



Report to: **General Committee – Finance & Administrative**    Date of Meeting: 2006-Nov-20

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**SUBJECT:** Third Quarter 2006 Review of Operations and Year-end Projection  
**PREPARED BY:** Fuwing Wong, Manager Financial Planning

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**RECOMMENDATION:**

THAT the report dated November 20, 2006 entitled “Third Quarter 2006 Review of Operations and Year-end Projection” be received.

**EXECUTIVE SUMMARY:**

At the end of September, 2006 the operating budget results (excluding Waterworks and Building Services) reflect a favourable variance of \$2.217M. The \$2.217M favourable variance is comprised of \$1.322M favourable variance in Revenues and \$0.895M net favourable variance in Expenditures, as shown below:

Revenues	Fav./(Unfav.)	Expenditures	Fav./(Unfav.)
Engineering User Fees & Service Charges	\$0.746 M	Salary & Benefit Costs	\$1.212 M
Planning & Design Fees	\$0.428 M	Salary Gapping Allocation	(\$0.654) M
Parking Fines	\$0.306 M	Winter Maintenance Costs	\$0.329 M
Investment Income	\$0.291 M	Materials & Supplies - timing & usage	(\$0.195) M
Arts & Theatre User Fees & Rentals	\$0.237 M	Other Non-Salary Costs	\$0.203 M
Recreation Services User Fees	(\$0.242) M		
Other	(\$0.444) M		
	\$1.322 M		\$0.895 M

<b>Net Favourable Variance =    \$2.217    M</b>
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Further details of all variances are available in the Discussion section of this report.

Waterworks ended September with a year-to-date \$0.179M favourable variance. This variance was mainly due to a favourable variance of \$0.269M in personnel costs and \$0.366M for purchased services that has been partially offset by an unfavourable variance of \$0.664M for the sale and purchase of water.

Also, at the end of September, Building Services had a year-to-date variance of \$1.321M unfavourable. This was mainly due to lower than expected building permit revenue resulting in an unfavourable variance of \$1.820M which was partially offset by favourable variance of \$0.503M in personnel expenses.

**FINANCIAL CONSIDERATIONS:**

Staff will continue to monitor variances for the remainder of the year.

**PURPOSE:**

To provide an overview of year-to-date financial results at the end of third quarter 2006 and a 2006 year-end projection.

**BACKGROUND:**

On February 14<sup>th</sup>, 2006, Council approved the 2006 Budget of \$272.7M (adjusted for the 2005 year-end surplus). The 2006 budget consists of \$144.181M in the Operating budget, \$9.44M in the Building Services Operating budget, \$49.06M in Waterworks Operating budget, and \$70.00M in the Capital budget.

The Building Services and Waterworks Operating Budgets are shown separate from the Town's Operating Budget as they are primarily user fee funded (e.g. Building Permit Revenue and revenues based on water consumption, respectively) and separate reserves have been established for each.

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

**OPTIONS/ DISCUSSION:**

**YEAR-TO-DATE OPERATING BUDGET VARIANCES:**

At the end of nine months, the 2006 operating budget (excluding Waterworks and Building Services) results reflect an overall \$2.217M favourable variance. The \$2.217M favourable variance is comprised of favourable variances in three main areas of the Town's operating budget:

- \$1.322M favourable variance in Revenues (Section 1 of the report)
- \$0.558M favourable variance in Personnel Expenditures (Section 2)
- \$0.337M favourable variance in Non-Personnel Expenditures (Section 3)
- \$2.217M

The remainder of the report provides more details of the variances, above, and provides details of the Waterworks and Building Services year-to-date variance.

**SECTION 1 – REVENUES**

At the end of third quarter, revenues were favourable by \$1.322M due to the following:

<b>Revenue Items</b>	<b>Fav./(Unfav.)</b>
Taxation Revenues	\$0.019 M
Grant & Subsidy Revenues	\$0.019 M
General Revenues	\$0.671 M
User Fees and Service Charges	\$1.158 M
Other Income	(\$0.545) M
<b>Net Favourable Variance</b>	<b>\$1.322 M</b>

**General Revenues**

The favourable variance of \$0.671M was mainly due to favourable investment income (\$0.291M) and parking fines (\$0.306M). Higher interest rates and increased productivity from more fieldwork and training were the drivers of the favourable variances in investment income and parking fines, respectively.

**User Fees and Service Charges**

The \$1.158M favourable variance was mainly due favourable variances in Engineering Fees (\$0.746M) and Planning/Design fees (\$0.428M). Both the Engineering and the Planning/Design departments are projecting a slowdown in development which will reduce their favourable user fee variances to approximately \$800K (in total) by year-end and will likely have an impact in 2007.

**Other Income**

The \$0.545M unfavourable variance was mainly due to unrealized Revenue Strategy budget allocated to the first half of 2006. Revenue Strategy will be revisited in the 2007 Operating Budget discussions and revised strategies will be presented to Council in 2007.

**SECTION 2 – PERSONNEL EXPENDITURES**

The September year-to-date personnel expenditure variance was \$0.558M favourable:

<b>Salary Expenditures Items</b>	<b>Fav./(Unfav.)</b>
Full Time Salary	\$0.964 M
Part Time/Contract Employees	(\$0.819) M
Net Favourable Variance	\$0.145 M
Benefit Savings	\$1.067 M
Salary & Benefit Fav. Variance before Salary Gapping	\$1.212 M
Salary Gapping Target	(\$0.654) M
<b>Overall Salary &amp; Benefit Favourable Variance</b>	<b>\$0.558 M</b>

The \$0.964M favourable variance in full time staffing costs was a result of vacant positions due to full-time staffing vacancies (e.g. budgeted positions currently in the

recruitment process, and staff away on Long-Term Disability (LTD), Parental Leave). This favourable variance was partially offset by a \$0.819M unfavourable variance in part time & contract salaries, overtime and other personnel allowances related to departments backfilling vacancies and leaves.

The favourable variance in employee benefits of \$1.067M was mainly due to the utilization of a one-time surplus of OMERS Type III Supplemental funds (\$0.828M) to offset fire staff benefit costs. The balance of the favourable variance relates to benefits budgeted for positions that were vacant during the year.

Further, the 2006 budget includes \$0.654M of annual salary gapping savings which have been fully allocated to the individual business units.

### **SECTION 3 - NON-SALARY EXPENDITURES**

At the end of September, Non-Salary expenditures were on budget with the exception of Winter Maintenance expenditures. The variances in other non-salary accounts are outlined below:

<b>Non-Salary Items</b>	<b>Fav./(Unfav.)</b>	
Material & Supplies	(\$0.056)	M
Purchased Services	\$0.317	M
Capital Asset Acquisition	\$0.007	M
Financial Expenses	(\$0.001)	M
Transfers to/from Reserves	\$0.065	M
Other Expenditures	\$0.005	M
<b>Total Non-Salary Favourable Variance</b>	<b>\$0.337</b>	<b>M</b>

#### **Materials & Supplies**

The unfavourable variance of \$0.056M was mainly due to unfavourable variances in vehicle parts, fuel and other supplies (\$0.201M unfavourable), partially offset by a favourable variances in the salt and sand winter maintenance accounts (\$0.145M favourable). Winter maintenance budgets and expenditures are allocated to the beginning and end of each fiscal year. The year-to-date favourable variance is due to a favourable winter (January to April 2006). The final variance in the winter maintenance accounts are dependant upon the winter conditions and snowfall in November and December 2006.

#### **Purchased Services**

The \$0.317M favourable variance in Purchased Services was due to \$0.839M favourable variances in the following accounts offset by a \$0.522M unfavourable variance in the Town's insurance expenditures:

- \$0.213M favourable variance in training accounts across the Town;
- \$0.150M favourable variance in winter maintenance accounts related to winter maintenance (e.g. snow clearing) services. As noted in the Materials and Supplies

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variance explanation, this variance relates to the favourable January to April 2006 winter season and may not be favourable by the end of the year;

- \$0.130M favourable variance in streetlight energy recoveries related to unassumed sub-divisions;
- \$0.125M favourable variance in professional services;
- \$0.100M in favourable variance in promotion and advertising expenditures; and
- \$0.121M in favourable variances in other accounts.

As discussed during the 2006 operating budget process, the budget for higher insurance costs for 2006 is to be phased-in over 4 years. Accordingly, an unfavourable variance due to insurance was projected for 2006. Also discussed during the 2006 operating budget process was mitigating the unfavourable variance related to insurance expenditures through funding from the Town's Insurance Reserve, if required at year-end.

#### **SECTION 4 - WATERWORKS**

Waterworks reported a year-to-date favourable variance of \$0.179M at the end of September (see Appendix 2).

The year-to-date variance was mainly due to favourable variances in Personnel expenditures (\$0.269M), Purchased Services (\$0.366M), other Revenues (\$0.152M) and other expenditures (\$0.056M) which were partially offset by lower water sales than projected (\$0.664M unfavourable).

The Waterworks department reported delays in the flushing and cleaning of the sewers, camera inspection of the main line and for professional services were the main reasons for the \$0.366M favourable variance in purchased services. Also, the favourable \$0.152M variance in other revenues was due to better than projected water meter sales and other user fees and charges.

#### **SECTION 5 – BUILDING SERVICES**

Building Services reported \$1.321M unfavourable variance at the end of nine months (refer to Appendix 3).

The unfavourable variance is due to lower than projected building permit revenue arising from lower than expected construction activity. Building permit activity is not expected to recover by year-end and will result in an unfavourable variance in revenues for the Building Services department. The department, however, will mitigate the unfavourable revenues by not transferring all of the budgeted \$1.969M to the Building Fee reserve as originally planned for in December, 2006. The transfer to the Building Fee reserve should take place when actual building permit revenues collected are on-budget or in a surplus situation. By offsetting the unfavourable revenues with the transfer to the Building Fee reserve, the Building Services department is not expected to report an unfavourable variance overall and thus, should not negatively impact the Town's consolidated results.

The reporting of Building Services separate from the Town's operating results is new in 2006 due to the implementation of Bill 124 - Building Code Statute Law Amendment Act in mid-2005. As reported to Council in June of 2005, with the implementation of Bill 124, the Building Services department became "self-funding" (e.g. full-cost recovery) through Building fees. A separate reserve was established for Building fees to stabilize development fee rates and to fund actual shortfalls in the Building department in future years. The current balance in the Building Fee reserve is \$2.627M.

### **YEAR-END PROJECTION**

Based on September year-to-date results, follow-up with the various business units and additional October actual information, the year-end surplus is projected to be \$0.500M to \$2.0M by year-end.

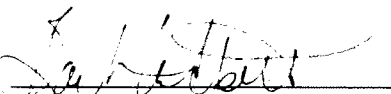
As outlined in the Year-to-Date discussion section on pages 4 and 5 of this report, the Winter Maintenance expenditures for the remainder 2006 will likely have a material impact on the final 2006 financial results for the Town. Also, as reported in the Building Services section of this report (page 5), development activity is lower than projected. The Engineering and Planning/Design departments are projected to be impacted by lower activity through a decrease in their favourable year-to-date development fee revenue, from \$1.174M favourable at the end of September to approximately \$0.800M by year-end. Furthermore, year-end accounting accruals for items such as Long-term disability, Vacation accrual, Councillors Severance, Post Retirement Benefit, Firefighter Sick Leave, are not budgeted for and (some) are subject to actuarial reviews, which are currently underway.

### **FINANCIAL TEMPLATE (Separate Attachment):**

Not applicable

### **RECOMMENDED**

BY:

  
Barb Cribbett, Treasurer

  
Andy Taylor, Commissioner  
Corporate Services

### **ATTACHMENTS:**

Appendix 1 – Operating Budget - Financial Results for the Nine Months Ended September 30, 2006

Appendix 2 – Operating Budget for Waterworks - Financial Results for the Nine Months Ended September 30, 2006

Appendix 3 – Operating Budget Building Services - Financial Results for the Nine Months Ended September 30, 2006

## TOWN OF MARKHAM

## Operating Budget (Excluding Waterworks &amp; Building Services)

Financial Results for the Nine Months Ended September 30, 2006

(in millions of dollars)

	2006 YTD Actuals	2006 YTD Budget	Variance fav./(unfav.)	Annual Budget
<b>Revenue</b>				
Taxation Revenues	93.188	93.169	0.019	93.618
Grant & Subsidy Revenues	0.340	0.321	0.019	0.841
General Revenues	13.775	13.104	0.671	17.463
User Fees & Service Charges	19.645	18.487	1.158	24.690
Other Income *	4.252	4.797	(0.545)	7.038
Inter-Department Recoveries	0.527	0.527	0.000	0.531
<b>Revenue Total</b>	<b>131.727</b>	<b>130.405</b>	<b>1.322</b>	<b>144.181</b>
<b>Expenditures</b>				
Salaries & Benefits	61.371	62.583	1.212	81.381
Salary Gapping Savings		(0.654)	(0.654)	
Material & Supplies	5.463	5.407	(0.056)	6.885
Purchased Services	21.927	22.244	0.317	28.370
Capital Asset Acquisition	0.005	0.012	0.007	0.017
Financial Expenses	0.410	0.409	(0.001)	0.501
Other Expenditures	0.721	0.726	0.005	2.098
Transfer to/from Reserves *	23.056	23.121	0.065	24.929
<b>Expenditures Total</b>	<b>112.953</b>	<b>113.848</b>	<b>0.895</b>	<b>144.181</b>
<b>Net Revenue (Expenditure)</b>	<b>18.774</b>	<b>16.557</b>	<b>2.217</b>	<b>0.000</b>

\* Excludes sale of Land and Fixed Assets

## TOWN OF MARKHAM

## Operating Budget For Waterworks

Financial Results for the Nine Months Ended September 30, 2006

(in millions of dollars)

	2006 YTD Actuals	2006 YTD Budget	Variance fav./ (unfav.)	Annual Budget
<b>Water Revenue</b>				
Water & Sewer Billing	34.926	35.147	(0.221)	46.240
<b>Water Expenditures</b>				
Contracted Municipal Services	25.887	25.444	(0.443)	33.018
<b>Sub-Total Revenue/Variance</b>	<b>9.039</b>	<b>9.703</b>	<b>(0.664)</b>	<b>13.222</b>
<b>Other Revenue</b>				
User Fees & Service Charges	0.642	0.578	0.064	0.734
Other Income	2.173	2.085	0.088	2.086
<b>Sub-Total Other Revenue</b>	<b>2.815</b>	<b>2.663</b>	<b>0.152</b>	<b>2.820</b>
<b>Other Expenditures</b>				
Salaries & Benefits	2.979	3.248	0.269	4.244
Material & Supplies	0.460	0.516	0.056	0.762
Purchased Services (excluding Contracted Municipal Services)	3.029	3.395	0.366	4.258
Transfer to/from Reserves	6.778	6.778	0.000	6.778
<b>Expenditures Total</b>	<b>13.246</b>	<b>13.937</b>	<b>0.691</b>	<b>16.042</b>
<b>Net Revenue (Expenditure)</b>	<b>(1.392)</b>	<b>(1.571)</b>	<b>0.179</b>	<b>0.000</b>



## TOWN OF MARKHAM

## Operating Budget Building Services

Financial Results for the Nine Months Ended September 30, 2006

(in millions of dollars)

	2006 YTD Actuals	2006 YTD Budget	Variance fav./(unfav.)	Annual Budget
<b>Revenue</b>				
General Revenues	5.247	7.067	(1.820)	9.348
User Fees & Service Charges	0.040	0.069	(0.029)	0.092
Other Income	(0.005)	0.000	(0.005)	0.000
<b>Revenue Total</b>	<b>5.282</b>	<b>7.136</b>	<b>(1.854)</b>	<b>9.440</b>
<b>Expenditures</b>				
Salaries & Benefits	3.292	3.795	0.503	4.960
Material & Supplies	0.037	0.050	0.013	0.068
Purchased Services	0.102	0.071	(0.031)	2.025
Transfer to/from Reserves	1.817	1.865	0.048	2.387
<b>Expenditures Total</b>	<b>5.248</b>	<b>5.781</b>	<b>0.533</b>	<b>9.440</b>
<b>Net Revenue (Expenditure)</b>	<b>0.034</b>	<b>1.355</b>	<b>(1.321)</b>	<b>0.000</b>

