance of \$1.079M was due to higher than budgeted assessment tax revenues of \$0.447M and supplemental property taxes of \$0.633M. The taxation revenue was favourable by \$0.447M resulting from 2010 actual assessment growth of 2.45% compared to budgeted assessment growth of 2.00%. The reason was that the 2010 budget was approved in November 2009 which was based on an estimated tax roll, and the final tax roll information was received in December 2009.

Supplemental assessment was favourable by \$0.633M due to more properties being assessed by the Municipal Property Assessment Corporation (MPAC) than budgeted.

Grant & Subsidy Revenues

The favourable variance of \$0.287M was due to an additional Waste Diversion Ontario Grant \$0.124M, and one time grants received by Economic Development, Theatre and Museum totaling to \$0.166M.

User Fees and Service Charges

The unfavourable variance of (\$0.405M) was due to the following accounts:

- (\$0.387M) unfavourable variance in Recreation revenues due to the followings:
 - arena revenue (\$0.252M) resulting from more rentals for minor programs which are charged at lower rates than adults soccer programs, and lower hall rentals resulting from Thornhill Community Centre and Library renovations;
 - camp revenue (\$0.092M) due to lower enrolment at Markham Village Community Centre and Milliken Community Centre;
 - program revenue (\$0.072M) resulting from lower enrolment in adult programs at the Thornhill Community Centre and Library due to renovations at the facility and at the Milliken Mills Community Centre
- (\$0.058M) unfavourable variance in Fire dispatch fees due to the cancellation of the Whitchurch-Stouffville contract and lower accident attendance revenues
- Offset by favourable variance of \$0.079M in legal revenues from accelerated developer agreements as a result of the Region of York Development Charges rate increase

Other Income

The favourable variance of \$0.564M was mainly due the Financial Services Administrative Fees of \$0.343M from accelerated subdivision agreements as a result of the Region of York Development Charges rate increase, and a one-time Provincial Offenses Act Revenue of \$0.376M.

SECTION 2 - PERSONNEL EXPENDITURES

The December year end personnel expenditure variance was \$1.630M favourable:

Salary Expenditures Items	Fav./(Unfav.)
Full Time Salaries net of Vacancy Backfills	\$2.750 M
Overtime	(\$0.319) M
Other Personnel Costs	(\$0.371) M
Variance before Salary Gapping	\$2.060 M
Salary Gapping	(\$0.455) M
Net Salaries & Benefits Variance	\$1.605 M

The \$2.750M favourable variance in full time salaries net of vacancy backfills was the result of 31 average net vacant positions throughout the year.

The favourable variance of \$2.750M in full time salaries was offset by:

- an unfavourable variance of (\$0.319M) in Fire overtime, however when compared to 2009, there was a \$1.167M improvement driven by the filling of 15 firefighter vacancies;
- an unfavourable variance of (\$0.290M) in part-time salaries due to Sustainability Office and Theatre;
- the 2010 budget included (\$0.455M) of annual salary gapping savings which was allocated to the individual business units;

SECTION 3 - NON-SALARY EXPENDITURES

At the end of December, Non-Salary expenditures were \$1.219M favourable:

Non-Salary Items	Fav./(Unfav.)
Materials & Supplies	1.084 M
Purchased Services	0.555 M
Other Expenditures	(0.420) M
Total Non-Salary Favourable Variance	1.219 M

Materials & Supplies

The Material & Supplies variance of \$1.084M was due the following accounts:

- \$0.358M favourable variance in operating materials and supplies resulting from lower Recreation program and camp enrolment, and fewer exhibits and programs at the Art Gallery
- \$0.207M favourable variance in fuel costs mainly price driven
- \$0.172M favourable variance in less usage of salt and sand for winter maintenance
- \$0.170M favourable variance in printing and office supplies
- \$0.091M favourable variance in roads maintenance materials resulting from favourable weather conditions which required fewer asphalt repairs and sign repairs

Purchased Services

The favourable variance of \$0.555M in Purchased Services was due to the following accounts:

- \$0.509M favourable variance in winter maintenance driven by lower requirements for tandem axles and hired loaders due to favourable weather conditions;
- \$0.270M favourable variance in travel, promotion & advertising, and professional services;
- \$0.259M favourable variance in contracted services for street cleaning due to less material clean up from favourable weather conditions, traffic signal with fewer signal breakdowns, and Recreation contracted services resulting from lower program and camp enrolments
- \$0.139M favourable variance in utilities across the Town due to lower consumption;

Offset by:

- (\$0.356M) unfavourable variance in legal fees
- (\$0.178M) unfavourable variance in streetlight hydro due to price

Other expenditures

The unfavourable variance of (\$0.420M) in Other Expenditures was due to the transfer for the 2011 capital project “Artificial Turf Field” (total project cost of \$0.600M, and the remaining balance of \$0.180M to be funded from Development Charges). This was approved during the 2011 budget process.

Further details on the Town’s Operating results are provided in Appendix 1.

FINANCIAL CONSIDERATIONS:

The 2010 unaudited statements excluding Markham Enterprise Corporation (MEC) will be presented to General Committee in May 2011.

In accordance to the Town’s reserve policy, any year-end operating surpluses will be used first to top-up the Corporate Rate Stabilization Reserve to a level equivalent to 15% of the 2010 local tax revenues and secondly to replenish the expenditures in the Environmental Land Acquisition Reserve Fund, and finally transferred to the Life Cycle Replacement and Capital Reserve Fund. Hence, the 2010 Operating Surplus of \$2.083M will be as be transferred as follows:

\$0.397M of the Town’s 2010 operating surplus will be transferred to the Corporate Rate Stabilization reserve to attain a reserve balance of \$16.396M or 15% of the local tax levy;

\$0.124M of the Town’s 2010 operating surplus will be transferred to the Environmental Land Acquisition Reserve Fund account, to replenish the reserve;

The remaining surplus of \$1.562M will be transferred to the Life Cycle Replacement and Capital Reserve. The favourable variances in Planning & Design, Engineering, and Building Standards will be transferred to the respective reserves. Also, the favourable variance in Waterworks will be transferred to the Waterworks reserve.

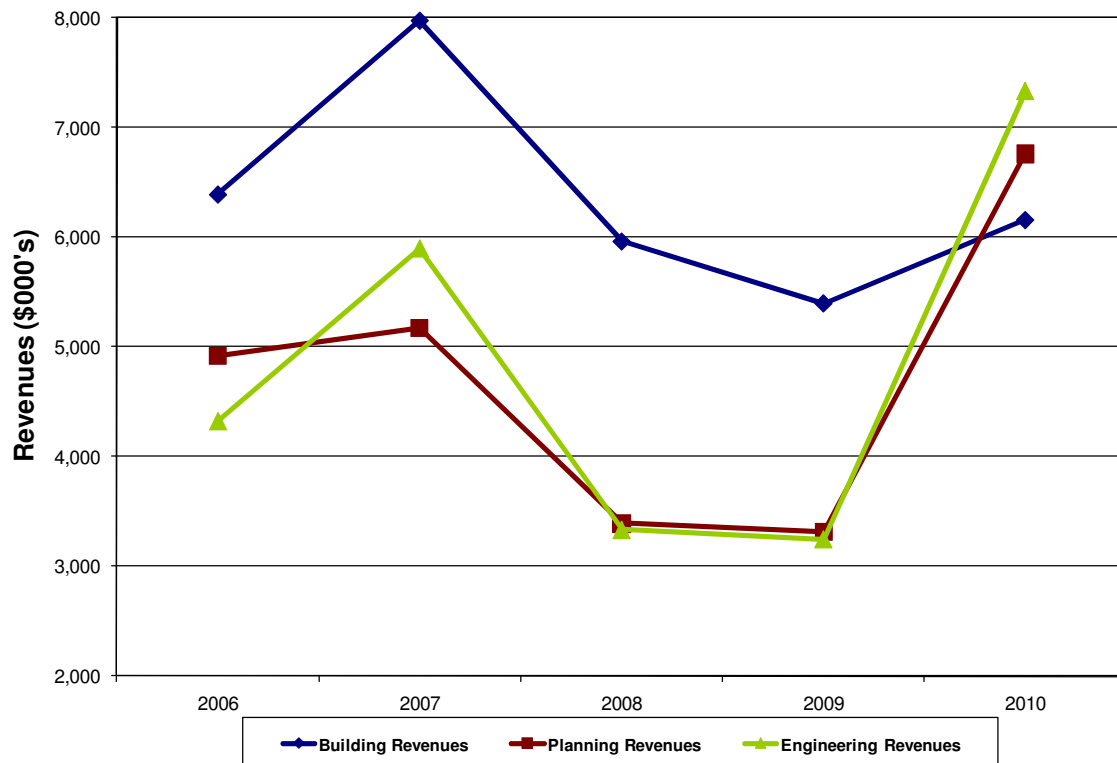
ECONOMIC KEY INDICATORS

Staff previously identified 15 economic key indicators to assess the impact of the current economic situation on Town operations. As communicated in the previous quarters, these indicators are monitored on a monthly basis to assist the Town in taking the appropriate measures and to respond to the economic changes in a proactive manner. Additional details are provided below on some of the indicators.

Development Related Revenues

The development related revenues include planning, engineering and building fees. These revenues have shown significant growth in 2010 compared to 2009, due to accelerated development activities in order to avoid a Region of York Development Charges (DC) rate increase through an update to the DC bylaw update. This is evident in the chart below which outlines the declining trends in the years 2008-2009, followed by a rebound in 2010.

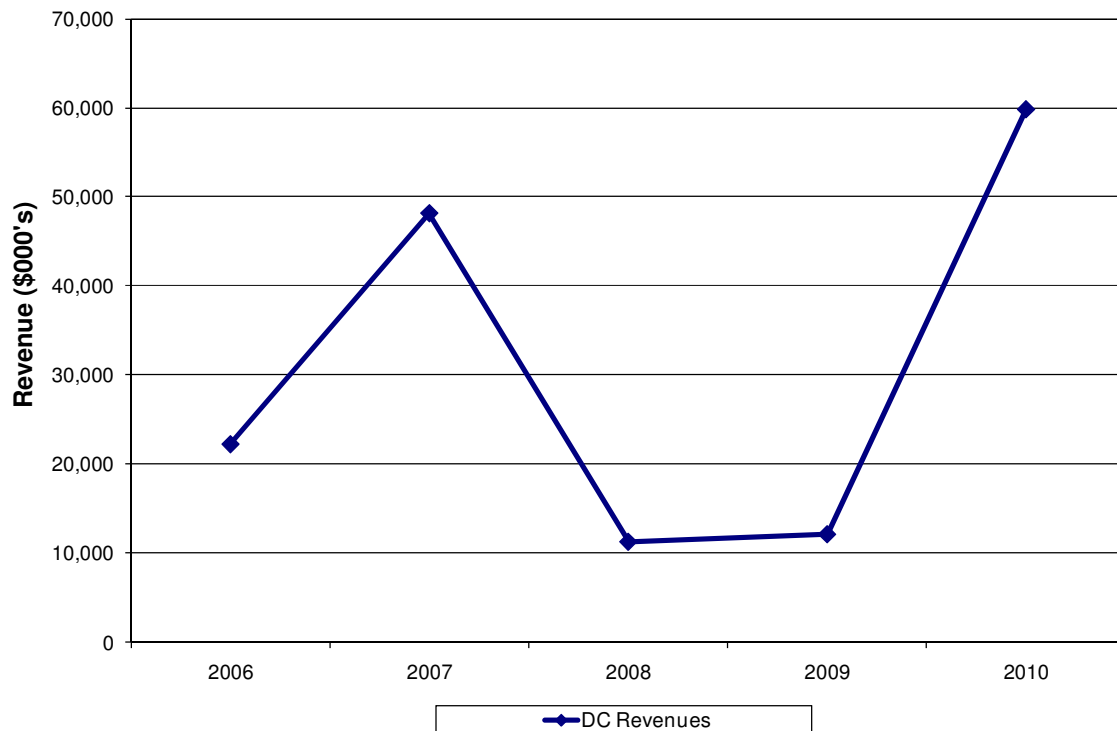
Year End Actual Development Related Revenues



Development Charges (DC) Revenues

The DC Revenues in 2010 are higher compared to 2009 due to an increase in new subdivision agreements. DC Revenues peaked in 2007 as a result of increased development activity prior to the Region of York's development charges by-law update, which also contributed to lower 2008 DC revenues. In addition, the economic downturn had negatively impacted development activity and DC revenues in 2008 and 2009. Another update to the Region of York's development charges by-law has contributed to an increase in new subdivision agreements in 2010. As a result of the increase in new subdivisions, DC Revenues in 2010 are higher when compared 2009.

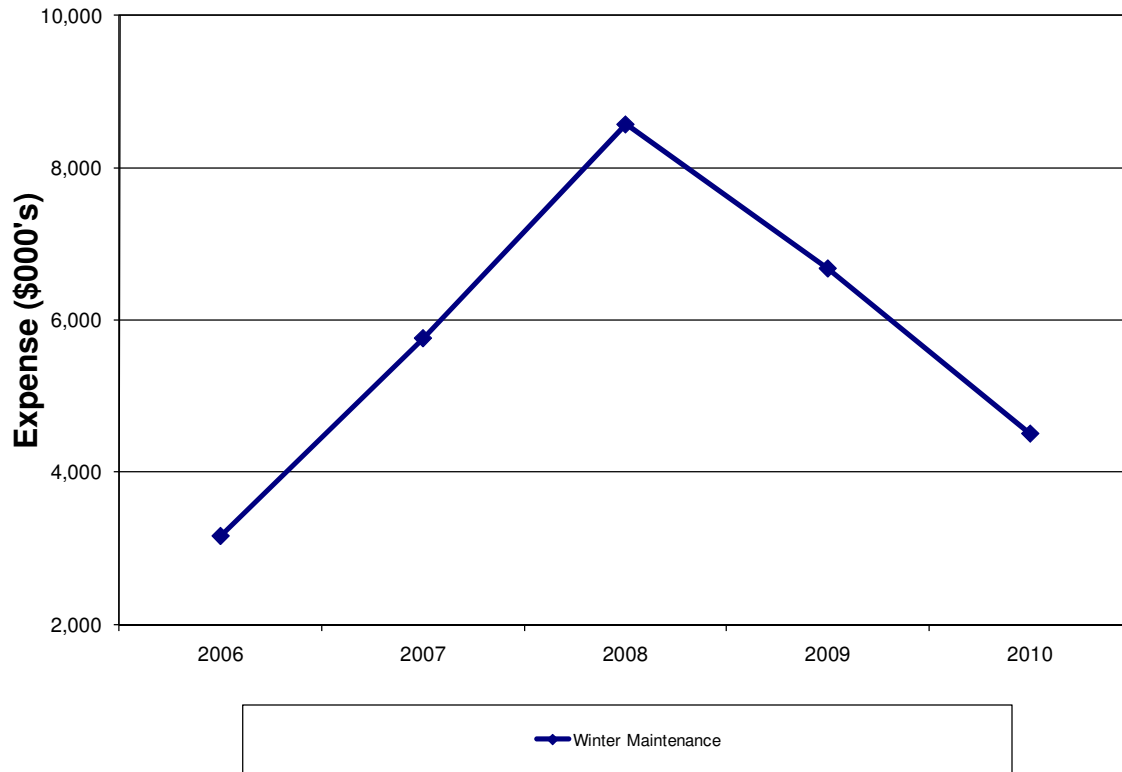
Year End Actual DC Revenues



Expenditures

Staff also continued to monitor the spending on winter maintenance. The winter maintenance costs were lower in 2010 compared to 2009 due to the milder winter. The winter maintenance expenses peaked at 2008 due to the severe winter conditions.

Year End Actual Expenditures



RECOMMENDED

BY:_____

Joel Lustig, Treasurer

Andy Taylor, Commissioner
Corporate Services

ATTACHMENTS:

Appendix 1 – Operating Budget - Financial Results for the Twelve Months Ended December 31, 2010

Appendix 2 – Operating Budget for Planning & Design - Financial Results for the Twelve Months Ended December 31, 2010

Appendix 3 – Operating Budget for Engineering - Financial Results for the Twelve Months Ended December 31, 2010

Appendix 4 – Operating Budget for Building Standards - Financial Results for the Twelve Months Ended December 31, 2010

Appendix 5 – Development Services Reserve Balances as at December 31, 2010

Appendix 6 – Operating Budget for Waterworks - Financial Results for the Twelve Months Ended December 31, 2010