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CITY OF VANCOUVER

ADMINISTRATIVE REPORT

Date: June 30 , 2008
Author: Annette Klein
Phone No.: 873-7789
RTS No.: 07396
VanRIMS No.: 08-2000-20
Meeting Date: July 8, 2008

TO: Vancouver City Council

FROM: General Manager of Financial Services/Director of Finance

SUBJECT: 2008 Operating Budget - May Review

RECOMMENDATION

THAT Council receive the 2008 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. Since 2006, the Director of Finance has also updated Council on the status of the Operating Budget as at May 31.

PURPOSE

This report reviews the status of the revenue and expenditure appropriations in the 2008 Operating Budget as at May 31, 2008, 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 2008 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	\$4.62 million
Expenditures	<u>\$0.05 million</u>
Net Budget Position	\$4.67 million
Unallocated Contingency	\$1.79 million
Target Year-End Financial Projection	\$6.46 million

Total Revenues are anticipated to end the year with a \$4.62 million surplus due primarily to surpluses expected from Short Term Interest (\$2.00 million), Parking Meter Revenue (\$1.00 million), and Payment in Lieu of Property Taxes of (\$1.00 million). Total Expenditures are anticipated to be close to balanced mainly due to the ability to offset expenditure pressures totalling \$2.76 million, \$1.16 of which represent increased fuel and hydro costs, with vacancy savings and a fuel and hydro provision provided for within General Government. Uncommitted funding within Contingency Reserve of \$1.79 million allows the City to come in with a potential total surplus of \$6.46 million 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>
Short Term Interest	\$2.00 million
Short-term interest earnings are ahead of expectations due to higher rates of return on investments and cash balances.	
Payment in Lieu of Taxes	\$1.00 million
Payments-in-Lieu-of-Taxes are expected to exceed budget by year-end due to higher than expected revenues from some large in-lieu properties.	
On-Street Parking and Enforcement Revenues	\$1.00 million
Parking Meter revenues are expected to exceed budget by year-end due to increased parking meter use.	

Provincial Revenues **\$0.75 million**
(Traffic Fines & Gaming Revenue)

On June 11, 2008, the Provincial Government announced that the City will receive \$14.84 million of traffic fine revenues providing an additional \$0.75 million of revenue to the City.

Utility Revenues **\$0.30 million**
Net After Transfer to Utility Reserves **Balanced**

Solid waste revenue is expected to be \$0.30 million higher than budget for 2008 due to higher prices on recyclable material. 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.

Miscellaneous Revenues **\$0.15 million**

Tax search fee revenue is tracking ahead of expectations and is anticipated to end the year with a surplus of \$0.15.

License Fees **(\$0.17 million)**

License fees are tracking below budget mainly due to lower than anticipated alarm bylaw permit fees.

Service and Inspection Fees **(\$0.40 million)**

Service and Inspection Fee revenue is currently estimated to be under recovered by \$0.40 million by year-end. This position is related to the lower than expected development activity which has impacted anchor rode fees (\$0.25 million) and reduced film production which has impacted film permit revenues (\$0.15 million).

Other Revenues/Transfers **Balanced**

Revenues that are expected to be on budget by year-end include Property Taxes, Municipal By-Law Fines, Civic Property Rentals, Miscellaneous Revenue and Transfers.

Net Revenue Surplus	\$4.62 million
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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 2008. Below are explanations for any projected surplus or any risks that have been identified based on the May budget review. A major issue identified in the May Review is the impact of fuel and hydro rate increases detailed below.

Fuel and Hydro

In the 2008 budget, departmental fuel budgets were increased by 11.5%. As well, funding was provided within General Government to cover further increases in Hydro rates and the introduction of the Carbon Tax by the Provincial Government on the tax supported portion of the Operating Budget.

Fuel budgets to date have been balanced, however, it is anticipated that fuel prices will increase over the next 6 months by 22%. This increase is anticipated to result in a shortfall of \$1.40 million, of which \$0.99 million impacts the tax supported portion of the Operating Budget. Natural gas budgets are partially sheltered in 2008 given that the City entered into a fixed price contract with brokers until October 2008. Hydro rates have increased by 5% resulting in a \$0.17 million shortfall, mainly in Engineering's street lighting operations. The tax supported variance related to Fuel and Hydro of \$1.16 million will be offset by funding provided within General Government. The remaining fuel variances within Utilities (\$0.22 million) and Capital (\$0.19 million) will be funded by the three utility reserves and capital projects within the Capital Fund respectively.

The detailed fuel variance is broken down by Department as follows:

(\$ million)	Operating	Capital	Total
<u>Tax Supported Operating Budget</u>			
Engineering Public Works	0.32	0.09	0.41
Park Board	0.19		0.19
Police Board	0.44		0.44
Fire Department	0.04		0.04
Total Tax Supported Operating Budget	0.99	0.09	1.08
<u>Utility Budget</u>			
Water Utility	0.03	0.06	0.09
Sewer Utility	0.01	0.04	0.05
Solid Waste Utility	0.18		0.18
Total Utility Budget	0.22	0.10	0.32
Total City Impact	1.21	0.19	1.40

The variances noted below indicate a financial position both with and without the impact of the fuel cost increases.

Surplus (Shortfall)

Police Department	\$0.75 million
<i>With Fuel Variance - covered by Funding in General Government</i>	<i>\$0.31 million</i>

The Vancouver Police Department (VPD) has projected a year end surplus of \$0.75 million.

Major areas of expected savings are:

- Sworn Salary savings of \$1.4 million due to lower than anticipated recruitment levels.
- Civilian salary savings of \$1.0 million due to the VPD's difficulty in filling civilian positions, such as in the Information Management Section.
- Fringe benefits savings of \$0.6 million related to the salary savings from sworn and civilian positions.
- Additional revenue of \$0.8 million due to increased grants (\$0.4 million) and miscellaneous revenues (\$0.4 million).

Major areas of projected shortfalls include:

- Shortfall of \$1.8 million in overtime due to increased number of sworn vacancies within patrol resulting in increased overtime needed to meet minimum deployment levels. These vacancies are partially related to hiring delays and the creation of a regionally integrated "Violent Suppression Team" in late 2007 (that provides enhanced gang enforcement) with VPD patrol officers. The other major contributor to increased overtime is the higher than anticipated investigations within the Major Crime and Forensic Units.
- Shortfall in fleet costs of \$0.4 million due primarily to higher vehicle maintenance and repair costs.
- Shortfall in legal expenditures of \$0.4 million as a result of significant legal proceedings.

The Department has recently reduced the number of secondments by 12 to address concerns over staffing levels within patrol. The Department will continue to monitor costs and the use of overtime throughout the year.

As noted above, the fuel increases impacting the Police Board are estimated at \$0.44 million and will be covered by funding in General Government.

Community Services	\$0.65 million
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Community Services is anticipating to be under budget by \$0.65 million due primarily to turnover and expected vacancy savings in Planning and Development Services.

Corporate Services	\$0.40 million
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Corporate Services is projecting a surplus of \$0.40 million due to delay in hiring.

Park Board **Balanced**
With Fuel Variance - covered by Funding in General Government *(\$0.19 million)*

The Park Board generates most of its revenue during the summer months. After five months, golf revenue is below budget by \$0.4 million. The Park Board is committed to balancing the budget by the end of the fiscal year and will continue to closely monitor both revenues and expenditures. Cost saving measures will be taken to address budget issues if they arise.

As noted above, the fuel increases impacting the Park Board are estimated at \$0.19 million and will be covered by funding in General Government.

Fire Department **(\$0.09 million)**
With Fuel Variance - covered by Funding in General Government *(\$0.13 million)*

Vancouver Fire and Rescue Services are anticipating minor shortfall of \$0.09 million prior to considering the impact of fuel expenditures. This variance is mainly related to retirement payouts and higher than anticipated fleet maintenance costs.

As noted above, the fuel and hydro increases impacting the Fire Department are estimated at \$0.04 million and will be covered by funding in General Government.

Library Board **(\$0.12 million)**

The Library Board is projecting a shortfall of \$0.12 million mainly attributed to lower than expected turnover, additional training requirements, and unanticipated legal expenditures. Even though projecting a minor shortfall, the Library Board will be making efforts to bring their budget to a balanced position by year-end.

Human Resources **(\$0.25 million)**

Human Resources is projecting a shortfall of \$0.25 million mainly attributed to retirement payouts and the need to backfill for staff assigned to a major Human Resources' information technology initiative.

Engineering Services **(\$0.48 million)**
With Fuel Variance - covered by Funding in General Government *(\$0.97 million)*

The Engineering Department is anticipating a \$0.48 million shortfall prior to considering the impact of fuel and hydro cost increases. The major variances are attributed to lower than anticipated billable work for Equipment Services (\$0.7 million) and clean up around the City's major bridges and viaducts (\$0.47 million). These areas of shortfall are mainly offset by vacancy savings, net of training and recruitment costs, of \$0.71 million.

As noted above, the fuel and hydro increases impacting the Engineering Services are estimated at \$0.49 million and will be covered by funding in General Government.

Utilities (Water, Sewer and Solid Waste) (\$1.27 million)
Net after Transfer from Utility Reserves **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 expecting a total expenditures shortfall of \$1.27 million. The main reasons for this variance are: \$0.87 million of unanticipated repairs at the City's Transfer Station (\$0.40 to repair floor) and Landfill (\$0.34 million to repair gas flares and weigh scales and \$0.13 million for increased physical security); \$0.18 million for higher than anticipated landfill road and cover costs; and \$0.22 million related to increased fuel costs. With the offsetting higher recycling revenues of \$0.30 million, as noted above in the revenue section, this leaves a net shortfall of \$0.97 million which will be covered by the Solid Waste Reserve.

Law Department (\$0.80 million)

The Law Department is projecting a shortfall of \$0.80 million on account of the retainer of additional contract lawyers who are handling major, time sensitive development and contractual initiatives, as well as higher than anticipated outside legal expenditures related to litigation cases.

General Government **Balanced**
With Fuel Variance - to cover Fuel and Hydro Expenditures *\$1.16 million*

Funding was provided within General Government to cover for the anticipated increase in fuel and hydro impacts on the tax supported portion of the Operating Budget. This provision is available to offset the anticipated fuel and hydro increases of \$1.16 million detailed above leaving General Government to be balanced by year end.

Other Departmental Variances **Balanced**

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

Net Expenditure Surplus	\$0.05 million
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Net Year-End Projection (Prior to Contingency)	\$4.67 million
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3. Contingency Reserve **\$1.79 million**

After providing \$0.60 million for potential snow in the upcoming winter, the uncommitted contingency reserve is \$1.79 million.

Target Year-End Projection	\$6.46 million
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CONCLUSION

Current estimates project the Operating Budget to be in a surplus position of \$6.46 million by year-end. This is mainly due to the surplus in revenues of \$4.62 million and uncommitted Contingency Reserve of \$1.79 million. A provision within General Government has at this point mitigated the expected impact of fuel and hydro cost increases. The projected year-end position could change given that unanticipated items between now and year-end 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

2008 May Year-To-Date Review Summary

<i>\$ millions</i>	Annual Budget	Year-End Projection	Year-End Variance (prior to Fuel & Hydro Impact)	Fuel/Hydro Projections ¹	Total Variance (after Fuel & Hydro Impact)	Percent Variance
REVENUES						
Property Taxation	(520.18)	(520.18)	-		-	0.00%
Payments in Lieu (PIL)	(32.04)	(33.04)	1.00		1.00	(3.12%)
License Fees	(15.62)	(15.45)	(0.17)		(0.17)	1.11%
Service & Inspection Fees	(33.16)	(32.76)	(0.40)		(0.40)	1.21%
Municipal By-Law Fines	(12.42)	(12.42)	-		-	0.00%
Parking Meter Revenue	(27.85)	(28.85)	1.00		1.00	(3.59%)
Civic Property Rentals	(1.51)	(1.51)	-		-	0.00%
Miscellaneous Revenue	(5.87)	(6.02)	0.15		0.15	(2.54%)
Short-Term Interest	(16.19)	(18.19)	2.00		2.00	(12.36%)
Provincial Revenues	(20.50)	(21.25)	0.75		0.75	(3.64%)
Transfers	(20.46)	(20.46)	-		-	0.00%
Total Utility Revenues	(152.40)	(152.70)	0.30		0.30	(0.20%)
TOTAL REVENUES	(858.20)	(862.83)	4.62		4.62	(0.54%)
EXPENDITURES						
Mayor and Council	1.98	1.98	-		-	0.00%
Office of the City Manager	2.87	2.87	-		-	0.00%
Equal Employment Opportunity	0.51	0.51	-		-	0.00%
Law Department	4.90	5.70	(0.80)		(0.80)	(16.33%)
Civic Theatres (Net Budget)	1.09	0.84	0.25		0.25	22.94%
Britannia Community Services	2.98	2.94	0.04		0.04	1.34%
City Clerk's	6.76	6.76	-		-	0.00%
Community Services Group	52.50	51.85	0.65		0.65	1.24%
Civic Grants	15.72	15.72	-		-	0.00%
Corporate Services ³	34.65	34.25	0.40		0.40	1.15%
Engineering Public Works	67.17	67.65	(0.48)	(0.49)	(0.97)	(0.71%)
Total Utility Expenditures ²	188.71	189.01	(0.30)		(0.30)	(0.16%)
Human Resources	8.16	8.41	(0.25)		(0.25)	(3.06%)
Fire Department	79.01	79.10	(0.09)	(0.04)	(0.13)	(0.11%)
Library Board	37.63	37.75	(0.12)		(0.12)	(0.32%)
Park Board (Net Budget)	59.64	59.64	-	(0.19)	(0.19)	0.00%
Police Board	180.86	180.11	0.75	(0.44)	0.31	0.41%
General Government	57.82	57.82	-	1.16	1.16	0.00%
Total Debt Charges	52.15	52.15	-		-	0.00%
TOTAL EXPENDITURES	855.10	855.05	0.05	-	0.05	0.01%
Excess of Revenues Over Expenditures	3.10	7.77	4.67		4.67	
Contingency Reserve	3.10	1.31	1.79		1.79	
NET BUDGET POSITION			6.46		6.46	

¹Fuel and Hydro expenditure impact on tax supported portion of the Operating Budget and funded by provision within General Government.

²Other than landfill expenditures covered by increased revenues, year-end surplus or deficit in the utilities are transferred to reserve.

³Corporate Services Group has been reorganized into two service groups - Financial Services and Business Planning & Services; the 2008 budget will be adjusted to reflect these two groups during the 2008 August Review