



Report to: **General Committee – Finance & Admin.** Date of Meeting: September 24, 2012

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**SUBJECT:** June 2012 YTD Review of Operations and Year End Projection  
**PREPARED BY:** Andrea Tang, Manager Financial Planning

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**RECOMMENDATION:**

THAT the report dated September 24, 2012 entitled “June 2012 year-to-date review of operations” be received.

**EXECUTIVE SUMMARY:**

**Primary Operating Budget**

The year-to-date June operating budget results (excluding Planning & Design, Engineering, Building Services and Waterworks) reflected a favourable variance of \$1.973M with details outlined below:

<b>Revenues</b>	<b>Fav./(Unfav.)</b>		<b>Expenditures</b>	<b>Fav./(Unfav.)</b>	
Financial services and legal administrative fees	0.335	M	Salary & benefit Costs	0.537	M
Theatre revenues (ticket sales, registration fees and rental)	0.170	M	Winter maintenance	1.360	M
Investment income	0.158	M	Training/travel/promotion/advertising/professional fees	0.275	M
Snowplow recoveries from unassumed subdivisions	0.100	M	Non-personnel expenditure gapping (full year)	(0.341)	M
Recreation revenue (fitness memberships -\$175k and gym/hall rental -\$144k)	(0.355)	M	Streetlight maintenance	(0.264)	M
Other	(0.008)	M	Theatre professional entertainment fees	(0.190)	M
			Other	0.196	M
<b>Total</b>	<b>0.400</b>	<b>M</b>	<b>Total</b>	<b>1.573</b>	<b>M</b>

<b>City's net favourable variance = \$1.973M</b>
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**Planning & Design**

Planning & Design ended June with a year-to-date favourable variance of \$1.167M 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).

<b>Planning &amp; Design Net Favourable Variance = \$1.167M</b>
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### **Engineering**

Engineering ended the second quarter with a favourable variance of \$1.338M. 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).

<b>Engineering Net Favourable Variance = \$1.338M</b>
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### **Building Services**

Building Services had a favourable variance of \$1.700M after the first six months of operations in 2012. The favourable variance in revenue was due to higher number of permits received to date (YTD received 3,426 - Residential 2,928, ICI 308 & Other 226, vs. full year budget 4,260) (see Appendix 5).

<b>Building Services Net Favourable Variance = \$1.700M</b>
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### **Waterworks**

Waterworks ended June with a year-to-date unfavourable variance of (\$3.060M) due to higher than budgeted non-revenue water of (\$2.910M) (12-month actual non-revenue water as of June 2012 was 20.9% compared to budget of 11%), and lower sales volume by 653,397m<sup>3</sup> (4.36% lower than budget), which was partially offset by higher revenues from water meter installations and other related services totaling \$0.813M due to higher development activities and lower personnel and non-personnel costs of \$0.064M (see Appendix 5).

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 Markham brought the concerns to the attention of York 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 June 2012 is currently at 20.9%.

York Region in collaboration with the lower tier 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. Staff from throughout York Region met in July to review the initial results from the consultant. At the meeting, information was presented that showed an imbalance of non-revenue water loss among Markham, Vaughan and Richmond Hill. As well, discussion took place regarding the potential inaccuracies with Toronto meters.

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Markham staff had a follow up discussion with York Region staff and it was agreed that a meeting will take place in the near future with Richmond Hill, Vaughan, Markham, York Region and Toronto to address the outstanding issues.

<b>Waterworks Net Unfavourable Variance = (\$3.060M)</b>
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This report now includes a section that outlines the year-to-date June operating results by Commission and Department (see Appendices 9 – 12).

**PURPOSE:**

To provide an overview of the year-to-date financial results at the end of June 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.

**OPTIONS/ DISCUSSION**

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

**Primary Operating Budget**

At the end of six months, the 2012 operating budget (excluding Planning & Design, Engineering, Building Services and Waterworks) results reflected an overall favourable variance of \$1.973M and the breakdown is as follows:

\$0.400M	favourable variance in Revenues
\$0.537M	favourable variance in Personnel Expenditures
<u>\$1.036M</u>	favourable variance in Non-Personnel Expenditures
<u>\$1.973M</u>	

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## REVENUES

At the end of June 2012, revenues were favourable by \$0.400M due to the followings:

<b>Revenue Items</b>	<b>Fav./ (Unfav.)</b>
General Revenues	\$0.127 M
Grant & Subsidy Revenues	\$0.076 M
User Fees and Service Charges	(\$0.132) M
Other Income	\$0.329 M
<b>Net Favourable Variance</b>	<b>\$0.400 M</b>

### General Revenues

A total of \$7.128M in investment income was earned in the first six months of 2012 as compared to a budget of \$6.970M, representing a \$0.158M favourable variance of which \$0.253M was attributable to higher interest rates offset by lower portfolio balances of (\$0.095M).

### User Fees and Service Charges

The unfavourable variance of (\$0.132M) was primarily from Recreation (\$0.355M), mainly in fitness memberships \$0.175M and gym/hall rental \$0.144M, offset by higher revenues in Theatre ticket sales, registration fees and venue rental totalling \$0.170M.

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. Staff brought forward the report entitled “Fitness Centre Update” to the June 25<sup>th</sup> General Committee meeting, that outlined Recreation Staff will continue to monitor and implement strategies to increase awareness and promotion of the Fitness Centre. Also, Recreation Staff will engage a pricing consultant to undertake pricing elasticity testing to determine optimal pricing. Staff will report back to General Committee in Fall 2012 on a comprehensive corporate membership package and membership referral program.

The gym & hall rental revenue continued to be unfavourable due to the loss of regular long term leases. The department is attempting to rent these vacant spaces.

Theatre incurred higher ticket sales of \$0.103M offset with higher costs associated with professional entertainment fees. Further, there was favourable variance totalling \$0.067M in registration fees and venue rental.

### Other Income

Other income was favourable by \$0.329M due to a favourable variance in financial and legal administrative fees of \$0.335M resulting from a higher volume of site plans and subdivision agreements processed from January to June (YTD actual: 3,783 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 June 18, 2012.

Markham provides snowplow services at unassumed subdivisions, and the associated costs are reimbursed by the developers. At the end of June, there was a favourable variance of \$0.100M.

### PERSONNEL EXPENDITURES

The year-to-date June personnel expenditure variance was favourable by \$0.537M:

<b>Salary Expenditures Items</b>	<b>Fav./(Unfav.)</b>	
Full Time net of vacancy backfills & Part Time Salaries	\$0.511	M
Overtime & Other Personnel Costs	\$0.026	M
<b>Salaries &amp; Benefits Favourable Variance</b>	<b>\$0.537</b>	<b>M</b>

During the first six months of 2012, 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 \$1.358M offset by full year salary gapping of \$0.455M and unfavourable variance of (\$0.789M) in part-time salaries from Recreation (\$0.362M) of which \$0.187M was due to the unbudgeted training for summer camps and new hires to support the camp program, Museum (\$0.076M), Theatre (\$0.056M) and Library (\$0.032M).

As of the end of June, there were 26 net vacancies and there were 12 temporary vacancies.

### NON-PERSONNEL EXPENDITURES

At the end of June, non-personnel expenditures were favourable by \$1.036M.

<b>Expenditures</b>	<b>Fav./(Unfav.)</b>	
Winter Maintenance	1.360	M
Training/Travel/Promotion/Advertising/		
Professional Fees	0.275	M
Non-personnel Expenditure Gapping	(0.341)	M
Streetlight Maintenance	(0.264)	M
Theatre professional entertainment fees	(0.190)	M
Other	0.196	M
<b>Total</b>	<b>1.036</b>	<b>M</b>

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### Winter Maintenance

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)

### Other Expenditures

- \$0.275M favourable variance in training, travel, promotion & advertising, and professional services;
- (\$0.341M) non-personnel gapping included in the Operating Budget. The full year budget was reflected in the June results;
- (\$0.264M) unfavourable variance in streetlight maintenance. There was a higher volume of repair calls (1,698 calls from Jan to June 2012 vs. 1,026 calls from Jan to June 2011) and undergrounds faults that were identified from road patrols. The underground infrastructure is aging which resulted in higher maintenance costs (a 2013 capital project on infrastructure replacements has been requested for consideration);
- (\$0.190M) unfavourable variance in Theatre professional entertainment fees offset with a corresponding higher ticket sales of \$0.103M;
- \$0.196M favourable variance in contracted services \$0.070M and construction materials \$0.053M.

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

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## **YEAR-END PROJECTION**

### **City**

Based on the June 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 year-end accounting accruals estimated at \$2.400M.

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 fee, investment income, snowplow recoveries from unassumed subdivisions and one-time federal and provincial grants received, partially offset by lower recreation revenues resulting 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 year-end accounting accruals of \$2.400M which offset with favourable variances in winter maintenance, personnel expenditures resulting from vacancies and lower than budgeted costs from professional services, advertising & promotion, contracted services and operating material 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 (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 (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 (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).

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**Waterworks**

Based on the June year-to-date results (which includes purchases as invoiced from York Region), Waterworks is projected to be in the range of (\$4.500M) to (\$3.600M) unfavourable by year end, mainly due to lower water sales and higher non-revenue water, which partially offset by the favourable variance from other revenues.

The 2012 budget included a transfer to the Waterworks reserve of \$12.086M based on the anticipated surplus. Based on the projection above, the net transfer to reserve will be in the range of \$7.586M to \$8.486M. Therefore, the year-end reserve balance is projected to be in a range of \$14.039M to \$14.939M (see Appendix 8).

**FINANCIAL RESULTS BY COMMISSION AND DEPARTMENT:****Primary Operating Budget**

Appendices 9-12 outline the year-to-date June operating results by Commission and by Department. In addition, variances are shown for personnel, non-personnel expenses, revenues and total.

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

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

- favourable variance of \$0.121M due to training costs \$0.066M and 1 average net vacancy of \$0.047M.

**Legal**

- favourable variance of \$0.150M due to 1 average net vacancy and higher legal administrative fees \$0.054M .

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

- unfavourable variance of (\$0.302M) mainly due to streetlight maintenance & repairs. There were higher volumes of repair calls (1,698 calls from Jan to June 2012 vs. 1026 calls from Jan to June 2011) and undergrounds faults that were identified from road patrols. The underground infrastructures are aging which resulted in higher maintenance costs; a 2013 capital project on infrastructure replacements has been requested;

**Parks**

- favourable variance of \$0.183M mainly due to 5 average net vacancies.



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**Recreation Services**

- unfavourable variance in revenue resulted from lower fitness memberships (\$0.175M) and gym & hall rentals (\$0.144M). 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. Recreation Staff will continue to monitor and implement strategies to increase awareness and promotion of the Fitness Centre.
- The gym & hall rental revenue continued to be unfavourable due to the loss of regular long term leases. The department is attempting to rent these vacant spaces.
- Personnel costs were unfavourable by (\$0.370M), of which \$0.187M was due to the unbudgeted training for summer camps and new hires to support the camp program.

**Roads**

- favourable variance of \$1.602M 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 unassumed roads totalling \$0.100M.

**Corporate Services (see Appendix 11)****Commissioner's Office**

- favourable variance of \$0.118M due to 1 average net vacancy.

**Financial Services**

- favourable variance of \$0.264M due to 2 average net vacancy

**Communications & Community Relations**

- favourable variance of \$0.202M due to 4 average net vacancies.

**Contact Centre**

- favourable variance of \$0.100M due to 2 average net vacancies.

**Development Services** – variances do not meet \$0.100M threshold (see Appendix 12)

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## **FINANCIAL CONSIDERATIONS:**

Staff will continue to monitor the results of Operations each month and identify strategies, where necessary, to mitigate the unfavourable variances.

Further, Staff will provide another year-end projection (including year-end accounting accruals) as part of the September 2012 year-to-date review of operations.

## **RECOMMENDED**

19/09/2012

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Joel Lustig  
Treasurer

19/09/2012

X 

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Trinela Cane  
Commissioner of Corporate Services

## **ATTACHMENTS:**

[Appendix 1 – Operating Budget - Financial Results for the Six Months Ended June 30, 2012](#)

[Appendix 2 – Operating Budget for Planning & Design - Financial Results for the Six Months Ended June 30, 2012](#)

[Appendix 3 – Operating Budget for Engineering - Financial Results for the Six Months Ended June 30, 2012](#)

[Appendix 4 – Planning & Engineering Development Fee Reserve Balance – Year-end Projection as at June 30, 2012](#)

[Appendix 5 – Operating Budget for Building Standards - Financial Results for the Six Months Ended June 30, 2012](#)

[Appendix 6 – Building Fee Reserve Balance – Year-end Projection as at June 30, 2012](#)

[Appendix 7 – Operating Budget for Waterworks - Financial Results for the Six Months Ended June 30, 2012](#)

[Appendix 8 – Waterworks Reserve Balance – Year-end Projection as at June 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](#)