

**Report to
Rapport au:**

**Finance and Economic Development Committee
Comité des finances et du développement économique
1 September 2015 / 1 septembre 2015**

**and Council
et au Conseil
9 September 2015 / 9 septembre 2015**

**Submitted on August 24, 2015
Soumis le 24 août 2015**

**Submitted by
Soumis par:
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Ward: CITY WIDE / À L'ÉCHELLE DE LA VILLE File Number: ACS2015-CMR-FIN-0036

SUBJECT: 2015 OPERATING AND CAPITAL BUDGET Q2 STATUS REPORT

**OBJET: BUDGETS DE FONCTIONNEMENT ET DES IMMOBILISATIONS 2015 –
T2 - RAPPORT D'ÉTAPE**

REPORT RECOMMENDATIONS

That the Finance and Economic Development Committee recommend Council:

- 1. Receive the Q2 Status and Year-end forecast for information;**
- 2. That any deficit in the Constituency Services Budget be funded from the Council Administration account;**

3. **Approve the capital closures and adjustments as presented in Document 4, 5 and 6; and**
4. **Delegate the authority to the City Treasurer to amend capital budgets to accommodate any unforeseen issues arising from project closures and adjustments, as outlined in Documents 4, 5 and 6, in order to achieve the \$4.6 million returned to the City Wide Reserve Fund for 2015, as described in this report.**

RECOMMANDATIONS DU RAPPORT

Que le Comité des finances et du développement économique recommande au Conseil municipal :

1. **De prendre connaissance du rapport d'étape pour le 2^e trimestre et des prévisions pour la fin de l'exercice;**
2. **De financer tout déficit dans le budget alloué aux services de la circonscription à même le compte de l'administration du Conseil;**
3. **D'approuver les clôtures et ajustements de projets d'immobilisations présentés dans les documents 4, 5 et 6;**
4. **De déléguer à la trésorière municipale le pouvoir de modifier les budgets d'immobilisations en fonction de modifications imprévues aux clôtures et ajustements de projets d'immobilisations, comme le précisent les documents 4, 5 et 6, afin d'obtenir les montants à retourner au fonds de réserve de la Ville.**

BACKGROUND

Quarterly operating and capital status reports are prepared as part of the reporting framework approved by Council. Operating reports present actual year-to-date revenues and expenditures against the amounts previously budgeted for the corresponding period. Year-end forecasts are also presented in the second quarter report. Capital reports provide a listing of the capital projects / programs, the authorized expenditure budgets, along with the actual expenditures and commitments incurred to date.

The purpose of this report is to present the June 30 year-to-date operating and capital results for City Wide Tax Supported Programs and Rate Supported programs along with providing a year-end forecast. Results for boards and commissions are not included

with this report. Year-to-date results and a year-end forecast for services reporting to boards or commissions (Police Services, Library, Public Health and Transit operations) will be presented in separate reports to their respective governing bodies.

In view of the projected deficit in the City's tax supported programs, recommendations are proposed in this report that will return funds to the City Wide Reserve Fund which will be available to address the forecasted deficit.

Document 1 provides operating budget detail on year-to-date results and year end forecasts for the various Departments and Branches.

Document 2 provides a detailed listing of the capital project status.

Document 3 provides compensation information, showing the actual salary, benefit and the overtime costs incurred by departments and branches for the first six months versus the full year budget.

Document 4 provides a listing of capital projects that can be closed.

Document 5 provides a listing of capital budget reductions as submitted by departments based on current contract awards and spending forecasts.

Document 6 provides a listing of the corporate capital budget reductions to decrease expenditure authority and the funding from the City Wide Reserve Fund

Document 7 - provides a listing of the Capital Budget Adjustments submitted by departments and processed under delegated authority.

DISCUSSION

In preparing the June 30 Q2 Status Report, year-end forecasts are also presented to Committee and Council. This excludes services reporting to boards or commissions (Police Services, Library, Public Health and Transit operations).

As was reported in the Q1 Status report, the results of the first quarter indicated a deficit in both the tax supported and rate supported services. The majority of the tax supported shortfall was due to higher than budgeted expenditures on winter maintenance for the first part of the year. The shortfall in the rate supported area resulted from lower than budgeted water and sewer surcharge revenues and additional expenses related to the extensive cold weather and its effect on water services.

Since that report, a number of events have occurred that will impact the projected year end operating results. As outlined in the City Manager's memorandum to the Mayor

and Councillors on July 17, 2015 the arbitrated awards to CUPE 503 and CIPP for 2014 and 2015 will have an impact on the City's 2015 year-end financial results. The economic increases that were awarded through interest arbitration were higher than the budgetary provisions contained in the 2014 and the 2015 budgets. Based on the awards received to date, staff have identified an impact in 2015 of an additional requirement of \$9.88 M in compensation to be paid beyond what was provided for in the current budget and accrued for in 2014. These additional costs will be included in the 2016 draft budget.

In addition, the Ontario Government announced in 2014 that it will be expanding the current regulation to include six additional cancers presumed to be work-related for firefighters under the Workplace Safety and Insurance Act. They would be treated as work related unless the contrary can be shown. These new cancers are to be phased-in as follows:

- 2014: Multiple Myeloma, Testicular and Breast cancers
- 2015: Prostate cancer
- 2016: Lung cancer
- 2017: Skin cancer.

At the time of the announcement, the financial impact on the City was not known. Based on current available information, the additional WSIB costs are estimated to have a \$4.0 M impact in 2015. This additional requirement will be included in the 2016 draft budget estimates. It should be noted that the increased costs associated with the contract award and WSIB costs will be incurred in the second half of 2015 therefore these costs are not included in the June 30 results as shown in Table 1.

Based on the 2015 departmental forecasts including the items identified above, it is projected that the City will have a \$34.5M deficit in tax supported City services and a \$6.8M deficit in the water and sewer rate supported services. The projected deficit in the City's tax and rate supported services reflects cost savings to be achieved through the hiring freeze and the discretionary account spending freeze that was instituted in July. While these measures will generate savings, they will not offset the full impact of the projected deficit from the winter maintenance costs, the arbitrated contract awards or the projected increased WSIB costs.

To address any year-end deficit in the City services funded by property taxes, Council has available a number of reserve funds that can be utilized to provide the necessary offsetting funding.

- The City's Winter Maintenance Reserve has a projected year-end balance of \$4.2M. The by-law for this reserve states that it can be used to fund the cost overruns from above budget winter maintenance costs only if the City is not in an overall surplus position.
- The Tax Rate Stabilization Reserve has a projected uncommitted year-end balance of \$2.2M. The by-law for this reserve states that the funds can be utilized for the funding of operating deficits or other purposes as may be approved by Council.
- The City Wide Reserve Fund is also available to address any tax supported operating deficits or to receive surpluses. The uncommitted balance at year-end is projected to be \$11.4M.

As outline in the City Manager's July memorandum to the Mayor and Councillors, to provide the necessary funds to offset any potential year-end deficit, a second capital close and adjustment exercise has been undertaken to return funds to the various reserve funds. The objective is to provide additional capacity in the City Wide Reserve Fund to offset any remaining deficit without impacting the ability of staff to deliver the capital program as approved by Council.

As a result of this exercise, capital projects that are recommended to be closed will return \$1.5M to the City Wide Reserve Fund. The projects are listed in Document 4.

Staff have also reviewed existing project expenditure authorities to assess whether reductions can be made based on current contract awards and spending forecasts. As a result of this review, staff are recommending adjustments to projects that will return \$4.9M to the City Wide Reserve Fund. These projects and adjustments are listed in Document 5.

Staff are also recommending that projects funded with City Wide Capital Reserve Funds be subject to a 5% reduction in expenditure authority on the portion of the budget funded from this source, providing funds are still available for that purpose. Only rehabilitation projects have been included as the city-wide funded portion of growth related projects is relatively small and the funding split identified in the Development Charge Background study must be maintained. Term of Council strategic initiative projects have also been excluded from the proposed reduction along with projects that are being adjusted as per Document 5.

The 5% reduction results in \$4.6M being returned to the City Wide Reserve Fund. The

projects affected by this proposed reduction and the amounts are listed in Document 6. While staff are confident that this reduction can be easily managed, if circumstances change it is recommended that the City Treasurer be given the delegated authority to make expenditure and funding adjustments between projects that will still result in the required funds being returned to the City Wide Reserve Fund.

To address any projected year-end deficit in the rate supported water and sewer services, the Rate Supported Capital Reserve Fund can be utilized as a funding source. It is projected that \$20.0M will be available at year-end for this purpose. In addition, through the capital close and adjustment exercise discussed above, an additional \$6.6M will be returned to the Rate Supported Capital Reserve.

June 30 Year-To-Date Results / Year-end Forecast

The year-to-date budget figures are prepared on a “calendarized” basis. Departments allocate their 2015 budgets on a monthly / quarterly basis based primarily on past experience.

A high-level corporate summary of the year-to-date net operating results and net year-end forecast for each City department are summarized below in Table 1. A discussion on significant budget variances follows. Document 1 provides additional details on the departmental June 30 position and the year-end forecast.

In conjunction with reviewing their June 30 results and developing their year-end forecasts, including the impact of the staffing and discretionary spending freezes, departments have undertaken a review of all expenditure budgets to determine areas where meaningful reductions can be implemented without impacting on services and have included these in the forecast.

Table 1 - June 30 Operating Results / Year-end Forecast

	June 30 Net Surplus / (Deficit)	Forecasted Expenditures	Forecasted Revenues	Forecast Surplus / (Deficit)
Tax Supported				
Elected Officials	65	11,282	0	0
Office of the Auditor General	19	1,751	0	0
City Manager's Office	380	90,277	-9,911	0
City Operations	-14,323	1,431,983	-597,447	-33,187
Planning & Infrastructure	230	70,540	-46,485	0
Total City Services - Tax Supported	-13,629	1,605,833	-653,843	-33,187

Non Departmental - All Services	6,681	270,621	-1,188,085	-1,339
Total Tax Supported Programs	-6,948	1,876,454	-1,841,928	-34,526
Water	-3,457	159,999	-154,105	-5,894
Wastewater	-1,179	166,103	-165,189	-914
Total Rate Supported Programs	-4,635	326,102	-319,294	-6,808
Total Tax & Rate Supported Programs	-11,583	2,202,556	-2,161,222	-41,334

2015 Forecast - Tax Supported Services - \$34.526M deficit

1) Elected Officials – on budget

Although the year-end results are projected to be on budget, the economic increases that were awarded through interest arbitration were higher than the budgetary provisions contained in the 2015 Constituency Service budgets for each Councillor. These budgets provide each Councillor with the financial resources to support their legislative role and administer their offices to serve their constituents. As Members of Council are personally liable for overspending these budget accounts and City staff does not have the authority to determine how Members of Council are to absorb budgetary shortfalls, staff are recommending that any year-end shortfall attributable to the economic increase, be funded from the Council Administration budget.

2) City Operations - \$33.187M deficit

- Public Works - \$17.7M deficit

As reported in the Q1 Status report, the City Operations deficit is largely attributable to the projected deficit in the Roads and Traffic Management Division as a result of the increased cost in winter maintenance operations associated with the late winter storms and resulting clean-up, and higher than seasonable norms of snowfall. The October - December winter season results will determine the year end position of the winter maintenance accounts. The projection for 2015 for these 3 months has assumed that the amount provided in the budget for these months will be sufficient to meet a normal start to the winter season. Increased costs for arbitrated contract settlements and insurance claims are also contributing to the projected deficit.

- Fire Services - \$4.7M deficit

The deficit is attributable primarily to compensation savings not being achieved from staff turnover projections included in the budget along with additional WSIB costs associated with the inclusion of additional cancers being included as work related.

- Paramedic Services - \$4.9M deficit

The deficit is attributable primarily to compensation savings not being achieved from staff turnover projections included in the budget, arbitrated contract awards and additional costs for ambulance supplies due to higher call volumes.

- Bylaw Services - \$1.4M deficit

The deficit is attributable primarily to lower revenues from parking fines and from the additional costs associated with the arbitrated contract award.

- Parks and Recreation - \$2.0M deficit

The deficit is attributable mainly to sponsorship revenue targets not being achieved and to lower arena rental revenues due to shutdowns for maintenance activities.

- Solid Waste Services - \$0.6m deficit

A deficit is projected on recycling programs due to lower commodity prices for recycled materials. The garbage collection and landfill operation services funded from the fixed fee are projected to end the year with a \$1.9M surplus due to higher tipping fees recoveries resulting from more tonnage disposed at Trail Road. This surplus will be contributed to the Solid Waste Reserve Fund per Council policy.

- Housing Services – \$0.5M deficit

A \$0.5M deficit is projected due to increased demand for Emergency Shelters (Domiciliary Hostels, Community Shelters, Hotel and Motels). This shortfall will be funded from the Social Housing Reserve Fund.

- Social Services – \$1.2M deficit

Deficit is due mainly to the net costs associated with the Social Assistance Management System (SAMS) implementation.

- Child Care Services – On Budget

A \$2.2M surplus is projected due to lower utilization of subsidized child care resulting from the implementation of Full Day Kindergarten. As per Council policy, any surplus will be contributed at year-end to the Child Care Reserve Fund.

3) Planning & Infrastructure Services – On Budget

- Building Code Services - Ontario Building Code

A \$1.7M surplus is projected due mainly to the recognition of prior year inspection fees. Any year-end surplus will be contributed to the Building Code Reserve Fund.

4) Non Departmental Accounts - \$1.3M deficit

- Taxation related accounts - \$5.0M deficit

Supplementary taxation revenues are projected to be \$5.0M lower reflecting the slower rate of construction growth in the region.

- Unforeseen Provision - \$0.9M surplus

The unspent balance in this account is projected to be \$0.9M at year-end.

- Sales of Surplus Lands - \$1.0M surplus

Revenues, derived from the sale of surplus City lands, currently projected at \$1.0M, are not budgeted for on an annual basis since the amount of land available for sale will vary significantly from year to year.

- Rideau Carleton Raceway - \$0.5M deficit

Reduced revenues are forecast due to lower gaming revenues.

- Provincial Offences Act Revenues - \$0.8M deficit

Revenues are projected to be \$0.8M less than budget based on current ticket volumes and type of infractions.

- Hydro Ottawa Dividends \$2.2M surplus

Under the City's dividend policy, Hydro Ottawa is required to remit an annual dividend equal to the greater of \$14M or 40% of net income. The 2015 payment of \$18.2 million is \$2.2M higher than budget, reflective of higher earnings in 2014.

2015 Forecast - Rate Supported - \$6.8M deficit

Water Services are projecting a deficit of \$5.9M due to additional costs incurred as a result of frozen services this past winter along with lower water billing revenues associated with lower than budgeted consumption levels.

Sewer Services are projecting a deficit of \$0.9M due primarily to lower revenues from lower consumption. This is projected to be partially offset by lower operational costs associated with savings in repair and maintenance contracts due to the late spring start attributable to below normal winter weather conditions.

Q2 Compensation Results

Document 3 provides compensation information showing the actual salary / benefits and overtime costs incurred by departments for Q2 versus the full year budget. Total actual compensation costs up to June 30 were 52% of the full year 2015 compensation budget. Overtime was at 77% of the full year budget, reflective of the additional hours incurred in Public Works for winter maintenance activities, in Paramedics due to higher call volumes and in Water Operations in response to frozen water services.

Staffing – Retirements

City Council approved the following motion with respect to positions that become vacant due to retirement:

“That staff routinely analyze each position that will become vacant due to retirement, looking at the job description, compensation level and whether work could be consolidated with another position, and report to Committee on the results of such analysis on a quarterly basis.

Results in Q2 2015 indicate that 72 positions were vacated by active employee retirements. Of this total, 66 positions were planned for staffing with no change in job requirements, 1 position was deleted and 5 positions were referred to job evaluation. Currently 2 are still under review.

Open (vacant) positions - Two years

City Council approved the following motion with respect to positions that remain open (vacant) for two years:

“That should there be a substantive reason that the position remain open that a staff report be brought before the appropriate Standing Committee for their consideration

with a reason why the position is still needed and with a plan that will ensure that the position is filled.

During this quarter there were no positions to report to Committee and Council.

Unoccupied positions – Two years

Unoccupied positions are those where the owner of the position is either acting in another position or on a leave of absence, and the position is not backfilled. Unoccupied positions are not truly vacant as defined by the motion noted above and are therefore exempt from reporting, however management agreed to include these positions in quarterly reporting.

At the end of Q2 2015, there were 5 positions unoccupied for more than two years.

Provision for Unforeseen and One Time Expenditures

The 2015 budget contained a provision of \$2.8 million to address expenditures of a one-time nature and unforeseen expenditures that may occur during the year. Through the 2015 budget process, Council approved spending of \$1.611 million against this provision. In addition, a total of \$300,000 was approved by Council for the Community Emergency Fund for Day Programs (\$50,000) and for the Innovation Centre at Bayview Yards (\$250,000).

As of June 30, the remaining uncommitted balance in the provision is \$889,000.

Budget Adjustments and Transfers

A summary of the budget adjustments and transfers made in the second quarter of 2015, either through the delegated authority given to the City Treasurer or through Council-approved reports is presented in Table 2.

Adjustments between departments were made to reflect administrative changes and to realign program costs and revenues. These adjustments do not result in any increase or decrease to the total corporate expenditure or revenue budgets.

Table 2 - Intra-departmental Budget Adjustments & Transfers

Nature of Budget Adjustment	Amount (\$ Millions)
Transfer 1 FTE from Traffic Services to Fleet Services as a result of moving the General Stores responsibility from Traffic to Fleet.	0.702
Transfer funds from Strategic Community Initiatives Branch to Crime Prevention for the Ottawa Gang Strategy approved by Council.	0.300

Capital Projects / Programs

Document 2 provides a list of City tax and rate supported capital projects. The list identifies the lead department, ward, financial status (approved budget versus actual results) and anticipated completion date. The total for capital works in progress is \$6.529 billion, of which \$1.684 billion is uncommitted to date. Separate Q2 reports for the Police, Library and Public Health Boards and Transit Commission will provide a status on projects that are under their respective mandates.

RURAL IMPLICATIONS

There are no rural implications associated with this report.

CONSULTATION

Not applicable.

COMMENTS BY THE WARD COUNCILLOR(S)

Not applicable.

ADVISORY COMMITTEE(S) COMMENTS

This section contains any comments or recommendations made by one or more Advisory Committees relating to this report.

LEGAL IMPLICATIONS

There are no legal impediments to approving the recommendations in this report.

RISK MANAGEMENT IMPLICATIONS

There are no risk impediments to implementing the recommendations in this report.

FINANCIAL IMPLICATIONS

As outlined in the report.

Table 3 - Amounts Returned to Source / (Funding Required)

Tax & Rate Financial Implications	Document 4 Closures	Document 5 Departmental Adjustments	Document 6 Corporate Reductions	Total
Tax/ Other Reserves				
City Wide Capital	1,526,568	4,902,689	4,568,151	10,997,408
Housing	63,018	0	0	63,018
Provincial Gas Tax	237,900	0	0	237,900
Solid Waste Compensation	27,144	407,126	0	434,270
Solid Waste Rate	350,886	660,000	0	1,010,886
Transit Capital	60,438	1,302,000	0	1,362,438
Total Tax/ Other Reserves	2,265,954	7,271,815	4,568,151	14,105,920
Rate Reserves				
Water Capital	1,065,703	528,700	0	1,594,403
Sewer Capital	4,483,504	472,877	0	4,956,381
Total Rate Reserves	5,549,207	1,001,577	0	6,550,784
Develop. Charges	1,448,839	-7,225,877	0	-5,777,038
Debt				
Tax Funded Debt	108,000	184,000	0	292,000
Transit Debt	50,000	0	0	50,000
Sewer Funded Debt	0	9,088,000	0	9,088,000
Water Funded Debt	143,000		0	143,000
Development Charge Debt	83,000	-270,000	0	-187,000
Total Debt	384,000	9,002,000	0	9,386,000
Grand Total	9,648,000	10,049,515	4,568,151	24,265,666

ACCESSIBILITY IMPACTS

There are no accessibility impact implications with this report.

ENVIRONMENTAL IMPLICATIONS

There are no environmental implications associated with this report.

TERM OF COUNCIL PRIORITIES

The recommendations in this report support the 2015-18 Term of Council priorities (FS1 “Demonstrate sound financial management”).

SUPPORTING DOCUMENTATION

Document 1 - Operating Results Summary June 30, 2015

Document 2 – Capital Works in Progress

Document 3 – 2015 Q2 Compensation Summary

Document 4 – Capital Projects Recommended for Closure

Document 5 – Departmental Capital Budget Adjustments Requiring Council Approval

Document 6 – Corporate Capital Budget Reductions Requiring Council Approval

Document 7 - Capital Budget Adjustments processed under Delegated Authority

DISPOSITION

Upon approval of this report, Financial Services will process the necessary adjustments.