

Analyst Briefing Notes

Administration Committee

(January 5, 2006)

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Section D: 2006 Proposed New Council Priorities

Summary of 2006 New Council Priorities	N/A
Key Issues and Recommendations	N/A

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PART I: 2006 Operating Budget Overview

Table 1: 2006 Proposed Budget

	2005		2006 Proposed Operating Budget			Change 2006 Proposed from 2005 Budget		FY Incremental Outlook	
	2005 Approved Budget	2005 Proj Act.	2006 Proposed Base	2006 New Council Priorities	2006 Proposed Op. Bud.			2007	2008
(In \$000s)	\$	\$	\$	\$	\$	\$	%	\$	\$
GROSS EXP.	34,001.2	35,301.2	34,720.2	0.0	34,720.2	719.0	2.0	144.5	0.0
REVENUE	34,001.2	35,301.2	34,720.2	0.0	34,720.2	719.0	2.0	144.5	0.0
NET EXP.	0.0	0.0	0.0	0.0	0.0	0.0	NA	0.0	0.0
Approved Positions	202.0	202.0	198.0	0.0	198.0	(4.0)	(2.0)	0.0	0.0
TARGET			0.0						
\$ Over / (Under) Program Target			0.0						
% Over / (Under) Program Target			NA						

Executive Summary

- The 2005 projected year-end net expenditure of \$0 net is at the 2005 Approved Budget. However, the projected gross expenditure is \$1.300 million over budget due to higher costs for fuel. Fuel prices have been on the rise throughout 2005, and this trend is expected to continue into 2006. The increased cost is offset by operational savings, and recoveries from client programs.
- The 2006 Proposed Budget for Fleet Services of \$34.720 million gross; \$0 net is entirely comprised of Base funding, and is 2.0% higher than the 2005 Approved Budget (Gross). This has enabled Fleet Services to limit the increased charge back to client programs to 2% to avoid additional pressures on to other Program budgets.
- The 2006 Proposed Base Budget is zero net and the target is not applicable. However, Fleet Services has complied with the principle of the target, by ensuring that the 2006 increase in gross expenditures over 2005 is at 2%.
- The 2006 Proposed Base Budget adjustments include a reduction of \$1.089 million in gross expenditures through efficiencies savings, with an offset to recoveries.
- Key cost drivers include the collective agreements, and inflationary increases, particularly for fuel.

- In 2006 Fleet Services will implement a long term strategy as approved by City Council in 2005 for funding contributions to the Vehicle and Equipment Replacement Reserve through a Chargeback rate program so that necessary replacements can be sustained on a timely basis.
- A Staff Report will be before the Budget Advisory Committee during the 2006 Budget Process, on the viability of all divisions and ABCs participating in the Sole Source Supplier Contracts for Parts that Fleet Services is initiating, and any resultant savings.

Recommendations

It is recommended that:

- (1) Fleet Services’ 2006 Proposed Operating Budget of \$34.720 million gross and zero net, comprised of the following services, be approved:

<u>Service:</u>	<u>Gross</u> <u>(\$000s)</u>	<u>Net</u> <u>(\$000s)</u>
Fleet Operations	22,428.8	0.0
Fuel Operation	8,183.7	0.0
Fleet Safety	1,086.9	0.0
Asset Management	<u>3,020.8</u>	<u>0.0</u>
 Total Program Budget	 <u>34,720.2</u>	 <u>0.0</u>

- (2) the Executive Director of Fleet Services, together with the Chiefs of Police, Fire, and EMS, report back to the Budget Advisory Committee during the 2006 Operating Budget process on the viability of all divisions and ABCs participating in the Sole Source Supplier Contracts for Parts that Fleet Services is initiating, and any resultant savings.

PART II: BASE BUDGET

Section A: 2005 Budget Variance Analysis

Table 2: 2005 Budget Variance Review

	2004 Actuals	2005 Approved Budget	2005 Projected Actuals *	2005 Approved vs Projected Actuals Variance Over / (Under)	
(In \$000s)	\$	\$	\$	\$	%
GROSS EXP.	33,881.4	34,001.2	35,301.2	1,300.0	3.8
REVENUES	33,647.5	34,001.2	35,301.2	1,300.0	3.8
NET EXP.	233.9	0.0	0.0	0.0	NA
Approved Positions	202.0	202.0	198.0	4.0	2.0

*Projected Actual expenditures to year-end based on 3rd Quarter Variance Report

2005 Experience

The 3rd quarter projection to year-end is \$0 net, resulting in the Program being on budget. The projected gross expenditure is \$1.300 million over budget with an offsetting increase in recoveries. The over spending in gross expenditures is due to higher costs for fuel. Fuel prices have been on the rise throughout 2005, making this the largest contributor to the negative variance. The recoveries of the higher costs through inter-departmental charges may cause pressure in the client programs' budgets.

Impact of 2005 Operating Variance on 2006 Proposed Budget

Rising fuel prices (including bio-diesel) are expected to continue into 2006, and the 2006 Proposed Operating Budget includes an incremental base increase for all fuel costs of \$0.664 million.

Section B: 2006 Proposed Base Budget

Table 3: 2006 Proposed Base Budget

	2005		2006 Proposed Operating Budget			Change 2006 Proposed from 2005 Budget		FY Incremental Outlook	
	2005 Approved Budget	2005 Proj Act.	2006 Proposed Base	2006 New Council Priorities	2006 Proposed Op. Bud.	\$	%	2007	2008
(In \$000s)	\$	\$	\$	\$	\$			\$	\$
GROSS EXP.	34,001.2	35,301.2	34,720.2	0.0	34,720.2	719.0	2.0	144.5	0.0
REVENUE	34,001.2	35,301.2	34,720.2	0.0	34,720.2	719.0	2.0	144.5	0.0
NET EXP.	0.0	0.0	0.0	0.0	0.0	0.0	NA	0.0	0.0
Approved Positions	202.0	202.0	198.0	0.0	198.0	(4.0)	(2.0)	0.0	0.0
TARGET			0.0						
\$ Over / (Under) Program Target			0.0						
% Over / (Under) Program Target			NA						

2006 Proposed Base Budget

The 2006 Proposed Base Budget of \$34.720 million gross (\$0 net) compared to 2005 Approved Adjusted Budget reflects a \$0.719 million or 2.0% gross expenditure increase offset by a corresponding recovery from client programs, and no change to net expenditures.

The gross expenditure increase is due to Costs of Living (COLA) adjustments of \$0.432 million, Merit and step increases of \$0.076 million, and inflationary increases of \$0.028 million.

2006 Key Costs Drivers

Key cost drivers include:

- Escalating fuel prices require a projected increase of \$0.500 million for 2006.
- The use of bio-diesel fuel previously approved by Council in 2004 resulted in an incremental increase of \$0.164 million in 2006.
- In accordance with the long term strategy, approved by Council in 2005, for funding the Reserve. (Described in Section C, on page 8), \$0.608 million for contributions to the Vehicle and Equipment Replacement Reserve embedded in the Charge back rate for new vehicles and equipment.

Fleet Services is able to offset the above increases by a reduction of \$1.089 million to gross expenditures in order to achieve a proposed 2% increase; the result of efficiency savings from continuous improvement initiatives, such as a single source supplier, and resource alignment. The savings are as follows:

- Using a single source supplier for parts is expected to result in greater price discounts for a cost savings of \$0.464 million.

- Service realignments resulting in a reduction of 4 staff positions achieved through attrition and vacant positions not being filled, and a reduction in contracted services are expected to save \$0.528 million.
- Streamlining of fleet inventory facilitated a reduction in the contribution to the Vehicle and Equipment Replacement Reserve of \$0.097 million.

Appendix A

**Table 4: Summary of Proposed Base Budget Changes
From 2005 Approved Budget**

	Summary of 2006 Base Budget Adjustments				Net Incremental Outlook	
	Approved Positions	Gross Expenditures	Revenues	Net	2007	2008
(\$000's)		\$	\$	\$	\$	\$
2005 Approved Operating Budget	202.0	32,704.4	32,704.4	0.0	0.0	0.0
In-year approvals and technical adjustments	0.0	1,296.8	1,296.8	0.0		
2005 Approved (Adj) Operating Budget	202.0	34,001.2	34,001.2	0.0	0.0	0.0
Prior year impacts		510.0	510.0	0.0		
Zero base items						
Economic factors		25.9	25.9	0.0		
Adjusted Base Budget	202.0	34,537.1	34,537.1	0.0	0.0	0.0
Other base changes	(4.0)	183.1	183.1	0.0		
Base revenue changes						
2006 Base Budget Request	198.0	34,720.2	34,720.2	0.0	0.0	0.0
Recommended Base Adjustments:						
Other base changes						
Service efficiencies						
Revenue adjustments						
Minor service impact						
Major service impact						
Total Proposed Base Adjustments	0.0	0.0	0.0	0.0	0.0	0.0
2006 Proposed Base Budget	198.0	34,720.2	34,720.2	0.0	0.0	0.0
2006 Program Operating Target	N/A	N/A	N/A	0.0		
% Over (Under) Program Target	N/A	N/A	N/A	0.0		
% Over (Under) 2005 (Adj.) Budget	(2.0)	2.0	2.0	0.0		

Section C: 2006 Base Budget Issues

Key Issues / Recommendations

Fleet Services operates on a net zero basis. In order to achieve a 2% increase in Gross Expenditures, and \$0 net year over year, Fleet Services has included cost savings totaling \$1.089 million from efficiency initiatives as follows:

- \$0.528 million from service realignments resulting in a reduction of 4 staff positions achieved through attrition and vacant positions not being filled, and a reduction in contracted services.
- \$0.097 million from a reduction to the contribution to the Vehicle and Equipment Replacement Reserve resulting from streamlining of fleet inventory.
- \$0.464 million from using a single source supplier for parts, resulting in greater price discounts.

The RFP for the parts supply is in process, and when the proposals come in from the proponents, the Fleet Services Steering Committee will work with all City Programs and ABCs, on the use of the contract, and the potential savings that can be achieved by participating in the contract for parts supply through a single source supplier.

The Executive Director of Fleet Services, together with the Chiefs of Police, Fire, and EMS, report back to the Budget Advisory Committee during the 2006 Operating Budget process on the viability of all divisions and ABCs participating in the Sole Source Supplier Contracts for Parts that Fleet Services is initiating, and any resultant savings.

Fuel Costs Increase

The prices of gasoline and diesel have increased significantly during 2005. Fleet Services has included in the 2006 Proposed Operating Budget an increase of \$0.500 million to cover fuel costs. The budgeted price per litre for 2005 was \$0.7315 for gas and \$0.7486 for diesel. For 2006 the budgeted rate is \$0.79 for both fuels (excluding GST). The volume is based on the average litres used by class of vehicle.

3 Yr Operating Budget Overview

The 3 year budget maintains the same level of services, while managing cost increases caused by collective agreements, and inflationary increases.

The 2007 and 2008 incremental outlook for Fleet Services is projected to be \$0 net.

Service Levels, Delivery, or Gap Issues

The replacement of vehicles and equipment within the City of Toronto are funded by an annual contribution to the Vehicles and Equipment Replacement Reserve. This contribution is budgeted for in the Operating Budget by each Program based on their needs. Due to budgetary constraints some City Programs have not funded the replacement of vehicles and equipment according to needs. In order to ensure that necessary replacements can be sustained on a timely basis, a new Charge back rates program is implemented in 2006 as approved by City Council in February 21-28, 2005.

Charge Back Rates Program:

Fleet Services has established monthly Rental rates for each type of vehicle and equipment that exists in the inventory. Each Program will include in their Operating Budget the interdepartmental

charge from Fleet Services based on the number of vehicles and equipment at the respective Rental rate. The Rental rate is an all inclusive amount that would include maintenance, insurance, licensing as well as a contribution to the Vehicle and Equipment Reserve. Fleet Services will collect the rental rates through the Interdepartmental recoveries, and the Reserve contribution portion of the Rental rate will be deposited into the Vehicle and Equipment Replacement Reserve.

The Chargeback rate program has no impact on the Fleet Services Capital budget. The Rental rate will potentially add cost pressures to the Operating Budgets of other Programs due to the Reserve contribution component. This is included to fund the replacement of new vehicles and equipment purchased by the Program at the end of the useful life of the vehicle based on a eight year lifecycle.

Fleet Services estimates the 2006 additional contribution to the Vehicle and Equipment Reserve to be \$0.6 million, which will be absorbed by Fleet Services in 2006. There will be no draw from the Reserve until 2014, when the 2006 vehicle model reaches the end of its expected useful life, which is 8 years.

Programs will continue the current practice to budget a contribution to the Vehicle and Replacement Reserve for their replacement on a “Pay as you go” basis, namely, value for value. eg: If a Pick up Truck has to be replaced in 2006 at a cost of \$50,000, the Program will have to budget a \$50,000 contribution to the Reserve in their Operating Budget to fund this purchase.

Fleet Services expects that the “Pay as you go” contribution will be phased out by 2020, when all the Programs’ vehicles and equipment will have been replaced and subsequent replacements will be entirely funded by the Rental rate program.

Issues Referred to 2006 Operating Budget Process

None.

Outstanding Issues from 2005 and Prior Years

None.

