



City of Richmond

Report to Committee

To: Finance Committee

Date: August 24, 2010

From: Jerry Chong
Director, Finance

File: 03-0970-01/2010-Vol
01

Re: 2011 Operating, Utility and Capital Budget Preparation

Staff Recommendation

That the basis for the preparation of 2011 Operating, Utility and Capital Budgets be received for information.

Jerry Chong
Director, Finance
(604-276-4064)

FOR ORIGINATING DEPARTMENT USE ONLY		
CONCURRENCE OF GENERAL MANAGER		
REVIEWED BY TAG	YES <input checked="" type="checkbox"/>	NO <input type="checkbox"/>
REVIEWED BY CAO DEPUTY	YES <input checked="" type="checkbox"/>	NO <input type="checkbox"/>

Staff Report

Origin

Section 165 of the Community Charter mandates the City prepare a 5 Year Financial Plan (SYFP) and to adopt it annually by bylaw before the annual property tax bylaw deadline of May 15th of each year.

This report outlines the criteria for developing the 2011 Operating, Utility and Capital Budgets, the budgeting process, timeline, assumptions and also presents the 2010 tax increase comparison with other municipalities of Metro Vancouver, (**Please see Attachment 1**) and the City's 2010 tax position (**Please see Attachment 2**).

Analysis

2011 Budget Outlook

The primary focus of the 2011 Operating and Utility Budget is to balance the fiscal challenges facing the City while remaining consistent with Council priorities, the Long Term Financial Management Strategy and minimizing the tax impact on Richmond residents. Staff will continue to focus on controlling and reducing costs where necessary by identifying efficiencies in the operations.

The CAO in light of Council's desire to identify efficiencies, reduce redundancies and evaluate current practices, has implemented an Enterprise Team. The Enterprise Team has conducted investigations, discussions and analysis of current practices and has identified various processes that should be reviewed to determine whether the practice remains feasible or alternative processes are available. The Enterprise Team has focused their attention on five projects and will be organizing and planning the resources accordingly.

1. Events Application Process
2. Council Chambers Upgrade
3. Extranet and Improved Intranet
4. Corporate Carbon Neutral Action Initiative
5. Use of Social Media
6. Telecommuting

The most significant impact on the City's 2011 Operating and Utility Budgets will be the previously negotiated Collective Agreement salary increases. The RCMP contract is also expected to increase by about 6%. The costs of water purchases, liquid waste and solid waste will continue to rise in 2011. Metro Vancouver projections indicate that the 2011 rate increases will be 17.8% for water purchases, 6% for liquid waste and 17% for solid waste. However, it is anticipated that the potential increase to the City's utility rates may be minimized by a further reduction in water consumption as a result of the water metering program and utilization of rate stabilization funds.

The economy continues to show signs of recovery from the 2008 downturn. The 2010 construction starts show an improvement over 2009 and City revenues from building permits, business licenses and development applications have also shown corresponding increases. If construction and development continue at its current pace, it is expected that the 2011 increase in revenues will offset the 2010 onetime funding from surplus. It is anticipated that tax revenue growth will increase by 1% in 2011 due to reduced

construction activities in 2009. There is generally a two year time lag between the construction starts and the tax revenue growth.

The 2011 Capital Budget will continue to address aging infrastructure as well as other projects consistent with Council approved plans. The second year deferral of the operating budget impact (OBI) relating to the 2010 Capital projects amounting to \$170k will be included in the 2011 Operating base budget.

Harmonized Sales Tax (HST) Impact

Based on preliminary analysis, the introduction of HST may have a minimal impact on the 2011 Operating, Utility and Capital budgets. The City pays HST on the purchase of most of its goods and services and receives an overall rebate of 85.4% of the tax paid. Costs for services will increase as a result and there will be savings on supplies and equipment. The exact impact to the City is contingent on the mix of products and services purchased. A thorough review of the overall impact of the HST on the City's budgets will be conducted during the budgeting process and the outcome reported to Council.

Tangible Capital Asset (TCA) standards

The impact of the new TCA standards on the Operating, Utility and Capital Budgets will be reviewed during the budget process and any changes or findings reported to Council.

- Expenditures that have historically been budgeted as capital, now may not qualify as capital under the TCA standards. These will be budgeted as operating expenditures. Alternatively, expenditures historically budgeted as operating may now be considered capital expenditures under the TCA standards and be moved to the Capital Budget.
- Amortization expense will now be budgeted in the Operating Budget.

Criteria for developing 2011 Operating, Utility and Capital Budgets

A key aspect of the budget process is to establish criteria for the development of budgets.

Operating and Utility Budget

- Base service levels for 2011
As a first step the departments will identify their base level of services for 2011 in comparison to 2010. These service levels will form the basis of the 2011 base budget. Any enhanced or new levels of service will be identified as an additional expenditure request.
- The principles of Long Term Financial Management Strategy (LTFMS)
Ensure that the principles of the LTFMS are followed in developing the budgets.
- Consistency with Council term goals
Ensure that the budget addresses the Council term goals, Council priorities and initiatives.
- Historical trends
The historical trends of revenues and expenditures will be reviewed at the department level and projections will be made that are consistent with such trends.

Capital Budget

The Land and Capital team consisting of members from each department within the City will review, rank and recommend the capital projects that comprise the 2011 Capital Budget based on the following criteria:

- The level of need for a project i.e. health/safety, opportunity, etc.
- Consistency with Council approved plans or direction.
- Financial costs and benefits.
- Financial or non financial risks associated with a project
- Social/environmental/liveability (i.e. sustainability) benefits.
- Funding sources and availability.

These are then vetted by TAG before final recommendations are made to Council.

2011 Operating, Utility and Capital Budget Process

The 2011 Operating, Utility and Capital Budget cycle began with the roll out of the budget system and the budget manual to all departments. The Capital and Utility Budgets are scheduled to be presented to Council at the beginning of November 2010. The following table provides a schedule of the processes and the associated timeline.

DRAFT 2011 Budget and 5YFP Schedule

	Processes	Responsibility	Utility Budget	Capital Budget	Operating Budget	5 YFP
1	2011 Budget Prep Manual and opening of budget system	Finance	Jun 28	Jun 28	Jun 28	Jun 28
2	2011 Kick Off Meeting for Budget Liaisons, Managers, Directors and GM's	Finance	July 14	July 14	July 14	July 14
3	Deadline for Capital Project Submission Sheets completed for the 5 Year Capital Plan (includes OBI forms)	CAP Project Stakeholders		Jul 23		
4	Deadline for finalising capital submissions 2011 to 2015	Land and Capital Team		Aug 27		
5	Deadline for Utilities, Operating Budget, Additional Expenditures Ongoing/Onetime input – Business cases mandatory	Budget Liaisons / Managers	Aug 30		Aug 30	Sept 3
6	2011 Operating and Utility Budget 5YFP Reviews	Managers / Finance	Aug 30 – Sept 30		Aug 30 – Sept 30	Aug 30 – Sept 30
7	Metro Vancouver presentation of 2011 budget	Metro Vancouver	October 7			
8	2011 Capital, Utilities & Operating Budgets to TAG	Finance / Land & Capital Team / TAG	October	October	October	
9	Presentation of 2011 Capital, and Utilities Budgets to Finance Committee	Finance / Land & Capital Team / UT Managers / Finance Committee	Nov 1	Nov 1		
10	Utilities Bylaws presented to Council for 3 readings, followed by final reading	UT Managers / Council	Nov 22			
11	Presentation of 2011 Operating Budget and 5YFP to Finance Committee	Finance			Jan/Feb 2011	Jan/Feb 2011
12	5YFP (2011 – 2015) – to be advertised in local paper	Finance				March 2011
13	5YFP (2011 – 2015) Public Consultation	Finance				March 2011
14	Approval of 5YFP and bylaw (2011 – 2015)	TAG/ Finance/ Land & Capital Team / Council				March 2011

2011 Budget Assumptions

The 2011 Operating and Utility Budgets include certain assumptions for revenues and expenses. Salaries and fringe benefits being the largest component of costs (approx. 55%) are subject to an increase stipulated in the collective agreements or a reasonable estimate thereof where the collective agreements are under negotiation.

As part of the 2010 budget process, \$1M from surplus funded the decrease of building permit revenues associated to the construction industry slowdown. Any projected increase for 2011 building permit revenues up to \$1M will not result in an increase to overall revenues but rather catch up to original levels thereby no longer requiring funding from surplus.

Other key financial drivers that may have an impact on the costs of operations include RCMP contract increase and Metro Vancouver costs of water, liquid waste and solid waste.

The same assumptions will be used for the costing of the 2011 Capital Budget OBI. The Council approved 2011 OBI will be budgeted in the base budgets of the affected departments. This will include the second year deferral amount relating to the 2010 Capital Budget amounting to \$170k. The following are some of the key preliminary assumptions, which will be reviewed and updated in the course of the budget preparation for more current information.

Key financial drivers/indicators	Preliminary 2011 budget assumptions
Consumer Price Index	1.50%
Municipal Price Index	3.52%
U.S. Exchange Rates	\$1.05 to \$1.10
Salaries and fringe benefits	In accordance with all collective agreements, policies and practices
Natural gas	5.00%
Electricity	10.00%
Materials and supplies	2.00%
RCMP contract increases	6.00%
Metro Vancouver water purchase	17.80%
Metro Vancouver liquid waste	10.00%
Metro Vancouver solid waste	17.00%
User fees	1.50%
Return on investment	2.50%
Growth (tax base)	1.00%

Monthly Budgeting

Currently, the Operating and Utility Budgets are prepared on an annual basis and for reporting purposes, considered to be evenly distributed each month. This distribution is used for the calculation and reporting of variances of budget to actual. The current budget distribution assumes that the entire City’s activities and spending patterns are even throughout the year. However, many programs are cyclical in nature with higher costs concentrated in specific months of the year. Therefore it is

recommended that the 2011 Operating and Utility Monthly Budgets be distributed based on the City's activities and spending patterns.

Financial Impact

None

Conclusion

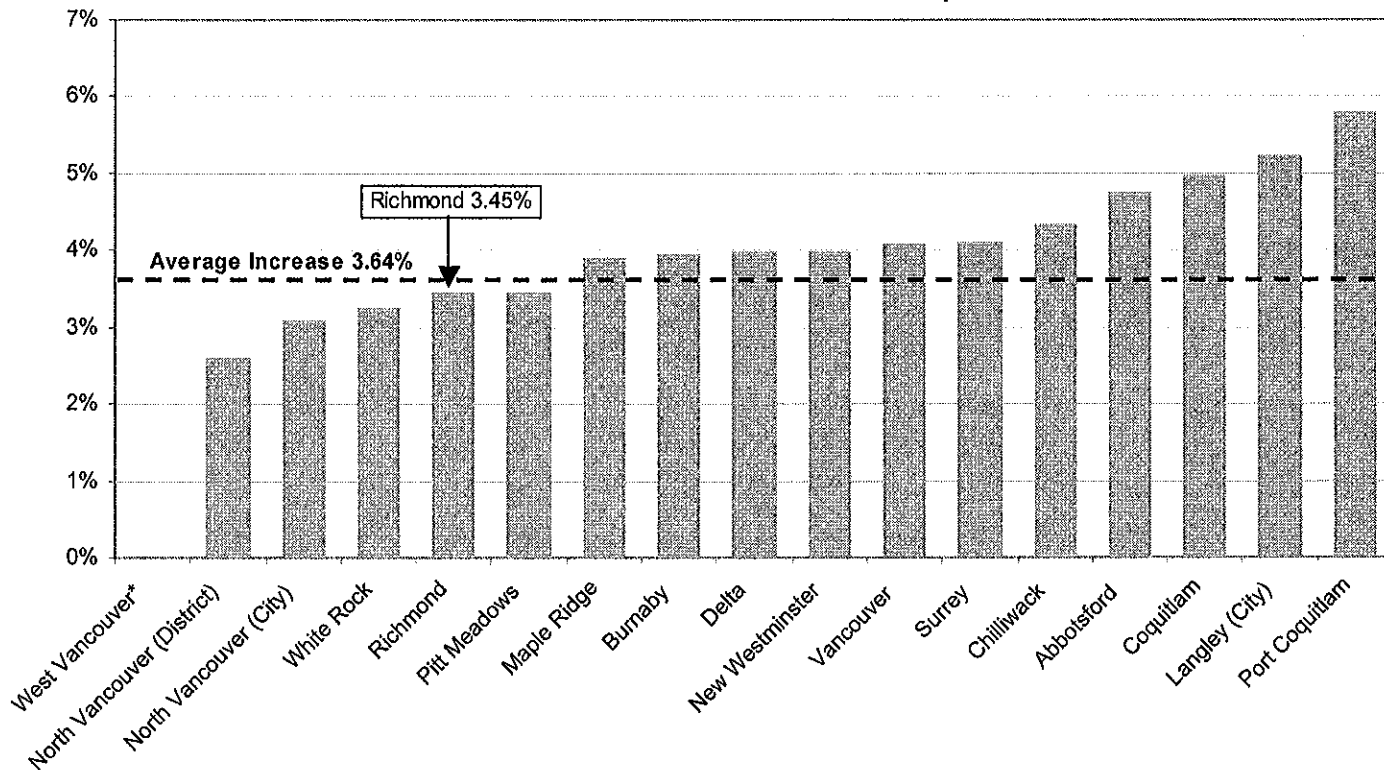
This report outlines the basis for the preparation of 2011 Operating, Utility and Capital Budgets by identifying the criteria, process, timeline, assumptions and other related issues such as the HST impact, TCA standards and monthly budgeting.



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HS:gjn

**Comparison of 2010 Property Tax Rate Increase
for Selected Metro Vancouver Municipalities**



*No tax increase in 2010 (0%)

