



## CITY OF VANCOUVER

# A10

### ADMINISTRATIVE REPORT

Date: November 14, 2005  
Author: Annette Klein  
Phone No.: 873-7789  
RTS No.: 05586  
CC File No.: 1605  
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TO: Vancouver City Council

FROM: General Manager of Corporate Services/Director of Finance

SUBJECT: 2005 Operating Budget - August Review

### RECOMMENDATION

*THAT Council receive the 2005 Operating Budget August Review for INFORMATION.*

### COMMENTS OF THE CITY MANAGER

The staff review of revenue and expenditure estimates as of August 31 has determined that the City's financial performance at year-end will exceed expectations by \$2.66 million. This position assumes that \$1.63 million of Contingency Reserve and General Program Account remain unallocated.

Lower than anticipated revenue projections continue to significantly impact the City's year end projection as last reported in the May Review. Since the May Review, the City's financial position has improved mainly as a result of the Engineering and Police Departments projecting a total surplus of \$3.6 million. Without this surplus, the City's year end position is similar to that reported in the May Review.

The 2005 Operating Budget remains vulnerable given that emergent events between now and the end of the year can easily impact this projected bottom line, including the assumed surpluses reported by the Engineering and Police Department. As a result, the Corporate Management Team has committed to continue to closely monitor expenditures to the year end and leave both Contingency Reserve and the General Program Account unallocated to provide for any potential unforeseen events.

## 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 August 31, 2005, provides a projection for year-end and identifies any significant variances for Council.

## DISCUSSION

August Budget Review included detailed reviews of both revenues and expenditures compared to the budget approved by Council in March. In addition, a projection of the year-end position was completed. The purpose of the review is to identify areas of significant variance that could impact on the budget position at year-end and to make recommendations on adjustments to balance the budget by year-end.

### 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	(\$0.95 million)
Expenditures	<i>\$1.98 million</i>
<b>Net Budget Position</b>	<b>\$1.03 million</b>
Unallocated Contingency	\$1.49 million
Unallocated General Program Account	\$0.14 million
<b>Target Year-End Financial Projection</b>	<b>2.66 million</b>

Revenues are anticipated to end the year with a \$0.95 million shortfall while expenditures are anticipated to be under expended by \$1.98 million. Unallocated funding within Contingency Reserve and the General Program Account allow the City to generate a surplus of \$2.66 million by year end.

## 2. Variances to Revenue Appropriations

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

### *Surplus (Shortfall)*

#### Property Taxes

(\$1.74 million)

A property tax revenue are estimated to end the year in a \$1.74 million shortfall due to some properties being excluded from averaging, reduced penalty revenue resulting from improved collections, as well as reduced taxation from board of appeal decisions.

#### Provincial Contributions

(\$2.63 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 cultural, environmental, social and community initiatives.

As was reported during the May Review of the Operating Budget, the level of activity in the gaming market has not met these expectations. The latest projections from BCLC for 2005 are \$4.8 million, a further reduction from the estimates provided in the May Review of \$5.4 million, indicating a shortfall of \$2.2 million.

As was described in the May Review, 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.

During the May Review, specific issues relating to the Edgewater Casino were described, including:

- 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; and
- The policy of prohibiting liquor license on the gaming floor

Most of these concerns remain an issue; however, recent improvements to the Edgewater Casino may result in improved performance in the final quarter of the year. These include

- Increased hours of operations - from 21 to 24 hours per day
- Improved food and liquor service options in the adjacent for the adjacent restaurant/lounge
- Introduction of low denominations slot machines
- Marketing efforts to attract the NHL hockey patrons
- Increased seasonal activities in the fall and winter months

Below are the quarterly contributions to the City from all gaming facilities (Plaza of Nations, Mandarin (which closed in April 2005), and Holiday Inn. Though the Plaza of Nations owners feel they that the improvements made above will result in a 10% gain in the last quarter, BCLC has indicated that December is usually a slower month and that these gains will not be realized for all three months. Therefore, the last quarter projections show only a 1% increase in net revenues. However, given all these uncertainties, the final the outcome is difficult to determine.

	1 <sup>st</sup> Quarter (Actuals)	2 <sup>nd</sup> Quarter (Actuals)	3 <sup>rd</sup> Quarter (Actuals)	4 <sup>th</sup> Quarter (Projection)	Total
Revenue \$000	1,038	1,271	1,239	1,252	4,800
Quarterly Growth		22%	-3%	1%	

As was noted in the May Review, the City's gaming revenue is effected by the growth of full service casinos in the Region which draw potential clientele away from the Vancouver. Below are some of full service facilities that are either open or plan on opening in the next year.

	# of Machines	Amenities
Richmond's River Rock Casino	1000	Restaurant/Parking/Theatre
Langely's Cascade's Casino (opened in May '05)	500	Restaurant/Parking/Theatre
Coquitlam to open full service casino in 2006	950	Restaurant/Parking/Theatre

A further adjustment of \$0.4 million to Provincial Contributions is due to a reversal of a 2004 accrual offset by additional Traffic Fine Sharing revenue that resulted from the inclusion of E-Comm related costs in the City's cost distribution calculation.

**On-Street Parking & Enforcement Revenues** **\$0.85 million**  
 (Municipal By-Law Fines & Parking Meter Revenue)

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.

**Utility Revenues (Water, Sewer, & Solid Waste)** **\$2.57 million**

In 2005, there was an increase in metered water consumption compared to plan resulting in \$2.0 million more in revenues for the Water and Sewer Utilities. The remaining favourable variance of \$0.57 million is due to expectations that the Solid Waste Utility disposal and demolition revenues will be greater than budget due to increased volumes.

**Service and Inspection Fees** **\$0.11 million**

Service and Inspection Fee revenue are currently tracking ahead of expectations mainly resulting from favourable variance for Trade Permit Fees. Development Fees are tracking below expectations almost fully offsetting this potential revenue surplus. Development permits numbers are on target, however, the number of larger developments (therefore higher value) has declined.

**Licence Fees** **(\$0.11 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.

<b>Net Revenue Shortfall</b>	<b>(\$0.95) million</b>
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### 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 surplus. Below are explanations of any projected surpluses or risks that have been identified in the August Review of the Operating Budget. 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)*

**Police Department** **\$2.47 million**

City staff have provided quarterly updates to Council on the Vancouver Police Department's financial performance. The last report received by Council was on the Department's June year-to-date performance which indicated a year end surplus position of \$0.89 million. The June report based a significant portion of the year-end projections on comparing the first six months of revenues and expenditures against previous years' experiences. Given that historical patterns are only one predictive element, the projections were difficult to verify. This end of August review includes the impact of the busy summer months and therefore offers more reliable year end projections, subject to unforeseen emergencies or events that may impact the Department.

- *Sworn Salaries and Deployment* - VPD are projecting to be under budget by \$1,239,000 in sworn salaries.
  - *Gross Sworn Salaries* - As approved by Council, the 2005 Operating Budget estimates included 50 officers who were to have started in the Academy in the spring and fall. These classes have been reduced slightly and deferred until the late fall resulting in sworn salary savings of approximately \$450,000. Offsetting this saving is projected deferred vacation bank payouts of \$662,000.
  - *Increase to Secondment levels and Recoveries* - The Department has increased the number of officers on secondment to integrated regional enforcement initiatives. The 2005 Operating Budget was built on the assumption of 44 secondments and, as of the

end of August, the VPD had 71 officers on secondment. As a result, the VPD is projecting an increase in secondment recoveries of \$1.76 million.

o *Deployment Levels*

Given the delay in recruitment and the increase in secondments, VPD is under-deployed by approximately 37 officers as of the end of August. Increasing the level of secondments by 27 officers, without being able to fully backfill, is the main contributor to this deployment shortfall position as well as the VPD financial surplus position.

VPD has noted that there is a growing role for regional policing initiatives resulting in the creation of new multi-jurisdictional programs (such as the Integrated Gang Task Force). These programs provide enhanced regional coordination of investigative activities and can focus greater resources on important public safety issues that go beyond the scope and resources of a single police department. VPD has noted that these programs benefit all residents in the Lower Mainland while providing the following benefits to the VPD at no cost to the City:

- back-up resources for many complex VPD investigations
- valuable experience and training to the seconded members

The short term trade-off, however, is a reduction in local deployment until the department can recruit sufficient officers to backfill all seconded positions.

- *Overtime* - Though offsets within sworn salaries are being projected, VPD is anticipating an over-expenditure in overtime of \$323,600. These projections are based on expenditure patterns from previous years and a reflection of overtime costs from the busy summer months.

The key overtime variances are attributed to a savings of \$322,600 in general overtime mainly due to an increase in expected cost recoveries from special events and filming offset by anticipated over expenditures in liquor call outs and statutory holiday overtime:

- o Liquor Call Out overtime, incurred in the Entertainment District to police late bar closures, is projected to be over expended by \$166,000 mainly due to a budget reduction of \$124,000. The 2005 budget for liquor callout overtime was established at \$735,000 based on the submission to Council in the December 16, 2004, Council report "License Fees for Extended Hours for Liquor Primary Establishments". Council deferred increasing these license fees pending a requested report back to Council by the Police Department. Given Council's deferral, the license fees have not been increased over the 2004 level and the budget for liquor call outs and license fee revenues have been reduced by \$124,000 to reflect the recovery budget (\$611,000) approved by Council. Also impacting liquor call outs is the Fire Arms Interdiction Team (FIT). The cost of the team, \$232,341, has been mitigated by the utilization of Paid Time Owed.
- o Statutory holiday overtime is estimated to be \$483,200 over budget due to a collective bargaining requirement that overtime is paid to those officers that are scheduled for regular days off on statutory holidays. In 2005, the number of statutory holidays falling on weekends, to which many officers have scheduled days off, is significantly higher than most years. This impact is an anomaly and was not anticipated.

- *Civilian Salaries and Fringe Benefits* - Civilian salaries and fringe benefits, net of casual and temporary staffing expenses, are projected to be under budget by \$733,000 and \$307,000 respectively, due to hiring delays
- *Fleet* - The department anticipates to be over expended by \$166,700 mainly due to the cost of maintaining a number of unfunded donated vehicles (\$118,000) as well as an overage in fuel expenditures (\$77,000) within the covert fleet offset by lease and maintenance savings.
- *Legal Fees* - The department is projecting a positive variance of \$236,680 due to reduced legal proceedings in 2005.
- *Revenue* - The department is projecting \$172,000 surplus in external revenues such as Grants and Donations, Unclaimed Cash, and miscellaneous fees.

**Engineering - Public Works**

**\$0.70 million**

Engineering Public Works is anticipating to be under budget by approximately \$0.70 million mainly due to delays in filling vacant positions throughout the department, in particular within the Sustainability Office, Departmental Services and Special Projects.

As reported during the May Review, fuel expenditures continue to be challenging even with the mitigating measures implemented in the summer. Fuel prices have continued to increase since last reported to Council. The October price index is at 217.25 compared to the price index of 155 assumed in 2005 budget (1997=100). The impact on Public Works is estimated at \$0.14 million of which \$0.10 will impact the Operating Budget. The Department is mitigating these costs through reductions in other cost areas and with continued implementation of fuel conservation measures detailed in the May Review.

The year end estimate for fuel expenditures has increased from \$564,800 to \$711,400 since the May Review and is summarized as follows:

Departments	August Review Fuel Analysis		
	Operating (\$)	Capital (\$)	Total (\$)
Engineering Public Works	98,400	39,900	138,300
Utilities	309,300	73,700	383,000
Other City Departments	8,500		8,500
Park Board	168,600		168,600
Vancouver Police Department <sup>1</sup>	13,000		13,000
<b>Total</b>	<b>597,800</b>	<b>113,600</b>	<b>711,400</b>

<sup>1</sup> Only reflects fuel expenditures for the Police Department's regular fleet. The covert fleet's fuel expenditures are estimated to be \$77,000 over budget as noted in the VPD analysis.

The department had identified in the May Review a number of conservation measures such as:

- 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

The department is indicating that these measures will begin to influence consumption levels in 2006 and therefore not reduce shortfall anticipated in 2005, especially given the continued increase in fuel prices since last reported in May.

#### Utilities (Water, Sewer, & Solid Waste)

**(\$2.45 million)**

The Solid Waste Utility is anticipating to be over spent by \$0.98 million offset by higher than anticipated recycling, disposal and demolition revenues (\$0.80 million), partially discussed in revenues above, as well as recoveries from the GVRD related to the increased Vancouver Transfer Station costs (\$0.18 million). The expenditure variance is due to:

- Higher staffing costs at Vancouver South Transfer Station due to the establishment of higher minimum floor staffing levels that were developed by a joint health and safety committee as well as increased overtime related to absenteeism (\$0.40 million);
- unexpected Vancouver Transfer Station repairs costs (\$0.22 million)
- higher than anticipated landfill gas maintenance costs (\$0.16 million)
- increased fuel expenditures for the garbage fleet (\$0.20 million)

The Sewer Utility is anticipating to be under budget by \$0.30 million mainly due to \$0.40 million savings in drainage and cleaning maintenance from reallocating crews to the Canada-BC Infrastructure project as well as efficiencies from better route and crew selection, offset by increased sewer separation costs of \$0.10 million.

The Water Utility is anticipated to have a surplus by year end of \$0.5 million largely due to \$0.4 million less spent on water purchases than budgeted in the year.

The increased utility revenue of \$2 million along with the reduced purchase cost of water and other minor variances has resulted in a net surplus in the Water and Sewer Utilities of \$2.9 million. This surplus results in a corresponding increase to the transfer to the rate stabilization reserves of both of these utilities.

#### Corporate Services

**\$0.51 million**

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



**Community Services** **\$0.24 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, Current Planning, and City Plans. These savings are offsetting anticipated shortfalls within Support Services due to higher printing costs related to the need for additional notifications, and increased information technology expenditures within Development Services. Also anticipating a shortfall is the Board of Variance, an independent body that Community services exercises no managerial or budget authority, due to increased overtime expenditures and legal issues related to judicial challenges of the Board of Variance's authority under the City of Vancouver Charter.

**Civic Theatres** **\$0.24 million**

Event bookings at the City's civic theatres included the largest number of pop/rock concerts in 3 years and a 2-week run of *Mamma Mia!*. 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.

**Mayor and Council** **\$0.16 million**

Mayor and Council is anticipating to be under budget primarily due to delays in filling vacant positions.

**Library** **\$0.03 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 was approved by Council to help fund the #1 Kingsway project (\$0.46 million) with the balance to be reserved for books.

The following Departments anticipate either to exceed their annual budget or come within budget but have identified risks to their year end projection.

**Fire Department** **(\$0.22 million)**

The Fire Department is anticipating to be over budget by \$0.22 million. The Department is currently projecting \$0.7 million in salary savings due to a number of unanticipated early retirements and a younger workforce. This savings will be offset by over expenditures within other salary related accounts, increased demands for facility and equipment maintenance and supplies and one time costs of \$0.38 million related to the initial development and implementation of Fire's new record management system incurred prior

to EComm's involvement in the project. The RMS estimates are preliminary and may change by year end.

**Legal Services** **Balanced**

Legal Services is currently experiencing salary savings with offsets in outside legal costs and are 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**

Though experiencing high printing costs of approximately \$70,000 related to the expanded civic election voters list, City Clerks is anticipating to be balanced by year-end.

**Park Board** **Balanced**

Relatively poor early summer weather has led to lower than anticipated revenues, with golf courses, parking and leases all below expectations. At year end the Board is expected to have a revenue shortfall of approximately \$200,000. In order to offset the expected revenue shortfall, cost saving measures not affecting service levels have been implemented and, barring unforeseen events, are expected balance the budget by year end.

Overall, the Park Board has identified a risk of approximately \$75,000 for its year end position, but has committed to a balanced year end position

**Other Departmental Variances** **\$0.06 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, Equal Employment Opportunity Office, Britannia Community Services, Civic Grants and Human Resources.

<b>Net Expenditure Surplus</b>	<b>\$1.98 million</b>
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<b>Net Year-End Projection (Prior to Contingency and GPA)</b>	<b>\$1.03 million</b>
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**4. Contingency Reserve and General Program Account** **\$1.63 million**

Contingency Reserve balance is estimated to be \$1.49 million and the General Program Account at \$0.14 million. This balance reflects adjustments to initiatives approved by Council based on actual implementation dates, deferral of funding of some initiatives to 2006, and the elimination for the need to fund a potential West Nile outbreak in 2005. This funding is the balance available after providing for a potential December snowfall.

<b>Target Year-End Projection</b>	<b>\$2.66 million</b>
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## CONCLUSION

Current estimates for the year-end shows the Operating Budget will be in a surplus position by year-end. However, two major areas of revenues, property taxes and gaming revenues are anticipated to be in a shortfall position of \$3.27 million which is mainly being offset by surplus within Engineering Public Works and the Police Department. The year end projection may still be impacted by emergent events between now and the end of the year including the assumed surpluses reported by the Engineering and Police Department. Given this vulnerability, the Corporate Management Team continues to recommend to hold Contingency Reserve and the General Program Account unspent by year end to ensure a balanced year-end position.

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**Appendix A**  
**2005 August Year-To-Date Review Summary**  
(in millions)

	Annual Budget	Year-End Projection	Year-End Variance	Percent Variance
<b>REVENUES</b>				
Property Taxation	(461.69)	(459.95)	(1.74)	-0.4%
Payments in Lieu (PIL)	(32.06)	(32.06)	0.00	0.0%
License Fees	(14.72)	(14.61)	(0.11)	-0.7%
Service & Inspection Fees	(26.67)	(26.78)	0.11	0.4%
Municipal By-Law Fines	(9.99)	(10.44)	0.45	4.5%
Parking Meter Revenue	(22.63)	(23.03)	0.40	1.8%
Civic Property Rentals	(1.41)	(1.41)	0.00	-0.1%
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)	(17.11)	(2.63)	-13.3%
Transfers	(8.43)	(8.43)	0.00	0.0%
Total Utility Revenues	(126.26)	(128.83)	2.57	2.0%
<b>TOTAL REVENUES</b>	<b>(738.68)</b>	<b>(737.73)</b>	<b>(0.95)</b>	-0.1%
<b>EXPENDITURES</b>				
Mayor and Council	1.80	1.64	0.16	0.09
Office of the City Manager	1.85	1.85	0.00	0.00
Equal Employment Opportunity	0.53	0.52	0.01	0.02
Law Department	4.05	4.05	0.00	0.00
Civic Theatres (Net Budget)	0.56	0.32	0.24	0.43
Britannia Community Services	2.66	2.66	0.00	0.00
City Clerk's	5.65	5.65	0.00	0.00
Community Services Group	46.84	46.60	0.24	0.01
Civic Grants	13.71	13.71	0.00	0.00
Corporate Services	31.36	30.85	0.51	0.02
Engineering Public Works	57.81	57.11	0.70	0.01
Total Utilities Expenditures	158.72	161.17	(2.45) *	(0.02)
Human Resources	6.62	6.58	0.04	0.01
Fire Department	73.54	73.76	(0.22)	(0.00)
Library Board	33.25	33.22	0.03	0.00
Park Board	53.44	53.44	0.00	0.00
Police Board	151.16	148.69	2.47	0.02
General Government	47.51	47.26	0.25	0.01
Total Debt Charges	45.99	45.99	0.00	0.00
<b>TOTAL EXPENDITURES</b>	<b>737.05</b>	<b>735.07</b>	<b>1.98</b>	0.00
<b>NET POSITION before CONTINGENCY</b>	<b>(1.63)</b>		<b>1.03</b>	
<b>Contingency/GPA</b>	<b>1.63</b>		<b>1.63</b>	
<b>NET POSITION</b>	<b>(0.00)</b>		<b>2.66</b>	

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