

<b>TO:</b>	<b>CHAIR AND MEMBERS CORPORATE SERVICES COMMITTEE MEETING ON APRIL 12, 2016</b>
<b>FROM:</b>	<b>MARTIN HAYWARD MANAGING DIRECTOR, CORPORATE SERVICES AND CITY TREASURER, CHIEF FINANCIAL OFFICER</b>
<b>SUBJECT:</b>	<b>2015 OPERATING BUDGET STATUS – FOURTH QUARTER REPORT</b>

<b>RECOMMENDATION</b>
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On the recommendation of the Managing Director, Corporate Services and City Treasurer, Chief Financial Officer:

1. That the 2015 Operating Budget Status – Fourth Quarter Report for the Property Tax Supported (refer to **Appendix A**), Water and Wastewater and Treatment Budgets **BE RECEIVED** for information. An overview of the net corporate positions are outlined below:
  - a. \$3.1 million in net savings for the Property Tax Supported Budget as identified by Civic Service Areas and Boards and Commissions, it being noted that clauses 2, 3 and 4 are included in the \$3.1 million savings. The year-end savings is \$1.6 million less than projected in the 2015 Operating Budget Status – Third Quarter Report. The \$3.1 million operating surplus was contributed to the Operating Budget Contingency Reserve.
  - b. \$1.1 million deficit in the Water rate supported budget was incurred. It being noted that the year-end deficit has remained unchanged from the 2015 Operating Budget Status – Third Quarter Report. To balance Water's 2015 budget a draw of \$1.1 million was taken from the Water Capital Reserve Fund.
  - c. \$0.6 million deficit in the Wastewater and Treatment rate supported budget was incurred. It being noted that the year-end deficit is \$0.4 million more than projected in the 2015 Operating Budget Status – Third Quarter Report. To balance the Wastewater and Treatment 2015 budget a draw of \$0.4 million was taken from the Wastewater Rate Stabilization Reserve and \$0.2 million from the Sewage Works Reserve Fund.
2. That with respect to the Social Housing operational savings of \$145,456 Civic Administration **BE AUTHORIZED** to contribute the savings to the Affordable Housing Reserve Fund which will be used to support housing initiatives and future work with the Housing Development Corporation.
3. That with respect to the Information Technology Services (ITS) operational savings of \$2,500,000 Civic Administration **BE AUTHORIZED** to contribute the savings to the ITS Reserve Fund which will be used to fund the ITS Backup Data Centre a key component of the Corporation wide Continuity and Disaster Recovery Plan; it being noted that the \$2,500,000 contribution will advance this critical portion of the project from 2020 to either 2017 or 2018.
4. That the request to fund the 2015 London & Middlesex Housing Corporation operational deficit of \$369,450 **BE APPROVED** (letter attached), it being noted that historically surpluses have been returned to the City while deficits have been funded by the City.
5. That Civic Administration **BE AUTHORIZED** to allocate the \$3.1 million in net savings from the Property Tax Supported Budget in accordance with the Council approved Surplus/Deficit Policy as follows:
  - a. \$1.6 million to reduce authorized but unissued debt;
  - b. \$770 thousand to the Community Investment Reserve Fund; and
  - c. \$770 thousand to the Capital Infrastructure Gap Reserve Fund.

6. That Civic Administration's contribution of \$3,884,674 (\$3,053,067 – property tax supported; \$444,826 – water; and \$386,781 – wastewater) to the Efficiency, Effectiveness and Economy reserves in 2015 **BE RECEIVED** for information.

**Note: subject to year-end financial statement audit and adjustments related to the accounting for Tangible Capital Assets (PSAB 3150)**

#### PREVIOUS REPORTS PERTINENT TO THIS MATTER

- 2015 Council Approved Operating Budget (February 26, 2015 meeting of Council, Agenda Item 8)
- 2015 Operating Budget Status – Third Quarter Report (December 1, 2015 meeting of Corporate Service Committee, Agenda Item 6)

#### BACKGROUND

The 2015 Operating Budget Status - Fourth Quarter Report provides a review and analysis of the operating budget. **Appendix A** compares actual costs incurred by Service Program and Service Grouping for the Property Tax Supported Budget.

A surplus arises in the operating budget when there is an excess of revenues over expenditures. Year-end surpluses generally arise from two circumstances — higher than budgeted revenues (including one-time only revenues), and/or lower than budgeted expenditures. A deficit arises in the operating budget when there is an excess of expenditures over revenues. Year-end deficits generally arise from two circumstances — lower than budgeted revenues, and/or higher than budgeted expenditures (including one-time only expenditures).

In December 2015, Council approved the updated Surplus/Deficit Policy. The allocation of year-end surplus/deficit positions according to the policy is as follows:

##### In a Year of Surplus

- a) To contribute an amount to the Operating Budget Contingency Reserve (OBCR) not to exceed the reserve target balance of 1.5% - 2.0% of the property tax gross expenditure budget, subject to the contribution to the OBCR being confirmed by the Municipal Council.
- b) To contribute an amount to the Unfunded Liability Reserve not to exceed any operational savings realized from personnel and contingency budgets at year-end.
- c) Remaining surplus to be reported in the 4<sup>th</sup> Quarter Operating Budget Status Report with the surplus contributed to the OBCR to balance year-end operations. The remaining surplus allocations shall be drawn down from the OBCR and allocated in accordance with the following proportions:
  - I. 50% of any operating surplus shall be applied to reduce authorized but unissued debt, it being noted that debt reduction will reduce future year's debt servicing costs.
  - II. 25% of any operating surplus shall be contributed to the Community Investment Reserve Fund to be allocated at the discretion of Municipal Council.
  - III. 25% of any operating surplus shall be contributed to the Capital Infrastructure Gap Reserve Fund to mitigate growth in the infrastructure gap.

##### In a Year of Deficit

- d) To drawdown from the Operating Budget Contingency Reserve to balance year-end operations.

## 2015 Year-End Surplus Allocation

The \$3.1 million year-end surplus is recommended to be allocated as follows:

- \$1.6 million be applied to authorized but unissued debt, it being noted that debt reduction will reduce future year's debt servicing costs.
- \$770 thousand be contributed to the Community Investment Reserve Fund to be allocated at the discretion of Municipal Council.
- \$770 thousand be contributed to the Capital Infrastructure Gap Reserve Fund to mitigate growth in the infrastructure gap.

## 2015 PROPERTY TAX SUPPORTED BUDGET

Outlined below are some of the key items that are contributing to the year-end position.

<b>Contributing Factor</b>	<b>4<sup>th</sup> Quarter (\$ millions) Surplus/ (Deficit)</b>	<b>3<sup>rd</sup> Quarter (\$ millions) Surplus/ (Deficit)</b>
Higher than expected supplementary tax revenue resulting from property assessments conducted by the Municipal Property Assessment Corporation (MPAC).	3.3	3.3
Personnel savings resulting from cost containment initiatives such as vacancy management (positions not filled for 90 days) and organizational changes absorbed throughout the year.	2.9	3.1
Fleet Services anticipated fuel cost savings primarily due to lower fuel prices for diesel and unleaded.	0.7	0.6
Higher than anticipated winter maintenance costs due to higher than average snowfall experienced in the first half of 2015.	(1.1)	(1.6)
Lower than anticipated interest revenue resulting from unanticipated interest rate reductions announced by the Bank of Canada in 2015.	(1.1)	(1.2)
Garbage Recycling & Composting net revenue decrease due to reduced recycling revenue (lower commodity prices) and landfill tipping fee revenue partially offset by increased extended producer responsibility and processing fees.	(0.6)	(0.6)
Ontario Works expenses higher than budgeted resulting from an increase in caseload and an increase in the average cost per case.	(0.5)	(0.5)
Net contingency savings a result of personnel and legal related matters and interest and penalty on taxes partially offset by development charge reserve fund requirements and tax write-offs/allowances; it being noted that the tax write-off/allowance is the result of a MPAC assessment appeal on five multi-residential buildings which creates a permanent loss of revenue for the Municipality.	3.5	1.6
Budgeted Operating Budget Contingency Reserve draw not required.	(3.6)	0.0
London & Middlesex Housing Corporation (LMHC) submitted deficit position due to required building maintenance cost pressures, electricity cost deficits and unbudgeted personnel matters partially offset by net revenue surpluses primarily related to additional rental revenue (funding request letter attached).	(0.4)	0.0
<b>Year-End Surplus/(Deficit) Position</b>	<b>\$3.1</b>	<b>\$4.7</b>

A year-end surplus position of \$3.1 million represents approximately 0.6% of the net property tax supported budget.

#### 4<sup>th</sup> Quarter Year-End Position by Service Program

Outlined in the table below are the year-end surpluses and/or deficits by Service Program that contribute to the net \$3.1 million surplus.

SERVICE PROGRAM	\$ millions
<b>CULTURE SERVICES</b>	0.0
<ul style="list-style-type: none"> <li>• Centennial Hall deficit of \$38 thousand a result of lower than budgeted revenues due to the loss of Orchestra London revenues partially offset by associated expenditure savings due to the reduced number of performances/events.</li> <li>• Arts, Culture and Heritage Advisory &amp; Funding surplus of \$8 thousand a result of various operational cost savings.</li> <li>• Museum London achieved a balanced budget after a \$17 thousand contribution to their Operating Fund; the savings contributed to the Operating Fund relate to increased operating endowment and grant funding along with other net operational savings partially offset by less than anticipated donation and sponsorship revenues.</li> <li>• Eldon House achieved a balanced budget after a \$3 thousand contribution to their Operating Fund; the savings contributed to the Operating Fund contain no major factors to report.</li> <li>• Heritage surplus of \$5 thousand a result of personnel savings.</li> <li>• London Public Library achieved a balanced budget after contributing \$115 thousand to their Stabilization Reserve Fund; the savings contributed to the reserve are the result of personnel and utilities cost savings partially offset by a fine revenue shortfall and other net operational cost overruns.</li> </ul>	
<b>ECONOMIC PROSPERITY</b>	0.1
<ul style="list-style-type: none"> <li>• Business Attraction and Retention surplus of \$92 thousand a result of personnel savings due to a vacancy and other net operational savings.</li> <li>• Community Improvement/Business Improvement Area surplus of \$13 thousand a result of personnel savings.</li> <li>• London Convention Centre achieved a balanced budget after contributing \$62 thousand to reserves; the savings contributed to the reserves are the result of closely managed fixed expenses and other net operational savings.</li> <li>• Tourism London achieved a balanced budget after contributing \$260 thousand to their reserve; the savings contributed to the reserve are the result of personnel savings and other net operational savings partially offset by a deficit in direct sales due to the hiring of a consultant.</li> <li>• Covent Garden Market achieved a balanced budget with no major factors to report.</li> </ul>	
<b>ENVIRONMENTAL SERVICES</b>	(0.2)
<ul style="list-style-type: none"> <li>• Kettle Creek Conservation Authority achieved a balanced budget with no major factors to report.</li> <li>• Lower Thames Valley Conservation Authority achieved a balanced budget with no major factors to report.</li> <li>• Upper Thames River Conservation Authority achieved a balanced budget with no major factors to report.</li> <li>• Environmental Action Programs and Reporting surplus of \$32 thousand a result of other purchased services savings, unbudgeted one-time grant funding received and other net operational savings partially offset by a personnel deficit.</li> </ul>	

<b>SERVICE PROGRAM</b>	<b>\$ millions</b>
<ul style="list-style-type: none"> <li>• Garbage, Recycling &amp; Composting deficit of \$211 thousand a result of the following: <ul style="list-style-type: none"> <li>○ \$577 thousand deficit due to lower than anticipated recycling revenues primarily related to lower commodity prices and decreased landfill tipping fee revenue resulting from the loss of a major customer partially offset by favourable funding formula changes to extender producer responsibility and higher than budgeted processing fee revenues;</li> <li>○ \$290 thousand deficit in personnel costs primarily due to overtime related to the severe winter in January and February of 2015 and aging fleet complications (breakdowns);</li> <li>○ \$497 thousand surplus related to higher than anticipated recovery for leachate and bioset disposal and fuel savings; and</li> <li>○ \$159 thousand surplus in other net operational savings.</li> </ul> </li> </ul>	
<b>PARKS, RECREATION, &amp; NEIGHBOURHOOD SERVICES</b>	0.4
<ul style="list-style-type: none"> <li>• Neighbourhood &amp; Recreation Services surplus of \$434 thousand a result of personnel savings and other net operational savings partially offset by Arenas winter and summer ice rental deficit due to external competition, and higher than budgeted Recreation program subsidies for low income individuals and families.</li> <li>• Parks and Urban Forestry surplus of \$7 thousand a result of personnel savings and other net operational savings partially offset by Forestry Operations deficit primarily due to externally contracted maintenance services.</li> </ul>	
<b>PLANNING &amp; DEVELOPMENT SERVICES</b>	0.7
<ul style="list-style-type: none"> <li>• Building Approvals deficit of \$422 thousand a result of lower than budgeted building permit revenues due to a reduction in applications partially offset by personnel savings and other net operational savings.</li> <li>• Planning Services surplus of \$310 thousand a result of personnel savings and other net operational savings.</li> <li>• Development Services surplus of \$815 thousand a result of personnel savings, higher than anticipated net fee based revenues and other net operational savings.</li> </ul>	
<b>PROTECTIVE SERVICES</b>	0.1
<ul style="list-style-type: none"> <li>• Animal Services deficit of \$115 thousand a result of lower than anticipated dog and cat licencing fee revenues and higher than budgeted private vet service costs partially offset by savings in the Cat Adoption Centre and Animal Control contracts as well as other net operational savings.</li> <li>• By-Law Enforcement surplus of \$291 thousand a result of personnel savings and net user fee savings partially offset by other net operational cost overruns.</li> <li>• Corporate Security &amp; Emergency Management deficit of \$35 thousand a result of increased security requirements in guard services partially offset by personnel savings and other net operational savings.</li> <li>• Fire Services achieved a balanced budget; the balanced budget is a result of personnel savings from early retirements and the delayed hiring of vacant positions as well as other net operational savings, offset by additional Workplace Safety Insurance Board costs due to new provincial presumptive legislation, and decreased revenues for highway incidents and recall fees for fire inspections.</li> </ul>	

<b>SERVICE PROGRAM</b>	<b>\$ millions</b>
<ul style="list-style-type: none"> <li>• The London Police Services (LPS) achieved a balanced budget after contributing \$710 thousand to their reserves; the savings contributed to the reserves are the result of personnel savings and lower than budgeted fuel and propane costs partially offset by legal costs, reduced reserve draws, information technology needs and other net operational cost overruns.</li> </ul>	
<b>SOCIAL &amp; HEALTH SERVICES</b>	0.5
<ul style="list-style-type: none"> <li>• Social Housing achieved a balanced budget after contributing \$146 thousand to the Affordable Housing Reserve Fund; the savings contributed to the reserve fund are the result of personnel savings, Federal non-profit subsidies savings due to mortgage renewals and end of operating agreements, increased Middlesex County revenue, Housing Development Corporation (HDC) start-up savings and other net operational savings, partially offset by lower than budgeted housing provider subsidy recoveries; it being noted that it is recommended the 2015 surplus be contributed to the Affordable Housing Reserve Fund to support housing initiatives and future work with the HDC.</li> <li>• London &amp; Middlesex Housing Corporation (LMHC) was provided with \$8.6 million in 2015. LMHC has requested \$369 thousand more for 2015 due to required building maintenance and electricity cost pressures, and unbudgeted personnel matters partially offset by net revenue surpluses primarily related to additional rental revenue (funding request letter attached).</li> <li>• Long Term Care surplus of \$92 thousand a result of increased revenues in residential room fees and government funding partially offset by materials and supplies cost pressures, personnel costs and other net operational cost overruns.</li> <li>• Land Ambulance deficit of \$37 thousand a result of higher than budgeted costs related to the implementation of 24 hour service in Middlesex County in September 2015.</li> <li>• Middlesex-London Health Unit surplus of \$126 thousand a result of cost savings in Children In Need Of Treatment dental claims due to unbudgeted provincial funding changes (program funding revised to 100% provincial funding as of August 2015) and other net operational savings partially offset by personnel cost pressures.</li> <li>• Social and Community Support Services surplus of \$711 thousand a result of the following: <ul style="list-style-type: none"> <li>○ \$855 thousand surplus due to personnel savings partially offset by reduced Ontario Works (OW) provincial subsidy;</li> <li>○ \$322 thousand surplus due to additional subsidies for Discretionary Benefits and Employment Programs as well as Discretionary Benefits program savings, partially offset by higher than budgeted employment support costs and increased transportation subsidy paid to OW clients;</li> <li>○ \$494 thousand deficit in OW resulting from caseload and case cost pressures; and</li> <li>○ \$28 thousand surplus from other net operational savings.</li> </ul> </li> </ul>	
<b>TRANSPORTATION SERVICES</b>	(0.5)
<ul style="list-style-type: none"> <li>• Parking surplus of \$25 thousand a result of winter maintenance and snow removal savings realized in the final quarter of 2015, personnel savings and other net operational savings partially offset by decreased court fines and parking fines as well as lower than budgeted parking meter revenue.</li> <li>• London Transit Commission surplus of \$371 thousand a result of fuel cost savings, the allocation of annualized service increases versus actual in-year expenditures and personnel savings partially offset by less than budgeted ridership revenue, increased direct bus maintenance and service costs, reduced draws from reserves and other net operational cost overruns.</li> </ul>	

<b>SERVICE PROGRAM</b>	<b>\$ millions</b>
<ul style="list-style-type: none"> <li>• Roadways deficit of \$895 thousand a result of Snow Control cost pressures due to harsh winter conditions in the first quarter and personnel cost deficits partially offset by Traffic Control &amp; Street Lighting surplus due to traffic signal maintenance costs and electricity cost savings, Roadway Planning &amp; Design savings the result of unbudgeted capital recoveries from more in-house consulting work for various capital projects and other net operational saving.</li> </ul>	
<b>CORPORATE, OPERATIONAL, &amp; COUNCIL SERVICES</b>	<b>4.5</b>
<ul style="list-style-type: none"> <li>• Corporate Services surplus of \$3.0 million a result of personnel savings, favourable fuel costs in Fleet Services and other net operational savings partially offset by an unbudgeted contribution to the Information Technology Services (ITS) Reserve Fund; it being noted that it is recommended the 2015 ITS surplus of \$2.5 million be contributed to the ITS Reserve Fund to fund the ITS Backup Data Centre a key component of the Corporation wide Continuity and Disaster Recovery Plan; it being further noted that the \$2.5M contribution will advance this critical portion of the project from 2020 to either 2017 or 2018.</li> <li>• Corporate Planning and Administration Services surplus of \$320 thousand a result of personnel savings, recoveries from outside organizations for work done on governmental relations issues and other net operational savings.</li> <li>• Council Services surplus of \$265 thousand a result of personnel savings, Councillor expenses savings and other net operational savings.</li> <li>• Public Support Services surplus of \$966 thousand a result of personnel savings, higher than anticipated revenue in Taxation, Administration of Justice cost savings and other net operational savings.</li> </ul>	
<b>FINANCIAL MANAGEMENT</b>	<b>(2.6)</b>
<ul style="list-style-type: none"> <li>• Corporate Financing deficit of \$2.6 million a result of the following: <ul style="list-style-type: none"> <li>○ \$5.0 million deficit due to additional funding required for approved development charge incentive programs in the downtown and Old East Village (refer to emerging issue);</li> <li>○ \$3.6 million deficit due to draw from the Operating Budget Contingency Reserve that was not required;</li> <li>○ \$1.6 million deficit due to additional tax write-offs/allowances; it being noted that the tax write-off/allowance is the result of a Municipal Property Assessment Corporation assessment appeal on five multi-residential buildings which creates a permanent loss of revenue for the Municipality;</li> <li>○ \$1.1 million deficit due to lower than anticipated interest revenue resulting from unanticipated interest rate reductions announced by the Bank of Canada in 2015;</li> <li>○ \$3.4 million surplus due to contingency and personnel savings;</li> <li>○ \$3.3 million surplus a result of increased supplementary taxes resulting from property assessments conducted by MPAC; and</li> <li>○ \$2.0 million surplus due to higher than anticipated interest and penalties on taxes of \$1.6 million, and other net operational cost savings of \$400 thousand.</li> </ul> </li> </ul>	
<b>TOTAL YEAR-END POSITION</b>	<b>\$ 3.1</b>

\*subject to rounding

## Housekeeping Budget Transfers

As authorized by resolution of Council at the time of the adoption of the 2015 Operating 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 2015 Budget transfers that are considered "housekeeping" in nature, and do not impact the Corporate Net Operating Budget." (3n/9/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 2015:

- Adjustments to services to reflect the allocation of the approved 2015 assessment growth funding.
- Allocation of computer and telephone budgets from various service areas to Information Technology Services.
- Adjustments to reflect the City Manager's service area re-organization.
- Re-alignment of Financial Management from Corporate, Operational & Council Services to its own service program titled Financial Management; it being noted that the purpose of the re-alignment was to enhance the transparency of the City's financing activities as they related to all service areas within the City.
- Adjustment to the London Police Services to address budget related matters concerning policing services from the Financial Management service area.
- Adjustment to Land Ambulance to address budget related matters concerning the implementation of 24 hour Middlesex County service from the Financial Management service area.

## Emerging Issues

Several service areas have advised Civic Administration of program service delivery pressures that may impact the 2016 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. The following agreements have expired:
  - London Professional Fire Fighters' Association agreement expired on December 31, 2010; and
  - Dearness - agreements (two) with SEIU (RN) (20 employees) and SEIU (Clerical) (11 employees) expired on December 31, 2014.
- **Fire Services** – Workplace Safety and Insurance Board (WSIB), new presumptive legislation has been enacted that allows for several additional cancers to be automatically approved for WSIB claims. A significant WSIB cost pressure of \$1.1 million was incurred in 2015, and the pressure could grow to \$4 million in 2016 if the previously denied claims are approved. Furthermore, WSIB public safety unions are attempting to have the government recognize Post Traumatic Stress Disorder as a compensable claim. If the bill passes there could be far reaching financial implications which are extremely difficult to predict.



- **Waste Diversion**

- City staff have updated Committee/Council on potential impacts from proposed provincial legislation within Bill 151 regarding waste diversion services. Potential impacts include:
  - If passed by the Legislature, the Waste Free Ontario Act and accompanying draft Strategy will result in a range of changes on how waste will be handled in Ontario over many years. These changes and proposed direction have the potential to impact most aspects of London's residential waste management system (generally under the responsibility of Municipal Council). Most details of the proposed system are still unknown at this time.
  - The Waste Free Ontario Act proposes to move to Full Producer Responsibility system after 5 years (estimated) for materials that are designated for waste diversion. Municipalities would no longer be required to pay their portion for recycling systems. In addition, industry would be required to work out the operational details of waste diversion programs directly with municipalities. This may result in potential cost savings.
  - Other potential changes discussed in the government's proposed strategy that could have impacts on London include disposal bans, mandatory organics management, generator requirements, additional requirements for data reporting, tracking, promotion and education requirements. This may result in potential cost increases.
- Market prices for recyclables are expected to fluctuate in 2016 with a potential for lower prices in Q2 with a rebound later in the year.

- **Development Charges (DC) Incentive Reserve Funds** - The 2014 DC By-law included exemptions from development charges for institutional and commercial developments. Subsequently, two Community Improvement Plans were approved by Council to waive development charges for industrial development city wide and residential developments in the Downtown and Old East Village. All of these exemptions are funded from tax levy. For the 2015 budget, staff created budgets to support these exemptions based on the forecasted growth in the 2014 DC study. Staff have revised these budgets based on current Building Division growth forecasts for the commercial, industrial and institutional incentives. Commercial forecasted costs are exceeding expectations while industrial and institutional forecasted costs are lagging. However, anticipated annual unit growth in the Downtown and Old East Village from known applications is far exceeding originally forecasted demand. The increased residential growth projections for downtown and Old East Village resulted in a 2015 budget pressure of \$5.0 million. Furthermore, it is anticipated that approximately \$25 million in additional residential DC incentives will be realized between 2016 and 2020.

## **2015 WATER AND WASTEWATER & TREATMENT BUDGETS**

### **Water Budget**

The Water rate supported budget incurred a \$1.1 million deficit at year-end.

Water consumption is continuing to decrease due to a combination of continued water conservation efforts and wet and cool weather conditions during summer months, which has a negative impact on net billing volumes. However, the loss in consumption based revenues has been partially mitigated by anticipated surpluses in Water Infrastructure Connection, Fire Protection and Bulk Water sales.

Operational costs ended the year in a surplus position. This is primarily due to lower than anticipated water consumption as noted above, which results in lower purchase of water costs. However, the reduced costs do not directly correlate with the reduction in water consumption due to an above average number of broken watermains and frozen services, which result in water purchased but not billed. In addition to these savings, personnel savings and other net operational savings have been realized due to the delay in commissioning the Southeast Reservoir and Pumping Station. Partially offsetting these savings are deficits in purchased services and equipment costs due to the harsh winter weather conditions.

<b>Water Budget (\$ 000's)</b>			
	<b>2015 Revised Budget</b>	<b>Year-End Position</b>	<b>Year-End Savings/ (Deficit)</b>
<b>Revenues</b>	73,568	71,954	(1,614)
<b>Expenditures</b>	73,568	73,092	476
<b>Net Balance Surplus/(Deficit)</b>	-	(1,138)	(1,138)

### **Wastewater & Treatment Budget**

The Wastewater & Treatment budget incurred a \$0.6 million deficit at year-end.

Similar to the Water budget, Wastewater & Treatment is impacted by the continued decrease in water consumption and the bypassing of frozen services during winter months. These factors are resulting in significant shortfalls in wastewater usage charges. The loss in consumption based revenues (wastewater usage charges) have been partially mitigated by surplus revenues in Wastewater Infrastructure, Storm Drainage and High Strength Waste services, as well as personnel savings and other net operational savings.

<b>Wastewater &amp; Treatment Budget (\$ 000's)</b>			
	<b>2015 Revised Budget</b>	<b>Year-End Position</b>	<b>Year-End Savings/ (Deficit)</b>
<b>Revenues</b>	89,183	87,588	(1,595)
<b>Expenditures</b>	89,183	88,212	971
<b>Net Balance Surplus/(Deficit)</b>	-	(624)	(624)

### **Emerging Issues**

- Ongoing revenue pressures - Wet, cool weather conditions during the summer months, as well as a continued reduction in water consumption due to water conservation efforts will continue to exert pressure on water usage revenues. Even a small reduction in water usage as a result of this conservation trend has a significant impact on revenues and will be an ongoing challenge when trying to meet the needs of the system in future years. A 2% reduction to forecasted consumption was made for the 2015 budget, and a further 1% reduction is being proposed for the 2016 budget. Consumption continues to be reviewed in great detail to ensure forecasts are as accurate and realistic as possible.
- Costs Associated with Future Corporate Initiatives - The Downtown Master Plan and Rapid Transit are examples of corporate initiatives that have implications on the Water and Wastewater Service Areas. Other future initiatives that are anticipated include the Wastewater Optimization Strategy, the Pollution Prevention and Control Plan and Wastewater energy efficiency enhancements. Initiatives such as these may require future funding and it is critical to maintain financial flexibility in order to accommodate initiatives as they arise.

- Full Cost Accounting for the Utilities - Both the Water and Wastewater utilities are moving towards full-cost accounting, which involves charging the utilities the full cost of the services they receive from other corporate service areas. A review done in 2014 indicated that the charges to Water should be decreased by up to \$692k and charges to Wastewater should be increased by as much as \$950k in order to reflect the services provided to the utilities. A plan to incorporate a revision in these charges is being considered and may be implemented in future budgets.
- Future Energy Costs – Although additional energy efficiency projects are planned in the near future, energy costs may negatively affect future year budgets if prices continue to rise greater than what is forecasted.
- Regulatory Compliance - London meets or exceeds the Provincial and Federal requirements of its infrastructure and operations. Budget forecasts include the present requirements; however, our Regulators can impose changes, which are not in our 20 year cost forecasts. A recent announcement by the Province is a case in point. The Thames River Watershed has recently been identified for a 40% reduction in phosphorous loading to the Great Lakes. New Provincial legislation (Bill 66) is expected to give rise to policies and regulations on what, who, how and when the target is achieved. London Wastewater and Treatment rates may be impacted, the extent to which will be evaluated as more becomes known about London's role.

### **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 \$184.5 million (\$168.5 million in 2013). The liability is offset by reserve and reserve funds of \$71.1 million (2013 restated to \$67.2 million) for a net unfunded liability balance of \$113.4 million (2013 restated to \$101.3 million).

### **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. In 2015, the Corporation realized \$3,884,674 (\$3,053,067 – Property Tax Supported; \$444,826 – Water; and \$386,781 – Wastewater). In 2014, the Corporation realized \$2,904,601 (\$2,456,078 – Property Tax supported; \$124,005 – Water; and \$324,518 – Wastewater).

### **SUMMARY**

Civic Administration realized a \$3.1 million year-end surplus in the 2015 Property Tax Supported Budget. The major factors contributing to this position are higher than anticipated supplementary tax revenue, net contingency savings, personnel savings and lower than budgeted fuel costs partially offset by draw from the Operating Budget Contingency Reserve that was not required, higher than anticipated winter maintenance costs, lower than anticipated interest revenue, Garbage Recycling & Composting net revenue decrease, Ontario Works caseload and case cost pressures and London Middlesex Housing Corporation deficit.

The Water budget incurred a \$1.1 million deficit and balanced its budget by drawing down from the Water Capital Reserve Fund. The Wastewater & Treatment budget incurred a \$0.6 million deficit and balanced its budget by drawing down from the Wastewater Rate Stabilization Reserve and the Sewage Works Reserve Fund. These two budgets continue to experience shortfalls in consumption based revenue due to lower than expected water consumption patterns. In 2015, both Water, and Wastewater and Treatment were able to partially offset the deficits realized with expenditure savings across various operational cost categories.

<b>Prepared By:</b>	<b>Reviewed By:</b>
<b>David Bordin Manager of Accounting &amp; Reporting</b>	<b>Jason Senese Manager of Financial Planning &amp; Policy</b>
<b>Reviewed By:</b>	<b>Recommended By:</b>
<b>Larry Palarchio Director of Financial Planning &amp; Policy</b>	<b>Martin Hayward Managing Director, Corporate Services and City Treasurer, Chief Financial Officer</b>

APPENDIX A

2015 OPERATING BUDGET STATUS  
4th QUARTER REPORT  
(\$ 000) <sup>(1)</sup>

	2015 - 4th Quarter			
	COUNCIL APPROVED NET BUDGET	REVISED NET BUDGET <sup>(2)</sup>	YEAR END POSITIONS	YEAR END SURPLUS (DEFICIT)
<b>Cultural Services:</b>				
Centennial Hall	105	105	143	(38)
Arts, Culture & Heritage Advisory & Funding	2,253	2,185	2,177	8
Museum London	1,614	1,614	1,614	0
Eldon House	263	263	263	0
Heritage	145	172	167	5
London Public Library	19,114	19,128	19,128	0
<b>Total Cultural Services</b>	<b>23,494</b>	<b>23,467</b>	<b>23,492</b>	<b>(25)</b>
<b>Economic Prosperity:</b>				
Business Attraction & Retention	10,159	10,058	9,966	92
Community Improvement/BIA	195	195	182	13
London Convention Centre	569	580	580	0
Tourism London	1,892	1,896	1,896	0
Covent Garden Market	0	0	0	0
<b>Total Economic Prosperity</b>	<b>12,815</b>	<b>12,729</b>	<b>12,624</b>	<b>105</b>
<b>Environmental Services:</b>				
Kettle Creek Conservation Authority	412	412	412	0
Lower Thames Valley Conservation Authority	100	100	100	0
Upper Thames River Conservation Authority	2,886	2,886	2,886	0
Environmental Action Programs & Reporting	735	736	704	32
Garbage Recycling & Composting	13,529	15,909	16,120	(211)
<b>Total Environmental Services</b>	<b>17,662</b>	<b>20,043</b>	<b>20,222</b>	<b>(179)</b>
<b>Parks, Recreation &amp; Neighbourhood Services:</b>				
Neighbourhood & Recreation Services	18,806	18,978	18,544	434
Parks & Urban Forestry	11,542	11,762	11,755	7
<b>Total Parks, Recreation &amp; Neighbourhood Services</b>	<b>30,348</b>	<b>30,740</b>	<b>30,299</b>	<b>441</b>
<b>Planning &amp; Development Services:</b>				
Building Approvals	(1,151)	(1,124)	(702)	(422)
Planning Services	3,201	3,241	2,931	310
Development Services	3,751	3,796	2,981	815
<b>Total Planning &amp; Development Services</b>	<b>5,801</b>	<b>5,913</b>	<b>5,210</b>	<b>703</b>
<b>Protective Services:</b>				
Animal Services	1,539	1,540	1,655	(115)
By-Law Enforcement	1,182	1,202	911	291
Corporate Security & Emergency Management	1,341	1,609	1,644	(35)
Fire Services	55,667	55,649	55,649	0
London Police Services	93,166	94,837	94,837	0
<b>Total Protective Services</b>	<b>152,895</b>	<b>154,837</b>	<b>154,696</b>	<b>141</b>
<b>Social &amp; Health Services:</b>				
Social Housing	12,544	12,554	12,554	0
London & Middlesex Housing Corporation	8,541	8,569	8,938	(369)
Long Term Care	4,400	4,963	4,871	92
Land Ambulance	12,132	12,356	12,393	(37)
Middlesex London Health Unit	6,095	6,095	5,969	126
Social & Community Support Services	21,585	21,643	20,932	711
<b>Total Social &amp; Health Services</b>	<b>65,297</b>	<b>66,180</b>	<b>65,657</b>	<b>523</b>
<b>Transportation Services:</b>				
Parking	(3,240)	(3,225)	(3,250)	25
London Transit Commission	26,857	27,413	27,042	371
Roadways	36,407	37,270	38,165	(895)
<b>Total Transportation Services</b>	<b>60,024</b>	<b>61,458</b>	<b>61,957</b>	<b>(499)</b>
<b>Corporate, Operational &amp; Council Services:</b>				
Corporate Services	42,196	42,682	39,730	2,952
Corporate Planning & Administration	2,603	2,156	1,836	320
Council Services	3,250	3,253	2,988	265
Public Support Services	195	289	(677)	966
<b>Total Corporate, Operational &amp; Council Services</b>	<b>48,244</b>	<b>48,380</b>	<b>43,877</b>	<b>4,503</b>
<b>Financial Management:</b>				
Corporate Financing	94,736	93,404	96,044	(2,640)
<b>Total Financial Management</b>	<b>94,736</b>	<b>93,404</b>	<b>96,044</b>	<b>(2,640)</b>
<b>Assessment Growth <sup>(3)</sup></b>	<b>5,835</b>	<b>0</b>		
<b>Total Property Tax Requirements</b>	<b>517,151</b>	<b>517,151</b>	<b>514,078</b>	<b>3,073</b>

1) All figures are subject to rounding.

2) Includes housekeeping budget transfers. As authorized by Council's resolution at the time of the adoption of the 2015 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) Assessment Growth allocated per Council resolution (3/14/SPPC).



**London & Middlesex Housing Corporation**

**Société De Logement London & Middlesex**

February 25, 2016

Art Zuidema, City Manager  
City of London, City Managers  
Office 300 Dufferin Avenue  
PO BOX 5035  
London, ON, NGA 4L9

Re: LMHC Funding Request

Dear Mr. Zuidema,

As reported to the London & Middlesex Housing Corporation Board of Directors at the monthly Board meeting held on January 28, 2016, it is confirmed that London & Middlesex Housing Corporation has a 2015 operating deficit of \$369,450.

London & Middlesex Housing Corporation (LMHC) is requesting \$369,450 to balance the corporation's 2015 budget.

Fiscal 2015 saw an increased need for building repairs which LMHC funded through higher than anticipated rent revenues. An increased focus on vacancy management has allowed the Corporation to maximize rental revenues over prior years.

Despite the growth in rent revenue, increases in electricity and unbudgeted staff turnover costs have caused LMHC to see a deficit for 2015. LMHC has endeavored to mitigate the deficit through cost reduction in other spending categories and by initiating energy reduction programs. These programs will provide energy efficiencies throughout many of our buildings and thereby decrease energy consumption which will help to somewhat offset rate increases in future years, however in 2015 there were no other sources of funding available to the corporation to cover the deficit entirely.

I would like to thank you for your consideration in this matter.

Sincerely,

A handwritten signature in black ink, appearing to read "Gordon Saylor".

Gordon Saylor  
Board Chair,  
London & Middlesex Housing Corp.