



To: General Purposes Committee
From: Jim Bruce
General Manager, Finance and Corporate Services
Date: February 11, 2002
File: 0975-01-2002
Re: Operating Budget for the Year 2002

Staff Recommendation

It is recommended that Council approve the following:

That a 2002 Operating Budget be increased by 5.28% over the 2001 levels and

That \$1,700,000 from the balance of the Gaming Reserve be applied as a revenue source to the budget with \$1,000,000 being applied to a Capital Infrastructure and Facilities Statutory Reserve and that the balance of \$700,000 be applied to offset the 2002 Operating Costs and

That this Statutory Reserve be shown as a separate line on the 2002 tax notice and

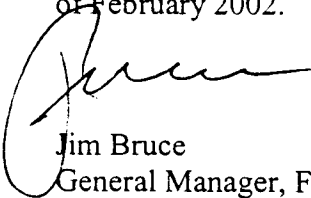
That at a minimum the 2002 tax notice break out the cost of protective services and if possible, show fire and police operational costs as separate line items and

That each General Manager review with their appropriate Committee of Council departmental programs and service levels prior to the start of the 2003 budget review process and

That staff prepare a detailed public relations process to educate the public on the 2002 budget costs, programs and service levels and

That staff use this 2002 operating budget as the basis for the 5 year Financial Plan and

That staff commence the public presentation process of the 5 Year Financial Plan before the end of February 2002.


Jim Bruce
General Manager, Finance and Corporate Services

Staff Report

Origin

Staff have now had four operating budget workshops and have reviewed opportunities for new revenue sources, examined City provided programs and service levels as well as staffing complements. Staff believe we have undertaken an extensive review and that it is time for the Mayor and Council to be afforded the opportunity to officially review all the deliberations undertaken to date. The information contained in this report details where we are to date with the budget review and the recommendations for Committee consideration.

Analysis

Finance staff sent out the request for budget submissions to all departments in early September. The directions for submissions were that there were to be no new programs introduced, service levels for existing programs were to be maintained at 2001 levels and not enhanced, expanded plant could be maintained at the operating levels of existing programs, all salaries used were to be those provided by Finance, as per changes to the Collective Agreement for 2002, the inflationary impact on materials would not exceed the CPI for Vancouver (2.4%), year end projections must be justified in relation to funds spent to date plus, where justified, estimates to year end and revenues projected in the budget must be realized.

The budget submissions once tabulated using all these parameters totalled a 16 % increase over 2001 levels.

Finance staff then proceeded to ruthlessly review each departmental budget line item with each department manager and cut out all costs which, in the opinion of Finance Staff, could not be justified or were not within the bounds of Finance Department Budget directions.

In some cases, certain departmental budgets had to be amended 2 and 3 times until Finance staff were convinced all possible service levels and programs were reviewed adequately. In some cases, Finance staff actually imposed cuts to meet requirements.

These intense reviews took roughly 2 months and at the end of all this staff were faced with a realistic budget increase of 8.98% (see page 1 of Appendix 1.). This amount supported the commencement for the replenishment of reserves that had been eroded over the past several years, as well as maintaining our operating budget commitments to capital budgets.

At this point, the budget received its first full review by TAG and the CAO gave specific direction that the 8.98% budget increase was not acceptable and that staff must find either new revenue sources or expenditure cuts to reach a budget increase not greater than 4.52% which was the figure originally approved by Council in the 2001 Five Year Financial Plan. Staff then reworked the budget through a series of meetings to reach the CAO's direction.

It is important to note at this point that this realization of the mandated percentage increase was achievable by some minor revenue gains but the majority of savings came from expenditure reductions including the delay in reserve contributions. The highlights of these revisions are detailed on Page 2 of Appendix 1.

From this point, staff proceeded to review requests for additional funding levels, specifically in areas where either Council had expressed an interest in service improvement or where staff felt changes were needed for legal, operational or previous commitments. This then raised the potential budget increase to 5.13% (See page 3 of Appendix 1).

Staff then looked at applying \$1.2 million of potential 2002 Gaming Revenue to bring the budget increase down to 3.87% (See Page 3 of Appendix 1).

Staff then reviewed service levels and programs and realized that there was some reduction possible. There was also a realization at this point that a previous Council direction did not allow for the use of any potential 2002 Gaming Revenue for 2002. Coupling this with the service level reductions set the tax revenue increase back to 5.01% (See Page 3 of Appendix 1).

An adjustment to assessment information generates an additional income of .03% and brought the 5.01% increase down to 4.98% (See Page 3 Appendix 1). A decision by the Provincial Government during its Core Review now adds roughly .30% of tax revenue requirement to handle the MSP payments. This now brings the tax revenue increase to 5.28%.

Staff have also attempted to review the overall budget from a different perspective, namely, breaking the net budget into three categories. See Table 1

From this, one can see that there are basically three types of cost drivers for the City. Namely staff related costs (77%) which includes things like salaries and benefit costs. Non-discretionary costs accounting for (19%) and include such things as computer hardware and facility leasing cost as well as power and telephone costs. The last group which is referred to as discretionary costs (4%) are costs that could be reduced but will have a dramatic impact on the ability of staff performing their duties. These costs account for things like cell phones, staff memberships and Council Committee staff support. Staff have taken the direction that if there are to be no changes in staff levels, and that non-discretionary costs must be retained that the only area for cost reductions exists in the discretionary area.

The CAO has advised that staff would review these discretionary costs and bring forward a list of possible reductions, although not recommended for implementation, in blocks of \$500,000 to a total of roughly \$2,000,000 for Council review. Table 2 details these cost items.

Financial Impact

An Operating Budget increase of 5.28% for 2002 over that established in 2001 is necessary if we are to meet current operational needs and allow for the stability in staffing levels, service and program delivery and initiate a small incentive to start the rebuilding of our depleting reserves in order to regain our short and long term fiscal stability and sustainability.

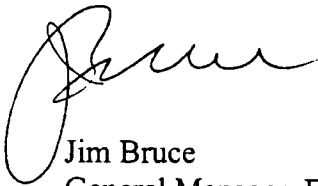
An alternative to this would be for Council to set a lower level and give staff specific direction on what services to reduce and direct staff to implement these reductions.

Staff and Council have for the past several years continued with reviews to our programs and revenue opportunities and have implemented cuts to the point where the excess funds for all intents and purposes have been eliminated, staffing levels have been trimmed to the point where staff are working at full capacity and balances in our financial reserves have been eroded to dangerously low levels. Further reductions will only jeopardize our financial sustainability for the future.

It is important to note that a 5.28% tax revenue increase adds roughly \$47.39 to the average single family dwelling. In reality this \$47.39 increase relates to a \$0.91 per week increase for that average home or perhaps in a more understandable perspective less than the cost of a cup of Starbucks coffee a week.

Conclusion

That Council approve the 2002 Operating Budget increase of 5.28% and that to help the public understand the 5.28% increase more fully that staff break out into as much detail as possible on the tax notice, the cost of providing police, fire and capital reserve funding and if space allows, as much additional detail as possible.



Jim Bruce
General Manager, Finance and Corporate Services

JWB:naw

Attach.1

2002 BUDGET
Comparison to 5 Year Financial Plan (2001-2005) Projections

	TAX IMPACT			
	AMOUNT (\$)	EACH ITEM	OVERALL	EXPLANATION
2002 Projection as per 5 Year Financial Plan (2001-2005):				
Estimated Shortfall	7,524,457	7.78%	7.78%	Planned Revenues less Planned Expenses
OPTIONS USED TO REDUCE TAX:				
Growth estimate	1,451,590	(1.50%)	6.28%	Growth estimate of 1.5% was used as per Council
Casino Gaming Revenues	1,700,000	(1.76%)	4.52%	One-time use of Casino Gaming Revenues was used as per Council
	4,351,415	4.52%	4.52%	
New Information (as at November, 2001)				
Growth short of expectation	349,590	0.37%	4.89%	5YFP was 1.5% or \$1,451,590, new estimate is \$1,102,000
Energy cost reductions (Gas&Fuel)	(713,800)	(0.75%)	4.14%	5YFP was 5% increase or \$217,000, new estimate is \$496,800 savings due to falling interest rates
Investment income decline	507,028	0.53%	4.67%	5YFP expectation was for Parking revenues to remain at the same level
Parking fine revenues decline	125,000	0.13%	4.80%	5YFP was a 5% increase, new estimate is 25% on property
Insurance premiums	112,850	0.12%	4.92%	2000 retro payout of 2.95% + Benefits not in base
Fire Rescue Salaries	620,000	0.65%	5.57%	5YFP was 8 months for telecomm staff, 2002 is 12 months
RCMP ECOMM staff costs	157,140	0.16%	5.73%	5YFP was 1.5%, actual was 4.04% due to 2.0% retro + 2.0% for 2002
RCMP Contract Salaries	470,077	0.49%	6.23%	5YFP was rate of 1.51, new estimate is 1.58
USD Exchange	42,000	0.04%	6.27%	reduction from Provincial Govt. not anticipated in 5YFP
Loss of traffic fine revenue sharing	80,000	0.08%	6.36%	
	1,749,885	1.84%	6.36%	
Non-Discretionary Items:				
Fire Rescue equipment	65,400	0.09%	6.44%	high angle rescue equipment not in 5YFP
Fire Rescue Contracts	102,000	0.11%	6.55%	increase in CAD levies
Bank Charges	98,200	0.10%	6.65%	increase in POS, credit card charges, etc.
	265,600	0.28%	6.65%	
Discretionary Items:				
Fire Rescue Vehicle Reserve	598,700	0.63%	7.28%	5YFP was \$259,600, new estimate is \$858,300
Fleet Vehicle Reserve	500,000	0.52%	7.81%	5YFP was \$1,000,000, new estimate is \$1,500,000
Increased armoured car pick-up	44,000	0.05%	7.85%	Bookit program expectation of pick up at all Community Centres
GVRD LR net savings for 1/2 year	(23,000)	(0.02%)	7.83%	5YFP did not factor these savings
RCMP positions	428,000	0.45%	8.28%	5YFP expected the trend of carrying 4 vacancies to continue
Fire Rescue overtime	51,700	0.05%	8.33%	Managers Standby/Callout & Mechanic OT increase not in 5YFP
Media Coverage	38,300	0.04%	8.37%	Chinese media coverage not in 5YFP
Payback to Revolving Fund	554,100	0.61%	8.98%	under-budgeted in 5YFP
	2,191,800	2.30%	8.98%	
Draft 1 - Tax Increase				8.98%

**2002 BUDGET
Comparison to 5 Year Financial Plan (2001-2005) Projections cont.**

	TAX IMPACT		
	AMOUNT (\$)	EACH ITEM	OVERALL
Increase carryforward	\$8,558,700		8.98%
Possibilities to Mitigate Increases:			
REVENUE OPPORTUNITIES:			
Parking revenues	(200,000)	(0.21%)	8.77%
Business Licenses	(37,500)	(0.04%)	8.73%
Business Licenses	(60,000)	(0.06%)	8.67%
Rentals	(20,000)	(0.02%)	8.65%
Development Applications	(17,500)	(0.02%)	8.63%
Building Approvals	(60,000)	(0.06%)	8.57%
Parking Fines	(125,000)	(0.13%)	8.44%
	(520,000)	(0.55%)	8.44%
COST REDUCTIONS:			
RCMP positions	(428,000)	(0.45%)	7.99%
RCMP Contract	(158,500)	(0.17%)	7.82%
Fire Rescue Vehicle Reserve	(400,000)	(0.42%)	7.40%
Fleet Vehicle Reserve	(333,333)	(0.35%)	7.05%
Planner position	(78,575)	(0.08%)	6.97%
Construction Inspector position	(63,785)	(0.07%)	6.90%
Document scanning	(60,000)	(0.06%)	6.84%
Fire Rescue equipment	(65,400)	(0.07%)	6.77%
Fire Rescue overtime	(51,700)	(0.05%)	6.72%
Fire Rescue turnout gear	(42,100)	(0.04%)	6.67%
Facility Management	(88,400)	(0.09%)	6.58%
Armoured car pick-up	(44,000)	(0.05%)	6.54%
Strategic P/T Planning Asst.	(20,000)	(0.02%)	6.51%
Payback to Revolving Fund	(554,100)	(0.58%)	5.93%
Vacation Provision	(300,000)	(0.31%)	5.62%
Contribution to Capital Program	(744,000)	(0.78%)	4.84%
Various expenses (all orgs)	(294,870)	(0.32%)	4.52%
	(3,726,763)	(3.91%)	4.52%

	4,311,937		4.52%
Draft 2 - Tax Increase			4.52%

2002 BUDGET
Comparison to 5 Year Financial Plan (2001-2005) Projections cont.

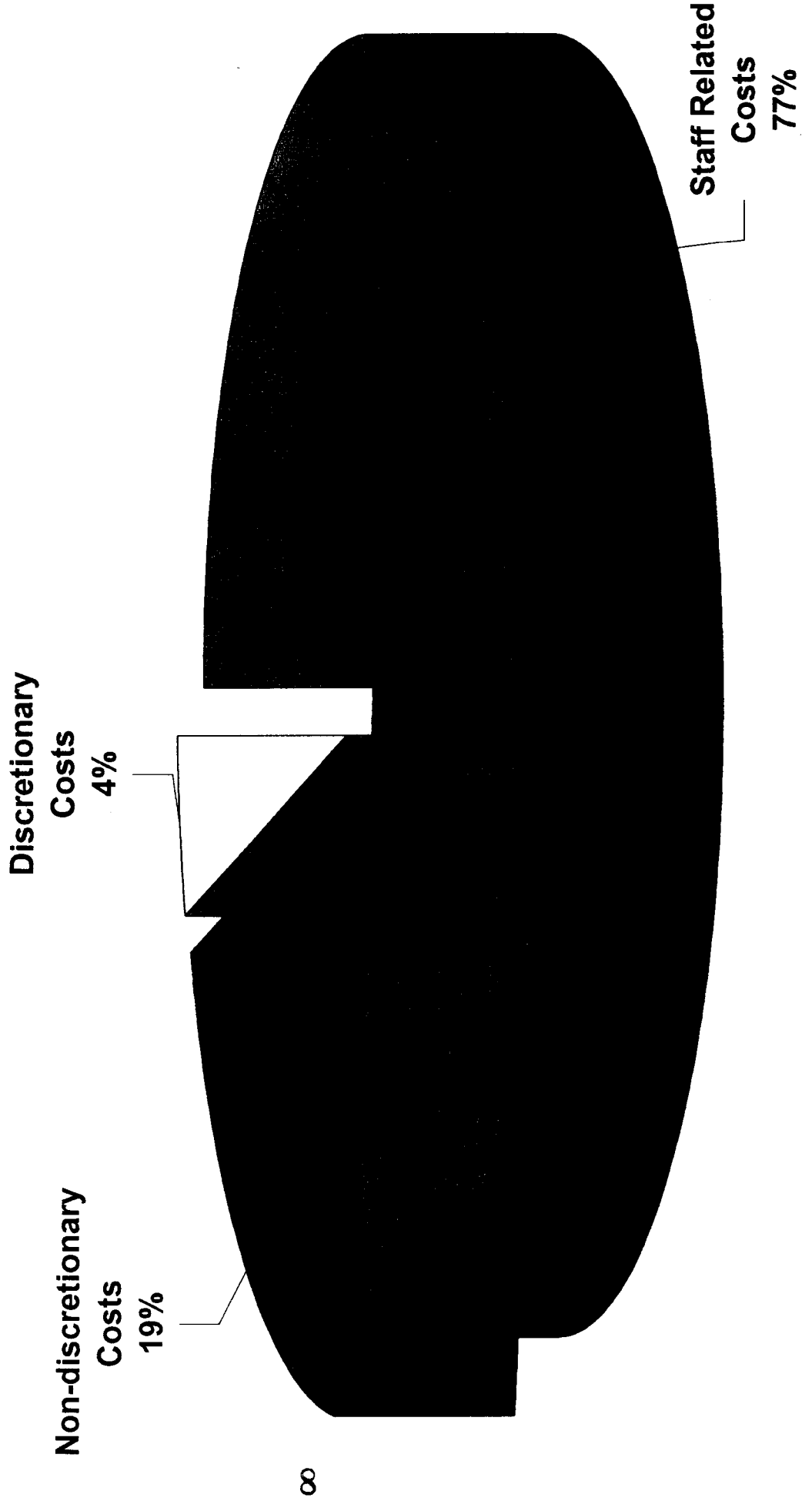
	TAX IMPACT		EXPLANATION
	AMOUNT (\$)	EACH ITEM OVERALL	
Increase carryforward	4,311,937	4.52%	
<u>Additional Levels Approved</u>			
Council Consideration:			
Emergency Social Svcs Coordinator	70,200	0.07%	4.59%
TAG Recommendations:			
Occupational Health & Svcs Officer	25,800	0.03%	4.62%
Software Upgrade Funding	200,000	0.22%	4.84%
ECOMM Levy (Integrated RMS)	142,100	0.15%	4.99%
Turnout Gear	57,000	0.06%	5.04%
Install mobile workstations-RCMP	80,000	0.08%	5.13%
	575,100	0.61%	5.13%
<u>Revenue Opportunity to mitigate increase</u>			
Additional Casino Funds	(1,200,000)	(1.26%)	3.87%
Draft 3 - Tax Increase	3,687,037		3.87%
Exclude additional Casino Funds	1,200,000	1.26%	5.13%
Service Level reductions per Council	(115,000)	(0.12%)	5.01%
			do not touch 2002 potential Casino revenues a total of 4 cuts
Draft 4 - Tax Increase	4,772,037		5.01%
Change in tax base	(28,603)	(0.03%)	4.98%
Provincial Govt. downloading	284,000	0.30%	5.28%
			adjusted for new assessment values increase in MSP premiums
Draft 5 - Tax Increase	5,027,434		5.28%

TAX NOTICE BREAKDOWN - EXAMPLE

	\$ Increase	Avg. Tax Rate	Avg. per Household
Increases over 2001:			
Basic City Services	\$1,179,434	1.25%	\$11.19
Fire Rescue Services	\$1,704,600	1.79%	\$16.04
Policing Services	\$1,143,400	1.20%	\$10.76
Infrastructure Reserve-Capital	\$1,000,000	1.05%	\$9.41
TAX INCREASE	\$5,027,434	5.28%	\$47.39

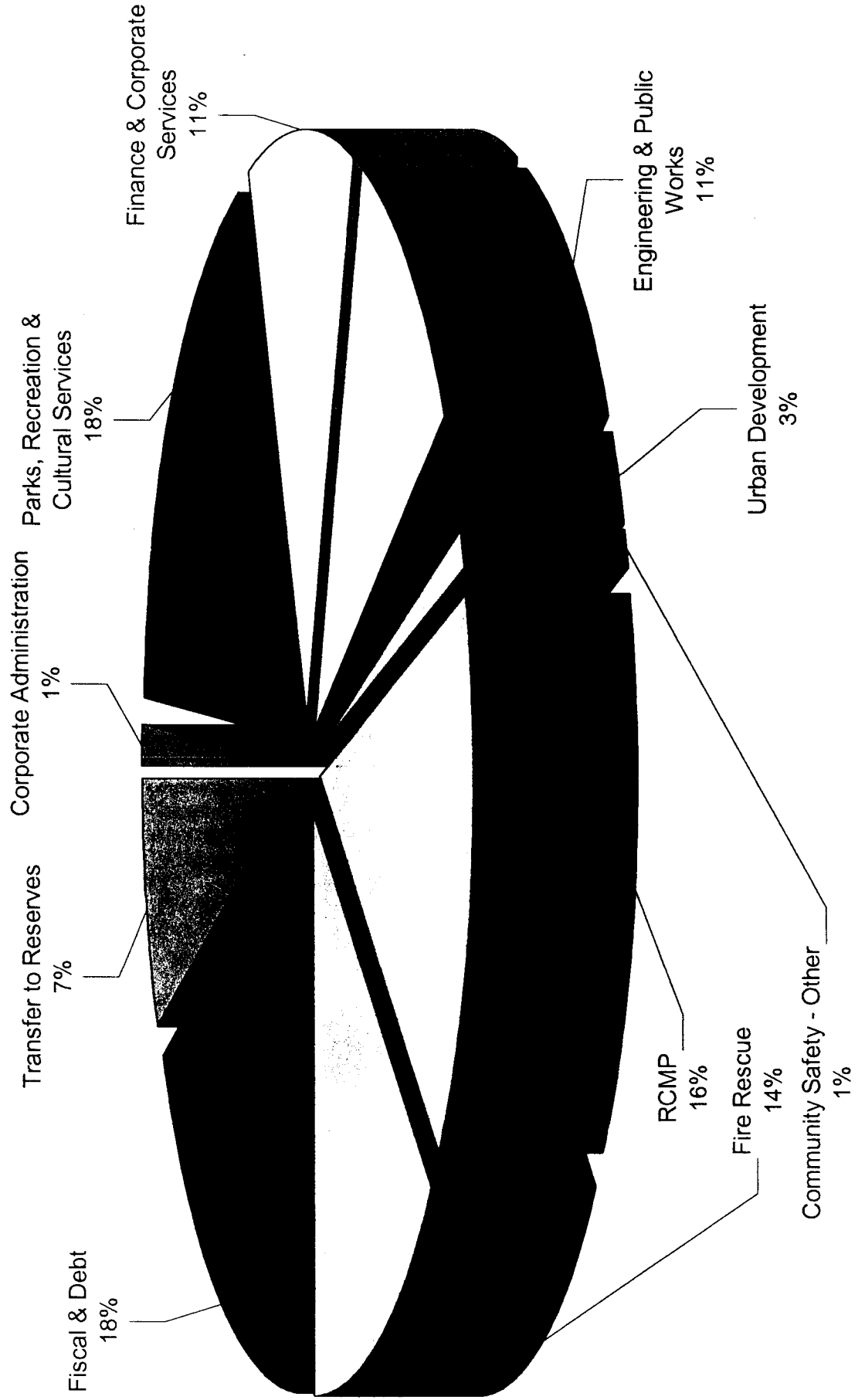
CITY OF RICHMOND

Breakdown of City Expenses



CITY OF RICHMOND

Breakdown of Property Tax Dollar by Division



**CITY OF RICHMOND
2002 BUDGET REDUCTIONS
DISCRETIONARY EXPENSE ITEMS**

Division	Discretionary Expense Item	Amount	Impact
Group #1			
Corporate	Cell phones	50,000	Reduction from total of \$174,100
Corp. Admin.	Translation Services	10,000	Reduction from total of \$25,000
Corp. Admin.	Seminars & Conferences	4,000	Reduction from total of \$17,400
Corp. Admin.	Meeting Expenses	1,000	Reduction from total of \$9,200
Eng & PW	Window Cleaning - City Hall	5,000	City Hall windows will be cleaned only once a year
Parks, Rec. & Cul.	Book Acquisitions Magazine Subscriptions	100,000	Reduce RPL books and collection purchases
Parks, Rec. & Cul.	Special Events	4,000	Eliminate fireworks program on Halloween night
Comm. Safety	Reserve Contributions	285,000	Reduce contribution to fund Equipment Reserve
Finance & CS	Bicycle Pick-up	5,000	No funding for City pick-up of stolen & lost bicycles
Finance & CS	Contracts	35,800	Eliminate funding for Richmond Chamber of Commerce and Economic Development Strategy Plan consulting contracts
	Total	499,800	
Group #2			
Eng. & PW	City Hall Security	83,700	Eliminate 4 shifts re. City Hall security as follows: - Mon-Fri - midnight to 6:30 a.m. - \$23,400 - Weekends - midnight to 6:30 a.m. - \$9,360 - Weekend Days/Afternoons - \$20,080 - Week Days - \$30,860
Parks, Rec. & Cul.	Cut to Community Association Facility costs	208,000	Recover cost of facility cost operations
Comm. Safety	Reserve Contributions	173,000	Reduce contribution to fund Equipment Reserve
Finance & CS	Community Relations	24,600	Eliminate funding for Civic Appreciation Dinner (\$14,600) and IDRC/Invest BC & other economic initiatives (\$10,000)
	Total	489,300	
Group #3			
Corporate	Overtime for Council & Committee Support	100,000	No overtime paid for staff to support Council & Committee Meetings
Corp. Admin.	Community Relations	4,000	Reduction of community meeting expenses
Urban Dev.	Advisory Committee Support	11,000	No overtime paid for staff to support Advisory Comm. Meetings
Urban Dev.	Support for Corporate Documents	20,000	Reduce printing of corporate documents and go electronic
Eng. & PW	Vehicle Reserve Contribution	54,000	Reduce Vehicle Reserve contribution
Parks, Rec. & Cul.	Office Supplies	10,000	Reduce usage of office supplies throughout Division
Parks, Rec. & Cul.	Janitorial Supplies	24,000	Reduce janitorial supplies for all facilities
Comm. Safety	Printing	30,000	Reduce printing of corporate documents for the public
Comm. Safety	Maintenance - Equipment & Tools	32,000	Reduction of equipment & tool expenses for Fire Rescuer/Bylaw Enf.

Division	Discretionary Expense Item	Amount	Impact
Finance & CS	Advertising - General	60,000	Discretionary advertising on City Notice Board done weekly
Finance & CS	Annual Report	10,000	Eliminate printing of formal Annual Report
Finance & CS	Arbitration	40,000	Reduce legal expense funding for grievance arbitrations by 50%
	Total	<u>395,000</u>	
Group #4			
Corporate	Professional dues & memberships	30,000	Eliminate funding for professional dues and memberships for staff
Urban Dev.	Professional memberships	16,000	Eliminate funding for professional dues and memberships for staff
Eng. & PW	Professional Memberships	16,500	Eliminate funding for professional dues and memberships for staff
Parks, Rec. & Cul.	Memberships	4,000	Eliminate funding for professional dues and memberships for staff
		<u>66,500</u>	
Corporate	Corporate Programs	320,000	Reduce or eliminate banner program, beautification program, etc.
Corp. Admin.	Supplies	1,000	Reduce funding for office supplies
Urban Dev.	Divisional Meeting Expenses	5,000	Reduce meeting expenses from \$6,500
Urban Dev.	Corporate Printing	7,000	Reduce printing costs associated with reports and publications
Urban Dev.	Courier Services	1,000	Eliminate all funding for courier expenses to \$200 only
Eng. & PW	McCrae Contract Service	54,000	Reduce ditch cleaning services City-wide
Finance & CS	Special Events Support	44,600	Eliminate funding for Staff Christmas Party, Staff Appreciation Day, Retirement plaques, United Way and the Sun Fun Run)
	Total	<u>499,100</u>	
	Grand Total	<u><u>1,883,200</u></u>	