

TO: CITY MANAGER

1999 April 07

FROM: DIRECTOR FINANCE

SUBJECT: 1999 OPERATING BUDGET

PURPOSE: To provide Council with information on the impact of the elimination of the Annual Provincial Government Equalization Grant.

RECOMMENDATION:

1. THAT the funds needed to cover the Provincial government funding cut come from:

Departmental cuts	\$414,610
Taxes from new construction	466,606
Additional 0.75% tax rate increase	<u>785,224</u>
Total Provincial government cut	<u>\$1,666,440</u>

On December 18th, two weeks after Burnaby adopted its 1999 Provisional budget, the Minister of Municipal Affairs announced the elimination of the city's annual Equalization Grant (\$2,286,440). In the same letter the Minister announced that the Province would begin paying a portion of traffic policing costs through a new "traffic fine revenue sharing program". Through the new program Burnaby is entitled to \$620,000, in 1999, in accordance with a formula adopted by the Province. The net impact of the Province's initiative is a loss of \$1,666,440 in annual revenue to Burnaby.

The cut in the Equalization Grant/Revenue Sharing Grant is the latest funding cutbacks made by the Province in the last few years, the previous cut being \$4,340,194 in 1997.

At a previous Council meeting, staff were asked to research strategies and means of handling a possible loss of revenue of this magnitude.

Budget Process

Burnaby's budget planning process does not lend itself to major last minute changes unilaterally enacted by outside agencies.

The city's budget process begins within weeks of the adoption of the Annual budget, on or before, May 15th each year. At that time staff prepare a five year "Target budget" highlighting the known changes and challenges for the coming years. This document is used as background for discussions with Council and the Council Finance Liaison to set global city targets for the coming year.

The Provisional budget process is formally started in late August. Through meetings with staff, the Management Committee and Council, the budget is compiled and presented to open Council, usually at the Inaugural Meeting in early December.

The Annual budget process begins in late January and generally consists of fine tuning the Provisional budget. The Annual budget also concentrates on setting the tax rates, by assessment class, in time for adoption of the budget in May each year.

The Capital Budget process parallels the above timing.

The Challenges

The budget process adopted by Burnaby provides the planning time frame required to make the major budget shifts needed to accommodate losses in income or increased expenditure needs for new facilities or services. Last minute changes put significant stress on the time required, in a multi-functional organization, to make logically well planned changes that minimize service impacts.

With decreasing income from other sources and increasing service requirements, the city has few options available to it to provide the ongoing funding required by the services the city supplies. The options include departmental cuts, new user fees and charges, additional taxes from newly constructed buildings, the use of the Stabilization Reserve to cover infrequent expenditures, and tax rate increases.

In the past, the annual contributions to capital for funds borrowed from reserves to finance capital works done in the previous year, would be partially offset by external and/or internal debt being paid off. This has not been the case in the last few years due largely to the increase, in 1986, of the amortization period (pay off period) for internal debt. This has created a period of time (1996 to 2006) where very little debt is being paid off. In 1999 the additional annual contributions to capital for funds borrowed from reserves (internal debt repayments) have increased Burnaby's funding needs by \$2.1 million dollars.

Added to the above is the fact that services provided by the city are labour intensive. Contractual negotiated labour rate increases cost the city in excess of \$1.0 million for each percentage increase. In 1999 the additional cost to the city from negotiated labour rate increases and contractual increments is \$1.5 million.

Additionally, in 1999, provision for a new Community Police station at Crystal Square and additional Youth Centres have driven departmental costs up.

In the 1999 Provisional budget the above items were covered by taxes from newly constructed buildings, a 1% tax rate increase and a 2.6% cut in municipal departmental expenditures. The previous year's (1998) budget challenge resulted in a 1.95% cut in departmental services.

Future Major Cost Increases

1. The labour contracts for the city's major unions expire at the end of 1999, any increase in labour rates will result in increased costs for the city.
2. The R.C.M.P. in the lower Fraser Valley are committed to participation in the upgrade to a wide area radio system provided by Ecomm Corporation in Vancouver. This upgrade will cost the city in excess of \$750,000 per year beginning at the end of 1999 or early in 2000. The additional costs will need to be provided from within our operating budget.
3. The formation of the Greater Vancouver Transit Authority has resulted in some functions and road ownership being transferred to Burnaby. As of April 01, 1999 our responsibility for additional road signal maintenance and annual roadway line painting will increase our annual costs by about \$500,000. The additional costs will need to be provided from within our operating budget.
4. Shell Canada has recently announced the closing of its splitter operations at the Shellburn facility in Burnaby. The assessment, classification and property tax implications are currently being determined but are very likely to result in a loss of general municipal property taxes in excess of \$850,000 per year beginning next year. The loss of tax revenue will need to be provided from within our operating budget.

The above factors are in addition to repayments for capital work done in 1999, provision for operating new facilities (Sports centre, etc.) or general price/cost increases that must be accommodated within the budget. The totals of the additional challenges are well in excess of anticipated additional tax revenue from newly constructed buildings (new growth).

Revenue Sources

1. **New user fees and charges**
As part of the budget process departments review all charges and other revenue items to ensure they are covering costs (to the extent possible), in line with other city's charges, and as affordable as possible. The resulting increases or adjustments are included in the Provisional operating budget.
2. **Additional taxes from newly constructed buildings.**
New growth taxes have contributed about \$1.2 million annually to additional funding requirements of the city, these are regularly incorporated into the Provisional budget. In 1999, taxes from new growth have benefitted from the construction activity in the city over the last few years and have provided some additional funds to cover cost increases and lower the requirements for tax rate increases.
3. **Stabilization Reserve**
Funds from the stabilization reserve are used to cover the prior year's portion of assessment appeals and one time or infrequent expenditure items. The reserve is not used for ongoing requirements such as salaries and wages due to the fact that once the funds are spent there is no ongoing source to replenish the reserve to its former level. In 1999 \$2.2 million is budgeted to be spent from the reserve on prior year's assessment appeals (\$1.8 m) and the municipal election in November.
4. **Tax rate increases**
As prices or incomes increase the revenue received by the Provincial and Federal governments from sales (PST/GST) and income taxes increase without the need for rate changes. Unlike sales taxes and income taxes, property taxes are not linked to inflationary or other increases.

Before property tax rate increases are made the effects of assessment changes are taken into account. As property values increase the actual tax rates have been adjusted downward to ensure tax increases, on the average property, are not the result of general assessment changes. As an example, the residential tax rates in

1986 were \$6.30/\$1000 assessed value, the rates in 1998 were \$3.27/\$1000. The lower rate is a combination of rate decreases for rising property values and rate increases to finance additional city services.

Burnaby has attempted to keep its tax rate increases to an absolute minimum. For each percentage increase in tax rates about \$1.0 million is raised in tax revenue. The 1999 Provisional budget anticipated a 1.0% general tax rate increase which equates to additional tax levy revenue of \$1,046,965 or about \$9.70 increase on the average (\$274,700) residence. With a 1% rate increase, Burnaby's residential tax rates will remain amongst the lowest in the Greater Vancouver Regional District.

Staff have considered the coming challenges and the need to cover the loss of the \$1,666,440 in Provincial funding, with minimum impact on the tax rates and city services. It is recommended that the funds needed to cover the Provincial government funding cut come from:

1. Departmental cuts	\$414,610
2. Taxes from new construction	466,606
3. Additional 0.75% tax rate increase	<u>785,224</u>
Annual budget funding increase	<u>\$1,666,440</u>

If Council adopts the above recommendation the changes will be incorporated into the 1999 Annual budget.



Rick Earle
DIRECTOR FINANCE

