



Report to: General Committee

Date Report Authored: March 2, 2015

SUBJECT: 2014 Year End Review of Operations
PREPARED BY: Andrea Tang, Manager of Financial Planning

RECOMMENDATION:

- 1) THAT the report entitled “2014 Year End Review of Operations” be received;
and
- 2) THAT the City’s 2014 net unfavourable variance of (\$1.348M) be funded from the Corporate Rate Stabilization Reserve as per the following breakdown:

a. City’s day-to-day operating surplus	\$3.078M
b. Year end accounting accruals and other adjustments	(\$2.262M)
c. Winter maintenance unfavourable variance	(\$2.330M)
d. Projected Ontario Ice Storm Assistance Program recovery net of 2014 ice storm related expenditures	<u>\$0.166M</u>
Total	<u>(\$1.348M)</u>
- 3) THAT Staff be authorized and directed to do all things necessary to give effect to this resolution.

EXECUTIVE SUMMARY:

Council approved the 2014 operating budget of \$306.853M on February 11, 2014 which includes the City’s primary operating budget, Planning & Design operating budget, Engineering operating budget, Building Services operating budget and Waterworks operating budget.

This report provides an overview of the financial results for the twelve months ended December 31, 2014.

Primary Operating Budget
(excluding Planning & Design, Engineering, Building Services and Waterworks)

The 2014 total results of operations incurred a net deficit of (\$1.348M) and the breakdown is as follows:

1. City's surplus before winter maintenance, ice storm and year end accounting accruals and other adjustments	\$3.078M
2. Year end accounting accruals and other adjustments	(\$2.262M)
City's surplus net of year-end accounting accruals and other adjustments	\$0.816M
3. Winter maintenance unfavourable variance	(\$2.330M)
City's deficit net of year-end accounting accruals and other adjustments and winter maintenance	(\$1.514M)
4. Ice storm 2014 expenses	(\$5.430M)
5. Projected Ontario Ice Storm Assistance Program Recovery	\$5.596M
Net	\$0.166M
Total	(\$1.348M)

1. City's Surplus before Year End Accounting Accruals and Other Adjustments and Winter Maintenance

City's surplus before year end accounting accruals and other Adjustments and winter maintenance	\$3.078M
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The year-end operating results against budget, before year end accounting accruals and adjustments and winter maintenance, have a favourable variance of \$3.078M and consist of the following:

Revenues	Fav./ (Unfav.)	Expenditures	Fav./ (Unfav.)
Supplemental Taxes	0.625 M	Salary & benefit costs	1.865 M
Theatre revenues (ticket sales, registration fees and rental)	0.422 M	Professional services/training/travel/promotion/ advertising	0.765 M
Investment Income	0.224 M	Contract Service Agreements	0.485 M
Federal and Provincial grants	0.164 M	Corporate Contingency	0.457 M
Museum program revenues	0.113 M	Waste Collection	0.212 M
Property Tax Interest and Penalties	(0.107) M	External Legal Fees	0.180 M
Recreation revenue	(1.277) M	Theatre professional entertainment fees	(0.275) M
		Property tax write-offs	(1.278) M
Other	0.296 M	Other	0.207 M
Total	0.460 M	Total	2.618 M

The City's surplus (net of year end accounting accruals and other adjustments) was \$0.816M, within the year end projected surplus of \$0.400M to \$1.200M.

2. Year End Accounting Accruals and Other Adjustments

Year end accounting accruals and other adjustments (\$2.262M)

The 2014 year end accounting accruals and other adjustments totaled \$2.262M which included Firefighters sick leave plan, post retirement benefits, and severance and salary continuance payments.

3. Winter Maintenance

Winter maintenance unfavourable variance (\$2.330M)
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The 2014 actual winter maintenance expenditures were \$9.311M against a budget of \$6.981M, resulting in an unfavourable variance of (\$2.330M).

The City's winter maintenance budget includes salt and sand purchases as well as four 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 as well as for windrow snow clearing services and;
- 4) Sidewalk snow removal

The four winter maintenance contracts have a fixed cost component of 34% and variable cost component of 66%. The fixed costs (standby costs) are charged throughout the winter months whether or not services are rendered in order to cover the contractor's capital costs. The variable costs are based on service hours provided.

The winter maintenance expenditures were unfavourable by (\$2.330M), mainly due to the following components:

- 442 actual service hours as compared to 325 budgeted service hours for sidewalk snow clearing per unit of equipment (\$0.560M);
- 246 actual service hours as compared to 124 budgeted service hours for loader snow removal operation per unit of equipment (\$0.538M);
- 26,100 actual tonnes of salt as compared to budgeted 15,600 tonnes of salt applied on the roads (\$0.500M);
- 393 actual service hours as compared to budgeted 355 service hours for tandem operation per unit of equipment (\$0.150M);
- 142 actual service hours as compared to budgeted 91 service hours of grader snow removal operation per unit of equipment (\$0.350M);
- Higher than budgeted Roads and Parks department part-time and over-time to accommodate increased winter maintenance requirements (\$0.132M)
- Other winter maintenance related variance of (\$0.100M)

4. Ice Storm

Ice storm 2014 expenses	(\$5.430M)
Projected Ontario Ice Storm Assistance Program Recovery	<u>\$5.596M</u>
Net	<u>\$0.166M</u>

The City of Markham experienced an extreme winter storm from December 21-22, 2013. Freezing rain and ice pellets led to significant ice accumulation of approximately 1 inch, resulting in power outages due to fallen trees and tree limbs onto the overhead power lines.

The 2014 ice storm related costs in the amount of \$5.430M will be funded from the Corporate Rate Stabilization Reserve. Council approved a 0.16% tax rate increase in 2014 (Year 1 of 3) to replenish the Corporate Rate Stabilization Reserve to partially offset the ice storm costs. The 2015 budget includes the second year of 0.16% tax rate increase, subject to Council approval.

The total estimated ice storm related costs is \$10.0M, and the City submitted a claim of \$7.1M to the Government of Ontario under the Ice Storm Assistance Program on December 19th, 2014 (submission deadline of December 31st, 2014). The remaining cost of \$2.9M were deemed ineligible based on the guidelines issued by the Government of Ontario, majority of which relates to tree canopy and replacement costs.

The City has set up a receivable of \$5.596M or 79% of the claim against the 2014 ice storm related expenses of \$5.430M to a net total of \$0.166M. To date the City has been offered an interim payment of \$2.481M.

Summary

1. City's surplus before winter maintenance, ice storm and year end accounting accruals and other adjustments	\$3.078M
2. Year end accounting accruals and other adjustments	<u>(\$2.262M)</u>
City's surplus net of year-end accounting accruals and other adjustments	\$0.816M
3. Winter maintenance unfavourable variance	<u>(\$2.330M)</u>
City's deficit net of year-end accounting accruals and other adjustments and winter maintenance	(\$1.514M)
4. Ice storm 2014 expenses	(\$5.430M)
5. Projected Ontario Ice Storm Assistance Program Recovery	<u>\$5.596M</u>
Net	<u>\$0.166M</u>
Total	(\$1.348M)

Planning & Design**Planning & Design net unfavourable variance (\$0.866M)**

Planning & Design ended the year with a net unfavourable variance of (\$0.866M) due to lower development applications and planning fees (High density – budget of 1,800 units vs. actual of 800 units, low density – budget of 1,650 units vs. actual of 1,350 units) and the unfavourable variance was partially offset by five average net vacancies (see Appendix 2).

Engineering**Engineering net unfavourable variance (\$0.566M)**

Engineering ended the year with a net unfavourable variance of (\$0.566M) due to lower development application activities as outlined above partially offset by three average net vacancies (see Appendix 3).

Planning & Engineering Development Fee Reserve

The 2014 budget anticipated a deficit of (\$0.855M) for Planning & Design and a deficit of (\$1.537M) for Engineering totaling (\$2.392M).

The Planning & Design and Engineering departments ended the year with a total deficit of (\$3.824M) (Planning deficit of \$1.721M and Engineering deficit of \$2.103M). In order to balance the 2014 budget, a draw of \$3.824M will be made from the reserve, leaving a deficit reserve balance of (\$8.633M) at year end (see Appendix 4).

Building Services**Building Services net favourable variance \$0.824M**

Building Services ended the year with a net favourable variance of \$0.824M due to favourable personnel variance from 6 average net vacancies and higher than budgeted number of permits issued (see Appendix 5).

The actual deficit was (\$0.715M) compared to a budgeted deficit of (\$1.539M). Therefore, a draw of (\$0.715M) will be made from the Building Services Reserve resulting in a year end reserve balance of \$11.895M (see Appendix 6).

A consultant was hired in 2014 to undertake a review of the fee model and the City's Planning and Building fee by-laws to review, among other matters, recovery of direct and indirect costs, reserve policy for positive and negative reserve balances, distribution of costs across application categories, transition from greenfield development to urban infill and comparison of fee structure and fees to other urban municipalities. The consultant's report recommendations were incorporated into the Development fee and Building fee

by-laws update report that was presented to Council on December 16, 2014. The report also included a 5 year strategy staff developed to address the deficit balance of the reserve. A comprehensive review and update of the fee model and the City's Planning and Building fee by-laws will take place in 2015.

Waterworks

Waterworks net unfavourable variance (\$1.120M)

Waterworks ended the year with an actual surplus of \$12.695M against the annual budget of \$13.815M or a net unfavourable variance of (\$1.120M) (see Appendix 6). The main drivers of the unfavourable variance are:

- Lower than budgeted water sales resulted in an unfavourable "net sales and purchases" variance of (\$1.402M);
- Unfavourable revenues in the amount of (\$0.100M) as a result of lower meter sales from subdivision agreements;
- Above is offset by a favourable variance of \$0.268M due to an average of five net vacancies, and
- A favourable variance of \$0.324M in non-personnel expenditures.

At the time of the 2014 budget approval, the budgeted surplus of \$13.815M was transferred to the reserve. A draw of (\$1.120M) from the reserve will be made to reflect the actual surplus of \$12.695M.

From 2010 to early 2014, Markham disputed the volume of water billed from York Region as it raised the City's 'non-revenue water' (NRW) amount from a budgeted 11% to an actual amount as high as 15-16%. The reason for this sudden increase could not be fully determined. Since the end of 2013 the City's NRW has come back to budgeted levels.

Even after extensive review by City and Regional staff the exact cause of this water consumption increase was never found; however there were issues found at City of Toronto's Milliken Pumping Station. Based on credits for these issues from City of Toronto to York Region, York Region has agreed to credit Markham \$3.1M of the disputed amount.

The Waterworks Reserve has a year end balance of \$39.017M and details of the transactions are summarized in Appendix 8.

PURPOSE:

To provide an overview of the financial results for the twelve months ended December 31, 2014.

BACKGROUND:

Council approved the 2014 operating budget of \$306.853M on February 11, 2014 which includes the City's primary operating budget, Planning & Design operating budget, Engineering operating budget, Building Services operating budget and Waterworks operating budget.

The Planning & Design, Engineering, Building Services and Waterworks operating budgets are primarily user fee funded (e.g. planning and engineering fees, building permit revenue and revenues based on water consumption respectively) to support the department's day-to-day operations and capital programs, and separate reserves have been established.

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.

OPTIONS/ DISCUSSION:

1. City's Surplus Before Year End Accounting Accruals and Other Adjustments and Winter Maintenance

The details of major variances for the primary operating budget are presented below.

The 2014 primary operating budget results reflect an overall net favourable variance of \$3.078M before year end accounting accruals and other adjustments and winter maintenance.

The net favourable year-end variance consists of:

Revenues	\$0.460M
Personnel Expenditures	\$1.865M
Non-Personnel Expenditures	<u>\$0.753M</u>
	<u>\$3.078M</u>

REVENUES

At the end of December 2014, revenues were favourable by \$0.460M which was 0.2% higher than budget:

Revenue Items	Fav./(Unfav.)
Property Taxation Revenues	\$0.659 M
Grant & Subsidy Revenues	\$0.179 M
General Revenues	\$0.059 M
User Fees and Service Charges	(\$0.526 M)
Other Income	\$0.089 M
Net Favourable Variance	\$0.460 M

Taxation Revenues

The favourable variance of \$0.659M resulted primarily from higher supplementary assessment and taxes. Supplementary assessment represents new properties that are completed each year, which generate new assessment and tax dollars for the City. Supplementary assessment will be included as assessment growth for the following year. The favourable variance was driven primarily by the completion of high density residential developments which resulted in higher condominium occupancy taxes.

Grant & Subsidy Revenues

The favourable variance of \$0.179M resulted from the receipt of one-time federal and provincial grants.

General Revenues

General revenues incurred a favourable variance of \$0.059M, and the main drivers were:

- Investment income of \$0.224M from higher return on investments. In accordance with the Capital Gains policy, investment income of \$0.224M will be transferred to the Capital Gains Reserve.
- The above is partially offset by unfavourable property tax interest and penalties of (\$0.107M). 7.76% of the total tax accounts were in arrears as of December 31, 2014 (7,760 accounts in arrears out of a total of 99,952 accounts).

User Fees and Service Charges

User fees and service charges were unfavourable by (\$0.526M), the main drivers of which are:

Recreation

Recreation revenues were unfavourable by (\$1.277M) compared to budget mainly from aquatics and programs. To mitigate the unfavourable revenue variance, Recreation staff made concerted efforts to manage expenditures, resulting in the year end net unfavourable variance (revenues net of expenses) of (\$0.378M). For comparison, the 2013 net unfavourable variance was (\$0.794M) with a revenue unfavourable variance of (\$1.961M) with offsets in personnel and non-personnel.

Theatre

Theatre revenues were favourable by \$0.422M primarily due to higher ticket sales in the professional entertainment series. The favourable variance in revenue is offset by associated higher personnel and non-personnel costs, which resulted in a net unfavourable variance of (\$0.064M).

Museum

Museum revenues were favourable by \$0.124M primarily due to higher program registration fees. The favourable variance in revenue is partially offset by associated higher personnel costs, which resulted in a net favourable variance of \$0.048M.

The remaining favourable variance of \$0.205M is primarily due to Finance fees such as new property tax account setup, ownership changes, tax certificates and other service charges.

PERSONNEL EXPENDITURES

Personnel expenditures were favourable by \$1.865M, 1.7% higher than budget.

Salary Expenditures Items	Fav./(Unfav.)	
Full time net of vacancy backfills and part time salaries	\$2.865	M
Overtime and other personnel costs	(\$1.000)	M
Salaries and benefits favourable variance	\$1.865	M

As at December 31, there were 24 net vacancies and 12 temporary vacancies.

During 2014 there was an average of 28 net full-time vacancies and 14 temporary full-time vacancies resulting from approved leaves of absence and secondments. As a result, the full time salaries net of vacancy backfills had a favourable variance of \$4.469M offset by full year salary gapping of (\$0.455M), firefighter sick leave plan of (\$0.319M) and an unfavourable variance of (\$0.830M) in part-time salaries. The unfavourable variance in part-time salaries was mainly in the Culture departments majority of which was primarily offset by increased professional entertainment series ticket sales and camp revenues in Theatre and Museum respectively.

Overtime was unfavourable by (\$0.958M) mainly due to coverage for absences in the Fire Department due to illness, bereavement or parental leaves (\$0.882M) (offset partially by favourable full-time variance of \$0.503M).

NON-PERSONNEL EXPENDITURES

Non-personnel expenditures excluding winter related variances were favourable by \$0.753M, 1.0% higher than budget.

Major drivers for non-personnel variance	Fav./ (Unfav.)	
Professional services/training/travel/ promotion/ advertising	0.765	M
Contract Service Agreements	0.485	M
Corporate Contingency	0.457	M
Waste Collection	0.212	M
External Legal Fees	0.180	M
Theatre professional entertainment fees	(0.275)	M
Property tax write-offs	(1.278)	M
Other	0.207	M
Total	0.753	M

Highlights of Expenditure Variances

- \$0.765M favourable variance from professional services, training, travel and office supplies originating from various departments across the City

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- \$0.485M favourable variance due to favourability from the Legislative Services canine control service by \$0.197M, favourable pricing from the Operations pavement marking contract and variances from various other departments
 - \$0.212M favourable variance in waste collection mainly due to lower waste tonnage. The Waste department identified that the reduction in tonnage is due to banned electronics, lower newspaper disposal resulting from increased readership via the internet, less packaging from manufacturers to be more cost effective and environmentally friendly, and less glass recycling
 - \$0.180M favourable variance in external legal fees is due to utilizing internal staff for various legal matters (eg. OMB hearings) and ensuring that legal fees related to capital projects are paid from available capital budget funds
 - (\$0.275M) unfavourable variance in Theatre professional entertainment fees which was partially offset by higher profession entertainment series ticket sales
 - (\$1.278M) unfavourable variance in property tax adjustments due to an acceleration of the processing of Assessment Review Board (ARB) cases in an effort to eliminate backlog (995 appeals were resolved and resulted in a tax adjustment in 2014 as compared to 461 appeals in 2013)
 - \$0.207M favourable variance consisting of variances of less than \$0.050M each, originating from various departments across the City

Summary

The City incurred a net unfavourable variance of (\$1.348M), and the City's Operating results against budget are provided in Appendix 1.

FINANCIAL RESULTS BY COMMISSION AND DEPARTMENT:

The variances for the twelve months ended December 31, 2014 for each Commission and Department, summarized by personnel expenditures, non-personnel expenditures and revenues, are provided in Appendices 9 to 12. Explanations for variances greater than \$0.100M are provided on the following pages.

CAO's Office, HR, Legal and Sustainability (see Appendix 9)

Human Resources (favourable variance of \$0.273M)

Favourable variance mainly due to two net average vacancies \$0.139M, management consulting \$0.061M and training \$0.037M.

Legal Department (favourable variance of \$0.232M)

Favourable variance mainly due to external legal fees \$0.180M.

Community and Fire Services (Appendix 10)

Parks (favourable variance of \$0.120M)

Favourable variance mainly in facility, sportsfield and playground maintenance savings \$0.199M partially offset by the purchases of additional shop materials of (\$0.044M).

Roads (favourable variance of \$0.177M)

Favourable variance mainly due to two net average vacancies \$0.111M and contracted services due to favourable pavement marking contract.

Fire Services (unfavourable variance of \$0.434M)

Unfavourable variance mainly due to overtime costs net of full-time personnel variance. Refer to page 8 for variance explanations.

Recreation Services (unfavourable variance of \$0.378M)

Unfavourable variance mainly due to unfavourable revenues from aquatics and programs. Refer to page 7 for variance explanations.

Waste (favourable variance of \$0.293M)

Favourable variance mainly due to in waste collection mainly due to lower waste tonnage.

Refer to page 9 for variance explanations.

Commissioner's Office (favourable variance of \$0.134M)

Favourable variance due to one net average vacancy \$0.110M.

Corporate Services (Appendix 11)**Financial Services** (favourable variance of \$0.541M)

Favourable variance mainly due to three net average vacancies \$0.313M and favourable variance from finance fees such as new property tax account setup, ownership changes, tax certificates and other service charges totaling \$0.128M.

ITS (favourable variance of \$0.362M)

Favourable variance mainly due to two net average vacancies \$0.142M, computer software agreements \$0.078M, consulting services \$0.055M and training \$0.044M.

Development Services (Appendix 12)**Economic Development** (favourable variance of \$0.219M)

Favourable variance mainly due to one-time grants \$0.105M and business development \$0.103M.

FINANCIAL CONSIDERATIONS AND TEMPLATE: (external link)

The 2014 unaudited draft financial statements will be presented to General Committee in April 2015. The year end results presented in this report are subject to change.

In summary, the City incurred a total net unfavourable variance of (\$1.514M) as outlined in the following chart:

1. City's surplus before winter maintenance, ice storm and year end accounting accruals and other adjustments	\$3.078M
2. Year end accounting accruals and other adjustments	<u>(\$2.262M)</u>
City's surplus net of year-end accounting accruals and other adjustments	\$0.816M
3. Winter maintenance unfavourable variance	<u>(\$2.330M)</u>
City's deficit net of year-end accounting accruals and other adjustments and winter maintenance (to be funded from the Corporate Rate Stabilization Reserve as previously recommended)	(\$1.514M)
4. Ice storm expenses (to be funded from the Corporate Rate Stabilization Reserve as previously recommended)	(\$5.430M)
5. Projected Ontario Ice Storm Assistance Program Recovery	<u>\$5.596M</u>
Net	\$0.166M
Total	(\$1.348M)

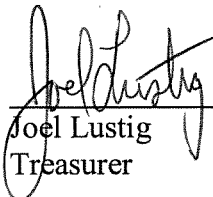
The 2014 budget included a deficit of (\$0.855M) for Planning & Design and a deficit of (\$1.537M) for Engineering. However, Planning & Design and Engineering departments ended the year with a deficit of (\$1.721M) and (\$2.103M) respectively, the total of which is (\$3.824M). In order to balance the 2014 budget, a draw of \$3.824M will be made from the reserve, leaving a deficit reserve balance of (\$8.633M) at year end.

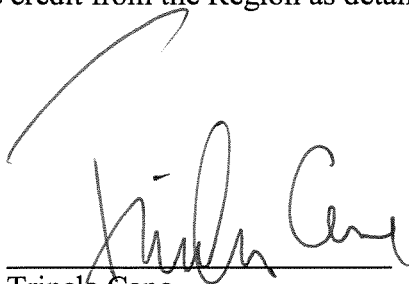
The actual deficit was (\$0.715M) compared to a budgeted deficit of (\$1.539M).

Therefore, a transfer of (\$0.715M) will be made from the Building Services Reserve resulting in a year end reserve balance of \$11.895M.

Waterworks ended the year with an actual surplus of \$12.695M against the annual budget of \$13.815M or a net unfavourable variance of (\$1.120M). In order to balance the 2014 budget, a draw of \$1.120M will be made from the reserve, leaving a balance in the reserve of \$39.017M (includes the \$3.1M dispute credit from the Region as detailed in this report).

RECOMMENDED BY:


Joel Lustig
Treasurer


Trinela Cane
Commissioner, Corporate Services

ATTACHMENTS:

Appendices 1 to 12:

Appendix 1 – Operating Budget - Financial Results for the Twelve Months Ended December 31, 2014

Appendix 2 – Operating Budget for Planning & Design - Financial Results for the Twelve Months Ended December 31, 2014

Appendix 3 – Operating Budget for Engineering - Financial Results for the Twelve Months Ended December 31, 2014

Appendix 4 – Planning & Engineering Development Fee Reserve as at December 31, 2014

Appendix 5 – Operating Budget for Building Standards - Financial Results for the Twelve Months Ended December 31, 2014

Appendix 6 – Building Fee Reserve as at December 31, 2014

Appendix 7 – Operating Budget for Waterworks - Financial Results for the Twelve Months Ended December 31, 2014

Appendix 8 – Waterworks Reserve as at December 31, 2014

Appendix 9 – Variances by Commission and Department – CAO's Office, HR, Legal and Sustainability

Appendix 10 – Variances by Commission and Department – Community and Fire Services

Appendix 11 – Variances by Commission and Department – Corporate Services

Appendix 12 – Variances by Commission and Department – Development Services