

## MEMORANDUM

December 19, 2014

TO: Mayor and Council

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

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

SUBJECT: 2014 Operating and Capital Budget - 3<sup>rd</sup> Quarter Review

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Dear Mayor and Council,

The purpose of this memo is to provide Council with:

1. A review of the Q3 2014 Operating results and variances from the Q3 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 Q3 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 Annual Capital Expenditure 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. Q3 2014 OPERATING BUDGET RESULTS AND FULL YEAR 2014 FORECAST**

#### **Summary**

The City generated a surplus of \$14.5 million greater than budget in Q3 primarily due to the timing of actual revenues and expenditures within the year compared to the budget.

The City is forecasting a \$4.0 million surplus at year end for 2014, with higher than budgeted revenues and expenditures of \$23.5 million (2.0%) and \$19.5 million (1.7%), 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 3rd Quarter Review**

**2014 Operating Budget - Q3 and Full Year Forecast**

\$ millions	Q3 Actuals	Q3 Budget	Q3 Variance \$	Q3 Variance %	Forecasted Year-end	Annual Budget	Variance \$	Variance %
<b>REVENUES</b>								
Taxation Revenue	166.30	162.80	3.50	2.2%	672.20	670.92	1.29	0.2%
Development and Permit Fees	11.11	8.65	2.46	28.4%	52.41	50.83	1.58	3.1%
Parking Meter Revenue	11.21	10.50	0.71	6.7%	44.60	42.00	2.60	6.2%
Other General Revenue	15.36	14.03	1.33	9.4%	69.78	71.41	(1.63)	(2.3%)
Utilities *	57.49	56.58	0.91	1.6%	231.97	228.66	3.31	1.4%
Police	3.30	3.15	0.15	4.9%	18.24	13.85	4.39	31.7%
Parks	18.40	17.82	0.58	3.3%	53.06	50.24	2.82	5.6%
Fire	1.95	1.87	0.08	4.2%	8.76	7.48	1.28	17.0%
Engineering (PW)	4.80	2.14	2.66	124.1%	16.80	9.62	7.19	74.8%
Community Services	3.74	2.72	1.02	37.4%	12.15	10.79	1.36	12.6%
Planning & Development	0.23	0.04	0.18	436.7%	1.41	0.95	0.47	49.7%
Library	0.91	0.91	(0.00)	(0.1%)	4.76	4.50	0.26	5.9%
Grants	0.00	0.00	0.00	-	0.00	0.00	0.00	-
Civic Theatres	0.86	1.38	(0.52)	(37.7%)	8.29	7.95	0.33	4.2%
Mayor	0.00	0.00	0.00	-	0.00	0.00	0.00	-
Council	0.00	0.00	0.00	-	0.00	0.00	0.00	-
Britannia	0.25	0.26	(0.00)	(1.4%)	1.04	1.02	0.02	1.8%
Support Services	0.42	0.37	0.05	14.4%	1.65	1.54	0.11	7.5%
Contingency & General Govt	0.80	1.10	(0.30)	(27.2%)	5.11	6.98	(1.87)	(26.8%)
Debt & Capital	0.00	0.00	0.00	-	0.00	0.00	0.00	-
<b>TOTAL REVENUES</b>	<b>297.14</b>	<b>284.33</b>	<b>12.81</b>	<b>4.5%</b>	<b>1202.25</b>	<b>1178.74</b>	<b>23.51</b>	<b>2.0%</b>

**2014 Operating Budget  
3rd Quarter Review**

**2014 Operating Budget - Q3 and Full Year Forecast**

\$ millions	Q3 Actuals	Q3 Budget	Q3 Variance \$	Q3 Variance %	Forecasted Year-end	Annual Budget	Variance \$	Variance %
<b>EXPENDITURES</b>								
Taxation Revenue	0.00	0.00	0.00	-	0.00	0.00	0.00	-
Development and Permit Fees	0.00	0.00	0.00	-	0.00	0.00	0.00	-
Parking Meter Revenue	0.00	0.00	0.00	-	0.00	0.00	0.00	-
Other General Revenue	0.00	0.00	0.00	-	0.00	0.00	0.00	-
Utilities *	95.49	97.20	1.71	1.8%	263.76	259.68	(4.07)	(1.6%)
Police	63.44	62.80	(0.64)	(1.0%)	243.05	238.74	(4.32)	(1.8%)
Parks	29.32	29.43	0.12	0.4%	109.59	108.09	(1.50)	(1.4%)
Fire	23.42	24.84	1.42	5.7%	98.15	98.29	0.15	0.1%
Engineering (PW)	19.67	18.42	(1.25)	(6.8%)	80.45	74.07	(6.39)	(8.6%)
Community Services	11.18	10.36	(0.82)	(7.9%)	41.98	40.65	(1.33)	(3.3%)
Planning & Development	4.97	4.89	(0.08)	(1.6%)	20.43	20.08	(0.35)	(1.7%)
Library	10.59	10.95	0.36	3.2%	44.15	44.08	(0.07)	(0.2%)
Grants	2.29	2.32	0.03	1.1%	17.74	17.70	(0.04)	(0.2%)
Civic Theatres	1.06	1.30	0.24	18.7%	5.99	5.94	(0.05)	(0.8%)
Mayor	0.22	0.23	0.01	6.3%	0.99	0.99	0.00	0.0%
Council	0.31	0.34	0.03	9.2%	1.23	1.34	0.11	8.5%
Britannia	1.10	1.21	0.10	8.7%	4.84	4.83	(0.01)	(0.2%)
Support Services	29.66	29.98	0.32	1.1%	117.81	118.20	0.39	0.3%
Contingency & General Govt	8.70	8.83	0.13	1.5%	56.47	53.47	(3.00)	(5.6%)
Debt & Capital	0.00	0.00	0.00	-	90.05	90.07	0.03	0.0%
<b>TOTAL EXPENDITURES</b>	<b>301.41</b>	<b>303.10</b>	<b>1.68</b>	<b>0.6%</b>	<b>1196.68</b>	<b>1176.23</b>	<b>(20.45)</b>	<b>(1.7%)</b>
Transfer to/from Utilities Reserve*	0.0	0.0	0.0	-	1.59	2.51	0.92	36.6%
<b>REVISED ESTIMATED EXPENDITURES</b>	<b>301.41</b>	<b>303.1</b>	<b>1.68</b>	<b>0.6%</b>	<b>1198.27</b>	<b>1178.74</b>	<b>(19.53)</b>	<b>(1.7%)</b>
<b>NET SURPLUS / (DEFICIT)</b>	<b>(4.27)</b>	<b>(18.76)</b>	<b>(14.50)</b>		<b>3.98</b>	<b>(0.00)</b>	<b>3.98</b>	

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

## Revenues

Q3 revenues are higher than budget by \$12.8 million (4.5%) in Q3. For the full year 2014, revenues are forecast to be higher than budget by \$23.5 million.

Revenue highlights for Q3 and the full year forecast include:

- Higher revenues than budget from:
  - Property Taxation Revenue Supplementary rolls and adjustments that were higher than anticipated in the quarter, the majority of which are forecasted to align with budget by year end;
  - Payments in lieu of taxes from Crown corporations, which are forecasted to continue in the full year forecast;
  - Trade permit revenue as a result of higher than budgeted demand for trade permits which are forecasted to be above budget at year-end;
  - Water metered fees from higher than budgeted water consumption, forecasted 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;
- Unbudgeted external contributions for River District Lands public art in Community Services in both Q3 and in the full year forecast, offset by higher public art expenditures;
- Recreation programs, parking, golf revenues as a result of greater demand and activity due to the impact of favourable summer weather; and
- Police recoveries for seconded officers and work incurred on behalf of other agencies; Streets, Traffic and Electrical Engineering branches' recoverable program revenues in Q3; Community Services cost recoveries primarily in Provincially supported community centre programs with offsetting higher than budgeted costs. These recoveries are also included in the full year forecast.

## **Expenditures**

Expenditures are lower than budgeted by \$1.7 million (0.6%) in Q3. For the full year 2014, expenditures are forecast to be higher than budget by \$19.5 million.

Expenditure highlights for Q3 and the full year forecast include:

- Higher than budgeted expenditures from:
  - Police overtime costs in Q3 and in the full year forecast, some of which are offset through higher secondment recoveries;
  - Expenses for recoverable Engineering work in both Q3 and in the full year forecast;
  - Expenses for Downtown Eastside community centre program spending in Community Services (Carnegie and Evelyne Saller Centre) are above budget in both the Q3 and the full year forecast, offset by increased provincial recoveries;
  - Unbudgeted River District Lands public art expenditures, funded from external contributions, in Community Services in both Q3 and in the full year forecast;
  - Parks expenditures related to increased revenues, in both Q3 and in the full year forecast;
  - Employee Benefit costs related to increases in CPP and EI impacting both Q3 and full year forecasts, as well as mid-year increases in employer pension contribution rates impacting the full year forecast;
  - Higher water purchase costs for the quarter and full year forecast due to higher water consumption;
  - Expenses in planning and development are above budget in Q3 and in the full year forecast because additional resources have been added to respond to increased development permit volume.
- 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 for salaries in Q3 due to vacant positions for which staff are currently being recruited.

## Risks

- 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. Q3 bulk water purchases were 4% higher than the same period last year, particularly for non-residential metered customers (commercial, industrial, institutional sectors). The City responded with an increased focus on those customer groups during the summer months 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. Solid waste disposal revenues will be monitored through the year for further impact to the full year forecast.

## Opportunities

- Development revenues show a favorable trend to budget. Additional resources have been added to reduce wait times and will provide an opportunity for stronger revenues for the remainder of the year.

## **B. Q3 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 Expenditure 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 expenditure budget) and a total project basis (multi-year project expenditures vs. multi-year project budget).

On December 17, 2013, Council approved a 2014 Annual Capital Expenditure Budget of \$285.1 million. Council subsequently approved a net increase of \$11.4 million in capital expenditures for a revised 2014 Annual Capital Expenditure Budget of \$296.5 million.

A separate report to Council which includes Capital Budget adjustment requests collected during the Q3 2014 review will be presented to Council on November 25, 2014 (RTS 10724).

### **i. Q3 2014 Capital Expenditures and Year End Forecast vs 2014 Capital Budget**

2014 capital expenditures to the end of Q3 were \$179 million (\$181 million to the end of Q3 2013), representing 60% of the 2014 Annual Capital Expenditure Budget of \$297 million. Forecasted total capital expenditures for 2014 are currently projected to be \$266 million, representing 90% of the 2014 Annual Capital Expenditure Budget.

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

Table - Q3 2014 Annual Capital Expenditure Budget Results By Service Category (\$000's)					
Service Category 1	Service Category 2	2014 Expenditure Budget	2014 YTD Expenditures	2014 Total Expenditure Forecast	Expected Variance
<b>01. Community Facilities</b>	A. Childcare	711	325	594	117
	B. Social Facilities	6,144	2,634	3,942	2,202
	C. Cultural Facilities	12,616	5,690	10,706	1,910
	D. Entertainment and Exhibition	1,170	250	450	719
	E. Libraries and Archives	8,287	728	1,596	6,690
	F. Recreation Facilities	5,815	597	5,837	-23
<b>01. Community Facilities Total</b>		<b>34,742</b>	<b>10,223</b>	<b>23,126</b>	<b>11,616</b>
<b>02. Parks and Open Spaces</b>	A. Urban Forest and Natural Features	2,070	977	2,233	-163
	B. Activity Features	3,231	521	2,743	488
	C. New Parks and Renewals	15,609	11,836	15,390	218
	D. Seawall and Waterfront	765	476	614	151
	E. Park Infrastructure	1,769	472	1,331	438
	F. Park Buildings	1,612	687	1,548	63
	G. Public Art	770	344	584	186
<b>02. Parks and Open Spaces Total</b>		<b>25,825</b>	<b>15,314</b>	<b>24,444</b>	<b>1,381</b>
<b>03. Housing</b>	A. Non-Market Rental Housing	16,287	12,053	19,131	-2,844
	B. Market Rental Housing	0	0	0	0
<b>03. Housing Total</b>		<b>16,287</b>	<b>12,053</b>	<b>19,131</b>	<b>-2,844</b>
<b>04. Public Safety</b>	A. Police	838	190	905	-67
	B. Fire	3,729	727	3,568	161
	C. Animal Control	0	41	46	-46
<b>04. Public Safety Total</b>		<b>4,567</b>	<b>958</b>	<b>4,519</b>	<b>48</b>
<b>05. Transportation</b>	A. Walking and Cycling	11,725	6,858	10,464	1,261
	B. Transit	916	395	889	27
	C. Major Roads	50,846	37,995	48,267	2,578
	D. Local Roads	4,462	2,306	4,191	271
	E. Parking	1,125	32	309	816
<b>05. Transportation Total</b>		<b>69,073</b>	<b>47,586</b>	<b>64,120</b>	<b>4,953</b>
<b>06. Utilities and Public Works</b>	A. Waterworks	14,445	10,078	13,051	1,393
	B. Sewers	33,052	23,726	30,886	2,165
	C. Solid Waste	8,179	2,908	7,853	326
	D. Neighbourhood Energy	2,600	824	904	1,696
	E. Water and Sewer Connections	22,443	18,416	24,245	-1,802
<b>06. Utilities and Public Works Total</b>		<b>80,718</b>	<b>55,952</b>	<b>76,940</b>	<b>3,778</b>
<b>07. Civic Infrastructure</b>	A. Administrative Facilities	8,725	7,268	9,369	-644
	B. Service Yards	2,243	1,129	2,418	-175
	C. Vehicles and Equipment	19,908	11,492	14,799	5,109
	D. Information Technology	26,223	11,322	19,199	7,024
<b>07. Civic Infrastructure Total</b>		<b>57,099</b>	<b>31,211</b>	<b>45,785</b>	<b>11,314</b>
<b>08. City-Wide</b>	A. Emerging Priorities	4,800	4,800	4,800	0
	C. City-Wide Overhead	3,399	1,115	3,130	269
<b>08. City-Wide Total</b>		<b>8,199</b>	<b>5,915</b>	<b>7,930</b>	<b>269</b>
<b>Grand Total</b>		<b>296,511</b>	<b>179,212</b>	<b>265,996</b>	<b>30,515</b>

Explanations for projected variances by service category are provided below:

<b>01. Community Facilities</b>	<b>\$11.6 million positive variance</b>
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Community Facilities capital expenditures are forecasted to be lower than budget by approximately \$11.6 million, driven primarily by a delay in the Strathcona library construction due to additional time required with the project architect and reworking the design drawings with the project partner. Other factors contributing to the lower-than-budget spend forecast include deferrals of planned expenditures from 2014 to 2015 arising from delays in capital grant recipients raising their required share of project funding or meeting other grant conditions, and extended public consultation process timelines for several community-based

projects. These reduced expenditure forecasts are partially offset by increases in 2014 expenditure forecasts for Kitsilano Neighbourhood House Renewal arising from an opportunity to advance work ahead of schedule, and Cultural Infrastructure Program grants, reflecting an earlier disbursement of grants that were originally expected to be disbursed in 2015.

<b>02. Parks and Open Spaces</b>	<b>\$1.4 million positive variance</b>
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Parks & Open Spaces capital expenditures are forecasted to be lower than budget by approximately \$1.4 million. This is primarily due to delays in the Riley Park renewal project and Stanley Park cycling pathway project while additional stakeholder engagement is sought. These forecasts below budget are offset by higher-than-budget forecasted spending on the Hastings Park Greening project, where expenditures 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.

<b>03. Housing</b>	<b>\$2.8 million negative variance</b>
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Housing capital expenditures are forecasted to be higher than budget by approximately \$2.8 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. This increase in forecast 2014 expenditures is partially offset by the deferral of a housing grant installment disbursement to Atira Women's Society (AWS) to assist in the creation of supportive housing, planned for 2014 but now forecast to be disbursed in 2015, pending AWS meeting several conditions attached to the grant.

<b>04. Public Safety</b>	<b>\$0.0 million variance</b>
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Public Safety capital expenditures for 2014 are forecasted to be on budget overall. A lower-than-budget 2014 expenditure forecast due to a delayed start for the fire hall bay separation project as the project scope continues to be refined is offset by increased expenditure forecasts for the replacement of the City's fire boats (originally planned to be spent in 2015 upon receipt of the vessels but the City exercised an opportunity in 2014 to reduce costs through an increased milestone payment to be made when the purchase order is issued this year) and for the VPD Mounted Unit Horse Paddock renewal (some project expenditures were charged to a Parks & Recreation project in error in 2013 but not identified and corrected to the paddock project until 2014).

<b>05. Transportation</b>	<b>\$5.0 million positive variance</b>
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Transportation capital expenditures for 2014 are forecasted to be lower than budget by approximately \$5.0 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), the Seaside Greenway/York Bikeway project (trees, sidewalks, transportation monitoring components rescheduled to spring 2015), and 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 an increase in 2014 forecast expenditures arising from the addition of a major underground fibre optic installation project approved in October.

<b>06. Utilities and Public Works</b>	<b>\$3.8 million positive variance</b>
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Utilities and Public Works is forecasted to be lower than budget by approximately \$3.8 million, which relates primarily to lower-than-budgeted expenditures in the Water and Sewer capital programs, partially offset by higher-than-budget expenditures in the Water and Sewer Connections program.

Permit revenues for Water and Sewer Connections program 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 Water and Sewer Connections program did not fully reflect this timing lag, resulting in a higher-than-budget 2014 spend forecast for the 2014 program (i.e., a portion of 2013-funded work is being completed in 2014 in addition to what was budgeted for 2014-funded connections work).

Other significant factors contributing to the forecast being below budget include the deferral of the Pender Street transmission main replacement from 2014 to 2015 (deferred in view of the overall construction disruption occurring around the downtown core with currently ongoing construction) and the deferral of a Neighbourhood Energy Utility pipeline extension to Great Northern Way (delayed to spring 2015 due to construction delays encountered by one of the major NEU customers).

<b>07. Civic Infrastructure</b>	<b>\$11.3 million positive variance</b>
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Civic Infrastructure is forecasted to be lower than budget by approximately \$11.3 million, due primarily to a shift of planned 2014 expenditures to 2015 for the replacement of several large operational vehicles and apparatus (including four rear-loading refuse trucks delayed to accommodate higher priority procurement of CNG models and 12 dump truck boxes delayed by vendor's delivery schedule), the delivery 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 Permit & Licence Transformation Program (anticipated draws from project contingencies provided for in 2014 expenditure budget have not been required). These positive expenditure variances are offset by several expenditure forecast increases, most notably 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).

<b>08. City-Wide</b>	<b>\$0.0 million variance</b>
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City-Wide overhead capital costs and emerging capital priority allocations are forecasted to be on budget.

## **ii. Multi-Year Capital Expenditures versus Multi-Year Capital Projects Budget**

As of September 30, 2014, the Multi-Year Project Budget for open Capital programs/projects totals \$1.072 million. A number of these projects have since completed or are nearing completion and will be closed out as part of the year-end Capital close out report.

### **CONCLUSION**

#### **OPERATING BUDGET:**

Results for Q3 show a \$14.5 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 projects a surplus of \$4.0 million for the City. The forecast is based on estimates and trends based on the 3<sup>rd</sup> quarter 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 \$179 million in capital expenditures to the end of the third quarter of 2014, representing 60% of the 2014 Annual Capital Expenditure Budget of \$297 million and is projecting to spend a total of \$266 million by the end of 2014, representing 90% of the 2014 Annual Capital Expenditure Budget.

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