

Re: PLANNING CHALLENGE STATEMENT FOR 1988 OPERATING BUDGET

MUNICIPAL MANAGER'S RECOMMENDATION:

1. THAT this report be received for information purposes.

REPORT

INTRODUCTION

Council on 1987 June 01, when considering the Municipal Manager's proposed challenge in planning for the 1988 operating budget, referred the amending resolution to the Manager. The purpose of the referral was to have the Manager consider the impact and/or implication of having a 4% challenge rather than the 5.9% recommended by the report.

DETERMINATION OF CHALLENGE

In setting the 5.9% challenge, a considerable amount of work was done in projecting 1988 expenditures and revenues and estimating the impact in 1988 of capital programs initiated during 1986 and 1987. That process also identified the need for some increase in our present level of expenditure for capital works.

In total, using the best information that we had available, and making a number of assumptions about potential revenue increases from fees, grants and investment income, we arrived at a potential increase in 1988 tax levy of 10.6%, before allowing for growth in revenue from new construction. The increase was determined using the same basic principles as in recent past years, i.e., program levels remain the same, reserve and pay as you go policy is unchanged and no change is made in tax ratios.

Growth in taxation revenue from new construction has traditionally been difficult to forecast. This is because there is no correlation between the value of building permits taken out in a given year and the growth in the assessment roll in that year. The time elapsed from the date that a building permit is applied for and when the improvements appear on the assessment roll could be spread over a two to three year period. Also, the assessment roll only recognizes new construction up to 30th September.

Over the last 5 years growth from new construction has resulted in the following new tax revenue:

<u>Year</u>	<u>\$000</u>
1987	1,541
1986	1,070
1985	1,109
1984	1,509
1983	1,023

About 50% of the new tax growth flowing from the Cal Investments development came on stream in 1987 and is included in the \$1,541 M shown in the table. For 1988 target purposes, we conservatively estimated tax increases from new construction at \$1,250,000. We recognized that, although the remainder of the existing Cal Investments improvements would come on to the 1988 roll, plus some of the foundation work for Eatons Centre, this would be partly offset by the demolitions that have taken place in that area. We also made a further reduction of \$250,000 to recognize expected loss in tax revenue resulting from outstanding strata title complex assessment appeals.

After applying a net \$1 Million increase in new tax revenue to our 1988 budget projections, we were still looking at about a \$5 Million or 8.9% tax increase in 1987.

3.1% of this increase results from debt repayment and operating costs from the \$20.9 Million special capital program and recent local improvement programs. Taking into consideration that inflation in the Greater Vancouver Area is expected to be about 3.5% in 1988 and real growth in B.C. to be about 2.5%, it was considered that a target of 5.9% was realistic.

The 5.9% target left us at this time with still having to find ways of reducing our 1988 budget tax draw projections by about \$1.4 Million for known costs. That was the challenge we faced and still face.

IMPLICATION OF INCREASING THE CHALLENGE

The 1987 tax levy was \$56,141,619. A 5.9% increase in 1988 would raise \$3.3 Million and a 4% increase would raise \$2.25 Million, or about \$1 Million less.

If the taxation from new growth (estimated at \$1 Million net) is added, the implication flowing from the challenge can be restated as follows:

- A 5.9% challenge means that the 1988 expenditures (net) over 1987 could be increased by \$4.3 Million.
- A 4% challenge means that the 1988 expenditures (net) over 1987 could be increased by \$3.25 Million.

The major known cost increases facing us in 1988 over which we have very limited control include:

• Police - contract increase plus annualization of 2 members added in mid 1987	<u>\$000</u>
• Solid waste disposal fees	850
• Solid waste disposal fees	400
• Sponsor - increased cost for full year operation	300
• Contingency for salary and wage increases including annualization of 1987 fire increase	1,600
• Debt from work previously initiated	
• Major roads	300
• Parks, Library, Museum (\$20.9 Million program)	900
• Local improvements	500
• Inflation on supplies and salary increments	550
• Capital spending shown in 1987-1991 program	
• Storm sewers	285
• Refuse collection	280
• Major parks development	<u>245</u>
	6,210

Less:

• Election costs - no election in 1988	180
• Existing outstanding debt fully paid	<u>340</u>
Total major known cost increases for 1988	<u>\$5,690</u>

When these known costs are added to the 1987 tax draw, a 1988 4% challenge would require budget reductions of \$2.44 Million as we see it at this time, as compared to \$1.4 Million yet to be found to meet the 5.9% challenge.

In order to determine the full implications of meeting the challenge, be it 5.9% or 4%, it is necessary to go through the complete budget preparation process. The challenge statement is the first step of this process. At this juncture, we can only speak in broad terms. Priorities will need to be reexamined, existing programs challenged, and in that process we will need to attempt to find ways to carry out our programs with the resources available. The full process takes several months to complete, with the first preliminary figures normally available in October.

A major difficulty in trying to assess the impact of a challenge statement, regardless of the percentage, is the large number of unknowns that exist, particularly this far in advance. These unknowns include:

- Growth in tax revenue from new construction.
- The amount of our revenue sharing grants from the Province.
- The amount of 1987 surplus that might be available.
- Interest rates for 1988.
- The results of collective bargaining for 1988.
- The results of currently outstanding assessment appeals for 1987 and prior years.
- Legislative changes that may be enacted by senior governments.

#### CONCLUSION

The 1988 fiscal year has built into it net cost increases that would increase the tax draw (even after new construction) by some 8.9%. As a result, it is proposed that for 1988 the provisional budget challenge be held at 5.9%, but that as part of the budget preparation process we identify the implications of taking that increase down to 4%. In either case, program reductions may be necessary to meet the challenge (5.9% or 4%).

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