



CITY OF VANCOUVER

ADMINISTRATIVE REPORT

Date: July 10, 2006
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TO: Standing Committee on City Services and Budgets

FROM: General Manager of Corporate Services/Director of Finance

SUBJECT: 2006 Operating Budget - May Review

RECOMMENDATION

THAT Council receive the 2006 Operating Budget May Review for INFORMATION.

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 2006 Operating Budget at May 31, 2006, provides a projection for year-end and identifies any significant variances for Council.

DISCUSSION

The May Budget Review is a high level review of both revenues and expenditures compared to the budget approved by Council in April. 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 of the financial status as at the end of August will be conducted to further validate the projections submitted by the service groups.

1. Summary of Variances to Revenue & Expenditure Appropriations

Table 1 summarizes the 2006 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	\$0.23 million
Expenditures	(\$1.41 million)
Net Budget Position	(\$1.18 million)
Unallocated Contingency	\$2.79 million
Target Year-End Financial Projection	\$1.61 million

Revenues are anticipated to end the year with a slight surplus while expenditures are anticipated to be over expended by \$1.61 million. Unallocated funding within Contingency Reserve allows the City to come within budget by year end with a potential surplus of \$1.61 million.

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	(\$0.75 million)

A property tax revenue adjustment of \$0.75 million is required in 2006 as a result of some properties having been partially excluded from averaging.

Provincial Contributions

Balanced

There has been significant activity in the gaming market in Vancouver and the Region that requires the City to be diligent in reviewing its estimated revenues from Casino operations. Second quarter revenues and indications from the British Columbia Lottery Corporation (BCLC) is that gaming revenues are on target.

Vancouver Market (Edgewater Casino):

The Edgewater Casino operators has obtained an order from the BC Supreme Court to secure creditor protection on May 2, 2006. Since then the existing operators have been in a process of negotiating the sale of the shares for Edgewater Casino to Paragon BC ULC.

On May 30, 2006, based on the merits of a proposal from Paragon BC ULC, Council approved a motion to support the extension of the time-limited development permit for Edgewater Casino at Plaza of Nations. On June 5, 2006 the Development Permit Board granted the extension as requested. Once Paragon secures permits and approvals from

the British Columbia Lottery Corporation (BCLC) and the British Columbia Gaming and Enforcement Branch, the parties will be in a position to complete the purchase. Upon taking control of operations, Paragon's plans include immediate enhancement of some customer service initiatives at the present site, some rearrangement of the gaming mix (tables and slots), and the eventual relocation to a new facility prior to July 2013.

The BC Lottery Corporation and the existing casino operators have indicated to City staff that the Edgewater casino will continue operations as normal, until such a time when a purchase is finalized.

Regional Market

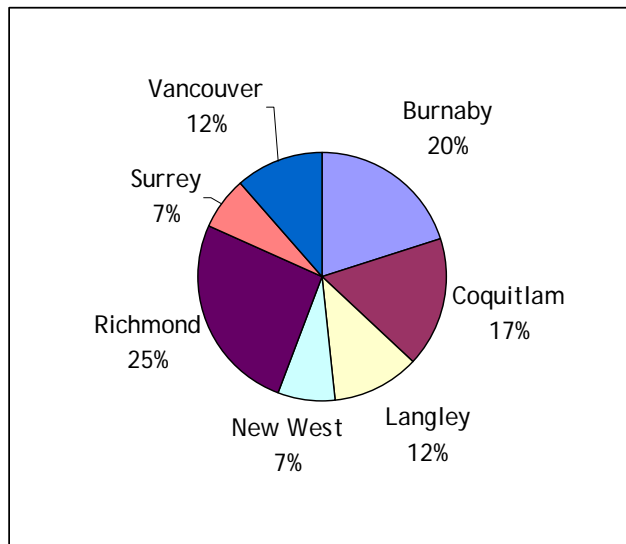
The Lower Mainland gaming market has continued to expand, with an additional 24.6% increase in gaming revenues for municipalities in 2005/2006. The increase is mainly due to the opening of a new casino in Langley in May 2005, and to the opening of the Edgewater casino in Vancouver in February 2005. In total, there are over 4,400 slot machines and over 320 gaming tables in the region. City of Vancouver's market share has improved in 2006. Future changes in this market will continue to impact this regional distribution as noted in Table 1 below.

Table 1 - Municipal Gaming Revenues - Vancouver Region (Provincial Fiscal Year)

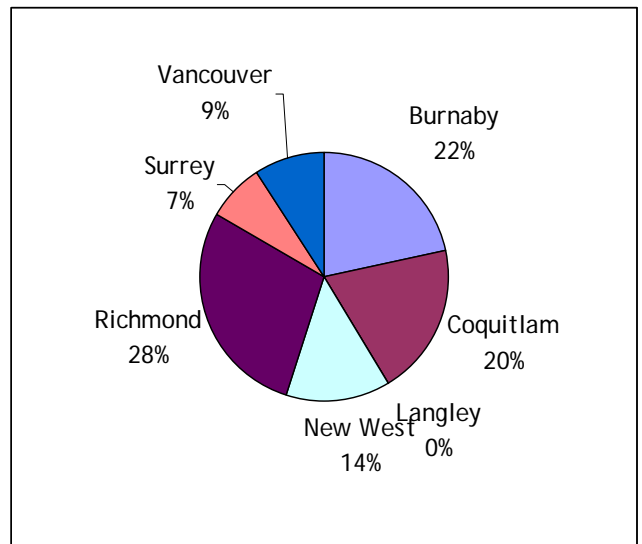
	2006/05 \$000	2005/04 \$000	Change \$000	Change %	Service Changes
Burnaby	8,687	7,550	1,137	15%	No change. A new upgraded casino to be opened in 2008
Coquitlam	7,309	6,840	469	6.8%	Increased slot machines from 450 to 950
Langley	5,001	-	5,001	n/a	The Cascades Casino opened in the spring of 2005 with 530 slot machines and 27 tables
New West	3,165	4,730	(1,565)	-33%	The Royal Towers casino closed on November 2005. The Royal City Star Casino continues to operate. A new casino is scheduled to open in the Fall of 2008
Richmond	11,195	9,891	1,304	13%	No change
Surrey	2,977	2,524	453	18%	No change
Vancouver	4,991	3,224	1,767	54.8%	Potential change of casino operator for Edgewater Casino.
Region	43,325	34,759	8,566	24.6%	

Source: BC Gaming Policy and Enforcement Branch - Local Government Share of Gaming Revenue to March 31, 2006.

2005/2006 Regional Market Share



2005/2004 Regional Market Share



Year End Projections

Information provided by BCLC for the first six months of 2006, indicates that revenue projections are holding as anticipated. The table below summarizes the revenues received from Vancouver's two casinos. If this level of performance continues, the City's projection for \$5 million of gaming revenue for 2006 will materialize.

Casino	2006 Quarter 1	2006 Quarter 2	Quarterly Average
Edgewater Casino	\$983,274	\$971,897	\$977,586
Holiday Inn	\$287,324	\$286,188	\$286,756
Total	\$1,270,598	\$1,258,086	\$1,264,342

On-Street Parking & Enforcement Revenues **\$0.73 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 as well as approximately \$100,000 savings in the On-Street Parking Program is due to a reduction in the GST to be remitted to the Federal government. As noted in the Engineering section, it is anticipated that the by-law fines revenues will be offset by expenditures related to the replacement of most of the handheld equipment, subject to Council approval.

Service and Inspection Fees **(\$0.25 million)**

Service and Inspection Fee are mainly anticipated to be on budget. However, Anchor Rod Fees are tracking below expectations and are estimated to be under recovered by approximately \$250,000.

Utility Revenues **\$0.50 million**

The water and sewer utility revenues are heavily dependent on the water volume consumption which is difficult to estimate prior to the end of the summer months. The solid waste utility is experiencing a 10% increase in GVRD tonnage at the landfill resulting in higher than anticipated revenues of \$0.5 million which is directly offset by increased landfill expenditures.

Other Revenues/Transfers **Balanced**

Other revenues are expected to be on budget by year-end which includes License Fees, Payments in Lieu of Taxes, Short Term Interest, Civic Property Rentals, Miscellaneous Revenues, and Transfers

Net Revenue Surplus	\$0.23 million
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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 April, being either balanced or with a slight shortfall. 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 expenditures as necessary with the exception of expenses that are beyond their control.

	<u>Surplus (Shortfall)</u>
Community Services	(\$0.34) million
<p>Community Services (CSG) is projecting over expenditures of \$0.67 million due to senior staff retirements and increased printing and bank charges. The retirement of staff within Community Services will result in significant employment related payouts and recruitment costs. CSG is also projecting a shortfall of \$0.22 million from higher than anticipated bank charges and increased printing and postage expenditures related to increased notifications standards. Offsetting these expenditure increases is salary savings of \$0.43 million within Development Services and Licenses and Inspections.</p>	
Engineering - Public Works	(\$0.41 million)
Net of Transfer from By Law Fines Revenues	Balanced

Even though the Engineering Department is anticipating a \$0.41 million shortfall at year end, the shortfall will be eliminated if Council approves the replacement of most of the handheld equipment at a cost of \$0.48 million by utilizing the increase in By-Law Revenue noted above. A Council report will be submitted in the fall for Council approval. Once the replacement is approved by Council, this shortfall will be eliminated through a budget transfer.

The remaining year end variances are attributed to increased parking meter maintenance related to vandalism (\$0.10 million), lower than anticipated revenues due to delays in implementing new Utility Review & Inspection Fees (\$0.13 million), and savings in fleet maintenance (\$0.4 million).

Equipment budgets are based on a fuel price component that was increased by 24.8% over the 2005 budget. However, fuel prices have been increasing even more dramatically than expected over the last few months and are now projecting prices to be 7.7% above the 2006 budget. This translates to a \$0.53 million projected budget shortfall that is distributed between the tax supported, utility, and capital budgets as follows.

	Operating (\$)	Capital (\$)	Total (\$)
Public Works	88,400	32,300	120,700
Utilities	161,400	40,200	201,600
Police	122,300	-	122,300
Other City Departments	36,000	-	36,000
Park Board	47,600	-	47,600
Total	455,700	72,500	528,200

The impact on Public Works is estimated at \$0.12 million of which \$0.09 will impact the Operating Budget. The costs within Public Works will be mitigated by year end either through fuel consumption measures or other cost savings.

In 2005, increases in fuel prices resulted in a number of consumption mitigation measures being introduced or revisited. The initiatives listed below will help offset these costs.

Data Collection (Vehicle Identification Unit (VIU) and Engine Control Modules (ECM))

The VIU system was introduced in April 2003 as a way of tracking fuel costs and billing information. Supplementing the VIU with additional data collection systems may provide performance information that could lead to better vehicle utilization and fuel consumption. Engineering Equipment Services (EQS) is investigating systems opportunities for collecting data from the vehicles engine control modules (ECM). Such a system will provide data on fuel economy, idle time, trouble codes, speeds, air conditioning (AC) use.

Right-Sizing Policy

EQS has been applying a right-sizing philosophy for the last few years when choosing new equipment for the fleet and is working on translating this philosophy into a corporate policy. The right-sizing of vehicles across the fleet ensures that fuel economy and emissions is considered a priority when vehicles are chosen.

Tire Inflation Policy

Through driver training City staff are being made aware of the importance of tire inflation for safety and fuel economy. EQS is also checking tire inflation and reporting improperly inflated tires to the driver's supervisors.

Air Conditioning Policy

A policy was approved in May 2006 that states that no vehicles shall have air conditioning unless required for Occupational Health & Safety reasons, a feasible restriction given Vancouver's mild climate. Air conditioning increases fuel consumption by 10%-15%.

Driver Training

Fuel economy training and safety training are conducted concurrently during driver training. Training has already begun on a request basis from customers and the remainder of the fleet will be prioritized to maximize accident reduction and fuel savings.

Idle Reduction

A policy has been developed and has been communicated through driver training and area supervisors. Enforcement will occur in the field by supervisors. Equipment Services is reviewing options for adding systems capabilities to issue idle time reports for all vehicles to be able to identify opportunities for savings.

Utilities (Water, Sewer and Solid Waste) (\$0.50 million)

Net after Transfer from Utility Revenues Balanced

The Water and Sewer Utility operating expenditures are heavily dependent on the level of water consumption which has higher utilization during the summer months. As a result, projections for these two utilities are premature. During the August Review the Engineering Department will be able to provide a better estimate for these utilities' year end projections.

The Solid Waste Utilities is experiences higher GVRD tonnage at the landfill increasing expenditures by \$0.5 million which is offset by increased revenues noted above. The Landfill Gas Control System has been more complex than anticipated resulting in additional expenditures of \$0.12 million. Finally, the increased fuel prices are estimated to increase fuel costs by \$0.10 million. Balancing the \$0.22 million anticipated year end variance will be a transfer from the Solid Waste Reserve at year end.

Fire Department (\$0.21 million)

The Fire Department is anticipating a \$0.3 million shortfall due to increased fleet and building maintenance costs associated with some of their older apparatus and facilities. As well, the Department is experiencing maintenance issues with their Mobile Data Terminals slated for replacement in 2007 resulting increased communication costs of \$0.10 million. Offsetting these expenditures are salary savings due to vacancies and hiring replacement Firefighters at lower starting rates.

Legal Services (\$0.20 million)

Legal Services is anticipating a \$0.20 million shortfall due to the need to backfill key solicitor positions that are on leave.

General Government \$0.25 million

General Government is currently estimated to be \$0.25 million under budget due the Province providing a grant to PRIMECorp, the organization responsible for British Columbia's police agency record's management system (PRIME). This grant is intended to retire the outstanding capital costs associated with the initial investment in the PRIME system by Richmond, Vancouver, and Port Moody.

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

Library Balanced

The is projecting a balanced year end position, however, lower than anticipated library fine revenues will be offset by the delayed opening of the new Kensington Branch by one month.

Corporate Services**Balanced**

Corporate Services has also been impacted by the retirement a number of staff resulting in significant employment related payouts and recruitment costs.. Corporate Services is also anticipating a shortfall of \$0.08 million in printing revenues due to the loss of a key external client. Offsetting this expenditures are salary savings due to delay in filling positions. The Department's year end position is at risk, however, measures are being put in place to manage costs to ensure Corporate Services remains within budget by year end.

Police Department**Balanced**

The Vancouver Police Department (VPD) has reported to its Board a balanced year end position. The Department however has noted some significant variances that have offsetting impacts on each other.

Three areas of projected shortfalls include:

- Criminal Investigation Fund, utilized for more specialized investigative cases, has an annual budget of \$2.1 million. As of May 31st the VPD had expended 76% of the annual budget due to four major cases that required significant resources. As a result, VPD has projected a shortfall of \$1.46 million by year end.
- Overtime is estimated to be over expended on a net basis by \$0.61 million as noted in the table below.
 - General overtime is expected to be over expended by \$0.80 million partially due to increased call outs which has offsetting recoveries of approximately \$0.49 million.
 - The Department has utilized a model for their Statutory Overtime expenditures which is predicting a shortfall of \$0.5 million. The model will be evaluated in time for the August Review in order to validate the projected variance.
 - The VPD has noted a shortfall in relation to the deployment of the Firearms Interdiction Team (FIT) in the Entertainment District. Council had reviewed a funding request from the VPD for the FIT when deliberating over the City's liquor establishments' hours of operation policy in April 2006 and had instructed the Department to fund the team within existing resources.

<u>Sworn Overtime</u>	<u>Projected Variance (\$)</u>
General	(796,300)
Less Recovery from Call Outs	<u>492,600</u>
Net General Overtime Variance	(303,700)
Court	(26,800)
Statutory Holiday	(514,200)
Fire Arms Interdiction Team	(258,300)
<u>Total Sworn Overtime</u>	<u>(610,400)</u>

- Higher fleet costs of \$0.23 million are anticipated due to increased fuel prices as well as increased "own fault" maintenance repairs. The VPD patrol fleet is experiencing higher level of body repair costs due to the introduction on a new vehicle blocking techniques that avoid high speed vehicle pursuits. This technique involves the use of push bars in the front of the vehicles which are then used to physically pin suspect vehicles. To date, the VPD has recorded a 30% reduction in pursuits (42 versus 60).

The major offsetting savings to bring the Department into budget include:

- Salary savings \$1.68 million for both civilian and sworn staff are expected mainly due to hiring delays. Sworn Salary savings of \$1.32 million is mainly being attributed to hiring delays for the Jail operations. However, a more thorough analysis of these savings will be required by the Department in time for the August Review.
- Legal expenditures are expected to be under budget by \$0.38 million.
- Fees and Unclaimed cash are ahead of expectations with a projected surplus of \$0.28 million and 0.38 million respectively

Park Board

Balanced

The Park Board is anticipating a revenue shortfall of \$0.30 million mainly due to lower than anticipated golf revenues. This shortfall reflects a downward participation trend being experienced by golf courses across North America. Strategies to mitigate the golf revenue shortfall are in effect and include: customer service initiatives such as the web-based booking system, maximizing available tee times by ensuring clubs finish within allotted time periods and by piloting earlier tee times (by half an hour) for June, promoting tournaments and special events, taking advantage of alternative course and facility uses such as film shoots, and cost containment to reduce expenses.

The revenue shortfall is expected to be offset by expenditure reductions resulting from cost containment measures not affecting service levels. By continuing to closely monitoring both revenues and expenditures, cost saving measures can be implemented if issues arise. Overall, the Park Board is committed to balancing the budget by the end of the fiscal year; however, utility and fuel expenditures are currently higher than anticipated and are being monitored.

Other Departmental Variances

Balanced

The remaining departments are projecting be balanced by year-end which include: Mayor and Council, Office of the City Manager, Equal Employment Opportunity, Law Department, Civic Theatres, Britannia Community Services, City Clerk's, Civic Grants, and Human Resources.

Net Expenditure Shortfall	(\$1.41 million)
Net Year-End Projection (Prior to Mitigations)	(\$1.18 million)
4. Contingency Reserve and General Program Account	\$2.79 million
<p>Contingency Reserve balance is estimated to be \$2.79 million. This funding is the balance available after providing for a potential December snow fall and two pending reports.</p>	
Target Year-End Projection	\$1.61 million

CONCLUSION

Current estimates for the year-end shows the Operating Budget to be in a better than budget position. However, this is mainly due to uncommitted Contingency Reserve. This year-end position could change given that unanticipated items could impact the City's bottom line. For this reason, Departments will continue to monitor their budgets carefully and to minimize spending from Contingency Reserve to ensure a balanced year-end position.

City Staff will be reporting back to Council on a more detailed review based on end of August financial performance.

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Appendix A
2006 May Year-To-Date Review Summary

\$ millions	Annual Budget	Year-End Projection	Year-End Variance	Percent Variance
<u>REVENUES</u>				
Property Taxation	483.02	482.27	(0.75)	(0.16%)
Payments in Lieu (PIL)	33.32	33.32	-	0.00%
License Fees	14.79	14.79	-	0.00%
Service & Inspection Fees	28.61	28.36	(0.25)	(0.87%)
Municipal By-Law Fines	10.81	11.44	0.63	5.83%
Parking Meter Revenue	24.07	24.17	0.10	0.42%
Civic Property Rentals	1.51	1.51	-	0.00%
Miscellaneous Revenue	5.51	5.51	-	0.00%
Short-Term Interest	11.40	11.40	-	0.00%
Provincial Revenues	17.54	17.54	-	0.00%
Transfers	7.16	7.16	-	0.00%
Total Utility Revenues	140.46	140.96	0.50	0.36%
TOTAL REVENUES	778.20	778.43	0.23	0.03%
<u>EXPENDITURES</u>				
Mayor and Council	1.89	1.89	-	0.00%
Office of the City Manager	2.11	2.11	-	0.00%
Equal Employment Opportunity	0.46	0.46	-	0.00%
Law Department	4.29	4.49	(0.20)	(4.66%)
Civic Theatres (Net Budget)	0.50	0.50	-	0.00%
Britannia Community Services	2.84	2.84	-	0.00%
City Clerk's	4.59	4.59	-	0.00%
Community Services Group	46.63	46.97	(0.34)	(0.73%)
Civic Grants	14.18	14.18	-	0.00%
Corporate Services	32.08	32.08	-	0.00%
Engineering Public Works	58.36	58.77	(0.41)	(0.70%)
Total Utility Expenditures*	174.77	175.27	(0.50)	(0.29%)
Human Resources	7.43	7.43	-	0.00%
Fire Department	75.68	75.89	(0.21)	(0.28%)
Library Board	34.20	34.20	-	0.00%
Park Board	54.88	54.88	-	0.00%
Police Board	160.89	160.89	-	0.00%
General Government	47.97	47.72	0.25	0.52%
Total Debt Charges	50.88	50.88	-	0.00%
TOTAL EXPENDITURES	774.63	776.04	(1.41)	(0.18%)
Excess of Revenues Over Expenditures	3.57	2.39	(1.18)	
Contingency Reserve	3.57	0.79	2.79	
NET POSITION			1.61	

*Other than landfill expenditures covered by increased revenues, year-end surplus or deficit in the utilities are transferred to reserve.