

Origin

The 2008 Operating Budget (the Budget) is required to be approved in order to prepare the Five Year Financial Plan (5YFP) since Subsection 165(1) of The Community Charter requires the City to adopt a 5YFP Bylaw before May 15th of each year. 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, 2008.

Analysis

The City's annual Operating Budget cycle begins in May when service levels are established by each department and budget guidelines are set by the Budgets Division. On July 25, 2007 the Budgets Division conducted the budget rollout and subsequently accounting systems were opened to all departments for their budget input. The input was completed by September 6, 2007 and the departmental budgets were then presented by each corresponding department and reviewed by the Budgets Division.

Base Budget - maintaining existing levels of service.

The base budget has been calculated on the basis that the programs and service levels to the community be maintained in 2008. Not included in the base budget are expenditures that are related to development and capital initiated projects. These are increased expenditures necessary to provide service to the expanded inventory of assets.. 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 various user fees.

Additional Levels of Service – Additional level budget submissions represent new items such as new programs or program enhancements from the previous year's budget. Additional level budgets should also include any increases in the level of service over the prior year.

The Base Budget does not include any additional levels. The additional level requests are listed separately as an appendix to this report.

Attachments

- Non Discretionary/Discretionary Expenses Summary – Appendix 1
- Long Term Financial Management Strategy Scorecard – Appendix 2
- Additional level requests – Appendix 3

Assumptions

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

Consumer Price Index*	2.10%
USD Exchange*	1.01%
Return on Investment	4.50%

Tax Growth (net)**	2.89%
Hydro	1.17%
Asphalt	8.00%

Salary increases for all employee groups are provided for in accordance with all collective agreements, policies and practices.

* Information obtained from Province of BC Economic Report

** Information obtained from BC Assessment

Highlights

2008 Operating Budget Corporate Summary (In \$ 000's)

Department	2007 Adjusted Budget Bylaw	2008 Proposed Budget Bylaw	Change \$	Change %	Tax Impact
Law & Community Safety	56,491	59,259	2,768	4.90%	2.14%
Parks Recreation & Culture	30,122	31,376	1,254	4.16%	0.97%
Engineering & Public Works	22,352	23,060	708	3.17%	0.55%
Business & Financial Services	1,822	1,889	67	3.68%	0.05%
Planning & Development	4,024	3,834	(190)	(4.73%)	(0.15%)
Corporate Services	12,085	12,810	725	6.00%	0.56%
Corporate Administration	2,595	2,691	96	3.67%	0.07%
Fiscal	(151,900)	(153,199)	(1,299)	(0.86%)	(1.01%)
Transfer to Reserves	22,409	24,659	2,250	10.04%	1.74%
			6,379		4.92%
	2008 Tax Growth		(3,750)		(2.89%)
	2008 Net Tax Impact		2,629		2.03%

The 2008 budget increase in overall net expenditures is \$ 6.38 million over 2007. The tax impact of this increase is 4.92%, excluding growth. The tax growth is estimated to be 2.89% or \$3.75 million.

The following table shows three options of tax increase with a break down of net expenditures between the City, RCMP, Fire Rescue and Growth. The base budget for the City has an increase of 2.01%. The increase for Fire Rescue includes \$ 0.58 M for additional positions that are required due to the continuation of sick time usage.

Expenditures have been segregated that are related to growth from increased plant with respect to both new capital and development initiated projects which may have labour and non labour components.

The new capital projects carry an operating budget impact (OBI), as the City will require expenditures in order to provide its current level of services to the additional inventory of assets created as a result. However, the extent of this OBI is somewhat dependent on the magnitude of the projects approved by Council.

The inventory of assets created as a result of development also has an impact on the operating budget. These assets are already in operation when the development is complete and the City does not have a choice but to extend its level of service to these new assets.

None of the options include a 1% tax increase towards transfer to reserves for infrastructure replacement needs. Council had previously directed that the 1% tax increase would not be levied for 2008 as the interest earned on the Community Legacy reserve would be utilized in lieu of the 1% transfer towards infrastructure replacement needs.

**Tax Impact Options
(in \$ 000's)**

	Recommended					
	Option 1		Option 2		Option 3	
	Change \$	Tax Impact %	Change \$	Tax Impact %	Change \$	Tax Impact %
City	\$2,613	2.01%	\$2,613	2.01%	\$2,613	2.01%
RCMP	1,099	0.85%	1,099	0.85%	1,099	0.85%
Fire Rescue	956	0.74%	956	0.74%	956	0.74%
Fire Rescue-sick time	581	0.45%	581	0.45%	581	0.45%
Total Base budget	5,249	4.05%	5,249	4.05%	5,249	4.05%
Increased Plant (Development)						
Labour			396	0.31%	396	0.31%
Other			253	0.20%	253	0.20%
Increased Plant (Capital)						
Labour			381	0.29%	381	0.29%
Other			100	0.08%	100	0.08%
Total Budget after Plant increase	5,249	4.05%	6,379	4.92%	6,379	4.92%
Estimated Tax Growth	(3,750)	(2.89%)	(3,750)	(2.89%)	(3,750)	(2.89%)
Total Budget after Growth	1,499	1.16%	2,629	2.03%	2,629	2.03%
Additional levels- Priority 1					489	0.38%
*- Allowance for Priority 2					1,511	1.16%
Oval operating rate stabilization					500	0.39%
Total Budget after additional levels and Oval Operating rate stabilization	1,499	1.16%	2,629	2.03%	5,129	3.96%

* Staff recommend an allowance not to exceed \$1.5 M for priority 2 additional levels.

Option 1

- Tax increase of 1.16% (below CPI).
- Represents base budget with non-discretionary rate increases.
- Does not provide for operating and maintenance of new infrastructure due to development or capital growth related expenditures.
- Does not meet the Long Term Financial Management Strategy (LTFMS- Policy 3707).
- Maintains the current programs and existing infrastructure at the same level of service, however, all new infrastructure will not be maintained.
- Does not provide for additional levels of service
- Does not provide for realistic or proactive planning to address future obligations (Oval)

Option 2

- Tax increase of 2.03% (approx. CPI).
- Represents base budget with non-discretionary rate increases.
- Allows for \$ 1,130,000 in increased development and capital growth related expenditures
- Considers tax growth as an offset to development and capital growth expenditures
- Provides for the minimum increase necessary to sustain operations.
- Does not provide for additional levels of service
- Does not meet the LTFMS.
- Does not provide for realistic or proactive planning to address future obligations (Oval)

Option 3 (RECOMMENDED)

- Tax increase of 3.96%.
- Allows for \$ 1,130,000 in increased development and capital growth related expenditures
- Provides for realistic or proactive planning to address future obligations (Oval) by contributing \$ 500,000 to Oval operating post games stabilization fund.
- Provides for \$ 2,000,000 additional levels at the discretion of Council
- Most closely aligned to the LTFMS policy.

Non-Discretionary/Discretionary Expenses Summary (Appendix 1)

This schedule shows a breakdown of the City's non-discretionary and discretionary expenditures. Generally the City does not have control over the non discretionary expenditures such as salaries and fringe benefits, material costs, fuel costs, insurance rates, hydro/gas rates, etc. as these increases are to a great extent driven by factors beyond the control of the City. However, these costs have been partially offset by expected increased revenues from growth and user fees. The tax impact of the non-discretionary expenses is 5.03%. The City has managed to reduce this tax impact by following the principles of the LTFMS. This includes exploring new revenue generation opportunities such as film revenues and also enhancing current alternative revenues

such as lease revenue. In addition, the city continues to aggressively pursue ways to gain operational efficiencies, such as lower energy consumption. With these combined initiatives the tax impact of net non-discretionary expenses has been reduced to 3.38%. RCMP costs are considered non discretionary as they are passed on from another level of government.

Discretionary expenses are those that the City has significant control over such as travel, training and development, telecommunications, supplies, Committee/meeting expenses, etc. The cumulative tax impact of such expenses is 0.67%.

Long Term Financial Management Strategy (LTFMS) Scorecard (Appendix 2)

In preparation of the 2008 Operating Budget, staff ensured that wherever possible, the LTFMS was utilized as a guide.

2008 Capital Plan and operating expenditure impact

Options 2 and 3 include the operating impact from the proposed 2008 Capital Plan, which is \$481,000 or 0.37% tax impact. Should the extent of this increase not be acceptable, a corresponding decrease in the proposed capital plan would be required.

Additional Levels (Appendix 3)

Staff have identified (asterisked) additional levels that were previously discussed by Council (priority 1) and recommend that these (\$489,167) be approved. All other additional levels will be discussed at a future meeting once the RCMP additional level requests are presented at the upcoming Community Safety Committee meeting. Once priority 1 additional levels in the amount of \$489,167 are approved, staff recommend that an allowance be established for further Additional Levels (priority 2) not to exceed \$1,510,833 that would result in a final tax increase of 3.96% at maximum.

Conclusion

Staff recommend that Council adopt Option 3, which is most closely aligned to the policies contained within the LTFMS. This option contains a shortfall of \$2.6 million or a 2.03% tax increase before Additional Levels and Oval Operating Rate Stabilization. Once those are added, the proposed 2008 Operating Budget shortfall increases to a maximum of \$5.1 million or a 3.96% tax increase, subject to the extent of Council's approval of priority 2 Additional Levels.



Hari Suvarna
Manager, Budgets and Accounting
(4365)

Non-discretionary / Discretionary Expenses
(in \$ 000's)

	Total	City	RCMP	Fire
Non-discretionary expenses	6,520	3,836	804	1,880
Tax Impact	5.03%	2.96%	0.62%	1.45%
Discretionary revenues	2,135	1,672	-	463
Tax Impact	1.65%	1.29%	0.00%	0.36%
Net Non-discretionary expenses	4,385	2,164	804	1,417
Discretionary expenses	864	449	295	120
Total	5,249	2,613	1,099	1,537
Tax Impact	4.05%	2.01%	0.85%	1.19%

Long Term Financial Management Strategy Scorecard

	Policy	Analysis	Standing																																																	
1	Tax Revenue	<p>Tax increases will be at Vancouver's CPI rate (to maintain current programs and maintain existing infrastructure at the same level of service) plus 1.0 % towards infrastructure replacement needs.</p> <table border="1"> <thead> <tr> <th></th> <th>Base Increase</th> <th>Development Growth*</th> <th>OBI</th> <th>Additional Level</th> <th>Reserves</th> <th>Total Increase</th> </tr> </thead> <tbody> <tr> <td>2003</td> <td>2.49%</td> <td>-</td> <td>0.41%</td> <td>0.45%</td> <td>1.00%</td> <td>4.35%</td> </tr> <tr> <td>2004</td> <td>2.25%</td> <td>-</td> <td>0.26%</td> <td>0.76%</td> <td>0.47%</td> <td>3.74%</td> </tr> <tr> <td>2005</td> <td>1.02%</td> <td>-</td> <td>0.22%</td> <td>0.73%</td> <td>0.00%</td> <td>1.98%</td> </tr> <tr> <td>2006</td> <td>1.75%</td> <td>-</td> <td>0.26%</td> <td>0.97%</td> <td>1.00%</td> <td>3.98%</td> </tr> <tr> <td>2007</td> <td>1.39%</td> <td>-</td> <td>0.26%</td> <td>1.18%</td> <td>0.82%</td> <td>3.65%</td> </tr> <tr> <td>2008*</td> <td>1.16%</td> <td>0.51%</td> <td>0.36%</td> <td>1.93%</td> <td>0.00%**</td> <td>3.96%</td> </tr> </tbody> </table> <p>- The base 2008 budget meets the policy of limiting the increase to CPI.</p> <p>*2008 is the first year that development growth has been isolated. In prior years development growth as contained in the Base Increase figure</p> <p>** The 2008 increase in transfer to reserves is mainly funded through investment income generated from the Community Legacy reserve.</p>		Base Increase	Development Growth*	OBI	Additional Level	Reserves	Total Increase	2003	2.49%	-	0.41%	0.45%	1.00%	4.35%	2004	2.25%	-	0.26%	0.76%	0.47%	3.74%	2005	1.02%	-	0.22%	0.73%	0.00%	1.98%	2006	1.75%	-	0.26%	0.97%	1.00%	3.98%	2007	1.39%	-	0.26%	1.18%	0.82%	3.65%	2008*	1.16%	0.51%	0.36%	1.93%	0.00%**	3.96%	Meets Requirement
	Base Increase	Development Growth*	OBI	Additional Level	Reserves	Total Increase																																														
2003	2.49%	-	0.41%	0.45%	1.00%	4.35%																																														
2004	2.25%	-	0.26%	0.76%	0.47%	3.74%																																														
2005	1.02%	-	0.22%	0.73%	0.00%	1.98%																																														
2006	1.75%	-	0.26%	0.97%	1.00%	3.98%																																														
2007	1.39%	-	0.26%	1.18%	0.82%	3.65%																																														
2008*	1.16%	0.51%	0.36%	1.93%	0.00%**	3.96%																																														
2	Gaming Revenue	<p>Gaming revenues will go directly to the capital reserves, the grants program and a community legacy project reserve.</p> <p>- Gaming Revenue is currently used to fund capital reserves and the community grants program. In addition, Council has utilized gaming to fund 4 RCMP officers (2007).</p>	Meets Requirement																																																	
3	Alternative Revenues & Economic Development	<p>Any increases in alternative revenues and economic development beyond all the financial strategy targets can be utilized for increased levels of service or to reduce the tax rate.</p> <p>- The City is focusing on this policy and is in the process of enticing major corporations to Richmond and is also addressing the filming and sponsorship programs.</p>	Needs Improvement																																																	
4	Changes to Senior Government Service Delivery	<p>Any additional costs imposed on the City as a result of mandatory senior government policy changes should be identified and added to that particular year's taxes above and beyond the CPI and infrastructure percentage contribution.</p> <p>- The RCMP and Fire increase account for a large portion of the overall tax increase.</p> <p>- Changes to Senior Government Service Delivery, such as the change in account regulations PSAB 3150, which result in increased costs, are highlighted in the additional level process.</p>	Meets Requirement																																																	
5	Capital Plan	<p>Ensure that long-term capital funding for infrastructure (e.g. parks, trails, facilities, roads etc.) is in place in order to maintain community liveability and generate economic development.</p> <p>- The Five Year Capital Plan is created on a yearly basis and projects the anticipated capital program costs and funding availability.</p> <p>- This ensures that the approved projects have future funds available to finance their costs.</p>	Meets Requirement																																																	
6	Cost Containment	<p>Staff increases should be achieved administratively through existing departmental budgets, and no pre-approvals for additional programs or staff beyond existing budgets should be given, and that a continuous review be undertaken of the relevancy of the existing operating and capital costs to ensure that the services, programs and projects delivered continue to be the most effective means of achieving the desired outcomes of the City's vision.</p> <p>- Annually, department budgets are reviewed to keep costs under control. Metrics need to be established to measure and distinguish rate and consumption increases as well as policies to determine whether automatic increases should be allowed to meet existing service levels.</p>	Needs Improvement																																																	

7	Efficiencies & Service Level Reductions	<p>Savings due to efficiencies or service level reductions identified in the strategy targets should be transferred to the capital reserves. Any savings due to efficiencies beyond the overall strategy targets can be utilized to reduce the tax rate or for increased levels of service.</p> <p>- This is an ongoing process, for example, for the 2008 budget; the Water Utility has identified efficiencies resulting in a savings of \$361,200, which is to be transferred to reserves.</p>	Needs Improvement
8	Land Management	<p>Sufficient proceeds from the sales of City land assets will be used to replenish or re-finance the City's land inventory. Any funds in excess of such proceeds may be used as directed by Council.</p> <p>- The proceeds from land sales are returned to land related accounts to fund future land acquisitions in order to maintain or expand land holdings.</p>	Meets Requirement
9	Administrative	<p>As part of the annual budget process the following shall be undertaken:</p> <ul style="list-style-type: none"> - all user fees will be automatically increased by CPI; - the financial model will be used and updated with current information, and - the budget will be presented in a manner that will highlight the financial strategy targets and indicate how the budget meets or exceeds them. <p>- Currently wherever possible user fees are increased by CPI early on in each year.</p>	Needs Improvement
10	Debt Management	<p>Utilize a "pay as you go" approach rather than borrowing for financing infrastructure replacement.</p> <p>- Since the inception of the LTFMS no capital project has utilized external borrowing as a funding source. This form of efficiency allows for the savings from interest payments that would otherwise be payable.</p>	Meets Requirement

2008 Additional Levels

Department			Description	\$ Amount	Tax Impact	Cumulative Tax Impact
1	PLANNING & DEV	Major Events	Implementing the major events strategy salaries, marketing, promo and event support	100,000	0.08%	0.08%
2	LAW & COMMTY SAFETY	Law & Community Safety Administration	Restorative Justice program coordinated by Touchstone Family Association	95,000	0.07%	0.15%
3	BUS & FIN SERVICES	Budgets & Accounting	Capital Analyst to implement PSAB standards for capital assets	77,597	0.06%	0.21%
4	LAW & COMMTY SAFETY	RCMP Administration	Integrated teams - Police Dog Services, Forensic Id and Traffic Reconstructionist	59,570	0.05%	0.26%
5	CORPORATE ADMIN	Sister City Committee	Program Costs	55,000	0.04%	0.30%
6	BUS & FIN SERVICES	Real Estate Services	Affordable Housing Coordinator	102,000	0.08%	0.38%
TOTAL PRIORITY 1				489,167	0.38%	
7	ENGINEERING & PW	Fleet	Increase vehicle replacement reserve	250,000	0.19%	0.19%
8	LAW & COMMTY SAFETY	Fire Fleet	Increase fire vehicle replacement reserve	250,000	0.19%	0.39%
9	PLANNING & DEV	Policy Planning	Preparing and updating "OCP", area plans	200,000	0.15%	0.54%
10	LAW & COMMTY SAFETY	Fire Administration	Technical Support (GIS) for onboard computers in all the fire trucks	107,880	0.08%	0.62%
11	CORPORATE SERVICES	Human Resources	Duty to accommodate	58,652	0.05%	0.67%
12	CORPORATE SERVICES	City Clerks Office	Increase election budget	80,000	0.06%	0.73%
13	LAW & COMMTY SAFETY	RCMP Administration	Personnel	769,980	0.59%	1.33%
14	ENGINEERING & PW	Facilities	Increased maintenance of buildings	250,000	0.19%	1.52%
15	PARKS, REC & CULTURE	Program and Projects	Increase and improve connections and programs	25,500	0.02%	1.54%
16	PARKS, REC & CULTURE	Community Recreation	Increase attendant hours and janitorial supplies West Richmond CC	25,340	0.02%	1.56%
17	ENGINEERING & PW	Asphalt Capping	Increase the road rehabilitation program	200,000	0.15%	1.71%
18	LAW & COMMTY SAFETY	RCMP Administration	RCMP Pension increase	375,000	0.29%	2.00%
19	LAW & COMMTY SAFETY	Law	Increase external legal expenditure budget	300,000	0.23%	2.23%
20	PARKS, REC & CULTURE	Library Administration	Increase activities at Brighthouse Library	196,280	0.15%	2.39%
21	CORPORATE SERVICES	Human Resources	Fund legal costs relating to Labour issues.	70,000	0.05%	2.44%
22	PLANNING & DEV	Olympic Business Office	Salary/Costs new Manager of Olympic Operations	123,005	0.09%	2.53%
23	LAW & COMMTY SAFETY	RCMP Administration	Risk Management Positions	106,332	0.08%	2.62%
24	PARKS, REC & CULTURE	Richmond Public Library	Purchase materials for library circulation	40,000	0.03%	2.65%
25	PARKS, REC & CULTURE	Gateway Theatre	Increase staff salaries	75,453	0.06%	2.71%
26	LAW & COMMTY SAFETY	Police Records	Court Liaison Clerk to support Court Liaison Officers	55,694	0.04%	2.75%
27	PARKS, REC & CULTURE	Senior Services	Expand hours on evenings and weekends	45,260	0.03%	2.78%
28	LAW & COMMTY SAFETY	Police Records	OSR Clerk	45,194	0.03%	2.82%
29	LAW & COMMTY SAFETY	Law & Community Safety Administration	Temporary part time administration staff	38,200	0.03%	2.85%
30	CORPORATE SERVICES	Corporate Communication	Administration Staff-Communications	32,736	0.03%	2.87%
31	LAW & COMMTY SAFETY	Fire Administration	Training/Development	35,000	0.03%	2.90%
32	LAW & COMMTY SAFETY	Parking Enforcement	Bylaw officer to enforce idling regulation bylaw	34,720	0.03%	2.93%
33	PARKS, REC & CULTURE	Heritage Sites	Operating subsidy to Society to operate the museum and post office in Steveston Museum	38,000	0.03%	2.96%
34	PARKS, REC & CULTURE	Spirit of BC	Committee expenses	25,000	0.02%	2.98%
35	PLANNING & DEV	Major Events	Assistant and expenses for Major Events Mgr	63,235	0.05%	3.02%
TOTAL OTHER				3,916,461	3.02%	
Total Additional Level Requests				4,405,628	3.40%	