

TO:	CHAIR AND MEMBERS CORPORATE SERVICES COMMITTEE MEETING ON APRIL 8, 2014
FROM:	MARTIN HAYWARD MANAGING DIRECTOR, CORPORATE SERVICES AND CITY TREASURER, CHIEF FINANCIAL OFFICER
SUBJECT:	2013 OPERATING BUDGET STATUS – FOURTH QUARTER REPORT

RECOMMENDATION

1. That the 2013 Operating Budget Status – Fourth Quarter Report for the General Budget (Property Tax Supported refer to **Appendix A**), Water Budget and Wastewater and Treatment Budget **BE RECEIVED** for information. An overview of the net corporate savings is outlines below:

- a) \$7.3 million in net savings in the General (Property Tax Supported) Budget as identified by Civic Service Areas and Boards & Commissions. It being noted that the year end savings is \$0.4 million higher than projected in the 2013 Operating Budget Status – 3rd Quarter Report. The \$7.3 million operating surplus was contributed to the Operating Budget Contingency Reserve, consistent with Council direction.

The \$7.3 million net savings has been allocated in accordance with Council direction relative to the 2014 budget as follows:

- i. \$3.8 million to the Economic Development Reserve Fund to be reinvested into Industrial Land Development initiatives;
 - ii. \$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;
 - iii. \$0.5 million as a funding source for the Veteran’s Memorial Parkway Noise Wall capital project;
 - iv. \$0.4 million as a funding source for Enhanced Animal Welfare capital projects;
 - v. \$0.2 million to St. Joseph’s Hospice for one-time capital funding; and
 - vi. \$0.1 million to the Grand Theatre for one-time capital funding.
- b) That the \$7.3 million net reported savings from the General Property tax supported budget includes a request from the London Police Services Board (letter attached) requesting that its \$0.3 million operational deficit be funded from City reserves, it is therefore recommended that the Operating Budget Contingency Reserve **BE APPROVED** as the source of funding for the London Police Services operational deficit.
 - c) \$2.9 million in net savings for the Water rate supported budget was realized. It being noted that the year end surplus is \$0.8 million less than projected in the 2013 Operating Budget Status – 3rd Quarter Report. The \$2.9 million in savings has been contributed to the Water Works Capital Reserve Fund and will assist in funding future capital expenditures, consistent with Council direction.
 - d) \$0.7 million in net savings for the Wastewater and Treatment rate supported budget was realized. It being noted that the year end surplus is \$1.1 million less than projected in the 2013 Operating Budget Status – 3rd Quarter Report. The \$0.7 million savings has been contributed to the Sewage Works Reserve Fund, consistent with Council direction.

- e) That Civic Administrations contribution of \$2,907,800 (\$2,483,521 – property tax supported; \$295,652 – wastewater; and \$128,627 – 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)
- 2013 Operating Budget Status - Third Quarter Report (December 10, 2013 meeting of Corporate Services Committee, Agenda Item 11)

BACKGROUND

Appendix A provides a corporate overview of the Property Tax Supported budget position for the year ended December 31, 2013.

As of December 31, 2013, Civic Administration realized savings in the property tax supported budget totalling \$7.3 million. Outlined below are some of the key items that have contributed to the year end position.

	4 th Quarter (\$ millions)	3 rd 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 and Social & Community Support Services.	2.6	3.4
Net savings related to additional revenue in interest and penalty on taxes and short term investment revenue, additional supplementary tax revenue net of tax write offs and rebates, additional revenue in Long Term Care from the Ministry of Health from a 2011 funding settlement and other program related savings partially offset by a reduction in the draw from the Operating Budget Contingency Reserve and increased contributions to the City's Unfunded Liability Reserve to address corporate liabilities.	2.0	(1.5)
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.	1.1	1.0
Higher than anticipated winter maintenance costs due to higher than average snowfall experienced.	(2.1)	0.3
Total Year End Position	7.3	6.9

4th Quarter Year End Position by Service Program

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

SERVICE PROGRAM	\$ millions
CULTURE	0.0
<ul style="list-style-type: none"> Centennial Hall, Arts, Culture and Heritage Advisory & Funding, London Public Library, Eldon House and Heritage reported a relatively net breakeven position. Museum London realized a deficit position of \$0.02 million. However, the deficit was offset by a drawdown from its reserves. 	
ECONOMIC PROSPERITY	0.0
<ul style="list-style-type: none"> Economic Development Services realized a \$0.02 million surplus due to personnel savings in Community Improvement/BIA. Tourism London realized a surplus of \$0.04 million at year end which after Board approval was contributed to the Tourism Reserve Fund. 	
ENVIRONMENTAL SERVICES	0.3
<ul style="list-style-type: none"> Garbage Recycling and Composting realized a net \$0.3 million surplus in operations attributable to a \$0.5 million surplus in recycling operations resulting from higher than anticipated net recycling revenues (one-time), higher than anticipated net revenues from municipalities using the Material Recovery Facility and savings in external vehicle rentals. Offsetting this recycling surplus, is a \$0.2 million deficit realized in Solid Waste resulting from lower than anticipated tipping fee revenue related to brownfield and commercial business garbage arriving at W12A and cost increases in operating supplies and leachate due to higher volumes. It being noted that contributions, consistent with Council approved programs, are being made through Financial Management to the Sanitary Landfill Reserve Fund for the Mitigative Measures Program and the Material Recovery Facility agreements of \$0.7 million. Conservation Authorities and Environmental Stewardship reported a breakeven position at year end. 	
PARKS, RECREATION, & NEIGHBOURHOOD SERVICES	(0.2)
<ul style="list-style-type: none"> Neighbourhood & Recreation Services realized a \$0.4 million deficit at year end primarily attributable to Children's Services due to a reduction in funding that resulted in a gradual decline in child care fee subsidy, and deficit positions in aquatics, sports services and recreation administration. A surplus in arenas due to higher than anticipated revenue from Western Fair food concessions and savings in personnel costs partially offset the deficit in Neighbourhood & Recreation Services. It should be noted that a draw down from the Child Care & Early Child Development Reserve Fund of \$0.2 million was made in Children's Services to help mitigate the deficit position. Parks and Urban Forestry realized a \$0.2 million surplus primarily due to personnel savings partially offset by net operational cost overruns. 	
PLANNING & DEVELOPMENT SERVICES	0.0
<ul style="list-style-type: none"> Building Controls realized a \$0.2 million deficit due to lower than anticipated building permit revenues partially offset by savings in personnel and additional revenues for fees related to exams, sign permits, fence permits, compliance letters and lawyer's letters. Land Use Planning realized a \$0.1 million surplus primarily related to savings in personnel and cost containment within the service area. Development Services realized \$0.1 million surplus primarily related to savings in personnel from vacancies and service area cost containment partially offset by lower revenues associated with development application fees, site plan fees and re-inspection fees. 	
PROTECTIVE SERVICES	(0.7)
<ul style="list-style-type: none"> Animal Services realized a \$0.2 million deficit primarily due to lower than anticipated licence revenues and costs increases with regards to contracted services. 	

SERVICE PROGRAM	\$ millions
<ul style="list-style-type: none"> • By-law Enforcement realized a \$0.2 million deficit primarily due to lower than anticipated revenues for Residential Rental Unit Licenses, Taxi Licenses and Business Licenses partially offset by personnel savings and operational cost containment. • London Police Services realized a \$0.3 million deficit primarily due to higher costs related to WSIB claims, personnel and contributions to reserve funds partially offset by additional revenue collected from government grants and subsidies and user fees. The London Police Service is requesting that the deficit be funded by City of London reserves. • Fire Services and Emergency and Security Management reported a breakeven position at year end. Note that the employee agreement between the London Professional Firefighters Association and the City expired December 31, 2010 and is currently at arbitration. 	
SOCIAL & HEALTH SERVICES	3.2
<ul style="list-style-type: none"> • Housing Services realized a \$0.8 million surplus primarily due to lower than anticipated Housing Provider subsidy costs resulting from settlements and reconciliations from prior years and savings in the Rent Supplement program partially offset by a change to the funding for the Consolidated Municipal Service Management (CMSM) agreement as well as reduced County billings. • London & Middlesex Housing Corporation realized a \$0.3 million surplus due to higher rent revenues resulting from lower overall vacancy rates and savings in utilities partially offset by increased costs for property taxes due to MPAC assessments and other operational cost overruns. • Long Term Care Services realized a \$0.7 million surplus primarily attributable to higher than anticipated revenue from the Ministry of Health from a 2011 funding settlement and personnel savings partially offset by increased costs for the services provided by Extencicare and costs increases for resident related supplies and services. • Middlesex-London Health Unit Board of Health approved \$0.4 million of its 2013 surplus be provided to the City of London, it being noted that this is offset by \$0.1 million due to an accrual related to 2012 year end surplus that was not received resulting in an adjusted 2013 surplus of \$0.3 million. • Social and Community Support Services realized a \$1.1 million surplus at year end related to the Ontario Works service area: <ul style="list-style-type: none"> ○ \$0.4 million savings in net personnel, administrative and program expenses. ○ \$0.2 million in Ontario Works net caseload savings. ○ \$0.2 million in net cost savings for discretionary benefits non-social assistance recipients. ○ \$0.3 million in savings related to Ontario Works Child Care and employment programs. • Land Ambulance Services reported a breakeven position at year end. 	
TRANSPORTATION SERVICES	(2.4)
<ul style="list-style-type: none"> • Parking Services realized a \$0.3 million surplus due to increased parking meter revenue, parking fine revenue and personnel cost savings partially offset by higher operational costs. • London Transit Commission realized a \$0.4 million surplus position at year end primarily resulting from savings in fuel, personnel and other net operational savings partially offset lower ridership revenue and lower than expected funding related to Provincial Gas Tax. To balance year end operations, London Transit increased its contribution to reserve funds. • Roadway Services realized a \$2.7 million deficit primarily due to higher than expected snow control program costs of \$2.1 million and other net program operational cost overruns of \$0.6 million. 	
CORPORATE, OPERATIONAL, & COUNCIL SERVICES	7.1
<ul style="list-style-type: none"> • Corporate Services realized a \$1.5 million surplus predominantly attributable to savings in Human Resources and Fleet Services. • Corporate Planning and Administration Services realized \$0.4 million 	

SERVICE PROGRAM	\$ millions
<p>surplus primarily attributable to savings in AODA and personnel savings in Information and Archive Management.</p> <ul style="list-style-type: none"> • Council Services realized a \$0.2 million surplus predominantly attributable to savings in the Mayor's Office and Councillor's Office. • Financial Management is anticipating a \$4.6 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. ○ \$2.8 million in additional revenue related to interest and penalty on taxes and short term investment revenue. ○ Higher than anticipated supplementary tax revenue of \$1.3 million partially offset by an increase in allowance for tax write offs and rebates of \$0.6 million. ○ \$0.3 million net deficit primarily related to a draw from the Operating Budget Contingency Reserve that was not required and additional contributions made to the Mitigative Measures Program and the Material Recovery Facility agreements (see Environmental Services Program) partially offset by savings in corporate contingencies and other corporate expenditures. ○ Strategic funding increase of \$2.3 million to the Unfunded Liability Reserve, consistent with Council direction to mitigate the growth in the City's unfunded liability. • Public Support Services realized a \$0.4 million surplus at year end primarily resulting from savings in Taxation and Administration of Justice partially offset by cost increases for Communications. It should be noted that a draw from the Operating Budget Contingency Reserve was not required to cover the costs associated with the Canada's London Campaign contained in Communications because of the net surplus realized in Public Support Services. 	
TOTAL YEAR END POSITION	\$ 7.3

*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:

- 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 the 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.
- **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.
- **Aquatics** – Closure of the Canada Games Aquatics Centre for part of 2014 due to the need to undertake capital life cycle renewal repairs may result in a deficit for Aquatics in 2014.
- **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.

2013 Year End Surplus Allocation

On February 27, 2014, the date that Council approved the 2014 budget, Council also approved the allocation of the \$7.3 million 2013 surplus as follows:

- i. \$3.8 million to the Economic Development Reserve Fund to be reinvested into Industrial Land Development initiatives;
- ii. \$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;
- iii. \$0.5 million as a funding source for the Veteran’s Memorial Parkway Noise Wall capital project;
- iv. \$0.4 million as a funding source for Enhanced Animal Welfare capital projects;
- v. \$0.2 million to St. Joseph’s Hospice for one-time capital funding; and
- vi. \$0.1 million to the Grand Theatre for one-time capital funding.

2013 WATER AND WASTEWATER & TREATMENT BUDGET

Water Budget

The Water rate supported budget realized a \$2.9 million surplus at year end. The implementation of the new water rate structure effective March 1, 2013, resulted in the introduction of new revenue streams, specifically the Fire Protection Charge and Customer Assistance Charge. The additional revenue generated by the new water rate structure helped to mitigate the continued loss of consumption based revenues (billing volumes down 1.5M m³ or \$1.3 million).

Operational savings were 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.

To balance year end operations, Civic Administration contributed \$2.9 million to the Capital Water Reserve Fund. This increased contribution leaves a 2013 year end uncommitted balance of \$11.0 million to be utilized in future year capital budgets as a source of funding to reduce the infrastructure deficit and the reliance on debenture financing.

Water Budget (\$000's)			
	2013 Revised Budget	Year End Position	Year End Savings/ (Deficit)
Revenues	(62,564)	(63,875)	1,311
Expenditures	62,564	60,936	1,628
Net	-	2,939	2,939

Wastewater & Treatment Budget

The Wastewater & Treatment budget realized a \$0.7 million surplus at year end. The main factors contributing to this position were operational savings in Wastewater and Treatment Operations, Sewer Operations, and Wastewater and Drainage Engineering. Savings were realized from lower than expected service fees resulting from the re-negotiation of the 2013 service level agreement with London Hydro, savings in electricity and chemical costs used at the pollution control facilities due to the wet year, savings in personnel and other operational cost containment. The operational savings were partially offset by net reduction in revenues. Increased revenues in high strength waste helped to mitigate the losses in consumption based revenues.

To balance year end operations, Civic Administration contributed \$0.7 million to the Sewage Works Reserve Fund. This increased contribution leaves a 2013 year end uncommitted balance of \$15.5 million to be utilized in future year capital budgets as a source of funding to reduce the infrastructure deficit and the reliance on debenture financing.

Wastewater & Treatment Budget (\$ 000's)			
	2013 Revised Budget	Year End Position	Year End Savings/ (Deficit)
Revenues	(79,058)	(76,862)	(2,196)
Expenditures	79,058	76,168	2,890
Net	-	694	694

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. This has resulted in estimated billed volume of water of 41.03 million m³ for the 2014 budget.
- 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 total approximately \$2.5 million in capital and \$323,000 in operating and have been 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 was approved 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 2014 and the recommendations could have an impact on future capital and operating budgets.

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 \$155.2 million (\$140.5 million in 2011). The liability is offset by reserve and reserve funds of \$65.5 million (\$57.0 million in 2011) for a net unfunded liability balance of \$89.7 million (\$83.5 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.

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 \$2,907,800 (\$2,483,521 – property tax supported; \$295,652 – wastewater; and \$128,627 – water) in 2013. During 2012, the Corporation realized \$3,305,975 (\$2,933,403 – property tax supported; \$168,499 – wastewater; and \$204,073 – water).

The 2013 year end uncommitted balances in the Efficiency, Effectiveness and Economy Reserves are:

- Property Tax Supported \$5.7 million
- Water Rate Supported \$0.6 million
- Wastewater & Treatment Rate Supported \$1.2 million

SUMMARY

Civic Administration realized a favourable \$7.3 million year end position in the 2013 Property tax Supported budget. The major factors contributing to this position are additional revenue from the Ministry of Finance for a one-time payout of Ontario Municipal Partnership Funding, savings in Corporate Services, Social & Health Services and Housing with net operational savings realized

across the corporation. These savings have been partially offset by Transportation Services deficit, a reduction in the draw from the Operating Budget Contingency Reserve along with an increased contribution to the City's Unfunded Liability Reserve to address corporate liabilities.

The Water budget realized a \$2.9 million surplus which was contributed to the Water Works Capital Reserve Fund and the Wastewater & Treatment budget realized a \$0.7 million surplus which was contributed to the Sewage Works Reserve Fund, consistent with Council resolution.

Prepared By:	Reviewed By:
Jason Senese Manager of Financial Planning & Policy	Larry Palarchio Director of Financial Planning & Policy
Recommended By:	
Martin Hayward Managing Director, Corporate Services and City Treasurer, Chief Financial Officer	

APPENDIX 'A'

**2013 OPERATING BUDGET STATUS
4th QUARTER REPORT
(\$ 000)**

	2012 Actual	4th QUARTER REPORT		
		Revised Net Budget ⁽¹⁾	Year End Positions	Year End Surplus (Deficit)
Culture:				
Cultural Services	3,792	3,855	3,869	(14)
Heritage	88	96	90	5
Libraries	18,045	18,388	18,388	0
Total Culture	21,924	22,338	22,347	(9)
Economic Prosperity:				
Economic Development	8,458	9,481	9,456	24
Total Economic Prosperity	8,458	9,481	9,456	24
Environmental Services:				
Conservation Authorities	2,986	3,093	3,093	0
Environmental Stewardship	661	712	712	0
Garbage Recycling & Composting	12,197	12,656	12,324	332
Total Environmental Services	15,844	16,461	16,129	332
Parks, Recreation & Neighbourhood Services:				
Neighbourhood & Recreation Services	16,942	18,022	18,406	(384)
Parks & Urban Forestry	10,337	10,632	10,442	190
Total Parks, Recreation & Neighbourhood Services	27,279	28,654	28,848	(194)
Planning & Development Services:				
Building Controls	(1,267)	(1,244)	(1,056)	(188)
City Planning & Research	2,744	2,879	2,783	96
Development Services	3,047	3,520	3,401	119
Total Planning & Development Services	4,523	5,155	5,128	27
Protective Services:				
Animal Services	1,326	1,062	1,258	(196)
By-Law Enforcement	1,176	1,126	1,379	(253)
Emergency & Security Management	1,120	1,176	1,166	10
Fire Services	54,033	54,545	54,583	(39)
Police Services	88,042	89,008	89,276	(269)
Total Protective Services	145,697	146,916	147,662	(746)
Social & Health Services:				
Housing	18,809	20,423	19,358	1,064
Long Term Care	4,094	4,835	4,099	736
Primary Health Care Services	16,476	16,942	16,672	270
Social & Community Support Services	27,237	26,031	24,921	1,109
Total Social & Health Services	66,617	68,230	65,050	3,180
Transportation Services:				
Parking	(2,684)	(3,071)	(3,362)	291
Public Transit	24,306	25,495	25,495	0
Roadways	30,194	33,779	36,462	(2,683)
Total Transportation Services	51,816	56,203	58,595	(2,392)
Corporate, Operational & Council Services:				
Corporate Services	37,153	41,687	40,189	1,499
Corporate Planning & Administration	1,814	2,003	1,574	429
Council Services	2,867	3,233	3,023	210
Financial Management	84,062	79,245	74,661	4,583
Public Support Services	(701)	32	(347)	379
Total Corporate, Operational & Council Services	125,194	126,200	119,100	7,100
Total Property Tax Requirements	467,352	479,637	472,316	7,321

Subject to rounding.

1) 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.