

Analyst Briefing Notes
Budget Committee
(March 26, 2007)

2007 OPERATING BUDGET

Executive Summary 2

Recommendations 4

Section A: 2006 Budget Variance Analysis 5

2006 Experience 5

Impact of 2006 Operating Variance on 2007 Recommended Budget 5

Section B: 2007 Operating Budget Overview..... 6

3-Year Operating Budget Overview..... 6

Service Delivery - Challenges and Issues 7

Mayor’s Mandate 7

Section C: 2007 Recommended Base Budget 8

2007 Recommended Base Budget 8

2007 Key Cost Drivers 9

Section D: 2007 Recommended Service Priorities 10

Summary of 2007 New / Enhanced Service Priorities 10

Issues for Discussion.....11

2007 Operating Budget Issues 11

Issues Referred to 2007 Operating Budget ProcessN/A

Appendices:

Appendix 1: Summary of Recommended Base Budget Changes from 2006 Approved Budget . 12

Appendix 2: Summary of Service Level Adjustments13-15

Appendix 3: Summary of 2007 Recommended New/Enhanced Service Priorities..... 16-17

Appendix 4: Inflows/Outflows to/from Reserves and Reserve Funds..... 18

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2007 OPERATING BUDGET

Executive Summary

- The 2006 preliminary year-end net expenditure of \$0.568 million is \$0.568 million above the 2006 Approved Budget of \$0 net, due mainly to bulk savings not being realized as a result of the delay in awarding a single source supplier contract for vehicle parts.
 - The 2006 variances have no impact on the 2007 Recommended Operating Budget.
- The 3-Year Operating Budget provides funding for Fleet Services to deliver flexible, efficient and comprehensive fleet services to support the delivery of public programs and services. To do so requires the provision and maintenance of 4,800 vehicles and equipment; training and licensing drivers and operators of City vehicles and equipment to ensure compliance with safety standards; managing fuel site operations and supply of fuel from internal and commercial sites, and leading the review of all City fuel site operations.
 - The challenges over the 3 year period are: the implementation of a fleet governance review for City fuel sites; vehicle rentals, and to establish an effective infrastructure of fuel sites and fuel operations; the maintenance and improvement of public services by reducing vehicle downtime; the achievement of the targeted carbon dioxide emissions reductions; the reduction of other pollutants from vehicle exhaust through the use of hybrids and hydrogen power technologies; promoting “Idle Free” to City drivers and operators, and increasing the use of bio-diesel and ethanol enriched fuels.
- The 2007 Recommended Operating Budget for Fleet Services of \$35.821 million gross, \$0 net, is comprised of base funding of \$35.650 million gross, zero net, and \$0.171 million gross, \$0 net, for new and enhanced services and is 3.3% higher than the 2006 Approved Operating Budget on a gross basis.

Table 1: 2007 Recommended Budget

	2006		2007 Recommended Operating Budget			Change 2007 Recommended from 2006 Budget		FY Incremental Outlook	
	2006 Appvd. Budget	2006 Projected Actual	2007 Base	2007 New /Enhanced	2007 Operating Budget			2008	2009
	\$	\$	\$	\$	\$	\$	%	\$	\$
(In \$000s)									
GROSS EXP.	34,688.2	39,476.2	35,650.3	171.1	35,821.4	1,133.2	3.3	793.0	254.0
REVENUE	34,688.2	38,907.8	35,650.3	171.1	35,821.4	1,133.2	3.3	793.0	254.0
NET EXP.	0.0	568.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Approved Positions	199.0	199.0	199.0	3.0	202.0	3.0	1.5	0.0	0.0
TARGET			0.0		0.0				
\$ Over / (Under) Program Target			na		na				
% Over / (Under) Program Target			na		na				

- The 2007 Recommended Operating Budget of \$35.821 million gross, zero net, represents a 3.3% increase over the 2006 Approved Gross Budget.
- The 2008 incremental gross expenditure increases are comprised of collective agreement increases for COLA, merit and step changes, an additional work day in 2008, and annualizations. The 2009 incremental gross expenditures are comprised of merit and step changes, and the reversal of the one additional work day in 2008, resulting in a year over year increase of 2.2% and 0.7% respectively. The outlook for 2009 does not include a provision for COLA, as the increase is subject to future negotiations.
- The 2007 Recommended Base Budget of \$35.650 million gross represents a 2.8% increase over the 2006 Approved Gross Operating Budget.
 - The 2007 Key Cost drivers include collective agreement increases for COLA, merit and step changes, an additional work day for union staff and economic factors, and increased fleet maintenance costs.
 - The recommended cost reductions include savings of \$0.644 million in fuel consumption as a result of the Idle-Free campaign to stop idling of vehicles when not in use, and a reduction of \$0.109 million to the annual contribution to the Vehicle Reserve of Fleet Services because of fewer vehicles requiring replacement.
 - The 2007 Recommended Base Budget provides funding for the continuation of the Green Fleet initiative to reduce pollutants, which will work towards fulfilling the Mayor's Mandate to make Toronto a "greener" City.
- The 2007 recommended funding for New/Enhanced services in 2007 of \$0.095 million gross, \$0 net provides for the implementation of the new Fleet Governance model, requiring two staff positions (a fuel and rental clerk). In addition, \$0.076 million gross, zero net will provide for an additional mechanic required for the Taxi Inspection program – Municipal Licensing and Standards, as a result of increased business volumes.
- Approval of the 2007 Recommended Operating Budget will allow Fleet Services to implement the new Fleet Governance model, to meet increased demand for taxi inspections, and to maintain 2006 service levels to provide responsive, flexible, efficient and comprehensive Fleet Services to support the delivery of public programs and services.
- The 2007 Recommended Operating Budget will work towards fulfilling the Mayor's Mandate to make Toronto a "greener" city, to generate and implement environmental initiatives to reduce emissions, such as using vehicles with "green" technology (hybrids and hydrogen power), and "green" fuels (bio-diesel and ethanol).

Recommendations

The City Manager and Chief Financial Officer recommend that:

1. the 2007 Recommended Operating Budget for Fleet Services of \$35.821 million gross and \$0 million net, comprised of the following services, be approved:

<u>Service:</u>	<u>Gross (\$000s)</u>	<u>Net (\$000s)</u>
Fleet Maintenance	22,951.5	0.0
Fuel Operations	8,805.0	0.0
Fleet Safety and Standards	1,097.5	0.0
Fleet Management	2,967.4	0.0
	<hr/>	<hr/>
Total Program Budget	<u><u>35,821.4</u></u>	<u><u>0.0</u></u>

Section A: 2006 Budget Variance Analysis

Table 2: 2006 Budget Variance Review

(In \$000s)	2005 Actuals	2006 Approved Budget	2006 Projected Actuals*	2006 Appvd. Budget vs Projected Actuals Variance	
	\$	\$	\$	\$	%
GROSS EXP.	37,963.8	34,688.2	39,476.2	4,788.0	13.8
REVENUES	36,978.6	34,688.2	38,907.8	4,219.6	12.2
NET EXP.	985.2	0.0	568.4	568.4	0.0
Approved Positions	202.0	199.0	199.0	0.0	0.0

*Projected Actual based on the preliminary year-end Operating Variance Report

2006 Experience

Fleet Services' preliminary actual net expenditure at the end of the year is \$0.568 million over the 2006 Approved Operating Budget of \$0 million net. The unfavourable net year-end variance is mainly due to bulk savings not being realized as a result of the delay in awarding a single source supplier contract for vehicle and equipment parts. It is anticipated that a contract will be finalized early in 2007. Higher fuel costs also contributed to the overage in net expenditures. The prices of gasoline and diesel have escalated through most of 2006, and price changes towards the end of the year showed considerable volatility with prices moving up and down frequently, resulting in the actual average price per litre being higher than budgeted. The price of gasoline was budgeted at 78 cents per litre, whereas the actual price was 85 cents.

Impact of 2006 Operating Variance on 2007 Recommended Budget

The unfavourable variance attributed to the delay in awarding a single source contract for parts will not impact the 2007 Recommended Operating Budget. The contract is expected to be finalized early in 2007. The budgeted average price of fuel has been adjusted to reflect the 2006 experience, at 85 cents per litre, and will also not impact the 2007 Recommended Operating Budget.

Section B: 2007 Operating Budget Overview

3-Year Operating Budget Overview

The 2007 Recommended Budget and the 2008 and 2009 Outlook for Fleet Services will improve public services by ensuring a reliable and dependable City fleet, and to establish an effective infrastructure for fueling activities. It will enable Fleet Services to maintain optimal fleet management, safety and standards, fuel operations, and fleet maintenance, as well as to implement the new Fleet Governance model, and further implement Clean Fuels Program at Fleet managed fuel sites, that will increase the use of bio-diesel and ethanol enriched fuels to advance the Mayor's Mandate to make Toronto a "greener" city. In addition, Fleet Services will begin implementing system integration and parts consignment; improve exception reporting to provide better customer service and fleet information to Divisions; enhance the vehicle maintenance billing process by using a fixed monthly charge back, and continue the standardization of vehicle specifications, to expedite vehicle procurement and reduce the overall cost to the City.

The new Fleet Services Governance model approved by City Council on July 25, 26 and 27, 2006 (Policy and Finance Committee Report #6, Clause #4), "Review of the City's Corporate Organizational Structure for Fleet Management & Services" established a policy confirming the Fleet Services Division as the supplier of choice for fleet management and maintenance services except for Emergency Medical Services, Toronto Fire Services and Agencies, Boards and Commission. The new Fleet Governance model provided four new responsibilities for Fleet Services.

- Authorizing all business cases for leasing and renting vehicles after working with the clients to determine if alternatives exist to meet their business needs;
- Developing and managing all contracts for rental vehicles;
- Establishing operating policies and standards for fuel sites to meet regulations; and
- Monitoring compliance with those policies and standards.

The new Governance model authorized the Fleet Services Division's Client Advisory Committee to advise clients of issues and concerns. Fleet Services will have in place Service Level Agreements (SLA) between Fleet Services and each of its client divisions, which will clarify accountabilities by stating the roles and responsibilities, and performance expectations of both parties.

The increase of \$1.133 million in the 2007 Recommended Gross Expenditures over the 2006 Approved Gross Operating Budget is comprised mainly of collective agreements for COLA, merit and step and inflationary increases to maintain 2006 service levels. This increase also includes \$0.095 million gross, \$0 net, for the new Fleet Governance initiative, and \$0.076 million to meet Taxi Inspections demand on behalf of Municipal Licensing and Standards.

The gross expenditures increase of \$0.793 million or 2.2% over the 2007 Recommended Gross Budget, reflected in the 2008 Outlook, consist of COLA, merit and step, economic factors, and annualizations. The net incremental impact is \$0, as these costs will be reflected in a commensurate increase to the inter-departmental recoveries from Fleet Services' clients.

Service Delivery - Challenges and Issues

The emerging challenges and issues facing Fleet Services include the following:

- Recruiting and retaining mechanics to ensure efficient and timely repairs with minimal service disruptions.
- Implementing fleet governance review for City fuel sites and vehicle rentals.
- Establishing an effective infrastructure of fuel sites and fueling activities.
- Continuing with the Green Fleet initiative to achieve the targeted carbon emissions reduction.
- Launching the “Idle Free” campaign to reduce fuel consumption and carbon emissions.
- Ensuring compliance with Fleet safety and standards regulations.
- Maintaining a high standard of driver safety in a fiscally challenging environment.
- Implementing and maintaining Service Level Agreements in accordance with the Fleet Governance Model.
- Establishing effective working relations with other City Fleet organizations, such as TTC, Fire and Police Services, and EMS.
- Maximizing availability of vehicles for service delivery.
- Expanding the City’s fleet of fuel efficient vehicles.
- Increasing the dispensing of “green” (bio-diesel, and ethanol-enriched) fuels at Fleet operating fuel sites.
- Improving the management of fuel inventory.

Mayor’s Mandate

The 2007 Recommended Operating Budget for Fleet Services provides funding for the continuation of the Green Fleet initiative to reduce equivalent Carbon Dioxide (eCO₂) and to save fuel costs. This initiative is aligned with the following priorities outlined in the Mayor’s Mandate for a “Greener City”:

- *Develop a comprehensive climate change plan to cut greenhouse gas emissions to help combat global warming.*
- *Implement the remaining components of the City’s smog plan and develop a new, aggressive clean air action plan that will reduce smog-causing pollutants by 20% by 2012.*

In addition, Fleet Services will launch an “Idle Free” campaign to promote the reduction of vehicles idling. Currently, staff who drive City vehicles spend approximately 20 to 50 per cent of their time with their vehicles idling. The goal of the “Idle Free” campaign is to change the behaviour of City drivers in order to achieve the lowest level of engine idling. This would help to reduce the negative impact on the environment and to save City’s fuel costs. The 2007 Recommended Operating Budget for Fleet Services includes a savings of \$0.644 million (10% reduction) in fuel costs, resulting in eCO₂ (carbon dioxide) reduction of approximately 2,113 metric tons.

Section C: 2007 Recommended Base Budget

Table 3: 2007 Recommended Base Budget

(In \$000s)	2006 Appvd. Budget	2007 Recommended Base	Change		FY Incremental Outlook	
			2007 Recommended Base v. 2006 Appvd. Budget		2008	2009
	\$	\$	\$	%	\$	\$
GROSS EXP.	34,688.2	35,650.3	962.1	2.8	793.0	254.0
REVENUE	34,688.2	35,650.3	962.1	2.8	793.0	254.0
NET EXP.	0.0	0.0	0.0	NA	0.0	0.0
Approved Positions	199.0	199.0	0.0	0.0		
NET TARGET		0.0			NA	NA
\$ Over / (Under) Program Target		NA			NA	NA
% Over / (Under) Program Target		NA			NA	NA

2007 Recommended Base Budget

The 2007 Recommended Base Budget of \$35.650 million gross, \$0 net, represents a 2.8% increase over Fleet Services’ 2006 Approved Gross Base Budget while maintaining 2006 service levels.

- The additional \$0.962 million in gross expenditures recommended for the Program’s Base Budget is needed to align the budget with actual maintenance costs for the City’s fleet.

The 2007 Recommended Base Budget includes recommended cost reductions without impacting on service levels resulting from efficiencies and rationalization options that total \$0.753 million:

- Fleet Services’ contribution to the Vehicle Reserve has been reduced by \$0.109 million because vehicles used internally for Fleet Services’ operations have been replaced in accordance with their lifecycle schedules, making it possible to decrease the annual contribution to the Vehicle Reserve.
- The Idle Free campaign is the expected to result in fuel cost savings in an amount of \$0.644 million by switching off engines when vehicles and equipment are not in used.

Further reductions to achieve a 0% gross increase year over year are not recommended as they would negatively impact on fleet maintenance which is critical to ensuring optimal availability of vehicles for service delivery, and also on the new Fleet Governance model which established Fleet Services as the City’s supplier of choice for fleet management and maintenance.

2007 Key Cost Drivers

2007 key cost drivers include:

- COLA adjustments that average 3% for 2007 are non-discretionary expenditures that result in additional costs of \$0.541 million.
- Merit and step increases of \$0.044 million.
- One additional working day in 2007 for Union staff of \$0.056 million.
- Economic factors of \$1.449 million for:
 - Diesel and Gasoline \$1.206 million
 - Other materials & supplies 0.243 million

2008 and 2009 Outlook: Net Incremental Impact

There is no net incremental impact for Fleet Services in the 2008 and 2009 Outlook. The incremental gross expenditures increase in 2008 of \$0.793 million or 2.2% consists of ongoing COLA, merit and step, and inflationary increases, offset by increases in charge backs to Fleet Services' clients. The 2009 increase of \$0.254 million, \$0 net does not include a provision for COLA, as the increase is subject to future negotiations.

Section D: 2007 Recommended Service Priorities

Table 4: Summary of 2007 New / Enhanced Service Priorities (In \$000s)

Priority	Description	2007 Recommended		Rec. New Positions	Net Incremental Impact	
		Gross Exp.	Net Exp.		2008	2009
		\$	\$	#	\$	\$
(a) Enhanced Service Priorities - Council Approved:						
(b) Enhanced Service Priorities - Program Initiated:						
1	Taxi Inspection business demand-Municipal Licensing	76.3	0.0	1	0.0	0.0
Sub-Total Enhanced Services		76.3	0.0	1	0.0	0.0
(a) New Service Priorities - Council Approved:						
(b) New Service Priorities - Program Initiated:						
1	Fleet Governance initiative - Fuel and Rental Clerks	94.8	0.0	2	0.0	0.0
Sub-Total New Service Priorities		94.8	0.0	2	0.0	0.0
Total Recommended New / Enhanced Service Priorities		171.1	0.0	3	0.0	0.0

2007 Recommended Service Priorities

Enhanced Service Priorities – Program Initiated:

Taxi Inspection Program business demand – Municipal Licensing & Standards

The recommended service enhancement for the Municipal Licensing Taxi Inspection Program will add 1 mechanic (grade 3) position at a cost of \$0.076 million gross and \$0 net to handle the increased number of licensed vehicles (taxis) to be inspected for the Municipal Licensing and Standards’ (MLS) Taxi Inspection program.

New Service Priorities – Council Approved:

Fleet Governance Initiative – Fuel and Rental Clerks

The Fleet Governance Report, adopted by City Council on July 25, 26 and 27, 2006 (Policy and Finance Committee Report #6, Clause #4), “Review of the City’s Corporate Organizational Structure for Fleet Management and Services”, established a policy confirming the Fleet Services Division as the supplier of choice for fleet management and maintenance services except for Emergency Medical Services, Toronto Fire Services and Agencies, Boards and Commission. The new Fleet Governance provided four new responsibilities for Fleet Services.

- Authorizing all business cases for leasing and renting vehicles after working with the clients to determine if alternatives exist to meet their business needs.
- Developing and managing all contracts for rental vehicles.
- Establishing operating policies and standards for fuel sites to meet regulations.
- Monitoring compliance with those policies and standards.

The report identified the need for two full-time positions to administer these new responsibilities with associated costs of \$0.095 million gross, \$0 net. The funding for 2007 is prorated to provide funding for nine months given anticipated approval of the 2007 Operating Budgets in April 2007. The incremental impact for 2008 will be \$0.031 million for an annualized cost of \$0.126 million.

Issues for Discussion

2007 Operating Budget Issues

Idle Free Campaign

Contaminants from vehicle exhausts are major contributors to deteriorating air quality in Toronto. Reducing these contaminants in Toronto's air is part of a comprehensive air quality strategy for the City. As a result, in 1999 the City proclaimed a by-law to reduce unnecessary idling in the City. It limits idling to no more than 3 minutes in a given 60 minute period. The by-law allows transit vehicles to idle when picking up or discharging passengers and also allows limited idling when transit vehicles are waiting for passengers. As well, the by-law provides for idling during extreme outdoor temperatures to ensure heating or cooling inside a vehicle.

The City's goal is to achieve compliance with the by-law through voluntary measures. If these measures are not successful, the by-law provides for a fine of up to a maximum of \$5,000 for infractions of the by-law.

Starting in May 2007, Fleet Services will begin an "Idle Free" campaign to promote the reduction in idling of City vehicles. Motor vehicles and related activities are the major sources of carbon monoxide, nitrogen oxides, suspended particles and volatile organic compounds in the air and atmosphere of the City. Nitrogen oxides, and volatile organic compounds are the two main substances involved in the formation of ozone, a component of smog. When City drivers and operators leave their engines idling, two negative effects result from this action: 1) increased pollution, and 2) increased fuel consumption. An idling diesel engine will burn about 2.5 litres per hour. An idling gasoline engine will burn about 3.5 litres per hour. Ten seconds of idling uses more fuel than restarting the engine. The Idle Free campaign will help to reduce the negative impact on the environment and to save City's fuel costs.

The 2007 Recommended Operating Budget for Fleet Services includes a savings of \$0.644 million (10% reduction) in fuel costs, which reflects a reduction of approximately 256,200 hours in idling of vehicles. This will also result in an eCO₂ (Carbon dioxide) reduction of approximately 2,113 metric tons.

Appendix 1

**Summary of Recommended Base Budget Changes
From 2006 Approved Budget**

(In \$000s)	Summary of 2007 Base Budget Adjustments				Net Incremental Outlook	
	Approved Positions	Gross Expenditures	Revenues	Net	2008	2009
		\$	\$	\$	\$	\$
2006 Council Approved Operating Budget	198.0	34,697.5	34,697.5	0.0	0.0	0.0
In-year approvals and technical adjustments	1.0					
Corporate adjustments		(9.3)	(9.3)	0.0	0.0	0.0
2006 Final Operating Budget	199.0	34,688.2	34,688.2	0.0	0.0	0.0
Prior year impacts		44.3	44.3	0.0	0.0	0.0
Zero base items						
Economic factors		1,990.0	1,990.0	0.0		
Adjusted Base Budget	199.0	36,722.5	36,722.5	0.0	0.0	0.0
Other base changes		(319.4)	(319.4)	0.0	0.0	0.0
Base revenue changes						
Recommended Service Level Adjustments:						
Service efficiencies		(752.8)	(752.8)	0.0	0.0	0.0
Revenue adjustments						
Minor service impact						
Major service impact						
Total Recommended Base Adjustments	0.0	(1,072.2)	(1,072.2)	0.0	0.0	0.0
2007 Recommended Base Budget	199.0	35,650.3	35,650.3	0.0	0.0	0.0
2007 Program Operating Target	N/A	N/A	N/A	0.0	0.0	0.0
% Over (Under) Program Target				0.0%	0.0%	0.0%
% Over (Under) 2006 Appvd. Budget				0.0%	0.0%	0.0%

Appendix 2
Summary of Service Level Adjustments

Appendix 3

Summary of 2007 Recommended New / Enhanced Service Priorities

Appendix 4

Inflows / Outflows to / from Reserves & Reserve Funds

Reserve / Reserve Fund Name	Reserve / Reserve Fund Number	Balance as of December 2006 \$	Proposed Withdrawals (-) / Contributions (+)		
			2007	2008	2009
			\$	\$	\$
Insurance Reserve Fund	XR1010	17,536.0	97.7	97.7	97.7
Total Reserve / Reserve Fund Draws / Contributions			97.7	97.7	97.7