Report to: **General Committee – Finance & Admin.** Date of Meeting: November 19, 2012

SUBJECT: September 2012 Year-To-Date Review of Operations
PREPARED BY: Andrea Tang, Manager Financial Planning

RECOMMENDATION:

THAT the report dated November 19, 2012 entitled "September 2012 year-to-date review of operations" be received.

EXECUTIVE SUMMARY:

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

City's net favourable variance = $2.410M

The year-to-date September operating budget results reflected a favourable variance of $2.410M.

Revenues ($)	Fav./(Unfav.)	
Financial services and legal administrative fees	$ 0.335	M
Theatre revenues (ticket sales, registration fees and rental)	0.182	M
Federal and Provincial Grants	0.135	M
Snowplow recoveries from unassumed subdivisions	0.100	M
Recreation revenue (fitness memberships -$175k and gym/hall rentals -$144k)	(0.352)	M
Other	0.024	M
Total	**0.424**	**M**

Expenditures ($)	Fav./(Unfav.)	
Salary & benefit costs	$ 0.483	M
Winter maintenance	1.360	M
Training/travel/promotion/advertising/ professional fees	0.662	M
Waste Collection	0.289	M
Non-personnel expenditure gapping (full year)	(0.341)	M
Streetlight maintenance	(0.282)	M
Theatre professional entertainment fees	(0.197)	M
Other	0.012	M
Total	**1.986**	**M**

Staff presented the YTD June operating budget results on September 24th that reported a favourable variance of $1.973M. From July to September, the favourable variance was further increased by $0.437M to $2.410M.

The increase in the third quarter was mainly due to the continued favourable variance in training, travel, promotion and advertising and professional fees totaling $0.387M, and lower waste collection tonnage by $0.289M. Further details are outlined below and in the "Discussion" section of the report.

Planning & Design

YTD September **Planning & Design Net Favourable Variance = $1.020M**

Planning & Design ended September with a year-to-date favourable variance of $1.020M mainly due to higher development application activities resulting from the delay in servicing allocation from the Region in 2011 that led to higher development application activities in 2012 (see Appendix 2).

Q3 - July to September
Over the past three months, the department incurred an unfavourable variance of $0.147M due to lower revenues.

Engineering

YTD September **Engineering Net Favourable Variance = $1.535M**

Engineering had a year-to-date September favourable variance of $1.535M. This was mainly due to higher revenues resulting from the delay in servicing allocation in 2011 that led to higher development application activities in 2012 as well as an average of three net vacancies (see Appendix 3).

Q3 - July to September
The department incurred favourable variance of $0.197M due to higher development application activities and continuation of 3 net vacancies.

Building Services

YTD September **Building Services Net FavourableVariance = $2.623M**

Building Services had a favourable variance of $2.623M after nine months of operations. The favourable variance in revenue was due to a higher number of permits which exceeded the full year budget (YTD received 4,672 - Residential 3,881, ICI 445 & Other 346, vs. full year budget 4,260) (see Appendix 5).

Q3 - July to September
The department incurred a favourable variance of $0.197M due to 1,246 permits received in the third quarter and 1 additional vacancy.

Waterworks

YTD September **Waterworks Net Unfavourable Variance = ($3.094M)**

Waterworks ended September with a year-to-date unfavourable variance of ($3.094M) due to lower net sales and purchases of water of ($4.133M) resulting from higher than budgeted non-revenue water (12-month actual non-revenue water as of August 2012 was 18% compared to budget of 11%). This was partially offset by higher revenues from water meter installations and other related services totaling $0.903M due to higher development activities and lower personnel and non-personnel costs of $0.135M.

As communicated last quarter, the 12-month average for non-revenue water was 11.2% at the end of 2007, 10.9% at the end of 2008 and 10.7% at the end of 2009. Markham started to see an upward trend in 2010 and Staff brought the concerns to the attention of the Region. 2010 ended at 16.1% and 2011 at 15.9%. In 2012, the 1-month non revenue water loss has ranged from 20.9% to 25.9% and the 12-month average as of the end of August 2012 is currently at 18%.

Water purchases have been paid to the Region based on a non-revenue water of 11%. This is consistent with 2007, 2008 and 2009.

The Region of York, 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.

Meetings have been held with the City of Vaughan to collaboratively address the issue of increasing non-revenue water. Markham and Vaughan have also met with PowerStream to gain a better understanding on the billing process, and to identify improvements to the process. Further opportunities are being investigated.

Further, a meeting will take place in December with Town of Richmond Hill, City of Vaughan, City of Markham, Region of York and City of Toronto to address the issues.

Q3 - July to September
There was an improvement in non-revenue water from 20.9% in Q2 to 18% in Q3.

Further, year-to-date September operating results by commission and by department are outlined in Appendices 9-12.

PURPOSE:
To provide an overview of the year-to-date financial results at the end of September 2012.

BACKGROUND

Markham Council approved the 2012 budget on February 7, 2012. There are 5 operating budgets that are monitored on a monthly basis. The City's primary operating budget (excluding Planning & Design, Engineering, Building Services and Waterworks) is to support the City's day-to-day operations.

The remaining 4 budgets include Planning & Design, Engineering, Building Services and Waterworks Operating Budgets, and they are shown separate from the City's Operating Budget as they are primarily user fee funded (e.g. planning and engineering fees, building permit revenue and revenues based on water consumption, respectively) and separate reserves have been established for each.

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.

DISCUSSION

YEAR-TO-DATE OPERATING BUDGET VARIANCES:

Primary Operating Budget

At the end of nine months, the 2012 operating budget (excluding Planning & Design, Engineering, Building Services and Waterworks) results reflected an overall favourable variance of $2.410M, an increase of $0.437M as compared to the YTD June results. Below provides a breakdown of the variance by the three main areas of the operating budget:

$0.424M	favourable variance in Revenues
$0.483M	favourable variance in Personnel Expenditures
$1.503M	favourable variance in Non-Personnel Expenditures
$2.410M	

REVENUES

At the end of September 2012, revenues were favourable by $0.424M due to the followings:

Revenue Items	Fav./(Unfav.)
Grant & Subsidy Revenues	$0.066 M
General Revenues	($0.062) M
User Fees and Service Charges	($0.057) M
Other Income	$0.477 M
Net Favourable Variance	**$0.424 M**

Grant & Subsidy Revenues (no significant change from the YTD June results)
The favourable variance was due to one-time grants received in Economic Development $0.065M, Recreation $0.043M, Arts $0.017M and Museum $0.010M offset by lower Waste Diversion Ontario grant by ($0.060M).

User Fees and Service Charges
Users Fees and Service Charges were on budget at the end of September 2012. Recreation revenues were unfavourable by ($0.352M) which were offset by favourable variances in Theatre revenue and program revenues from Museum and Library.

1. Recreation Revenues (no significant change from the YTD June results)

The unfavourable variance of ($0.352M) was mainly due to fitness memberships ($0.235M) and gym/hall rentals ($0.228M), offset by higher program revenues $0.104M. Recreation staff identified that the unfavourable variance in fitness memberships was 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. Recreation Staff have developed some mitigating strategies to be implemented in Q4 such as automatic renewal process, increased presence in local media, addition of youth membership category and corporate membership package. Staff will provide additional information on these initiatives at a future General Committee meeting.

The gym & hall rentals continued to be 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.

2. Theatre revenue (no significant change from the YTD June results)
Theatre incurred higher ticket sales of $0.105M offset by higher costs associated with professional entertainment fees. Further, there was a favourable variance totaling $0.077M in registration fees and venue rentals.

Other favourable variance was due to higher program revenues in Library $0.071M and Museum $0.066M.

<u>Other Income</u>
Other income was favourable by $0.477M due to the following main drivers:

- financial and legal administrative fees of $0.335M resulting from a higher volume of site plans and subdivision agreements processed to date which exceeded the full year budget (YTD actual: 4,233 applications vs. YTD budget: 1,450). The higher volume is due to increased development activity prior to Region of York's development charges by-law update which took effect on September 18, 2012.
- cost recoveries for snowplow services at unassumed subdivisions from developers were favourable by $0.100M.

<u>PERSONNEL EXPENDITURES</u>
The year-to-date September personnel expenditure variance was favourable by $0.483M with nominal change within the past three months.

Salary Expenditures Items	**Fav./(Unfav.)**	
Full Time net of vacancy backfills & Part Time Salaries	$0.677	M
Overtime & Other Personnel Costs	($0.194)	M
Salaries & Benefits Favourable Variance	**$0.483**	M

During the nine months, there was an average of 27 net full-time vacancies and 14 temporary full-time vacancies resulting from approved leaves of absence and secondments. As a result, the full time salaries net of vacancy backfills had a favourable variance of $2.061M offset by full year salary gapping of $0.455M and an unfavourable variance of ($0.929M) in part-time salaries.

Part-time salaries were unfavourable in the following departments:

- Recreation ($0.392M) of which ($0.210M) was due to unbudgeted training for summer camps and new hires to support the camp program and ($0.135M) with direct offset from program revenues
- Museum ($0.154M) of which ($0.029M) was due to unbudgeted training for summer camps and the remaining variance of ($0.125M) had corresponding offset in revenues from grants and programs
- Theatre ($0.065M) and Arts ($0.042M) had corresponding offset in revenues
- Other variances incurred in various departments

As of the end of September, there were 19 net vacancies and 13 temporary vacancies.

NON-PERSONNEL EXPENDITURES

At the end of September, non-personnel expenditures were favourable by $1.503M which improved by $0.470M since June.

Expenditures	**Fav./(Unfav.)**	
Winter Maintenance	1.360	M
Training/Travel/Promotion/Advertising/ Professional Fees	0.662	M
Waste Collection	0.289	M
Non-personnel Expenditure Gapping	(0.341)	M
Streetlight Maintenance	(0.284)	M
Theatre Professional Entertainment Fees	(0.197)	M
Other	0.014	M
Total	**1.503**	**M**

Winter Maintenance (no change from the YTD June results)

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%) components. The fixed component (standby costs) is charged throughout the winter months notwithstanding whether services are rendered in order to cover the contractor's capital costs. The variable component is based on service hours provided.

Due to the mild winter conditions in the first quarter of 2012, the winter maintenance expenditures were favourable by $1.360M mainly due to the following components:

- 68 less contracted hours of grader rental compared to budget ($0.455M)
- 67 less contracted hours of sidewalk winter maintenance compared to budget ($0.290M)
- 62 less contracted hours of loader snow removal operations compared to budget ($0.192M)
- 31 less contracted hours of tandem/single combination plow operation compared to budget ($0.100M)
- 3,400 tonnes less salt applied on the roads compared to budget ($0.249M)

<u>Other Expenditures</u>

- $0.662M favourable variance in training, travel, promotion & advertising, and professional services. These accounts continued to be favourable from July to September contributing an additional $0.387M;
- $0.289M favourable variance in waste collection due to lower tonnage from decline in 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;
- ($0.341M) non-personnel gapping included in the Operating Budget. The full year budget was reflected in the September results;
- ($0.282M) unfavourable variance in streetlight maintenance. There was a higher volume of repair calls (2,704 calls from Jan to September 2012 vs. 2,408 calls from Jan to September 2011) and undergrounds faults. The underground infrastructure is aging which resulted in higher maintenance costs (a 2013 capital project on infrastructure replacements has been requested for consideration);
- ($0.197M) unfavourable variance in Theatre professional entertainment fees offset with a corresponding higher ticket sales of $0.105M;

Further details on the City's Operating results are provided in Appendix 1.

YEAR-END PROJECTION

<u>City</u>

Based on the September year-to-date results, it is anticipated that the year-end projection will range from being on budget to $1.500M favourable including funding for the unbudgeted year-end accounting accruals estimated of $2.400M. This is consistent with the June year-end projection.

It is expected that the year-end revenue variance will range from $0.500M to $1.000M favourable resulting from higher supplementary tax revenue, financial services administration fees and legal fees, snowplow recoveries from unassumed subdivisions and the receipt of one-time federal and provincial grants, partially offset by lower recreation revenues from lower fitness membership and gym/hall rental revenues.

The year-end expenditure variance will range from ($0.500M) unfavourable to $0.500M favourable. This variance is due to the unbudgeted year-end accounting accruals of $2.400M and higher streetlight maintenance costs, offset by favourable variances in winter maintenance, personnel expenditures resulting from vacancies and lower than budgeted costs from professional services, advertising & promotion, contracted services and operating materials and supplies.

Planning & Design, Engineering and Building Services

Planning & Design is projecting a year-end surplus of $0.487M compared to a budgeted deficit of ($0.517M). This will result in a transfer to reserves of $0.487M. The change is due to the delay in servicing allocation from the Region in 2011 that led to higher development application activities in 2012. This projection remains the same as the June year-end projection (see Appendix 2).

Engineering is projecting a year-end surplus of $0.227M compared to a budgeted deficit of ($0.874M). This will result in a transfer to reserve of $0.227M. This was mainly due to higher revenues resulting from the delay in servicing allocation in 2011 that led to higher development application activities in 2012 as well as an average of three net vacancies. This projection remains the same as the June year-end projection (see Appendix 3).

Based on the above year end projections in Planning, Design and Engineering, the reserve is anticipated to be in a deficit position of $2.162M at year-end (see Appendix 4).

Building Services is projecting a year-end surplus of $3.343M compared to a budgeted surplus of $0.470M. This will result in an additional transfer to reserves of $2.873. The change is due to higher permit activities year to date. This projection remains the same as the June year-end projection (see Appendix 5).

Based on the above year end projection in Building Services, the balance of the reserve is anticipated to be $10.008M at year-end (see Appendix 6).

Waterworks

Based on the September year-to-date results, Waterworks operations is projected to be unfavourable by $3.500M at year end, mainly due to higher non-revenue water which partially offset by the favourable variances from higher sale volume and other revenues. This projection is consistent with the June year-end projection.

In September, Staff brought the report entitled “Status of Capital Projects as of May 31, 2012” to the General Committee meeting, which identified $2.764M from closure of capital projects, and the surplus funds were returned to the reserve which offsets the projected year-end unfavourable variance.

The year-end Waterworks reserve balance is projected to be $15.039M which represents an unfavourable variance of ($0.736M) (see Appendix 8).

FINANCIAL RESULTS BY DEPARTMENT:

Below is a synopsis of the year-to-date September operating results by department with overall variance greater than $0.100M.

Appendixes 9-12 outline the year-to-date September operating results by Commission and by Department, with the variances summarized by personnel expenditures, non-personnel expenditures and total revenues.

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

Human Resources (favourable variance by $0.220M, increase in favourable variance by $0.099M from June)

- favourable variance was due to lower training costs and management consulting of $0.201M.

Legal (favourable variance by $0.173M, no significant change since June)

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

Community and Fire Services (see Appendix 10)

Asset Management (unfavourable variance by $0.266M, no significant change since June)

- unfavourable variance of ($0.282M) mainly due to streetlight maintenance & repairs. There were higher volumes of repair calls (2,704 calls from Jan to September 2012 vs. 2,408 calls from Jan to September 2011) and undergrounds faults. The underground infrastructures are aging which resulted in higher maintenance costs; a 2013 capital project on infrastructure replacements has been requested;

Library (favourable variance by $0.126M, no significant change since June)

- favourable variance mainly higher program revenue and YTD vacancy savings.

Parks (favourable variance by $0.252M, no significant change since June)

- favourable variance mainly due to 5 average net vacancies.

Roads (favourable variance by $1.670M, no significant change since June)

- favourable variance mainly due to winter maintenance of $1.360M resulting from the mild winter conditions in the first three months of 2012, and higher recovery from developers for snowplow services of $0.100M.

Traffic (favourable variance by $0.121M, no significant change since June)

- favourable variance due to lower requirements for traffic sign maintenance.

Recreation Services (unfavourable variance by $0.810M, no significant change from June)

- unfavourable variance in revenue resulted from lower fitness memberships ($0.235M) and gym & hall rentals ($0.228M). The unfavourable fitness revenue was 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 & hall rental revenue continued to be unfavourable due to loss of regular long term leases. Department is working to occupy the vacant hall rental space however it has been a challenge to find a long-term tenant who can occupy multiple days a week. At the moment, single event rentals have been booked in the vacant space however this has not been sufficient in offsetting the lost revenue. The department will continue to mitigate these rental losses and implement a strategy to attract a longer term occupant.

- Personnel costs were unfavourable by ($0.458M) mainly due to unfavourable variance of ($0.392M) in part-time salaries of which ($0.210M) was due to unbudgeted training for summer camps and new hires to support the camp program and ($0.135M) with direct offset from program revenues

Waste (favourable variance by $0.219M, increase in favourable variance of $0.248M from June)

- favourable variance was due to decline in 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.

<u>**Corporate Services (see Appendix 11)**</u>

Commissioner's Office (favourable variance by $0.116M, no significant change since June)

- favourable variance due to 1 average net vacancy.

Communications & Community Relations (favourable variance by $0.257M, no significant change since June)

- favourable variance due to 4 average net vacancies.

Financial Services (favourable variance by $0.419M, increase in favourable variance by $0.155M from June)

- favourable variance due to 2 average net vacancy and higher negotiated purchasing credits $0.070M. These variances continued throughout the third quarter contributing an additional favourable variance of $0.155M since June.

Contact Centre (favourable variance by $0.146M, no significant change since June)

- favourable variance due to 2 average net vacancies.

<u>Development Services</u>

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 September, MCC incurred an unfavourable variance of ($0.070M) due to higher rental and operating expenses as well as lower tenant revenues resulting from vacant lab space.

Based on the current tenant contracts that are in place, staff is projecting a net shortfall of ($0.090M) by end of the year (this is net of rental payments, tenant revenues and operating expenses). Economic Development Staff will continue to search for potential tenant to occupy the lab space which will reduce the shortfall.

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

FINANCIAL CONSIDERATIONS:

Staff will continue to monitor the results of Operations each month.

RECOMMENDED

14/11/2012

X

Joel Lustig
Treasurer

13/11/2012

X

Trinela Cane
Commissioner of Corporate Services

ATTACHMENTS:

Appendix 1 – Operating Budget - Financial Results for the Nine Months Ended September 30, 2012

Appendix 2 – Operating Budget for Planning & Design - Financial Results for the Nine Months Ended September 30, 2012

Appendix 3 – Operating Budget for Engineering - Financial Results for the Nine Months Ended September 30, 2012

Appendix 4 – Planning & Engineering Development Fee Reserve Balance – Year-end Projection as at September 30, 2012

Appendix 5 – Operating Budget for Building Standards - Financial Results for the Nine Months Ended September 30, 2012

Appendix 6 – Building Fee Reserve Balance – Year-end Projection as at September 30, 2012

Appendix 7 – Operating Budget for Waterworks - Financial Results for the Nine Months Ended September 30, 2012

Appendix 8 – Waterworks Reserve Balance – Year-end Projection as at September 30, 2012

Appendix 9 –Financial Results by Department – CAO's Office, HR, Legal and Sustainability

Appendix 10 –Financial Results by Department – Community and Fire Services

Appendix 11 –Financial Results by Department – Corporate Services

Appendix 12 –Financial Results by Department – Development Services