

Staff Report

Origin

At the request of the Chair, this report provides the following information:

- Federal, Provincial and Municipal levels of taxation for a typical Richmond resident
- Planned 2003 Operating Budget transfers to reserves
- 2002 and 2003 estimated Statutory Reserve balances (excl. DCCs & Utilities)
- Reconciliation of the Casino Funding Account
- Tax Analysis (if Community Safety services are treated as a special assessment)
- RCMP and Fire Rescue Budget trends

Analysis

Federal, Provincial and Municipal levels of taxation for a typical Richmond resident

It is often said that Municipal taxes are too high and the tax increases are unreasonable. As far as the City of Richmond is concerned we would like to dispel this myth as we strongly believe that we have a lean and efficient, customer service driven operation that is well governed and well managed. Add to that an award winning City with programs and services that are definitely leading edge in Canada and arguably the world for a population that has one of the longest life expectancies.

In tax terms for 2002, a typical Richmond resident in an average dwelling assessed at \$240,460 would have paid \$944 in General Property taxes (Municipal portion only) and \$568 in Utility taxes. This equates to \$1,512 per household or approximately 1.58% of a typical household's income. Please see Attachment A for details and assumptions used. In return for what amounts to \$4.14 per day per household (Richmond's average household consists of 3.1 persons), residents receive policing services, fire rescue/preventative services, water supply, sewer works, garbage & recycling pick-up, dykes & drainage, parks/green space, roads, children's playgrounds, sports fields/facilities, street/traffic lights, arenas, aquatic facilities, community centres, libraries, transportation planning, urban development, trails, bike paths, heritage buildings, museums, cultural centres, theatre, environmental & emergency planning and so on. The list of services and programs that impact the daily lives of residents are exhaustive and the quality of these services and programs provided are of an exceptionally high standard.

Meanwhile, residents also face various Federal and Provincial taxes that cumulatively amount to over 34% of an average B.C. resident's gross income. Details of these calculations can be seen under Attachment A. Unfortunately, a number of residents are unaware of the distinctions between each level of government and point to City Hall for overall taxation discontent. It doesn't help that General Property and Utility taxes are both direct billed and therefore more noticeable than any of the other taxes which are usually deducted at source. Compounding this

even further is the fact that City Hall collects taxes on behalf of other agencies as part of the General Property Tax bill, namely, School Board, Translink, BC Assessment Authority, Municipal Insurance Authority and the Greater Vancouver Regional District. It is often assumed by some residents that these combined taxes collected are for the City's operations.

As well, while Municipalities may host public events that generate more revenue for the Federal and Provincial Governments through PST, GST, Corporate, Business and Personal taxes there is no direct financial return for Municipalities. It is time for Municipalities to seek a better and more equitable model than what currently exists today, that is, one that allows Municipalities a share in the generation of revenue created by their own efforts and diligent work rather than the constant threat of receiving a further downloading of costs.

Planned 2003 Operating Budget transfers to reserves

Over the years, the transfers from the operating budget to the reserves has declined to the point that it is no longer sustaining the City's capital replenishment. In the proposed 2003 Operating Budget the transfer to reserves is \$9,180,100.

The components making up this transfer are (see Attachment B for specific amounts):

- Revolving Fund – these are actual internal loan repayments of principal and interest at 3% over 12 years.
- Buildings & Infrastructure Program – this is the contribution toward minor public works and minor building extended maintenance and replacement programs.
- Parks Capital Program – this is the contribution to parks extended maintenance programs such as the replacement of playground equipment.
- Equipment Capital Program – this is the contribution for replacement of mechanical equipment such as hot water tanks, furnaces, dryers, etc.
- Public Works Vehicles – this is the contribution towards the replacement of the Public Works vehicle fleet.
- Fire Rescue Vehicles – this is the contribution towards the replacement of Fire Rescue trucks.

2002 and 2003 estimated Statutory Reserves Balances

Attachment C lists all the reserves that are or can be funded from the General Operating Budget, excluding DCC and Utility reserves.

The estimated balance for these reserves at December 31, 2002 is \$41.9 million. Planned and approved usage toward the 2003 Capital Budget is \$12.1 million whereas 2003 planned transfers into the reserves is \$10.3 million resulting in an estimated December 31, 2003 balance of \$40.2 million before interest.

Reconciliation of the Casino Funding account

The unallocated balance from the Casino Funding account at December 31, 2002 is \$1,338,000. Based on the present 2003 Operating budget recommendations it is anticipated that all these funds will be utilized to mitigate the tax draw. Please see details in Attachment D.

As well, based on historical trends the expectation is to receive \$2 million in revenue for 2003 with the 2003 Operating budget recommending the utilization of \$1 million toward the Community Safety Buildings replacement program and a further \$300,000 towards mitigating taxes. Consequently, the unallocated balance at December 31, 2003 is estimated at \$700,000.

Tax Analysis (if Community Safety services are treated as a special assessment):

At present, the overall projected combined City tax increases for the next 4 years are (based on 2002s 5 Year Financial Plan):

2002 – 4.48% Actual

2003 – 4.83% Proposed

2004 – 4.93% as per 2002s 5YFP

2005 – 4.64% as per 2002s 5YFP

2006 – 4.50% as per 2002s 5YFP

If Community Safety services which account for one-third of the City's entire budget were treated similar to a utility and billed separately, then the resulting General Property tax increases for the rest of the City's services would be well below the Consumer Price Index:

2002 – 1.01% Actual

2003 – 1.71% Proposed

2004 – 1.59% as per 2002s 5YFP

2005 – 1.60% as per 2002s 5YFP

2006 – 1.76% as per 2002s 5YFP

And the Community Safety special assessment tax increases would be:

2002 – 8.10% Actual

2003 – 7.17% Proposed

2004 – 7.46% as per 5YFP

2005 – 6.75% as per 5YFP

2006 – 6.12% as per 5YFP

Attachment E displays this information graphically and Attachment F takes it a step further by incorporating the latest RCMP's 5YFP submissions as well as the Community Safety Building Funding plan.

The entire City's operating budget is currently held up when the main issue is that of the escalating costs associated with providing Community Safety services in today's market based on the increasing requirements. If we were to segregate the Community Safety budgets from the rest of the City's budgets, be it through a special assessment or a utility, it would allow for a more concentrated effort in effectively dealing with this important issue.

RCMP Budget trends

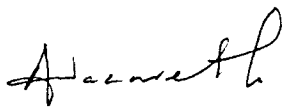
Attachment G shows the RCMP's and Fire Rescue's departmental 10 Year Budget trend from 1997-2006 with the new challenges included and is provided to further illustrate the above mentioned issue.

Financial Impact

Based on the proposed 2003 Operating Budget there is a shortfall of \$3,822,660. This translates to a 3.83% tax increase. Adding 1% for the Community Safety Buildings results in a shortfall of \$4,818,753 and a 4.83% tax increase over 2002s Operating Budget. Please refer to Attachment D2 for further details.

Conclusion

Staff recommend that this report be received for information in order to stimulate discussion and seek input from Committee regarding some of the challenges and possible solutions facing the 2003 Operating Budget and budget process in general.



Andrew Nazareth
Director of Finance

Level of Taxation - 2002
Typical BC Resident & Richmond property owner

	Partner 1	Partner 2	Household	% of income
Gross Income	48,000	48,000	96,000	100.00%
Federal Tax*	7,101	7,101	14,202	14.79%
Provincial Tax**	2,774	2,774	5,548	5.78%
Other ded's (ex. EI)*	3,148	3,148	6,296	6.56%
Net Income	34,977	34,977	69,954	72.87%
PST @ 7.5%**	1,312	1,312	2,623	2.73%
GST @ 7.0%*	1,224	1,224	2,448	2.55%
Fuel Taxes @44% * & **			792	0.83%
After at source taxes	32,441	32,441	64,090	66.76%
General Property Tax***			944	0.98%
Utility Taxes (Water/Sewer/Sanitation)***			568	0.59%
School Board Taxes**			843	0.88%
Other Taxes (ex. Translink)**			126	0.13%
Household Income (available for spending after all taxes)			61,609	64.18%

<u>Level of Taxation - Summary</u>		
* Federal	\$23,342	24.31%
** Provincial	\$9,536	9.93%
*** Municipal	\$1,512	1.58%
Total Taxes	\$34,391	35.82%

Assumptions:

- 2 working persons per household earning the B.C. average wage
- live in an average residential dwelling in Richmond (assessment \$240,460).
- household spends 50% of their net income on PST & GST taxable items
- household spends \$1,800 annually on fuel
- capital gains, dividend taxes, business taxes and cigarette/alcohol taxes not factored

City of Richmond
2003 Operating Budget
Transfer to Reserves

	Transfer Amount	% of Tax Base
Revolving Fund	\$6,686,900	6.71%
Bldg. & Infrastructure Program	445,600	0.45%
Parks Capital Program	182,800	0.18%
Equipment Capital Program	75,000	0.08%
Public Works vehicles	1,331,500	1.34%
Fire Rescue vehicles	458,300	0.46%
	<hr/>	
	\$9,180,100	9.22%

City of Richmond
Estimated Statutory Reserve Balances
as at December 31, 2002

	Dec 31, 2002 Estimated Reserve Balance (Unaudited)(Incl Est Interest 5%)	Usage: 2003 Capital Budget	Additions: 2003 Operating & Capital Transfers	Dec 31, 2003 Estimated Reserve Balance (Unaudited) (Excluding Interest)	Explanation
Equipment Replacement Reserve:					
Public Works	\$3,226,472	\$1,165,000	\$1,331,500	\$3,392,972	
Fire Equipment	\$413,573	\$0	\$458,300	\$871,873	
Computer & Other Equipment	\$983,307	\$0	\$100,000	\$1,083,307	
Telephone Equipment	\$273,153	\$0	\$0	\$273,153	
Mechanical Equipment	\$823,095	\$250,000	\$0	\$573,095	
Capital Reserves:					
Industrial Use	\$1,510,093	\$1,434,000	\$0	\$76,093	
Revolving Fund	\$21,835,706	\$6,778,924	\$6,686,900	\$21,743,683	Usage includes borrowing Comm Safety Building
Other Reserves:					
Affordable Housing Reserve	\$4,726,315	\$0	\$0	\$4,726,315	
Neighbourhood Improvement (NIC)	\$2,330,812	\$0	\$0	\$2,330,812	
Local Improvement (LIP)	\$3,155,990	\$750,000	\$0	\$2,405,990	
Public Art Program Reserve	\$162,260	\$150,000	\$0	\$12,260	
Child Care Development Reserve	\$36,419	\$32,700	\$0	\$3,719	
Waterfront Improvement Reserve	\$420,000	\$500,000	\$500,000	\$420,000	Addition originates from Revolving Fund
Steveston Off Street Parking Reserve	\$73,935	\$0	\$0	\$73,935	
Steveston Road Ends Reserve	\$31,099	\$0	\$0	\$31,099	
Capital Building & Infrastructure:					
Capital Building & Infrastructure	\$1,906,312	\$996,093	\$996,093	\$1,906,312	
Special Sports Reserve (sub-fund)	\$28,495	\$0	\$250,000	\$278,495	Addition originates from Parks DCC & Assist Factor from Revolving Fund
Totals:(Unaudited)	\$41,937,035	\$12,056,717	\$10,322,793	\$40,203,112	

Please Note:

This report excludes the DCC and Utility Reserves.

City of Richmond
2003 Operating Budget
Casino Funding

	Additions	Usage	Balance
December 31, 2002 Unallocated Balance			\$1,338,000
Operating Budget - mitigate taxes		(681,500)	656,500
Fund Municipal grants @		(316,500)	340,000
Fund Minor Capital @		(340,000)	0
2003 Revenue expected	2,000,000		2,000,000
Community Safety Buildings funding		(1,000,000)	1,000,000
Operating Budget - mitigate taxes @		(300,000)	700,000
December 31, 2003 Unallocated Balance			\$700,000

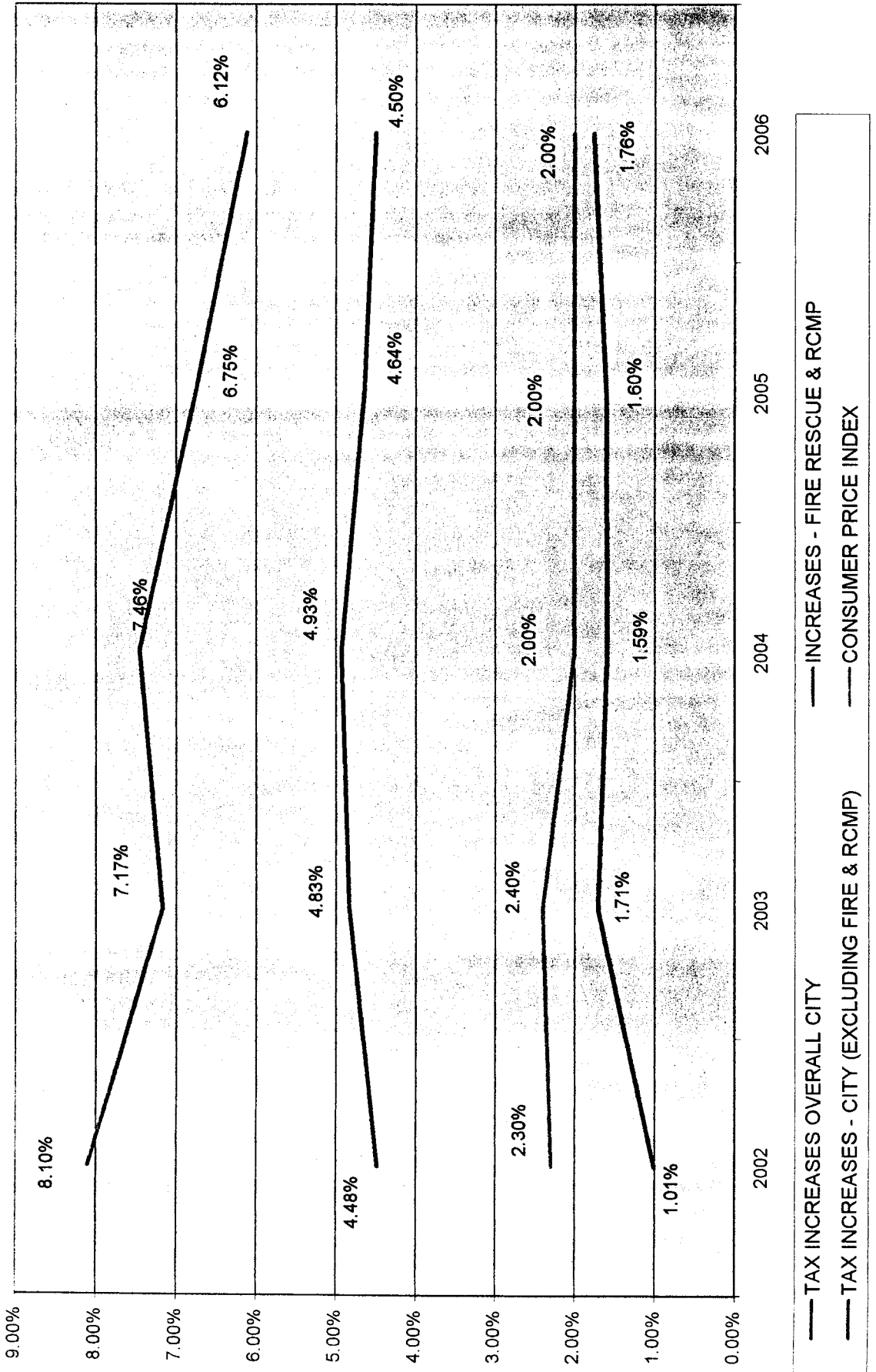
@ - See Attachment D2. These help reduce the tax increase.

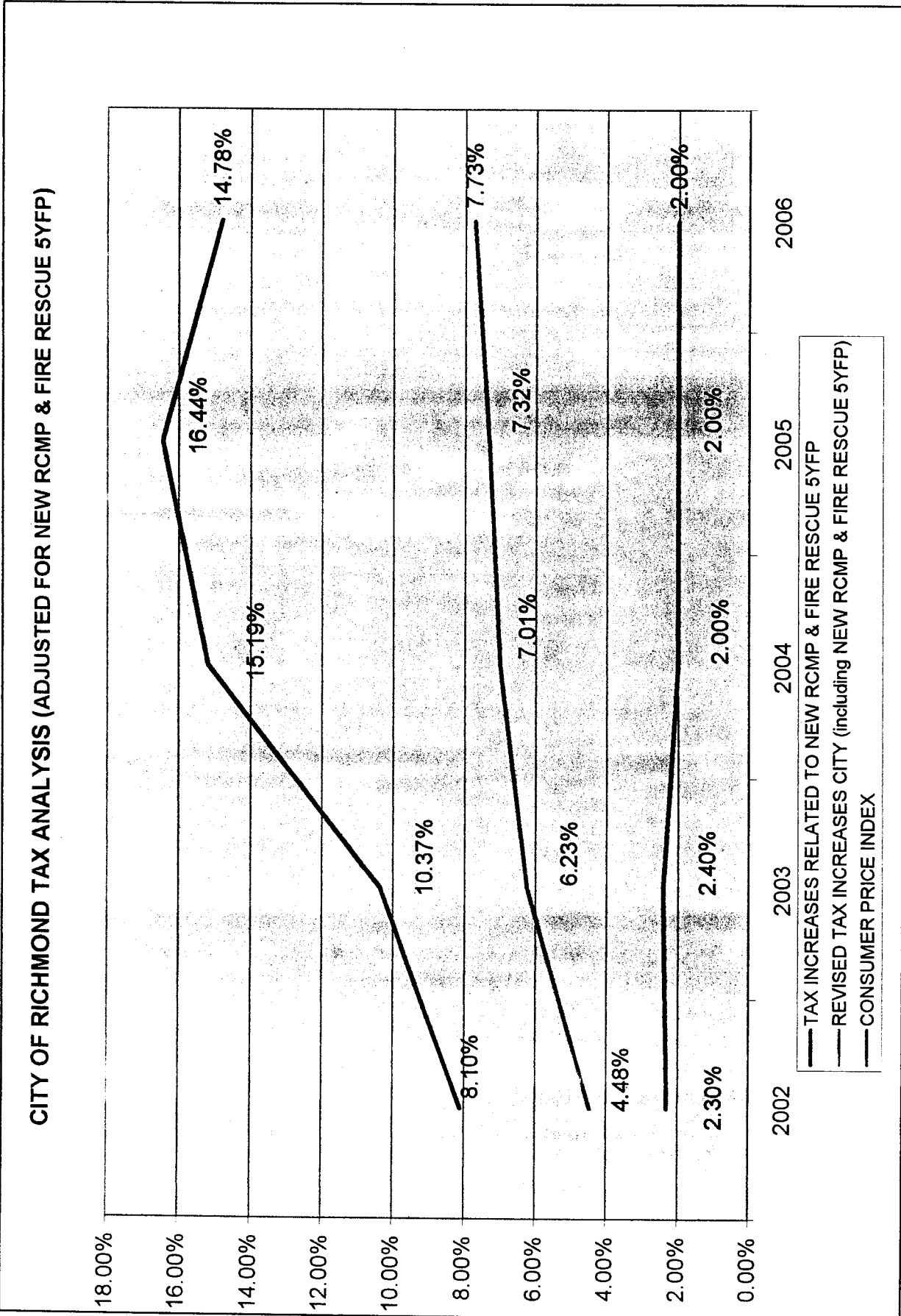
**CITY OF RICHMOND
2003 OPERATING BUDGET
RECOMMENDED POTENTIAL COST SAVINGS, REVENUE OPPORTUNITIES & OTHER INCREASES**

	Amount (\$)	Tax Impact		Explanation
		Each Item	Overall	
ESTIMATED SHORTFALL	\$6,222,500	6.25%	6.25%	Expected Revenues less Expected Expenses
GROWTH ESTIMATE	-1,494,200	-1.50%	4.75%	Growth estimate of 1.5% as per Council
ADJUSTMENT BASED ON BCAA RPT, Jan 2003	-134,293	-0.13%	4.61%	Growth figure from BCAA report received is \$1,628,493
	4,594,007	-1.50%	4.61%	
INTENDED COST REDUCTIONS:				
Fire Rescue Water Purchases	-132,100	-0.13%	4.48%	Not required
Fire Maintenance costs	-109,000	-0.11%	4.37%	s/b additional levels
RCMP contract	-404,000	-0.41%	3.96%	Reduction in Funding Level
IT seconded position	-72,800	-0.07%	3.89%	No temp staff or CCTV staff
Garbage Costs across City	-30,000	-0.03%	3.86%	Overstatement of garbage costs
Translation services	-10,000	-0.01%	3.85%	Reduction in Translation Services
	-757,900	-0.76%	3.85%	
COST INCREASES:				
Impact of 2003 Capital Budget	401,800	0.40%	4.25%	Annual operating costs resulting from capital projects
New Information* - Liability Premium increase	378,253	0.38%	4.63%	MIA Liability premium increase by 83% to \$894,384
	780,053	0.78%	4.63%	
* 2003 invoice received on Dec 9th				
REVENUE OPPORTUNITIES:				
Casino Revenues @	-316,500	-0.32%	4.32%	Use add'l 2002 Casino Revenue to cover Municipal Grants
Casino Revenues @	-340,000	-0.34%	3.98%	Use add'l 2002 Casino Revenue to offset minor capital
Sports Field User Fees	-20,000	-0.02%	3.96%	Increase in Sports Field Revenue
Building Permit Revenue**	-120,000	-0.12%	3.83%	Increase permit revenues
Additional Building Permit Revenue**	-80,000	-0.08%	3.75%	Further aggressive budgeting
Development Applications Revenue**	-25,000	-0.03%	3.72%	Development Applications aggressive budgeting
	-901,500	-0.91%	3.72%	
** high risk				
ADDITIONAL LEVELS:				
Impact of Recommended Additional Levels	408,000	0.41%	4.13%	TAG Recommended
Mitigate additional levels using Casino Revenues @	-300,000	-0.30%	3.83%	Use of 2003 casino revenue to mitigate additional levels
	108,000	0.11%	3.83%	
COMMUNITY SAFETY BUILDING FUNDING	996,093	1.00%	4.83%	Internal Funding program
SUMMARY:				
2003 SHORTFALL (incl. Changes above)	5,451,153	5.46%	5.46%	
Community Safety Building Fund	996,093	1.00%	6.46%	
Net Growth	-1,628,493	-1.63%	4.83%	
FINAL 2003 OPERATING BUDGET SHORTFALL	\$4,818,753	4.83%	4.83%	<--- 2003 Projected Tax Increase

Note: the above does not factor in ERIP savings or the recently revised RCMP 5YFP
@ - items from Casino Funding account, see Attachment D1

CITY OF RICHMOND TAX ANALYSIS (WITH / WITHOUT COMM SAFETY SERVICES)





**CITY OF RICHMOND ANALYSIS OF RCMP & FIRE RESCUE
INCLUDING NEW RCMP 5 YFP AND COMMUNITY SAFETY BUILDING FUNDING PLAN**

RCMP							YEAR	RCMP CONTRACT	RCMP (NEW 5YFP)	MUNICIPAL PORTION	TOTAL RCMP	YR OVER YR CHANGE	% OF CITY'S OPERATING BUDGET
							1997	\$12,508,100		\$3,592,500	\$16,100,600	-	14.93%
							1998	\$13,532,700		\$3,881,900	\$17,414,600	8.16%	15.45%
							1999	\$13,694,200		\$3,308,700	\$17,002,900	-2.36%	14.38%
							2000	\$18,102,000		\$1,349,400	\$19,451,400	14.40%	15.24%
							2001	\$19,998,800		\$752,700	\$20,751,500	6.68%	15.64%
							2002	\$20,341,200		\$1,310,100	\$21,651,300	4.34%	15.73%
							2003	\$22,063,300	\$1,398,520	\$421,236	\$23,883,056	10.31%	16.42%
							2004	\$22,108,554	\$2,158,520	\$1,566,530	\$25,833,604	8.17%	16.41%
							2005	\$22,792,896	\$2,918,520	\$1,547,728	\$27,259,144	5.52%	16.90%
							2006	\$23,504,612	\$3,678,520	\$1,530,777	\$28,713,909	5.34%	17.20%

FIRE RESCUE							YEAR	FIRE RESCUE	COMM SAFETY BLDG FUNDING PLAN	TOTAL FIRE RESCUE	YR OVER YR CHANGE	% OF CITY'S OPERATING BUDGET
							1997	\$14,799,500		\$14,799,500	-	13.72%
							1998	\$15,056,290		\$15,056,290	1.74%	13.36%
							1999	\$15,133,300		\$15,133,300	0.51%	12.80%
							2000	\$15,797,400		\$15,797,400	4.39%	12.38%
							2001	\$16,549,200		\$16,549,200	4.76%	12.47%
							2002	\$18,873,400		\$18,873,400	14.04%	13.71%
							2003	\$19,398,200	\$996,093	\$20,394,293	8.06%	14.02%
							2004	\$20,768,993	\$2,490,233	\$23,259,226	14.05%	14.77%
							2005	\$22,041,129	\$4,482,419	\$26,523,548	14.03%	16.44%
							2006	\$23,147,639	\$5,478,512	\$28,626,151	7.93%	17.14%