



City of Richmond

Report to Committee

To: Finance Committee
From: Andrew Nazareth
Acting General Manager,
Finance & Corporate Services
Date: January 6, 2006
File: 03-0970-01/2006-Vol 01
Re: **Operating Budget – A Historical Perspective**

Staff Recommendation

That the attached report on the historical perspective of the Operating Budget tax increases and City's reserve balances from 1995 – 2005 be received for information.

Andrew Nazareth
Acting General Manager, Finance & Corporate Services
(4365)

Att. 5

FOR ORIGINATING DIVISION USE ONLY		
CONCURRENCE OF GENERAL MANAGER (Acting) 		
REVIEWED BY TAG	YES <input checked="" type="checkbox"/>	NO <input type="checkbox"/>
REVIEWED BY CAO	YES <input checked="" type="checkbox"/>	NO <input type="checkbox"/>

Staff Report

Origin

At the request of the Chair of the Finance Committee the following is a historical perspective on the past 10 years with regards to annual property tax increases, transfers to reserves and statutory reserve balances. Additional levels approved by Council for the last 5 years are also provided.

Analysis

Annual Property Tax Increases

Attachment A shows the City's annual property tax increases for the past 10 years. Overall, the City is responsible for approximately half the property taxes with the rest made up of taxes for the School Board, Greater Vancouver Regional District, B.C. Assessment Authority and Translink.

Over the 10-year period ending 2005, the City's tax increases have averaged 2.6%, which is consistent with the City's net cost increases over the same period. However, what is interesting to note is that from 1996 – 2000 the average tax increase for the City was 1.3% as compared to 2001 – 2005 which experienced an average tax increase of 3.9%. This pattern indicates some measure of 'catch-up'. More on this later in the Conclusion.

Transfer to Reserves and Statutory Reserve Balances

Attachment B displays the total transfers to reserves for the period 1995 – 2005. The transfers to reserves are made up of contributions from the City's Operating Budgets, Development Cost Charges (DCC's) and investment income earned on existing reserve balances.

The transfers to reserves dropped to their lowest contribution levels in 2001 and became one of the prime reasons for the development of the Long Term Financial Management Strategy (LTFMS) in 2002. Subsequently, we are pleased to report that the transfers to reserves have recovered from that low point in 2001.

There are a number of factors that have led to this recovery, specifically, Council's adoption of the LTFMS, sale-leaseback deals, increase in casino revenues by \$9M annually, tax increases with increased transfers to reserves, DCC increases due to development, increase in traffic fine sharing, 100% GST rebate and so on.

Attachment C reflects the turn around in the Statutory Reserve balances from a low of \$102M in 2001 to a high of \$139M in 2004. Please note that the balances are presented in a manner that accounts for commitments and thus only displays statutory reserve balances that are not committed which we believe provides a more accurate reflection of the balances. As of 2003, the accounting rules mandated by the Public Sector Accounting Board (PSAB) changed requiring financial statements to move funds committed in capital projects but not spent yet back to the reserves at year-end. As a result, our reserves on the financial statements (reserves and DCCs) show \$149M and \$181M for 2003 and 2004 respectively. The books have not been closed for 2005 yet, so we do not have a final figure.

Ongoing Additional Levels

Attachment D lists each additional level approved by Council from 2001 – 2005. Of the 37 additional levels approved over the last 5 years, 14 have been for RCMP and Fire Rescue services.

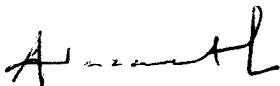
Financial Impact

None

Conclusion

Overall, you will notice that there is a strong correlation between the tax increases, transfers to reserves and reserve balances. In the late '90's, taxes were kept fairly low. It was the same time that there was some level of senior government downloading and absorption of this and other cost increases resulted in a reduction of transfers to reserves. This in turn started to have a negative effect on the statutory reserve balances. Coincidentally, this was also the period the City issued most of its current outstanding debt.

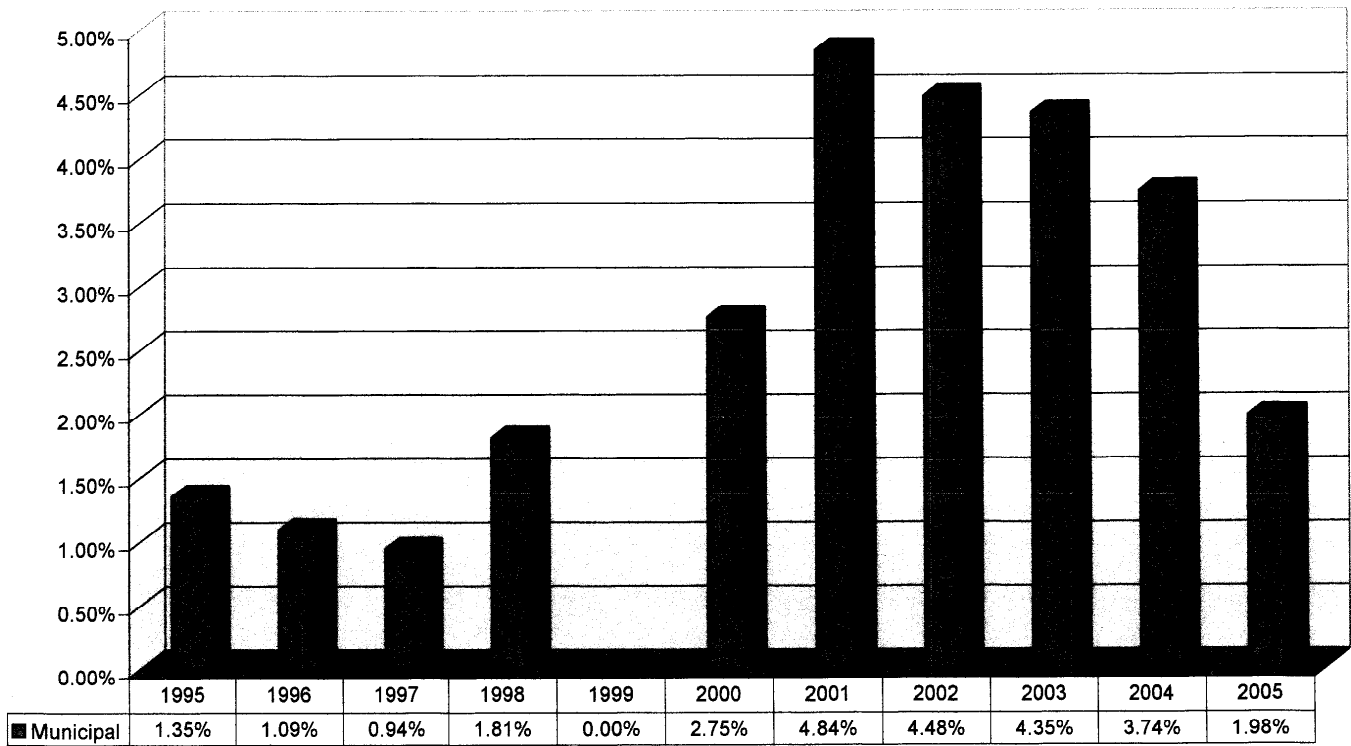
The lesson learned from this is that keeping taxes low while costs continue to rise is only a short-term deferment measure as reality catches up at some future point. Based on our 10 year history, it is a known fact that our net costs are increasing annually between 2% - 3%, largely driven by RCMP and Fire Rescue costs. Therefore, if the desire exists to reduce the tax increases below the above mentioned rates, the options are generally limited. Either significant new alternative revenues must be sought (including new growth) or permanent reductions must be made to existing service levels and/or programs. Efficiencies are also necessary and are an ongoing part of managing the organization with its effects already factored into the budgets.



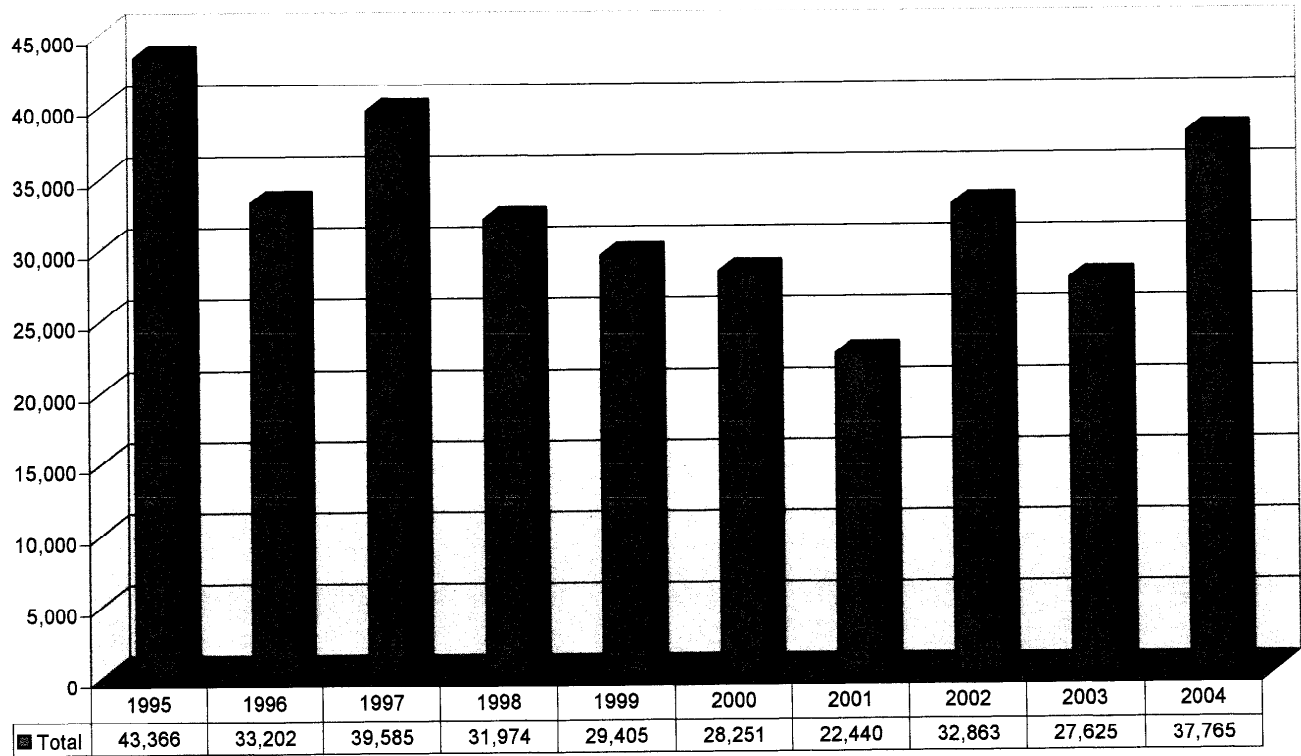
Andrew Nazareth
Acting General Manager,
Finance & Corporate Services
(4365)

AN:gjn

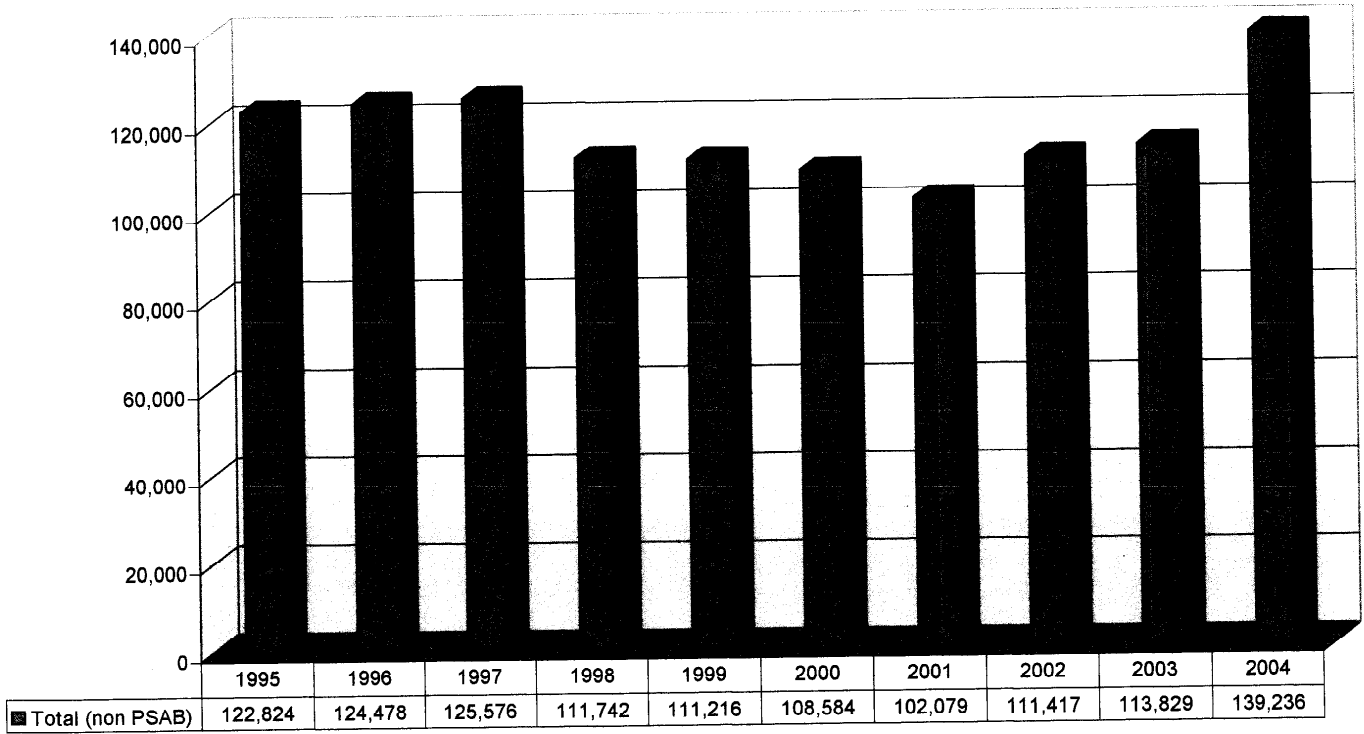
**City of Richmond
Annual Municipal Tax Increase
1995 - 2005**



City of Richmond
1995 - 2004
Transfers to Reserves
(in Thousands)



**City of Richmond
1995 - 2004
Statutory Reserve Balances
(in Thousands)**



City of Richmond
Ongoing Additional Level Summary Schedule (2001-2005)
(as approved by Council)

Budget Year	Amount	Department	Description
2001	144,070	Facility Mgmt	Building service workers, managers salary
	100,000	Info Tech	Technical Training Support
	16,900	Urban	Property Use Inspector Position
	6,000	Fire	Spare Parts for breathing apparatus
	2,400	Corp Admin	Communication and Public Affairs expenditures
	<u>269,370</u>		
2002	200,000	InfoTech	Software funding (Upgrade)
	142,000	RCMP	E-comm Levy (RMS Integration)
	57,000	Fire	Turnout Gear
	25,000	Human Resources	Occupational Health & Safety Officer
	3,600	Recreation & Culture	Additional Staff Costs within Rec & Culture
	<u>427,600</u>		
2003	996,093	Fiscal	Fund Capital - Community Safety Building
	107,000	Rec Culture	Youth Outreach Funding
	65,000	Fire	Personal Protective Equipment
	54,500	Info Tech	Audio/video Maintenance
	50,000	Bylaws	Noise Enforcement
	43,000	Fire	Fire Hall Alerting System
	15,000	Gateway	Telephone System Upgrade
	6,000	Fire	Confined Space Rescue Program
	-	RCMP	Crime Analyst
	<u>1,336,593</u>		
2004	630,988	RCMP	Maintain 190 RCMP complement (IHIT)
	500,000	Fiscal	Transfer to Reserves
	70,000	Rec Culture	Disability Resource Centre
	34,059	Clerks	Annual Election Contribution
	28,730	Urban/Reproductions	Copier Lease Kodak Replacement
	23,000	Rec Culture	Richmond Therapeutic Equestrian Society
	16,000	Corp Admin	Translation Services
	<u>1,302,777</u>		
2005	150,000	Roads	Asphalt Rehabilitation Program
	129,000	RCMP	1 officer
	127,400	Fire	Records Management System
	101,400	RCMP	2 City Station Administrators
	74,400	RCMP	Prime Electronic Record Mgmt Position
	61,160	Treasury	POS Clerk
	58,415	Library	Cambie Library - hours of service
	50,000	InfoTech	Hansen Mgmt System Mtce
	47,700	RCMP	GIS Plainclothes Assistant
	47,700	RCMP	CPIC Clerk
	20,000	Clerks/Archives	Aux and Part time Staff Archives
	<u>867,175</u>		