



To: Finance Committee

Date: April 15, 2011

From: Jerry Chong  
Director, Finance

File:

Re: Referral-future reserves and surplus and future construction

Staff Recommendation

That the attached report concerning future reserves and surplus, projections of future construction and RCMP costs be received for information.

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

FOR ORIGINATING DEPARTMENT USE ONLY			
<b>ROUTED TO:</b>	<b>CONCURRENCE</b>	<b>CONCURRENCE OF GENERAL MANAGER</b>	
RCMP Development Applications	Y <input checked="" type="checkbox"/> N <input type="checkbox"/> Y <input checked="" type="checkbox"/> N <input type="checkbox"/>		
<b>REVIEWED BY TAG</b>	YES <input checked="" type="checkbox"/> NO <input type="checkbox"/>	<b>REVIEWED BY CAO</b>	YES <input checked="" type="checkbox"/> NO <input type="checkbox"/>

## Staff Report

### Origin

During the Special Finance Committee, on January 24, 2011 the following referral was assigned to staff:

*“staff provide further analysis on (i) future projections for surplus and reserves and how they may apply to future construction, (ii) projections on future development, and (iii) a review of general RCMP costs.”*

### Analysis

*(i) future projections for surplus and reserves and how they may apply to future construction.*

The City’s current unaudited accumulated surplus (\$16M) and uncommitted reserves, not including development cost charges (\$125M) are approximately \$141M. Staff previously provided the City’s Corporate Facilities Implementation Plan (CFIP), which was endorsed by Council in 2009. The CFIP includes a number of priority facilities to be replaced or built over the next 5 to 7 years. The facilities contained in Phase One of the CFIP are summarized below:

Facility	Expected Construction Timeline	2009 Cost (in millions)
RCMP Community Safety Building	2009 – 2012	\$ 36.5
Hamilton Community Centre	2010	\$ 4.9
Fire Hall #1	2012 – 2014	\$ 14.9
Minoru Aquatics Centre	2012 – 2014	\$ 51.5
City Centre Community Centre @ Firbridge	2013 – 2014	\$ 5.0
Older Adults’ Activity Centre	2015 – 2017	\$ 23.9
<b>TOTAL</b>		<b>\$ 136.7</b>

Subsequent to the presentation of the above projects, Council approved the purchase of 12751 Rice Mill Road, 12851 Rice Mill Road, expenditures for master planning, and the District Energy Utility project in the Alexandra area. These additional expenditures have impacted the level of the City's reserves. The projects in the above table were based on preliminary estimates and costs may have changed due to further analysis and research. The most recent actual expenditures and estimates for 2011 are provided below.

Property	Est'd Purchase/Construction Timeline	2010 Cost (in millions)
RCMP Community Safety Building (CSB)	2010	\$20.3
RCMP CSB-Construction, FF&E	2010	\$15.0
Hamilton Community Centre	2010	\$5.1
12751 Rice Mill Road-Land	2010	\$22.0
12851 Rice Mill Road	2010	\$1.8
RCMP CSB-Moving expenses	2011	\$1.0
District Energy Utility-Alexandra	2011	\$6.0
Master Planning	2012	\$2.0
Minoru Aquatics Centre	2012 - 2014	\$56.3
City Centre Community Centre @ Firbridge	2012 - 2013	\$6.2
Fire Hall #1	2013 - 2014	\$15.8
Older Adults' Activity Centre	2016 - 2017	\$24.0
<b>TOTAL</b>		<b>\$175.5</b>

\* Garden City Lands was purchased for \$59.2M using funds from the Community Legacy reserve.

Section 189 of the Community Charter allows Council, through a bylaw, to transfer all or part of any unused reserve fund to another reserve fund. The section also allows borrowing among capital reserve funds, given that repayment along with interest be paid back no later than the time money is needed by the capital reserve fund where the fund is borrowed from. In addition accumulated surplus may be utilized by Council to fund the project. There are no restrictions under the charter with respect to the use of surplus, however a common "rule of thumb" used to evaluate adequacy include five per cent (5.0%) of annual operating expenditures (\$14M). Another gauge include anywhere from one month's operating expenditures (approximately 8.3% of budgeted operating expenditures) (\$23M) to three months' expenditures (approximately 25%) (\$69M). Staff had previously recommended that the City's reserves be utilized to fund the construction of the CFIP. Council approved utilization of accumulated surplus with respect to the following expenditures: purchase of 12751 Rice Mill Road, master planning work, repayment of Parkland DCC's which was utilized to purchase an adjacent property (12851 Rice Mill Road-Airplane Park). The water utility reserve was approved as the funding vehicle for the initial phase of the District Energy Utility (DEU) in the amount of \$6M.

In reviewing the projected cash flows, staff note the following issues;

Item 1 of Council policy 3707 (Long Term Financial Management Strategy) calls for an annual 1% tax increase in order to fund transfer to reserves. On April 10, 2007 Council approved that the 1% increase would be deferred until 2012.

The loan with respect to the long term debt incurred with the City's purchase of the Terra Nova lands (\$20M) will expire in 2014. The annual debt payment of approximately \$1M could be utilized as an additional transfer to reserves.

The annual repayment of \$5M from gaming revenue for the initial financing of the Oval will expire in 2014 and subsequently this amount has been allocated as a repayment to the revolving fund in order to repay this reserve.

Facility	Expected Purchase/Construction Timeline	2010 Cost in millions	Funding Source Cash Flow							
			Revolving	Industrial Use	Sanitary	Water	Cap Bldg Res	Surplus	Other Funding	Total
RCMP CSB	2010	\$20.3	(10.0)	(10.3)	-	-	-	-	-	(20.3)
RCMP CSB-Construction, FF&E	2010 - 2011	\$15.0	(5.6)	-	-	(4.6)	(4.8)	-	-	(15.0)
Hamilton CC	2010	\$5.1	(2.0)	-	-	-	(0.5)	-	(2.6)	(5.1)
12751 Rice Mill Road-Land	2010	\$22.0	-	-	-	-	-	(22.0)	-	(22.0)
12851 Rice Mill Road	2010	\$1.8	-	-	-	-	-	(1.8)	-	(1.8)
RCMP CSB-moving costs	2011	\$1.0	(1.0)	-	-	-	-	-	-	(1.0)
District Energy Utility-Alexandra	2011	\$6.0	-	-	-	(6.0)	-	-	-	(6.0)
Master Planning	2012	\$2.0	-	-	-	-	-	(2.0)	-	(2.0)
Minoru Aquatics Centre	2012 - 2014	\$56.3	(16.6)	-	(16.0)	(15.2)	(8.5)	-	-	(56.3)
City Centre Community Centre @ Firbridge	2012 - 2013	\$6.2	(6.2)	-	-	-	-	-	-	(6.2)
Fire Hall #1	2013 - 2014	\$15.8	(4.0)	-	-	(4.5)	(7.3)	-	-	(15.8)
Older Adults' Activity Centre	2016 - 2017	\$24.0	(14.1)	-	-	-	(9.9)	-	-	(24.0)
<b>TOTAL</b>		<b>\$175.5</b>	<b>(59.5)</b>	<b>(10.3)</b>	<b>(16.0)</b>	<b>(30.3)</b>	<b>(31.0)</b>	<b>(25.8)</b>	<b>(2.6)</b>	<b>(175.5)</b>

### Funding Source Cash Flow

		2010	2011	2012	2013	2014	2015	2016	2017	SUB-TOTAL	TOTAL
RCMP CSB	Revolving	10.0								10.0	
	Industrial Use	10.3								10.3	20.3
RCMP CSB-Construction, FF&E	Water	4.6								4.6	
	Revolving		5.6							5.6	
	CBI		4.8							4.8	15.0
Hamilton CC	Revolving	2.0								2.0	
	Fed./Other Grant	1.2								1.2	
	Leisure Facility	1.4								1.4	
	CBI	0.5								0.5	5.1
12751 Rice Mill Road-Land	Surplus	22.0								22.0	22.0
12851 Rice Mill Road	Surplus	1.8								1.8	1.8
RCMP CSB-moving costs	Revolving		1.0							1.0	1.0
District Energy Utility-Alexandra	Water		6.0							6.0	6.0
Master Planning	Surplus			2.0						2.0	2.0
Minoru Aquatics Centre	Revolving			11.2	5.4					16.6	
	Water		2.0	8.2	5.0					15.2	
	Sanitary				16.0					16.0	
	CBI			4.6	3.9					8.5	56.3
City Centre Community Centre @ Firbridge	Revolving				6.2					6.2	6.2
Fire Hall #1	Revolving				4.0					4.0	
	Water					4.5				4.5	
	CBI					7.3				7.3	15.8
Older Adults' Activity Centre	Revolving								14.1	14.1	
	CBI							2.0	7.9	9.9	24.0
		53.8	19.4	26.0	40.5	11.8	-	2.0	22.0	175.5	175.5

The projects are internally funded, however, with the majority of the costs expected to be incurred before year 2015, significant internal borrowing between the City's reserve funds is required. The above projects will reduce the City's reserves and estimated repayments will not restore current balances until 2029. The forecasted annual reserve balances is provided in appendix 2.

*(ii) projections on future development,*

Staff anticipate the same number of development applications for this year as last year (2010). While the number of applications will not reach pre-recession levels, enquiries around the Canada Line Station in the City Centre lead us to believe that several of those applications will be very large, especially applications for redevelopment in the old Brighthouse Industrial Estate, North City Centre between Bridgeport Road and the River Rock Casino, and in the Capstan Station area. Developers of single family and townhouse projects indicate that the market for lower density residential units continues to be strong but the supply of available sites is

dwindling. While the office market growth is hampered by relatively high vacancy rates, the number of hotel applications and enquiries is growing significantly particularly near Bridgeport Road. New industrial development will likely be limited due to the relatively high vacancy rates in the existing industrial parks. In terms of commercial development, the largest application may come forward in 2011, if the development issues can be resolved. This project encompasses 350,000 sq. ft. of commercial retail uses, which includes a large retailer as the anchor tenant. The current forecast is that interest rates and land prices for all types of development in Richmond will continue to rise, surpassing pre-recession highs which may be a damper on development in the future.

*(iii) a review of general RCMP costs*

The increases in RCMP salary and benefits have been conservative over the past 5 years averaging at 3.75%, the increases have been attributable to actual establishment increases from 173.59 members in 2006 to 192 members in 2010. These increases have been offset in part by budgeting junior member's pay, rather than senior constable's pay.

The operations costs have not been stable over the past 5 years due to some external factors. In 2007 costs were much higher because of a critical investigation. In 2008 there were increases in vehicle replacement costs and fuel costs. These costs have levelled out over 2009 and 2010. Indirect costs had been increasing over the past 5 years. The increases were composed of items such as pension rate, from 8.67% in 2006 to 11.99% in 2010, and per-member "E" Division administration costs from \$15,185 in 2006 to \$20,488 in 2010.

Integrated team operational costs have increased over the past 5 years due to the increased cost of these teams and the addition of new teams. There are now 5 specialty teams, the Integrated Homicide Investigation Team (IHIT), Emergency Response Team (ERT), Forensic Identification Services (FIS), Police Dog Services (PDS) and Reconstructionist/Analysts (ICAR). Municipal support costs have increased in accordance with the CUPE collective agreement.

<b>Summary of 5 Years RCMP Costs Review (details Appendix 3)</b>			
	<b>Budget</b>	<b>Actual</b>	<b>Surplus</b>
<b>2010</b>	34,757,500	32,916,864	1,840,636
<b>2009</b>	32,701,700	31,265,656	1,436,044
<b>2008</b>	31,537,700	29,764,365	1,773,335
<b>2007</b>	29,934,000	28,130,405	1,803,595
<b>2006</b>	28,621,000	26,916,447	1,704,553

**Financial Impact**

There is no financial impact from this report.

**Conclusion**

This report provides Committee with further information concerning the City's reserves, future development and RCMP expenditures.



Jerry Chong  
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JC:jc



## Appendix 1

## Reserves (Uncommitted)

	Unaudited Dec 31, 2010
(Amounts are in \$000's)	
<b><u>DCC Reserves</u></b>	
DCC Land Acquisition	\$5,830
DCC Parks Development	4,653
DCC Roads	10,154
DCC Sanitary Sewer	3,876
DCC Storm Sewer	7,376
DCC Water	1,805
<b>Sub-Total</b>	<b>\$33,694</b>
<b><u>Capital Funding Reserves</u></b>	
Community Legacy & Land Replacement*	\$1,684
Industrial Use	3,926
Revolving Fund	38,179
<b>Sub-Total</b>	<b>\$43,789</b>
<b><u>Affordable Housing Reserves</u></b>	
Affordable Housing Operating Reserve	\$561
Affordable Housing Reserve	795
Affordable Housing Reserve West Cambie	153
<b>Sub-Total</b>	<b>\$1,509</b>
<b><u>Other Reserves</u></b>	
Capital Building & Infrastructure	\$1,364
Child Care Development	1,348
City Centre Facility Development	513
Computer Equipment	1,143
Drainage Improvement	10,354
Fire Equipment	1,656
Leisure Facility Development	1,192
Local Improvement Reserve	4,186
Mechanical Equipment	49
Neighborhood Improvement Reserve	5,113
Other Equipment	225
Public Art Program	818
Public Works Equipment (Fleet)	5,593
Sanitary Sewer Reserve	18,724
Special Sports Reserve	1,208
Steveston Off-Street Parking Reserve	256
Steveston Road Ends	166
Telephone Equipment	205
Waterfront Improvement Reserve	43
Watermain Replacement Reserve	25,841
<b>Sub-Total</b>	<b>\$79,997</b>
<b>Total</b>	<b>\$158,989</b>

\*Does not include amounts received for prepaid lease and parking easement

Note: The balances shown above represent the uncommitted amounts as of December 31, 2010. The figures represent the general ledger (G/L) balances as of December 31, 2010 with adjustments up to January 19, 2011. All figures are unaudited and will be subject to change during the course of the 2010 year end audit. These figures will differ from the financial statements, as those will be higher as they will include unspent committed funds as well.



## Appendix 2

## Forecasted Reserve Balances based on current Funding and Expenditure Plans

	Year	Project Total	Revolving	Industrial Use	Legacy	Sanitary	Water	Cap Bldg	Surplus	Total	Other Funding
<b>Opening balance</b>		-	48.5	8.3	29.9	18.4	30.5	1.4	41.8	178.8	-
<b>2010 Capital Projects</b>		-	(2.7)	(6.2)	(28.2)	(3.9)	(7.5)	(0.4)	-	(48.9)	-
Hamilton Community Centre	2010-2011	5.1	(2.0)	-	-	-	-	(0.5)	-	(2.5)	(2.6)
RCMP Community Safety Building (CSB)	2010-2011	20.3	(10.0)	(10.3)	-	-	-	-	-	(20.3)	-
RCMP CSB (Construction, FF&E, moving)	2010-2011	16.5	(6.6)	-	-	-	(4.6)	(4.8)	-	(16.0)	-
12751 & 12851 Rice Mill Road Land/Planning	2010	25.8	-	-	-	-	-	-	(25.8)	(25.8)	-
Transfer In		-	9.9	12.1	-	4.2	7.5	5.7	5.0	44.4	-
<b>2011 Estimated Ending Balance</b>			37.1	3.9	1.7	18.7	25.9	1.4	21.0	109.7	-
<b>2011 Estimated Capital Projects</b>		-	(5.5)	-	-	(4.0)	(7.5)	-	-	(17.0)	-
DEU Geothermal	2011-2012	6.0	-	-	-	-	(6.0)	-	-	(6.0)	-
Transfer In		-	6.2	-	-	4.0	7.5	5.7	5.0	28.4	-
<b>2011 Estimated Ending Balance</b>			37.8	3.9	1.7	18.7	19.9	7.1	26.0	115.1	-
<b>2012 Estimated Capital Projects</b>		-	(5.5)	-	-	(4.0)	(7.5)	-	-	(17.0)	-
Aquatics Centre	2012-2013	56.3	(16.6)	-	-	(16.0)	(15.2)	(8.5)	-	(56.3)	-
Firbridge CC	2012	6.2	(6.2)	-	-	-	-	-	-	(6.2)	-
Transfer In		-	6.2	-	-	4.0	7.5	5.7	5.0	28.4	-
<b>2012 Estimated Ending Balance</b>			15.7	3.9	1.7	2.7	4.7	4.3	31.0	64.0	-
<b>2013 Estimated Capital Projects</b>		-	(5.5)	-	-	(4.0)	(7.5)	-	-	(17.0)	-
Firehall #1	2013-2014	15.8	(4.0)	-	-	-	(4.5)	(7.3)	-	(15.8)	-
2013 Est'd gain on disposals		-	-	-	-	-	-	-	53.0	53.0	-
Transfer In		-	6.2	-	-	4.0	7.5	5.7	5.0	28.4	-
<b>2013 Estimated Ending Balance</b>			12.4	3.9	1.7	2.7	0.2	2.7	89.0	112.6	-
<b>2014 Estimated Capital Projects</b>		-	(5.5)	-	-	(4.0)	(7.5)	-	-	(17.0)	-
Transfer In		-	6.2	-	-	4.0	7.5	5.7	5.0	28.4	-
<b>2014 Estimated Ending Balance</b>			13.1	3.9	1.7	2.7	0.2	8.4	94.0	124.0	-
<b>2015 Estimated Capital Projects</b>		-	(5.5)	-	-	(4.0)	(7.5)	-	-	(17.0)	-
Transfer In		-	11.2	-	-	4.0	7.5	5.7	-	28.4	-
<b>2015 Estimated Ending Balance</b>			15.8	3.9	1.7	2.7	0.2	14.1	94.0	136.4	-
<b>2016 Estimated Capital Projects</b>		-	(5.5)	-	-	(4.0)	(7.5)	-	-	(17.0)	-
Older Adult Centre	2016-2017	24.0	(14.1)	-	-	-	-	(9.9)	-	(24.0)	-
Transfer In		-	11.2	-	-	4.0	7.5	5.7	-	28.4	-
<b>2016 Estimated Ending Balance</b>			10.4	3.9	1.7	2.7	0.2	9.9	94.0	122.6	-
<b>2017 Estimated Capital Projects</b>		-	(5.5)	-	-	(4.0)	(7.5)	-	-	(17.0)	-
Transfer In		-	11.2	-	-	4.0	7.5	5.7	-	28.4	-
<b>2017 Estimated Ending Balance</b>			16.1	3.9	1.7	2.7	0.2	15.6	94.0	134.2	-

### Appendix 3

#### 5 YEAR RCMP COSTS REVIEW

	2006			2007			2008			2009			2010		
	Budget	Authorized	Actual	Budget	Authorized	Actual	Budget	Authorized	Actual	Budget	Authorized	Actual	Budget	Authorized	Actual
Richmond Detachment	190	191	173.59	185	193	180.89	188	196	178.63	188	199	181.04	190	201	192
Integrated Teams	n/a			n/a			n/a			18.66		14.83	20.25		14.8

RCMP Contract:	Budget	Actual	Surplus	Budget	Actual	Surplus	Budget	Actual	Surplus	Budget	Actual	Surplus	Budget	Actual	Surplus
	Salary & Benefit	13,171,631	11,605,772	1,565,860	14,030,728	12,131,141	1,899,587	14,152,524	12,254,057	1,898,467	14,525,746	12,765,476	1,760,270	13,578,951	13,475,870
Operation Costs	4,730,870	4,466,159	264,711	5,316,970	5,031,488	285,482	5,199,952	4,952,714	247,238	3,234,588	4,370,343	1,135,755	5,913,565	3,676,263	2,237
Indirect costs	4,761,002	4,175,556	585,447	5,304,878	4,736,439	568,439	5,841,125	5,105,923	735,202	6,116,200	5,374,117	742,083	6,133,495	5,909,137	227
Integrated costs	808,696	880,476	-71,780	1,090,025	808,075	281,950	1,411,999	1,961,365	-549,366	3,067,966	3,160,001	-92,035	3,246,990	3,078,062	168
Appropriated Surplus														1,200,000	-1,200
Subtotal: RCMP Contract	23,472,200	21,127,962	2,344,238	25,742,600	22,707,142	3,035,458	26,605,600	24,274,059	2,331,541	26,944,500	25,669,937	1,274,563	28,873,000	27,339,332	1,537
Municipal support costs:	5,148,800	5,788,484	-639,684	4,191,400	5,423,263	1,231,863	4,932,100	5,490,306	-558,206	5,757,200	5,595,719	161,481	5,884,500	5,577,532	308
Total RCMP Contract Costs	28,621,000	26,916,447	1,704,553	29,934,000	28,130,405	1,803,595	31,537,700	29,764,365	1,773,335	32,701,700	31,265,656	1,436,044	34,757,500	32,916,864	1,841

\*\* Information provided is an estimate only as RCMP has its fiscal year ended on March 31, 2011.