



CITY OF VANCOUVER

ADMINISTRATIVE REPORT

Supports Item No. 1
CS&B Committee Agenda
July 21, 2005

Date: June 24, 2005
Author: Annette Klein
Phone No.: 604-873-7789
RTS No.: 5230
CC File No.: 1605
Meeting Date: July 21, 2005

TO: Standing Committee on City Services and Budgets

FROM: General Manager of Corporate Services/Director of Finance

SUBJECT: 2005 Operating Budget - May Review

RECOMMENDATION

THAT Council receive the 2005 Operating Budget May Review for INFORMATION.

CITY MANAGER'S COMMENTS

The staff review of revenue and expenditure estimates as at May 31, 2005, has determined that Departmental financial performance is at or ahead of expectations. However, two unexpected occurrences are adversely impacting revenues by approximately \$3.0 million. The net impact is a shortfall between revenues and departmental expenditures of \$1.5 million. Unallocated Contingency Reserve and General Program Account funds allow the City to project a balanced position by year end.

These two unforeseen events necessitate that Departments monitor their budgets diligently and ensure that the unallocated Contingency Reserve and General Program Account remain relatively intact for the remainder of the year. Staff will report back in the fall with a detailed review of end of August financial performance with updated year end projections.

COUNCIL POLICY

Council's standing instructions require that the Director of Finance report on the status on the Operating Budget as at August 31 each year.

PURPOSE

This report reviews the status of the revenue and expenditure appropriations in the 2005 Operating Budget at May 31, 2005, provides a projection for year-end and identifies any significant variances for Council. This review was initiated as a result of a number of challenges to the budget being identified in early June.

DISCUSSION

The May Budget Review is a high level review of both revenues and expenditures compared to the budget approved by Council in March. All service groups were asked to review their budget status and provide projections of their year-end position. The purpose of the review is to identify areas of significant variance that could impact on the budget position at year-end. A thorough review will be conducted for the end of August that will further validate the projections submitted by service groups.

1. Summary of Variances to Revenue & Expenditure Appropriations

Table 1 summarizes the 2005 revenue and expenditure year-end projections. Appendix A provides additional detail of this projection.

Table 1 - August Review Summary

	Year-End Estimated Surplus/(Shortfall)
Revenues	(\$2.46 million)
Expenditures	<u>\$0.98 million</u>
Net Budget Position	(\$1.48 million)
Unallocated Contingency	\$1.39 million
Unallocated General Program Account	\$0.14 million
Target Year-End Financial Projection	0.05 million

Revenues are anticipated to end the year with a \$2.46 million shortfall while expenditures are anticipated to be under expended by \$0.98 million. Unallocated funding within Contingency Reserve and the General Program Account allow the City to come within budget by year end.

2. Variances to Revenue Appropriations

The review of revenue appropriations at May 31 and the projection to year-end indicates several areas where revenues will exceed budget and where shortfalls are anticipated.

	<u>Surplus (Shortfall)</u>
Property Taxes	(\$1.4 million)

A property tax revenue adjustment of \$1.4 million is required in 2005 as a result of some properties having been excluded from averaging.

Provincial Contributions	(\$1.4 million)
--------------------------	-----------------

Based on projections received from the BC Lottery Corporation (BCLC) in mid March 2005, the gaming revenue budget was increased by \$3.1 million over 2004 to \$7.0 million due to increases expected from the opening of the Edgewater Casino at the Plaza of Nations. This increase was used to create the General Program Account to fund social and community initiatives.

Unfortunately, the level of activity in the gaming market has not met these expectations and the latest projections from BCLC for 2005 are \$5.4 million indicating a shortfall of \$1.6 million.

The key variables impacting gaming revenue is the “soft” opening of the Edgewater Casino, the closure of the Mandarin Casino in April 2005, and the changing regional gaming market. The trends for April and May on actual net contribution to the City from gaming revenue have increased over previous months by 74%, however, this increase does not compensate for the slow first quarter at the Edgewater Casino. BCLC has anticipated increased revenues for the last three quarters of operations at the Edgewater Casino, however, the rate of increase does not appear to meet overall budget expectations. The other casino in the city, the Great Canadian Casino at the Holiday Inn, is performing as anticipated.

The owners of the Edgewater Casino and BCLC staff have identified the following areas impacting the performance at the Edgewater Casino:

- Current parking limitations
- The inability of the Edgewater Casino to fully capitalize on the number of Council approved game tables. Currently, the Casino has installed 49 of the 60 approved gaming tables due to space issues.
- Signage limitations due the City restrictions on new signs on the False Creek waterfront. Possible solutions being considered are the erection of signs being at the access road (Pacific Boulevard); and
- The lack of a liquor license on the gaming floor or for the adjacent restaurant/lounge.

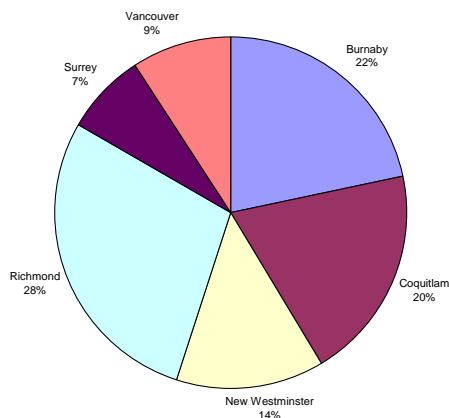
Staff has reviewed the performance of the regional gaming market with BCLC. Casinos in the adjacent municipalities of Burnaby and Richmond are exceeding budget expectations, while other areas within the Region are at or below projections. Overall, if one compares the performance of the region over the last two BC Lottery fiscal years (year end March 31), one could conclude that the new casinos within the Region may be impacting the overall market share of other casinos.

From the data below, the Lower Mainland gaming market has increased by 25%, however, that increase is mainly due to new casinos opening in Richmond and Surrey. Vancouver's market share of the gaming market has decreased from 14% to 9%, while Richmond's market share has increased from 10% to 25% over the last two fiscal years. Overall, the Vancouver gaming market is in a transition this year and next, as new facilities are being introduced, including Hastings Park in 2006. City Staff will work closely with BCLC to continue to monitor the market and with Edgewater Casino, where applicable to facilitate their improved performance, as well as develop realistic forecasts for 2006.

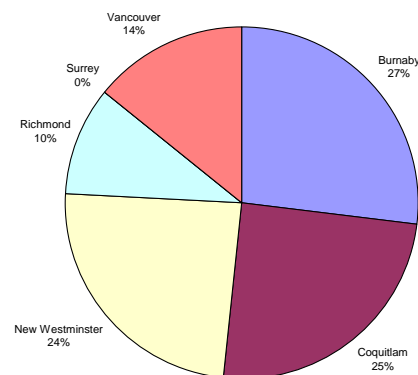
	2004/05 Revenue	2003/04 Revenue	Change	Change	Service Changes
	Share \$000	Share \$000	\$000	%	
Burnaby	7,550	7,523	27	0.4%	Increased slot machines from 300 to 679
Coquitlam	6,840	6,863	(23)	-0.3%	no change
New Westminster	4,730	6,685	(1,955)	-29.2%	no change
Richmond	9,891	2,793	7,098	254.1%	Open River Rock Casino (1000 slot machines)
Surrey	2,524	-	2,524	n/a	Open Fraser Downs Race Track & Casino (400 slot machines)
Vancouver	3,224	3,934	(710)	-18.0%	Open Edgewater (600 slot machines)/Closure - Mandarin & Renaissance
Region	34,759	27,798	6,961	25.0%	

Source: BCLC Annual Reports (2004/2005) and (2003/2004)

2004/2005 Regional Market Share



2003/2004 Regional Market Share



The projections included in this May review assume a shortfall of \$1.6 million offset by \$0.2 million additional Traffic Fine Sharing revenue that resulted from the inclusion of E-Comm related costs in the City's cost distribution calculation which previously had not been included.

On-Street Parking & Enforcement Revenues (Municipal By-Law Fines & Parking Meter Revenue)

\$0.50 million

Revenues are ahead of expectations mainly as a result of greater voluntary compliance by vehicle owners who receive parking tickets and higher than anticipated parking meter revenue.

Service and Inspection Fees

Balanced

Service and Inspection Fee revenue are currently tracking ahead of expectations by \$0.64 million, mainly resulting from favourable variance for Trade Permit Fees due to increases in Building Fee revenues. However, Anchor Rod Fees and Development Fees are tracking below expectations offsetting this potential revenue surplus. Anchor Rod Fees are tracking at historic levels but had been budgeted to increase quite significantly based on 2004 experience. Development permits numbers are on target, however, the number of larger developments (therefore higher value) has declined.

Licence Fees

(\$0.16 million)

Licence fees are tracking below budget for Commercial Permit Revenues while Alarm Permit fee revenues have declined due to the reduction in false alarms (the aim of the program) has exceeded projection as a result of by-law changes.

Other Revenues**Balanced**

Other revenues are expected to be on budget by year-end.

Net Revenue Shortfall**(\$2.46) million****3. Variances to Expenditure Appropriations**

As indicated in Appendix A, most departments are projected to complete the year with expenditures close to the allocations approved by Council in March, being either balanced or with a slight surplus. Below are explanations for any projected surplus or any risks that have been identified based on the May Review. Many of these balanced positions reflect the responsibility of departments to remain within their budget by adjusting budget priorities as necessary with the exception of expenses that are beyond their control.

Surplus (Shortfall)**Community Services****\$0.13 million**

Community Services is anticipating to be under budget primarily due to delays in filling vacant positions within Licensing and Inspections, Office of the Building Inspector, and City Plans. These savings are offsetting anticipated shortfalls within Current Planning, due to increased workload, and Support Services due to higher printing costs related to the need for additional notifications.

Corporate Services**\$0.20 million**

The Corporate Services is anticipating to be under budget primarily due to delays in filling vacant positions.

Civic Theatres**\$0.35 million**

Event bookings at the City's civic theatres include a greater number of pop/rock concerts than anticipated. These bookings tend to generate higher returns for the City.

General Government**\$0.25 million**

General Government is currently estimated to be \$0.25 million under budget due to reduced long term disability costs directly related to the introduction of the Disability Management Program in late 2005.

Library**\$0.05 million**

The Library is anticipating to come slightly under budget. The Library has been reimbursed by the landlord of the Oakridge Library Branch \$0.51 million due to rent overpayment by the Library over the last five years. This unexpected payment is intended to help fund the #1 Kingsway project (\$0.46 million) with the balance to be reserved for books. An upcoming report to Council will request Council to approve the allocation of these funds to this capital project.

The following Departments anticipate to come within budget by year end and have identified either opportunities or risks.

Fire Department

Balanced

The Fire Department is anticipating to come within budget. The Department is currently projecting that \$0.7 million salary savings, related to a number of unanticipated early retirements and a younger workforce, will be offset by over expenditures within other salary related accounts and increased demands for facility and equipment maintenance and supplies.

Engineering - Public Works

Balanced

The Engineering department is currently projecting to be on budget by year end. However, the Department has identified some areas of their operations that require closer monitoring.

Streets maintenance programs are tracking ahead of expectations, however, these programs are being monitored closely to ensure they end the year in a balanced position.

Equipment budgets are based on a fuel price component that was increased by 9.6% over the 2004 budget. However, fuel prices have been increasing quite dramatically over the last few months and are now projecting prices to be 12.2% above the 2005 budget. This translates to a \$0.57 million projected budget shortfall that is distributed between the tax supported, utility, and capital budgets as follows.

	Operating (\$)	Capital (\$)	Total (\$)
Engineering Public Works	74,600	30,200	104,800
Utilities	234,600	55,900	290,500
Other City Departments	8,500		8,500
Park Board	50,900		50,900
Vancouver Police Department	110,100		110,100
Total	478,700	86,100	564,800

The impact on Public Works is estimated at \$0.10 million of which \$0.07 will impact the Operating Budget. These costs will be mitigated by year end due to the implementation of fuel conservation measures by the Department including Utilities, in particular Solid Waste. These measures include:

- Education regarding fuel consumption rates per vehicle in order to target the least fuel-efficient vehicles
- Driver Training to improve fuel economy through better driving practices vehicle idling.
- Limited engine modifications
- Setting target consumption targets to ensure the 2005 total fuel costs remain within the original budget projections.
- Monthly fuel consumption reporting

Utilities (Water, Sewer, & Solid Waste)**Balanced**

During the May review, the Engineering Department has indicated that the three Utilities are tracking on budget for the year end with the exception of the Solid Waste Utility due to the increased fuel costs. The year end shortfall currently being projected is \$0.20 million. Like Public Works, the Solid Waste Utility is introducing fuel conservation strategies to ensure that the Utility comes within budget.

Legal Services**Balanced**

Legal Services is currently anticipating to be on budget, however, outside legal costs have generally been difficult to predict and as such could lead to potential over expenditure.

City Clerks**Balanced**

City Clerks is currently anticipating to be balanced by year-end, however, the preliminary election voters list may result in increased printing costs, beyond the \$100,000 increase approved by Council in March 2005. The elections office will be provided in late summer with a final voters list at which time it will be determined whether there are any implications for the Department's year end position.

Police Department**Balanced**

The Police Department has reported to its Board a projected surplus of \$1.4 million. However, given potential risks to the budget, such as unforeseen large criminal investigations or large events, the Department has projected a balanced year end position for the May Review.

The \$1.4 million reported surplus position is mainly attributed to savings associated with the scheduling of recruit classes. The 2005 budget assumed recruit classes would take place earlier in the year. However, the availability of spaces at the Justice Institute has meant these recruitment classes are taking place later in the year resulting in salary savings.

General overtime expenditures are anticipated to be under budget by \$0.42 million, however, statutory holiday overtime and liquor call outs for the entertainment district are anticipated to be over budget by \$0.50 million and \$0.23 million respectively. A review of statutory holiday overtime has determined that an increased number of statutory holidays falling on weekends are the main reasons for these increased costs which are directly related to collective bargaining requirements. A predictive model for statutory holidays is being developed while the use of "Paid Time Owed" is being utilized to mitigate projected overages for liquor call outs.

The Department is also experiencing increased fleet costs of \$0.35 million partially due to increased fuel costs.

Park Board**Balanced**

Relatively poor spring weather has led to lower than anticipated revenues in all income oriented programs, with the majority in concessions, golf courses and leases below

expectations. Overall, the Board's income-oriented programs have earned \$550,000 less than in the same period last year to date.

Concession revenues are expected to recover and expenses are being contained, so that at year end the Park Board will come within budget. Golf strategies to mitigate the revenue shortfall are in effect and promotional steps are being undertaken which should balance the budget, provided the poor weather does not continue.

The Park Board has identified a potential impact of fuel price increases of \$0.05 million but are implementing similar fuel conservation measures as those identified by Engineering Services.

Other Departmental Variances **\$0.05 million**

The remaining departments are projecting to either be balanced by year-end or generate minor variances. Specifically, departments projected to be within budget or with slight surpluses are the Office of the City Manager, Mayor and Council, Equal Employment Opportunity Office, Britannia Community Services, Civic Grants and Human Resources.

Net Expenditure Surplus	\$0.98 million
--------------------------------	-----------------------

Net Year-End Projection (Prior to Mitigations)	(\$1.48 million)
---	-------------------------

4. Contingency Reserve and General Program Account **\$1.53 million**

Contingency Reserve balance is estimated to be \$1.39 million and the General Program Account at \$0.14 million. This balance reflects adjustments to initiatives approved by Council based on actual implementation dates and deferral of funding of some initiatives to 2006. Departments have identified \$0.53 million of savings for Contingency Reserve and \$0.14 million for the General Program Account from these budget adjustments. This funding is the balance available after providing for two specific emergent issues - December snow and a potential West Nile outbreak.

Target Year-End Projection	Balanced
-----------------------------------	-----------------

CONCLUSION

Current estimates for the year-end shows the Operating Budget will be in a balanced position by year-end. However, two major areas of revenues, property taxes and gaming revenues are anticipated to be in a shortfall position of \$3.0 million. This has necessitated the need to hold Contingency Reserve and the General Program Account unspent by year end to ensure a balanced year-end position.

This year-end position could change given that unanticipated items could impact the City's bottom line. City Staff will be reporting back to Council on a more detailed review based on end of August performance.

Appendix A
2005 May Year-To-Date Review Summary

<i>\$ millions</i>	<u>Annual Budget</u>	<u>Year-End Projection</u>	<u>Year-End Variance</u>	<u>Percent Variance</u>
<u>REVENUES</u>				
Property Taxation	(461.69)	(460.29)	(1.40)	0.3%
Payments in Lieu (PIL)	(32.06)	(32.06)	0.00	0.0%
License Fees	(14.84)	(14.68)	(0.16)	1.1%
Service & Inspection Fees	(26.13)	(26.13)	0.00	0.0%
Municipal By-Law Fines	(9.99)	(10.26)	0.27	-2.7%
Parking Meter Revenue	(22.62)	(22.85)	0.23	-1.0%
Civic Property Rentals	(1.41)	(1.41)	0.00	0.0%
Miscellaneous Revenue	(4.79)	(4.79)	0.00	0.0%
Utility Co. Access	(0.29)	(0.29)	0.00	0.0%
Short-Term Interest	(10.00)	(10.00)	0.00	0.0%
Provincial Revenues	(19.74)	(18.34)	(1.40)	7.1%
Transfers	(8.43)	(8.43)	0.00	0.0%
Total Utility Revenues	(131.76)	(131.76)	0.00	0.0%
TOTAL REVENUES	(743.75)	(741.29)	(2.46)	0.3%
<u>EXPENDITURES</u>				
Mayor and Council	1.80	1.80	0.00	0.0%
Office of the City Manager	1.85	1.85	0.00	0.0%
Equal Employment Opportunity	0.61	0.61	0.00	0.0%
EEO City Wide Training	0.08	0.08	0.00	0.0%
Law Department	3.99	3.99	0.00	0.0%
Civic Theatres (Net Budget)	0.47	0.12	0.35	74.5%
Britannia Community Services	2.64	2.64	0.00	0.0%
City Clerk's	5.65	5.65	0.00	0.0%
Community Services Group	45.77	45.64	0.13	0.3%
Civic Grants	12.64	12.64	0.00	0.0%
Corporate Services	31.38	31.18	0.20	0.6%
Engineering Public Works	57.81	57.81	0.00	0.0%
Total Utility Expenditures	164.21	164.21	0.00	0.0%
Human Resources	6.57	6.57	0.00	0.0%
Fire Department	73.58	73.58	0.00	0.0%
Library Board	33.14	33.09	0.05	0.2%
Park Board	53.44	53.44	0.00	0.0%
Police Board	151.04	151.04	0.00	0.0%
General Government	51.09	50.84	0.25	0.5%
Total Debt Charges	45.99	45.99	0.00	0.0%
TOTAL EXPENDITURES	743.75	742.77	0.98	0.1%
Excess of Revenues Over Expenditures	0.00		(1.48)	
Contingency Reserve	5.20	3.81	1.39	
General Program Account	3.10	2.96	0.14	
NET POSITION			0.05	

*Note that any year-end surplus or deficit in the utilities are transferred to reserve.