



Report to: General Committee

Date Report Authored: October 28, 2014

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

RECOMMENDATION:

- 1) THAT the report entitled “2014 September YTD Review of Operations and Year End Projection” be received.

EXECUTIVE SUMMARY:

Council approved the 2014 annual 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 Standards operating budget and Waterworks operating budget.

This report provides an overview of the year-to-date (YTD) actual operating budget results versus the calendarized 2014 operating budget as of September 30, 2014, and a forecast of the year-end results against the annual operating budget.

Primary Operating Budget (Appendix 1)

(Excluding Planning & Design, Engineering, Building Standards and Waterworks)

Total City operations for September year-to-date incurred net revenues of \$28.278M against a budget of \$29.724M, resulting in an unfavourable variance of (\$1.446M) including winter maintenance, excluding Planning & Design, Engineering, Building Standards and Waterworks. City operations excluding winter maintenance incurred a favourable variance of \$0.933M, a change of (\$0.135M) compared to the second quarter results.

1. City’s surplus before winter maintenance	\$0.933M
2. Winter maintenance unfavourable variance	<u>(\$2.379M)</u>
Net Deficit	(\$1.446M)

1. City’s Surplus Before Winter Maintenance

City’s surplus before winter maintenance = \$0.933M
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The major revenue and expenditure variances are as follows:

Revenues	Fav./ (Unfav.) in \$M	Expenditures	Fav./ (Unfav.) in \$M
Theatre revenues (ticket sales, registration fees and rental)	0.287	Salary & benefit costs	0.766
Museum Program Registration	0.173	Contract Service Agreements	0.341
Sportsfield Hydro Recoveries	0.080	Professional services/training/travel/office supplies	0.243
Income from Investments	(0.207)	External Legal Fees	0.177
Recreation revenue	(0.770)	Waste Collection	0.120
		Theatre Professional Entertainment Fees	(0.248)
		Property Tax Adjustments	(0.829)
Other	0.579	Other	0.221
Total	0.142	Total	0.791

2. Winter Maintenance

Winter maintenance unfavourable variance = (\$2.379M)

The 2014 actual winter maintenance expenditures at the end of the third quarter total \$7.970M against a budget of \$5.591M, resulting in an unfavourable variance of (\$2.379M) which is unchanged from the second quarter results.

The City's winter maintenance budget includes personnel expenditures, 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 37% and variable cost component of 63%. 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 (\$2.379M), due to the following components:

- 353 actual service hours as compared to 231 budgeted service hours for sidewalk snow clearing per unit of equipment (\$0.579M);
- 230 actual service hours as compared to 104 budgeted service hours for loader snow removal operation per unit of equipment (\$0.495M);
- 17,800 actual tonnes of salt as compared to budgeted 12,000 tonnes of salt applied on the roads (\$0.446M); and;
- 318 actual service hours as compared to budgeted 270 service hours for tandem operation per unit of equipment (\$0.159M);

- 118 actual service hours as compared to budgeted 71 service hours of grader snow removal operation per unit of equipment (\$0.319M).
- Higher than budgeted Roads and Parks department part-time and over-time to accommodate increased winter maintenance requirements (\$0.261M)
- Other winter maintenance related variance of (\$0.120M)

Year-End Projection Including Year-end Accounting Adjustments:

Based on the September year-to-date results from operations, Staff is projecting the year-end results from business operations including year-end accounting adjustments, and excluding winter maintenance, to be favourable, in the range of \$0.400M to \$1.200M. This projection is an improvement from the June projection of unfavourable (\$0.100M) to favourable \$0.900M. The change is primarily due to anticipated savings from more vacancies as well as less unfavourable part-time and overtime variances than previously projected.

It is expected that the year-end revenue variance will be on budget mainly due to lower Recreation revenues particularly in aquatics and programs, offset by a favourable variance in Theatre professional entertainment ticket sales and various other revenues.

The year-end expenditure variance will range from \$0.500M favourable to \$1.300M favourable, mainly due to favourable variances in net personnel costs from vacancies, professional services, training, contract service agreements and operating material and supplies offset partially by unfavourable variances in fire overtime, theatre professional entertainment fees and property tax adjustments.

The City does not budget for year-end accounting adjustments, which include Firefighters sick leave, 27th pay accrual, severance and salary continuance, and post retirement benefits. The 2014 year-end accounting adjustments are estimated at \$2.400M. Staff identified opportunities to offset the year-end accounting adjustments in the amount of \$2.300M, leaving a net shortfall of (\$0.100M) which has been included in the above year-end projected variance.

Winter maintenance operations is projected to have a year-end variance of (\$3.236M) to (\$2.379M), based on winter maintenance being 40% worse than budget for the last six weeks of the year, similar to what was experienced in the first quarter of 2014, or being on budget.

Based on the above, the projected year-end deficit is as follows:

	Projected Year-End Variance Fav./(Unfav.)
3. Primary operating budget including Y/E accounting adjustments	\$0.400M to \$1.200M
4. Winter maintenance unfavourable variance	(\$3.236M) to (\$2.379M)
Net Deficit	(\$2.836M) to (\$1.179M)

Planning & Design (Appendix 2)

Planning & Design net unfavourable variance = (\$1.073M)

At the end of the third quarter, the actual operating results against budget netted an unfavourable variance of (\$1.073M) due to lower than budgeted Planning and Design fees in the amount of (\$1.361M) offset by favourable expenditure variance of \$0.288M as a result of 5 net average vacancies. This represents a change of (\$0.387M) compared to the second quarter results and is due to the continued unfavourability in the Planning and Design fees.

Year-End Projection:

Planning & Design is projecting a year-end deficit of (\$1.400M) compared to a budgeted deficit of (\$0.855M). This will result in an additional draw from reserve of (\$0.545M) to a total of (\$1.400M). The projected deficit is due to a forecasted reduction in the number of units registered through subdivision or site plan agreements than budget (2,075 vs. 2,639 units), partially offset by favourable personnel variances due to continuation of 5 net average vacancies into year-end. This projection is on target and unchanged from what was presented in the June year-to-date report.

Engineering (Appendix 3)

Engineering net unfavourable variance = (\$0.265M)

At the end of the third quarter, the actual operating results against budget netted an unfavourable variance of (\$0.265M) mainly due to lower than budgeted Planning fees in the amount of (\$0.273M). This represents a change of (\$0.182M) compared to the second quarter results due to the continued unfavourability in the Planning fees.

Year-End Projection:

Engineering is projecting a year-end deficit of (\$2.300M) compared to a budgeted deficit of (\$1.537M). This will result in an additional draw from reserve of (\$0.763M) to a total of (\$2.300M). The projected deficit is due to a forecasted reduction in the number of units registered through subdivision or site plan agreements and lower capital administration fee from deferral of several Engineering capital projects to 2015, including various Hwy. 404 crossing projects, Centurian Drive reconstruction and Church Street reconstruction. This projection is on target and unchanged from what was presented in the June year-to-date report.

Based on the above year end projection in Planning, Design and Engineering, the reserve is anticipated to be in a deficit position of (\$7.701M) at year-end (see Appendix 4).

Building Standards (Appendix 5)

Building Standards net unfavourable variance = (\$0.097M)
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At the end of the third quarter, the actual operating results against budget netted an unfavourable variance of (\$0.097M), a change of (\$0.074M) compared to the second quarter results.

Year-End Projection:

Staff is projecting a year-end deficit of (\$2.100M) compared to a budgeted deficit of (\$1.539M). This will result in an additional draw from reserve of (\$0.561M) to a total of (\$2.100M). The change is due to projected lower permit activities partially offset by 5 average net full-time vacancies. This projection is on target and unchanged from what was presented in the June year-to-date report.

Based on the above year end projection in Building Services, the balance of the reserve is anticipated to be \$11.825M at year-end (see Appendix 6).

The 2015 Development Fee and Building Fee By-laws Update will be tabled at Development Services Committee on Tuesday November 18th. A strategy is included within to address the Planning/Engineering/Building reserves.

Waterworks (Appendix 7)

Waterworks net unfavourable variance = (\$1.648M)
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At the end of the third quarter, the actual operating results against budget netted an unfavourable variance of (\$1.648M), a change of (\$0.856M) compared to the second quarter results, the main drivers of which are:

- Lower than budgeted water sales resulted in an unfavourable “net sales and purchases” variance of (\$1.684M);
- Unfavourable revenues in the amount of (\$0.250M) as a result of lower meter sales from subdivision agreements;
- Above is offset by a favourable variance of \$0.132M due to an average of five net vacancies, and
- A favourable variance of \$0.154M in non-personnel expenditures.

Year-End Projection:

Upon budget approval the projected surplus of \$13.815M was transferred to the Waterworks reserve. Based on the September year-to-date results, Waterworks is projected to be unfavourable by (\$1.500M) to (\$0.500M). This results in a net transfer to the reserve of \$12.315M to \$13.315M. This projection is unfavourable by (\$0.500M) when compared to the June year-to-date report due to additional unfavourability from net sales and purchases.

The year-end Waterworks reserve balance is projected to be between \$33.364M and \$34.364M (see Appendix 8).

PURPOSE:

To report on the year-to-date actual 2014 operating budget results versus the calendarized 2014 operating budget as at September 30, 2014, and forecast the year-end results to the annual plan.

BACKGROUND

Council approved the 2014 annual 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 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, such as planning and engineering fees, building permit fees and water billings. Separate reserves have been established to support the department's day-to-day operations and capital programs.

The year to date operating budget is calendarized based on available current year information, historical spending patterns and trends and future projections. The intent and focus of this report is to monitor and communicate actual performance to the annual plan and highlight trends and variances.

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.

DISCUSSION:City's Surplus Before Winter Maintenance

At the end of the third quarter the actual operating results before winter maintenance against budget netted a favourable variance of \$0.933M and the breakdown is as follows:

Revenues	\$0.142M
Personnel Expenditures	\$0.766M
Non-Personnel Expenditures	<u>\$0.025M</u>
	<u>\$0.933M</u>

REVENUES

At the end of the third quarter, revenues were favourable \$0.142M, 0.1% higher than budget.

Revenues	Fav./(Unfav.)
General Revenues	(\$0.238M)
User Fees & Service Charges	(\$0.298M)
Grant & Subsidy Revenues	\$0.023M
Other Income	\$0.655M
Net Variance	\$0.142M

General Revenues

General revenues were unfavourable by (\$0.238M), the main driver is investment income of (\$0.207M) which is due to lower than budgeted portfolio balances, however, this is expected to be on budget by year end.

User Fees and Service Charges

User fees and service charges were unfavourable by (\$0.298M), the main drivers of which are:

Recreation

Recreation revenues were unfavourable by (\$0.770M) compared to budget which is a decline of (\$0.474M) compared to June YTD revenues. The unfavourable variance to budget was mainly from aquatics and programs. This is offset by savings in personnel of \$0.515M and non-personnel expenses of \$0.054M for a net unfavourable variance of (\$0.157M). Recreation Department Staff indicate that they will continue to mitigate the unfavourable variance, mainly in aquatics, by offering more private and semi private classes and managing associated expenses. Furthermore, Recreation will be offering a renewed program mix and developing/implementing extra programming opportunities in other service areas through the implementation of the three year Operational Plan. New program implementations in early 2015 include "Swim at your convenience" programs such as family swim lessons, more private lessons, swim all year, and drop in lessons for all levels. The proposed mitigating strategies will take time to correct and may not offset the anticipated unfavourable variance in 2014.

Theatre

Theatre revenues were favourable by \$0.287M, primarily due to higher ticket sales in the professional entertainment series. The favourable variance in revenue is partially offset by associated higher personnel and non-personnel costs, which resulted in a net favourable variance of \$0.049M. This is an improvement of \$0.122M from the June net variance.

Museum

Museum revenues were favourable by \$0.173M 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 \$0.072M. This is an improvement of \$0.114M from the June net variance.

Grants and Subsidy Revenues

The favourable variance of \$0.023M resulted from the receipt of one-time federal and provincial grants which is used to offset related part-time costs.

Other Revenues

The favourable variance of \$0.655M resulted primarily from miscellaneous recoveries (road use notification fees, property clean up and legislative administration fees, and other recoveries across various departments) of \$0.147M, solar panel revenue of \$0.137M, sportsfield hydro recoveries of \$0.080M, Recreation vending machine and vendor fee revenues of \$0.070M and other items from various departments.

PERSONNEL EXPENDITURES

At the end of the third quarter, personnel expenditures were favourable by \$0.766M, 0.9% better than budget and an improvement of \$0.238M from the June report.

Salary & Benefits	Fav./(Unfav.)
Full time net of vacancy backfills and part time salaries	\$1.799M
Overtime and other personnel costs	(\$1.033M)
Net Variance	\$0.766M

As at September 30, there were 30 net vacancies and 17 temporary vacancies from approved leaves of absence and secondments which resulted in a favourable variance of \$3.052M. This is offset by full year budgeted salary gapping of (\$0.455M), firefighter sick leave benefit (\$0.289M) and unfavourable variance of (\$0.509M) for part-time salaries. The main drivers for the unfavourable part-time salaries variance are:

- Legislative Services – Unfavourable variance of (\$0.304M) resulting from coverage for vacancies in Parking Control (\$0.283M) (offset by favourable full-time variance of \$0.375M).
- Museum – Unfavourable variance of (\$0.128M) driven by training for summer camps and additional part-time expenditures with direct offsets in revenues.
- Parks – Unfavourable variance of (\$0.101M) driven by winter maintenance activity in the first quarter and special events.
- Other favourable part-time variance of \$0.024M from various departments.

Overtime was unfavourable by (\$0.995M) due to coverage for absences in the Fire Department due to illnesses, bereavement or parental leaves partially offset by a favourable full-time variance of \$0.482M.

NON-PERSONNEL EXPENDITURES

At the end of the third quarter the actual operating results excluding winter maintenance were favourable by \$0.025M, on budget and a decline of (\$0.631M) from the June report primarily due to property tax adjustments from an acceleration in the processing of Assessment Review Board (ARB) cases in an effort to eliminate backlog.

Major drivers for non-personnel variance	Fav./ (Unfav.) in \$M
Contract Service Agreements	0.341
Professional services/training/travel/office supplies	0.243
External Legal Fees	0.177
Waste Collection	0.120
Theatre Professional Entertainment Fees	(0.248)
Property Tax Adjustments	(0.829)
Other	0.221
Total	0.025

Highlights of Expenditure Variances

- \$0.341M favourable variance in contract service agreements due to favourability from the Legislative Services canine control service by \$0.140M, pricing favourability from the Operations pavement marking contract by \$0.111M and variances from various other departments.
- \$0.243M favourable variance from professional services, training, travel and office supplies originating from various departments across the City.
- \$0.177 favourable variance in external legal fees from the engagement of third party legal services.
- \$0.120M favourable variance in waste collection mainly due to lower waste tonnage. The Waste Management 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.
- (\$0.248M) unfavourable variance in Theatre professional entertainment fees which was offset by increased professional entertainment series ticket sales.
- (\$0.829M) unfavourable in property tax adjustments due to an acceleration in the processing of Assessment Review Board (ARB) cases in an effort to eliminate backlog.

The City's operating results against budget are provided in Appendix 1.

FINANCIAL RESULTS BY COMMISSION AND DEPARTMENT

The variances for the nine months ended September 30, 2014 by 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 below.

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

Human Resources (favourable variance of \$0.275M)

Favourable variance mainly due to three net average vacancies \$0.128M, management consulting \$0.046M and training \$0.046M.

Legal Department (favourable variance of \$0.174M)

Favourable variance mainly due to external legal fees \$0.177M.

Community and Fire Services (Appendix 10)

Fleet (unfavourable variance of \$0.111M)

Unfavourable variance mainly due to vehicle repairs and parts purchases related to winter vehicles (\$0.084M).

Parks (favourable variance of \$0.145M)

Favourable variance mainly due to facility, sportsfield and playground maintenance savings \$0.131M.

Roads (favourable variance of \$0.450M)

Favourable variance mainly due to three net average vacancies \$0.149M, contracted services \$0.111M due to favourable pavement marking contract and tipping fees \$0.090M.

Fire Services (unfavourable variance of \$0.522M)

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 \$0.157M)

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

Library (favourable variance of \$0.178M)

Favourable variance due to three net average vacancies \$0.156M.

Commissioner's Office (favourable variance of \$0.105M)

Favourable variance due to one net average vacancy \$0.078M.

Corporate Services (Appendix 11)

Financial Services (favourable variance of \$0.476M)

Favourable variance mainly due to five net average vacancies.

ITS (favourable variance of \$0.196M)

Favourable variance mainly due to two net average vacancies \$0.081M, consulting services \$0.060M and training \$0.037M.

YEAR-END PROJECTION

Primary Operating Budget Including Year-End Accounting Adjustments

Staff monitors the month and YTD results from operations closely to identify any risks to achieving a balanced budget, and opportunities for generating a surplus to offset the year-end accounting adjustments, which are not included in the 2014 budget.

Based on the September year-to-date results from operations, Staff is projecting the year-end results from business operations including year-end accounting adjustment and excluding winter maintenance to be in the range of being favourable by \$0.400M to \$1.200M. This projection is an improvement from the June projection of unfavourable (\$0.100M) to favourable \$0.900M. The change is primarily due to additional savings from vacancies, part-time and overtime costs.

The City does not budget for year-end accounting adjustments which include Firefighters sick leave, 27th pay accrual, severance and salary continuance, and post retirement benefits. The 2014 year-end accounting adjustments are estimated at \$2.400M. Staff identified opportunities to offset the year-end accounting adjustments in the amount of \$2.300M, leaving a net shortfall of (\$0.100M) which has been included in the above year-end projected variance.

Winter Maintenance Operations

Winter maintenance operations is projected to have a year-end variance of (\$3.236M) to (\$2.379M). Staff recommends the winter maintenance operations be funded from the Corporate Rate Stabilization Reserve.

Based on the above, the projected net year-end deficit is as follows:

	Projected Year-End Variance Fav./(Unfav.)
1. Primary operating budget including Y/E accounting adjustments	\$0.400M to \$1.200M
2. Winter maintenance unfavourable variance	<u>(\$3.236M) to (\$2.379M)</u>
Net Deficit	(\$2.836M) to (\$1.179M)

Planning & Design

Planning & Design is projecting a year-end deficit of (\$1.400M) compared to a budgeted deficit of (\$0.855M). This will result in an additional draw from reserve of (\$0.545M) to a total of (\$1.400M). The projected deficit is due to a forecasted reduction in the number of units registered through subdivision or site plan agreements than budget (2,075 vs. 2,639 units), partially offset by favourable personnel variances due to continuation of 5 net average vacancies into year-end. This projection is on target and unchanged from what was presented in the June year-to-date report.

Engineering

Engineering is projecting a year-end deficit of (\$2.300M) compared to a budgeted deficit of (\$1.537M). This will result in an additional draw from reserve of (\$0.763M) to a total of (\$2.300M). The projected deficit is due to a forecasted reduction in the number of units registered through subdivision or site plan agreements and lower capital administration fee from deferral of several Engineering capital projects to 2015, including various 404 crossing projects, Centurian Drive reconstruction and Church Street reconstruction. This projection is on target and unchanged from what was presented in the June year-to-date report.

Based on the above year end projection in Planning, Design and Engineering, the reserve is anticipated to be in a deficit position of (\$7.701M) at year-end (see Appendix 4).

Building Services

Staff is projecting a year-end deficit of (\$2.100M) compared to a budgeted deficit of (\$1.539M). This will result in an additional draw from reserve of (\$0.561M) to a total of (\$2.100M). The change is due to projected lower permit activities partially offset by 5 average net full-time vacancies. This projection is on target and unchanged from what was presented in the June year-to-date report.

Based on the above year end projection in Building Services, the balance of the reserve is anticipated to be \$11.825M at year-end (see Appendix 6).

Waterworks

Upon budget approval the projected surplus of \$13.815M was transferred to the Waterworks reserve. Based on the September year-to-date results, Waterworks is projected to be unfavourable by (\$1.500M) to (\$0.500M). This results in a net transfer to the reserve of \$12.315M to \$13.315M. This projection is unfavourable (\$0.500M) when compared to the June year-to-date report due to additional unfavourability from net sales and purchases.

The year-end Waterworks reserve balance is projected to be between \$33.364M and \$34.364M (see Appendix 8).

FINANCIAL CONSIDERATIONS:

Staff will continue to monitor the results of Operations for the balance of the year and identify strategies, where necessary, to mitigate the unfavourable variance from winter maintenance. Staff will report back in the first quarter of 2015 with the year end results.

RECOMMENDED

06/11/2014

06/11/2014

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Joel Lustig
Treasurer

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Trinela Cane
Commissioner of Corporate Services

ATTACHMENTS:

[Appendices 1 to 12:](#)

Appendix 1 – Primary Operating Budget - Financial Results for the Nine Months Ended September 30, 2014

Appendix 2 – Planning & Design Operating Budget - Financial Results for the Nine Months Ended September 30, 2014

Appendix 3 – Engineering Operating Budget - Financial Results for the Nine Months Ended September 30, 2014

Appendix 4 – Planning & Engineering Development Fee Reserve Balance – Year-end Projection as at September 30, 2014

Appendix 5 – Building Standards Operating Budget - Financial Results for the Nine Months Ended September 30, 2014

Appendix 6 – Building Fee Reserve Balance – Year-end Projection as at September 30, 2014

Appendix 7 – Waterworks Operating Budget - Financial Results for the Nine Months Ended September 30, 2014

Appendix 8 – Waterworks Reserve Balance – Year-end Projection as at September 30, 2014

Appendix 9 – Variances by Commission and Department for the Nine Months Ended September 30, 2014– CAO's Office, Human Resources, Legal and Sustainability

Appendix 10 – Variances by Commission and Department for the Nine Months Ended September 30, 2014– Community and Fire Services

Appendix 11 – Variances by Commission and Department for the Nine Months Ended September 30, 2014– Corporate Services

Appendix 12 – Variances by Commission and Department for the Nine Months Ended September 30, 2014– Development Services