



Report to: General Committee

Date Report Authored: February 18, 2014

**SUBJECT:** 2013 Year End Review of Operations  
**PREPARED BY:** Andrea Tang, Manager of Financial Planning

**RECOMMENDATION:**

- 1) THAT the report dated entitled “2013 Year End Review of Operations” be received; and
- 2) THAT the City’s 2013 total net unfavourable variance of (\$3.181M) be funded from the following sources:
  - a. LTD Reserve in the amount of \$0.281M for the City’s day-to-day operating surplus of \$1.614M net of year end accounting adjustments of (\$1.895M); and
  - b. Corporate Stabilization Reserve in the amount of \$2.900M for winter maintenance unfavourable variance of (\$1.810M) and ice storm related costs of (\$1.090M) incurred in 2013;
- 3) THAT Staff be authorized and directed to do all things necessary to give effect to this resolution.

**EXECUTIVE SUMMARY:**

Council approved the 2013 operating budget on January 29, 2013 which includes the City’s primary operating budget of \$180.811M, Planning & Design operating budget of \$8.407M, Engineering operating budget of \$6.467M, Building Services operating budget of \$9.026M and Waterworks operating budget of \$89.790M. The primary operating budget is mainly tax funded to support the City’s day-to-day operations.

This report provides an overview of the financial results for the twelve months ended December 31, 2013.

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

The 2013 total results of operations incurred a net deficit of (\$3.181M) and the breakdown is as follows:

<b>1. City’s surplus before winter maintenance, December ice storm and year end accounting adjustments</b>	<b>\$1.614M</b>
<b>2. Winter maintenance unfavourable variance</b>	<b>(\$1.810M)</b>
<b>3. December ice storm</b>	<b>(\$1.090M)</b>
<b>4. Year end accounting adjustments</b>	<b>(\$1.895M)</b>
<b>Net Deficit</b>	<b>(\$3.181M)</b>

## 1. City's Surplus Before Winter Maintenance, December Ice Storm and Year End Accounting Adjustments

**City's surplus before winter maintenance, Dec. ice storm and year end actg. adj. = \$1.614M**

The year-end operating results against budget, before winter maintenance, December ice storm and year end accounting adjustments, is a favourable variance of \$1.614M and consists of the following.

Revenues	Fav./ (Unfav.)	Expenditures	Fav./ (Unfav.)
Theatre revenues (ticket sales, registration fees and rental)	0.493 M	Salary & benefit costs	0.556 M
Property tax interest and penalties	0.388 M	Street light hydro	(0.481) M
Federal and Provincial grants	0.225 M	Theatre professional entertainment fees	(0.159) M
Provincial Offences Act (POA) fines	0.174 M	Property tax write-offs, vacancy tax rebate	(0.363) M
Investment Income	0.114 M	Non-Personnel Gapping	(0.341) M
Museum program revenues	0.152 M		
Recreation revenue	(1.961) M	Training/travel/promotion/advertising/ professional fees	0.381 M
Supplemental Taxes	(0.776) M	Corporate Contingency	0.438 M
Parking Fines	(0.277) M	Recreation Maintenance and Repairs	0.401 M
Other	0.412 M	Waste collection	0.483 M
		Transfer to Reserves	0.719 M
		Contract service agreements	1.039 M
		Other	(0.003) M
<b>Total</b>	<b>(1.056) M</b>	<b>Total</b>	<b>2.670 M</b>

Staff projected the year end variance to be in the range of net surplus of \$0.625M to \$0.025M before year end accounting adjustments and winter maintenance (inclusive of winter maintenance, the range was (\$0.500M) to (\$1.100M)). Actual variance of \$1.614M was more favourable than this projection.

## 2. Winter Maintenance

**Winter maintenance unfavourable variance = (\$1.810M)**

The 2013 actual winter maintenance expenditures total \$8.363M against a budget of \$6.553M, resulted in an unfavourable variance of (\$1.810M).

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.

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The winter maintenance expenditures were unfavourable by (\$1.810M), mainly due to the following components:

- 419 actual service hours as compared to 308 budgeted service hours for sidewalk snow clearing per unit of equipment (\$0.501M);
- 192 actual service hours as compared to 85 budgeted service hours for loader snow removal operation per unit of equipment (\$0.365M);
- 28,000 actual tonnes of salt as compared to budgeted 15,800 tonnes of salt applied on the roads (\$0.927M); and;
- 370 actual service hours as compared to budgeted 315 service hours for tandem operation per unit of equipment (\$0.194M);
- 50 actual service hours as compared to budgeted 85 service hours of grader snow removal operation per unit of equipment \$0.200M.

### 3. December Ice Storm

<b>December ice storm = (\$1.090M)</b>
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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 preliminary estimated response and recovery costs total \$17.2M as outlined in previous presentations and reports to Council. The response costs incurred in December 2013 resulted in an unfavourable variance of (\$1.090M), and these costs have been incorporated in the preliminary estimated costs of \$17.2M.

The GTA Mayors and Chairs met on January 17, 2014 asking for financial assistance in a coordinated approach and passed the resolution that:

“the Provincial and Federal governments share equally in this disaster with municipalities by each funding 1/3 of the full costs of response and ongoing recovery from the ice storm for affected municipalities.”

Notwithstanding whether the City will receive any financial assistance from the Province, the Corporate Rate Stabilization Reserve has been identified as the funding source, and a 0.16% tax rate increase was approved by Council on February 11, 2014 to replenish the Corporate Rate Stabilization Reserve to partially offset the costs associated with the December ice storm.

The Provincial Government announced on February 26, 2014 that financial assistance totaling \$190M will be offered to municipalities affected by the ice storm to fund eligible

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recovery costs through a one-time Ice Storm Assistance Program. Details of the program are being finalized.

#### 4. Year End Accounting Adjustments

**Year end accounting adjustments = (\$1.895M)**

The City does not budget for year-end accounting adjustments which include vacation accruals, Firefighters sick leave payouts, 27th pay accrual, severance and salary continuance, and post retirement benefits. The 2013 year-end accounting adjustments total \$1.895M.

##### Summary

Staff recommends the net deficit of (\$0.281M), made up of the City's favourable variance of \$1.614M from City's day-to-day operations offset by the year end accounting adjustment (\$1.895), be funded from the LTD reserve (as previously recommended based on actuarial assessment).

Furthermore, Staff recommends the winter maintenance unfavourable variance of (\$1.810M) and December ice storm unbudgeted expenditures of (\$1.090M) for a total of (\$2.900M), be funded from the Corporate Rate Stabilization Reserve (as previously recommended).

##### Planning & Design

**Planning & Design net unfavourable variance = (\$3.183M)**

Planning & Design ended the year with a net unfavourable variance of (\$3.183M) resulting from 6 multi-residential and 7 low density development applications and associated planning fees that did not materialize (see Appendix 2).

##### Engineering

**Engineering net unfavourable variance = (\$0.575M)**

Engineering ended the year with a net unfavourable variance of (\$0.575M) due to lower development application activities as outlined above partially offset by five average net vacancies (see Appendix 3).

##### Planning & Engineering Development Fee Reserve

The 2013 budget included a surplus of \$1.333M for Planning & Design and a deficit of (\$0.649M) for Engineering. However, Planning & Design and Engineering departments ended the year with a deficit of (\$1.850M) and (\$1.224M) respectively, the total of which is (\$3.074M). In order to balance the 2013 budget, a draw of \$3.074M will be made from the reserve, leaving a deficit reserve balance of (\$3.957M) at year end (see Appendix 4).

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A consultant was hired in Q4, 2013 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. Initial discussions and meetings with the consultant have taken place. Following this review, Staff will report back to Development Services Committee by the end of Q2, 2014 with any structure model or by-law changes.

### **Building Services**

**Building Services net favourable variance = \$0.702M**

Building Services ended the year with a net favourable variance of \$0.702M due to favourable personnel variance from 7 average net vacancies and higher than budgeted number of permits issued (see Appendix 5).

The actual surplus was \$1.950M compared to a budgeted surplus of \$1.248M. Therefore, a transfer of \$1.950M will be made to the Building Services Reserve resulting in a year end reserve balance of \$13.833M (see Appendix 6).

### **Waterworks**

**Waterworks net unfavourable variance = (\$1.515M)**

Waterworks ended the year with an actual surplus of \$12.269M against the annual budget of \$13.784M or a net unfavourable variance of (\$1.515M) (see Appendix 6). The unfavourable variance was mainly driven by lower than budgeted water sales and higher than budgeted non-revenue water (12-month actual non-revenue water as of December 2013 was 12.3% compared to budget of 11%).

In order to balance the 2013 budget, a draw of \$1.515M will be made from the reserve, leaving a balance in the reserve of \$31.126M (see Appendix 8). Details of the Waterworks Reserve transactions are outlined below:

	2013 Actual \$ in M
Opening Balance - January 1, 2013	19.860
Transfer to Reserves at time of budget approval	13.784
Transfer from Reserve for 2012 year end unfavourable variance	(0.696)
Transfer to 2013 Capital	(9.408)
Interest Income	0.195
Transfer from 2013 closed capital projects	8.906
Transfer from Reserve for 2013 year end unfavourable variance	(1.515)
Waterworks Reserve Ending Balance	<u>31.126</u>

**PURPOSE:**

To provide an overview of the financial results for the twelve months ended December 31, 2013.

**BACKGROUND:**

Council approved the 2013 operating budget on January 29, 2013 which includes the City’s primary operating budget, Planning & Design operating budget, Engineering operating budget, Building Services 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 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 Winter Maintenance, December Ice Storm and Year End Accounting Adjustments

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

The 2013 primary operating budget results reflect an overall net favourable variance of \$1.614M before winter maintenance, December ice storm and year end accounting adjustments.

The net favourable year-end variance consists of:

Revenues	(\$1.056M)
Personnel Expenditures	\$0.556M
Non-Personnel Expenditures	<u>\$2.114M</u>
	<u>\$1.614M</u>

### **REVENUES**

At the end of December 2013, revenues were unfavourable by (\$1.056M) which was 0.6% lower than budget:

<b>Revenue Items</b>	<b>Fav./(Unfav.)</b>
User Fees and Service Charges	(\$1.097 M)
Property Taxation Revenues	(\$0.736 M)
Grant & Subsidy Revenues	\$0.184 M
General Revenues	\$0.680 M
Other Income	(\$0.087 M)
<b>Net Favourable Variance</b>	<b>(\$1.056 M)</b>

### **User Fees and Service Charges**

User fees and service charges incurred an unfavourable variance of (\$1.097M), the main drivers of which were:

#### **Recreation Programs**

The main drivers for the unfavourable variance of (\$1.961M) were incurred in aquatics (\$0.698M), arenas (\$0.604M), fitness class fees/membership (\$0.436M) and program registration (\$0.260M).

In 2013, the Cornell Community Centre opened for a full operational year. The budgets were set in anticipation that the facility would operate at 100% in this first year of operation. This has not been the case and has put pressure on the department's revenue expectation. For all new centres, ramp up plans will include the opportunity for revenues to be fully realized gradually, over time.

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 (\$0.794M).

Recreation staff identified that the unfavourable variance in aquatic programs is due to cannibalization resulting from the opening of the Cornell Community Centre. Staff implemented mitigating strategies by offering more private and semi private classes and managing associated expenses. The mitigating strategies will take time to correct the situation, and did not fully offset the unfavourable expense in 2013.

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The fitness memberships continued to be unfavourable due to an overall decline in new and renewal fitness centre memberships, which corresponds with an overall industry decline in fitness participation and increased competition. New revenue initiatives such as personal training and a change to drop-in classes for fitness members were implemented since the second half of 2013, a new personal training vendor was finalized in late 2103 and implementation of a new corporate membership program is underway.

The unfavourable variance in program revenue was due to lower registration. The department monitored the related program expenses and increased program promotion to the Markham residents, through engaging local community groups and increasing department profile at community events.

A two-year plan is being developed with the objective of increasing participation and overall quality in recreational service provision to the Community.

#### Theatre

Theatre ended the year with a favourable variance of \$0.493M in revenue 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 \$0.037M.

#### Taxation Revenues

The unfavourable variance of (\$0.736M) resulted from lower supplemental taxes. Supplemental taxes are collected from new properties that are not included on the tax roll, and will be included as assessment growth in the following year. The unfavourable variance was driven by three developments consisting of 700 units that did not materialize.

#### Grant & Subsidy Revenues

The favourable variance of \$0.184M resulted from the receipt of one-time federal and provincial grants.

#### General Revenues

General revenues incurred a favourable variance of \$0.680M, and the main drivers were:

- Property tax interest and penalties of \$0.388M resulting from 6.2% of the total tax accounts in arrears as of December 31, 2013 (6,066 accounts in arrears out of a total of 97,371 accounts);
- Provincial Offences Act (POA) fines of \$0.174M resulting from a change in legislation that allows municipalities to add unpaid POA fines to the tax rolls;
- Investment income of \$0.114M from higher than budgeted interest rates \$0.844M offset partially by a lower portfolio balance of (\$0.730M).
- The above is offset partially by an unfavourable variance of (\$0.277M) in parking fines primarily due to increased visits to the First Attendance Office (up by 23.3% compared to 2012) resulting in a decrease in revenues.

#### PERSONNEL EXPENDITURES



Personnel expenditures were favourable by \$0.556M, 0.5% higher than budget.

<b>Salary Expenditures Items</b>	<b>Fav./(Unfav.)</b>	
Full time net of vacancy backfills and part time salaries	\$1.279	M
Overtime and other personnel costs	(\$0.723)	M
<b>Salaries and benefits favourable variance</b>	<b>\$0.556</b>	<b>M</b>

As at December 31, there were 27 net vacancies and 15 temporary vacancies.

During 2013 there was an average of 26 net full-time vacancies and 15 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 \$2.527M, offset by full year salary gapping of (\$0.455M), firefighter sick leave payouts of (\$0.387M) and an unfavourable variance of (\$0.406M) in part-time salaries due primarily to Culture departments which was offset by increased professional entertainment series ticket sales and camp revenues in Theatre and Museum respectively.

Overtime was unfavourable by (\$0.946M) mainly due to coverage for absences in the Fire Department due to illness, bereavement or parental leaves (\$0.892M) (offset partially by favourable full-time variance of \$0.500M), and winter maintenance requirements (\$0.128M).

### **NON-PERSONNEL EXPENDITURES**

Non-personnel expenditures excluding winter related variances were favourable by \$2.114M, 2.9% higher than budget.

<b>Major drivers for non-personnel variance</b>	<b>Fav./ (Unfav.)</b>	
Street light hydro	(0.481)	M
Theatre professional entertainment fees	(0.159)	M
Property tax write-offs, vacancy tax rebate	(0.363)	M
Non-Personnel Gapping	(0.341)	M
Training/travel/promotion/advertising/ professional fees	0.381	M
Corporate Contingency	0.438	M
Recreation Maintenance and Repairs	0.401	M
Waste collection	0.483	M
Transfer to Reserves	0.719	M
Contract service agreements	1.039	M
Other	(0.003)	M
<b>Total</b>	<b>2.114</b>	<b>M</b>

### **Highlights of Expenditure Variances**

- (\$0.481M) unfavourable variance in streetlight hydro due to price, resulting from the global adjustment which accounts for differences between market price and Ontario power generation contracts such as feed-in-tariff (FIT) programs.

- (\$0.363M) unfavourable variance in property tax write-offs due to an increase in assessment appeals and vacancy tax rebates for non-residential properties (commercial and industrial). A proportional increase in appeals and vacancy tax rebates is the result of additional properties being added to the tax roll.
- \$1.039M favourable variance in contracted service agreements due to favourable pricing and a reduction in the work completed due to contractor issues with the asphalt repairs contract
- \$0.401M favourable variance in Recreation discretionary maintenance and repairs as a result of the department's concerted efforts to reduce spending
- \$0.483M favourable variance in waste collection mainly due to lower waste tonnage (5,000 tonnes or 23% of budget). 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.

## 2. Winter Maintenance

The 2013 actual winter maintenance expenditures total \$8.363M against a budget of \$6.553M, resulted in an unfavourable variance of (\$1.810M).

## 3. December Ice Storm

The ice storm, occurred on December 21-22, 2013, resulted in unbudgeted expenditures of (\$1.090M).

## 4. Year End Accounting Adjustments

The City does not budget for year-end accounting adjustments which include vacation accruals, Firefighters sick leave payouts, 27th pay accrual, severance and salary continuance, and post retirement benefits. The 2013 year-end accounting adjustments total \$1.895M.

## Summary

The City incurred a total net unfavourable variance of (\$3.181M), 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, 2013 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 below.

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

### **Human Resources**

Favourable variance of \$0.242M was due primarily to lower recruitment expense \$0.114M and lower service award expenses \$0.41M.

**Community and Fire Services (see Appendix 10)**

**Parks**

Favourable variance of \$0.209M mainly due to 2 average net vacancies of \$0.190M and lower sportsfield maintenance costs due to favourable turf conditions \$0.107M offset partially by increased overtime due to winter maintenance and special events (\$0.096M).

**Roads**

Unfavourable variance of (\$1.537M) mainly due to winter maintenance of (\$1.810M) partially offset by favourability in the asphalt repairs contract.

**Fire Services**

Unfavourable variance of (\$0.479M) mainly due to Fire overtime.

**Recreation Services**

Refer to page 7 for variance explanations.

**Waste**

Favourable variance of \$0.325M driven primarily by waste collection due to lower tonnage.

**Corporate Services (see Appendix 11)**

**Financial Services**

Favourable variance of \$0.651M due to 3 average net vacancies, and favourable variance of \$0.093M from new property tax account set up fees and ownership change administrative fees.

**FINANCIAL CONSIDERATIONS AND TEMPLATE: (external link)**

The 2013 unaudited draft financial statements, excluding Markham Enterprise Corporation (MEC), will be presented to General Committee in April 2014. The year end results presented in this report are subject to change.

In summary, the City incurred a total net unfavourable variance of (\$3.181M) as outlined below:

<b>1. City's surplus before winter maintenance, December ice storm and year end accounting adjustments</b>	<b>\$1.614M</b>
<b>2. Winter maintenance unfavourable variance</b>	<b>(\$1.810M)</b>
<b>3. December ice storm</b>	<b>(\$1.090M)</b>
<b>4. Year end accounting adjustments</b>	<b>(\$1.895M)</b>
<b>Net Deficit</b>	<b>(\$3.181M)</b>

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adjustment (\$1.895), be funded from the LTD reserve (as previously recommended based on actuarial assessment).

Furthermore, Staff recommends the winter maintenance unfavourable variance of (\$1.810M) and December ice storm unbudgeted expenditures of (\$1.090M) to a total of (\$2.900M), be funded from the Corporate Rate Stabilization Reserve (as previously recommended).

The Planning & Design and Engineering departments ended the year with a deficit of (\$1.850M) and (\$1.224M) respectively, the total of which is (\$3.074M). The full amount of \$3.074M will be transferred from the reserve to balance the budget resulting in a year end reserve balance of (\$3.957M).

The Building Services department ended the year with an actual surplus of \$1.950M. A transfer to the Building Services Reserve will be made in the amount of \$1.950M resulting in a year end reserve balance of \$13.833M.

The Waterworks department ended the year with an actual surplus of \$12.269M against the annual budget of \$13.784M which will require a draw from the reserve in the amount \$1.515M to balance the budget.

**RECOMMENDED BY:**

28/02/2014

28/02/2014

X 

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Joel Lustig  
Treasurer

X 

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Trinela Cane  
Commissioner, Corporate Services

**ATTACHMENTS:****Appendices 1 to 12:**

Appendix 1 – Operating Budget - Financial Results for the Twelve Months Ended December 31, 2013

Appendix 2 – Operating Budget for Planning & Design - Financial Results for the Twelve Months Ended December 31, 2013

Appendix 3 – Operating Budget for Engineering - Financial Results for the Twelve Months Ended December 31, 2013

Appendix 4 – Planning & Engineering Development Fee Reserve as at December 31, 2013

Appendix 5 – Operating Budget for Building Standards - Financial Results for the Twelve Months Ended December 31, 2013

Appendix 6 – Building Fee Reserve as at December 31, 2013

Appendix 7 – Operating Budget for Waterworks - Financial Results for the Twelve Months Ended December 31, 2013

Appendix 8 – Waterworks Reserve as at December 31, 2013

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