



CITY OF RICHMOND

REPORT TO COMMITTEE

TO: General Purposes Committee

DATE: March 14, 2001

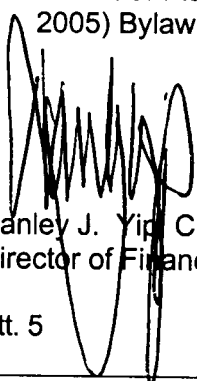
FROM: Danley J. Yip, C.A.
Director of Finance

FILE: 0985-01

RE: 2001 Operating Budget and 5 Year Financial Plan (2001-2005)

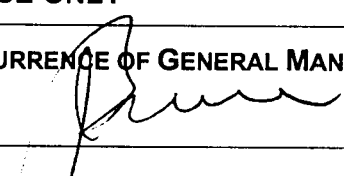
STAFF RECOMMENDATION

1. The 2001 Operating Budget be approved as part of the 5 Year Financial Plan (2001-2005) with a property tax increase of 4.84% in 2001.
2. Staff conduct a public consultation meeting on April 5, 2001 to present the City's 5 Year Financial Plan (2001-2005) prior to the first 3 readings of the 5 Year Financial Plan (2001-2005) Bylaw.



Danley J. Yip, C.A.
Director of Finance

Att. 5

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ROUTED TO:	CONCURRENCE	CONCURRENCE OF GENERAL MANAGER
		

STAFF REPORT

ORIGIN

Section 327 of the Local Government Act requires municipalities to prepare a 5 Year Financial Plan annually, which includes operating, utility and capital budget items. In 2000, the City adopted its first 5 Year Financial Plan (2000-2004) into bylaw and has the authority to make expenditures in 2001 until there is an amendment to the bylaw. This amendment will be made through a revised 2001 Budget with a new 5 Year Financial Plan (2001-2005), which must be adopted into bylaw before May 15, 2001.

ANALYSIS

The 2001 Operating Budget (see Appendix A) shows budgeted expenditures of \$194,949,400 and budgeted revenues of \$190,551,700 resulting in a deficiency of \$4,397,700. A further review of the Corporate Summary by Divisions and departments (see Appendix B) provides a comprehensive comparison of each department's draft 2001 Budget and 2000 Budget Bylaw.

In the 2001 Operating Budget there are a number of key cost drivers as follows:

- RCMP Contract costs resulting in a net increase of \$1.30 million
- Utilities increase of \$1.05 million as a result of substantial BC Gas rate hikes
- Fire Rescue increase of \$.75 million due to salaries and benefits as a result of new collective agreement and increased general operating costs
- 2.0% increase in City staff wages & salaries as a result of new collective agreement in 2000 and associated fringe benefit costs

The increase in RCMP Contract costs is due mainly to salary increases and the annualized cost of 10 new RCMP officers that were hired in the latter part of 2000. These Contract costs are not negotiable as they are established by the federal government and passed on to the City through the province. As for Utilities, the BC Gas increases have had a big impact on all City facilities especially the Aquatic Centres, Arenas and the Community Centres. It should be noted that the Facility Management department is impacted greatly by the energy cost increases since they manage all City facilities and their associated costs.

Fire Rescue costs have risen in 2001 due to salary and benefit increases as well as other general operating costs. Meanwhile, the City's unionized staff wages and salaries increased by 2.00% in each of 2000 and 2001 as a result of new collective agreements that were ratified in Fall 2000. The City's Exempt staff received the same percentage increases to keep in line with the City's unionized work force. The overall effect of the wage & salary increases has been a corresponding increase in fringe benefits (e.g. employer portion of CPP & EI contributions, superannuation contributions).

Other City departments that have seen large increases in their Budgets compared to 2000 are the Information Technology department, which has seen its technology development costs increase as well as software/hardware maintenance costs. As for the Human Resources department, they have increased its Budget primarily as a result of more training and development costs and the reallocation of training costs from other City departments.

Property tax revenue increases associated with growth will not be sufficient in 2001 to provide a large enough offset against 2001 expenditure increases. An anticipated \$400,000 tax revenue reduction as a result of property tax assessment appeals and adjustments to growth estimates has been reflected in the 2001 Operating Budget by staff. The amount of this reduction will not be confirmed until the B.C. Assessment Authority releases its authenticated tax roll to the City in early April 2001. In addition, it should be noted that the provincial government might be eliminating the traffic fine revenue sharing program between the province and Richmond beginning in 2001. This impact has been recognized as a reduction in revenues by \$200,000 for 2001. Finally, with the worsening economy in North America, interest rates have begun to fall and the City has made subsequent adjustments to its investment income estimates to reflect a \$200,000 reduction in revenues.

A Sensitivity Analysis chart has been provided (see Appendix C), which shows City staff's initial 2001 Budget tax increase of 7.89% and the unplanned increases in operating costs for various departments over and above the projected 2.81% that was established for 2001 under the original 5 Year Financial Plan (2000-2004). A second Sensitivity Analysis chart (see Appendix D) shows how staff have reduced the initial 7.89% tax increase down to 4.00% before factoring in changes based on new information, that impact the 2001 Budget causing a tax increase to move to 4.84%.

Throughout the 2001 budgeting process, staff have worked on reducing expenditures wherever possible given the fact that 2001 operating costs were going to increase significantly as a result of a number of factors detailed above. A systematic review of each department's 2001 Operating Budget was conducted and every effort was made to justify each department's revenue and expenditures for the upcoming year. The reviews entailed each department breaking down their price/cost increases due to inflation and operating cost increases due to "growth" in the department. Based on these reviews, staff are confident that the 2001 Operating Budget has been prepared and presented fairly for consideration as part of the City's new 5 Year Financial Plan (2001-2005).

The 5 Year Financial Plan ("5YFP") must be adopted annually by bylaw at any time before the date on which the annual property tax bylaw is adopted, but before May 15th. The contents of the 5YFP would include the following key sections:

1. Proposed revenue sources
2. Proposed expenditures
3. Proposed transfers between funds

A schedule listing assumptions used in the preparation of the 5 Year Financial Plan (2001-2005) has been provided (see Appendix E). It should be emphasized that these are merely assumptions that are used to project the City's operating, utility and capital budgets for 2002 to 2004. These assumptions may change given new information or economic changes that impact operating costs to the City.

Financial information must be provided for each of the five years covered by the 5YFP and after the 5YFP becomes a bylaw, it can be amended at any time.

A schedule for completion of the new 5 Year Financial Plan (2001-2005) has been provided on the last page of this report. This schedule outlines the key dates to review and finalize the 5

Year Financial Plan (2001-2005), to conduct a public consultation meeting and to adopt it into bylaw.

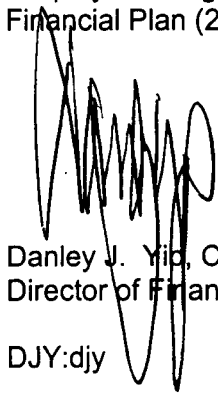
FINANCIAL IMPACT

The 2001 Operating Budget will see a property tax increase of 4.84% over 2000. This is a result of increases primarily in RCMP contract costs, the rise in BC Gas prices and Fire Rescue costs. The 2001 Operating Budget tax increase of 4.84% will represent a 2.03% increase over and above the projected 2.81% per the 5 Year Financial Plan (2000-2004).

The City's December 31, 2000 year-end audit has not been completed, but a preliminary 2000 Surplus estimate has been ascertained. Part of the 2000 Surplus has been applied towards 2001 consulting requests and minor capital expenditure requests. This was done to maintain a 2001 property tax increase of 4.84% and ensure that there were no further property tax increases.

CONCLUSION

The 2001 Operating Budget has been prepared and reviewed by staff and the proposed 4.84% property tax increase is a reflection of the increase of a number of uncontrollable costs to the City. The tax increase is necessary to maintain the exceptional levels of service provided to Richmond residents and businesses. It should be emphasized that the 2001 Operating Budget will play an integral part in the assumptions and projections used in the completion of the 5 Year Financial Plan (2001-2005) and the accompanying bylaw.



Danley J. Yip, C.A.
Director of Finance

DJY:djy

**CITY OF RICHMOND
SCHEDULE TO COMPLETE THE 5 YEAR FINANCIAL PLAN (2001-2005)
MARCH 19, 2001**

DATE	TASK	RESPONSIBILITY
March 19, 2001	Review and approve 2001 Budget with corresponding tax increase and discuss 5 Year Financial Plan (2001-2005)	General Purposes Committee
April 2, 2001	Review and approve 5 Year Financial Plan (2001-2005)	General Purposes Committee
April 5, 2001	Conduct a public consultation meeting to review the City's 5 Year Financial Plan (2001-2005)	Finance Department
April 16, 2001	Review and approve the 5 Year Financial Plan (2001-2005)	General Purposes Committee
April 23, 2001	Present the final version of the 5 Year Financial Plan (2001-2005) Bylaw for first 3 readings	City Council
May 14, 2001	Adoption of the 5 Year Financial Plan (2001-2005) Bylaw	City Council

**CITY OF RICHMOND
REVENUE & EXPENDITURE SUMMARY
2001 OPERATING BUDGET**

	2001 BUDGET (DRAFT)	2000 BUDGET (BYLAW)	CHANGE (\$)	CHANGE (%)
REVENUES				
Property Taxes	\$ 91,794,800	\$ 90,388,600	\$ 1,406,200	1.6%
GVRD Levies & Charges	5,448,200	5,377,400	70,800	1.3%
Federal Grants-In-Lieu	4,630,000	4,425,000	205,000	4.6%
Provincial Grants-In-Lieu	163,000	160,000	3,000	1.9%
Grants-In-Lieu Other	3,889,600	3,861,200	28,400	0.7%
Unconditional Grants	3,342,200	1,144,800	2,197,400	191.9%
Conditional Grants	2,855,200	2,195,800	659,400	30.0%
Utility Charges	27,882,900	25,889,600	1,993,300	7.7%
Service Charges	10,103,300	9,769,700	333,600	3.4%
Other Sales of Service	621,500	636,200	(14,700)	(2.3%)
Business Licences & Permits	4,351,800	4,319,700	32,100	0.7%
Community Revenue/Program Fees	4,954,300	4,889,500	64,800	1.3%
Fines	610,800	475,800	135,000	28.4%
Miscellaneous Operating Income	630,700	569,600	61,100	10.7%
Investment & Debt Income	5,871,800	5,540,600	331,200	6.0%
Miscellaneous Fiscal Earnings	1,960,300	4,860,200	(2,899,900)	(59.7%)
Internal Dept Recoveries	20,777,300	19,037,000	1,740,300	9.1%
External Revenue Recoveries	664,000	664,000	0	0.0%
TOTAL REVENUES	\$ 190,551,700	\$ 184,204,700	\$ 6,347,000	3.4%

EXPENDITURES				
Salaries	\$ 59,878,300	\$ 55,417,800	\$ 4,460,500	8.0%
<u>Operating Expenditures:</u>				
Supplies	1,902,700	1,929,200	(26,500)	(1.4%)
Contracts	27,123,600	24,563,100	2,560,500	10.4%
Advertising & Marketing	367,700	352,000	15,700	4.5%
Utilities	3,108,700	2,055,700	1,053,000	51.2%
Training & Development	941,800	636,300	305,500	48.0%
Maintenance - General	3,559,000	3,408,000	151,000	4.4%
Professional Fees & Services	190,500	190,500	0	0.0%
Travel	99,700	126,900	(27,200)	(21.4%)
General Operating Expenditures	1,517,600	1,640,300	(122,700)	(7.5%)
Purchases - Equipment & Other	9,610,700	8,892,900	717,800	8.1%
Other Expenditures	13,227,800	12,290,100	937,700	7.6%
Public Works Maintenance	18,990,700	17,428,300	1,562,400	9.0%
Sub-total Operating Expenditures	80,640,500	73,513,300	7,127,200	9.7%
<u>Fiscal Expenditures:</u>				
Fiscal Debt Expenditures	13,870,900	14,007,700	(136,800)	(1.0%)
Fringe Overhead Expenditures	14,744,700	13,100,000	1,644,700	12.6%
Provisions & Allowances	4,565,600	5,865,800	(1,300,200)	(22.2%)
Transfer to Statutory Reserves	12,755,000	14,001,100	(1,246,100)	(8.9%)
Fiscal Expenditures	8,494,400	8,299,000	195,400	2.4%
Subtotal Fiscal Expenditures	54,430,600	55,273,600	(843,000)	(1.5%)
TOTAL EXPENDITURES	\$ 194,949,400	\$ 184,204,700	\$ 10,744,700	5.8%

Excess / (Deficiency)

\$ (4,397,700)

\$ 0

Tax Increase..... 4.836%

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**CITY OF RICHMOND
CORPORATE SUMMARY
2001 OPERATING BUDGET**

	2001 BUDGET (DRAFT)	2000 BUDGET (BYLAW)	CHANGE (\$)	CHANGE (%)
CORPORATE ADMINISTRATION				
General Government	\$ 562,300	\$ 465,600	\$ 96,700	20.8%
Chief Administrator's Office	554,900	700,200	(145,300)	(20.8%)
Total Corporate Administration	1,117,200	1,165,800	(48,600)	(4.2%)
COMMUNITY SERVICES DIVISION				
Aquatic Services	\$ 3,213,700	\$ 2,730,200	\$ 483,500	17.7%
Arenas	1,922,700	1,633,100	289,600	17.7%
Concessions	0	(10,000)	10,000	(100.0%)
Recreation & Cultural Services	1,162,600	1,161,400	1,200	0.1%
Parks	6,433,600	5,997,600	436,000	7.3%
RCMP	20,751,500	19,451,400	1,300,100	6.7%
Gateway Theatre	843,400	760,100	83,300	11.0%
Fire Rescue (inc. YVR)	16,549,200	15,797,400	751,800	4.8%
Recreation Services	4,231,500	3,809,000	422,500	11.1%
Cultural Services	1,290,100	1,159,700	130,400	11.2%
Library	5,280,700	4,905,500	375,200	7.6%
Total Community Services	61,679,000	57,395,400	4,283,600	7.5%
FINANCE & CORPORATE SERVICES				
Finance	\$ 791,400	\$ 680,400	\$ 111,000	16.3%
Payroll & Administration	325,800	289,400	36,400	12.6%
Taxation	376,800	228,700	148,100	64.8%
Human Resources	1,821,200	1,170,800	650,400	55.6%
Law	581,800	554,900	26,900	4.8%
Information Technology	4,816,900	4,039,300	777,600	19.3%
Customer Services	397,500	400,800	(3,300)	(0.8%)
City Clerks	1,063,500	902,200	161,300	17.9%
Business Liaison Development	451,000	381,600	69,400	18.2%
Budgets, Accounting & Purchasing	2,593,400	2,506,700	86,700	3.5%
Treasury	186,100	231,700	(45,600)	(19.7%)
Total Finance & Corporate Services	13,405,400	11,386,500	2,018,900	17.7%
PUBLIC WORKS DIVISION				
General Public Works	\$ (825,600)	\$ (1,081,600)	\$ 256,000	(23.7%)
Roads & Construction	6,046,200	5,950,500	95,700	1.6%
Storm Drainage	2,153,200	1,924,100	229,100	11.9%
Facility Management	3,390,800	2,459,600	931,200	37.9%
Fleet Operations	800,200	562,400	237,800	42.3%
Sanitation & Recycling	0	0	0	0.0%
Water Utility	0	0	0	0.0%
Sanitary Sewer Utility	0	0	0	0.0%
Engineering	3,390,100	3,225,500	164,600	5.1%
Advance Research & Technology	228,700	228,400	300	0.1%
Communications	102,900	97,400	5,500	5.6%
Emergency Services Admin	184,700	147,100	37,600	25.6%
Total Public Works Division	15,471,200	13,513,400	1,957,800	14.5%
URBAN DEVELOPMENT DIVISION				
Urban Administration	\$ 330,000	\$ 427,100	\$ (97,100)	(22.7%)
Development Applications	935,600	783,500	152,100	19.4%
Policy Planning	904,000	833,100	70,900	8.5%
Community Bylaws	420,800	340,600	80,200	100.0%
Transportation	1,551,700	1,496,600	55,100	3.7%
Zoning	609,600	577,100	32,500	5.6%
Building Approvals	(60,200)	(238,200)	178,000	(74.7%)
Total Urban Development	4,691,500	4,219,800	471,700	11.2%
FISCAL				
Fiscal Revenues	\$ (126,284,300)	\$ (123,142,000)	\$ (3,142,300)	2.6%
Fiscal Expenditures	25,014,500	22,980,800	2,033,700	8.8%
Total Fiscal	(101,269,800)	(100,161,200)	(1,108,600)	1.1%
TRANSFERS TO RESERVES				
Transfers to Statutory Reserves	\$ 7,855,400	\$ 8,651,500	\$ (796,100)	(9.2%)
Provisions & Allowances	1,447,800	3,828,800	(2,381,000)	(62.2%)
Total Transfers to Reserves	9,303,200	12,480,300	(3,177,100)	(25.5%)
Excess / (Deficiency)	\$ (4,397,700)	\$ 0	\$ (4,397,700)	

**CITY OF RICHMOND
SENSITIVITY ANALYSIS
2001 OPERATING BUDGET vs. 5 YEAR PLAN (2000 - 2004)**

TAX REVENUE (\$)	INCREASE (\$)	RATE (%)	BREAKDOWN OF INCREASE (BEFORE ADJUSTMENTS)
95,342,490	4,397,700	7.893%	Fuel / CPI / Other Unplanned Increases \$0.3 million
97,993,011	7,048,221	7.750%	
97,765,649	6,820,859	7.500%	
97,538,287	6,593,497	7.250%	Utilities Unplanned Increases \$0.9 million
97,310,925	6,366,135	7.000%	
97,083,563	6,138,773	6.750%	
96,856,201	5,911,411	6.500%	
96,628,839	5,684,049	6.250%	RCMP Unplanned Increases \$0.9 million
96,401,477	5,456,687	6.000%	
96,174,115	5,229,325	5.750%	
95,946,753	5,001,963	5.500%	
95,719,391	4,774,601	5.250%	Salaries & Fringe (incl Fire) - Unplanned
95,492,030	4,547,240	5.000%	- Fringe \$1.7 million
95,264,668	4,319,878	4.750%	- Salaries \$0.6 million
95,037,306	4,092,516	4.500%	
94,809,944	3,865,154	4.250%	
94,582,582	3,637,792	4.000%	
94,355,220	3,410,430	3.750%	
94,127,858	3,183,068	3.500%	
93,900,496	2,955,706	3.250%	
93,673,134	2,728,344	3.000%	
93,500,339	2,555,549	2.810%	<--- 2001 FORECASTED INCREASE (5 Yr. Plan '00-'04):
93,445,772	2,500,982	2.750%	- Salary increase (Operating) - 1%
93,218,410	2,273,620	2.500%	- Salary increase (Fiscal) - 1%
92,991,048	2,046,258	2.250%	- Utilities & Other - 1.5%
92,763,686	1,818,896	2.000%	
92,536,324	1,591,534	1.750%	Assumptions Used:
92,308,962	1,364,172	1.500%	- No significant change in Revenue
92,081,600	1,136,810	1.250%	- Salaries increase 1%
91,854,238	909,448	1.000%	- CPI of 1.5%
91,626,876	682,086	0.750%	- 10 RCMP officers hired in 2000
91,399,514	454,724	0.500%	
91,172,152	227,362	0.250%	
90,944,790	Yr. 2000 BASE	0.000%	

CITY OF RICHMOND
SENSITIVITY ANALYSIS
2001 OPERATING BUDGET

TAX REVENUE \$	INCREASE \$	RATE %	STEPS TAKEN TO REDUCE PROPERTY TAX INCREASE FROM 7.893%	OTHER INCREASES BASED ON NEW INFORMATION
98,122,877	7,178,087	7.893%	Use of 2001 Expected Gaming Revenues \$1.7 million	
97,993,011	7,048,221	7.750%		
97,879,330	6,934,540	7.625%		
97,765,649	6,820,859	7.500%		
97,651,968	6,707,178	7.375%		
97,538,287	6,593,497	7.250%		
97,424,606	6,479,816	7.125%		
97,310,925	6,366,135	7.000%		
97,197,244	6,252,454	6.875%		
97,083,563	6,138,773	6.750%		
96,969,882	6,025,092	6.625%		
96,856,201	5,911,411	6.500%		
96,742,520	5,797,730	6.375%		
96,628,839	5,684,049	6.250%		
96,515,158	5,570,368	6.125%		
96,401,477	5,456,687	6.000%		
96,287,796	5,343,006	5.875%		
96,174,115	5,229,325	5.750%		
96,060,434	5,115,644	5.625%		
95,946,753	5,001,963	5.500%		
95,833,072	4,888,282	5.375%		
95,719,391	4,774,601	5.250%		
95,605,710	4,660,920	5.125%		
95,492,030	4,547,240	5.000%		
95,378,349	4,433,559	4.875%		
95,342,490	4,397,700	4.836%	Reduce Contribution to Capital Plan \$1.0 million	Investment income declines \$0.2 million
95,264,668	4,319,878	4.750%		
95,150,987	4,206,197	4.625%	RCMP Officers delayed replacements \$0.4 million	Provision for non collection of traffic fines \$0.2 million
95,037,306	4,092,516	4.500%		
94,923,625	3,978,835	4.375%	Other-increased revenues/decreased expenses \$0.3 million	Property Assessment Appeals \$0.2 million
94,809,944	3,865,154	4.250%		
94,696,263	3,751,473	4.125%		
94,582,582	3,637,792	4.000%		
94,468,901	3,524,111	3.875%		
94,355,220	3,410,430	3.750%		
94,241,539	3,296,749	3.625%		
94,127,858	3,183,068	3.500%		
94,014,177	3,069,387	3.375%		
93,900,496	2,955,706	3.250%		
93,786,815	2,842,025	3.125%		
93,673,134	2,728,344	3.000%		
93,559,453	2,614,663	2.875%		
93,445,772	2,500,982	2.750%		
93,332,091	2,387,301	2.625%		
93,218,410	2,273,620	2.500%		
93,104,729	2,159,939	2.375%		
92,991,048	2,046,258	2.250%		
92,877,367	1,932,577	2.125%		
92,763,686	1,818,896	2.000%		
92,650,005	1,705,215	1.875%		
92,536,324	1,591,534	1.750%		
92,422,643	1,477,853	1.625%		
92,308,962	1,364,172	1.500%		
92,195,281	1,250,491	1.375%		
92,081,600	1,136,810	1.250%		
91,967,919	1,023,129	1.125%		
91,854,238	909,448	1.000%		
91,740,557	795,767	0.875%		
91,626,876	682,086	0.750%		
91,513,195	568,405	0.625%		
91,399,514	454,724	0.500%		
91,285,833	341,043	0.375%		
91,172,152	227,362	0.250%		
91,058,471	113,681	0.125%		
90,944,790	Yr. 2000 BASE	0.000%		

CITY OF RICHMOND
5 YEAR PLAN (2001 - 2005) ASSUMPTIONS
as at March 1, 2001

GENERAL ASSUMPTIONS

All Salary Expenditures	2002	3% increase over 2001
	2003	2% increase over 2002
	2004	2% increase over 2003
	2005	2% increase over 2004

Note: 2002 is per current Contract agreement

Other Operating Expenditures	2002	2.2% increase over 2001
	2003	2.0% increase over 2002
	2004	2.0% increase over 2003
	2005	2.0% increase over 2004

Note: as per 2002 CPI projections from M. Murenbeeld & Associates Inc.

Exceptions to above rates of 2.2% and 2.0%:

Contracts - Photocopy	below
Contracts - Office Equipment	below

2002	5% increase over 2001
2003	5% increase over 2002
2004	3% increase over 2003
2005	2% increase over 2004

Note: as per growth projections from the Purchasing department

U.S. Exchange Rates	2002	1.510
	2003	1.460
	2004	1.460
	2005	1.460

Note: as per 2002 projections from M. Murenbeeld & Associates Inc.

SPECIFIC ASSUMPTIONS

Aquatics revenues	2002	no increase over 2001
	2003	2.0% increase over 2002
	2004	2.7% increase over 2003
	2005	2.7% increase over 2004

Note: due to expected user fee increases

RCMP	2002	6% increase over 2001
	2003	10% increase over 2002
	2004	3% increase over 2003
	2005	2% increase over 2004

Note: In 2002 and 2003, expected increases in salaries and staffing levels due to Community Policing efforts. 2004 & 2005 are due to salary increases.

Fire Rescue same salary increases as general assumptions above

Parks Maintenance cost increases of 6% per year due to inventory growth

Information Technology Increase in Maintenance contracts and equipment of 5% per year

Utilities Volume and rate increases totalling 5% per year

Public Works Maintenance cost increases of 6% per year due to infrastructure growth

Development Applications Revenue increase of 3% per year due to new development

Building Approvals Revenue increase of 3% per year due to growth

Contribution to Capital approx. \$2.0 million per year