

VanRIMS No.: 01-9000-20

MEMORANDUM

September 16, 2014

TO: Mayor and Council

CC: Penny Ballem, City Manager
Sadhu Johnston, Deputy City Manager
Janice MacKenzie, City Clerk
Kevin Quinlan, Director, Policy and Communication, Mayor's Office
Lynda Graves, Manager, Administration Services, City Manager's Office
Mike Magee, Chief of Staff, Mayor's Office
Rena Kendall-Craden, Director, Communications
Corporate Management Team

FROM: Patrice Impey, General Manager, Financial Services Group/CFO

SUBJECT: 2014 Operating and Capital Budget - 2nd Quarter Review

Dear Mayor and Council,

The purpose of this memo is to provide Council with:

1. A review of the Q2 2014 Operating results and variances from the Q2 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 Q2 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/your-government/financial-reports-and-information.aspx>.

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. Q2 2014 OPERATING BUDGET RESULTS AND FULL YEAR 2014 FORECAST

Summary

The City generated a surplus of \$20.4 million greater than budget in Q2 primarily due to seasonality issues within the budget.

The City is forecasting a \$3.1 million surplus at year end for 2014, with higher than budgeted revenues and expenditures of \$12.3 million (1.0%) and \$9.2 million (0.8%), respectively. 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.

2014 Operating Budget 2nd Quarter Review

2014 Operating Budget - Q2 and Full Year Forecast

\$ millions	Q2 Actuals	Q2 Budget	Q2 Variance \$	Q2 Variance %	Forecasted Year-end	Annual Budget	Variance \$	Variance %
REVENUES								
Taxation Revenue	193.1	186.7	6.5	3%	671.1	670.9	0.2	0%
Development and Permit Fees	13.4	10.3	3.1	31%	52.4	51.1	1.3	2%
Parking Meter Revenue	11.6	10.5	1.1	10%	44.3	42.0	2.3	6%
Other General Revenue	25.6	23.5	2.1	9%	69.8	71.4	(1.6)	(2%)
Utilities *	81.5	78.0	3.6	5%	231.9	228.7	3.3	1%
Police	4.7	3.3	1.3	40%	17.6	13.9	3.7	27%
Parks	14.1	12.7	1.4	11%	52.5	50.2	2.3	5%
Fire	1.9	1.9	0.1	3%	8.4	7.5	0.9	12%
Engineering (PW)	5.0	2.6	2.3	88%	10.9	9.6	1.2	13%
Community Services	2.6	2.8	(0.3)	(10%)	10.5	10.8	(0.3)	(3%)
Planning & Development	0.0	0.0	(0.0)	(57%)	1.2	0.9	0.3	29%
Library	2.3	2.2	0.2	8%	4.6	4.5	0.1	2%
Grants	0.0	0.0	0.0	-	0.0	0.0	0.0	-
Civic Theatres	3.0	2.3	0.8	33%	8.3	8.0	0.3	4%
Mayor	0.0	0.0	0.0	-	0.0	0.0	0.0	-
Council	0.0	0.0	0.0	-	0.0	0.0	0.0	-
Britannia	0.2	0.3	(0.0)	(10%)	1.1	1.0	0.0	3%
Support Services	0.4	0.4	0.1	16%	1.7	1.5	0.2	11%
Contingency & General Govt	0.9	1.1	(0.2)	(21%)	5.1	7.0	(1.8)	(26%)
Debt & Capital	0.0	0.0	0.0	-	0.0	0.0	0.0	-
TOTAL REVENUES	360.5	338.6	(21.9)	6%	1,191.3	1,179.0	(12.3)	1%

2014 Operating Budget
2nd Quarter Review

2014 Operating Budget - Q2 and Full Year Forecast

\$ millions	Q2 Actuals	Q2 Budget	Q2 Variance \$	Q2 Variance %	Forecasted Year-end	Annual Budget	Variance \$	Variance %
EXPENDITURES								
Taxation Revenue	0.0	0.0	0.0	-	0.0	0.0	0.0	-
Development and Permit Fees	0.0	0.0	0.0	-	0.0	0.0	0.0	-
Parking Meter Revenue	0.0	0.0	0.0	-	0.0	0.0	0.0	-
Other General Revenue	0.0	0.0	0.0	-	0.0	0.0	0.0	-
Utilities *	47.3	46.6	(0.7)	(1%)	265.2	259.7	(5.6)	(2%)
Police	59.9	61.1	1.2	2%	238.6	235.0	(3.6)	(2%)
Parks	27.9	27.4	(0.5)	(2%)	110.4	108.1	(2.3)	(2%)
Fire	25.0	24.6	(0.5)	(2%)	98.6	98.3	(0.3)	(0%)
Engineering (PW)	19.3	19.0	(0.2)	(1%)	74.9	74.1	(0.8)	(1%)
Community Services	10.2	10.2	0.0	0%	40.1	40.7	0.6	1%
Planning & Development	4.9	5.1	0.1	2%	20.4	20.4	(0.0)	(0%)
Library	11.4	11.5	0.1	1%	44.1	44.1	0.0	0%
Grants	9.2	9.2	0.0	0%	17.7	17.7	(0.0)	(0%)
Civic Theatres	2.0	1.6	(0.4)	(22%)	6.0	5.9	(0.1)	(1%)
Mayor	0.3	0.2	(0.0)	(12%)	1.0	1.0	0.0	0%
Council	0.3	0.3	0.0	14%	1.3	1.3	0.0	0%
Britannia	1.3	1.2	(0.1)	(5%)	4.8	4.8	0.0	0%
Support Services	29.7	30.3	0.6	2%	118.6	118.2	(0.4)	(0%)
Contingency & General Govt	8.1	6.9	(1.2)	(17%)	56.3	57.1	0.9	2%
Debt & Capital	17.5	17.5	(0.0)	(0%)	90.1	90.1	(0.0)	(0%)
TOTAL EXPENDITURES	274.1	272.5	(1.6)	(1%)	1,188.0	1,176.5	(11.5)	(1%)
Transfer to/from Utilities Reserve*	0.0	0.0	0.0	-	0.2	2.5	2.3	92%
REVISED ESTIMATED EXPENDITURES	274.1	272.5	(1.6)	(1%)	1,188.2	1,179.0	(9.2)	(1%)
NET SURPLUS / (DEFICIT)	86.4	66.0	(20.4)		3.1	(0.0)	(3.1)	

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

Revenues

Q2 revenues are higher than budget by \$21.9 million (6.5%) in Q2. For the full year 2014, revenues are forecast to be higher than budget by \$12.3 million.

Revenue highlights for Q2 and the full year forecast include:

- Higher revenues from:
 - Property Taxation Revenue Supplementary rolls and adjustments that were higher than anticipated in the quarter, the majority of which is expected to align with budget by year end;
 - Payments in lieu of taxes from Crown corporations, which is expected to continue in the full year forecast;

- Trade permit revenue as a result of higher than budgeted demand for trade permits, the majority of which is expected to align with budget by year end;
- Water metered fees from higher than budgeted water consumption, expected to continue in the full year forecast;
- Solid Waste Utility fees for the current quarter from higher cart size fees, offset by Lower Solid Waste Disposal revenues in the full year forecast due to less waste going to the Vancouver Landfill as commercial haulers are disposing at other sites. The City will continue monitoring the volumes throughout the remainder of the year;
- Recreation programs and VanDusen Gardens admission revenues as a result of greater demand and activity; and
- Police recoveries for seconded officers and work incurred on behalf of other agencies and Streets, Traffic and Electrical Engineering branches' recoverable program revenues in Q2, with offsetting higher than budgeted costs. These recoveries are also included in the full year forecast.

Expenditures

Expenditures are higher than budgeted by \$1.6 million (0.6%) in Q2. For the full year 2014, expenditures are forecast to be higher than budget by \$9.2 million.

Expenditure highlights for Q2 and the full year forecast include:

- Higher expenditures from:
 - Police overtime costs in Q2 and in the full year forecast, a portion of this is related to higher secondment recoveries;
 - Expenses related to recoverable Engineering, in both Q2 and in the full year forecast;
 - Parks expenditures related to increased revenues, in both Q2 and in the full year forecast;
 - Employee Benefit costs related to increases in CPP, EI impacting both Q2 and full year forecasts, as well as mid-year employer pension contribution rates increases impacting the full year forecast;
 - Higher water purchase costs for the quarter and full year forecast due to higher water consumption.
- Partially offset by lower expenditures from:
 - Reduced transfer expected to Solid Waste Utility stabilization reserve as a result of lower forecasted disposal revenues in the full-year forecast.
 - Lower expenses from salary savings in Q2 due to vacant positions for which staff are currently being recruited.

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 the Fire collective agreement and the outcome of these negotiations could have an impact on the full year forecast.
- Increasing Water Consumption trends. Q2 bulk water purchases were 4% higher than the same period last year, particularly for non-residential metered customers (commercial, industrial, institutional sectors). The City has responded with an increased focus on those customer groups this summer and will make further recommendations for strategies to promote efficient water use with these customers as part of the GCAP REFRESH process this fall.
- Declining revenues for Solid Waste Disposal. Solid waste disposal volumes are down, which Metro believes to be due to increasing leakage of garbage from the regional system. 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. Q2 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 Capital Expenditure Budget of \$285.1 million. Council subsequently approved a net increase of \$12.4 million in capital expenditures for a revised 2014 Capital Expenditure Budget of \$297.5 million.

A separate report to Council which includes Capital Budget adjustment requests collected during the Q2 2014 review will be presented to Council on September 17, 2014 (RTS 10495).

i. Q2 2014 Capital Expenditures and Year End Forecast vs 2014 Capital Budget

2014 Capital Budget expenditures to the end of Q2 were \$112 million (\$103 million to end of Q2 2013), representing 38% of the total 2014 Annual Capital Budget of \$297.5 million. Forecasted total capital expenditures for 2014 are currently projected to be \$280 million, or \$17 million (6%) less than budget.

Table 3 provides a summary of the Quarter 2 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	2014 YTD	2014 Total Forecast	Expected Variance
01. Community Facilities	A. Childcare	1,111	200	726	385
	B. Social Facilities	6,094	1,266	5,028	1,067
	C. Cultural Facilities	12,106	2,861	11,924	182
	D. Entertainment and Exhibition	1,170	67	1,006	163
	E. Libraries and Archives	8,287	546	8,305	-18
	F. Recreation Facilities	6,015	270	5,435	580
01. Community Facilities Total		34,782	5,209	32,424	2,358
02. Parks and Open Spaces	A. Parks and Open Spaces	23,385	9,848	23,226	159
	B. Seawall and Recreation Trails	100	0	100	0
	C. Street Trees	1,320	425	1,472	-152
	D. Public Art	770	198	683	87
02. Parks and Open Spaces Total		25,575	10,472	25,481	94
03. Housing	A. Non-Market Rental Housing	16,752	8,730	19,107	-2,355
	B. Market Rental Housing	0	5	45	-45
03. Housing Total		16,752	8,734	19,151	-2,399
04. Public Safety	A. Police	838	118	904	-66
	B. Fire	4,064	450	3,636	428
	C. Animal Control	0	41	50	-50
04. Public Safety Total		4,902	609	4,590	312
05. Transportation	A. Walking and Cycling	12,025	4,977	11,338	687
	B. Transit	916	209	923	-7
	C. Major Roads	50,922	25,363	47,502	3,420
	D. Local Roads	4,112	801	4,285	-174
	E. Parking	1,125	6	406	719
05. Transportation Total		69,099	31,356	64,454	4,646
06. Utilities and Public Works	A. Waterworks	18,735	9,708	17,741	993
	B. Sewers	51,205	22,925	46,047	5,158
	C. Solid Waste	8,179	846	8,166	12
	D. Neighbourhood Energy	2,600	262	1,127	1,473
06. Utilities and Public Works Total		80,718	33,742	73,082	7,636
07. Civic Infrastructure	A. Administrative Facilities	9,745	5,070	9,281	464
	B. Service Yards	1,643	1,080	1,856	-214
	C. Vehicles and Equipment	19,908	9,358	17,821	2,087
	D. Information Technology	26,223	5,320	24,136	2,088
07. Civic Infrastructure Total		57,519	20,828	53,094	4,425
08. City-Wide	A. Emerging Priorities	4,800	0	4,800	0
	C. City-Wide Overhead	3,399	782	3,399	0
08. City-Wide Total		8,199	782	8,199	0
Grand Total		297,547	111,732	280,476	17,071

Explanations for projected variances by service category are provided below:

01. Community Facilities	\$2.4 million positive variance
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Community Facilities capital expenditures are forecasted to be lower than budget by approximately \$2.4 million, reflecting deferrals of planned expenditures from 2014 to 2015 arising from delays in capital grant recipients in raising their required share of project funding or meeting other grant conditions, and extended public process timelines for several community-based projects. These reduced expenditure forecasts are partially offset by increases in 2014 expenditure forecasts for Cultural Infrastructure Program grants, reflecting an earlier disbursement of grants that were originally expected to be disbursed in 2015.

02. Parks and Open Spaces**\$0.1 million positive variance**

Parks & Open Spaces capital expenditures are forecasted to be marginally lower than budget, approximately \$0.1 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**\$2.4 million negative variance**

Housing capital expenditures are forecasted to be higher than budget by approximately \$2.4 million, primarily due to 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 \$0.9 million higher than budget due to unplanned waterline repairs required for a housing project. These increases in forecast 2014 expenditures are offset by a deferral of a \$2 million housing grant towards the conversion of the former Remand Centre to an affordable rental housing facility, planned for 2014 but now forecast to be disbursed in Q1 2015 .

04. Public Safety**\$0.3 million positive variance**

Public Safety capital expenditures for 2014 are forecasted to be lower than budget by approximately \$0.3 million. This is primarily due to a delayed start for the Fire Hall #5 reconstruction project (\$1.3 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 in late 2013. This positive variance is offset by an increased expenditure forecast (\$0.9 million for 2014) for the replacement of the City's fire boats, which was planned to be spent in 2015 upon receipt of the vessels but the City exercised an opportunity to reduce costs through a 30% milestone payment to be made when the purchase order is issued this year.

05. Transportation**\$4.6 million positive variance**

Transportation capital expenditures for 2014 are forecasted to be lower than budget by approximately \$4.6 million. Decreases in 2014 forecast expenditures for the Georgia Dunsmuir Viaducts Study (arising from an extended timeline for public consultation and negotiations with affected land owners), and for major road rehabilitation projects along Southwest Marine Drive and East Broadway (delayed due to an extended public consultation process and traffic planning coordination) are offset by increases in 2014 forecast expenditures for the Burrard Bridge rehabilitation project and pedestrian/bicycle signal rehabilitation program where expenditures planned to be completed in late 2013 were delayed into 2014.

06. Utilities and Public Works	\$7.6 million positive variance
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Utilities & Public Works is forecasted to be lower than budget by approximately \$7.6 million, which relates primarily to lower than budget expenditures in the Sewer Capital Program.

Permit revenues for Sewer Connections are received in advance of the installation work and the related expenditures are typically incurred during the year the fees are received and into the year following. The 2014 expenditure budget for the 2014 Sewer Connections program did not fully reflect this timing lag, resulting in a lower-than-budget 2014 spend forecast for the 2014 program. Another contributing factor to the decreased forecast spend is a deferral of the Pender Street transmission main replacement from 2014 to 2015, in view of the overall construction disruption occurring around the downtown core with currently ongoing construction.

07. Civic Infrastructure	\$4.4 million positive variance
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Civic Infrastructure is forecasted to be lower than budget by approximately \$4.4 million, due primarily to a shift of planned 2014 expenditures to 2015 for the replacement of Vancouver Fire & Rescue Services life support vehicles (pending finalization of configuration requirements), the deconstruction of City Hall East Wing (delays in relocating staff to other City Hall precinct facilities), and the COV Digital Strategy project (individual initiatives are currently under development). These positive expenditure variances are offset by several increases, most the Office Accommodation program planned for 2013 that shifted to 2014 (also arising from the delays in relocating staff to other City Hall precinct facilities and additional priority capital maintenance work identified during the renovation of the Vancity building).

08. City-Wide	\$0.0 million variance
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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 June 30, 2014, open Capital programs/projects have budgets totaling \$1,067 million with an overall projected positive variance of approximately \$8 million (less than 1%) excluding a small number programs or projects which did not receive a budget. In 2014, \$9.4 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 Q2 show a \$20.4 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.

The Full Year Forecast shows a surplus of \$3.1 million for the City. The forecast is based on estimates and trends based on the 1st half of the year results. 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 \$112 million in capital expenditures to the end of the second quarter of 2014 (38% of the 2014 Capital Budget) and is projecting to spend a total of \$280 million by the end of 2014, representing a positive spend variance of \$17 million (6%) against a budget of \$298 million.

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