



Report to: **General Committee – Finance & Admin.** Date of Meeting: November 14, 2011

SUBJECT: September 2011 Year-To-Date Review of Operations and Year-End Projection

PREPARED BY: Andrea Tang, Manager Financial Planning

RECOMMENDATION:

THAT the report dated November 14, 2011 entitled “September 2011 Year-To-Date Review of Operations and Year-end Projection” be received.

EXECUTIVE SUMMARY:

Town

At the end of September 2011, the operating budget results (excluding Planning & Design, Engineering, Building Services and Waterworks) reflect a favourable variance of \$4.927M. The \$4.927M favourable variance is comprised of favourable variances in revenues \$4.480M and in expenditures of \$0.447M, as shown below:

Revenues	Fav./ (Unfav.)
Taxation Revenues	3.040 M
User Fees & Service Charges - Library, Finance, Theatre, Museum	0.403 M
Tax Interest and Penalties	0.273 M
Investment Income	0.235 M
Financial Administrative Fees and Legal Fees from Developers	0.205 M
Provincial & Federal Grants	0.153 M
Parks Recovery from Region of York	0.112 M
Recreation Revenue - lower fitness membership	(0.211) M
Other	0.270 M
Total	4.480 M

Expenditures	Fav./ (Unfav.)
Salary & Benefit Costs	0.570 M
Training/Travel/Promotion/Advertising/ Professional Fees	0.668 M
Operating Material & Supplies and Maintenance Repairs	0.280 M
Contracted Services	0.243 M
Non-personnel Expenditure Gapping	(0.242) M
Tax Write-offs	(0.262) M
Winter Maintenance	(0.969) M
Other	0.159 M
Total	0.447 M

Town's Net Favourable Variance = \$4.927M
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Planning & Design

Planning & Design ended September with a year-to-date unfavourable variance of (\$1.605M). This was due to an unfavourable variance of (\$1.805M) in revenues, partially offset by favourable variance of \$0.200M in personnel and non-personnel costs.

Planning & Design Net Unfavourable Variance = (\$1.605M)

Engineering

Engineering ended September with a year-to-date favourable variance of \$0.377M. This was due to a favourable variance of \$0.646M in personnel and non-personnel costs, which partially offset by an unfavourable variance of (\$0.269M) in revenues.

Engineering Net Favourable Variance = \$0.377M

Building Services

Building Services ended September with a year-to-date favourable variance of \$5.084M. This was due to a favourable variance of \$4.515M in revenues, and total favourable variance of \$0.569 in personnel and non-personnel costs.

Building Services Net Favourable Variance = \$5.084M

Waterworks

Waterworks ended September with a year-to-date unfavourable variance of (\$2.136M). This variance was due to total an unfavourable variance of (\$2.649M) in the net water sales and purchases, partially offset by a favourable variance of \$0.421M in personnel and non-personnel costs, and a favourable variance of \$0.092M in other revenues.

The 2011 Waterworks budget included a surplus of \$11.825M which was transferred to the Waterworks reserve at the time of budget approval. This transfer to the reserve is necessary at the beginning of the year in order to provide inflows to fund the 2011 capital program.

Waterworks Net Unfavourable Variance = (\$2.136M)
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PURPOSE:

To provide an overview of the year-to-date financial results at the end of September 2011.

BACKGROUND

There are 5 operating budgets that are monitored on a monthly basis. The Town's primary operating budget (excluding Planning & Design, Engineering, Building Services and Waterworks) is to support the Town'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 Town'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:

Town

At the end of nine months, the 2011 operating budget (excluding Planning & Design, Engineering, Building Services and Waterworks) results reflected an overall \$4.927M favourable variance.

The \$4.927M favourable variance was comprised of variances in three main areas of the Town's operating budget:

\$4.480M	favourable variance in Revenues
\$0.570M	favourable variance in Personnel Expenditures
<u>(\$0.123M)</u>	Unfavourable variance in Non-Personnel Expenditures
<u>\$4.927M</u>	

In summary, the \$4.927M favourable variance is driven by favourable revenues of \$4.480M from higher supplemental tax revenue and investment income, favourable variance of \$0.570M in salaries and benefits resulting from an average (from January to September) of 33 net full-time vacancies and 10 temporary full-time vacancies and an unfavourable variance from non-personnel expenditures due to winter maintenance (\$0.969M) primarily offset by favourable variances in training, professional services, advertising, promotion, materials and supplies, and contracted services of \$0.949M.

REVENUES

At the end of September 2011, revenues were favourable by \$4.480M due to the following:

Revenue Items	Fav./(Unfav.)
Taxation Revenues	\$3.332 M
General Revenues	\$0.502 M
User Fees and Service Charges	\$0.208 M
Grant & Subsidy Revenues	\$0.076 M
Other Income	\$0.362 M
Net Favourable Variance	\$4.480 M

Taxation Revenues

The favourable variance of \$3.332M for taxation revenue was mainly due to supplementary tax revenue. The Town receives on average 3 supplementary assessment rolls in each calendar year from the Municipal Property Assessment Corporation

(MPAC). The first supplementary assessment roll in 2011 was larger than previous rolls. The roll included both residential (60%) and non-residential (40%) properties.

Each roll contains supplementary assessment and omitted assessment. Supplementary assessment relates to new properties that are included in the current year and is included as assessment growth in the following year (ie. new houses included by MPAC for taxation revenue). The roll also includes omitted assessment which relates to properties that had been built and occupied or sold previously but not included by MPAC in previous assessment rolls. This delay in assessing these properties could be due to a variety of reasons, including MPAC resources or time lag. Omitted assessment can be included for two prior years and is one-time revenue for the Town in the year in which it is received. For example, MPAC may have included a house as a supplementary assessment in 2010 but, if it existed in 2008 and 2009, it would also be included as an omitted assessment for both years. Approximately 35% of the first roll billed this year was one-time omitted assessment which contributed to the favourable variance in supplementary tax revenue.

General Revenues

The favourable variance of \$0.502M was primarily due to interest and penalty revenue of \$0.273M resulting from the overdue residential and commercial property tax accounts. Investment income was favourable by \$1.161M of which \$0.894M was due to higher interest rate, \$0.267M was due to higher portfolio balances and \$0.926M will be transferred to the capital gains reserve resulting in a net favourable variance of \$0.235M.

User Fees and Service Charges

The favourable variance of \$0.208M was primarily due to the favourable revenues from Theatre (rentals, camps, and ticket sales), Finance (new tax account setup fees), Library (program registration fees) and Museum (program registration fees) totalling \$0.403M; which is partially offset by the unfavourable Recreation revenues in fitness membership (\$0.211M). Recreation staff identified that the unfavourable fitness revenue 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, increased competition and a natural decline post construction of our fitness facilities. A comprehensive marketing plan is being developed to further promote fitness memberships.

Other Income

The favourable variance of \$0.362M was primarily from higher financial services administrative fees and legal fees from developers \$0.205M and an additional park maintenance recovery from the Region of York \$0.112M. Revenues from the Fire Department attending vehicle incidents were unfavourable by \$0.080M.

PERSONNEL EXPENDITURES

The September year-to-date personnel expenditure variance was \$0.570M favourable:

Salary Expenditures Items	Fav./(Unfav.)
Full Time Salaries net of vacancy backfills	\$0.986 M
Overtime	(\$0.333) M
Other Personnel Costs	(\$0.083) M
Salaries & Benefits Favourable Variance	\$0.570 M

The net \$0.570M favourable variance in full time salaries net of vacancy backfills was the result of an average (from January to September) of 33 net full-time vacancies and 10 temporary full-time vacancies resulting from approved leave of absence and secondments (includes annual salary gapping of \$0.455M).

As of the end of September, there were 27 net vacancies of which 24 are being recruited, 2 are under review, and 1 has been deemed redundant and eliminated; in addition, there are 9 temporary vacancies.

	Avg. year-to-date # of vacancies	# of vacancies as of the end of September
Vacancies	33	27
Temporary vacancies	10	9
Total	43	36

The unfavourable variance of (\$0.333M) in overtime was due to the Fire Department (\$0.203M), Recreation (\$0.085k) and Operations (winter maintenance) (\$0.070M).

NON-PERSONNEL EXPENDITURES

At the end of September, Non-Personnel expenditures were (\$0.123M) unfavourable.

Non-Salary Items	Fav. / (Unfav.)
Purchased Services	\$0.133 M
Materials & Supplies	\$0.187 M
Other Expenditures	(\$0.443 M)
Total Non-Salary Favourable Variance	(\$0.123 M)

Purchased Services

The favourable variance of \$0.133M in Purchased Services was primarily due to the following accounts:

- \$0.668M favourable variance in training, travel, promotion & advertising, and professional services;
- \$0.243M favourable variance in contracted services from Roads primarily related to street cleaning;

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- (\$0.815M) unfavourable variance in winter maintenance due to higher than budgeted number of storms (actual 5 vs. budget 3);

Materials & Supplies

At the end of September, Materials and Supplies had a favourable variance of \$0.187M which was primarily due to:

- \$0.280M favourable variance in operating materials supplies from electronic resources, uniforms, facility maintenance supplies, training supplies and public education supplies;
- (\$0.154M) unfavourable variance in winter maintenance driven primarily by higher usage of salt due to higher than budgeted number of storms;

Other Expenditures

The unfavourable variance of (\$0.443M) was primarily due to higher tax write-off of (\$0.262M) from the completion and processing of some large appeals for prior year taxes and budgeted non-personnel gapping savings of (\$0.242M).

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

PLANNING & DESIGN

Planning & Design reported a year-to-date unfavourable variance of (\$1.605M) at the end of September (see Appendix 2) due to lower user fees of (\$1.805M) resulting from the delay in servicing allocation from the Region, partially offset by lower personnel and non-personnel costs of \$0.200M.

ENGINEERING

Engineering reported a year-to-date favourable variance of \$0.377M (see Appendix 3). The favourable variance of \$0.646M in personnel and non-personnel expenditures is partially offset by unfavourable revenue variance of (\$0.269M) from lower user fees than budget.

BUILDING SERVICES

Building Services reported a favorable variance of \$5.084M at the end of nine months (refer to Appendix 4) due to a favourable variance in revenue of \$4.515M resulting from higher building permit activity and a favourable variance of \$0.569M in personnel and non-personnel costs.

WATERWORKS

Waterworks reported a year-to-date unfavourable variance of (\$2.136M) at the end of September (see Appendix 6) resulting from the year-to-date September surplus of \$6.249M as compared to the year-to-date September budgeted surplus of \$8.385M.

The unfavourable variance was due to unfavourable net water sales and purchases of (\$2.649M), partially offset by favourable variances in personnel costs of \$0.244M as a result of an average of 6 vacancies, non-personnel cost of \$0.177M, user fees and service charges \$0.092M.

The 2011 Waterworks budget anticipated a surplus of \$11.825M which incorporated the assumption of non-revenue water usage at 11%. Based on the information received to date, the non-revenue water usage of the water purchases is significantly higher than the budgeted assumption of 11%; therefore yielding the unfavourable variance in the water purchases.

Waterworks staff is reviewing with the Region to analyze the water purchases. In addition, the Region and the Town will be conducting an audit to determine potential gaps in the water flow data and billing process to address the issue of increasing non-revenue water usage. Staff will report back to General Committee on the results of this audit in Q1 2012.

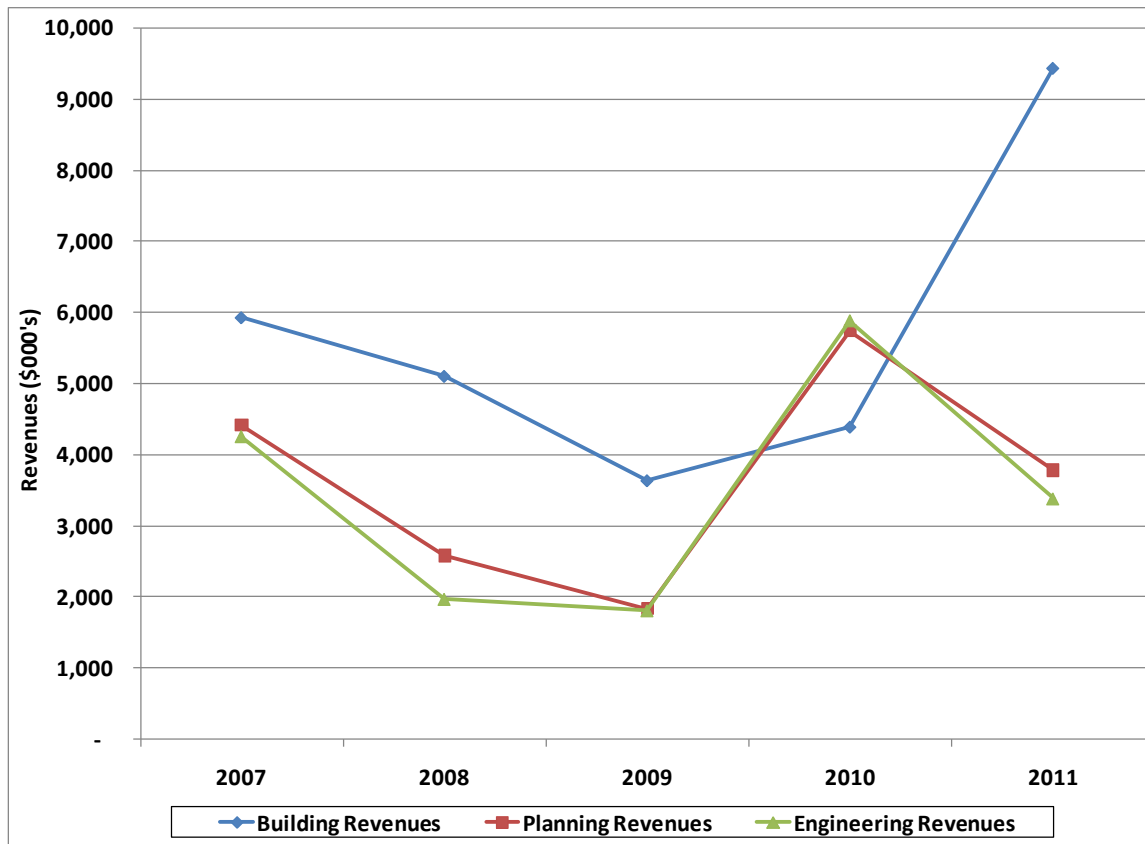
ECONOMIC KEY INDICATORS

Staff has identified several key economic indicators to monitor the Town's operations such as development related revenues, development charge revenues, and winter maintenance expenditures. The charts below provide September year-to-date results on these items for the years 2007 to 2011 for comparative purposes.

Development Related Revenues

The development related revenues include planning, engineering and building fees. Building Services showed a significant growth in the third quarter which resulted from increased development activities. Planning & Design and Engineering showed decreases in 2011 when compared to 2010.

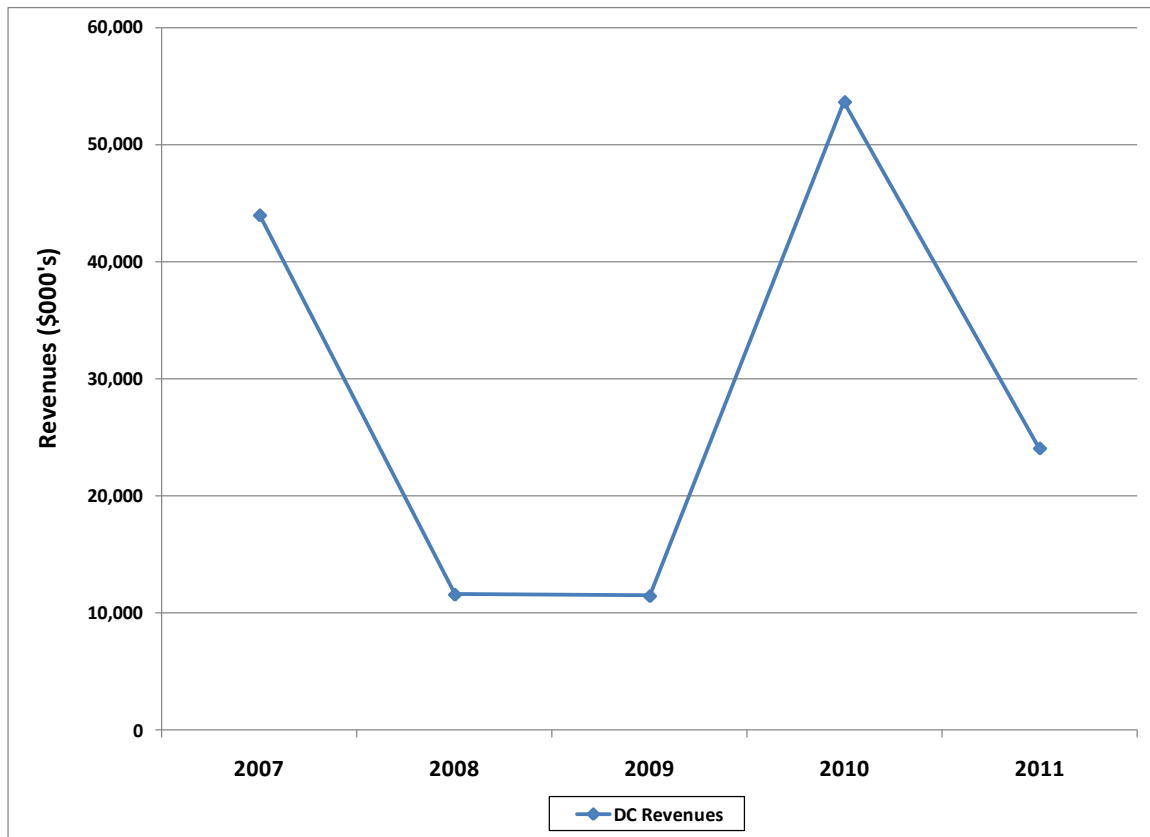
YTD September Actual Development Related Revenues



Development Charges (DC) Revenues

The year-to-date September DC revenues showed significant decreases in 2011 when compared to 2010 as the DC revenues in 2007 and 2010 were the result of increased development prior to the Region of York's development charges by-law update. In addition, the economic downturn had negatively impacted development activity and DC revenues in 2008 and 2009.

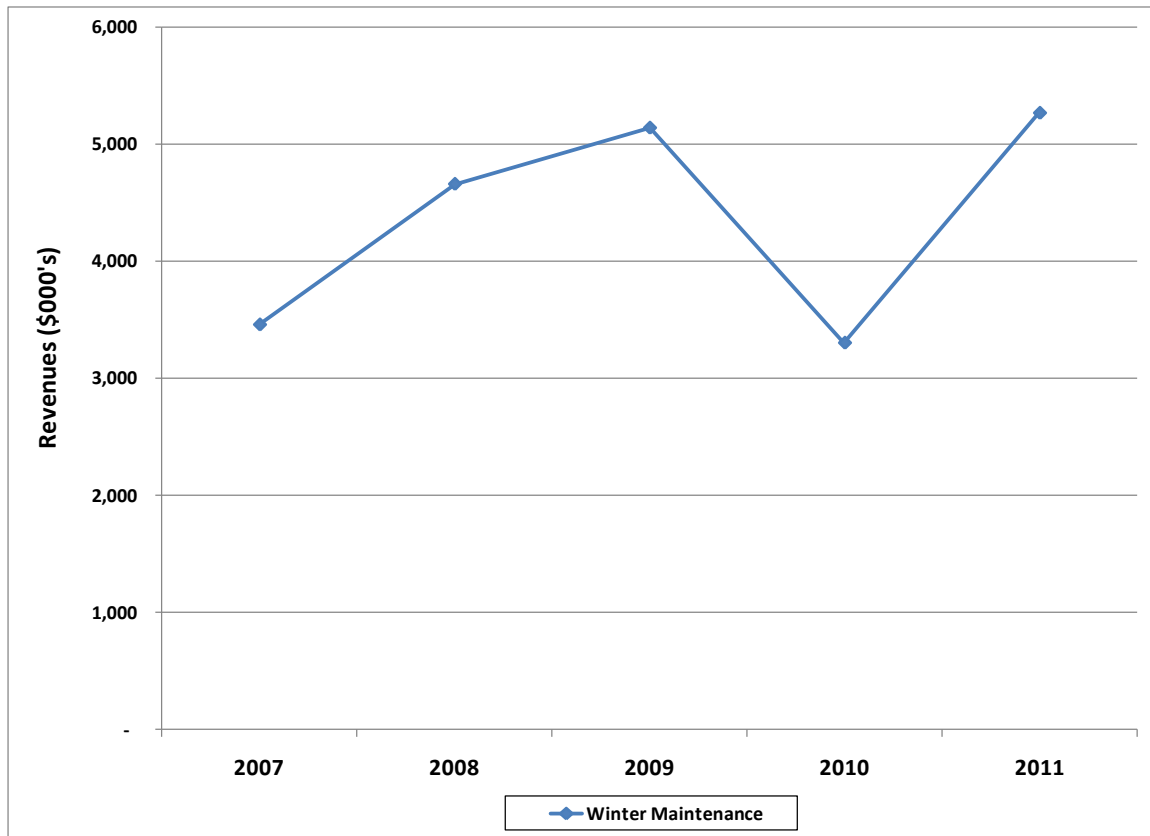
YTD September Actual DC Revenues



Expenditures

Staff also continues to monitor the spending on winter maintenance. The 2011 September year-to-date winter maintenance expenditures are \$5.269M which is \$1.967M higher than 2010 for the same period, however, it is similar to the 2009 level.

YTD September Expenditures



The other key economic indicators that are being monitored include financial services administration and legal fees, Recreation and Culture revenues and streetlight maintenance, which have been trending consistent to prior year third quarter actuals.

YEAR-END PROJECTION

Town

Based on the September year-to-date results, it is anticipated that the year-end projection will range from being \$0.500M to \$2.000M favourable including funding for the year-end accounting accruals of \$2.200M. The June year-end projection had a range of being on budget to \$1.500 favourable and the change is the result of additional supplementary tax revenue received in the third quarter.

It is expected that the year-end revenue variance will range from being \$4.000M to \$4.500M favourable resulting from higher supplementary tax revenue, financial services administration fees and legal fees from developers, and investment income partially offset by lower recreation revenues primarily due to lower fitness membership revenue.

The year-end expenditure variance will range from being (\$3.500M) to (\$2.500M) unfavourable. This variance is due to the year-end accounting accruals of \$2.200M and unfavourable winter maintenance offset by favourable personnel expenditures resulting from vacancies and lower than budgeted costs from professional services, advertising & promotion, contracted services and operating material and supplies.

Planning & Design and Engineering

Planning & Design is projecting a year-end deficit of (\$0.655M) compared to a budgeted surplus of \$1.003M. The June year-end projection anticipated a \$1.530M transfer to reserves as compared to the revised September projection which anticipates a (\$0.655M) draw from reserves. The change is the result of the delay of servicing allocation from the Region which was not known at the time of the June projection.

Engineering is projecting a year-end deficit of (\$0.060M) compared to a budgeted deficit of (\$1.035M) that results in a lower draw from the reserve by \$0.975M. This is due to the department's favourable variance in its personnel expenditures. This projection is the same as the year-end projection from June.

Building Services is projecting a year-end surplus of \$4.858M compared to a budgeted deficit of (\$0.811M). The June year-end projection anticipated a \$4.065M transfer to reserves as compared to the revised September projection which anticipates a \$4.858M transfer to reserves. The change is the result of high permit activity in the third quarter.

Waterworks

The 2011 Waterworks budget included a surplus of \$11.825M of which the anticipated surplus of \$11.825M was transferred to the Waterworks reserve at the time of budget approval.

Based on the September year-to-date results, Waterworks is projecting a year end surplus ranging from \$9.325M to \$9.825M resulting in an unfavourable variance ranging from (\$2.500M) to (\$2.000M). Adjustments to the Waterworks reserve will be made based on the 2011 actual operating results. This year-end projection includes information received

to date on the significantly higher water purchases as compared to the June year-end projection in the range of unfavourable by (\$0.500M) to being on budget which did not anticipate the higher water purchases.

As mentioned in the report earlier, the department is working with the Region to analyze the water purchases as well as conducting an audit to determine potential gaps in the water flow data and billing process to address the issue of increasing non-revenue water usage.

FINANCIAL CONSIDERATIONS:

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

RECOMMENDED BY:

07/11/2011

11/7/2011

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Joel Lustig
Treasurer

X 

Nasir Kenea
Acting Commissioner, Corporate Services

ATTACHMENTS:

[Appendix 1 – Operating Budget - Financial Results for the Nine Months Ended September 30, 2011](#)

[Appendix 2 – Operating Budget for Planning & Design - Financial Results for the Nine Months Ended September 30, 2011](#)

[Appendix 3 – Operating Budget for Engineering - Financial Results for the Nine Months Ended September 30, 2011](#)

[Appendix 4 – Planning & Engineering Development Fee Reserve Balance – Year-end Projection as at September 30, 2011](#)

[Appendix 5 – Operating Budget for Building Services - Financial Results for the Nine Months Ended September 30, 2011](#)

[Appendix 6 – Building Fee Reserve Balance – Year-end Projection as at September 30, 2011](#)

[Appendix 7 – Operating Budget for Waterworks - Financial Results for the Nine Months Ended September 30, 2011](#)

[Appendix 8 – Waterworks Reserve Balance – Year-end Projection as at September 30, 2011](#)