



CITY OF VANCOUVER

ADMINISTRATIVE REPORT

Date: November 9, 2008
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TO: Vancouver City Council
FROM: General Manager of Financial Services/Director of Finance
SUBJECT: 2008 Operating Budget - August Review

RECOMMENDATION

THAT Council receive the 2008 Operating Budget August 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 August 31, 2008, 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 April. In addition, a projection of the year-end position was completed and provides an update of the review done for May 2008. 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 2008 revenue and expenditure year-end projections. Appendix A provides additional detail of this projection.

Table 1 - August Review Summary

\$million	Year-End Estimated Surplus/(Shortfall)
Revenues	\$ 9.13
Expenditures	<u>\$ 4.54</u>
Net Budget Position	\$13.67
Unallocated Contingency	\$ 1.34
Year-End Financial Projection	\$15.01

Total revenues are anticipated to end the year with a \$9.13 million surplus due primarily to surpluses expected from Short Term Interest (\$5.77 million), Parking Program Revenues (\$1.79 million), Provincial Revenues (\$1.55 million), and Payment in Lieu of Property Taxes of (\$2.78 million). Total Expenditures are anticipated to be close with a \$4.54 million surplus mainly a result of vacancy savings. Uncommitted funding within Contingency Reserve of \$1.34 million allows the City to come in with a potential total surplus of \$15.01 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.

	<u>Surplus (Shortfall)</u>
Short Term Interest	\$5.77 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	\$2.78 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 (Parking Meter Revenue and Municipal By-Law Fines)	\$1.79 million
Parking program revenues are expected to exceed budget by year-end due to increased parking meter use and improved by-law fines collection.	

Provincial Revenues **\$1.55 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. Gaming revenue from Hastings Park and Edgewater Casino has improved and are now projected to exceed budget expectations by \$0.80 million.

Utility Revenues **(\$0.46 million)**
Net After Transfer to Utility Reserves **0.16 million**

Total utility revenues are expected to be \$0.46 million lower than budget:

- Solid waste utility revenue is expected to be \$0.96 million lower than budget mainly due to a \$1.0 million reduction in commercial tonnage revenue and \$0.2 million drop in composting and gas revenues, partially offset by higher recycling revenues of \$0.30 million;
- Water Utility revenues are higher than anticipated by \$0.20 million due to an increase in cross connection revenues; and
- Sewer Utility revenues are higher than anticipated by \$0.3 million due to higher metered charges related to flow.

These variances are balanced by transfers to/from each of the respective stabilization reserves with the exception of the Sewer Utility where variances are partially offset by transfers to/from the Sewer Utility Reserve and the tax supported portion of the Operating Budget.

Miscellaneous Revenues **\$0.16 million**

Translink recovery revenue and mortgage company fee revenue are higher than expected.

Service and Inspection Fees **(\$1.73 million)**

Service and Inspection Fee revenue is currently estimated to be under recovered by \$1.73 million by year-end due to the lower than expected development activity. The projection reflects: \$1.6M unfavourable variance for building permit fees due to the significant decline in building permits values; \$0.55 million unfavourable variance for rezoning and subdivision fees due to the decline in the number of large development proposals; offset by \$0.59 million favourable variance for trade permit fees (plumbing, gas and electrical) that reflect the stronger development market from 2006 and 2007.

Property Taxes **(\$0.52 million)**

Property tax revenue is estimated to end the year in a \$0.52 million shortfall. This is due to some properties being excluded from averaging (\$0.31 million) and reduced interest revenue due to improved collections (\$0.21 million).

License Fees **(\$0.43 million)**

License fees are tracking below budget mainly due to lower than anticipated alarm bylaw permit fees (\$0.17 million) and Dog License revenues (\$0.26 million).

Civic Property Rentals **(\$0.40 million)**

Civic Property Rentals are tracking below expectations due to a reclassification of revenues by Council to other funds without an adjustment to budget.

Other Revenues/Transfers **\$0.16 million**

Revenues that are expected to be on or close to budget by year-end include Miscellaneous Revenue and Transfers.

Net Revenue Surplus **\$9.13 million**

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 as part of the August budget review. As identified in the May Review, a significant impact on the Operating Budget is fuel and hydro rate increases as 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.

As predicted in the May Review, fuel prices have increased relative to the budget resulting in a projected shortfall of \$1.09 million, of which \$0.96 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 \$0.99 million will be offset by funding provided within General Government. The remaining fuel variances within Utilities (\$0.15 million) and Capital (\$0.05million) 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	0.21	0.07	0.29
Park Board	0.25		0.25
Police Board	0.28		0.28
Fire Department	0.07		0.07
Total Tax Supported Operating Budget	0.82	0.07	0.89
<u>Utility Budgets</u>			
Water Utility	0.01	0.02	0.04
Sewer Utility	0.01	0.03	0.04
Solid Waste Utility	0.12		0.12
Total Utility Budgets	0.15	0.05	0.20
Total City Impact	0.96	0.12	1.09

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

Surplus (Shortfall)

Police Department	\$2.19 million
<i>With Fuel Variance - covered by Funding in General Government</i>	<i>\$1.91 million</i>

The Vancouver Police Department (VPD) has projected a year end surplus of \$2.19 million prior to considering the impact of fuel.

Major areas of expected savings are:

- Sworn Salary savings of \$1.7 million due to lower than anticipated recruitment levels.
- Civilian salary savings of \$1.4 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 \$1.0 million due to increased grants (\$0.6 million) and miscellaneous revenues (\$0.4 million).
- Criminal Investigation Fund savings of \$0.6 million due to lower number of major criminal events in the community.

Major areas of projected shortfalls include:

- Shortfall of \$1.9 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 legal expenditures of \$0.7 million as a result of significant legal proceedings.

The anticipated positive year end position has allowed the Department to fund critical one-time expenditure requirements totalling \$0.9 million including funding for an Officer/Event Scheduling Software (\$0.34 million) and a VPD Facilities Review (\$0.20 million) to be reported to Council for approval.

As noted above, the fuel increases impacting the Police Board are estimated at \$0.28 million and will be covered by funding in General Government.

Community Services **\$0.38 million**

Community Services is anticipating to be under budget by \$0.38 million due primarily to turnover and expected vacancy savings in Planning and Development Services.

Business Planning **\$0.52 million**

Business Planning is projecting a surplus of \$0.52 million due to delays in hiring mainly a result of the strong labour market that impacts both Facilities Design and Management and Real Estate Services.

Financial Services **\$0.21 million**

Financial Services is projecting a surplus of \$0.21 million due to delays in hiring.

Park Board **\$0.20 million**
With Fuel Variance - covered by Funding in General Government *(\$0.05 million)*

The Park Board is anticipating a revenue shortfall in golf operations of approximately \$1.5 million offset by \$0.4 million in utility savings. To balance the budget and minimize impacts to service levels, the following steps have been taken: implementation of marketing initiatives for golf and recreation programs; an increased emphasis on business development efforts to increase revenues from partnership agreements; and deferral of expenditures on supplies, filling of vacancies, and New and Non-Reoccurring budgets.

As noted above, the fuel increases impacting the Park Board are estimated at \$0.25 million and will be covered by funding in General Government.

Fire Department **(\$0.10 million)**
With Fuel Variance - covered by Funding in General Government *(\$0.17 million)*

Vancouver Fire and Rescue Services are anticipating minor shortfall of \$0.10 million prior to considering the impact of fuel expenditures. This variance is mainly related to retirement payouts, higher than anticipated fleet and building maintenance costs.

As noted above, the fuel and hydro increases impacting the Fire Department are estimated at \$0.07 million and will be covered by funding in General Government.

Engineering Services **(\$0.39 million)**
With Fuel Variance - covered by Funding in General Government *(\$0.98 million)*

The Engineering Department is anticipating a \$0.39 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 (\$0.5 million), clean up around the City's major bridges and viaducts (\$0.45 million), and the CRTC impact on the collection of utility revenue and inspection fees (\$0.26 million). These areas of shortfall are mainly offset by vacancy savings, net of training and recruitment costs, of \$0.82 million.

As noted above, the fuel and hydro increases impacting the Engineering Services are estimated at \$0.39 million and will be covered by funding in General Government.

Utilities (Water, Sewer and Solid Waste) **(\$3.02 million)**
Net after Transfer from Utility Reserves **Balanced**

- The Water Utility is anticipated to have a surplus by year end of \$0.38 million largely due to a savings of from the reduced water purchases from the GVRD and vacancy savings within the water metering program. At year-end, any surplus will be transferred to the Water stabilization reserve.
- The Sewer Utility is anticipating to be on budget. The higher than anticipated revenue noted, as noted in the revenue section, will partially flow to the sewer utility stabilization reserve and the rest to the City's bottom line.
- The Solid Waste Utilities is expecting a total expenditures shortfall of \$2.7 million. The main reasons for this variance are:
 - \$1.10 million in additional equipment costs at the City's landfill
 - \$1.09 million of unanticipated repairs at the City's Transfer Station (\$0.40 to repair floor) and Landfill (\$0.2 million to repair gas flares and weigh scales and \$0.13 million for increased physical security);
 - \$0.27 million for higher than anticipated landfill road and cover costs;
 - \$0.15 million related to increased fuel costs; and
 - \$0.14 million for increased collection cart costs.

Factoring in the \$0.96 million revenue shortfall noted in the revenue section above, the anticipated variances leaves a net shortfall of \$3.7 million which will be covered by the Solid Waste Reserve (\$2.0 million) and cost sharing by Metro Vancouver (\$1.7 million).

Law Department **(\$1.15 million)**

The Law Department is projecting a shortfall of \$1.15 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	\$2.23
<i>With Fuel Variance - to cover Fuel and Hydro Expenditures</i>	<i>\$3.39 million</i>

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 \$0.99 million detailed above. As well \$2.23 million surplus is anticipated due to a projected \$1.0 million balance in the City's \$47 million fringe benefits pool, a \$1 million savings related to the deferral of overhead allocation changes planned for 2008, and \$0.2 million in uncommitted funding within the Strategic Initiative Fund (SIF).

Other Departmental Variances **Minor Variances**

The remaining departments are projecting to be balanced or with minor year end variances. They include: Mayor and Council, Human Resources, Library Board, Vancouver, Office of the City Manager, Equal Employment Opportunity, City Clerk's, and Civic Grants.

Net Expenditure Surplus	\$4.54 million
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Net Year-End Projection (Prior to Contingency)	\$13.67 million
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Contingency Reserve	\$1.34 million
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After providing \$0.75 million for potential snow in the upcoming winter, the uncommitted contingency reserve is \$1.34 million.

Target Year-End Projection	\$15.01 million
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Commitments on Year End Surplus

Council approved in September 2008 that a portion of the year end surplus to be used to offset the one-time renovation and outfitting costs related to leased office space at Crossroads at Broadway and Cambie. The total estimated cost of \$7.0 million will reduce the year end projected balance to \$8.01 million. \$1.4 million has been advanced to the project to provide funding for expected expenditures to be incurred in 2008.

CONCLUSION

Current estimates project the Operating Budget to be in a surplus position of \$15.01 million by year-end. This is mainly due to the surplus in revenues of \$9.13 million, surplus in expenditures of \$4.54 million and uncommitted Contingency Reserve of \$1.34 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.

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Appendix A

2008 August 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)	(519.66)	(0.52)		(0.52)	0.1%
Payments in Lieu (PIL)	(32.04)	(34.83)	2.78		2.78	-8.7%
License Fees	(15.62)	(15.19)	(0.43)		(0.43)	2.8%
Service & Inspection Fees	(33.20)	(31.47)	(1.73)		(1.73)	5.2%
Municipal By-Law Fines	(12.42)	(13.17)	0.75		0.75	-6.0%
Parking Meter Revenue	(27.95)	(28.99)	1.04		1.04	-3.7%
Civic Property Rentals	(1.51)	(1.11)	(0.40)		(0.40)	26.7%
Miscellaneous Revenue	(5.87)	(6.03)	0.16		0.16	-2.7%
Short-Term Interest	(16.19)	(21.95)	5.77		5.77	-35.6%
Provincial Revenues	(20.50)	(22.05)	1.55		1.55	-7.5%
Transfers	(20.46)	(20.46)	0.00		0.00	0.0%
Total Utility Revenues ²	(152.49)	(152.65)	0.16		0.16	-0.1%
TOTAL REVENUES	(858.43)	(867.56)	9.13		9.13	-1.1%
EXPENDITURES						
Mayor and Council	1.98	1.97	0.01		0.01	0.5%
Office of the City Manager	3.33	3.25	0.08		0.08	2.5%
Equal Employment Opportunity	0.51	0.54	(0.03)		(0.03)	-5.6%
Law Department	4.90	6.05	(1.15)		(1.15)	-23.5%
Civic Theatres (Net Budget)	1.13	0.89	0.23		0.23	20.9%
Britannia Community Services	2.98	3.12	(0.14)		(0.14)	-4.6%
City Clerk's	6.84	6.72	0.12		0.12	1.7%
Community Services Group	53.21	52.82	0.38		0.38	0.7%
Civic Grants	15.38	15.38	0.00		0.00	0.0%
Business Planning	22.03	21.51	0.52		0.52	2.3%
Financial Services	12.14	11.93	0.21		0.21	1.7%
Engineering Public Works	65.81	66.19	(0.39)	(0.39)	(0.78)	-0.6%
Total Utility Expenditures ²	188.80	188.80	(0.00)		(0.00)	0.0%
Human Resources	9.64	9.47	0.17		0.17	1.8%
Fire Department	79.01	79.11	(0.10)	(0.07)	(0.17)	-0.1%
Library Board	37.63	37.55	0.08		0.08	0.2%
Park Board (Net Budget)	59.64	59.44	0.20	(0.25)	(0.05)	0.3%
Police Board	180.86	178.66	2.19	(0.28)	1.91	1.2%
General Government	57.39	55.16	2.23	1.16	3.39	3.9%
Total Debt Charges	52.15	52.40	(0.25)		(0.25)	-0.5%
TOTAL EXPENDITURES	855.33	850.96	4.37	0.17	4.54	0.5%
Excess of Revenues Over Expenditures	3.10	16.60	13.50	0.17	13.67	
Contingency Reserve	3.10	1.76	1.34		1.34	
NET BUDGET POSITION			14.84	0.17	15.01	

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

²Any year-end surplus or deficit in the utilities are transferred to reserve with the exception of 51% of the Sewer Utility