

TO:	CHAIR AND MEMBERS FINANCE AND ADMINISTRATIVE SERVICES COMMITTEE MEETING ON SEPTEMBER 4, 2012
FROM:	MARTIN HAYWARD MANAGING DIRECTOR, CORPORATE SERVICES AND CITY TREASURER, CHIEF FINANCIAL OFFICER
SUBJECT:	2012 OPERATING BUDGET STATUS – SECOND QUARTER REPORT

RECOMMENDATION

1. That the 2012 Operating Budget Status – Second Quarter Report for the General Budget (Property Tax Supported refer to **Appendix A**), Drinking Water Supply Budget and Wastewater Removal and Storm Water Management Budget **BE RECEIVED** for information, it being noted that Civic Administration is projecting:
 - a) A \$1.8 million in savings for the General (Property Tax Supported) Budget, noting that the year end position could fluctuate significantly based on factors beyond the control of Civic Administration such as Ontario Works caseload and winter maintenance.
 - b) A \$0.6 million savings in the Drinking Water Supply Budget.
 - c) A \$0.2 million deficit in the Wastewater Removal and Storm Water Management Budget.
2. That Civic Administration **BE AUTHORIZED** to contribute to/draw down from the Operating Budget Contingency Reserve to balance year end operations of the Property Tax Supported Budget should the budget be in a surplus/deficit position.
3. That Civic Administration **BE AUTHORIZED** to contribute to the Unfunded Liability Reserve operational savings realized from personnel and contingency budgets at 2012 year end.
4. That Civic Administration **BE AUTHORIZED** to contribute to/draw down from the Water Capital Reserve Fund to balance year end operations of the Water Budget should the budget be in a surplus/deficit position.
5. That Civic Administration **BE AUTHORIZED** to contribute to/draw down from the Wastewater Rate Stabilization Reserve to balance year end operations of the Wastewater Budget should the budget be in a surplus/deficit position.
6. That Civic Administrations contribution of \$1,105,021 (\$914,348 – property tax supported; \$103,185 – wastewater; and \$87,488 – water) to the Efficiency, Effectiveness and Economy reserves in 2012 **BE RECEIVED** for information.

PREVIOUS REPORTS PERTINENT TO THIS MATTER

- 2011 Operating Budget Status – Fourth Quarter Report (March 26, 2012 meeting of Finance and Administrative Services Committee, Agenda Item 7)

BACKGROUND

The 2012 Operating Budget Status - Second Quarter Report provides a review and analysis of the general operating budget for the January 1st to June 30th, 2012 time period. **Appendix A** compares actual costs incurred as of June 30th, 2012 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.

2012 GENERAL (PROPERTY TAX SUPPORTED) BUDGET

Outlined in the table below is a comparison of net costs incurred as of June 30th, 2012 in comparison to costs incurred as of June 30th, 2011 for the property tax supported budget.

	Net Budget (\$ millions)	As at June 30 (\$ millions)	% Spent
2012	\$467.4	\$225.2	48.2%
2011	\$462.7	\$220.0	47.6%

As of June 30, 2012 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.

	\$ Millions
<ul style="list-style-type: none"> • Anticipated surplus in supplementary taxes based on prior year experience and billings to date. 	1.0
<ul style="list-style-type: none"> • Net savings in Housing resulting from reconciliations of prior year subsidies and higher rent revenue due to lower vacancy rates. The London & Middlesex Housing Corporation is also experiencing lower than anticipated expenditures. 	0.7
<ul style="list-style-type: none"> • Increase in subsidy for corporate overhead support for Ontario Works resulting from new funding model implemented in 2011 along with Ontario Works caseload savings based on lower than anticipated case costs and partially offset by slightly higher number of cases to date. 	0.3
<ul style="list-style-type: none"> • Savings anticipated in personnel and operations along with higher than anticipated revenue in Recycling, Long Term Care, Realty and Finance Services if trends experienced to date continue. These budgetary savings are partially offset by a reduced draw from the Operating Budget Contingency Reserve. 	0.3
<ul style="list-style-type: none"> • Lower than anticipated Building Permit revenue anticipated based on trends to date. 	(0.2)
<ul style="list-style-type: none"> • Projected deficit at Storybook Gardens resulting from a decline in summer attendance experienced to date. 	(0.3)
Projected Year End Position	<u>\$1.8</u>

2nd 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
<ul style="list-style-type: none"> Culture Program Services, including Museum London, Heritage and the London Public Library are anticipating a breakeven position at year end. 	
ECONOMIC PROSPERITY	(0.05)
<ul style="list-style-type: none"> Economic Development Services anticipates a \$0.05 million deficit resulting from the LEDC contract increase in July. 	
ENVIRONMENTAL SERVICES	0.20
<ul style="list-style-type: none"> Recycling and Composting Service experienced better than expected volume resulting in higher than anticipated recycling revenues. Higher than anticipated costs are being experienced in the Garbage, Collection, and Disposal Service related to higher external rental costs due to additional leachate haulage partially offset by higher quantity of tipping fees. Environmental Stewardship and the Conservation Authorities all have reported an anticipated breakeven position for 2012. 	
PARKS, RECREATION, & NEIGHBOURHOOD SERVICES	(0.23)
<ul style="list-style-type: none"> Neighbourhood & Recreation Services is anticipating a deficit of \$0.2 million attributable to: <ul style="list-style-type: none"> Storybook Gardens is projecting a \$0.3 million deficit resulting from declines in summer attendance revenue, annual pass sales and resultant declines in retails, concession and amusement rides. Minor savings are anticipated in Community Centres and Leisure & Recreational Programs \$0.07 million Golf is anticipating a breakeven position for 2012. Excellent spring weather provided a solid start to the 2012 season through to June. Despite the excellent spring, the summer months provide the majority of the golf revenue and a hot summer or wet fall can have a negative impact on the gains made in the spring. 	
PLANNING & DEVELOPMENT SERVICES	(0.13)
<ul style="list-style-type: none"> Building Control Services is anticipating a deficit of \$0.2 million primarily resulting from lower than anticipated building permit revenue. NOTE: A review of fees is underway with a proposed increase to Building Permit fees report to Council in November of 2012. A draw from the Building Permit Reserve may be required to offset the anticipated shortfall in revenue. Development Services anticipates savings of \$0.05 million resulting from personnel savings partially offset by user fee revenue trending lower than anticipated. 	
PROTECTIVE SERVICES	(0.07)
<ul style="list-style-type: none"> Fire Services anticipates 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 anticipates a break even position noting that they are closely monitoring their personnel costs as attrition to date has been lower than anticipated. By-Law Enforcement Services is anticipating a net deficit of \$27k primarily due to large property clean-up costs, and lower than anticipated by-law revenue partially offset by savings in personnel. Other Protective Services anticipates a net savings of \$20k by year end. 	

SERVICE PROGRAM	\$ millions
SOCIAL & HEALTH SERVICES	3.0
<ul style="list-style-type: none"> • Housing Services anticipates \$0.7 million in net savings due to lower than anticipated subsidy costs resulting from prior year's recoveries of providers fiscal budgets of \$0.3 million and net savings of \$0.35 million anticipated by the London & Middlesex Housing Corporation. • Long Term Care Services anticipates approximately \$0.5 million in additional Ministry of Health funding for one time projects, registered practical nurse enhanced funding and a higher than anticipated Case Mix Index. • Social and Community Support Services anticipates \$1.8 million in savings by year end based on the following: <ul style="list-style-type: none"> ○ \$0.6 million in personnel savings anticipated along with \$ 0.4 million in other administrative cost savings. ○ \$0.2 million in increased corporate overhead support subsidy for Ontario Works from the new funding model implemented in April 2011. ○ \$0.1 million in Ontario Works net caseload savings. ○ \$0.5 million in net savings from lower than anticipated discretionary benefits non-social assistance recipients' costs, and OW Child Care net costs which are partially offset by discretionary benefits new funding cap. 	
TRANSPORTATION SERVICES	0.26
<ul style="list-style-type: none"> • Parking Services anticipates a net \$0.06 million surplus from operational costs savings partially offset by lower than anticipated meter revenues. • London Transit anticipates a breakeven position despite unfavourable ridership revenue, insurance costs and municipal tax costs at Wonderland facility due to its assessed value. These higher costs are anticipated to be offset by favourable fuel costs due to price and snow removal costs. • Roadway Services anticipates a net \$0.2 million surplus at year end resulting from personnel cost savings if current trends continue. 	
CORPORATE, OPERATIONAL, & COUNCIL SERVICES	(1.2)
<ul style="list-style-type: none"> • Corporate Services anticipates net savings of \$0.1 million attributable to savings in personnel, savings in fleet (lower fuel, automotive supplies and service costs), and an increase in revenues in realty services based on experience to date. • Corporate Planning and Administration Services and Council Services anticipate a \$0.1 million in savings primarily due to personnel savings. • Financial Management; <ul style="list-style-type: none"> ○ \$0.4 million in savings is anticipated from personnel savings based on experience to date (net of vacancy management) along with lower than anticipated finance costs. ○ Higher than anticipated trend in supplementary tax revenue based on billings to date, \$1.0 million. ○ Higher than anticipated revenue from Western Fair slot machines, short term investments, and other corporate revenues. ○ Reduced requirement from the Operating Budget Contingency Reserve • Public Support Services anticipates \$0.06 million in savings by year end. <ul style="list-style-type: none"> ○ Revenue from fees in Taxation and Administration of Justice are trending higher than budget along with administrative and personnel costs. 	
TOTAL PROJECTED YEAR END POSITION	\$ 1.8

Housekeeping Budget Transfers

As authorized by resolution of Council at the time of the adoption of the 2012 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 2012 budget transfers that are considered "housekeeping" in nature, and do not impact the Corporate Net Operating Budget. (4v/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 2012 up to the end of the second quarter:

- Adjustments to reflect the recent corporate re-alignment, revised structure.
- Adjustments to services to reflect the net change in fringe benefit costs (OMERS rate increase), along with the allocation of the 2012 position management savings.
- "A list" budget reductions to Capital Costs and Contingencies from the appropriate Civic Areas.
- Creation of the Corporate Investments & Partnership Service area.
- Adjustments to Public Support Services, Customer Relations & Compliance and the Planning and Development Services Program related to corporate restructuring.
- Allocation of computer and telephone budgets from various areas to the Information Technology Division.

Emerging Issues

Several civic departments/boards and commissions have advised civic administration of program service delivery pressures that will likely impact 2012 expenditures/revenues and 2013 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.
- **Land Ambulance** – Land Ambulance has received their annual provincial funding envelope which represents a shortfall from budget required to cover the costs and service pressures being experienced to date. Civic Administration is uncertain at this time whether there will be any impact to the City of London budget until options for addressing the funding issue are reviewed.
- **Ontario Municipal Employees Retirement System (OMERS)** – On September 8, 2010, the OMERS Sponsors Corporation approved a three-year contribution rate increase beginning in 2011. Contribution rates for the employer and employee will increase on average as a percentage of a member's earnings as follows; 1% in 2011, 1% in 2012, and 0.9% in 2013. This announcement puts pressure on property tax supported budgets, water rate supported budgets, and wastewater & treatment rate supported budgets in 2013.
- **Ontario Works Caseload** – Ontario Works average caseload continues to increase. London's economic recovery is lagging other areas of the province. The City of London jobless rate reached 8.6% in July, compared to Canada's rate of 7.3%.
- **Dearness Home** - Recommendations are pending from the outside party review of Dearness Home operations.
- **Building Permit Revenue** – Activity levels are lower than expected due to the economic downturn. A review of Building Permit fees is being conducted and will be reported to Council in late 2012.

- **County of Middlesex** – A change in the historic cost apportionment arrangements for social housing and land ambulance is being advanced by Middlesex County. The potential financial impact is unknown at this time.

Civic Administration is taking steps to mitigate and accommodate these potential pressures within the approved 2012 budget and/or in the development of the 2013 budget.

2012 DRINKING WATER SUPPLY AND WASTEWATER REMOVAL & STORM WATER MANAGEMENT BUDGET

Drinking Water Supply Budget

As of June 30, 2012, the Water rate supported budget anticipates a \$0.6 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 1.06 million m³ (44.5 million m³ to 43.4 million m³) in consumption will occur in addition to the 2012 budgeted 1.0 million m³ reduction (45.5 million m³ to 44.5 million m³).

Offsetting the projected revenue loss are savings from the purchase of water, planned savings from personnel management 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.

Drinking Water Supply Budget (\$ 000's)					
	2012 Revised Budget	Actual as at June 30, 2012	Actual % Spend/ Realized	2 nd Quarter Projected Year End Position	Projected Year End Savings/ (Deficit)
Expenditures	59,677	28,891	48.4%	57,938	1,739
Revenues	(59,677)	(21,074)	35.3%	(58,534)	(1,143)
Net	-	7,817	N/A	596	596

Wastewater Removal & Storm Water Management Budget

The Wastewater Removal & Storm Water Management budget anticipates a \$0.2 million deficit by year end. A deficit is projected from reduced sanitary sewer system revenues based on decreased sanitary sewer billing volumes. Consistent with the Drinking Water Supply 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 sanitary sewer revenues and leachate disposal charges is higher than anticipated direct operational revenues from high strength waste charges. Lower than expected expenditures in operating supplies as a result of cost containment, efficiencies, other miscellaneous savings and savings from personnel management are expected to partially offset the reduction in consumption based revenues.

Wastewater Removal & Storm Water Management Budget (\$ 000's)					
	2012 Revised Budget	Actual as at June 30, 2012	Actual % Spend/ Realized	2 nd Quarter Projected Year End Position	Projected Year End Savings/ (Deficit)
Expenditures	75,501	27,839	36.9%	74,777	724
Revenues	(75,501)	(27,206)	36.0%	(74,559)	(942)
Net	-	(633)	N/A	(218)	(218)

Emerging Issues

- Ongoing issues with billed flow volumes will impact the revenue derived from these volumes (sanitary surcharge and water billings). The continued impacts of weather conditions, conservation efforts by end users and the economic downturn could result in reduced revenues over this year and possibly next year.
- Impact of lead mitigation activities to comply with anticipated corrosion control regulations (Ont. Reg.399/07 amending 170/03).
- Enhanced legislative requirements under the Safe Drinking Water Act and Clean Water Act.
- Final decisions in the electrical industry that will have impacts on the water meter reading and billing services currently contracted with London Hydro.
- It is anticipated that there will be a greater focus on inflow and infiltration and resulting bypasses and overflows for municipalities across Canada. This is likely to become a more significant and costly issue in years to come as a result of Canadian Council of Ministers of the Environment (CCME) guidelines.
- Impact of full cost accounting under the Sustainable Water and Sewage Systems Act, PSAB changes for tangible capital assets and Ontario Regulation 453/07 financial plans.
- If enacted, enhanced legislative requirements under the proposed Water Opportunities and Water Conservation Act, 2010.

2011 YEAR END UPDATES

2011 Year End Updates resulting from Year End Audits

After submitting the 2011 Operating Budget Status Report – Fourth Quarter Report to the Finance and Administrative Services Committee on March 26, 2012, London & Middlesex Housing Corporation and the Middlesex London Health Unit amended their year end positions based on audit.

The London & Middlesex Housing Corporation year end surplus increased by \$14,947 to \$339,539 and Middlesex London Health Unit year end surplus increased by \$127,475 to \$312,054. Consistent with Council resolution, these additional funds will be contributed to the Operating Budget Contingency Reserve.

Unfunded Liabilities

The City of London's Net Unfunded Liability (employee benefits payable, solid waste landfill closure and post closure liability) is \$98.4 million (\$98.0 million 2010). 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, 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 \$1,105,021 (\$914,348 – property tax supported; \$103,185 – wastewater; and \$87,488 – water) for the period of January 1, 2012 to June 30th, 2012. During the same period in 2011, the Corporation realized \$546,896 (\$493,727 – property tax supported; \$36,514 – wastewater; and \$16,655 – water).

SUMMARY

Civic Administration anticipates a favourable \$1.8 million year end position in the 2012 Property tax Supported budget if trends experienced to date continue. The major factors contributing to this projected position are additional revenues from Recycling, Long Term Care, Realty, Finance, Social Housing and Supplementary Taxes along with planned savings realized across the corporation mainly attributable to personnel savings. These savings have been partially offset by projected deficits in Storybook Gardens, and building permit revenue.

The Drinking Water Supply Budget anticipates a \$0.6 million surplus and the Wastewater Removal & Storm Water Management budget anticipates a \$0.2 million deficit. These two budgets continue to experience shortfalls in revenue due to lower than expected water consumption patterns.

Civic Administration will continue to monitor and review corporate financial projections and trends for the remainder of 2012.

Prepared By:	Reviewed By:
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Recommended By:	
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APPENDIX 'A'

2012 OPERATING BUDGET STATUS
2nd QUARTER REPORT - STATUS
(\$ 000) ⁽¹⁾

	2012				2nd QUARTER REPORT	
	COUNCIL APPROVED NET BUDGET	REVISED NET BUDGET ⁽²⁾	ACTUALS AS AT June 30, 2012	ACTUAL %	PROJECTED YEAR END POSITIONS	PROJECTED YEAR END SURPLUS/ (DEFICIT)
Culture:						
Cultural Services	3,769	3,777	2,511	66.5%	3,777	0
Heritage	87	88	42	47.7%	88	0
Libraries	18,045	18,045	10,528	58.3%	18,045	0
Total Culture	21,901	21,910	13,081	59.7%	21,910	0
Economic Prosperity:						
Economic Development	8,270	8,397	2,634	31.4%	8,442	(45)
Total Economic Prosperity	8,270	8,397	2,634	31.4%	8,442	(45)
Environmental Services:						
Conservation Authorities ⁽³⁾	2,986	2,986	1,865	62.5%	2,986	0
Environmental Stewardship	673	694	299	43.1%	694	0
Garbage Recycling & Composting	12,703	12,795	6,018	47.0%	12,595	200
Total Environmental Services	16,362	16,475	8,182	49.7%	16,275	200
Parks, Recreation & Neighbourhood Services:						
Neighbourhood & Recreation Services ⁽⁴⁾	15,555	15,709	19,358	123.2%	15,939	(230)
Parks & Urban Forestry	10,013	9,989	4,759	47.6%	9,989	0
Total Parks, Recreation & Neighbourhood Services	25,568	25,698	24,117	93.8%	25,928	(230)
Planning & Development Services:						
Building Controls ⁽⁵⁾	(1,389)	(1,353)	(1,467)	108.4%	(1,180)	(173)
City Planning & Research ⁽⁶⁾	2,531	2,534	1,303	51.4%	2,534	0
Development Services ⁽⁶⁾	3,372	3,084	1,431	46.4%	3,048	36
Total Planning & Development Services	4,514	4,265	1,267	29.7%	4,401	(136)
Protective Services:						
Animal Services	1,060	1,060	266	25.1%	1,060	0
By-Law Enforcement	689	1,293	244	18.9%	1,320	(27)
Emergency & Security Management	1,151	1,158	502	43.4%	1,138	20
Fire Services	52,681	52,463	21,513	41.0%	52,463	0
Police Services	88,052	88,042	44,054	50.0%	88,042	0
Total Protective Services	143,633	144,016	66,579	46.2%	144,023	(7)
Social & Health Services:						
Housing	20,539	20,547	11,227	54.6%	19,897	650
Long Term Care	4,159	4,258	993	23.3%	3,728	530
Primary Health Care Services	16,626	16,626	8,012	48.2%	16,626	0
Social & Community Support Services	29,842	29,914	20,598	68.9%	28,114	1,800
Total Social & Health Services	71,166	71,345	40,830	57.2%	68,365	2,980
Transportation Services:						
Parking	(2,707)	(2,759)	(1,558)	56.5%	(2,818)	59
Public Transit	24,306	24,306	14,584	60.0%	24,306	0
Roadways	32,077	32,190	14,072	43.7%	31,990	200
Total Transportation Services	53,676	53,737	27,098	50.4%	53,478	259
Corporate, Operational & Council Services:						
Corporate Services	43,487	42,857	19,001	44.3%	42,730	127
Corporate Planning & Administration	2,673	2,567	1,071	41.7%	2,537	30
Council Services	3,124	3,159	1,407	44.5%	3,074	85
Financial Management ⁽⁷⁾	72,292	72,883	19,568	26.8%	74,379	(1,496)
Public Support Services ⁽⁶⁾	686	43	319	741.9%	(12)	55
Total Corporate, Operational & Council Services	122,262	121,509	41,366	34.0%	122,708	(1,199)
Total Property Tax Requirements	467,352	467,352	225,154	48.2%	465,531	1,821

1) Subject to rounding.

2) Includes housekeeping budget transfers. As authorized by Council's resolution at the time of the adoption of the 2012 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 departments.

3) Kettle Creek Conservation Authority and Lower Thames Valley Conservation Authority have already received their 2012 appropriation.

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

5) Revenue realized to date exceeded prior year experience, however annual revenue is expected to be less than amount budgeted.

6) 2012 budget reduction resulted from PEES re-organization - Customer Relations & Compliance transfer to Development Services. Actual expenditures still to be transferred to City Planning and Research and Development Services.

7) Actual expenditure for the Financial Management Budget appears low as of June 30th since capital financing costs and contribution to reserves and reserve funds are not incurred until late October/ early November.