

Analyst Briefing Notes

Budget Committee

(January 28, 2008)

2008 OPERATING BUDGET

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2008 OPERATING BUDGET

Executive Summary

- The 2007 projected year-end gross expenditure of \$40.131 million and net expenditure of (\$0.215) million is below the 2007 Approved Budget of \$0 net, due mainly to projected cost containment savings of \$0.782 million. Without these savings, the year-end results would have been an over-expenditure of \$0.567 million net, due to unexpected job evaluation retro-active payouts of \$0.171 million, and the delay in finalizing and implementing a parts consignment contract which nullified the potential savings expected in 2007 of \$0.400 million.
- The 3-Year Operating Budget will enable Fleet Services to provide responsive, flexible, efficient, and comprehensive Fleet Management and Fuel Management services to reduce the fleet lifecycle costs to the City, and to mitigate the risk of unsafe drivers, vehicles and equipment operations.

It faces the following challenges and issues:

- Managing and maintaining an aging City fleet of vehicles and equipment.
 - Maximizing availability of vehicles for service delivery.
 - Increasing demand for fleet servicing as a result of higher usage of vehicles by some client Divisions for their service delivery.
 - Ensuring compliance with fleet safety and standard regulations.
- The 2008 Recommended Operating Budget for Fleet Services of \$41.460 million gross, \$0 net meets the City's 0% target.

Table 1: 2008 Recommended Budget

	2007		2008 Recommended Operating Budget			Change 2008 Recommended from 2007 Budget		FY Incremental Outlook	
	2007 Appvd. Budget	2007 Projected Actual	2008 Base	2008 New /Enhanced	2008 Operating Budget			2009	2010
	(In \$000s)		\$	\$	\$	\$	%	\$	\$
GROSS EXP.	36,087.2	40,131.0	41,396.9	62.9	41,459.8	5,372.6	14.9	291.0	321.7
REVENUE	36,087.2	40,346.0	41,396.9	62.9	41,459.8	5,372.6	14.9	291.0	321.7
NET EXP.	0.0	(215.0)	0.0	0.0	0.0	(0.0)	0.0	0.0	0.0
Approved Positions	202.0	202.0	204.0	1.0	205.0	3.0	1.5		
TARGET			0.0	0.0					
\$ Over / (Under) Program Target			na	na					
% Over / (Under) Program Target			na	na					

- The 2008 Recommended Operating Budget for Fleet Services is \$41.460 million gross, \$0 net. This is comprised of base funding of \$41.397 million gross, \$0 net, and recommended funding for new/enhanced priorities of \$0.063 million gross, \$0 net. Approval of the 2008 Recommended Operating Budget will result in the Program's staff complement increasing from 202 to 205 approved positions.
 - The 2009 Outlook in gross expenditures is comprised of merit and step increases, the reversal of one additional work day in 2008, and annualizations resulting in a year over year increase of \$0.291 million gross offset by a corresponding increase in inter-divisional recoveries for a \$0 net impact. The 2010 Outlook incremental net increase is \$0, with merit and step increases comprising the gross expenditures of \$0.322 million offset by inter-divisional recoveries.
- The 2008 Recommended Base Budget is \$41.397 million gross which represents a 14.7% increase over the 2007 Approved Gross Operating Budget. This is offset by recommended reduction options that resulted in the 2008 Recommended Operating Budget meeting the 0% net increase target.
 - The 2008 Key Cost drivers include collective agreement increases for COLA, merit and step increases, annualizations, an additional work day for union staff and inflationary increases that total \$1.201 million.
 - Recommended cost reductions total \$1.201 million and include savings of \$0.273 million in fuel consumption as a result of the Idle-Free campaign, and the Green Fleet Plan. Rationalizing external contracted services for fleet maintenance added a further cost savings of \$0.400 million. The remainder of the cost reductions of \$0.529 million are attributed to efficiency savings, from parts consignment supply, maintenance operations, reduced overtime, and recovery of some costs to administer the Public Auctions for the disposal of retired vehicles and equipment.
- The 2008 recommended funding for New/Enhanced Service Priorities in 2008 of \$0.063 million gross, \$0 net provides for a staffing resource to meet increased demand for training in fleet safety and standards required by City Divisions, Agencies, Boards and Commissions. In addition, it will also allow for further development of Fleet safety policies and courses required with the Ontario Commercial Vehicle Inspection Regulation taking effect on January 1, 2008.
- The 2008 Recommended Operating Budget contributes towards the strategic priorities for positive climate change through the use of "green" fuels (bio-diesel and ethanol). In 2008, Fleet Services has included a budget of \$10.406 million for the purchase of Ethanol Unleaded gasoline, Clear Low Sulphur Diesel fuel, and Bio-Diesel fuel that are charged back to the user Programs based on consumption levels.
- The 2008 Recommended 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, and managing fuel site operations.

- The 2008 Recommended Operating Budget will maintain service levels, with a Recommended Enhanced Service Priorities for one additional Fleet Safety and Standards Trainer due to increased Provincial legislation on Commercial Vehicle Inspection Regulation.

Recommendations

The City Manager and Chief Financial Officer recommend that:

1. the 2008 Recommended Operating Budget for Fleet Services of \$41.460 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	24,760.7	0.0
Fuel Operations	11,963.8	0.0
Fleet Safety and Standards	1,232.9	0.0
Fleet Management	3,502.4	0.0
	<hr/>	<hr/>
Total Program Budget	41,459.8	0.0
	<hr/>	<hr/>

Section A: 2007 Budget Variance Analysis

Table 2: 2007 Budget Variance Review

	2006 Actuals	2007 Approved Budget	2007 Projected Actuals*	2007 Appvd. Budget vs Projected Actuals Variance	
(In \$000s)	\$	\$	\$	\$	%
GROSS EXP.	39,477.2	36,087.2	40,131.0	4,043.8	11.2
REVENUES	38,910.3	36,087.2	40,346.0	4,258.8	11.8
NET EXP.	566.9	0.0	(215.0)	(215.0)	0.0
Approved Positions	199.0	202.0	202.0	0.0	0.0

*Projected Actual based on 3rd Quarter Operating Variance Report

2007 Experience

Fleet Services' projected actuals at year end will be \$40.131 million gross and (\$0.215 million) net, which is lower than budget by \$0.215 million net. Overspending is due to (a) unbudgeted job evaluation retro-active payouts of \$0.171 million and (b) the delay in implementing a parts consignment contract resulting in savings of approximately \$0.400 million not realized. These unfavourable factors have been offset by cost containment savings totalling \$0.782 million as detailed below.

2007 Cost Containment Savings

Fleet Services expects to achieve cost containment savings of \$0.782 million in 2007 through measures itemized below:

Net Cost Containment Savings	2007 (\$000s) Savings	2008 (\$000s) Continued Savings	Comments
Hiring Freeze Savings:			
Hiring Freeze/Increased gapping savings	493.8		
Sub-total	493.8		
Service Level Adjustments:			
Reduce contracted services	200.0	400.0	Recommended as a reduction option for 2008.
Sub-total	200.0	400.0	
Discretionary Savings:			
Deferred supplies and materials purchases	5.0		
Licensing fees for vehicles	83.0		
Sub-total	88.0	0.0	
TOTAL COST CONTAINMENT	781.8	400.0	

Impact of 2007 Operating Variance on 2008 Recommended Budget

The reduction in contracted services will continue into 2008 on a one time basis. The savings from implementing a parts consignment contract will be ongoing.

Section B: 2008 Operating Budget Overview**3-Year Operating Budget Overview**

- The 2008 Recommended Budget and the 2009 and 2010 Outlook for Fleet Services will:
 - maintain public services by ensuring a reliable and dependable City fleet;
 - establish an effective infrastructure for fueling activities;
 - enable Fleet Services to maintain optimal fleet management, safety and standards, fuel operations, and fleet maintenance;
 - allow for an increase in the use of bio-diesel and ethanol enriched fuels to advance the City's strategic priorities to make Toronto a "greener" city;
 - continue implementing system integration and parts consignment;
 - 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 2008 Recommended Operating Budget for Fleet Services is \$41.460 million gross, \$0 net. Fleet's gross expenditures are charged back to its divisional clients, and maintain a \$0 net expenditure year over year. The 2008 Recommended Operating Budget is \$5.373 million or 14.9% over the 2007 approved gross expenditures budget. The increase of \$5.373 million includes \$1.800 million, offset by new inter-divisional recoveries from Emergency Medical Services resulting from Fleet Services assuming the management of EMS fuel sites. The remaining \$3.573 million increase is mainly to recognize the historical actual experience of Fleet maintenance and fuel expenditures by Fleet clients. It is noted that the 2007 projected actual gross expenditure for Fleet Services is \$40.131 million compared to an approved 2007 approved gross expenditure budget of \$36.087 million, resulting in an overage of \$4.044 million.
- The 2008 Recommended Operating Budget for Fleet Services includes \$1.201 million for COLA, merit and step, annualizations and inflationary increases to maintain 2007 service levels. The increase in expenditures is offset by various reductions totaling \$1.201 million as discussed on page 10.
- The 2008 Recommended new/enhanced service priority totals \$0.063 million gross, \$0 net for a staffing resource to meet the increased demand by Fleet's divisional clients for fleet safety and standards training. The additional resource will also develop Fleet safety policies and courses required by the Ontario Commercial Vehicle Inspection Regulation taking effect on January 1, 2008.
- The 2008 Recommended Operating Budget for Fleet Services, including reduction options, is \$41.460 million, \$0 net.

Challenges and Issues

The mission of Fleet Services is:

To provide responsive, flexible, efficient, and comprehensive Fleet Management and Fuel Management Services to reduce the fleet lifecycle costs to the City, and to mitigate the risk of unsafe drivers, vehicles and equipment operation.

To achieve this vision, the Program is structured along the following service lines:

SERVICE AREA	DESCRIPTION
Fleet Management	To provide replacement of vehicles and equipment, and to repair and preventive maintenance services for vehicles and equipment to support divisional operations and comply with legislative requirements.
Fuel Management	To provide fuel to support divisional operations and oversight at all City fuel sites.

The following chart outlines the Service Drivers, Challenges, Plans and Strategies that Fleet Services has identified in relation to their ability to deliver service.

Driver	Challenges	Plan	Strategies/2008 Service Objectives
Age of Vehicles and Equipment	<ul style="list-style-type: none"> Vehicles and equipment being used beyond their normal useful life. 	<ul style="list-style-type: none"> Invest an additional \$6.000 million each year for the next 8 years in order to reduce the average life of vehicles from 14 to 8 years. 	<ul style="list-style-type: none"> Work with Divisions to provide funding for timely replacement of vehicles and equipment, and on downsizing fleet size. Continue to work with Divisions on plan to address backlog on replacement of vehicles and equipment.
Usage of Vehicles	<ul style="list-style-type: none"> Heavy usage of vehicles and equipment demand higher maintenance costs. Maximizing availability of vehicles for service delivery. 	<ul style="list-style-type: none"> Increase scheduled maintenance from 60% towards a target of 67% in 2010. Increased scheduled maintenance will help to minimize maintenance costs. 	<ul style="list-style-type: none"> Work with Divisions to ensure vehicles and equipment are made available for regular preventive maintenance.
Number of Vehicles and Equipment	<ul style="list-style-type: none"> Increase in the Divisions' number of vehicles and equipment demand more fleet management services for acquisition, maintenance, disposal and safety. 	<ul style="list-style-type: none"> Expand Fleet Services' Technician Apprentice and Co-op programs to provide training for skilled mechanics. Implement the parts consignment model to achieve bulk purchase savings and improve the 	<ul style="list-style-type: none"> Full implementation of parts consignment model. Continue evaluation of out-sourcing versus in-sourcing. Negotiate with all divisions on downsizing fleet size, through service level agreements. Continue exploring

Driver	Challenges	Plan	Strategies/2008 Service Objectives
	<ul style="list-style-type: none"> Recruiting and retaining mechanics to ensure efficient and timely repairs with minimal service disruptions. Re-aligning maintenance operations at various Fleet locations to meet clients' demands on service. 	procurement process. <ul style="list-style-type: none"> Establish Service Level Agreements with all Fleet clients. 	opportunities to reduce costs.
Number of Vehicles and Equipment Operators.	<ul style="list-style-type: none"> Existing staff complement for Fleet Safety & Driver Education Instructors not meeting the increase in demand by Divisions and ABCs. Ensuring compliance with Fleet safety and standards regulations. 	<ul style="list-style-type: none"> Provide additional Fleet Safety & Driver Education Instructor in order to accommodate the increased training needs by Divisions, and ABCs. 	<ul style="list-style-type: none"> Maintain driver safety training at current 98% of divisions' training needs and provide training in a timely manner.

Strategic Priorities

The 2008 Recommended Operating Budget for Fleet Services provides funding for the continuation of the Green Fleet initiative to reduce emissions of Carbon Dioxide (eCO₂) and to save fuel costs. This initiative is aligned with the following strategic priorities outlined in Council's policy agenda:

- 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 launched an "Idle Free" campaign in May 2007 to promote the reduction of vehicles idling. Currently, staff that 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 reduce idling time. This would help to reduce the negative impact on the environment and to save City's fuel costs. The 2007 Approved Operating Budget for Fleet Services included a savings of \$0.644 million (10% reduction) in fuel costs, resulting in eCO₂ (carbon dioxide) reduction of approximately 2,000 tonnes.

The 2008 Recommended Operating Budget includes an additional savings of \$0.220 million in fuel costs as a result of the Idle Free Campaign.

Section C: 2008 Recommended Base Budget

Table 3: 2008 Recommended Base Budget

(In \$000s)	2007 Appvd. Budget	2008 Recommended Base	Change 2008 Recommended Base v. 2007 Appvd. Budget		FY Incremental Outlook	
			\$	%	2009	2010
	\$	\$			\$	\$
GROSS EXP.	36,087.2	41,396.9	5,309.7	14.7	291.0	321.7
REVENUE	36,087.2	41,396.9	5,309.7	14.7	291.0	321.7
NET EXP.	0.0	0.0	0.0	NA	0.0	0.0
Approved Positions	202.0	204.0	2.0	1.0		
NET TARGET		0.0			NA	NA
\$ Over / (Under) Program Target		NA			NA	NA
% Over / (Under) Program Target		NA			NA	NA

2008 Recommended Base Budget

The 2008 Recommended Base Budget of \$41.397 million gross expenditures, \$0 net, represents a 0% increase over Fleet Services' 2007 Approved Base Budget while maintaining 2007 service levels.

- The 2008 Recommended Operating Base Budget of \$41.397 million gross is 14.7% higher than the 2007 approved gross expenditure.
- An additional \$3.360 million in gross revenues and expenditures recommended for the Program's Base Budget is needed to align the budget with actual maintenance and fuel costs for the City's fleet, and the inter-divisional recoveries.
- Fleet Services assumed the management Emergency Medical Services' fuel sites that increases the 2008 base budget by \$1.800 million for fuel supply. This is offset by recoveries from EMS.
- Cost of living adjustments (COLA for 2008 are non-discretionary outlays that comprise \$0.474 million of the recommended gross expenditure increase of \$5.310 million.
- Merit and step increases, an additional work day in 2008 and annualizations are additional non-discretionary cost increases that add \$0.242 million.
- The 2008 Recommended Base Budget results in 204 approved positions. The increase of 2 positions is to provide in-house mechanic services that will result in net savings of \$0.400

million in fleet maintenance costs by reducing contracted services. About 25% of fleet maintenance is outsourced to external service providers due to over capacity. In order to optimize the internal capacity to provide in-house services, the opportunity to enhance internal services by adding two mechanics, and reduce external contracted services is recommended.

2008 Key Cost Drivers and Reduction Strategies

2008 key cost drivers include:

- COLA adjustments are non-discretionary expenditures that result in additional costs of \$0.474 million.
- Merit and step increases of \$0.141 million.
- One additional working day in 2008 of \$0.068 million.
- Inflationary increases on non-labour items of \$0.487 million.

In an effort to limit Fleet Services' 2008 Operating Budget to meet budgetary constraints, the following reduction options are recommended:

- Service level efficiency reductions:
 - Savings from lower fuel consumption resulting from the Idle Free campaign, and the Green Fleet Plan of \$0.273 million net.
 - Rationalizing contracted services resulting in a cost savings of \$0.400 million net.
 - Bulk savings from parts consignment supply and maintenance operations efficiencies of \$0.339 million net.
 - Overtime savings of \$0.040 million net from effective management of fleet maintenance services.
- Recovery of costs of \$0.150 million net, to administer the disposal in public auction of retired vehicles.

2009 and 2010 Outlook: Net Incremental Impact

There is no net incremental impact for Fleet Services in the 2009 and 2010 Outlook. However, the gross expenditure increases in 2009 of \$0.291 million contain merit and step increases, the reversal of the one additional work day in 2008, and annualizations, with no impact on service levels. The 2010 gross Outlook of \$0.322 million consists of merit and step increases only. These gross expenditure increases are offset by inter-divisional recoveries for a \$0 net impact. There is no change to service levels.

Section D: 2008 Recommended Service Priorities

Table 4: Summary of 2008 New / Enhanced Service Priorities (In \$000s)

Priority	Description	2008 Recommended		Rec. New Positions	Net Incremental Impact	
		Gross Exp.	Net Exp.		2009	2010
		\$	\$	#	\$	\$
(a) Enhanced Service Priorities - Council Approved:						
(b) Enhanced Service Priorities - Program Initiated: Fleet Safety and Standards Trainer position		62.9	0.0	1.0		
Sub-Total Enhanced Service Priorities		62.9	0.0	1.0	0.0	0.0
(a) New Service Priorities - Council Approved:						
(b) New Service Priorities - Program Initiated:						
Sub-Total New Service Priorities		0.0	0.0	0.0	0.0	0.0
Total Recommended New / Enhanced Service Priorities		62.9	0.0	1.0	0.0	0.0

Recommended Enhanced Service Priorities – Program Initiated:

Training in Fleet Safety and Standards

Funding is recommended for one position at a cost of \$0.063 million gross, \$0 net to provide a Fleet Safety and Standards Trainer to meet the increased demand for training by City Divisions and Agencies, Boards and Commissions in fleet safety and standards, and to further develop Fleet safety policies, and courses.

The Fleet Safety & Standards Unit provides training, testing and inspections to ensure the safe operation of City vehicles and equipment. In 2007, the number of requests for training from City Divisions, Agencies, Boards and Commissions increased by 36 percent from 2006. In 2007, it is projected that Fleet Safety & Standards will provide training, courses and tests to approx. 9,900 staff, compared to 7,274 in 2006.

The current complement of 8 Fleet Safety Trainers is not able to accommodate the increase in training needs by City Divisions and Agencies, Boards and Commissions, and to further develop Fleet safety policies and courses.

With the Ontario Commercial Vehicle Inspection Regulation in full enforcement on January 1, 2008, an additional position in Fleet Safety & Standards will ensure that the City operators are in compliance with increased Provincial legislation. As well, this will allow Fleet Services to reduce the excessive overtime in Fleet Safety & Standards.

Section E: Issues for Discussion**2008 Operating Budget Issues*****Fleet Maintenance and Fuel Costs Recoveries***

The 2008 Recommended Operating Budget for Fleet Services includes a base increase of \$5.160 million in inter-divisional charges and recoveries for fleet maintenance and fuel expenditures. This includes \$1.800 million in new inter-divisional recoveries from Emergency Medical Services resulting from Fleet Services assuming the management of the fuel site at 4330 Dufferin Street. The remaining \$3.360 million increase corresponds with other Divisions' 2008 Operating Budgets for Fleet charges to meet historical actual levels of expenditure.

The increases are mainly related to Fleet's major clients: Emergency Medical Services, Transportation, Toronto Water, Parks, Forestry and Recreation, and Solid Waste Management Services.

Appendix 1

Summary of Recommended Base Budget Changes From 2007 Approved Budget

(In \$000s)	Summary of 2008 Base Budget Adjustments				Net Incremental Outlook	
	Approved Positions	Gross Expenditures	Revenues	Net	2009	2010
		\$	\$	\$	\$	\$
2007 Council Approved Operating Budget	202.0	35,821.4	35,821.4	0.0	0.0	0.0
In-year approvals and technical adjustments		286.9	286.9	0.0		
Corporate adjustments	0.0	(21.1)	(21.1)	0.0		
2007 Final Operating Budget	202.0	36,087.2	36,087.2	0.0	0.0	0.0
Prior year impacts		222.3		222.3		
Zero base items				0.0		
Economic factors		960.4		960.4		
Adjusted Base Budget	202.0	37,269.9	36,087.2	1,182.7	0.0	0.0
Other base changes		5,178.2	5,159.7	18.5		
Base revenue changes				0.0		
2008 Base Budget Request	202.0	42,448.1	41,246.9	1,201.2	0.0	0.0
Recommended Base Adjustments:						
Base changes				0.0		
Service efficiencies	2.0	(1,051.2)		(1,051.2)		
Revenue adjustments			150.0	(150.0)		
Minor service impact				0.0		
Major service impact				0.0		
Total Recommended Base Adjustments	2.0	(1,051.2)	150.0	(1,201.2)	0.0	0.0
2008 Recommended Base Budget	204.0	41,396.9	41,396.9	0.0	0.0	0.0
2008 Program Operating Target	N/A	N/A	N/A	0.0	0.0	0.0
% Over (Under) Program Target				0.0%	0.0%	0.00%
% Over (Under) 2006 Appvd. Budget				0.0%	0.0%	0.00%

Appendix 2
Summary of Service Level Adjustments

Appendix 3

Summary of 2008 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 Dec 2007 \$	Proposed Withdrawals (-) / Contributions (+)		
			2008	2009	2010
			\$	\$	\$
Insurance Reserve Fund	XR1010	23,610.4	76.6	76.6	76.6
Total Reserve / Reserve Fund Draws / Contributions			76.6	76.6	76.6