



Report to: General Committee

Date of Meeting: June 10, 2013

SUBJECT: 2013 March Year-To-Date Review of Operations
PREPARED BY: Andrea Tang, Manager of Financial Planning

RECOMMENDATION:

- 1) THAT the report dated June 10, 2013 entitled “2013 March Year-To-Date Review of Operations” be received.

EXECUTIVE SUMMARY:

Council approved the 2013 annual operating budget on January 29, 2013 for \$293.171M which includes the City’s primary operating budget, Planning & Design operating budget, Engineering operating budget, Building Standards operating budget and Waterworks operating budget.

This report provides an overview of the year-to-date actual operating budget results versus the calendarized 2013 operating budget of \$96.850M as of March 31, 2013.

Primary Operating Budget (Appendix 1)
(Excluding Planning & Design, Engineering, Building Standards and Waterworks)

City’s net unfavourable variance = (\$1.021M)

At the end of the first quarter the actual netted operating results against budget is an unfavourable variance of (\$1.021M) and consists of the following revenue and expenditure drivers:

| Revenues | Fav./ (Unfav.) | Expenditures | Fav./ (Unfav.) |
|--|----------------|---|------------------|
| Investment income | 0.297 M | Salary & benefit costs | (0.254) M |
| Property tax interest and penalties | 0.150 M | Winter maintenance | (0.950) M |
| Provincial Offences Act Fines | 0.137 M | Non-personnel expenditure gapping | (0.341) M |
| Snowplow recoveries from unassumed subdivisions | 0.104 M | Training/travel/promotion/advertising/professional fees | 0.076 M |
| Theatre revenues (ticket sales, registration fees and rental) | 0.091 M | Waste Collection | 0.088 M |
| Recreation revenue (program registration -\$0.096k, aquatics -\$0.094k, fitness memberships -\$0.041M) | (0.274) M | Cornell Community Centre recreation expense | 0.098 M |
| Cornell Community Centre recreation revenue | (0.343) M | Other | 0.048 M |
| Other | 0.052 M | | |
| Total | 0.214 M | Total | (1.235) M |

The unfavourable variance of (\$1.021M) in the first quarter is mainly due to unfavourable variances from winter maintenance of (\$0.950M), Recreation revenues of (\$0.617M), full year budgeted non-personnel expenditure gapping of (\$0.341M) and salary and benefit costs of (\$0.254M), which is offset by favourable variances from investment income of \$0.297M, property tax interest and penalties of \$0.150M and Provincial Offences Act fines of \$0.137M and net favourable variance of \$0.557M from various items.

Planning & Design (Appendix 2)

Planning & Design net unfavourable variance = (\$0.516M)

At the end of the first quarter the actual operating results against budget netted an unfavourable variance of (\$0.516M) due to lower revenues resulting from timing of the development application submissions. Higher development application activities in the last quarter of 2012 were the result of agreements being submitted prior to the Regional deadline for Development Charge (DC) increases and resulted in lower activities in first quarter of 2013.

Engineering (Appendix 3)

Engineering net favourable variance = \$0.122M

At the end of the first quarter the actual operating results against budget netted a favourable variance of \$0.122M due to an average of five net vacancies.

Building Standards (Appendix 4)

Building Standards net unfavourable variance = (\$0.445M)

At the end of the first quarter the actual operating results against budget netted an unfavourable variance of (\$0.445M) due to lower number of permits issued than budgeted.

Waterworks (Appendix 5)

Waterworks net favourable variance = \$0.001M

At the end of the first quarter the actual operating results against budget netted a favourable variance of \$0.001M, the main drivers of which are:

1. Higher than budgeted non-revenue water resulted in an unfavourable “net sales and purchases” variance of (\$0.233M), the rolling 12-month actual non-revenue water was 13.2% compared to a budget of 11%;
2. Lower personnel costs totaling a favourable variance of \$0.103M due to an average of six net vacancies; and
3. Lower non-personnel costs totaling a favourable variance of \$0.125M for construction, water/sewer materials and other operating supplies due to timing of expenditures.

PURPOSE:

To report on the year-to-date actual 2013 operating budget results versus the calendarized 2013 operating budget as at March 31, 2013.

BACKGROUND

Council approved the 2013 annual operating budget on January 29, 2013 for \$293.171M which includes the City’s primary operating budget, Planning & Design operating budget, Engineering operating budget, Building Standards 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 Standards and Waterworks operating budgets are primarily user fee funded, such as planning and engineering fees, building permit fees and water billings. Separate reserves have been established to support the department’s day-to-day operations and capital programs.

The year to date operating budget is calendarized based on available current year information, historical spending patterns and trends and future projections. The intent and focus of this report is to monitor and communicate actual performance to the annual plan and highlight trends and variances.

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:

At the end of the first quarter the actual operating results against budget netted an unfavourable variance of (\$1.021M).

A summary of the variances for the primary operating budget by major category is provided below followed by an explanation of major variances.

| | |
|----------------------------|-------------------|
| Revenues | \$0.214M |
| Personnel Expenditures | (\$0.254M) |
| Non-Personnel Expenditures | <u>(\$0.981M)</u> |
| | <u>(\$1.021M)</u> |

REVENUES

At the end of the first quarter, revenues were favourable by \$0.214M, 0.3% higher than budget.

| Revenues | Fav./Unfav.) |
|-----------------------------|---------------------|
| General Revenues | \$0.595 M |
| User Fees & Service Charges | (\$0.495) M |
| Grant & Subsidy Revenues | \$0.043 M |
| Other Income | \$0.071 M |
| Net Variance | \$0.214 M |

General Revenues

General revenues represent a favourable variance of \$0.595M, the main drivers of which are:

- Property tax interest and penalties of \$0.150M resulting from 7.2% of the total tax accounts in arrears (6,980 accounts in arrears out of a total of 96,485 accounts).
- Investment income of \$0.297M of which \$0.450M attributed to higher interest rates was offset by lower portfolio balances of (\$0.153M).
- Provincial Offences Act (POA) fines of \$0.137M resulting from a change in legislation that allows municipalities to add unpaid POA fines to the tax rolls.

User Fees and Service Charges

User fees and service charges represent an unfavourable variance of (\$0.495M), the main drivers of which are:

Recreation Programs (excluding Cornell Community Centre)

The main drivers of the unfavourable variance of (\$0.274M) are program registration (\$0.096M), aquatics (\$0.094M) and fitness memberships (\$0.041M).

Recreation staff identified that the unfavourable variance in program revenue was due to lower registration. The department will continue to monitor the related program expenses and increase program promotion to the local rate payers. The department plans to re-evaluate program offerings and explore new revenue generating opportunities. Any proposed changes will be implemented in Q4. Particular focus will be placed on programming in the East area of Markham where the majority of the unfavourability exists.

The unfavourable variance in aquatic programs is due to cannibalization resulting from the opening of the Cornell Community Centre. Staff will mitigate the unfavourable variance by offering more private and semi private classes and manage associated expense. The proposed mitigating strategies will take time to correct and may not offset the unfavourable expense this year.

The fitness memberships continues to be unfavourable due to an overall decline in new and renewal fitness centre memberships, which corresponds with an overall industry decline in fitness participation and increased competition. Staff have identified new revenue initiatives

such as personal training and a change to drop-in classes for fitness members which will be implemented in the second half of the year.

Recreation Programs, Cornell Community Centre

The main drivers of the unfavourable variance of (\$0.343M) are aquatics (\$0.180M), program registration (\$0.112M), and fitness memberships (\$0.015M). Budgets were set in anticipation that Cornell would operate at 100% in this first year of operation. This has not been the case. For all new centres, ramp up plans should include opportunity for revenues to gradually reach 100% capacity. Staff will continue to monitor these programs to develop strategies to mitigate the unfavourable variance.

Theatre

The main drivers of the favourable variance of \$0.091M are higher ticket sales of \$0.041M and corporate sponsorships of \$0.037M. This is partially offset by the associated higher personnel and non-personnel costs, which resulted in a net overall favourable variance of \$0.015M.

Other Income

The favourable variance of \$0.071M is due to higher than budgeted cost recoveries for snowplow services at unassumed subdivisions from developers.

PERSONNEL EXPENDITURES

At the end of the first quarter, personnel expenditures were unfavourable by (\$0.254M), 1.0% higher than budget.

| Salary & Benefits | Fav./(Unfav.) | |
|---|----------------------|----------|
| Full time net of vacancy backfills and part time salaries | \$0.076 | M |
| Overtime and other personnel costs | (\$0.330) | M |
| Net Variance | (\$0.254) | M |

As at March 31, 18 net vacancies and 13 temporary vacancies resulting from approved leaves of absence and secondments resulted in a favourable variance of \$0.735M. This is offset by full year budgeted salary gapping of (\$0.455M) and unfavourable variance of (\$0.204M) for part-time salaries. The main drivers of the unfavourable part-time salaries variance are:

- Culture – Unfavourable variance of (\$0.063M) which is offset by increased ticket sales and revenues.
- Recreation – Unfavourable variance of (\$0.061M)
- Library – Unfavourable variance of (\$0.025M)
- Waste – Unfavourable variance of (\$0.024M)
- Roads – Unfavourable variance from winter maintenance requirements of (\$0.012M)

Overtime was unfavourable by (\$0.233M) due to winter maintenance requirements (\$0.115M) and sick leave coverage in the Fire Department (\$0.110M).

NON-PERSONNEL EXPENDITURES

At the end of the first quarter the actual operating results against budget netted a non-personnel expenditure variance of (\$0.981M), 1.0% higher than budget.

| Non-Personnel | Fav./ (Unfav.) | |
|---|-----------------------|----------|
| Winter maintenance | (0.950) | M |
| Non-personnel expenditure gapping | (0.341) | M |
| Training/travel/promotion/advertising/professional fees | 0.076 | M |
| Waste Collection | 0.088 | M |
| Cornell Community Centre recreation expense | 0.098 | M |
| Other | 0.048 | M |
| | | |
| Net Variance | (0.981) | M |

Winter Maintenance

The City's winter maintenance budget includes salt and sand purchases as well as four service contracts:

- 1) Supply and operation of tandem/single combination plow to sand and plow the City's primary road network;
- 2) Supply and operation of loaders to assist in the snow removal in cul-de-sacs, wide corners and rear lanes;
- 3) Grader rentals to remove snow on the City's local road networks as well as for windrow snow clearing services and;
- 4) Sidewalk snow removal

The four winter maintenance contracts have a fixed cost component of 34% and variable cost component of 66%. The fixed costs (standby costs) are charged throughout the winter months whether or not services are rendered in order to cover the contractor's capital costs. The variable costs are based on service hours provided.

The winter maintenance expenditures were unfavourable by (\$0.950M) mainly due to the following components:

- 88 service hours for sidewalk snow clearing per unit of equipment in excess of the budget totalled (\$0.470M);
- 83 service hours for loader snow removal operation per unit of equipment in excess of the budget totalled (\$0.270M);
- 4500 tonnes of salt applied on the roads in excess of the contract totalled (\$0.339M); and,
- 28 service hours of grader snow removal operation per unit of equipment less than the budget totalled \$0.180M.

Highlights of Other Expenditures

- (\$0.341M) non-personnel gapping unfavourable variance represents the annual non-personnel gapping budget.
- \$0.076M favourable variance in training, travel, promotion & advertising and professional services;
- \$0.088M favourable variance in waste collection due to lower tonnage: waste 548 tonnes (11%), recycling 183 tonnes (3%) and yard waste 172 tonnes (100%).
- \$0.098M favourable variance in facility maintenance, utility and operations material and supplies at the Cornell Community Centre due to timing.

The City's operating results against budget are provided in Appendix 1.

FINANCIAL RESULTS BY COMMISSION AND DEPARTMENT

The variances for the three months ended March 31, 2013 by each Commission and Department, summarized by personnel expenditures, non-personnel expenditures and revenues, are provided in Appendices 6 to 9. Explanations for variances greater than \$0.100M are provided below.

Community and Fire Services (Appendix 7)**Fire Services** (unfavourable variance of \$0.155M)

- Unfavourable variance mainly due to overtime costs resulting from higher approved leaves of absence

Roads (unfavourable variance of \$0.934M)

- Unfavourable variance mainly due to higher than budgeted winter maintenance activities of (\$0.950M)
- Favourable variance of \$0.071M is due to higher than budgeted cost recoveries for snowplow services at unassumed subdivisions from developers.

Recreation Services (unfavourable variance of \$0.562M)

Refer to Pages 4 and 5 for variance explanations.

Waste (favourable variance of \$0.118M)

- \$0.088M favourable variance in waste collection due to lower tonnage: waste 548 tonnes (11%), recycling 183 tonnes (3%) and yard waste 172 tonnes (100%).

Corporate Services (Appendix 8)**Legislative Services** (favourable variance of \$0.114M)

- Provincial Offences Act (POA) fines of \$0.137M resulting from a change in legislation that allows municipalities to add unpaid POA fines to the tax rolls.

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.

Further, Staff will provide a year-end projection (including yearend accounting adjustments) as part of the June 2013 year-to-date review of operations and it will be brought forward to General Committee in September 2013.

RECOMMENDED

04/06/2013

04/06/2013

X 

Mark Visser
Acting Treasurer

X 

Trinela Cane
Commissioner of Corporate Services

ATTACHMENTS:

[Appendices 1 to 9:](#)

Appendix 1 – Primary Operating Budget - Financial Results for the Three Months Ended March 31, 2013

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

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

Appendix 4 – Building Standards Operating Budget - Financial Results for the Three Months Ended March 31, 2013

Appendix 5 – Waterworks Operating Budget - Financial Results for the Three Months Ended March 31, 2013

Appendix 6 – Variances by Commission and Department for the three months ended March 31, 2013– CAO’s Office, Human Resources, Legal and Sustainability

Appendix 7 – Variances by Commission and Department for the three months ended March 31, 2013– Community and Fire Services

Appendix 8 – Variances by Commission and Department for the three months ended March 31, 2013– Corporate Services

Appendix 9 – Variances by Commission and Department for the three months ended March 31, 2013– Development Services