



City of Richmond

Report to Committee

To: Finance Committee
From: Andrew Nazareth
Acting General Manager Finance and
Corporate Services
Date: January 11, 2006
File: 03-0970-20-01/2006-Vol
01
Re: **2006 Operating Budget (incl. Additional Levels)**

Staff Recommendation

That the 2006 Operating Budget report (incl. Additional levels) be approved as the basis for preparation of the 5 Year Financial Plan (2006-2010).

Andrew Nazareth
Acting General Manager
Finance and Corporate Services
(4365)

FOR ORIGINATING DIVISION USE ONLY		
CONCURRENCE OF GENERAL MANAGER (Acting) 		
REVIEWED BY TAG	YES <input checked="" type="checkbox"/>	NO <input type="checkbox"/>
REVIEWED BY CAO	YES 	NO <input type="checkbox"/>

Staff Report

Origin

The 2006 Operating Budget (the Budget) is required to be approved in order to prepare the Five Year Financial Plan (5YFP). Subsection 165(1) of The Community Charter requires the City to adopt a 5YFP Bylaw before May 15th of each year.

Analysis

The City's annual Operating Budget cycle begins in May when service levels are established and budget guidelines are set.

On July 29, 2005 the Finance Department conducted the budget rollout and subsequently accounting systems were opened to all departments for their budget input. The input was completed on September 2, 2005 and the departmental budgets were then formally presented to the Finance department by each corresponding department. After the Finance department's review, the budget was then reviewed and discussed by TAG along with the additional level submissions listed in Appendix A.

Base Budget - maintaining existing levels of service

The base budget has been calculated on the basis that the same programs and levels of service will continue to be provided to the tax payer in 2006. The budget is directly affected by the market and projected cost increases to labour, materials, equipment, contracts, fuel, gas and hydro and offset by expected increased revenues from growth and user fees.

Assumptions

The following assumptions have been used in preparation of the Budget based upon the information available at the time of preparation.

General Assumptions

Consumer Price Index*	2.00%
USD Exchange*	1.23

Specific Assumptions

RCMP Contract	4.80%
ECOMM	13.50%
Fuel	30.00%
Return on Investment	3.50%
Gas	10.00%
Hydro	5.00%
Materials	6.00%
Tax Growth (net)	2.00%

Salaries

Fire Rescue**	1.95%
Civic Staff***	2.25%
Library Staff	2.25%

* Information obtained from Province of BC Economic Report

** Salary increase of 2.6% effective April 1, 2006 has been annualized

*** Increase of 3% effective April 1, 2006 has been annualized.

Salary increases are non-discretionary.

Highlights:

	Change	Tax Impact
Expenditures:		
Salaries	\$1,900,300	1.65%
RCMP Contract	1,049,000	0.91%
Fleet (gas, maint., insurance)	452,500	0.39%
ECOMM (RCMP and Fire)	402,400	0.35%
Fire Rescue salaries	292,900	0.25%
Richmond Public Library	227,000	0.20%
Materials & Supplies	209,800	0.18%
Utilities gas/hydro	133,700	0.12%
Maintenance	97,000	0.08%
Municipal Exp (tax on ppty)	87,100	0.08%
RCMP Municipal salaries	65,900	0.06%
Revenues:		
RAVCO Funding	\$350,000	(0.30%)
Building, Plumbing permits	256,000	(0.22%)
Grants in lieu	205,000	(0.18%)
Community Facility revenue	201,400	(0.18%)
Traffic Fine Revenue Sharing	186,000	(0.16%)
Development Permits	106,000	(0.09%)
Taxes (int. on delinquent)	(110,000)	0.10%

Expenditures

- Salaries - increase of \$1,900,300 due to standard increases previously negotiated.
- RCMP contract –increase of \$1,049,000 based on maintaining a complement of 191 officers.
- Fleet – increase of \$452,500 due mainly to increases in supplies, gasoline rates and insurance.
- ECOMM - increase in contract costs of \$402,400 for both Fire Rescue and RCMP.
- Fire salaries - increase of \$292,900 due to standard increases previously negotiated.
- Richmond Public Library – increase of \$227,000 due mainly to salaries and benefits.

- Materials and supplies - increase of \$209,800 due mainly to increases in equipment and supplies.
- Utilities - due to increases in utility charges.
- Maintenance – due to increases in parks maintenance costs.
- Municipal Expenditures- increase in taxes on City properties not exempt from tax (non City portion).
- RCMP Municipal Salaries – increases for RCMP Municipal employees salaries.

Revenues

- RAVCO Funding - for work on the Canada line as part of the previously negotiated agreement.
- Building and Plumbing permits - increase of \$256,000 due to demand.
- Grants in lieu – decreases offset by increase of \$300,000 from YVR.
- Community Facilities - increase in revenues of \$201,400 due to an increase in fees and an expected increase in usage of arenas and aquatic centres.
- Traffic Fine revenue sharing- estimated increase of \$186,000.
- Development Permits- increase of \$106,000 due to demand.
- Taxes (interest on delinquent) – interest penalty decrease as amount of outstanding taxes has decreased.

Base Budget Summary

	2005 Adjusted Budget Bylaw	2006 Budget Draft	Change (\$)	Tax Impact
Comm. Safety(Fire & RCMP)	\$49,097,600	\$50,970,100	\$1,872,500	1.63%
Parks, Rec.& Cultural	28,328,200	29,548,600	1,220,400	1.06%
Engineering & Public Works	17,923,875	18,644,100	720,225	0.63%
Finance & Corporate	10,311,200	10,559,500	248,300	0.22%
Urban Development	3,966,925	3,863,300	(103,625)	(0.09%)
Human Resources	2,183,300	2,220,500	37,200	0.03%
Corporate Administration	2,745,100	2,785,200	40,100	0.03%
Fiscal	(135,448,200)	(134,387,100)	1,061,100	0.92%
Transfer to Reserve	20,892,000	20,405,000	(487,000)	(0.42%)
Balance	-	4,609,200	4,609,200	4.01%
		Add Tax Growth (2.00%)	(2,296,582)	(2.00%)
		Net Tax Increase	\$ 2,312,618	2.01%

The 2006 Budget results in an overall increase of \$2,312,618 from the 2005 Budget or tax impact of 2.01%. Excluding growth, the City increase is 2.38%. Community Safety increase totals 1.63% comprised of 1.16% for RCMP and .47% for Fire Rescue. Tax Growth (net) - estimated to be 2.00% or \$2,296,582. The 2.00% growth increase is based on the most recent information from the BC Assessment Authority and may be subject to revision.

	Change	Tax Impact
City	\$2,736,700	2.38%
RCMP	1,331,800	1.16%
Fire	540,700	0.47%
	<hr/>	
	4,609,200	4.01%
Net Growth	(2,296,582)	(2.00%)
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	\$2,312,618	2.01%

Note: The City’s increase may appear disproportionate to the rest, however, this is a direct result of its size and scope as it contains all the various non-Community Safety services and programs. The City’s increase also includes the operating impact from the approved 2006 Capital Plan which is \$299,588 or 0.26% tax impact.

The base budget increase of 2.01% represents the minimum required to maintain existing programs and service levels and is consistent with CPI and the LTFMS. The LTFMS also detailed the need to include an annual contribution of 1.00% towards the build-up of an infrastructure replacement reserve. Since adoption of the LTFMS, this annual amount has not been consistently applied. As a result, the City is not keeping pace with its funding requirements for future infrastructure replacement. It is imperative that the 1.00% contribution to reserves be included in the 2006 budget and future operating budgets.

The ongoing Additional Levels represent new programs, program enhancements and/or increases in the level of service from the prior year. TAG had initially reviewed the additional levels and presented them in priority order for Council’s consideration. Subsequently, TAG reviewed them again and are now making specific recommendations. Please refer to the section titled ‘Additional Levels’.

Alternatives

TAG has assembled five possible alternatives presented here for Council’s consideration:

Alternatives→	#1	#2	#3	#4	#5
Base Budget increase	\$2,312,618	\$2,312,618	\$2,312,618	\$2,312,618	\$2,312,618
Contribution to reserves	0	0	1,148,291	1,148,291	1,148,291
Additional levels (Appendix A)	0	1,018,241	0	1,018,241	1,018,241+
Shortfall	\$2,312,618	\$3,330,859	\$3,460,909	\$4,479,150	\$4,479,150+
Tax increase	2.01%	2.90%	3.01%	3.90%	3.90%+ further additional level impact

Alternative 1

- Tax increase of 2.01% (consistent with CPI).
- Represents the minimal increase necessary to sustain operations.
- Maintains the current programs and service levels.
- Does not increase the contribution towards replacement of existing infrastructure.
- Does not meet the requirements of the Long Term Financial Management Strategy (LTFMS- Policy 3707).

Alternative 2

- Tax increase of 2.90%
- Maintains the current programs and service levels.
- Provides for additional non-discretionary expenditures, RCMP Officers and a minimum increased level of infrastructure protection (risk management).
- Does not increase the contribution towards replacement of existing infrastructure.
- Does not meet the requirements of the LTFMS.

Alternative 3

- Tax increase of 3.01%
- Maintains the current programs and service levels.
- Increases the contribution towards replacement of existing infrastructure.
- Achieves item 1 of the LTFMS, *'the proposed tax increase will be at Vancouver's CPI rate (to maintain current programs and maintain existing infrastructure at the same level of service) plus 1% towards infrastructure replacement needs.*

Alternative 4 – STAFF'S RECOMMENDATION:

- **Tax increase of 3.90% .**
- **Maintains the current programs and service levels.**
- **Increases the contribution towards replacement of existing infrastructure.**
- **Consistent with the requirements of the LTFMS.**
- **Provides for additional non-discretionary expenditures, RCMP Officers and a minimum increased level of infrastructure protection (risk management).**

Alternative 5

- Tax increase of 3.90%+
- Maintains the current programs and service levels.
- Increases the contribution towards replacement of existing infrastructure.
- Consistent with the requirements of the LTFMS.
- Provides for additional non-discretionary expenditures, RCMP Officers and a minimum increased level of infrastructure protection (risk management).
- Provides Council with the opportunity to enhance and increase programs and service levels.

Additional Levels

The ongoing additional level submissions are presented in Appendix A. TAG has made specific recommendations based on the following four factors:

- (1) Non Discretionary expenditures.
- (2) Council Initiatives.
- (3) Discretionary expenditures, self-funded.
- (4) Discretionary expenditures, health and safety, protection of existing infrastructure (risk management).

The following are TAG's recommendations with regards to ongoing additional levels:

(1) Non-Discretionary expenditures

These are expenditures that are mandatory or legislated.

i) RCMP Emergency Response Team (ERT) – (\$241,491)

The original primary focus of ERT was to intervene in hostage and/or barricaded persons situations but the mandate has expanded to include 70 profiles ranging from witness protection and armed ship boarding, to Active Shooter Response Program and high risk warrant execution. The continued delivery of ERT response through part-time teams has created system fatigue that could lead to an improper tactical response resulting in dangerous situations for both the public and police. A permanent Lower Mainland ERT will be similar to IHIT and will operate as a fully integrated unit providing timely professional response when required with coverage to the Lower Mainland District for 20 hours per day and seven days per week.

(2) Council initiatives

During 2005, Council initiated the following new programs or committees which require funding in order for them to successfully proceed:

ii) Tree Protection Bylaw - 2 Arborists & Clerk (\$250,000)

Having two arborists and a clerk available to implement the Tree Protection Bylaw will ensure regulatory goals are met at an adequate level of customer service.

iii) Spirit of BC Richmond Community Committee (\$5,000)

The Spirit of BC Richmond Community Committee is a Council appointed committee formed to promote the spirit of the Olympics and Olympic opportunities within Richmond. The term of the Committee runs to June 2010.

iv) Sister City Committee (\$8,500)

Provides for an ongoing annual budget. This was previously funded from Council Contingency on an as needed basis. The Sister City Committee acts as an advisory committee of Council.

(3) Discretionary Expenditures, self-funded

These are discretionary expenditures that are on a cost recovery basis and thus have no tax impact.

v) Building Code Engineer (Net cost \$0)

The Building Code Engineer is required to deal with the increased workload and more complex commercial/multi-family projects. This position cost will be covered by increased permit revenue. There will be substantial benefit to customer service and the department's ability to meet the required service levels.

vi) Plumbing Inspector II (Net cost \$0)

The Plumbing Inspector II and new vehicle is required to deal with the increased workload and more complex commercial/multi-family projects. There will be substantial benefit to customer service and the department's ability to meet the required service levels.

(4) Discretionary Expenditures, health and safety, protection of existing infrastructure (risk management)

These are discretionary expenditures that are critical to ensuring that the City's safety and well being is maintained.

vii) RCMP – 2 Officers (\$263,250)

Richmond's current population is estimated at 180,860. Based on the ratio of one police officer for every 900 people, the current Richmond ratio for police to population is 1:952, the population increase equates to an increase of 11 police officers. However, to be consistent with the Five Year Policing Plan and ARLU (Annual Reference Lever Update), RCMP are requesting 7 additional resources for 2006/07. In addition, many of these calls for service have increased in complexity and public accountability. This translates to more time required for investigation, evidence gathering, court preparation and disclosure. Furthermore, workload pressures have significantly increased in the area of specialized section i.e. Green Team (Marihuana Grow Ops), Economic Crime (Identity Theft, Internet Crime, Casino-Gambling Crime), Property Crime (Break and Enters), Serious Crime (Sexual Assaults, Swarming, Robberies) and Youth Section (DARE, Youth Intervention).

TAG recommends that two officers be added to the complement from RCMP's request for seven. An option available to Council to increase the RCMP complement without incurring additional costs is to authorize that the positions be funded from RCMP's complement gapping (vacancies and leaves). The City's current practice is to budget for the fully authorized complement although historically the RCMP detachment has consistently operated at below 95% of the authorized complement. The number of additional positions would be established by analyzing this historical vacancy and leave pattern and budgeting at a level that represents the cost of the actual complement plus a maximum of 70% of the vacancy rate. This practice will provide the capacity for City

Council to approve additional officers with either no further or a lesser tax impact. We have been advised that this is a common practice in other jurisdictions.

viii) Asphalt Rehabilitation Program (\$200,000)

The City's Pavement Management System shows an annual shortfall on the major roads network of approximately \$2.6 M. The original plan was to increase this budget by \$335,000 per year starting in the year 1998. Since that time, Council has approved \$150,000 in the 2005 budget.

ix) Powder Post Beetle/Pile Structure Maintenance Program (\$50,000)

Powder Post Beetle infestation and wood rot due to age and constant contact with water are causing deterioration and compromising the foundations of heritage buildings. When the piles fail, the structure becomes unstable and cannot be occupied. Staff are planning restoration projects that will require the structure to be sound.

The above TAG recommended additional levels add a further \$1,018,241 or 0.89% to the Operating budget for a total shortfall of \$4,479,150 or 3.90% tax impact. Due to the constraints of the current operating budgets, the items from item 10 on (Appendix A) are not recommended for additional funding even though they all have significant merit. However, City Council has the opportunity to increase the tax level beyond the recommended 3.90% should any of these program/service requests be of interest to City Council.

Financial Analysis

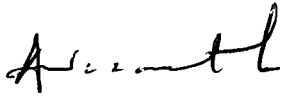
The following summarizes the tax implications of staff's recommendation of Alternative 4:

	Amount \$	Tax Impact	
		Each Item	Overall
Estimated Shortfall net of estimated growth	\$ 2,312,618	2.01%	2.01%
Additional 1% to reserves	1,148,291	1.00%	1.00%
	<u>\$ 3,460,909</u>	<u>3.01%</u>	<u>3.01%</u>
<u>Additional Level Requests as recommended and ranked by TAG:</u>			
1 Emergency Response Team (ERT)	241,491	0.21%	3.22%
2 Tree Protection Bylaw - 2 Arborists & Clerk	250,000	0.22%	3.44%
3 Spirit of BC Richmond Community Committee	5,000	0.00%	3.45%
4 Sister City Committee	8,500	0.01%	3.45%
5 Building Code Engineer (no net cost)	0	0.00%	3.45%
6 Plumbing Inspector II (no net cost)	0	0.00%	3.45%
7 2 RCMP Officers	263,250	0.23%	3.68%
8 Asphalt Rehabilitation Program	200,000	0.17%	3.86%
9 Powder Post Beetle/Pile Structure Maintenance Program	50,000	0.04%	3.90%
Total Shortfall with Additional Level Requests	<u>\$ 4,479,150</u>	<u>0.89%</u>	<u>3.90%</u>

Conclusion

The current proposed 2006 Operating Budget contains a shortfall of \$2,312,618 or a 2.01 % tax increase. This will maintain the current programs and service levels. Pursuant to item 1 of Policy 3707 Long Term Financial Management Strategy, *the proposed tax increase will be at Vancouver's CPI rate (to maintain current programs and maintain existing infrastructure at the same level of service) plus 1% towards infrastructure replacement needs*. Complying with this policy adds 1.0% to the tax increase and providing for additional non-discretionary expenditures, RCMP Officers and risk management adds a further 0.89% for a total tax increase of 3.90%.

Staff recommend Alternative 4 as it is consistent with the LTFMS and meets the requirements of the community in a fiscally prudent manner. Therefore, the proposed 2006 tax increase would be 3.90%.



Andrew Nazareth
Acting General Manager, Finance & Corporate Services
(4365)

APPENDIX A
Ongoing - Additional Level Requests – 2006

Item No.	Description	Requested Amount	Council Initiated	TAG Recomm.	TAG Rejected	Start-up Costs
1.	RCMP Emergency Response Team (ERT)	\$241,491		\$241,491		\$0
2.	Tree Protection Bylaw - Arborists & Clerk	\$250,000	\$250,000			\$0
3.	Spirit of BC Richmond Community Comm.	\$5,000	\$5,000			\$0
4.	Sister City Committee	\$8,500	\$8,500			\$0
5.	Building Code Engineer	\$0		\$0		\$0
6.	Plumbing Inspector II	\$0		\$0		\$36,750
7.	RCMP-7 Officers	\$921,375		\$263,250	\$658,125	\$0
8.	Asphalt Rehab Program	\$335,000		\$200,000	\$135,000	\$0
9.	Powder Post Beetle/Pile Mtce. Program	\$50,000		\$50,000		\$0
10.	Payroll Clerk	\$48,980			\$48,980	\$0
11.	RCMP OSR Clerk	\$50,734			\$50,734	\$3,000
12.	Seniors Wellness Coordinator	\$32,900			\$32,900	\$0
13.	Legal Services	\$600,000			\$600,000	\$0
14.	HR Advisor/Analyst	\$83,000			\$83,000	\$0
15.	Community Emergency Response Information System (CERIS)	\$7,500			\$7,500	\$50,000
16.	Ortho & Satellite Imagery	\$50,000			\$50,000	\$0
17.	Advertising	\$75,000			\$75,000	\$0
18.	Fire Prevention Officer	\$96,610			\$96,610	\$0
19.	Equipment for Grass Cutting	\$20,000			\$20,000	\$130,000
20.	Clerk Typist III – FT	\$23,500			\$23,500	\$0
21.	External Heritage Programs	\$80,000			\$80,000	\$0
22.	Deputy Fire Chief	\$130,800			\$130,800	\$0
23.	Fire-Staffing for NFPA 1710 Standards	\$929,800			\$929,800	\$0
24.	24 Portable Radios	\$26,000			\$26,000	\$24,000
25.	Emergency Communication Van	\$90,000			\$90,000	\$80,000
26.	Accounts Receivable Clerk	\$52,000			\$52,000	\$0
27.	Richmond Therapeutic Equestrian Society	\$23,400			\$23,400	\$0
28.	Richmond Committee on Disability	\$30,896			\$30,896	\$0
29.	Curator - Art Gallery	\$85,000			\$85,000	\$15,000
30.	Imperial Landing Park Maintenance	\$24,000			\$24,000	\$0
31.	Parks Ranger - Partner Program	\$40,000			\$40,000	\$10,000
32.	No 5 Rd & Cambie Beautification	\$105,000			\$105,000	\$100,000
33.	Increase Service - Trim Type Grass Cutting	\$154,004			\$154,004	\$70,000
34.	RCMP-Auxiliary Staff	\$70,286			\$70,286	\$0
35.	RCMP-Crime Prevention Program	\$5,000			\$5,000	\$0
36.	RCMP-Crime Watch Honorarium	\$5,000			\$5,000	\$0
37.	RCMP-Auxiliary Constable Coordinator	\$53,225			\$53,225	\$3,500
38.	RCMP-Volunteer Honorarium	\$5,000			\$5,000	\$0
39.	RCMP-Victim Service Assistant - FT	\$24,314			\$24,314	\$0
40.	RCMP-CLO (Court Liaison) Clerk	\$50,734			\$50,734	\$3,000
	Total	\$4,884,049	\$263,500	\$754,741	\$3,865,808	
		100%	5.4%	15.4%	79.2%	