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MEMORANDUM

September 18, 2012

TO: Mayor and Council

FROM: Patrice Impey, General Manager and CFO, Financial Services

CC: Penny Ballem, City Manager
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
Sadhu Johnston, Deputy City Manager
Sarah Kapoor, Manager, Capital Budget

SUBJECT: 2012 Operating and Capital Budget - 2nd Quarter Review

The purpose of this memo is to provide Council with:

1. A review of the Q2 results and variances from the Q2 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 Q2 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) Q2 2012 OPERATING BUDGET RESULTS AND FULL YEAR 2012 FORECAST:

This 2nd Quarter Review provides Q2 actual results compared to the Q2 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 six months of the year and best estimates of revenues and expenditures over the remaining six 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 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 Q2, the City is tracking towards a small surplus of \$6 million, with some favorable trending in areas such as development related revenues, while expenditures are forecast to be slightly higher than budget primarily in recoverable cost that have no net budget impact. 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) Q2 Results and variances to Budget

Table 1 summarizes Q2 results vs. budget. Appendix A provides details by department of Q2 actual results and variance to budget.

Table 1 - 2012 Q2 Operating Budget Review City Summary

<u>\$ millions</u>	<u>Q2 Actuals</u>	<u>Q2 Budget</u>	<u>Q2</u>	
			<u>Variance \$</u>	<u>Variance %</u>
TOTAL REVENUES	374.4	356.5	17.9	5.0%
TOTAL EXPENDITURES	263.0	267.5	4.4	1.7%
NET BUDGET POSITION	111.4	89.0	22.3	

A positive Net Budget Position is typical in the first half of the year for 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 \$17.9 million. Factors contributing to this result include:

- Stronger license, development and trade permit fee income; timing of budget vs. actuals for these licenses and fees
- Timing on Provincial Transfers for \$9.8M, on budget by year-end.
- Seasonality and timing associated with Property Taxation revenue
- Police - higher Traffic Authority recoveries, higher grants and donations, more provincial recoveries relating to unbudgeted IRIT recoveries, and higher overtime recoveries
- Utility revenue- greater garbage and demolition material fees at the landfill than expected
- Small unfavorable variance in Parks revenue due to timing of budget vs actuals

Expenditures are below budget by \$4.4 million in the quarter. Factors contributing to this result include:

- Seasonality and timing impacts in the quarter for Utilities and Engineering Public Works which are forecasted to be back on budget by year-end.
- City Manager's office, Parks and Support Services are below budget due to strategic filling of vacancies and cost savings/efficiency initiatives
- These are offset by:
 - higher Police costs which are recoverable as noted above with no net impact by year-end and
 - higher Grant payments due to timing which will be back on budget by year-end

At the end of Quarter 2, there are no expenditures against the approved 2012 contingency budget of \$4 million. The contingency is for unanticipated events and the Forecast assumes that this will be fully expended by year-end.

2) 2012 Full Year Forecast and variances to Budget

Table 2 - 2012 Operating Budget Review Summary (Full Year Forecast)

<u>\$ millions</u>	<u>Forecasted</u>			
	<u>Year-End</u>	<u>Annual Plan</u>	<u>Variance \$</u>	<u>Variance %</u>
TOTAL REVENUES	1,142.9	1,128.4	14.4	1.3%
TOTAL EXPENDITURES	1,136.6	1,128.4	(8.2)	(0.7%)
NET BUDGET POSITION	6.3	0.0	6.3	

Appendix B provides additional details by department.

For the full year 2012, the City is forecasting a surplus due in part to favorable trends in development related revenue and increased cost recoveries which are offset by expenditures. 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.

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

Revenues are higher than budgeted by \$14.4 million due to:

- Stronger license, development and trade permit fee
- Higher short term interest income
- Utility revenue- greater garbage and demolition material fees at the landfill than expected
- Increase costs recoveries primarily in Provincial supported programs offset by higher expenditures
- Lower Golf revenues offset by increased demand in Community Centre facilities

Expenditures are above budget by \$8.2 million for the year due to:

- Higher costs for Provincial supported programs offset by higher recoveries resulting in no net budget impact
- Higher fire hall and heavy equipment maintenance for Vancouver Fire and Rescue Services
- Lower Golf expenses and Park equipment maintenance

Risk and Opportunities

Development Revenues show a favourable trend against budget and the forecast reflects this higher activity. 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) Q2 2012 ANNUAL 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 Annual Capital Budget in the amount of \$255 million. In June, as part of the Quarter 1 review process, Council approved adjustments with a net impact of \$26 million resulting in a revised 2012 Annual Capital Budget of \$281 million. Since the Quarter 1 review, additional Capital projects with a value of \$2.1 million have been approved separately by Council and are underway. This report reflects performance against an approved total 2012 Annual Capital Budget of \$284 million.

In addition, a separate report to Council which includes Q2 Capital Budget adjustment requests will be presented for approval in September (RTS 9718).

2012 Q2 Capital Expenditures and Year End Forecast vs. 2012 Capital Budget:

2012 Capital Budget expenditures to the end of Q2 were \$77 million (Q1 \$37 million), representing 27% of the total 2012 Annual Capital Budget of \$284 million. A significant portion of the City's Capital work takes place over the summer, which will bring the spend more in line with the budget. Forecasted total capital expenditures for 2012 are currently projected to be \$246 million, or \$38 million (13%) less than budget. Should projects continue to experience delays, the variance for yearend would increase. The Corporate Management team is closely monitoring these projects.

Table 3 provides a summary of the Quarter 2 Capital expenditures as well as forecasted annual expenditures by service category compared to the 2012 Annual Capital Budget.

Table 3 - Q2 2012 Annual Capital Budget Results by Service Category (\$000's)

Service Category	2012 Expenditure Budget	2012 Actuals Jan - Jun	Forecast Actuals (Q3, Q4)	Forecast 2012 Actuals (Jan - Dec)	Variance (2012 Budget less Forecast Year End Results)
1. Community Facilities	38,669	6,131	17,600	23,731	14,938
1a. Childcare	7,639	1,319	2,208	3,528	4,111
1b. Social	6,857	891	2,149	3,039	3,818
1c. Culture	7,106	731	2,953	3,684	3,422
1d. Entertainment & Exhibition	4,984	167	1,640	1,807	3,176
1e. Library	6,196	1,130	5,129	6,259	(63)
1f. Recreation	5,886	1,893	3,521	5,414	473
2. Parks and Open Spaces	14,770	3,205	7,920	11,126	3,644
2a. Parks and Open Spaces	12,009	2,263	6,411	8,674	3,335
2b. Seawall	451	93	358	451	-
2c. Street Trees	1,174	356	744	1,100	74
2d. Public Art	1,136	493	408	901	235
3. Housing	7,549	2,445	2,418	4,863	2,687
3a. Non-market rental housing	7,314	2,445	2,183	4,628	2,687
3b. Market rental housing	235	-	235	235	-
4. Public Safety	13,047	3,734	7,551	11,285	1,763
4a. Police	6,923	1,840	4,761	6,601	322
4b. Fire	5,744	1,894	2,760	4,654	1,090
4c. Animal Control	380	-	30	30	350
5. Transportation	53,751	13,680	36,145	49,825	3,927
5a. Walking & Cycling	15,965	4,801	9,944	14,745	1,220
5b. Transit	250	249	100	349	(99)
5c. Major Roads	28,295	6,613	18,806	25,419	2,876
5d. Local Roads	5,041	1,693	2,812	4,504	537
5e. Parking	4,200	324	4,483	4,807	(607)
6. Utilities and Public Works	88,216	36,368	50,291	86,659	1,557
6a. Waterworks	14,761	8,904	7,588	16,492	(1,731)
6b. Sewers	47,758	25,613	25,563	51,176	(3,418)
6c. Solid Waste	24,230	1,747	16,640	18,387	5,843
6d. Neighbourhood Energy	1,467	103	500	603	864
7. Civic Infrastructure	64,681	11,377	43,736	55,113	9,569
7a. Administrative Facilities	14,847	2,140	9,458	11,598	3,249
7b. Service Yards	135	237	580	817	(682)
7c. Vehicles & Equipment	20,340	3,376	17,134	20,511	(171)
7d. Information Technology	29,360	5,623	16,564	22,187	7,173
8. City-wide	3,000	511	2,489	3,000	-
8c. City-wide Overhead	3,000	511	2,489	3,000	-
Grand Total	283,684	77,450	168,150	245,600	38,084

Explanations for projected variances by service category are provided in the following:

1. Community Facilities

Overall, Community Facilities is projecting a positive variance of approximately \$14.9 million.

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

Childcare - Delay in equipment purchase for Woodward's childcare which is to be completed by the selected operator (selection currently underway); delays in land purchase for the Marpole Community Centre.

Social - Delays in delivery of Downtown Eastside Revitalization programs due to additional community planning input and subsequent Council direction.

Culture - Queen Elizabeth Theatre redevelopment variance due to overall costs being less than anticipated, as well as a number of Cultural Grant payments being delayed to 2013 when conditions of grant disbursement are met.

Entertainment and Exhibition - Overall project delay in Hastings Park Livestock Building Roof Replacement due to timing of construction management contract completion.

2. Parks and Open Spaces

Overall, Parks and Open spaces is projecting a positive variance of \$3.6 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) which are experiencing some planning and public consultation delays.

In addition, Hastings Park New Brighton Connection is delayed due to external factors and it is anticipated that the tender will be issued this fall.

3. Housing

Overall, Housing is projecting a positive variance of \$2.7 million. These projects depend to a large extent on external partners who are managing the projects for which these grants are directed. We anticipate some of this spending will be postponed to 2013.

4. Public Safety

Overall, Public Safety is projecting a positive variance of \$1.8 million.

The majority of this variance is a result of minor delays in the Fire Hall #15 project with actual expenditures taking place later than planned.

5. Transportation

Overall, Transportation is projecting a positive variance of \$3.9 million.

The majority of this variance relates to three projects: Comox Helmcken cycling project deferred to 2013 to provide more time for consultation and redesign, Granville Bridge work

deferred to 2013 to avoid disruptions to Granville Island during peak business periods, and Burrard Bridge design completion delayed to June 2013.

6. Utilities and Public Works

Overall, Utilities is projecting a positive variance of \$1.6 million.

Solid Waste has an overall projected positive variance resulting from the Landfill Closure and Gas collection project contract being less than anticipated, and delays resulting from uncertainties regarding entrance location with the Reconstruction of the Landfill Entrance project.

This is offset by a projected negative variance in the Sewers category for cost recovered work which was omitted in the 2012 capital budget. Historically annual capital budgets for sewers did not include cost recovered work, some of which is planned years in advance. The 2013 budget will be adjusted to address this difference.

7. Civic Infrastructure

Overall, Civic Infrastructure is projecting a positive variance of \$9.6 million.

The majority of this variance relates to Information Technology projects. Permits & Licensing project software acquisition was delayed to enable project re-scoping and scheduling, while the Client Hardware Refresh experienced delays to better align resource and procurement timing. The Business Intelligence program was reduced in scope, while a number of projects are not yet started, pending business case development and approval.

Multi-year Capital Projected Expenditures vs. 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, 2012, open Capital programs/projects have budgets totaling \$1.045 billion, with overall projected forecast costs of \$1.07 billion and an overall projected variance of negative \$25 million (2%), relating primarily to projects that in error did not receive a 2012 expenditure budget. The majority of this relates to Combined Sewer and Water Connection programs and the Vehicle and Equipment Replacement program.

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 were substantially complete and met the deadline set by the Federal Government. A few projects have minor work ongoing and will be finished by end of the year.

As of the end of the Second 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 \$59.3 million. The City is anticipating recovery of an additional \$0.3 million from the ISF Programs. Also, external funding of \$1.35 million is expected to be received for the VanDusen Garden project.

The overall actual expenditure for the 31 projects is within the total project budget. However, some of the project costs were deemed not eligible for the Federal funding based on the Federal program guidelines; additional funding by the City of approximately \$0.65 million will be required to cover these ineligible project costs (e.g., furniture, internal staff costs). There is sufficient funding available in existing capital programs for re-allocation to cover the shortfall in specific ISF projects.

All ISF Program projects are anticipated to be closed within the next two quarters (when all senior government funding has been received and project expenditure totals finalized).

CONCLUSION

OPERATING BUDGET:

Results for Q2 show a \$22.3 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 \$6.3 million (.6 %), 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 six months of actual performance and that unanticipated items between now and year-end will impact the City's final financial position. 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 \$77 million in capital expenditures for the first half of 2012 (27% of the 2012 Capital Budget) and is projecting to spend a total of \$246 million by the end of 2012, representing a positive variance of \$38 million against a budget of \$284 million.

The variance between the 2012 Capital Budget and forecasted 2012 expenditures is largely due to shifts in expenditure timing arising from delays in contract tendering/awarding, adverse weather conditions affecting construction, and changes in capital priorities. The ability of staff groups to project their capacity to move along capital projects is still a work In progress. The Corporate Management Team for the City will continue to monitor expenditures to ensure that projects are completed on budget and we will continue our work to better profile the planned timeframe in which these many capital projects are completed.

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

Best Regards,



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Financial Services

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City of Vancouver
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Appendix A

2012 Operating Budget Q2 Plan to Actual Review Summary

\$ millions	Q2 Actuals	Q2 Plan	Q2 Variance \$	Q2 Variance %
REVENUES				
Taxation Revenue	173.1	170.3	2.8	1.6%
General Revenue	47.3	33.9	13.4	39.5%
Utilities *	126.3	124.9	1.4	1.1%
Police	4.0	3.0	1.0	31.8%
Parks	11.1	12.3	(1.2)	(10.1%)
Fire	1.7	1.5	0.2	11.2%
Engineering (PW)	3.1	2.7	0.4	14.8%
CSG	2.8	2.6	0.2	7.3%
Library	0.9	0.8	0.1	13.0%
Grants	0.0	0.0	0.0	-
Civic Theatres	2.5	2.1	0.3	15.4%
Mayor	0.0	0.0	0.0	-
Council	0.0	0.0	0.0	-
Britannia	0.3	0.2	0.0	2.9%
Support Services	0.5	0.4	0.1	15.6%
Contingency & General Govt	1.1	1.7	(0.7)	(38.5%)
Debt & Capital	0.0	0.0	0.0	-
TOTAL REVENUES	374.4	356.5	17.9	5.0%
EXPENDITURES				
Taxation Revenue	0.0	0.0	0.0	-
General Revenue	0.0	0.0	0.0	-
Utilities *	46.9	49.2	2.3	4.7%
Police	59.9	57.6	(2.3)	(4.0%)
Parks	25.3	25.7	0.3	1.3%
Fire	26.4	26.2	(0.2)	(0.6%)
Engineering (PW)	15.3	17.9	2.6	14.6%
CSG	14.2	14.1	(0.1)	(0.6%)
Library	10.0	10.1	0.1	1.2%
Grants	8.5	6.8	(1.7)	(25.2%)
Civic Theatres	1.6	1.5	(0.2)	(10.1%)
Mayor	0.2	0.2	0.0	1.0%
Council	0.3	0.3	0.1	16.0%
Britannia	1.3	1.2	(0.1)	(8.6%)
Support Services	23.7	26.2	2.5	9.5%
Contingency & General Govt	8.2	9.2	1.0	11.1%
Debt & Capital	21.3	21.3	0.0	0.1%
TOTAL EXPENDITURES	263.0	267.5	4.4	1.7%
Transfer to/from Utilities Reserve*	0.0	0.0	0.0	-
REVISED ESTIMATED EXPENDITURES	263.0	267.5	4.4	1.7%
NET BUDGET POSITION	111.4	89.0	22.3	

City of Vancouver
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Appendix B

2012 Operating Budget - Full Year Forecast

\$ millions	Forecasted Year-end	Annual Plan	Variance \$	Variance %
REVENUES				
Taxation Revenue	643.8	642.9	0.9	0.1%
General Revenue	159.7	154.9	4.8	3.1%
Utilities *	216.3	214.9	1.5	0.7%
Police	17.7	13.5	4.2	31.1%
Parks	47.9	48.3	(0.4)	(0.8%)
Fire	7.8	7.3	0.5	6.8%
Engineering (PW)	11.0	9.9	1.1	11.2%
CSG	11.8	10.4	1.5	14.1%
Library	4.6	4.5	0.1	1.9%
Grants	0.0	0.0	0.0	-
Civic Theatres	8.2	8.2	0.0	0.2%
Mayor	0.0	0.0	0.0	-
Council	0.0	0.0	0.0	-
Britannia	1.0	1.0	0.0	4.1%
Support Services	1.5	1.6	(0.0)	(2.9%)
Contingency & General Govt	11.4	11.1	0.3	2.6%
Debt & Capital	0.0	0.0	0.0	-
TOTAL REVENUES	1,142.9	1,128.4	14.4	1.3%
EXPENDITURES				
Taxation Revenue	0.0	0.0	0.0	-
General Revenue	0.0	0.0	0.0	-
Utilities *	243.4	242.1	(1.3)	(0.6%)
Police	230.6	226.5	(4.1)	(1.8%)
Parks	103.7	104.2	0.5	0.5%
Fire	97.9	97.1	(0.8)	(0.8%)
Engineering (PW)	74.7	74.7	0.1	0.1%
CSG	60.3	58.1	(2.1)	(3.7%)
Library	42.9	43.0	0.1	0.1%
Grants	16.5	16.5	(0.0)	(0.1%)
Civic Theatres	6.0	5.9	(0.2)	(2.7%)
Mayor	1.0	1.0	0.0	0.0%
Council	1.2	1.3	0.1	7.7%
Britannia	4.5	4.4	(0.1)	(2.7%)
Support Services	103.2	103.0	(0.2)	(0.2%)
Contingency & General Govt	56.7	56.7	(0.0)	(0.0%)
Debt & Capital	90.7	90.7	0.0	0.0%
TOTAL EXPENDITURES	1,133.2	1,125.1	(8.1)	(0.7%)
Transfer to/from Utilities Reserve*	3.4	3.3	(0.1)	(2.9%)
REVISED ESTIMATED EXPENDITURES	1,136.6	1,128.4	(8.2)	(0.7%)
NET BUDGET POSITION	6.3	0.0	6.3	

* 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.