



OFFICE OF THE CITY MANAGER
Penny Ballem, City Manager

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MEMORANDUM

June 7, 2012

TO: Mayor and Council

FROM: Penny Ballem, City Manager

CC: David McLellan, Deputy City Manager
Janice MacKenzie, Acting City Clerk
Kevin Quinlan, Director of Policy and Communications, Mayor's Office
Kit Yee, Manager, Operating Budget
Lynda Graves, Administrative Manager, City Manager's Office
Mairi Welman, Director of Communications
Mike Magee, Chief of Staff, Mayor's Office
Neal Stratton, Director, Financial Planning and Analysis
Patrice Impey, General Manager and CFO, Financial Services
Sadhu Johnston, Deputy City Manager
Sarah Kapoor, Manager, Capital Budget

SUBJECT: 2012 Operating and Capital Budget - 1st Quarter Review

The purpose of this memo is to provide Council with:

1. A review of the Q1 results and variances from the Q1 Operating Budget, as well as forecasts to 2012 year-end for revenues and expenditures, with identification of any significant variances from the 2012 Operating Budget.
2. A review of the Q1 2012 Capital expenditures by service category, as well as a review of the 2012 forecasted Capital expenditures by service category in comparison with the 2012 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 Vancouver Charter, is to ensure a balanced operating budget.

A) Q1 2012 OPERATING BUDGET RESULTS AND FULL YEAR 2012 FORECAST:

This 1st Quarter Review provides Q1 actual results compared to the Q1 budget, as well as the forecasted 2012 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 with the current quarter 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 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 2012. In summary, as of Q1, the City is tracking towards a small surplus of \$2.3 million, with some favorable trending in areas such as development related revenues while expenditures are forecast to be on 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 Results and variances to Budget

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

Table 1 - 2012 Q1 Operating Budget Review City Summary

<u>\$ millions</u>	<u>Q1 Actuals</u>	<u>Q1 Budget</u>	<u>Q1 Variance \$</u>	<u>Q1 Variance %</u>
TOTAL REVENUES	271.2	266.1	5.1	1.9%
TOTAL EXPENDITURES	229.0	234.9	5.9	2.5%
NET BUDGET POSITION	42.2	31.2	11.0	

A positive Net Budget Position is typical early in the year with the City of Vancouver and reflects the timing and seasonality differences between revenues and expenditures, most of which will be adjusted through the year.

Highlights of the main revenues and expenditure variances to budget in the quarter are provided below.

Revenues are higher than budgeted by \$5.1 million due to:

- Stronger license, development and trade permit fee income
- Higher short term interest due to higher cash balances
- Seasonality and timing associated with Property Taxation revenue
- Police - higher external recoveries from overtime incurred, higher grants and donations, more provincial recoveries, unbudgeted IRIT recoveries
- Utility revenue below budget due to timing on recognition of metered revenue

Expenditures are below budget by \$5.9 million in the quarter due to:

- Favorable seasonality and timing impacts in the quarter for Utilities and Grant payments which are forecasted to be back on budget by year-end.
- Savings in the City Manager's office and Parks due to cost savings/efficiencies and strategic filling of vacancies

At the end of Quarter 1, there are no charges against the approved 2012 contingency budget of \$4 million. The Forecast assumes that the 2012 contingency will be fully expended by year-end.

2) 2012 Full Year Forecast and variances to Budget

<u>\$ millions</u>	<u>Forecasted</u>		<u>Variance \$</u>	<u>Variance %</u>
	<u>Year-End</u>	<u>Annual Plan</u>		
TOTAL REVENUES	1,130.5	1,128.2	2.3	0.2%
TOTAL EXPENDITURES	1,128.2	1,128.2	(0.0)	(0.0%)
NET BUDGET POSITION	2.3	0.0	2.3	

Appendix B provides additional details by department.

The full year 2012 forecast shows a small surplus due in part to favorable trends in development related revenue while total expenditures remain on budget. The forecast includes an estimate of year end transfers to reserves primarily in the area of debt, insurance and deferred payroll costs to provide for the City's unfunded liability.

Risk and Opportunities

Q1 Development Revenues show a favourable trend against budget. As this is early in the fiscal year, the full year forecast does not incorporate any significant increase at this point. However, this will continue to be monitored and future forecast will reflect this accordingly.

Collective bargaining for the City continues. As further progress is made and certainty is known, impacts against the current budget can be made appropriately. While other risks exist, such as the impact of weather on revenue and expenses, at this time it is anticipated that the City will adjust to those situations and complete the year on budget.

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 2012 CAPITAL BUDGET RESULTS AND FULL YEAR 2012 FORECAST:

Background:

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 February 14, 2012 Council approved a 2012 Capital Budget of \$255.1 million. Additional Capital projects with a value of \$5.1 million have been approved separately by Council and are underway. This report reflects performance against this approved total of \$260.2 million.

In addition, a separate report to Council which includes Q1 Capital Budget adjustment requests will be presented for approval in June (RTS #9628). If approved, these adjustments will lead to a revised 2012 Capital Budget which will be reported against in the remaining quarters of 2012.

2012 Q1 Capital Expenditures and Year End Forecast vs. 2012 Capital Budget:

Quarter 1 Capital expenditures were \$37 million representing 14% of the 2012 Capital Budget of \$260.2 million. The 2012 Capital forecasted expenditures are currently projected to be \$3 million (1%) under budget.

Table 1 provides a summary of the Quarter 1 Capital expenditures as well as forecasted

annual expenditures by service category compared to the 2012 Capital Budget.

Service Category	Sub-Category	2012 Expenditure Budget	2012 Actuals Jan - Mar 31	Forecast Costs Jan - Dec 2012	Variance (2012 Budget less Forecast Year End Results)
1. Community Facilities	1a. Childcare	7,223,000	1,039,000	5,825,000	1,399,000
	1b. Social	6,826,000	503,000	5,578,000	1,249,000
	1c. Culture	5,785,000	356,000	5,378,000	407,000
	1d. Entertainment & Exhibition	4,984,000	2,000	3,821,000	1,162,000
	1e. Library	6,196,000	417,000	6,097,000	99,000
	1f. Recreation	5,886,000	814,000	5,476,000	411,000
1. Community Facilities Total		36,902,000	3,131,000	32,174,000	4,728,000
2. Parks and Open Spaces	2a. Parks and Open Spaces	10,934,000	1,301,000	9,768,000	1,166,000
	2b. Seawall	451,000	6,000	451,000	-
	2c. Street Trees	1,174,000	200,000	1,103,000	71,000
	2d. Public Art	1,136,000	146,000	1,313,000	(177,000)
2. Parks and Open Spaces Total		13,695,000	1,653,000	12,636,000	1,059,000
3. Housing	3a. Non-market rental housing	7,314,000	1,400,000	7,461,000	(147,000)
	3b. Market rental housing	235,000	-	235,000	-
3. Housing Total		7,549,000	1,400,000	7,696,000	(147,000)
4. Public Safety	4a. Police	5,909,000	665,000	7,168,000	(1,259,000)
	4b. Fire	4,744,000	1,259,000	6,057,000	(1,313,000)
	4c. Animal Control	380,000	-	380,000	-
4. Public Safety Total		11,033,000	1,925,000	13,605,000	(2,572,000)
5. Transportation	5a. Walking & Cycling	15,587,000	4,383,000	14,289,000	1,298,000
	5b. Transit	250,000	148,000	368,000	(118,000)
	5c. Major Roads	28,095,000	1,316,000	26,859,000	1,236,000
	5d. Local Roads	5,041,000	1,019,000	4,438,000	603,000
	5e. Parking	3,200,000	900,000	4,165,000	(965,000)
5. Transportation Total		52,173,000	7,766,000	50,119,000	2,054,000
6. Utilities and Public Works	6a. Waterworks	14,761,000	4,106,000	16,025,000	(1,264,000)
	6b. Sewers	42,258,000	11,707,000	47,549,000	(5,291,000)
	6c. Solid Waste	24,230,000	341,000	22,535,000	1,695,000
	6d. Neighbourhood Energy	600,000	91,000	656,000	(56,000)
6. Utilities and Public Works Total		81,849,000	16,244,000	86,765,000	(4,916,000)
7. Civic Infrastructure	7.1. Administrative Facilities	13,147,000	502,000	13,670,000	(524,000)
	7.2. Service Yards	135,000	-	135,000	-
	7.3. Vehicles & Equipment	11,340,000	1,827,000	11,282,000	58,000
	7.4. Information Technology	29,360,000	2,452,000	26,444,000	2,916,000
7. Civic Infrastructure Total		53,981,000	4,781,000	51,532,000	2,450,000
8. City Wide Overhead	8.0 City Wide Overhead	3,000,000	300,000	3,000,000	-
8. City Wide Overhead		3,000,000	300,000	3,000,000	-
Grand Total		260,183,000	37,199,000	257,527,000	2,656,000

Forecasted variance explanations by service category are provided below.

1. Community Facilities:

Overall, Community Facilities is projecting a positive variance of approximately \$4.7 million.

The majority of this variance can be explained by the following:

Childcare - Woodwards childcare costs less than budget, timing of grant payment to Harbourview Daycare, delays with the Vancouver School Board partnership program, and delays in the Kitsilano Montessori Daycare replacement project.

Social - Non-profit capital assets phase 2 is projecting to spend less than budget due to delays, the public realm and programming infrastructure project is currently on hold, 2012-14 Downtown Eastside Capital Program is deferred, and Hastings St Renaissance Phase 2 is currently on hold.

Entertainment and Exhibition - Capital maintenance relating to the PNE boiler chiller is currently in the planning process and will be finalized shortly, Nat Bailey improvements (50/50) joint funding arrangement is currently on hold.

2. Parks and Open Spaces:

Overall, Parks and Open spaces is projecting a positive variance of \$1.1 million.

The majority of this variance is related to the Parks and Open Spaces sub-category and specifically to the new 2012-14 programs (e.g. capital maintenance of existing park infrastructure, capital maintenance of existing park buildings, and conversion of streets to mini parks) of which the work is currently being planned and a portion of the work may be deferred to 2013.

3. Housing:

Overall, Housing is projecting a slight negative variance of \$147,000.

This variance can be explained by the timing of housing grant payments (one of 2011 installments for a housing grant was delayed, shifting remaining installments to 2012) which is offset by the positive variance for Capital Maintenance of a social housing site which is currently on hold.

4. Public Safety:

Overall, Public Safety is projecting a negative variance of \$2.6 million.

About half of this variance relates to Vancouver Police Department projects and specifically increased electronic storage capacity required for the Jail Interview CCTV project, and the timing of planned versus actual expenditures for the Tactical Training Centre.

The remaining variance relates to Vancouver Fire and Rescue Services projects. The majority of this variance is a result of delays in the Firehall number 15 project resulting from internal resource constraints (timing of planned versus actual expenditures).

5. Transportation:

Overall, Transportation is projecting a positive variance of \$2.1 million.

The majority of this variance is produced by a number of smaller positive and negative

variances relating to timing of planned expenditures, as well as the Granville Bridge bearing replacement project of which work is being moved to 2013 (to avoid impacting Granville Island during peak periods).

6. Utilities and Public Works:

Overall, Utilities is projecting a negative variance of \$4.9 million.

The Sewer service category includes Combined Sewer and Water Connections which are 100% fee recovered. Until the 2012 Capital Budget, annual budgets were not set for this connection work. The forecast costs include costs for 2012 and for prior years which were not budgeted.

7. Civic Infrastructure:

Overall, Civic Infrastructure is projecting a positive variance of \$2.5 million.

The majority of this variance relates to Information Technology and more specifically the Permit and Project Tracking system project (project scope and timing being reassessed), and the Business Intelligence project (currently being piloted and therefore not anticipated to be fully spent by year end).

Multi-year Capital Projected Expenditures vs. Budget:

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

As of March 31, 2012, open Capital programs/projects have budgets totaling \$1.088 billion, with overall projected forecast costs of \$1.078 billion and an overall projected favorable variance of \$10 million.

Federal and Provincial Infrastructure Projects:

In 2010, 31 capital projects with an overall budget of \$160 million received funding for “eligible” expenses through the Infrastructure Stimulus Funding (“ISF”) Programs, including up to \$53.5 million in Federal Infrastructure Stimulus and Recreational Infrastructure Canada (“RinC”) funding and up to \$10 million in infrastructure funding through the Province. This maximum funding contribution of \$63.5 million from the senior government ISF Programs was included in the 2010 Capital Budget.

Due to the expansion in project scope of some projects and to maximize the federal funding (e.g. VanDusen Garden Visitor Centre, Neighbourhood Energy Utility and Sewer Replacement), additional City funding was required and the total budget for all ISF Program projects was increased to \$164.5 million.

All 31 City of Vancouver projects under the ISF Programs met the completion deadline set by the Federal Government. The audit reports, along with the final project expense claims, were submitted before the federal deadline of January 31, 2012.

At the end of 1st quarter 2012, the City has spent approximately \$160 million on these 31 projects, with a total recovery at that time under the ISF Programs of \$58.2 million. The City is still anticipating recovery of an additional \$1.4 million from the ISF Programs. As some of the project costs were not “eligible” under the Federal funding, additional funding by the City of approximately \$0.65 million will be required to cover these “ineligible” project costs (i.e. furniture, internal staff costs).

We expect to close out all ISF Program projects in the next two quarters (when all the senior government funding is received and the total expenditure finalized).

CONCLUSION

OPERATING BUDGET:

Results for Q1 show a \$11.0 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 small surplus of \$2.3 million, including estimated year-end adjustments to reserves, primarily in the area of debt, insurance and deferred payroll costs to provide for the City’s unfunded liability.

The forecasted year-end position will change given that the estimates are based only on three months of actual performance and that unanticipated items between now and year-end will impact the City’s bottom line. For this reason, 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 \$37 million in capital expenditures for quarter 1 (14% of annual budget), and is projecting to spend \$257 million by the end of 2012. When compared to the 2012 approved Capital Budget (including \$5.1 million of items separately approved in council reports) this represents a projected \$3 million favourable variance.

The difference between the forecasted annual expenditures compared to budget are largely due to delays in contract tendering/awarding, adverse weather, shifting Capital priorities, which are offset by spend timing differences as budgeted 2011 expenditures were shifted out to 2012.

If you have any questions in regards to the above please don’t hesitate to contact me.

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City Manager

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Appendix A

2012 Operating Budget Q1 Plan to Actual Review Summary

\$ millions	Q1 Actuals	Q1 Plan	Q1 Variance \$	Q1 Variance %
REVENUES				
Taxation Revenue	155.6	154.6	1.1	0.7%
General Revenue	61.4	56.8	4.5	8.0%
Utilities *	25.0	28.2	(3.3)	(11.6%)
Police	6.8	4.7	2.1	44.0%
Parks	8.7	7.8	0.9	11.1%
Fire	3.0	2.7	0.3	11.4%
Engineering (PW)	2.5	2.4	0.1	2.9%
CSG	3.0	2.5	0.5	19.3%
Library	0.8	0.7	0.1	8.0%
Grants	0.0	0.0	0.0	-
Civic Theatres	1.8	2.3	(0.5)	(21.9%)
Mayor	0.0	0.0	0.0	-
Council	0.0	0.0	0.0	-
Britannia	0.3	0.2	0.1	29.3%
Support Services	0.3	0.4	(0.1)	(30.3%)
Contingency & General Govt	2.1	2.6	(0.5)	(20.2%)
Debt & Capital	0.0	0.0	0.0	-
TOTAL REVENUES	271.2	266.1	5.1	1.9%
EXPENDITURES				
Taxation Revenue	0.0	0.0	0.0	-
General Revenue	0.0	0.0	0.0	-
Utilities *	38.8	42.4	3.6	8.5%
Police	52.8	52.5	(0.3)	(0.5%)
Parks	23.0	23.6	0.6	2.6%
Fire	22.6	22.2	(0.5)	(2.1%)
Engineering (PW)	23.3	20.0	(3.3)	(16.7%)
CSG	15.0	15.7	0.6	3.9%
Library	11.0	11.1	0.1	0.5%
Grants	4.0	5.8	1.8	30.7%
Civic Theatres	1.4	1.6	0.1	7.9%
Mayor	0.2	0.2	(0.0)	(2.1%)
Council	0.3	0.3	0.0	7.2%
Britannia	1.0	1.1	0.1	9.5%
Support Services	27.0	26.1	(0.9)	(3.6%)
Contingency & General Govt	4.0	8.0	4.0	49.9%
Debt & Capital	4.4	4.4	0.0	1.0%
TOTAL EXPENDITURES	229.0	234.9	5.9	2.5%
Transfer to/from Utilities Reserve*	0.0	0.0	0.0	-
REVISED ESTIMATED EXPENDITURES	229.0	234.9	5.9	2.5%
NET BUDGET POSITION	42.2	31.2	11.0	

Appendix B

2012 Operating Budget - Full Year Forecast

\$ millions	Forecasted Year-end	Annual Plan	Variance \$	Variance %
REVENUES				
Taxation Revenue	643.5	642.9	0.6	0.1%
General Revenue	155.3	154.9	0.4	0.2%
Utilities *	215.2	214.8	0.3	0.1%
Police	14.0	13.5	0.5	3.8%
Parks	47.4	48.3	(0.9)	(1.8%)
Fire	7.8	7.3	0.4	5.9%
Engineering (PW)	9.3	9.9	(0.6)	(5.6%)
CSG	12.2	10.2	2.1	20.2%
Library	4.5	4.5	0.0	0.0%
Grants	0.0	0.0	0.0	-
Civic Theatres	7.7	8.2	(0.5)	(6.5%)
Mayor	0.0	0.0	0.0	-
Council	0.0	0.0	0.0	-
Britannia	1.1	1.0	0.0	4.7%
Support Services	1.3	1.6	(0.2)	(14.7%)
Contingency & General Govt	11.2	11.1	0.2	1.4%
Debt & Capital	0.0	0.0	0.0	-
TOTAL REVENUES	1,130.5	1,128.2	2.3	0.2%
EXPENDITURES				
Taxation Revenue	0.0	0.0	0.0	-
General Revenue	0.0	0.0	0.0	-
Utilities *	238.5	237.1	(1.4)	(0.6%)
Police	227.0	226.5	(0.5)	(0.2%)
Parks	103.2	104.2	1.0	0.9%
Fire	99.0	98.7	(0.3)	(0.3%)
Engineering (PW)	74.3	74.8	0.6	0.7%
CSG	58.9	57.9	(1.0)	(1.6%)
Library	42.8	43.0	0.1	0.3%
Grants	16.5	16.5	0.0	0.0%
Civic Theatres	5.8	5.9	0.1	1.5%
Mayor	1.0	1.0	0.0	0.0%
Council	1.2	1.3	0.1	5.6%
Britannia	4.6	4.4	(0.2)	(5.2%)
Support Services	102.7	102.6	(0.0)	(0.0%)
Contingency & General Govt	54.9	55.4	0.5	0.8%
Debt & Capital	90.7	90.7	0.0	0.0%
TOTAL EXPENDITURES	1,121.0	1,119.9	(1.1)	(0.1%)
Transfer to/from Utilities Reserve*	7.2	8.3	1.1	13.7%
REVISED ESTIMATED EXPENDITURES	1,128.2	1,128.2	(0.0)	(0.0%)
NET BUDGET POSITION	2.3	0.0	2.3	

* 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.