



Report to: General Committee

Date of Meeting: March 18, 2013

SUBJECT: 2012 Year End Review of Operations
PREPARED BY: Andrea Tang, Manager of Financial Planning

RECOMMENDATION:

- 1) THAT the report dated March 18, 2013 entitled “2012 Year End Review of Operations” be received.

EXECUTIVE SUMMARY:

Council approved the 2012 operating budget on February 7, 2012 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.

This report provides an overview of the financial results for the twelve months ended December 31, 2012.

Primary Operating Budget

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

City’s net favourable variance before year end accounting adjustments = \$3.324M

The year-end operating results against budget is a favourable variance of \$3.324M and consists of the following.

Revenues	Fav./ (Unfav.)	Expenditures	Fav./ (Unfav.)
Supplemental tax revenue	0.737 M	Salary & benefit costs	1.370 M
Theatre revenues (ticket sales, registration fees and rental)	0.487 M	Winter maintenance	1.632 M
Financial services and legal administrative fees	0.452 M	Training/travel/promotion/advertising/professional fees	0.425 M
User fees and service charges - Asset Management, Finance and Museum	0.383 M	Waste Collection	0.332 M
Snowplow recoveries from unassumed subdivisions	0.151 M	Cornell Community Centre and Library	0.274 M
Federal and provincial grants	0.135 M	Non-personnel expenditure gapping	(0.341) M
Property tax interest and penalties	0.131 M	Theatre professional entertainment fees	(0.415) M
Investment income (net of transfer to reserve)	0.101 M	Property Tax Write-off	(0.489) M
Recreation revenue (fitness memberships -\$0.289M and gym/hall rentals -\$0.163M)	(0.413) M	Streetlight maintenance	(0.560) M
Cornell Community Centre & Library Revenue	(0.485) M	PowerStream Hydro Interest (transfer to reserve)	(1.000) M
Other	0.305 M	Other	0.112 M
Total	1.984 M	Total	1.340 M

On November 19, 2012 Staff reported a favourable variance of \$2.410M for September YTD operating results against budget, before the year end accounting adjustments. The favourable variance increased by \$0.914M in the fourth quarter mainly due to the anticipated favourable variance in supplemental tax revenue of \$0.737M and personnel

expenses of \$0.887M from vacancies, offset by an unfavourable variance in streetlight maintenance of (\$0.278M) and property tax write-offs of (\$0.465M).

It has been the City's practice to include the unbudgeted year end accounting adjustments in the quarterly forecast and the final results of operations. In the review of September YTD operating results Staff projected the year end variance to be on budget to an upset limit of \$1.500M, which included an estimate for year end accounting adjustments of \$2.400M. The actual year end accounting adjustments totalled \$2.454M resulting in a net operating surplus of \$0.870M, which will be transferred to the various reserves in accordance with the City's reserve policy.

City's net favourable variance after year end accounting adjustments = \$0.870M
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Planning & Design

Planning & Design net favourable variance = \$1.084M

Planning & Design ended the year with a net favourable variance of \$1.084M due to higher revenues resulting from the delay in servicing allocation in 2011 that led to higher development application activities in 2012 (see Appendix 2).

Staff reported a net favourable variance of \$1.020M for September YTD operating results against budget. During the fourth quarter, the net favourable variance increased by \$0.064M, the main drivers of which were higher development application activities and lower personnel costs.

Engineering

Engineering net favourable variance = \$2.377M

Engineering ended the year with a net favourable variance of \$2.377M due to higher revenues resulting from the delay in servicing allocation in 2011 that led to higher development application activities in 2012 and, lower personnel costs resulting from an average of three net vacancies (see Appendix 3).

Staff reported a net favourable variance of \$1.535M for September YTD operating results against budget. During the fourth quarter, the net favourable variance increased by \$0.842M due to higher development application activities.

Planning & Engineering Development Fee Reserve

The 2012 budgeted ending balance for Planning & Engineering Development Reserve reflected a deficit budget of (\$0.557M) for Planning & Design and a deficit budget of (\$0.914M) for Engineering. However, both Planning & Design and Engineering departments ended the year with a surplus of \$0.527M and \$1.463M respectively, the total of which is \$1.990M. The full amount of \$1.990M will be transferred to the reserve

resulting in a year end reserve balance of (\$0.886M), which is a \$3.461M improvement over the budget (see Appendix 4).

Building Services

Building Services net favourable variance = \$4.715M

Building Services ended the year with a net favourable variance of \$4.715M due to higher than budgeted number of permits issued (see Appendix 5).

Staff reported a net favourable variance of \$2.623M for September YTD operating results against budget. During the fourth quarter, the net favourable variance increased by \$2.092M, the main drivers of which were higher number of permits issued and lower personnel costs from one additional vacancy.

The 2012 annual budget projected a surplus of \$0.470M and the department ended the year with an actual surplus of \$5.185M. A transfer to the Building Services Reserve will be made in the amount of \$5.185M resulting in a year end reserve balance of \$11.850M, which is a \$4.715M improvement over the budget (see Appendix 6).

Waterworks

Waterworks net unfavourable variance = (\$0.696M)
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Waterworks ended the year with an actual surplus of \$11.390M against the annual budget of \$12.086M which resulted a net unfavourable variance of (\$0.696M) (see Appendix 6). The unfavourable variance of (\$0.696M) will result a draw from the reserve in order to balance the budget.

The main drivers of the YTD unfavourable variance are:

1. higher than budgeted non-revenue water (12-month actual non-revenue water as of December 2012 was 14.5% compared to budget of 11%) resulting in unfavourable “net sales and purchases” of water of (\$2.031M);
2. higher revenues from water meter installations and other related services due to higher development activities resulting in a favourable variance of \$1.065M; and,
3. lower personnel and non-personnel costs of \$0.270M.

Staff reported a net unfavourable variance of (\$3.094M) for September YTD operating results against budget. During the fourth quarter the net unfavourable variance improved by \$2.398M as a result of lower non-revenue water from 18.0% in Q3 to 14.5% in Q4.

With regard to non-revenue water the twelve month average for 2007 to 2009 was 11.0%, increasing to 16.0% in 2010 and 2011, and decreased to 14.5% in 2012 which was higher than the budgeted rate of 11.0%. Other municipalities are also facing a similar situation.

The Region of York (“Region”), in collaboration with the municipalities, is undertaking a detailed audit of the billing and metering processes to understand the higher billed volume and to determine if corrections are required. The results of the audit will be available in March 2013.

Markham has withheld a total of \$3.0M from payments of water billings received from the Region (\$1.0M per year for the years from 2010 to 2012). The 2012 actual operating results reflect actual water purchases from the Region.

The 2012 Waterworks annual budget projected a surplus of \$12.086M which was transferred to the Waterworks reserve at the time of budget approval to fund capital programs. A draw was made from the reserve of \$2.421M for the actual 2011 year end deficit to balance the 2011 budget. In addition, a draw of \$9.498M to fund 2012 capital projects was made against the reserve, and \$4.174M of surplus funds was returned to the Waterworks reserve when capital projects were closed in 2012. As well, a transfer from interest income of \$0.157M was made to the reserve resulting in an ending balance of \$19.860M (see Appendix 8).

PURPOSE:

To provide an overview of the financial results for the twelve months ended December 31, 2012.

BACKGROUND

Council approved the 2012 operating budget on February 7, 2012 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.

DISCUSSION:

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

The 2012 primary operating budget results reflect an overall net favourable variance of \$3.324M, before year end accounting adjustments, which is an increase of \$0.914M from the YTD September net favourable variance.

The net favourable year-end variance of \$3.324M consists of:

Revenues	\$1.984M
Personnel Expenditures	\$1.370M
Non-Personnel Expenditures	<u>(\$0.030M)</u>
	<u>\$3.324M</u>

REVENUES

At the end of December 2012, revenues were favourable by \$1.984M which was 1.2% higher than budget:

Revenue Items	Fav./(Unfav.)
Taxation Revenues	\$0.737 M
General Revenues	\$0.406 M
Grant & Subsidy Revenues	\$0.136 M
User Fees and Service Charges	\$0.103 M
Other Income	\$0.602 M
Net Favourable Variance	\$1.984 M

Taxation Revenues

An increase in favourable variance by \$0.737M from YTD September of \$0.000M resulted in a year end favourable variance of \$0.737M. As anticipated, the supplemental tax revenue was realized in the fourth quarter.

General Revenues

An increase in favourable variance by \$0.468M from YTD September of (\$0.062M) resulted in a year end favourable variance of \$0.406M, the main drivers of which are:

- Property tax interest and penalties of \$0.131M resulting from 9% of the total tax accounts in arrears (8,200 accounts in arrears out of a total of 94,587 accounts). The overall percentage of accounts in arrears is consistent with 2010 and 2011.
- Investment income ended the year with a net favourable variance of \$0.101M after the transfer to the Capital Gains reserve. Investment income has a favourable variance of \$0.424M of which 90% or \$0.382M is from higher than budgeted interest rates, and 10% or \$0.042M is from maintaining a higher portfolio balance. As per the report dated February 4, 2013 entitled "2012 Investment Performance Review", \$0.323M will be transferred to the Capital Gains reserve, leaving a favourable variance of \$0.101M in the operating budget.

Grant & Subsidy Revenues

An increase in favourable variance by \$0.069M from the YTD September of \$0.066M resulted in a year end favourable variance of \$0.136M.

The favourable variance of \$0.136M resulted from unbudgeted one-time grants received for Economic Development \$0.052M, Recreation \$0.049M, Theatre \$0.046M, and Museum \$0.038M, offset by an unfavourable variance in Waste Diversion Ontario grant of (\$0.075M).

User Fees and Service Charges

An increase in favourable variance by \$0.160M from the YTD September of (\$0.057M) resulted in a year end favourable variance of \$0.103M.

Favourable variances in Theatre revenue of \$0.487M, financial services administration fees of \$0.158M, utility permit fees of \$0.138M and Museum program revenues of \$0.087M, are offset by unfavourable variances from Recreation revenues (\$0.413M) and from the Cornell Community Centre and Library (\$0.485M).

Recreation revenues

Recreation ended the year with an unfavourable variance of (\$0.413M), the main drivers of which are fitness memberships (\$0.289M), and gym and hall rentals (\$0.163M).

Recreation staff identified that the unfavourable variance in fitness memberships is associated with an overall decline in fitness centre participation (both new and renewal memberships have declined significantly) which corresponds with an overall industry decline in fitness participation and increased competition.

The gym and hall rentals is unfavourable due to loss of regular long term leases. The department will continue to mitigate these rental losses and implement a strategy to attract a longer term occupant.

The unfavourable variance of (\$0.485M) for the Cornell Community Centre and Library is due to the facility opening later than anticipated.

Theatre revenue

Theatre ended the year with a favourable variance of \$0.487M in revenue, the main drivers of which are higher ticket sales of \$0.168M, corporate sponsorship for the Gala fundraising event of \$0.110M, grants of \$0.044M and registration fees, venue rentals, camp programs, totalling \$0.163M. The favourable variance in revenue is partially offset by the associated higher personnel and non-personnel costs, which resulted a net favourable variance of \$0.048M. The favourable variance to budget of \$0.048M has been transferred to the Theatre Endowment Reserve Fund.

Property tax account administrative fees

Favourable variance of \$0.158M includes new property account set up fees \$0.116M, property ownership changes \$0.025M and tax certificates \$0.010M.

Utility Permit Fees

Utility permit fees are favourable by \$0.138M at year end due to higher volume resulting from new development. Utility permit fees are collected from the telecommunication companies to cover the costs for the review and approval of the permit application, municipal consent and field visits within City's rights-of-way. Utility fees and guidelines are set out within the Municipal Access Agreements.

Other Income

An increase in favourable variance by \$0.125M from the YTD September of \$0.477M resulted in a year end favourable variance \$0.602M, the main drivers of which are:

- financial and legal administrative fees of \$0.452M resulting from a higher volume of site plans and subdivision agreements processed to date, 5,260 applications, which exceeded the full year budget volume of 1,450 applications. The higher volume is due to increased development activity prior to Region of York's development charges by-law update which took effect on June 18, 2012.
- cost recoveries for snowplow services at unassumed subdivisions from developers were favourable by \$0.151M.

PERSONNEL EXPENDITURES

An increase in favourable variance by \$0.887M from the YTD September of \$0.477M resulted in a year end favourable variance \$1.370M (1.3% lower than budget).

Salary Expenditures Items	Fav./(Unfav.)	
Full time net of vacancy backfills and part time salaries	\$1.698	M
Overtime and other personnel costs	(\$0.328)	M
Salaries and benefits favourable variance	\$1.370	M

As at December 31, there were 26 net vacancies and 12 temporary vacancies. During 2012 there was an average of 27 net full-time vacancies and 12 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 \$2.853M, offset by full year salary gapping of \$0.455M and an unfavourable variance of (\$1.036M) in part-time salaries. Further, the Cornell Community Centre and Library opening was later than anticipated which resulted in a favourable variance of \$0.336M.

Part-time salaries were unfavourable by (\$1.036M) in the following departments:

- Recreation (\$0.477M) of which (\$0.250M) was due to unbudgeted training for summer camps and new hires to support the camp program, and (\$0.155M) to support the increase in program revenues;
- Museum (\$0.180M) of which (\$0.029M) was due to unbudgeted training for summer camps, and (\$0.151M) was associated with additional revenues from grants and programs;
- Theatre (\$0.074M) and Arts (\$0.049M) with a corresponding offset in revenues.

NON-PERSONNEL EXPENDITURES

Non-personnel expenditures were unfavourable by \$0.030M.

Expenditures	Fav./ (Unfav.)	
Winter Maintenance	1.632	M
Training/Travel/Promotion/Advertising/ Professional Fees	0.425	M
Waste Collection	0.332	M
Cornell Community Centre and Library	0.274	M
Non-personnel Expenditure Gapping	(0.341)	M
Theatre professional entertainment fees	(0.415)	M
Tax Write-offs	(0.489)	M
Streetlight Maintenance	(0.560)	M
PowerStream Hydro Interest (Transfer to Reserve)	(1.000)	M
Other	0.112	M
Total	(0.030)	M

Winter Maintenance

Winter maintenance ended the year with a favourable variance of \$1.632M (January to March favourable variance of \$1.360M and November to December favourable variance of \$0.272M).

The City's winter maintenance budget includes salt and sand purchases as well as the following 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 both fixed (34%) and variable (66%) costs. 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.

Due to the mild winter conditions in 2012, the winter maintenance expenditures were favourable by \$1.632M mainly due to the following components:

- 63 less contracted hours of grader rental compared to budget of \$0.420M
- 89 less contracted hours of sidewalk winter maintenance compared to budget of \$0.386M
- 35 less contracted hours of loader snow removal operations compared to budget of \$0.112M
- 37 less contracted hours of tandem/single combination plow operation compared to budget of \$0.120M
- 5,900 tonnes less salt applied on the roads compared to budget of \$0.432M

Highlights of Other Expenditures

- \$0.332M favourable variance in waste collection due to lower tonnage: waste 2,100 tonnes (9%), recycling 1,700 tonnes (7%) and organics 500 tonnes (2%). The Waste department identified that the reduction in tonnage is mainly due to lower newspaper disposal resulting from increased readership via the internet as well as less packaging from manufacturers to be more cost effective and environmentally friendly and less glass recycling;
- (\$0.560M) unfavourable variance in streetlight maintenance. There was a higher volume of repair calls (3,317 calls in 2012 as compared to 3,253 calls in 2011) and undergrounds faults. The underground infrastructure is aging resulting in higher maintenance costs. A 2013 capital project on infrastructure replacements has been approved; and,
- (\$1.000M) unfavourable variance for the transfer of PowerStream interest to the Life Cycle Replacement and Capital reserve. The 2012 operating budget included \$1.000M from interest and dividend income from PowerStream and due to the favourable operating results, this amount was transferred to the Life Cycle Replacement and Capital reserve.

In summary, the year end operating results against budget is a favourable variance of \$3.324M which includes transfers to the insurance reserve of \$0.726M, capital gains reserve \$0.323M and Theatre Endowment Fund \$0.057M.

The 2012 unbudgeted year end accounting adjustments totalled \$2.454M resulting in a net operating surplus of \$0.870M which will be transferred to the various reserves in accordance with the City's reserve policy. The transfer of the net operating surplus will be discussed in the Financial Considerations section.

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, 2012 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 (year end favourable variance of \$0.172M, a decrease of \$0.048M from YTD September)

- Favourable variance of \$0.07M was due to lower Career Bridge contract expenses as most positions were hired near the end of the year, and lower costs for training and management consulting, \$0.030M and \$0.020M respectively.

Legal (year end favourable variance of \$0.124M, no significant change from YTD September)

- Favourable variance due to 1 average net vacancy and higher legal administrative fees.

Community and Fire Services (see Appendix 10)

Asset Management (year end unfavourable variance of \$0.581M, an increase of \$0.315M from YTD September)

- Unfavourable variance of (\$0.560M) mainly due to streetlight maintenance & repairs.

Fire Services (year end unfavourable variance of \$0.324M, an increase in unfavourable variance of \$0.409M from YTD September)

- Unfavourable variance of (\$0.324M) are due to the following main drivers:
 - Unfavourable variance of (\$0.348M) in personnel due to overtime (\$0.294M), salary gapping (\$0.153M), and shift premiums (\$0.068M) offset by 4 net full time vacancies of \$0.159M;
 - Unfavourable revenue variance of (\$0.104M) in Fire department attendance at accident scenes; and,
 - Favourable variance of \$0.175M in non-personnel due to less spending for: operating materials and supplies of \$0.077M; training of \$0.024M; travel expenses of \$0.012M; and, professional services of \$0.014M.

Operations Administration (year end favourable variance of \$0.182M, an increase in favourable variance of \$0.100M from YTD September)

- Favourable variance mainly due to 1 average net vacancy.

Parks (year end favourable variance of \$0.414M, an increase in favourable variance of \$0.161M from YTD September)

- Favourable variance mainly due to 5 average net vacancies of \$0.222M and part-time costs.

Roads (year end favourable variance of \$1.863M, an increase in favourable variance of \$0.193M from YTD September)

- Favourable variance mainly due to winter maintenance of \$1.632M resulting from the mild winter conditions, and higher recovery from developers for snowplow services of \$0.151M.

Recreation Services (year end unfavourable variance of \$0.943M, an increase in unfavourable variance of \$0.133M from YTD September)

- Unfavourable variance of (\$0.413M) mainly due to fitness memberships (\$0.289M), and gym and hall rentals (\$0.163M). Recreation staff identified that the unfavourable variance in fitness memberships is associated with an overall decline in fitness centre participation (both new and renewal memberships have declined significantly) which corresponds with an overall industry decline in fitness participation and increased competition. The gym and hall rentals is unfavourable due to loss of regular long term leases.
- Personnel costs are unfavourable by (\$0.442M) mainly due to unfavourable variance in part-time salaries of which (\$0.240M) is due to unbudgeted training for summer camps and new hires to support the camp program and (\$0.155M) offset with associated program revenues.
- In addition, Cornell Community Centre & Library facility opening was later than anticipated which resulted in a net favourable variance of \$0.090M.

Waste (year end favourable variance of \$0.206M, no significant change from YTD September)

- Favourable variance in waste collection due to lower tonnage.

Corporate Services (see Appendix 11)

Contact Centre (year end favourable variance of \$0.216M, no significant change from YTD September)

- Favourable variance due to 2 average net vacancies.

Communications & Community Relations (year end favourable variance of \$0.410M, an increase in favourable variance of \$0.153M from YTD September)

- Favourable variance due to 4 average net vacancies.

Financial Services (year end favourable variance of \$0.526M, an increase in favourable variance of \$0.107M from YTD September)

- Favourable variance due to 2 average net vacancy and higher purchasing savings \$0.115M.

Commissioner's Office (year end favourable variance of \$0.165M, no significant change from YTD September)

- Favourable variance due to 1 average net vacancy.

Development Services (see Appedix 12)**Markham Convergence Centre (included with Economic Development operating budget)**

In 2010, Markham entered a 4 year lease at 7271 Warden Ave. for the Markham Convergence Centre (MCC) to attract businesses within priority sectors to Markham. The MCC operating budget resides within the Economic Development Department and as of the end of December, MCC incurred an unfavourable variance of (\$0.098M) due to higher rental and operating expenses as well as lower tenant revenues resulting from vacant lab space.

There are no other significant tax funded variance in the Development Services Commission.

FINANCIAL CONSIDERATIONS:

The 2012 unaudited draft financial statements, excluding Markham Enterprise Corporation (MEC), will be presented to General Committee in April 2013. The year end results presented in this report are subject to change.

In accordance with the City's reserve policy, the year-end operating surplus of \$0.870M will be transferred to the Corporate Rate Stabilization Reserve to a level equivalent to 15% of the 2012 local tax revenues.

The Planning & Design and Engineering departments ended the year with a surplus of \$0.527M and \$1.463M respectively, the total of which is \$1.990M. The full amount of \$1.990M will be transferred to the reserve resulting in a year end reserve balance of (\$0.886M).

The Building Services department ended the year with an actual surplus of \$5.185M. A transfer to the Building Services Reserve will be made in the amount of \$5.185M resulting in a year end reserve balance of \$11.850M.

The Waterworks department ended the year with an actual surplus of \$11.390M against the annual budget of \$12.086M which will require a draw from the reserve in the amount \$0.696M to balance the budget.

RECOMMENDED

13/03/2013

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Joel Lustig
Treasurer

13/03/2013

X 

Trinela Cane
Commissioner of Corporate Services

ATTACHMENTS:

[Appendices 1 to 12:](#)

Appendix 1 – Operating Budget - Financial Results for the Twelve Months Ended December 31, 2012

Appendix 2 – Operating Budget for Planning & Design - Financial Results for the Twelve Months Ended December 31, 2012

Appendix 3 – Operating Budget for Engineering - Financial Results for the Twelve Months Ended December 31, 2012

Appendix 4 – Planning & Engineering Development Fee Reserve as at December 31, 2012

Appendix 5 – Operating Budget for Building Standards - Financial Results for the Twelve Months Ended December 31, 2012

Appendix 6 – Building Fee Reserve as at December 31, 2012

Appendix 7 – Operating Budget for Waterworks - Financial Results for the Twelve Months Ended December 31, 2012

Appendix 8 – Waterworks Reserve as at December 31, 2012

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