



Supports Item No. 1
PT&E Committee Agenda
September 19, 2012

ADMINISTRATIVE REPORT

Report Date: August 15, 2012
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Meeting Date: September 19, 2012

TO: Standing Committee on Planning, Transportation and Environment
FROM: General Manager Financial Services / CFO
SUBJECT: Q2 Capital Budget Adjustments and Closeouts

RECOMMENDATION

- A. THAT Council approve Capital Budget Adjustments and funding sources as outlined in Appendix 1 that have a net impact of \$2,149,000 to the Council approved 2012 Annual Capital Budget.
- B. THAT, as part of the Q2 Capital closeout process, Council approve the closeout of capital projects with variances exceeding 15% and \$50,000 of the approved budget as outlined in the report and Appendix 2.

REPORT SUMMARY

On June 12, 2012 Council approved an adjusted 2012 Annual Capital Budget of \$281 million, based on the First Quarter 2012 results (RTS 9628). Subsequent to Quarter 1, Council approved \$825,000 for park land acquisition and the transfer of this amount from the Timing Uncertain category of previously approved capital budget carryforwards to the 2012 Annual Capital Budget (RTS 9677, in camera).

Also subsequent to Quarter 1, Council approved \$1.7 million for mechanical repairs at a City-owned building at 312 Main Street (RTS 9593) and a \$449,000 closeout reallocation in conjunction with the closeout of 2011 capital projects (RTS 9539). This report seeks Council approval to add these items totaling \$2,149,000 to the 2012 Annual Capital Budget.

As part of the new capital budgeting process, closeout of projects/programs and adjustments to the Capital budget are identified as part of the quarterly reporting process. Council approval is therefore also being requested to close 24 programs/projects with a net surplus of \$0.6 million, as outlined in Appendix 2.

COUNCIL AUTHORITY/PREVIOUS DECISIONS

The City has a policy to plan for capital expenditures on a multi-year cycle. Since 1990, capital plans have been developed in 3-year terms in order to match the term of Council and allow for a borrowing plebiscite to be held in conjunction with the civic election. In September 2011, Council approved the 2012-2014 Capital Plan in the amount of \$702 million (RTS 9318).

It is Council policy to fund capital expenditures for the waterworks, sewerage & drainage and energy utility systems from debenture borrowing; the balance of capital expenditures are funded from a combination of debenture borrowing, direct contribution from the annual Operating Budget (Capital from Revenue), Development Cost Levies (DCLs) and Community Amenity Contributions (CACs) from developers, special-purpose reserves, internal loans, fees and levies collected from property owners and contributions from senior governments and other funding partners.

Funding from the three-year Capital Plan is allocated to specific Capital Programs and Projects through the annual Capital Budgeting process. Council approval of the annual Capital Budget is required before work can proceed on specific programs/projects.

Section 242 of the Vancouver Charter gives Council the authority to borrow funds for the construction, installation, maintenance, replacement, repair and regulation of waterworks, sewerage & drainage and energy utility systems without the assent of the electorate. Section 245 requires that the borrowing authority for all other purposes be established through the electorate's approval of a borrowing plebiscite.

The requirement to borrow funds to finance capital expenditures is established by Council at the time of the approval of the annual capital budget and through special approvals. Borrowed funds are generally paid back over 10 years to ensure that a systematic borrowing program can be administered, that outstanding debt does not accumulate to unacceptable levels and that interest and repayment costs are maintained at a level that does not put undue pressure on the operating budget.

Section 247A of the Vancouver Charter requires that full provision of annual debt servicing charges, both principle and interest, be made in the annual operating budget. This ensures that debenture holders are paid the interest component at the prescribed rate and time, and that sufficient funding is available to retire the obligation at maturity.

In June 2003, Council approved the Financing Growth Policy which sets out policy for the collection and use of DCLs and CACs. Pursuant to Section 523D of the Vancouver Charter, DCLs are collected to assist in recovering growth-related capital costs that arise from new developments. DCLs are generally allocated on a "cash available" basis among park, replacement housing, transportation and childcare projects in proportions specified in various DCL By-laws. CACs are developer contributions that arise from rezonings; these are directed toward the cost of public amenities in the area affected by the rezoning. The allocation of both DCL and CAC funding to specific amenities requires Council approval.

Council authority is required to close capital accounts with variances exceeding 15% and \$50,000 of the approved budget, and to reallocate capital funding over \$50,000;

On February 14 2012, Council approved the 2012 Annual Capital Budget in the amount of \$255.1 million.

On June 12 2012, Council approved an adjusted 2012 Annual Capital Budget in the amount of \$280.7 million.

CITY MANAGER'S/GENERAL MANAGER'S COMMENTS

The Capital Budget is the main tool by which the City implements its 3-year capital plan as it provides the authority to proceed with specific programs/projects, and defines the approved annual expenditure for Capital. It is important in fostering and maintaining public accountability and transparency, and provides detailed information about specific programs/projects, such as budgets by cost category, identification of specific funding sources, and outcomes that are clearly identifiable and measurable.

The City's new Capital Budget process has been developed to ensure assets and investments are managed more comprehensively, with greater rigor and transparency, in a manner that ensures the City is achieving value for money, and ensure that staff resources are used more efficiently.

As part of the City's new Capital Budget process, departments are able to request Capital Budget adjustments on a quarterly basis. This further streamlines the Capital Budget process and reduces the number of ad-hoc Council reports being submitted for approval.

Capital Budget adjustments can include reallocations to projects or programs that have been deemed higher priority, allows projects and/or programs, where timing of the capital expenditure was uncertain at the time of approving the annual budget to be added to the 2012 budget (e.g., projects that were delayed pending resolution of factors external to the City, such as partnership funding commitment), and allows departments to request funding from future years of the Capital Plan to advance projects and or programs in a given year.

Beginning in Q3 2011, quarterly capital budget reviews are provided to Council in a Council memo and posted externally on the Financial Services website at <http://vancouver.ca/fs/budgetServices/index.htm>. The 2012 Q2 Capital Budget Review memo contains information on the second quarter (Q2) Capital position, while this report focuses on Q2 2012 Annual Capital Budget adjustments and Capital closeouts for Council approval.

REPORT

Background/Context

On June 12, 2012 Council approved a revised 2012 Annual Capital Budget of \$280.7 million, based on First Quarter 2012 results. Subsequent to Quarter 1, Council approved \$825,000 for park land acquisition and the transfer of this amount from the Timing Uncertain category of previously approved capital budget carryforwards to the 2012 Annual Capital Budget (RTS 9677, in camera). Also subsequent to Quarter 1, Council approved \$1.7 million for mechanical repairs at a City-owned building at 312 Main Street (RTS 9593) and a \$449,000 closeout reallocation in conjunction with the closeout of 2011 capital projects (RTS 9539).

The net effect of these adjustments is an increase of \$3.0 million to the 2012 Annual Capital Budget for a revised total of \$283.7 million.

As part of the new capital budgeting process, adjustments to the Capital Budget which require Council approval are identified as part of the quarterly reporting process.

Quarterly Capital Budget adjustment requests are categorized as follows:

A. Administrative consolidation, and restatements:

Includes the ongoing consolidation of like programs/projects into one larger program/project (normally no net impact on the annual budget); the addition of Capital Budget projects approved by Council outside the regular Capital Budget cycle; and other restatements.

B. Emerging priority projects:

New projects that have been identified to address unforeseen urgent issues or new priorities emerging outside of the regular Capital Budget cycle.

C. Timing uncertain budget additions / acceleration of projects:

Projects noted as "Timing Uncertain" in the 2012 Capital Budget where timing has become certain; acceleration of projects from 2013/14 into the 2012 budget for various reasons (feasibility, external funding opportunities, economies of scale, etc.);

D. Budget increases to existing projects/programs:

Programs/projects where scope has broadened with the opportunity of 3rd party funding;

E. Reallocations:

Reallocation of existing funding between projects reflecting revised priorities and or cost estimates.

Strategic Analysis

A. Capital Budget Adjustments

Q2 Capital Budget Adjustment requests with a 2012 Annual Capital Budget impact of \$2,149,000 represent the addition of a capital project approved by Council subsequent to the development and approval of the Annual Capital Budget, and a previously approved reallocation of closeout surplus funding. Details of the adjustment requests are provided in Appendix 1.

Q2 2012 Annual Capital Budget Adjustments by Category (\$000's)		
Category	2012 Impact	2012-14 Plan Impact
A. Administrative consolidation, and restatements	2,149	0
B. Emerging priority projects	0	0
C. Timing uncertain budget additions / acceleration of projects	0	0
D. Budget increases to existing projects/programs	0	0
E. Reallocations	0	0
TOTAL	2,149	0
Current Approved 2012 Annual Capital Budget ¹ / Capital Plan 2012-14	281,535	702,400
Revised Total 2012 Annual Capital Budget / 2012-14 Capital Plan	283,684	702,400

¹ 2012 Q1 adjusted total of \$280.71M + \$0.825M for park land acquisition added to 2012 Annual Capital Budget in June 2012 (RTS 9677)

A = Administrative consolidation, and restatements:

Capital Budget projects approved by Council subsequent to the approval of the 2012 Annual Capital Budget: mechanical repairs at 312 Main Street (\$1.7 million, RTS 9593); reallocation of surplus funding arising from 2011 capital closeouts (\$449,000, RTS 9539).

B. Capital Closeouts

The Capital closeout process is the mechanism by which the City's Capital programs and/or projects are closed, completion deficits and surpluses are identified and, to the extent applicable, offset. Net closeout surpluses are transferred to City-Wide Unallocated from Capital Closeouts for funding future Capital programs and/or projects.

The purpose of this report is to request Council approval to close capital programs and/or projects where completion spend variances exceed 15% and \$50,000 of the approved budget.

A total of 24 programs/projects with multi-year budgets of \$11.6 million and expenditures of \$11.0 million were completed since the 2012 Q1 capital closeout (RTS 9628).

Four of the projects have completion surpluses/deficits exceeding 15% and \$50,000 (three surplus, one deficit). Appendix 2 provides details of closeout surpluses and deficits by department.

CONCLUSION

As part of the new capital budgeting process, closeout of projects/programs and adjustments to the Capital Budget requiring Council approval are identified quarterly through the quarterly reporting process. Capital Budget adjustments approved by Council subsequent to the approval of the annual Capital Budget are included in the quarterly reporting to Council for information.

The purpose of this report is to request Council approval of Q2 Capital Budget adjustments totalling \$3.0 million, increasing the 2012 Annual Capital Budget to a revised total of \$283.7 million.

This report also requests Council approval for the closeout of four programs/projects with completion variances exceeding 15% and \$50,000 of the approved budget.

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Appendix 1 - Q2 Capital Budget Adjustment Requests

Requesting Department	FROM	TO	CAPITAL BUDGET IMPACTS			RATIONALE / DESCRIPTION / OTHER	FUNDING SOURCE		
	Project/Program	Project/Program	Budget Adjustment Amount	Total Project Impact (All Years)	2012 Expenditure Budget Impact				
A. Administrative consolidation, and restatements									
This includes the ongoing consolidation of like programs/projects into one larger program/project (normally no net impact on the annual budget); the addition of Capital Budget projects approved by Council outside the regular Capital Budget cycle; and other restatements.									
Engineering Services	Landfill Phase 1 Gas Collection	Landfill Phase 1 Closure	1,275,000	0	0	Consolidation of related Landfill Phase 1 Closure projects	Reallocation of existing Capital		
Engineering Services	2009 Greenways Program closeout	2011 Greenways Program	449,000	0	449,000	Program funding consolidation, approved in 2011 Capital Closeout (RTS 9539)	City Wide DCL		
Business Planning & Services	City-Wide Unallocated from Capital Closeouts	Mechanical Repairs - 312 Main	1,700,000	1,700,000	1,700,000	Replacement of domestic water pipes at 312 Main to enable building repurposing (RTS 9593)	Reallocation of existing Capital		
A. Administrative consolidation, and restatements total			3,424,000	1,700,000	2,149,000				
B. Emerging priority projects									
New projects that have been identified to address unforeseen urgent issues or new priorities emerging outside of the regular capital budget cycle.									
None			0	0	0				
B. Emerging priority projects total			0	0	0				
C. Timing uncertain budget additions / acceleration of projects									
Projects noted as "Timing Uncertain" in the 2012 Capital Budget where timing has become certain; acceleration of projects from 2013/14 into the 2012 budget for various reasons (feasibility, external funding opportunities, economies of scale, etc.).									
None			0	0	0				
C. Timing uncertain budget additions / acceleration of projects total			0	0	0				
D. Budget increases to existing projects/programs									
Programs/projects where scope has broadened with the opportunity of 3rd party funding.									
None			0	0	0				
D. Budget increases to existing projects/programs total			0	0	0				
E. Reallocations									
Reallocation of existing funding between projects reflecting revised priorities and or cost estimates.									
Engineering Services	2012 Infill St Lighting - Local Roads, 2012 Infill St Lighting - Major Roads, 2012 H Frame Replacement	2012 St Lighting Infrastructure - Local	221,000	0	0	Based on the results of the street lighting pole inspection program, the number of corroded poles is higher than expected. In addition, BC Hydro is upgrading many wood poles in the City. Since the City uses these poles as support structures for the service panels which are also corroding, a higher number of service panels also require replacing and upgrading to panels which meet current electrical codes. Replacement of these corroded poles and service panels is critical. The existing service panels cannot be re-used because they do not meet current code requirements.	Reallocation of existing Capital		
E. Reallocations total			221,000	0	0				
TOTAL			3,645,000	1,700,000	2,149,000				

Appendix 2 - Q2 2012 Closeouts

Project/Program Name	Budget	Actuals	Surplus (Deficit)	%	Variance Explanation (Variances > \$50,000 and 15%)
12 Affordable Housing Sites - Rezoning/Remediation Costs	95,000	0	95,000	100%	Budget was based on very conservative estimates given uncertainties at the time around the risk of soil remediation issues.
Grant - Carousel Theatre Society (Planning)	11,500	6,937	4,563	40%	
Grant - Carousel Theatre Society (Capital)	11,500	11,213	287	2%	
Grant - Harbouview Daycare Facility	647,713	647,713	0	0%	
Grant - Association of Neighbourhood Houses	5,000	5,000	0	0%	
Grant - Vancouver Concert Hall & Theatre Society	22,500	22,500	0	0%	
Grant - Jewish Community Centre of Greater Vancouver	33,000	33,000	0	0%	
Grant - Playwrights Theatre Centre	7,100	7,100	0	0%	
Community Services Total	833,313	733,463	99,850	12%	
USAR Warehouse (2010 Supp Cap)	1,560,000	1,588,746	(28,746)	-2%	
VIFC - Letter of Credit Expenditures	100,000	89,998	10,002	10%	
Business Planning & Services / Civic Property Mgmt Total	1,660,000	1,678,744	(18,744)	-1%	
Data Network Upgrades - City	154,000	144,358	9,642	6%	
VPL Security Server Repl 2011	21,500	24,533	(3,033)	-14%	
GIS Arterial Imagery Acquisition 2011	60,000	60,332	(332)	-1%	
2008 IT Applications - Tools	150,000	150,000	0	0%	
Financial Services / IT Total	385,500	379,223	6,277	2%	
2006 Greenways	2,195,966	1,932,887	263,079	12%	
2011 Underground Communications Network Expansion	562,500	376,372	186,128	33%	Planned work was scaled back to cover identified overexpenditure in underground cable replacement program (due to accelerated timing of replacement of aging underground cable to coordinate with road work occurring in priority areas).
2011 Underground Cable Replacement	124,680	273,250	(148,570)	-119%	Deficit due to accelerated timing of replacement of aging underground cable to coordinate with road work occurring in priority areas.
Long Range Development	150,000	0	150,000	100%	Long Range development plan not to be carried out at this time due to uncertainty regarding the Vancouver South Transfer Station redevelopment plans.
2009-11 Renovate Aging Signal Plant program	3,475,658	3,429,490	46,168	1%	
2011 Uninterrupted Power Supply	113,000	147,058	(34,058)	-30%	
Manitoba Yards Improvements	424,412	397,262	27,150	6%	
2009-11 Signal Modification program	1,500,000	1,512,285	(12,285)	-1%	
Security and Safety Improvements	150,000	141,280	8,720	6%	
National Yards Improvements	12,082	10,473	1,609	13%	
Engineering Services Total	8,708,298	8,220,357	487,941	6%	
Total Q2 2012 Closeouts	11,587,111	11,011,786	575,325	5%	

Budget Status at Completion (# of projects)	Budget	Actual	Surplus (Deficit)	%
Surplus greater than \$50K & 15% (3 projects)	807,500	376,372	431,128	53%
Deficit greater than \$50K & 15% (1 project)	124,680	273,250	(148,570)	-119%
Surplus or deficit less than \$50K & 15% (20 projects)	10,654,931	10,362,164	292,767	3%
TOTAL (24 projects)	11,587,111	11,011,786	575,325	5%

Proposed allocation of Net Closeout Surplus:		
From	To	Amount
12 Affordable Housing sites - Rezoning/Remediation closeout surplus	Affordable Housing Reserve	95,000
2011 Underground Communications Network Expansion closeout surplus (net surplus remaining after covering closeout deficit in 2011 Underground Cable Replacement)	City-Wide Unallocated from Closeouts	37,558
VIFC - Letter of Credit Expenditures closeout surplus	Return surplus letter-of-credit funding to developer	10,002
Manitoba Yards Improvements (cfwd from 2003-05) closeout surplus	Phase 3 Energy Performance Contract (FD&M)	27,150
Fire Unallocated from Closeouts	USAR Warehouse closeout deficit	(28,746)
IT Infrastructure Unallocated	VPL Security Server Repl 2011 closeout deficit	(3,033)
	GIS Arterial Imagery Acquisition 2011 closeout deficit	(332)
Net remaining closeout surpluses	City-Wide Unallocated from Closeouts	437,726
Net Closeout Surplus		\$575,325