



To: Finance Select Committee
From: Andrew Nazareth
Director of Finance
Re: **2004 Operating Budget**

Date: October 21, 2003
File: 1081746

Staff Recommendation

It is recommended that:

- 1) The attached 2004 Operating Budget report from the Manager of Budgets and Accounting be received for review; and
- 2) The 2004 Operating Budget report be approved as the basis for preparing the 5 Year Financial Plan (2004-2008)

Andrew Nazareth
Director of Finance
(4365)

FOR ORIGINATING DIVISION USE ONLY

CONCURRENCE OF GENERAL MANAGER

Staff Report

Origin

Section 327 of the Local Government Act (the Act) states that a 5 Year Financial Plan (5YFP) must be adopted annually by bylaw before the annual property tax bylaw is adopted, which the Act states is on or before May 15th.

The 2004 Operating Budget (the Budget) is required to be approved in order to prepare the 5YFP since this forms the base. Approval of the Budget also allows the data-file to be loaded into the City's accounting system, which then allows expenditures to be tracked against the Budget commencing January 1st, 2004.

Analysis

Process

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

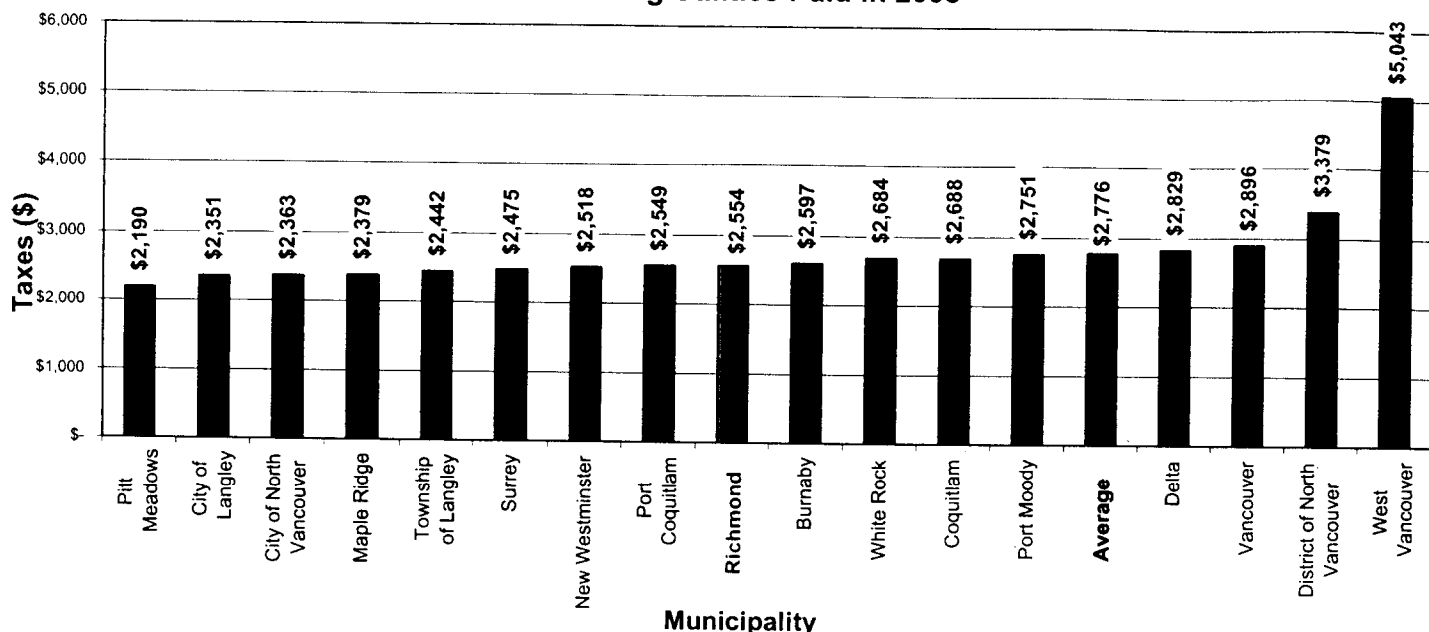
On July 15th, 2003, Finance conducted the budget rollout and subsequently accounting systems were opened to all departments for their budget input. The input was completed by September 15th, 2003 and the departmental budgets were then presented by the corresponding department and reviewed by Finance.

On October 14th and 21st, 2003, TAG reviewed the 2004 Budget.

Executive Summary

The expected net tax increase for 2004 is 4.45%, due to the Budget shortfall of \$4,699,398. The 4.45% increase is consistent with the 5YFP issued in May of 2003 and endorsed by Council. This increase translates to \$45.48 per household based upon an average single family dwelling in Richmond (\$260,067-assessment value), or \$17.49 per every \$100,000 assessed value. It should be noted that based upon 2003 actual property taxes, the average property taxes for Richmond residents is below the average of other Lower Mainland Municipalities.

**Lower Mainland Property Tax Comparison
Including Utilities Paid in 2003**



The breakdown of the Budget shortfall is summarized as follows,

	Increase	Tax Impact	Explanation
Policing	\$2,178,737	2.06%	Contract increase \$1.7M, ECOMM increase \$0.3M
Fire Rescue	982,100	0.93%	Salary increase \$0.95M, ECOMM increase \$0.16M
Other City	3,122,363	2.96%	Salary and benefits increase \$2.6M
	\$6,283,200	5.95%	
Estimated Growth	<u>(1,583,802)</u>	<u>(1.50%)</u>	
Shortfall	\$4,699,398	4.45%	Tax Increase

The breakdown of each Divisions' 2004 Budget, with the year over year changes by dollars and percentage and tax impact are summarized as follows,

Division	2004 Budget Draft	Change (\$)	Change (%)	Tax Impact
Community Safety	\$46,100,900	\$3,146,376	7.32%	2.98%
Parks Recreation & Cultural Services	27,198,100	952,500	3.63%	0.90%
Engineering & Public Works	14,994,500	263,300	1.79%	0.25%
Finance & Corporate Services	9,516,800	184,727	1.98%	0.17%
Urban Development	4,044,100	342,100	9.24%	0.32%
Human Resources	2,113,900	82,500	4.06%	0.08%
Corporate Administration	2,269,700	124,397	5.80%	0.12%
Fiscal (net)	(\$109,019,900)	\$1,756,400	1.59%	1.66%
Transfer to Reserves	9,065,100	(569,100)	-5.91%	-0.54%
Net Expenditures over Revenues	\$6,283,200	\$6,283,200	5.95%	5.95%
Estimated Growth	<u>(1,583,802)</u>			<u>(1.50%)</u>
Shortfall	\$4,699,398			4.45%

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 *	2.20
USD Exchange **	1.37
Salaries:	
Fire Rescue	3.5%
718 Inside Workers	2.5%
394 Outside Workers	2.5%
Exempt	2.5%
Library	2.5%
Specific Assumptions:	
Community Safety Building Funding	\$996,093
RCMP Contract	5.00%
ECOMM	5.00%
Fuel	5.00%
Return on Investment	4.00%
Utilities/Hydro & Gas	2.90%
Growth	1.50%

* Consumer Price Index data obtained from Bank of Canada

** U.S. Dollar Exchange obtained from Scotia Economics

Significant Year Over Year Changes

Significant Year Over Year Changes	2004 Budget	Tax Impact	Explanation
Expenditures:			
Increase in Salaries & Benefits	2,594,850	2.46%	- Due mainly to standard increases previously negotiated
Increase in RCMP Contract	2,104,600	1.99%	- Due to contract cost (183 officers) and new integrated Homicide Team
Increase in Fire Salary	945,600	0.90%	- Due to seniority and previously negotiated increases.
Increase in ECOMM	461,040	0.44%	- (1) - see explanation below
Increase Public Works Material & Equipment	354,000	0.34%	- Increase due to costs and CPI.
Elimination of Transfer to Capital Projects	(503,400)	-0.48%	- Elimination of transfers to capital projects.
Revenues:			
Elimination of Casino Revenue	1,298,000	1.23%	- Elimination due to funding being used for capital projects
Decrease in Fire Recovery from YVR	165,500	0.16%	- (2) - see explanation below
Increase in RCMP recovery from YVR	(470,000)	-0.45%	- Due to additional requirements
Increase in Community Facility Revenue	(301,700)	-0.29%	- Expected increase in usage of arenas and aquatic centres
Increase in Grants of Lieu of Taxes	(266,800)	-0.25%	- Increase in grants from various customers
Increase in Business License Revenue	(125,500)	-0.12%	- Projected increase in businesses in Richmond and small rate increase.
Tax Growth			
Estimated Growth	1,583,802	1.50%	(3) - see explanation below

Explanations

- (1) ECOMM-Increase in contract costs of \$461,040 for both Fire (\$160,100) and RCMP (\$300,940). The RCMP increase is for non-emergency dispatch services.
- (2) Fire Recovery (YVR)-Loss of the YVR contract, which resulted in net income of \$165,500, lost to the City (expenditure \$1,924,900 and revenues of \$2,090,400).
- (3) Tax Growth-estimated to be \$1,583,082 or 1.5%. The final figures from the B.C. Assessment Authority are not yet available so the 1.5% estimated increase has been maintained.

Risks

The following are the risks that have been identified within the Budget that have not been factored into the numbers. All attempts have been made to identify and cost out the risks however the department cannot identify all risks that may occur.

Risks		Tax Impact
Legal provision	-	-
Insurance provision	-	-
Appeal provision	-	-
Other Government Impact:		
Traffic Fines	\$ 400,000	0.38%
Library Grants	\$ 331,800	0.31%
Hydro / Gas Increases	\$ 200,000	0.19%
Parking Revenues	\$ 100,000	0.09%
Fuel Increases	\$ 100,000	0.09%
	\$ 1,131,800	1.07%

The legal, insurance and appeal provision amounts have been identified but cannot be provided due to confidentiality.

Additional Levels

Additional levels have been included and separated into 2 different categories, Council Consideration, and TAG recommendations.

	Amount (\$)	Tax Impact	
		Each Item	Overall
Budget Shortfall	6,283,200	5.95%	5.95%
Growth Estimate	<u>(1,583,802)</u>	<u>(1.50%)</u>	<u>4.45%</u>
	4,699,398	4.45%	4.45%
Additional Level Requests for Council Consideration			
RCMP-Increase Complement By 6	788,676	0.75%	5.20%
RCMP-Increase Members By 5	638,480	0.60%	5.80%
RCMP-Administrative & Finance Clerk Position	49,000	0.05%	5.85%
RCMP-OSR Support Position	45,500	0.04%	5.89%
RCMP-CPIC Clerk Municipal Position	45,500	0.04%	5.93%
Chinese Translation Services	16,000	0.02%	5.95%
Disability Resource Centre Funding	70,000	0.07%	6.03%
Richmond Therapeutic Equestrian Society Funding	23,000	0.02%	6.04%
Seniors Wellness Program Funding	10,000	0.01%	6.05%
	<u>1,686,156</u>	<u>1.60%</u>	<u>6.05%</u>
Additional Level Requests TAG Recommended			
Annual Election Reserve Contribution Increase	34,059	0.03%	6.08%
Highlight Copier Kodak IS70 Replacement-Lease	<u>28,730</u>	<u>0.03%</u>	<u>6.11%</u>
	62,789	0.06%	6.11%
Total	<u>6,448,343</u>	<u>6.11%</u>	<u>6.11%</u>

For additional levels sorted in the City's priorities, please refer to the 2004 Budget binder under the tab titled "2004 Additional Levels".

Financial Impact

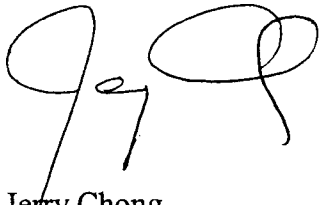
The Budget (subject to changes by the Committee) shows revenues of \$144,242,600, a decrease of \$1,997,000 from 2003. Expenses are projected to be \$150,525,800, an increase of \$4,286,200 from 2003. The tax growth is estimated to be \$1,583,802, which results in a shortfall of \$4,699,398, which is equivalent to an overall average tax increase of 4.45%. This is consistent with the 5YFP issued in May of 2003. For more detailed financial statements, explanations and analysis please refer to the 2004 Budget binder under the tab titled "2004 Operating Budget"

	2004 Budget Draft	Change (\$)	Tax Impact (%)
Total Revenues	\$144,242,600	(\$1,997,000)	-1.89%
Total Expenses	<u>\$150,525,800</u>	<u>\$4,286,200</u>	<u>4.06%</u>
Net Expenditures over Revenues	\$6,283,200	\$6,283,200	5.95%
Estimated Growth	<u>(\$1,583,802)</u>		<u>-1.50%</u>
Shortfall	\$4,699,398		4.45%

Conclusion

The current proposed 2004 Operating Budget contains a shortfall of \$4,699,398 or a 4.45% tax increase.

Once the 2004 Operating Budget final draft is determined, staff recommend that it be approved as the basis for the preparation of the 5YFP (2004-2008) and for commencement of authorized spending on January 1st, 2004.

A handwritten signature in black ink, appearing to read 'Jerry Chong', with a stylized, cursive script.

Jerry Chong
Manager of Budgets and Accounting
(4064)