

TO:	CHAIR AND MEMBERS CORPORATE SERVICES COMMITTEE MEETING ON DECEMBER 10, 2013
FROM:	MARTIN HAYWARD MANAGING DIRECTOR, CORPORATE SERVICES AND CITY TREASURER, CHIEF FINANCIAL OFFICER
SUBJECT:	2013 OPERATING BUDGET STATUS – THIRD QUARTER REPORT

RECOMMENDATION

1. That the 2013 Operating Budget Status – Third Quarter Report for the General Budget (Property Tax Supported refer to **Appendix A**), Water Budget and Wastewater and Treatment Budget **BE RECEIVED** for information, it being noted that Civic Administration is projecting:
 - a) \$6.9 million in savings in the General (Property Tax Supported) Budget, it being noted that consistent with Council resolution, the \$6.9 million in savings if realized would be contributed to the Operating Budget Contingency Reserve, it being further noted that \$3.7 million of the \$6.9 million projected surplus relates to a one-time reconciliation of 2010 Ontario Municipal Partnership Funding.
 - b) \$3.7 million in savings in the Water Budget, it being noted that consistent with Council resolution, the \$3.7 million savings would be contributed to the Water Works Capital Reserve Fund.
 - c) \$1.8 million in savings in the Wastewater and Treatment Budget, it being noted that consistent with Council resolution, the \$1.8 million savings would be contributed to the Sewage Works Reserve Fund.

2. Notwithstanding the Council approved Surplus/Deficit Policy, the following drawdowns from the Operating Budget Contingency Reserve **BE CONSIDERED**:
 - a) \$2.3 million to the City Facilities Reserve Fund in order to provide a “potential” source of funding for facility related initiatives such as Ontario Works Decentralization should the Property Tax Supported Budget be in a surplus position, it being noted the Ontario Works Decentralization initiative is progressing and is on target to meet the staged timelines identified in the June 17, 2013 report to the Community and Protective Services Committee.
 - b) \$1.0 million to the Economic Development Reserve Fund to be used to support initiatives brought forward by the Investment and Economic Prosperity Committee that best accelerate London’s economy and foster private sector investment in the City should the Property Tax Supported Budget be in a surplus position.
 - c) \$3.6 million be applied as a funding source to avoid 2014 capital budget reductions, it being noted that as part of the 2013 budget deliberations, Council approved a permanent \$3.6 million funding cut to capital that flowed through to the 2014 capital budget.

It being further noted that the final 2013 yearend position could fluctuate significantly based on factors beyond the control of Civic Administration such as Ontario Works caseload / winter maintenance and will not be known until early 2014.

3. That Civic Administrations contribution of \$1,435,013 (\$1,280,920 – property tax supported; \$84,143 – wastewater; and \$69,950 – water) to the Efficiency, Effectiveness and Economy reserves in 2013 **BE RECEIVED** for information.

PREVIOUS REPORTS PERTINENT TO THIS MATTER

- 2013 Operating Budget Status – Second Quarter Report (September 10, 2013 meeting of Corporate Services Committee, Agenda Item 2)

BACKGROUND

The 2013 Operating Budget Status - Third Quarter Report provides a review and analysis of the general operating budget for the January 1st to September 30th, 2013 time period. **Appendix A** compares actual costs incurred as of September 30th, 2013 for the Property Tax Supported Budget. The comparison of actual costs incurred by Service Grouping to the annual budget can assist administration and Council in projecting the year end surplus/(deficit) positions and highlight any potential pressure points in future budgets.

2013 GENERAL (PROPERTY TAX SUPPORTED) BUDGET

Outlined in the table below is a comparison of net costs incurred as of September 30th, 2013 in comparison to costs incurred as of September 30th, 2012 for the property tax supported budget.

	Net Budget (\$ millions)	As at September 30 (\$ millions)	% Spent
2013	\$479.6	\$322.7	67.3%
2012	\$467.4	\$299.9	64.2%

As of September 30, 2013 Civic Administration is projecting a savings in the property tax supported budget. Outlined below are some of the key items that are contributing to the projected year end position.

	3 rd Quarter Forecast (\$ millions)	2 nd Quarter Forecast (\$ millions)
Additional revenue from the Ministry of Finance as a result of a one-time payout from a reconciliation of 2010 actual social program costs related to the Ontario Municipal Partnership Fund (OMPF).	3.7	3.7
Savings in Corporate Services, Social & Community Support Services and Transportation Services.	3.7	1.6
Net savings in Housing resulting from reconciliations of prior year subsidies and net savings in London & Middlesex Housing Corporation resulting from higher rent revenues partially offset by operational cost increases.	1.0	0.6
Reduction in the draw from the Operating Budget Contingency Reserve partially offset by higher than anticipated revenue from supplementary taxes, short term investments, interest and penalty on taxes, and increased London Hydro dividend along with other net corporate savings.	(1.5)	(1.6)
Total Projected Year End Position	6.9	4.3

3rd Quarter Projected Year End Position by Service Program

Outlined in the table below is a breakdown of the contributing factors provided by Service Programs identifying projected savings and/or deficits.

SERVICE PROGRAM	\$ millions
CULTURE	0.0
<ul style="list-style-type: none"> Arts, Culture and Heritage Advisory & Funding is anticipating a \$0.02 million deficit primarily due to unbudgeted personnel costs. Museum London, Eldon House, Heritage and the London Public Library have reported that a breakeven position is anticipated by year end. 	
ECONOMIC PROSPERITY	0.0
<ul style="list-style-type: none"> Economic Development Services is anticipating a \$0.01 million surplus due to personnel savings in Community Improvement/BIA. 	
ENVIRONMENTAL SERVICES	(0.2)
<ul style="list-style-type: none"> Garbage Recycling and Composting Services is anticipating \$0.2 million deficit attributable to reduced brownfield and commercial business garbage quantities at the W12A facility and lower blue box recycling revenues partially offset by higher than anticipated blue box funding. Conservation Authorities and Environmental Stewardship are anticipating a breakeven position at year end. 	
PARKS, RECREATION, & NEIGHBOURHOOD SERVICES	(0.2)
<ul style="list-style-type: none"> Neighbourhood & Recreation Services is anticipating a \$0.2 million deficit at year end largely attributable to child care net cost higher than budget (\$0.2 million) and increased subsidy as a result of increased demand for those in need of affordable access to recreation facilities and programming (\$0.2 million). These costs pressures are projected to be partially offset by savings in arenas (\$0.15 million) due to increased utilization of ice and community centres (\$0.05 million) resulting from operational cost containment. Parks and Urban Forestry are anticipating a \$0.02 million surplus primarily due to personnel savings partially offset by net operational cost overruns. 	
PLANNING & DEVELOPMENT SERVICES	0.1
<ul style="list-style-type: none"> Building Controls is anticipating a \$0.06 million surplus resulting from higher than anticipated revenues for fee based services and savings in personnel and operational costs. Land Use Planning is anticipating a \$0.06 million deficit primarily related to personnel expenses. Development Services anticipates savings of \$0.1 million resulting from personnel cost savings from a number of vacancies and user fee revenue trending lower than budgeted. 	
PROTECTIVE SERVICES	(0.1)
<ul style="list-style-type: none"> Animal Services is anticipating a \$0.1 million deficit due to lower than anticipated licence revenues and additional costs related to the licences collection contract partially offset by additional revenue from the stray cat program. Emergency & Security Management is anticipating a \$0.01 million deficit primarily due to unexpected operating costs. Fire Services is anticipating a breakeven position noting that the employee agreement between the London Professional Firefighters Association and the City expired December 31, 2010 and is currently at arbitration. London Police Services is anticipating a \$0.4 million deficit position from operations. The deficit will be funded from the Unfunded Liability Reserve to balance its year end operations. 	
SOCIAL & HEALTH SERVICES	2.6
<ul style="list-style-type: none"> Housing Services is anticipating a \$0.9 million surplus due to lower than anticipated housing provider subsidy costs resulting from settlements and reconciliations from prior years. London & Middlesex Housing Corporation is anticipating a \$0.1 million 	

SERVICE PROGRAM	\$ millions
<p>surplus due to higher rent revenues resulting from lower overall vacancy rates and savings in utility and snow removal costs partially offset by cost overruns in property taxes and general repairs and maintenance.</p> <ul style="list-style-type: none"> • Long Term Care Services anticipates approximately \$0.5 million in net savings primarily attributable to higher than anticipated revenue from the Ministry of Health from a 2011 funding settlement. • Middlesex-London Health Unit is anticipating a \$0.2 million surplus primarily due to personnel savings. • Social and Community Support Services is anticipating a \$0.9 million surplus by year end based on the following: <ul style="list-style-type: none"> ○ \$0.3 million savings in administrative and program expenses and Cost of Admin Subsidy increase partially offset by anticipated costs increases related to Ontario Works decentralization. ○ \$0.1 million in Ontario Works net caseload savings less net OW recoveries and mandatory benefit deficit. ○ \$0.1 million in net cost savings for discretionary benefits non-social assistance recipients ○ \$0.4 million in cost savings related to Ontario Works Child Care, employment programs, subsidized transit, and Social Research and Planning. • Land Ambulance Services is anticipating a breakeven position at year end. 	
TRANSPORTATION SERVICES	0.2
<ul style="list-style-type: none"> • Parking Services is anticipating a \$0.1 million surplus due to increased parking meter revenue and operational and personnel cost savings. • London Transit Commission is anticipating a breakeven position. Unfavourable ridership revenue is offset by lower than expected fuel costs. • Roadway Services is anticipating a \$0.1 million surplus primarily due to expected savings in the snow control program and other program net operational cost savings partially offset by deficits in personnel and traffic light accident costs due to more occurrences than budgeted. 	
CORPORATE, OPERATIONAL, & COUNCIL SERVICES	4.5
<ul style="list-style-type: none"> • Corporate Services is anticipating a \$2.5 million surplus predominantly attributable to savings in Information Technology Services, Fleet Services, Human Resources, Facilities and Realty Services. These savings are largely comprised of personnel savings (vacancies), fuel savings, energy savings, telecommunication procurement deferral, and higher than anticipated rental property revenue. • Corporate Planning and Administration Services anticipates a \$0.3 million surplus resulting from the current AODA initiative review. • Council Services is anticipating a \$0.2 million surplus due to personnel savings. • Financial Management is anticipating a \$1.4 million surplus by year end based on the following: <ul style="list-style-type: none"> ○ \$3.7 million in additional Ontario Municipal Partnership Fund (OMPF) revenue as a result of the one-time payout from a reconciliation of 2010 actual social program costs. The City did not budget this revenue because the timing and certainty of receiving this funding was unpredictable and uncertain due to the Province's current fiscal challenges. ○ \$2.7 million in net additional revenue and recoveries resulting primarily from; Grants in Lieu, interest and penalty on taxes, short term investment revenue, supplementary taxes and London Hydro dividend partially offset by corporate cost increases. ○ \$4.5 million budget draw from the Operating Budget Contingency Reserve not required. ○ Strategic funding increase of \$0.5 million to the Unfunded Liability 	

SERVICE PROGRAM	\$ millions
Reserve, consistent with Council direction to mitigate the growth in the City's unfunded liability as well as increased requirements for corporate contingencies. <ul style="list-style-type: none"> • Public Support Services anticipates \$0.1 million in savings by year end. Revenue from fees in Taxation and Administration of Justice are trending higher than budget partially offset by increased postage costs in Customer Relations and Canada's London campaign costs. 	
TOTAL PROJECTED YEAR END POSITION	\$ 6.9

*subject to rounding

Housekeeping Budget Transfers

As authorized by resolution of Council at the time of the adoption of the 2013 budget, Civic Administration will, throughout the year, approve transfers between accounts that are considered 'housekeeping' in nature.

"That the Civic Administration **BE AUTHORIZED** to accommodate the 2013 budget transfers that are considered "housekeeping" in nature, and do not impact the Corporate Net Operating Budget. (4k/5/SPPC)"

'Housekeeping' adjustments primarily include items that are budgeted centrally at the time of adoption of estimates (budget) and are re-allocated to Services throughout the year.

The following housekeeping budget adjustments were processed in 2013 up to the end of the third quarter:

- Adjustments to services to reflect the net change in fringe benefit costs (OMERS rate increase), along with the allocation of the 2013 position management savings.
- Allocation of computer and telephone budgets from various areas to the Information Technology Division.

Emerging Issues

Several service areas have advised Civic Administration of program service delivery pressures that will likely impact 2013 expenditures/revenues and 2014 budget. These issues include:

- **Personnel/Collective Agreements** – Outstanding arbitrations with the corporation's unions may have significant cost implications depending on the outcome of the grievance/arbitration process. It should also be noted that the London Professional Fire Fighters' Association agreement expired on December 31, 2010.
- **Ontario Works Decentralization** – On October 28, 2013 an Ontario Works Decentralization implementation plan was provided to the Community and Protective Services Committee. The full impact of the costs associated with this initiative will not be known until each specific site is determined; however the 2014 budget will include the capital costs for the expansion to the South London Community Centre. Funding sources are still being identified to support the transitional costs associated with the implementation plan.
- **Fire Services** – The Fire Service area is currently going through an operational review conducted by an independent external consultant. The recommendations from the consultant and impact to the Fire Service area are unknown at this time.
- **Waste Diversion** – The Provincial Government is currently reviewing legislation dealing with waste diversion (reduction) programs. The outcome and potential new funding arrangement may be in place for 2014.
- **Animal Services** – The current contract for animal control services expires December 31, 2013. At this point it is unclear what the cost of the new contract will be for 2014 and whether additional service enhancements will be desired by Council.
- **Information Technology** – Information Technology Services is responsible for managing corporate wide systems. An increased investment in information technology infrastructure

such as Storage Area Network (SAN), Client Management System (CMS), Human Resource Information System (HRIS), and Corporate Asset Management (CAM) may be required in order to support corporate initiatives.

Civic Administration is taking steps to mitigate and accommodate these potential pressures within the approved 2013 budget and/or in the development of the 2014 budget.

2013 WATER AND WASTEWATER & TREATMENT BUDGET

Water Budget

As of September 30, 2013, the Water rate supported budget anticipates a \$3.7 million surplus by year end. Water consumption is continuing to decrease which will have a negative impact on net billing volumes. It is expected that a decrease of 2.2 million m³ (43.2 million m³ budget to 41.0 million m³ projected) in consumption will occur. However, due to the recently approved rate structure that became effective March 1, 2013, the loss in consumption based revenues have been mitigated by additional revenues generated by the fire protection charge and the shifting of the rate blocks between the various customer classes.

Operational savings are projected to be realized from lower than expected service fees resulting from the re-negotiation of the 2013 service level agreement with London Hydro, purchase of water due to lower pumpage volumes, planned savings from personnel, and operating supply savings due to cost containment. Consistent with past practice, Civic Administration continues to review further cost containment measures to balance the year end position.

Water Budget (\$ 000's)					
	2013 Revised Budget	Actual as at Sept. 30, 2013	Actual % Spend/ Realized	Projected Year End Position	Projected Year End Savings/ (Deficit)
Revenues	(62,564)	(43,005)	68.8%	(64,336)	1,772
Expenditures	62,564	41,035	65.6%	60,596	1,968
Net	-	(1,970)	N/A	3,740	3,740

Wastewater & Treatment Budget

The Wastewater & Treatment budget anticipates a \$1.8 million surplus by year end. A deficit is projected from reduced sanitary sewer system revenues based on decreased sanitary sewer billing volumes. Consistent with the Water Budget (as noted above), water consumption (used to assess the sanitary portion of sewer charges) is expected to be lower than what the budgeted revenues were based on. Offsetting the anticipated shortfall in consumption based revenues is higher than anticipated revenues from the high strength waste charge.

Operational savings are projected to be realized from lower than expected service fees resulting from the re-negotiation of the service level agreement with London Hydro. Additionally, lower than expected expenditures in operating supplies, personnel, and external equipment rentals as a result of cost containment and efficiencies are projected.

Wastewater & Treatment Budget (\$ 000's)					
	2013 Revised Budget	Actual as at Sept. 30, 2013	Actual % Spend/ Realized	Projected Year End Position	Projected Year End Savings/ (Deficit)

Revenues	(79,058)	(51,312)	64.9%	(78,312)	(746)
Expenditures	79,058	39,843	50.4%	76,501	2,557
Net	-	11,469	N/A	1,811	1,811

Emerging Issues

- Ongoing revenue pressures from lower than anticipated water consumption as a result of weather conditions and conservation efforts by users of the water system.
- Various legislative/compliance requirements along with cost savings opportunities – including fire hydrant colour coding, air and vacuum valve maintenance, shut-off valve maintenance, District Meter Areas, Computerized Maintenance Management System, hydraulic and water quality monitoring, Source Water Protection etc. The cost implications of these initiatives will be reflected in the 2014 budget.
- Expansion of the Greenway Wastewater Treatment Plant (WWTP) is planned for 2014 and has been reflected in the 2014 capital budget. While it is expected that the total cost of this expansion will be approximately \$46.1 million, it would allow the indefinite deferral of other expansions planned at Adelaide and Vauxhall WWTP's and the construction of the Southside WWTP (estimated at \$95 million). A report on the proposed expansion was provided to CWC on October 28th and the expansion will be considered as part of 2014 budget deliberations.
- The Wastewater Treatment area is currently working with an external consultant to develop an optimization plan to find latent capacity at existing WWTP's, reduce the long-term capital costs of plant expansions and plan for more stringent future effluent criteria. A final report is expected in late 2013 and the recommendations could have an impact on future capital and operating budgets.
- Uncertainty still exists with respect to the 2013 revenue forecast as it has been based on limited data provided by London Hydro. More robust reporting capabilities are currently being developed by London Hydro.

2012 YEAR END UPDATES

2012 Year End Updates resulting from Year End Audits

After submitting the 2012 Operating Budget Status Report – Fourth Quarter Report to the Corporate Services Committee on April 9, 2013, the Middlesex London Health Unit (MLHU) amended their yearend positions based on MLHU Board approval from \$150,000 to \$53,065.

The MLHU year end surplus has been approved by MLHU Board to be contributed to MLHU reserve fund. Consistent with Council resolution, this fund amendment will be drawn down from the Operating Budget Contingency Reserve.

Unfunded Liabilities

The City of London's unfunded liabilities consist of future employee benefits payable and landfill closure and post closure costs. The total liability is \$166.1 million (\$155.4 million in 2011). The liability is offset by reserve and reserve funds of \$65.5 million (\$57 million in 2011) for a net unfunded liability balance of \$100.6 million (\$98.4 million in 2011). Over the years, Council has authorized Civic Administration to allocate personnel savings and unspent contingency budgets to the Unfunded Liability Reserve in order to reduce the growth in this liability.

POSITION MANAGEMENT AND VACANCY MANAGEMENT

All positions that become vacant, with some exceptions, are subject to 90 days savings corporately. The savings from these positions are contributed to Efficiency, Effectiveness and Economy Reserves to be used as a one-time funding source for initiatives recommended by the Senior Leadership Team. Any savings due to vacancies longer than 90 days accrue to services and are included in the above projections identified earlier in the report.

The Corporation realized \$1,435,013 (\$1,280,920 – property tax supported; \$84,143 – wastewater; and \$69,950 – water) for the period of January 1, 2013 to September 30th, 2013. During the same period in 2012, the Corporation realized \$1,790,261 (\$1,504,892 – property tax supported; \$122,137 – wastewater; and \$163,232 – water).

SUMMARY

Civic Administration anticipates a favourable \$6.9 million year end position in the 2013 Property tax Supported budget if trends experienced to date continue. The major factors contributing to this projected position are additional revenue from the Ministry of Finance for a one-time payout of Ontario Municipal Partnership Funding, savings in Corporate Services, Social & Community Support Services, Housing, and Long-Term Care with net operational savings realized across the corporation.

The Water budget anticipates a \$3.7 million surplus and the Wastewater & Treatment budget anticipates a \$1.8 million surplus. These two budgets continue to experience shortfalls in consumption based revenue due to lower than expected water consumption patterns. The declines in consumption based revenues are offset by operational savings and increases to non-consumption based revenues.

Civic Administration will continue to monitor and review corporate financial projections and trends for the remainder of 2013.

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2013 OPERATING BUDGET STATUS
3rd QUARTER REPORT
(\$ 000) ⁽¹⁾

	2013				3 RD QUARTER REPORT	
	COUNCIL APPROVED NET BUDGET	REVISED NET BUDGET ⁽²⁾	ACTUALS AS AT SEPTEMBER 30, 2013	ACTUAL % SPENT	PROJECTED YEAR END POSITIONS	PROJECTED YEAR END SURPLUS/ (DEFICIT)
Culture:						
Cultural Services	3,777	3,855	3,031	78.6%	3,880	(25)
Heritage	95	96	63	65.4%	87	9
Libraries	18,388	18,388	13,841	75.3%	18,388	0
Total Culture	22,260	22,338	16,935	75.8%	22,354	(16)
Economic Prosperity:						
Economic Development ⁽³⁾	9,431	9,481	4,002	42.2%	9,467	14
Total Economic Prosperity	9,431	9,481	4,002	42.2%	9,467	14
Environmental Services:						
Conservation Authorities ⁽⁴⁾	3,093	3,093	2,358	76.2%	3,093	0
Environmental Stewardship	688	712	496	69.7%	712	0
Garbage Recycling & Composting	12,882	12,433	8,444	67.9%	12,633	(200)
Total Environmental Services	16,662	16,238	11,298	69.6%	16,438	(200)
Parks, Recreation & Neighbourhood Services:						
Neighbourhood & Recreation Services ⁽⁵⁾	17,985	18,088	31,449	173.9%	18,326	(238)
Parks & Urban Forestry	10,574	10,632	8,092	76.1%	10,607	25
Total Parks, Recreation & Neighbourhood Services	28,560	28,719	39,541	137.7%	28,932	(213)
Planning & Development Services:						
Building Controls	(1,380)	(1,244)	(2,122)	170.5%	(1,303)	59
City Planning & Research	2,825	2,879	2,026	70.4%	2,934	(55)
Development Services	3,486	3,520	2,370	67.3%	3,381	139
Total Planning & Development Services	4,932	5,155	2,275	44.1%	5,012	143
Protective Services:						
Animal Services	1,065	1,062	731	68.9%	1,213	(151)
By-Law Enforcement	1,295	1,126	885	78.5%	1,126	0
Emergency & Security Management	1,158	1,176	835	71.0%	1,186	(10)
Fire Services	54,543	54,545	30,842	56.5%	54,545	0
Police Services	90,067	89,605	66,530	74.2%	89,605	0
Total Protective Services	148,128	147,513	99,823	67.7%	147,674	(161)
Social & Health Services:						
Housing	20,547	20,646	16,965	82.2%	19,686	960
Long Term Care	4,248	4,835	4,837	100.0%	4,335	500
Primary Health Care Services	16,942	16,942	10,627	62.7%	16,742	200
Social & Community Support Services	26,196	26,031	25,032	96.2%	25,081	950
Total Social & Health Services	67,933	68,453	57,462	83.9%	65,843	2,610
Transportation Services:						
Parking	(2,904)	(3,071)	(2,717)	88.5%	(3,185)	114
Public Transit	25,495	25,495	19,376	76.0%	25,495	0
Roadways	33,241	33,181	21,940	66.1%	33,073	108
Total Transportation Services	55,832	55,605	38,599	69.4%	55,383	222
Corporate, Operational & Council Services:						
Corporate Services	40,552	41,687	26,254	63.0%	39,180	2,507
Corporate Planning & Administration	2,076	2,003	1,154	57.6%	1,703	300
Council Services	3,172	3,233	2,111	65.3%	3,058	175
Financial Management ⁽⁶⁾	80,079	79,179	23,596	29.8%	77,785	1,394
Public Support Services	22	32	(382)	(1192.5%)	(121)	153
Total Corporate, Operational & Council Services	125,900	126,135	52,732	41.8%	121,606	4,529
Total Property Tax Requirements	479,637	479,637	322,667	67.3%	472,710	6,928

1) Subject to rounding.

2) Includes housekeeping budget transfers. As authorized by Council's resolution at the time of the adoption of the 2013 budget, Civic Administration can approve transfers between accounts that are considered 'housekeeping' in nature. These adjustments primarily include items that are budgeted centrally, and during the year are distributed to various services.

3) Actual expenditure for the Economic Development Budget appears low as of September 30th since contribution to reserve funds are not incurred until October.

4) Kettle Creek Conservation Authority and Lower Thames Valley Conservation Authority have already received their 2013 appropriation.

5) Neighbourhood & Recreation Services actual expenditures appears high as the Children's Services Provincial Subsidy is recognized later in the year.

6) Actual expenditure for the Financial Management Budget appears low as of September 30th since capital financing costs and contribution to reserves and reserve funds are not incurred until October.