



City of Richmond

Report to Committee

To: Finance Committee
From: Jerry Chong
Director, Finance
Re: **2007 Base Operating Budget**

Date: October 9, 2006

File:

Staff Recommendation

That the 2007 Base Operating Budget report be approved as the basis for preparing the 5 Year Financial Plan (2007-2011).

Jerry Chong
Director, Finance
(4064)

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

Staff Report

Origin

The 2007 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, 2007.

Analysis

The City’s annual Operating Budget cycle begins in May when service levels are established and budget guidelines are set. On July 24, 2006 the Budgets Department conducted the budget rollout and subsequently accounting systems were opened to all departments for their budget input. The input was completed by September 5, 2006 and the departmental budgets were then presented by each corresponding department and reviewed by the Finance Department. The budget was then reviewed and discussed by TAG.

Base Budget - maintaining existing levels of service

The base budget has been calculated on the basis that the same programs and levels of service will continue to be provided to the tax payer in 2007. 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 user fees. Additional levels are not included as due to their significance, they will be provided in a separate report for Council to evaluate at the next Finance Committee meeting.

Assumptions

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

<u>Assumptions</u>	
Consumer Price Index*	2.00%
USD Exchange*	1.13
Return on Investment	4.00%
Tax Growth (net)**	2.30%
<u>Salaries***</u>	
Fire Rescue***	.65%
Civic Staff****	.75%
Library Staff	.75%

* Information obtained from Province of BC Economic Report

** Information obtained from BC Assessment

*** Salary increase of 2.6% effective April 1, 2006 was annualized over 2006 and 2007 budget years. Additional .6547% effective Jan 1/07

**** Increase of 3% effective April 1, 2006 was annualized over 2006 and 2007 budget years.

An adequate salary provision has been provided for in the 2007 budget as the current collective agreement expires on December 31, 2006.

Highlights

Expenditures:	\$Change	Tax Impact
RCMP Contract	\$988,800	0.81%
Materials and supplies	598,500	0.49%
Facilities Maintenance	264,100	0.22%
ECOMM (RCMP and Fire)	160,035	0.13%
Municipal Exp (tax on ppty)	103,400	0.08%
Insurance	87,500	0.07%
Revenues:		
Building, Plumbing Permits	263,900	(0.22%)
Community Facility revenue	236,300	(0.19%)
RAVCO funding	(100,000)	0.08%
Provincial grants in lieu	(140,000)	0.12%

- RCMP contract –increase of \$988,800 based on maintaining a complement of 193 officers.
- Materials and supplies – increase of \$598,500 due mainly to above inflationary increases for ongoing maintenance.
- Facilities maintenance – increase due to increasing repairs of ageing facilities.
- ECOMM - increase in contract costs of \$160,035 for both Fire (\$111,184) and RCMP (\$48,851).
- Municipal Expenditures- increase in taxes on City properties not exempt from tax (non City portion).
- Insurance – increases in liability, property and vehicle insurance rates.

Revenues

- Building and Plumbing permits - increase of \$263,900 due to demand.
- Community Facilities - increase in revenues of \$236,300 due to an expected increase in usage of artificial turf fields, arenas and aquatic centres.
- RAVCO - funding for work on the Canada Line has decreased in accordance with the previously negotiated agreement.
- Provincial Grants in lieu – decrease in grants from BC Buildings Corporation and North Fraser Port.

Financial Impact

Department	2006 Adjusted Budget Bylaw	2007 Budget Draft	Change (\$)	Change (%)	Tax Impact
Law & Community Safety	\$53,308,941	\$55,418,660	\$2,109,719	3.96%	1.73%
Parks, Rec.& Cultural	29,699,800	31,605,503	1,905,703	6.42%	1.57%
Eng & Public Works	18,580,100	19,600,593	1,020,493	5.49%	0.84%
Corporate Services	11,410,300	11,914,648	504,348	4.42%	0.41%
Planning & Development	3,604,300	3,805,295	200,995	5.58%	0.17%
Corp Admin & City Council	2,079,159	2,255,218	\$176,059	8.47%	0.14%
Business & Fin Services	1,651,900	1,730,585	78,685	4.76%	0.06%
Fiscal	(140,487,800)	(140,699,600)	(\$211,800)	0.15%	(0.17%)
Transfer to Reserve	20,153,000	20,153,000	-	0.00%	0.00%
Balance		\$5,784,200	\$5,784,200		4.75%
	Add Tax Growth (2.30%)		(2,798,916)		(2.30%)
	Net Tax Increase		\$2,985,284		2.45%

The proposed 2007 base budget results in an overall increase of \$2,985,284 from the 2006 Budget. Excluding growth, the tax impact from City services increase is 3.04%. The Community Safety tax impact increase totals 1.71% comprised of 0.92% for RCMP and 0.79% for Fire Rescue. Tax Growth (net) - estimated to be 2.30% or \$2,798,716. The 2.30% increase is based on the most recent information from the BC Assessment Authority and may be subject to revision.

	Change	Tax Impact
City	\$3,698,535	3.04%
RCMP	1,121,005	0.92%
Fire	964,660	0.79%
	5,784,200	4.75%
Net Growth	(2,798,916)	(2.30%)
	\$2,985,284	2.45%

Long Term Financial Management Strategy

In preparation of the 2007 Operating Budget, staff ensured that where it was possible, the Long Term Financial Management Strategy (LTFMS) was followed.

Item 1 of the LTFMS states that the annual proposed tax increase will be at Vancouver's CPI rate (to maintain current programs and maintain existing infrastructure at the same level of service) plus 1% towards infrastructure replacement needs. When the LTFMS was prepared, one of the key assumptions was that materials, fuel, and utilities would also increase at the rate of CPI. Due to uncontrollable and external market conditions these non discretionary items have not increased at CPI. For example, if materials were projected to increase by CPI during 2007, then the overall tax increase would have been \$410,000 lower reducing the tax increase by 0.34%.

Item 4 of the LTFMS states that 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.

Staff consider the RCMP as a Senior Government service since these increases are non discretionary and are passed through to the City from the Federal Government. Similar to material increase, during the preparation of the LTFMS, it was assumed that RCMP increases would be in line with CPI. Due to conditions beyond the City's control these RCMP costs have exceeded the increase in CPI. If the RCMP contract was projected to increase by CPI in 2007, the overall tax increase would have been reduced by \$537,985 reducing the tax increase by 0.44%.

Taking into consideration the unusual increase in non discretionary material and fuel costs and the additional costs beyond CPI imposed on the City by Senior levels of government for provision of RCMP services, this budget meets the intent of the LTFMS.

2007 Capital Plan and operating expenditure impact

The base Budget includes the operating impact from the proposed 2007 Capital Plan, which is \$275,475 or 0.23% tax impact.

Alternatives

	Alternative 1	Alternative 2	Alternative 3
Budget increase	\$2,985,284	\$2,985,284	\$2,985,284
Contribution to reserves	0	1,216,920	1,216,920
Additional levels	0	0	0
(see Report)	<u>\$2,985,284</u>	<u>\$4,202,204</u>	<u>\$4,202,204</u>
Tax increase	2.45%	3.45%	3.45%+ Additional level impact

Three possible alternatives are presented here for Council to evaluate.

Alternative 1

- Tax increase of 2.45% (CPI).
- Represents the minimal increase necessary to sustain operations.
- Does not increase contribution to reserves and capital program.
- Does not meet the Long Term Financial Management Strategy (LTFMS- Policy 3707).
- Maintain the current programs and existing infrastructure at the same level of service with no contribution to reserves and no additional levels of service.

Alternative 2

- Tax increase of 2.45%.
- Contribution to reserves of 1%.
- No additional levels.
- Provides for the minimum increase necessary to sustain operations.
- Provides for increase to reserves and future capital program.
- Meets the LTFMS.

Alternative 3

- Tax increase of 2.45%.
- Contribution to reserves of 1%.
- **Additional levels allowed at the discretion of Council (Report to follow).**
- Meets the LTFMS.
- Higher tax increase, however meets LTFMS and provides for increased programs and levels of service.
- **This is Staff's recommended option.**

Conclusion

The current proposed 2007 Operating Budget contains a shortfall of \$2,985,284 or a 2.45 % tax increase. The budget is consistent with the items contained within the LTFMS.

Staff recommend that Council adopt alternative 3, which is in compliance with the LTFMS and would allow for consideration of additional levels. Therefore, the proposed 2007 tax increase would be at a minimum 3.45%, which will include a 1% contribution to reserves. Due to their significance, the additional levels will be provided in a separate report for Council to evaluate at the next Finance Committee meeting.



Jerry Chong
Director, Finance
(4064)