

March 2011 Projected Year-End Financial Results - Operating

Recommendation:

That the May 18, 2011, Finance and Treasury Department report 2011CF1773 be received for information.

Report Summary

This report outlines the March 2011 year-to-date financial results and operating projections to year-end for tax supported, enterprise, and utility operations. A quarterly update has also been introduced with respect to debt and debt servicing.

Report

This report presents the first quarter financial performance reporting for 2011. Year-to-date results, variance from budget, projected operating results to year-end and a debt update have been provided. The projections are based on the results of the first quarter combined with any additional information available. Projections may continue to change in future reporting periods as new information emerges.

Tax-Supported Operations

As of March 31, 2011, tax-supported operations are projecting a net unfavourable variance of \$30.7 million or 1.7 percent of the overall expenditure budget resulting from the following:

- \$30 million increased Transportation Systems expenses arising from more than expected snowfall year-to-date and therefore a related increase in snow removal efforts

- \$3 million decrease in traffic safety revenues due to a delay in the extent of the "Speed on Green" component of the automated traffic safety enforcement program. The projections were based on the program restart in April. (Refer also to the Potential Impacts to be Monitored section later in this report.)
- \$2.5 million increase in transit expenses due to rising maintenance and fuel costs
- \$1 million decrease in Corporate revenues due to lower than anticipated dividends of \$0.7 million from Sanitary Drainage and 0.3 million from Land Enterprise, as a result of lower 2010 earnings
- \$0.6 million decrease in community service revenues due to construction impacts, less than anticipated admission/sales, and temporary facility closures for maintenance
- \$0.5 million increase in corporate property expenses. An insurance claim is being made which may offset this variance
- \$7.1 million decrease in Capital Project Financing debt service expenses due to lower than expected interest rates on new 2011 debt and deferrals of borrowing arising from 2010 delays in capital expenditures
- Other minor variances account for the \$0.2 million remainder of the projected unfavourable variance

The majority of the projected 2011 variance is considered to be one-time in nature. Administration will seek to apply any one-time financial opportunities as the year progresses to mitigate the unfavourable projection without impacting service. Ultimately the

Financial Stabilization Reserve may be required to manage the year end position.

Projections reflect taxation growth and use of education tax room for 2011, as approved by City Council on April 6, 2011. The corresponding increase in taxation revenues of \$16.6 million is directed to cover any costs of Provincial Fees related to Motor Vehicle Searches, with the balance to support capital projects (Capital Project Financing); therefore resulting in no net impact on the tax-supported operations. Adjustments to the budget will be made in the second quarter.

Police services variance reporting for March 2011 will be discussed at the Edmonton Police Commission meeting on May 18, 2011. Projections were not available for this report.

Year-to-date results and the projected year-end position for tax levy operations are outlined in Attachment 1.

Potential Impacts to be Monitored

- All in-scope employee contracts expired December 18, 2010.
- Transportation Systems expenses related to spring clean up and road maintenance may exceed budget due to unexpected winter conditions year-to-date.
- Rising fuel costs will increase the negative impact to tax-supported operations, with the most significant user being transit. Administration continues to stress programs to manage fuel efficiency.
- The restarting of the "Speed on Green" traffic safety enforcement program will occur after the projected restart date of April, therefore the

traffic safety projections outlined in Attachment 1 will likely be further negatively impacted. The traffic safety revenue was budgeted to fully fund traffic safety operating and capital expenditures in 2011.

Enterprise and Utility Operations

Fleet Services is projecting an increase of \$6 million in fuel costs. This variance is expected to be offset with an equal recovery from fleet client areas, with a net projection to be on budget at year end. The impact to tax-supported operations is being reviewed and has not been fully recognized in the first quarter projections.

Drainage Services (Sanitary and Land Drainage) is projecting an unfavourable variance of \$(0.4) million at year end due to lower average monthly consumption and an increase in amortization expense from a larger number of projects being put into service in 2010 than expected.

Waste Management and Land

Enterprise activities are favourable year-to-date, while Design and Construction activities are unfavourable year-to-date, but all are projecting to be on budget at year end.

Year-to-date results and the projected year end position for enterprise and utility operations are outlined in Attachment 2.

Debt

This report introduces quarterly reporting of borrowing, as well as debt and debt servicing costs. Debt levels and debt limit information are outlined in Attachment 3.

Debt has been used strategically to move priority capital projects ahead and to take advantage of low interest rates. Although debt levels are increasing, the debt servicing costs remain well within both the *Municipal Government Act* and City policy limits.

Debt Level:

To date in 2011, a total of \$26 million has been borrowed; all of it being tax-supported. An additional \$373 million debt is anticipated to be borrowed by the end of the year. Of this projected 2011 borrowing, \$290 million is for tax-supported debt, including \$70 million in short term borrowing, and \$83 million relates to self liquidating debt.

Debt Limits:

The *Municipal Government Act* and related regulations establish limits for municipal debt levels and annual debt servicing costs.

- Based on borrowing to March 31, 2011, the City has \$1,790.4 million in net debt and has reached 48.7 percent of the debt limit. Of this balance, \$1,172.4 million is tax-supported debt, including \$60 million in short term borrowing, and \$618 million relates to self liquidating debt.
- Including borrowing projections to the end of the year result in the City reaching 58.9 percent of the debt limit and 25.2 percent of the maximum debt service limit, with total debt of \$2,163.4 million.
- Including all committed debt in approved capital budgets for 2011 and beyond, results in an estimated \$3,260.5 million in debt reaching an estimated 84.5 percent of the debt

limit. This assumes full borrowing against the existing short-term borrowing authority of \$765.6 million. Actual short-term borrowing will depend on the timing of capital project expenditures compared to the cash flows of grant funding. \$60 million of short-term borrowing has been made to date.

The internal *Debt Management Fiscal Policy (C203C)* sets more conservative debt service limits than those established in the *Municipal Government Act*, with limits for all City operations and tax-supported operations. Debt servicing for 2011 is expected to reach 40.2 percent of the debt service limit for all borrowing and 42.6 percent of the limit for tax-supported operations.

Policy

Finance and Treasury Department report 2011CF2050 meets the reporting requirements outlined in the *Municipal Government Act*.

Corporate Outcomes

This report concentrates on the corporate goal of ensuring Edmonton's financial sustainability by contributing to the following corporate outcomes:

- The City has well managed and sustainable assets and services
- The City has a resilient financial position
- The City has balanced revenue streams that are sustainable

Attachments

1. Tax-Supported Operations – March 2011 Financial Results and Projections

2. Enterprise and Utility Operations –
March 2011 Financial Results and
Projections
3. Debt Update – 2011 Quarter 1

Tax-Supported Operations – March 2011 Financial Results and Projections

	Year-to-Date			Projected Year-End		
	Budget	Results	Variance %	Budget	Results	Variance %
(in \$000's)	\$			\$		
Asset Mgmt. & Public Works						
Corporate Properties	9,425	8,909	516	50,786	51,286	(500)
Parks	8,263	8,045	218	46,099	46,099	-
Capital Construction	2,314	1,724	590	3,843	3,843	-
Community Services						
Fire Rescue	37,062	36,796	266	155,404	155,386	18
Community Facility Services	8,721	7,773	948	30,774	31,371	(597)
Neigh. & Community Dev.	8,531	8,221	310	36,509	36,536	(27)
Corporate Services	24,759	25,177	(418)	90,779	90,779	-
Finance & Treasury	4,366	5,181	(815)	18,087	18,197	(110)
Mayor and Council						
Mayor and Councillor Offices	1,154	989	165	4,637	4,637	-
Office of the City Auditor	521	514	7	2,042	2,042	-
Office of the City Manager	2,573	2,038	535	10,265	10,265	-
Office of the Deputy City Manager *	-	627	(627)	-	-	-
Planning & Development						
Current Planning	1,207	1,239	(32)	-	-	-
Planning, Policy & Other	700	(159)	859	13,251	13,251	-
Assessment & Taxation	4,609	4,470	139	18,780	18,780	-
Housing	1,758	1,439	319	7,348	7,348	-
Police Services	59,628	58,609	1,019	242,292	242,292	-
Transportation						
Transportation Systems	41,695	69,952	(28,257)	134,478	164,478	(30,000)
Public Transit	35,579	35,794	(215)	157,736	160,236	(2,500)
Authorities & Boards	25,950	25,942	8	67,925	67,925	-
Net Department Programs	278,815	303,280	(24,465)	1,091,035	1,124,751	(33,716)
Corporate Programs						
Capital Project Financing	32,891	19,179	13,712	173,345	182,786	(9,441)
Corporate Expenditures	8,734	3,865	4,869	34,878	34,947	(69)
Corporate Revenues	(90,546)	(83,297)	(7,249)	(354,656)	(353,649)	(1,007)
Traffic Safety (Photo Radar)	(4,225)	(1,844)	(2,381)	(12,700)	(9,700)	(3,000)
Taxation Expenditures	1,625	605	1,020	3,700	3,700	-
Taxation Revenues	-	(1,574)	1,574	(935,602)	(952,159)	16,557
Net Corporate Programs	(51,521)	(63,066)	11,545	(1,091,035)	(1,094,075)	3,040
Net Tax Levy Results	227,294	240,214	(12,920)	-	30,676	(30,676)

* The Office of the DCM was integrated into various other City departments. The remaining actual results balance has yet to be distributed as of March 31, 2011.

Enterprise and Utility Operations – March 2011 Financial Results and Projections

(in \$000's)	Year-to-Date			Projected Year-end				
	Budget	Results	Variance \$	%	Budget	Results	Variance \$	%
<u>Fleet Services</u>								
Revenue	2,642	2,412	(230)	(8.7)	12,839	12,839	-	-
Recoveries	32,333	38,260	5,927	18.3	136,912	142,912	6,000	4.4
Expenses	37,278	40,378	(3,100)	(8.3)	149,854	155,854	(6,000)	(4.0)
Net Income (loss)	(2,303)	294	2,597	(112.8)	(103)	(103)	-	-
<u>Waste Management</u>								
Revenue	29,839	30,436	597	2.0	144,033	144,033	-	-
Expenses	26,460	26,295	165	0.6	144,033	144,033	-	-
Net Income	3,379	4,141	762	-	-	-	-	-
<u>Land Enterprise</u>								
Revenue	3,320	4,549	1,229	37.0	32,239	32,239	-	-
Expenses	2,744	2,173	571	20.8	23,250	23,250	-	-
Net Income	576	2,376	1,800	312.5	8,989	8,989	-	-
<u>Drainage Services</u>								
Revenue	24,709	24,511	(198)	(0.8)	104,940	104,940	-	-
Expenses	21,094	18,961	2,133	10.1	89,997	90,373	(376)	(0.4)
Net Income	3,615	5,550	1,935	53.5	14,943	14,567	(376)	(2.5)
<u>Design and Construction</u>								
Revenue	2,784	1,894	(890)	(32.0)	11,136	11,136	-	-
Recoveries	32,701	22,000	(10,701)	(32.7)	135,913	135,913	-	-
Expenses	34,443	24,981	9,462	27.5	143,138	143,138	-	-
Net Income (loss)	1,042	(1,087)	(2,129)	(204.3)	3,911	3,911	-	-

Debt Update – 2011 Quarter 1 (in \$000's)

Borrowing 2011			
	Tax-Supported	Self-Liquidating	Total
March 15, 2011	\$26,000	\$0	\$26,000
Debt			
	Borrowing to March 31, 2011 (with repayments projected to December 31, 2011)	Anticipated borrowing for remainder of 2011	Projected Debt - December 31, 2011
			Committed Debt Beyond 2011
			Total Debt Projected & Committed
Tax-supported			
Long-term	\$1,112,351	\$220,095	\$1,332,446
Short-term (Note 1)	60,000	70,000	130,000
	1,172,351	290,095	1,462,446
Self-liquidating (net of EPCOR & Sinking fund)	618,029	82,883	700,912
Total Debt (net)	\$1,790,380	\$372,978	\$2,163,358
Debt Limit (Note 2)	\$3,673,502		\$3,673,502
% used	48.7%		58.9%
% available	51.3%		41.1%
Notes:			
1) Short-term debt is intended to manage the timing of expenditures around grant cash flows. Principal repayments will be covered by grant funding received in the future.			
2) 2011 debt limits based on revenue from December 31, 2010 consolidated financial statements. Debt limit for total debt projected and committed includes an estimated 5% revenue increase.			
Debt Servicing 2011			
	MGA (35%)	DMFP - Total Debt (22%)	DMFP - Tax-Supported Debt (15%)
Debt Service Limit 2011	\$642,863	\$404,085	\$228,336
Debt Service Cost (projected)	\$162,242	\$162,242	\$97,342
% used	25.2%	40.2%	42.6%
% available	74.8%	59.8%	57.4%