



CITY OF VANCOUVER

ADMINISTRATIVE REPORT

Date: October 6, 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 - August Review

RECOMMENDATION

THAT Council receive the 2006 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. This positive year end projection is based on August results and therefore could change by year end. In particular, emergent events between now and the end of the year can easily impact this projected bottom line. As a result, the Corporate Management team has committed to continue to closely monitor expenditures to the year end.

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 as at August 31, 2006, 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 and provides an update of the review done for May 2006. 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 any necessary recommendations on adjustments to balance the budget by year-end.

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	\$2.32 million
Expenditures	<u>\$1.35 million</u>
Net Budget Position	\$3.67 million
Unallocated Contingency	\$2.44 million
Target Year-End Financial Projection	\$6.11 million

Revenues are anticipated to end the year with a \$2.32 million surplus while expenditures are anticipated to be under expended by \$1.35 million. Unallocated funding within Contingency Reserve of \$2.44 million as of September 30, 2006 allows the City to generate a surplus of \$6.11 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

(\$2.1 million)

Property tax revenue is estimated to end the year in a \$2.1 million shortfall. This is due to some properties being excluded from averaging (\$0.7 million) as mentioned in the May Review, reduced interest revenue due to improved collections (\$0.8 million), as well as reduced taxation from board of appeal decisions (\$0.8 million). Penalty on late payments is expected to be \$0.2 million better than budget.

Provincial Contributions

Balanced

Provincial Contributions from Traffic Fine Revenue Sharing and Gaming Revenue are anticipated to be on target. As noted in the May Review of the Operating Budget, 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 will be on target for the year.

The sale of the Edgewater Casino to Paragon BC ULC was approved by the BC Supreme Court in late August 2006. Paragon's immediate plans include enhancement of some customer service initiatives at the present site including signage and obtaining a liquor license for the gaming floor, some rearrangement of the gaming mix between tables and slots, and the eventual relocation to a new facility prior to July 2013.

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 **\$1.80 million**
(Municipal By-Law Fines & Parking Meter Revenue)

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

Utility Revenues (Water, Sewer, & Solid Waste) **\$0.93 million**

Solid Waste Revenue is expected to be \$1.6 million higher than budget for 2006. This is due to \$0.60 million from increased tonnage being processed through the landfill, (which is offset by increased landfill expenditures) and higher recycling revenue due to a strong market and increasing quantities. Revenue from the Sewer Utility is lower than expectations by \$0.52 million mainly due to lower metered water consumption.

Service and Inspection Fees **\$1.4 million**

Due to the currently high level of construction activity that is taking place in the City, Service and Inspection Fee revenue are currently tracking ahead of expectations, resulting in a favourable variance in Development and Trade Permit Fees of \$1.37 million. However due to the decline in the number of larger developments, Anchor Rod Fees are tracking at \$0.15 million below budget.

Licence Fees **(\$0.21 million)**

Licence fees are tracking below budget mainly due to lower than anticipated dog licenses revenue. Compliance levels (percentage of dog owners who purchase licenses) are not increasing at the pace envisaged in the Animal Control Strategic Plan.

Short Term Interest **\$0.50 million**

Short term interest income is expected to be in a surplus of \$0.50 million due to higher than anticipated interest rates and cash balances.

Other Revenues **Balanced**

Other revenues, including Payments in Lieu of Taxes, Civic Property Rentals, Miscellaneous Revenue and Transfers, are expected to be on budget by year-end.

Net Revenue Surplus **\$2.32 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. Below are explanations of any projected variances 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

\$1.27 million

At the May Review, the Vancouver Police Department (VPD) had projected that they would come in on budget for the year. Due mainly to delays in hiring sworn and civilian staff, the VPD is now projecting a year-end surplus of \$1.27 million.

The major areas of savings include:

- Salary savings of \$3.59 million for both sworn (\$2.31 million) and civilian staff (\$1.03 million) are expected mainly due to hiring delays and the use of higher than needed average pay rates. Included in the salary savings is an estimated surplus in fringe benefits of \$0.25 million
- Legal expenditures are expected to be lower than budget by \$0.56 million
- Expected surplus in Other Expenses totalling \$0.54 million, though some of the items in this category are of an one-time nature and may be expended by year-end
- Fee revenues and unclaimed cash (\$0.44 million) are better than anticipated.

Three areas of projected shortfalls include:

- Criminal Investigation Fund, utilized for more specialized investigative cases, is projected to have a shortfall of \$1.74 million. This is due to the number of major investigations that have occurred during the year.
- Overtime is estimated to be over budget on a net basis by \$0.60 million due largely to:
 - Shortfall in Statutory Overtime expenditures projected to be \$0.62 million
 - Shortfall of \$0.24 million in 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
- Fleet costs are projected to have a shortfall of \$0.71 million due to increased fuel costs and increased body repairs resulting from the introduction of a new vehicle blocking technique to minimize the number of high speed vehicle pursuits, thus reducing the risk to the general public
- Recoveries are projected to have a shortfall of \$0.81 million due to a shortfall in recoveries from the Province for the jail operations as the budget was set before the agreement with the Province was finalized (\$0.23 million) and lower than budgeted other recoveries (\$0.58 million), mainly due to a reduction in events call-outs.

Engineering - Public Works

\$0.44 million

Engineering Public Works is anticipating being under budget by approximately \$0.44 million mainly due to \$0.95 million of vacancy savings within Departmental Services and Transportation, and an expected surplus of \$0.40 million within the Equipment Service branch due to lower fleet maintenance costs. This is offset by unsuccessful recovery of damage claims from ICBC (\$0.35 million), increased parking meter maintenance due to vandalism (\$0.15 million), lower than anticipated revenues due to delays in implementing new Utility Review & Inspection Fees (\$0.15 million) and the increased costs for maintenance supplies (\$0.18 million) and increased fuel costs (\$0.10 million).

Equipment budgets are based on a fuel price component that was increased by 24.8% over the 2005 budget. As noted in the May Review, fuel prices had been increasing substantially early in the year and were expected to be 7.7% above the 2006 budget. This estimate has been updated to 8.3%, translating to a \$0.57 million projected budget shortfall that is distributed between the tax supported, utility and capital budgets as follows:

	Operating (\$)	Capital (\$)	Total (\$)
Public Works	95,288	34,817	130,105
Utilities	173,977	43,332	217,309
Police	131,830		131,830
Other City Department	38,805		38,805
Park Board	51,309		51,309
Total	491,209	78,149	569,358

Utilities (Water, Sewer, & Solid Waste)
Net Operating Budget Impact

(\$1.32 million)
(\$0.39 million)

The Solid Waste Utility is anticipating to be over spent by \$1.4 million, offset by higher than anticipated recycling, disposal and demolition revenues (\$1.60 million), discussed in revenues above. The expected surplus of \$0.2 million will be transferred to reserve at year-end.

The expenditure variance is mainly due to the following:

- o The completion of the Automated Garbage Collection Implementation has required additional staff and continued use of old rear loading equipment, as well as new equipment (\$0.35 million)
- o Additional road material cost at the Landfill due to increased waste as well as preparing phase 2 of the Landfill (\$0.30 million)
- o Additional variable costs due to more waste tonnages from the GVRD (\$0.31 million)
- o Additional repairs to the Vancouver Transfer Station (\$0.17 million)
- o Higher consulting and maintenance costs relating to gas control at the Landfill (\$0.19 million).

The Water Utility is anticipated to have a surplus by year end of \$1.30 million largely due to a savings of \$1.0 million from the reduced water purchases from the GVRD (representing a 1.3% reduction in assumed water consumption). This figure may change as July and August billings for metered water use have not been credited. At year-end, any surplus will be transferred to the Water stabilization reserve.

The Sewer Utility is anticipating being over budget by \$0.39 million due primarily to the lower metered water consumption of \$0.52 million. This was partially offset by \$0.18 million of savings from drainage and cleaning maintenance crews being seconded to the Canada-BC Infrastructure project. As in the case of the Water Utility, July and August billings were not available during preparation of this report and those values could alter the final budget position of the Sewer Utility.

Overall, variances in the utilities are balanced through transfers to or from their respective stabilization reserves with the exception of the sewer utility of which 51.8% remains within the operating budget. The net impact to 2007 is a shortfall of \$0.39 million.

Corporate Services

\$0.40 million

Corporate Services is anticipating a positive year end variance of \$0.40 million. This is mainly due to salary savings resulting from delay in hiring and positions filled at lower steps. These savings, together with careful cost management also help to offset an estimated shortfall in printing revenues due to the loss of a key external client as well as employment related payouts and recruitment costs arising from retirements.

Community Services

\$0.14 million

Community Services is anticipating being under budget due primarily to vacancy savings within Development Services, Licensing and Inspections and Support Services, offsetting payouts relating to staff retirements. Offsetting the net vacancy savings of \$0.29 million is an anticipated shortfall within Support Services due to higher printing costs related to the need for additional notifications (\$0.11 million) and banking fees related to increased use of online payments (\$0.07 million).

Fire Department

\$0.40 million

The Fire Department is anticipating a \$0.40 million surplus, resulting mainly from vacancy savings, higher WCB and sick leave recoveries and fleet rental rate savings due to delays in the replacement of fire apparatus. Offsetting these savings are increased fleet and building maintenance costs associated with some of their older apparatus and facilities. As well, the Department is experiencing maintenance issues with communications equipment, including the mobile data terminals slated for replacement in 2007.

Legal Services **(\$0.45 million)**

Legal Services is expecting to have a \$0.45 million shortfall due mainly to higher than anticipated outside legal costs.

Park Board **Balanced**

Park Board revenues are expected to be at or above budget for all areas except golf, with increases over last year in concessions, parking and leases resulting in a \$0.30 million budget surplus. This will offset golf revenues, which are anticipated to be at the same level as last year, and therefore not expected to achieve budgeted levels. The net revenue expectation by the Park Board is balanced. The Board is also anticipated to meet its expenditure budget although a continued increase in utility costs could impact the budget. If necessary, cost containment initiatives not affecting service levels will be implemented to deal with any projected shortfall. Currently, the Board is projecting to meet its budget at year end.

Civic Theatres **\$0.17 million**

The surplus of \$0.17 million is due primarily to salary savings in Administration Overhead and increased overhead rentals and concession revenues from the Queen Elizabeth Theatre.

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 variances are the Mayor and Council, Office of the City Manager, Equal Employment Opportunity Office, Britannia Community Services, City Clerks, Civic Grants, General Government and the Library Board.

Net Expenditure Surplus	\$1.35 million
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Net Year-End Projection (Prior to Contingency)	\$3.67 million
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4. Contingency Reserve **\$2.44 million**

Contingency Reserve balance is estimated to be \$2.44 million. This funding is the balance available after providing for a potential December snowfall.

Target Year-End Projection	\$6.11 million
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CONCLUSION

Current estimates for the year-end shows the Operating Budget will be in a surplus position of \$6.11 million by year-end. 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. Departments will continue to monitor their budgets closely and to minimize spending from the Contingency Reserve.

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Appendix A
2006 August Year-To-Date Review Summary
(in millions)

	Annual Budget	Year-End Projection	August Year-End Variance	Percent Variance
<u>REVENUES</u>				
Property Taxation	(483.02)	(480.92)	(2.10)	-0.4%
Payments in Lieu (PIL)	(34.07)	(34.07)	0.00	0.0%
License Fees	(14.79)	(14.58)	(0.21)	-1.4%
Service & Inspection Fees	(28.77)	(30.17)	1.40	4.9%
Municipal By-Law Fines	(10.81)	(12.01)	1.20	11.1%
Parking Meter Revenue	(24.07)	(24.67)	0.60	2.5%
Civic Property Rentals	(1.51)	(1.51)	0.00	0.0%
Miscellaneous Revenue	(5.71)	(5.71)	0.00	0.0%
Short-Term Interest	(11.40)	(11.90)	0.50	4.4%
Provincial Revenues	(17.54)	(17.54)	0.00	0.0%
Transfers	(7.16)	(7.16)	0.00	0.0%
Total Utility Revenues	(141.64)	(142.57)	0.93	0.7%
TOTAL REVENUES	(780.48)	(782.80)	2.32	0.3%
<u>EXPENDITURES</u>				
Mayor and Council	1.89	1.89	0.00	0.0%
Office of the City Manager	2.11	2.11	0.00	0.0%
Equal Employment Opportunity	0.46	0.46	0.00	0.0%
Law Department	4.29	4.74	(0.45)	10.5%
Civic Theatres (Net Budget)	0.50	0.33	0.17	-34.2%
Britannia Community Services	2.84	2.88	(0.04)	1.4%
City Clerk's	4.63	4.63	0.00	0.0%
Community Services Group	47.82	47.68	0.14	-0.3%
Civic Grants	14.29	14.29	0.00	0.0%
Corporate Services	32.17	31.77	0.40	-1.2%
Engineering Public Works	58.29	57.85	0.44	-0.8%
Total Utilities Expenditures	175.95	177.27	(1.32)	0.8%
Human Resources	7.43	7.18	0.25	-3.4%
Fire Department	75.68	75.28	0.40	-0.5%
Library Board	34.20	34.11	0.09	-0.3%
Park Board	54.88	54.88	0.00	0.0%
Police Board	161.57	160.30	1.27	-0.8%
General Government	47.11	47.11	0.00	0.0%
Total Debt Charges	50.88	50.88	0.00	0.0%
TOTAL EXPENDITURES	776.98	775.63	1.35	-0.2%
NET POSITION before CONTINGENCY	(3.50)		3.67	
Contingency	3.50		2.44	
NET POSITION	0.00		6.11	

* Note that any year-end surplus or deficit in the utilities are transferred to reserve with the exception of 51.8% of the Sewer Utility which has a net shortfall of \$0.39 million for 2006.