

MEMORANDUM

May 26, 2014

TO: Mayor and Council

CC: Corporate Management Team
Penny Ballem, City Manager
Janice MacKenzie, City Clerk
Mike Magee, Chief of Staff, Mayor's Office
Lynda Graves, Administrative Manager, City Manager's Office

FROM: Patrice Impey, General Manager, Financial Services

SUBJECT: 2014 Operating and Capital Budget - 1st Quarter Review

The purpose of this memo is to provide Council with:

1. A review of the Q1 2014 Operating results and variances from the Q1 Operating Budget, as well as forecasts to 2014 year-end for revenues and expenditures, with identification of any significant variances from the 2014 Operating Budget.
2. A review of the Q1 2014 Capital expenditures by service category, as well as a review of the 2014 forecasted Capital expenditures by service category in comparison with the 2014 Capital Budget.

As the quarter financial report is for information only, it is provided quarterly to Council as a memo and is placed on the City of Vancouver external website at <http://vancouver.ca/fs/budgetServices/index.htm>.

COUNCIL POLICY

Council's standing instructions require that the Director of Finance report on the status of the Operating Budget as at September 30 each year. Since 2010, the Director of Finance has committed to report quarterly on the Operating Budget status, and beginning in 2011, to also report quarterly on the Capital Budget status. Council Policy regarding the Operating Budget, as per the Vancouver Charter, is to ensure a balanced operating budget.

A. Q1 2014 OPERATING BUDGET RESULTS AND FULL YEAR 2014 FORECAST

This 1st Quarter Review provides Q1 actual results compared to the Q1 budget, as well as the forecasted 2014 year-end revenues and expenditures compared to the annual budget. The year-end forecasts are based on actual results for the first three months of the year and best estimates of revenues and expenditures over the remaining nine months.

Since mid-2010, quarterly reporting frameworks, systems and processes have been developed and have been used to inform and support the year-end forecasts.

It should be noted that there are still some variances to budget on a quarterly basis due to seasonality issues within the budget and some accounting processes that take place on an annual rather than quarterly basis, but the significant work to date is being reflected in increasingly refined quarterly numbers. These variances are adjusted for in the year-end forecasts contained in this report, and continue to be addressed in our budget and reporting process to better align the accuracy of quarterly budget profiling.

A further initiative implemented beginning 2012 is the reporting and review of results on a Gross Basis (meaning revenues and recoveries are reported as revenues with corresponding expenses reported as expenses). In the past, the expenditures would be shown net of related revenues/recoveries). Best practices identified in the November 2011 CD Howe Institute report on public sector reporting supports the Gross Basis view of governmental finances to bring more transparency of the City's financial position, and to better align with other entities. The City of Vancouver has adopted these principles and applied this approach going forward.

This memo gives an indication of the financial status of City Departments and Boards looking forward to the end of 2014. In summary, as of Q1, the City generated a surplus of \$0.6 million. Revenues are expected to be slightly higher than budget due primarily to continued demand for permits, generating revenues exceeding budget. Balancing the budget will continue to require careful oversight by the Corporate Management Team across all Departments and Boards.

Summary of Operating Budget Variances

1) Q1 2014 Results and variances to Budget

Table 1 summarizes Q1 results compared with budget. Appendix A provides details by department of Q1 actual results and variance to budget.

Table 1 - Q1 2014 (to March 31 2014) Operating Budget Review City Summary

<u>\$ millions</u>	<u>Q1 Actuals</u>	<u>Q1 Budget</u>	<u>Q1 Variance \$</u>	<u>Q1 Variance %</u>
REVENUES	284.5	282.1	2.4	0.9%
EXPENDITURES	241.1	239.3	(1.8)	(0.8%)
NET SURPLUS/(DEFICIT)	43.4	42.8	0.6	

The Q1 surplus is primarily due to timing differences between revenues and expenditures within the year. Highlights of the main revenues and expenditure variances compared to the Q1 budget are provided below.

Revenues are higher than budget by \$2.4 million (0.9%) primarily due to:

- Higher revenues from:
 - Trade permit revenue as a result of higher than budgeted demand for trade permits,
 - Investment income as a result of higher than budgeted investment balances,
 - Grants and donations received by the Vancouver Police Department that were not budgeted, and
 - Federal grants received by the Vancouver Fire and Rescue Service for the Urban Search and Rescue program related to prior year commitments
- Lower Solid Waste Disposal revenues due to less waste going to the Vancouver Landfill due to commercial haulers disposing at other sites. The City will be monitoring the volumes throughout the remainder of the year.
- Timing and seasonality impacts from:
 - Revenue from TransLink not received until Q2,
 - Property Taxation Revenue Supplementary rolls and adjustments lower than anticipated in the quarter, and
 - Lower Utilities revenue for water and sewer due to timing of meter reading and billing.
- Police recoveries for seconded officers and work incurred on behalf of other agencies with offsetting higher than budgeted costs.

Expenditures are higher than budgeted by \$1.8 million (0.8%) in the Q1 due to:

- Lower expenses from:
 - Salaries savings due to vacant positions for which staff are currently being recruited.

- Higher expenses from:
 - Higher than budgeted Water purchase costs for the quarter due to higher consumption.
- Timing and seasonality impacts from:
 - Higher City-wide employee benefits, forecasted to be back on budget by year-end, and
 - Higher equipment services which will be fully recovered in other quarters.
- Higher expenditures for Police costs which are recovered from other agencies.

2) 2014 Full Year Forecast and variances to Budget

Table 2 - 2014 Operating Budget Review Summary (Full Year Forecast)

\$ millions	Forecasted	Annual	Variance \$	Variance %
	Year-End	Budget		
REVENUES	1,181.5	1,178.3	3.2	0.3%
EXPENDITURES	1,181.5	1,178.3	(3.2)	(0.3%)
NET SURPLUS/(DEFICIT)	0.0	(0.0)	0.0	

Appendix B provides additional details by department.

For the full year 2014, the City is forecasting to be on budget overall, with slight variances in revenue and expenses. The forecast includes an estimate of year end transfers to reserves primarily in the areas of debt, insurance and deferred payroll costs to provide for the City's unfunded liability.

Highlights of the main revenue and expenditure variances compared to budget in the Full Year Forecast are provided below.

Revenues are forecasted to be higher than budget by \$3.2 million (0.3%) due to:

- Changes in revenues:
 - Trade permit fee income - continued demand for permits is expected to result in higher revenue than budgeted,
 - Federal grants received by the Vancouver Fire and Rescue Services for the Urban Search and Rescue program related to prior year commitments,
 - Grants and donations received by the Vancouver Police Department that were not budgeted, and
 - A decrease in Solid Waste Disposal revenues due to less waste going to the Vancouver Landfill.
- Revenues offset by an increase or decrease in expenditures:
 - Police recoveries for seconded officers and work incurred on behalf of other agencies,
 - Higher Engineering third-party recoverable street work revenues,

- Higher cost recoveries for Provincially supported programs by Community Services and higher theatre revenues due to more shows forecasted than originally planned,
- Higher Water and Sewer Utility revenue due to increased water consumption to date.

Expenditures are forecasted to be higher than budgeted by \$3.2 million (0.3%) for the year due to:

- Higher expenditures from:
 - Police - higher than budgeted Police overtime costs,
 - Higher expenditures offset by a corresponding increase in revenues as identified in the above revenue explanations.
- Lower expenditures from:
 - Reduced expected transfer to solid waste utility stabilization reserve as a result of lower forecasted disposal revenues.

Risk and Opportunities

Development revenues show a favorable trend to budget providing an opportunity for stronger than anticipated revenues for the remainder of the year. Costs have generally been in line with the budget but risks still exist, including:

- Collective agreements outstanding. Negotiations are ongoing for Fire and Police collective agreements and the outcome of these negotiations could have an impact on the full year forecast.
- Declining revenues for Solid Waste Disposal. Solid waste disposal volumes are down. Metro believes this is due to increasing leakage of garbage out of the regional system. Regionally there has been a greater decline than we have seen at the landfill. A Metro Vancouver By-Law proposal that would require solid waste to stay within the region is pending Provincial approval. Solid waste disposal revenues will be monitored through the year for further impact to the full year forecast.

It is the responsibility of departments to remain within budget by adjusting expenditures as necessary with the exception of expenses that are beyond their control. Departments have an ongoing responsibility to monitor expenditures and adjust spending to remain on budget for the year.

B. Q1 2014 ANNUAL CAPITAL BUDGET RESULTS AND FULL YEAR 2014 FORECAST

While the Operating Budget is built to reflect operating costs for one year only, the annual Capital budget reflects one year of what can be multi-year Capital projects. Therefore, Capital projects are viewed on both an annual budget basis (annual expenditure vs. annual budget), and a total project basis (multi-year project expenditures vs. budget).

On December 17, 2013, Council approved a 2014 Expenditure Budget of \$285.1 million. Council subsequently approved an additional \$2.8 million in capital expenditures for a revised 2014 Expenditure Budget of \$287.9 million.

A separate report to Council which includes Capital Budget adjustment requests collected during the Q1 2014 review will be presented to Council on May 27, 2014 (RTS 10494).

i. Q1 2014 Capital Expenditures and Year End Forecast vs 2014 Capital Budget

2014 Capital Budget expenditures to the end of Q1 were \$46 million (\$42 million in Q1 2013), representing 16% of the total 2014 Annual Capital Budget of \$287.9 million. Forecasted total capital expenditures for 2014 are currently projected to be \$286 million, or \$2 million (1%) less than budget.

Table 3 provides a summary of the Quarter 1 Capital expenditures as well as forecasted annual expenditures by service category compared to the 2014 Annual Capital Budget.

Table - Q1 2014 Annual Capital Budget Results By Service Category (\$000's)

Service Category 1	Service Category 2	2014 Budget	Q1 YTD Actual	2014 Forecast	Expected Variance
01. Community Facilities	A. Childcare	1,111	55	1,135	-24
	B. Social Facilities	6,368	446	5,984	385
	C. Cultural Facilities	11,572	699	11,896	-324
	D. Entertainment and Exhibition	1,370	67	1,180	190
	E. Libraries and Archives	8,287	110	8,287	0
	F. Recreation Facilities	3,639	130	3,638	1
01. Community Facilities Total		32,347	1,506	32,119	228
02. Parks and Open Spaces	A. Parks and Open Spaces	18,793	1,345	18,246	547
	B. Seawall and Recreation Trails	100	0	100	0
	C. Street Trees	1,320	63	1,320	0
	D. Public Art	770	69	771	-1
02. Parks and Open Spaces Total		20,983	1,478	20,438	546
03. Housing	A. Non-Market Rental Housing	15,595	5,901	20,599	-5,005
	B. Market Rental Housing	0	0	0	0
03. Housing Total		15,595	5,901	20,599	-5,005
04. Public Safety	A. Police	754	117	877	-123
	B. Fire	4,027	80	3,396	631
	C. Animal Control	0	26	41	-41
04. Public Safety Total		4,781	222	4,313	468
05. Transportation	A. Walking and Cycling	12,166	2,435	12,749	-583
	B. Transit	775	47	911	-136
	C. Major Roads	50,522	10,989	49,856	666
	D. Local Roads	4,112	184	3,902	210
	E. Parking	1,125	7	1,125	0
05. Transportation Total		68,699	13,662	68,543	156
06. Utilities and Public Works	A. Waterworks	18,727	4,902	19,007	-279
	B. Sewers	51,205	8,680	49,493	1,712
	C. Solid Waste	5,845	664	5,844	2
	D. Neighbourhood Energy	2,600	141	2,600	0
06. Utilities and Public Works Total		78,377	14,387	76,943	1,434
07. Civic Infrastructure	A. Administrative Facilities	11,119	2,053	10,021	1,098
	B. Service Yards	1,643	763	1,554	89
	C. Vehicles and Equipment	19,908	2,919	19,877	30
	D. Information Technology	26,223	2,378	23,402	2,821
07. Civic Infrastructure Total		58,893	8,113	54,854	4,039
08. City-Wide	A. Emerging Priorities	4,800	0	4,800	0
	C. City-Wide Overhead	3,399	376	3,399	0
08. City-Wide Total		8,199	376	8,199	0
Grand Total		287,874	45,645	286,009	1,865

Explanations for projected variances by service category are provided below:

01. Community Facilities	\$0.2 million positive variance
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Community Facilities capital expenditures are forecasted to be lower than budget by approximately \$0.2 million. An increase in the 2014 expenditure forecast for Cultural Infrastructure Program grants, reflecting an earlier disbursement of grants that were originally expected to be disbursed in 2015, is largely offset by lower forecasted capital maintenance of social facilities delayed into 2015 as facility priorities continue to be assessed. As well, a higher 2014 expenditure forecast for Kitsilano library branch refurbishment arising from planned 2013 expenditures being delayed into 2014, is offset by a

lower 2014 expenditure forecast for Hastings Park Infrastructure Renewal, the start of which has been delayed while staff resourcing is finalized.

02. Parks and Open Spaces	\$0.5 million positive variance
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Parks & Open Spaces capital expenditures are forecasted to be lower than budget by approximately \$0.5 million. This is primarily due to a delay in the Riley Park construction while additional stakeholder engagement is sought. This is offset by higher forecasted spending on the Hastings Park Greening project, where expenditures that were planned for 2013 were delayed into 2014. The price of the bids received for this project exceeded the project budget and as such a thorough review was completed to identify cost savings in order to proceed with full scope of work. This review caused a delay in initiating the construction of the project.

03. Housing	\$5.0 million negative variance
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Housing capital expenditures are forecasted to be higher than budget by approximately \$5.0 million, primarily due to the delay of a \$3.4 million payment to the Property Endowment Fund (PEF) for the use of a PEF property for non-market housing purposes. The payment was expected to occur in Q4 2013, but did not occur until Q1 2014. Spending for 2014 is also forecast to be \$1.1 million higher than budget due to a delay in the completion of the Kingsway Continental housing project. The project was scheduled to be complete before the end of 2013 but was delayed due to unfavourable site conditions. The project is now substantially complete and occupied.

04. Public Safety	\$0.5 million positive variance
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Public Safety capital expenditures are forecasted to be lower than budget by approximately \$0.5 million. This is primarily due to a delayed start for the Fire Hall #5 reconstruction project (\$1 million planned to be spent in 2014 is now forecasted to be spent in 2015) as a non-market housing component was incorporated into the design and construction plans. This positive variance is offset by an increased expenditure forecast (\$0.4 million for 2014) for the replacement of fire hall fuel tanks and generators which was planned to be completed in 2013 but was delayed into 2014 due to unforeseen soil remediation required at some of the sites.

05. Transportation	\$0.2 million positive variance
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Transportation is forecasted to be on budget. A decrease in 2014 forecast expenditures for the Georgia Dunsmuir Viaducts Study arising from an extended timeline for public consultation and negotiations with affected land owners is offset by increases in 2014 forecast expenditures for Active Transportation Corridors planned for 2013 but shifted to 2014 to coordinate City work with Telus (pole relocation), Coast Mountain Bus Company (trolley pole relocation) and seasonal requirements needed for roadway painting and landscaping.

06. Utilities and Public Works**\$1.4 million positive variance**

Utilities & Public Works is forecasted to be lower than budget by approximately \$1.4 million, which relates primarily to lower than budget expenditures in the Sewer Capital Program.

Permit revenues for Sewer Connections are received in advance of installation work and the lower than budget forecast in 2014 is attributable to a prioritization of completing installation requests received in prior years, pushing the new 2014 funded requests to 2015.

The lower than budget forecast in Sewers is partially offset by a higher than budget forecast in Waterworks which also has an installation program that is funded in advance by external parties. The higher than budget variance within Waterworks is primarily due to an acceleration of the work and more installations are forecasted to be completed in 2014 than initially budgeted.

07. Civic Infrastructure**\$4.0m positive variance**

Civic Infrastructure is forecasted to be lower than budget by approximately \$4.0 million, due primarily to a shift of originally planned 2014 expenditures to 2015 for the Permit and Licence Transformation Program and for the deconstruction of City Hall East Wing (delays in relocating staff to other City Hall precinct facilities).

08. City-Wide**\$0.0m variance**

City-Wide overhead capital costs and emerging capital priority allocations are forecasted to be on budget.

ii. Multi Year Capital Projected Expenditures versus Budget

The review of the multi-year capital program/projects identifies specific projects and indicates which projects are projected to complete on, over, or under budget.

As of March 31, 2014, open Capital programs/projects have budgets totaling \$1,079 million with an overall projected positive variance of approximately \$3 million (or less than 1%) excluding a small number programs or projects which did not receive a budget. In 2014, \$8.5 million of forecast costs which relate to Combined Sewer and Water Connection programs were not fully captured in the budget. It is anticipated that the majority of these programs will be closed in 2014.

CONCLUSION

OPERATING BUDGET:

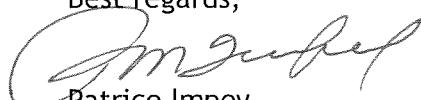
Results for Q1 show a \$0.6 million favourable variance to budget. The variance is primarily a reflection of timing and seasonality differences between budgeted revenues and expenditures and actuals incurred to date. Higher than budget revenue for permit fees, investment income and costs recoveries explain most of the remaining variance.

The Full Year Forecast shows a net balanced position for the City. The forecast is based on estimates and trends. Unanticipated items between now and actual results may differ from the forecast. Departments and Boards will continue to monitor their budgets carefully and to adjust expenditures accordingly to ensure a balanced year-end position.

CAPITAL BUDGET:

The City of Vancouver incurred \$46 million in capital expenditures for the first quarter of 2014 (16% of the 2014 Capital Budget) and is projecting to spend a total of \$286 million by the end of 2014, representing a positive spend variance of \$2 million (1%) against a budget of \$288 million.

Best regards,



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2014 Operating Budget

1st Quarter Review

Appendix A

2014 Operating Q1 Budget to Actual Review Summary

\$ millions	Q1 Actuals	Q1 Budget	Q1 Variance \$	Q1 Variance %
REVENUES				
Taxation Revenue	161.6	162.4	(0.7)	(0%)
Development and Permit Fees	25.4	23.5	1.8	8%
Parking Meter Revenue	10.9	10.1	0.8	8%
Other General Revenue	13.2	14.1	(0.9)	(6%)
Utilities *	42.8	46.3	(3.4)	(7%)
Police	6.6	4.4	2.3	52%
Parks	8.5	8.3	0.3	3%
Fire	3.4	1.9	1.5	79%
Engineering (PW)	2.8	2.3	0.5	24%
Community Services	2.9	2.6	0.3	13%
Planning & Development	1.0	0.8	0.2	24%
Library	0.8	0.7	0.1	14%
Grants	0.0	0.0	0.0	-
Civic Theatres	2.1	2.2	(0.1)	(5%)
Mayor	0.0	0.0	0.0	-
Council	0.0	0.0	0.0	-
Britannia	0.3	0.3	0.0	13%
Support Services	0.4	0.4	(0.0)	(10%)
Contingency & General Govt	1.6	1.9	(0.2)	(12%)
Debt & Capital	0.0	0.0	0.0	-
TOTAL REVENUES	284.5	282.1	(2.4)	1%
EXPENDITURES				
Taxation Revenue	0.0	0.0	0.0	-
Development and Permit Fees	0.0	0.0	0.0	-
Parking Meter Revenue	0.0	0.0	0.0	-
Other General Revenue	0.0	0.0	0.0	-
Utilities *	40.9	39.9	(1.0)	(2%)
Police	56.5	56.3	(0.2)	(0%)
Parks	24.4	24.1	(0.3)	(1%)
Fire	24.0	24.7	0.6	3%
Engineering (PW)	21.7	20.4	(1.3)	(6%)
Community Services	9.5	10.0	0.5	5%
Planning & Development	4.6	4.8	0.2	3%
Library	11.5	11.3	(0.2)	(2%)
Grants	2.9	2.9	0.0	1%
Civic Theatres	1.5	1.5	0.1	3%
Mayor	0.2	0.2	0.0	8%
Council	0.3	0.3	0.0	5%
Britannia	1.0	1.2	0.2	14%
Support Services	27.3	28.9	1.5	5%
Contingency & General Govt	10.5	8.3	(2.2)	(27%)
Debt & Capital	4.3	4.5	0.2	5%
TOTAL EXPENDITURES	241.1	239.3	(1.8)	(1%)
Transfer to/from Utilities Reserve*	0.0	0.0	0.0	-
REVISED ESTIMATED EXPENDITURES	241.1	239.3	(1.8)	(1%)
NET SURPLUS / (DEFICIT)	43.4	42.8	(0.6)	

City of Vancouver
2014 Operating Budget
1st Quarter Review
Appendix B

2014 Operating Budget - Full Year Forecast

\$ millions	Forecasted Year-end	Annual Budget	Variance \$	Variance %
REVENUES				
Taxation Revenue	671.1	670.9	0.2	0%
Development and Permit Fees	51.3	50.7	0.6	1%
Parking Meter Revenue	42.1	42.0	0.1	0%
Other General Revenue	70.1	71.4	(1.4)	(2%)
Utilities *	227.2	228.7	(1.5)	(1%)
Police	17.8	13.9	3.9	28%
Parks	50.2	50.2	0.0	0%
Fire	8.4	7.5	0.9	12%
Engineering (PW)	9.7	9.6	0.1	1%
Community Services	11.1	10.6	0.5	5%
Planning & Development	1.2	0.9	0.3	27%
Library	4.4	4.4	(0.0)	(1%)
Grants	0.0	0.0	0.0	-
Civic Theatres	8.0	8.0	0.1	1%
Mayor	0.0	0.0	0.0	-
Council	0.0	0.0	0.0	-
Britannia	1.1	1.0	0.1	6%
Support Services	1.6	1.5	0.1	4%
Contingency & General Govt	6.2	7.0	(0.8)	(12%)
Debt & Capital	0.0	0.0	0.0	-
TOTAL REVENUES	1,181.5	1,178.3	3.2	0%
EXPENDITURES				
Taxation Revenue	0.0	0.0	0.0	-
Development and Permit Fees	0.0	0.0	0.0	-
Parking Meter Revenue	0.0	0.0	0.0	-
Other General Revenue	0.0	0.0	0.0	-
Utilities *	260.9	259.7	(1.2)	(0%)
Police	238.9	235.0	(3.9)	(2%)
Parks	108.1	108.1	0.0	0%
Fire	98.3	98.3	0.0	0%
Engineering (PW)	74.4	74.1	(0.3)	(0%)
Community Services	40.5	40.5	(0.1)	(0%)
Planning & Development	20.0	19.7	(0.3)	(1%)
Library	43.9	44.0	0.1	0%
Grants	17.7	17.7	0.0	0%
Civic Theatres	6.0	5.9	(0.0)	(1%)
Mayor	1.0	1.0	0.0	0%
Council	1.3	1.3	0.0	0%
Britannia	4.9	4.8	(0.1)	(2%)
Support Services	113.7	113.5	(0.2)	(0%)
Contingency & General Govt	62.0	62.0	(0.0)	(0%)
Debt & Capital	90.1	90.1	0.0	0%
TOTAL EXPENDITURES	1,181.7	1,175.8	(5.9)	(0%)
Transfer to/from Utilities Reserve*	(0.2)	2.5	2.7	107%
REVISED ESTIMATED EXPENDITURES	1,181.5	1,178.3	(3.2)	(0%)
NET SURPLUS / (DEFICIT)	0.0	(0.0)	0.0	

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

It should be noted that there are still a number of variances to budget on a quarterly basis due to seasonality issues within the budget and some accounting processes that take place on an annual rather than quarterly basis. Significant work on moving from annual to quarterly reporting processes is being reflected in increasingly refined quarterly numbers. These variances are adjusted for in the year-end forecasts contained in this report, and continue to be addressed in our budget process to better align the quarterly budgets to expected quarterly results.

