

FINANCE SELECT COMMITTEE

Date: Thursday, June 15th, 2000
Place: W.H. Anderson Room
Richmond City Hall
Present: Councillor Ken Johnston, Chair
Councillor Kiichi Kumagai, Vice-Chair
Councillor Lyn Greenhill
Councillor Harold Steves (5:10 p.m.)
Mayor Greg Halsey-Brandt
Absent: Councillor Bill McNulty
Call to Order: The Chair called the meeting to order at 4:00 p.m.

MINUTES

1. It was MOVED and SECONDED
That the minutes of the meeting of the Finance Select Committee held on Thursday, April 6th, 2000, be adopted as circulated.

Prior to the question being called, in response to a question about when billing for false alarms would begin, information was provided on problems which had arisen and steps which were taken to address these issues. Advice was given that billing should begin the week of June 19th, 2000.

The question on the motion was then called, and it was **CARRIED**.

DELEGATION

2. **TELUS - REVIEW OF LOCAL TELEPHONE RATE STRUCTURE**
(Al Litynsky, Senior Project Manager, Local Calling Areas)

Mayor Halsey-Brandt stated that he had received correspondence from residents at the same time that the charge was implemented for calling Bowen Island. He expressed concern that Richmond's telephone rates now seemed to be one of the highest, and advised that he had asked the Senior Project Manager, Local Calling Areas, Al Litynsky to attend the meeting to explain the situation to the Committee.

Mr. Litynsky circulated a copy of his presentation entitled "Telephone Service Pricing - Overview" to Committee members, a copy of which is attached as Schedule A and forms part of these minutes. He stated that the purpose of the presentation was to provide (i) an overview of how telephone service rates had evolved over the past decade; and (ii) a perspective on what to expect in the future.

He then reviewed the following:

- factors which caused rate increases up to December 31st, 1997
- factors which had influenced rates since January 1st, 1998
- the Greater Vancouver Rate History
- 2000 rate changes
- TELUS future residential rating plans
- factors which may lead to further increases in Richmond.

In summary, Mr. Litynsky made the following comments:

- Richmond rates were higher than most other GVRD exchanges because of the large local calling area residents had enjoyed for many years;
- rate increases during the 1990's were a direct result of increased competition which triggered rate re-balancing to move prices closer to the cost of providing service; and
- near-term TELUS pricing plans should result in relative rate stability for Richmond residential customers, however, changes to the regulatory regime may cause more increases.

A lengthy discussion then ensued among Committee members and the delegation on:

- (a) the disparity of calling rates presently charged to Richmond residents and those charged to other Lower Mainland municipalities, such as North Vancouver, Ladner and Langley;
- (b) whether Richmond's calling rates could be reduced;
- (c) calling rates charged for business lines; and
- (d) long distance calling rates.

As a result of the discussion, the following motion was adopted:

It was moved and seconded

That a letter be written to the Canadian Radio-Television & Telecommunications Commission, with a copy to TELUS, requesting that Richmond residential calling rates be brought into parity with the rates charged to residents of Groups B3, B4, and B5.

CARRIED

FINANCE & CORPORATE SERVICES DIVISION

3. **AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDING DECEMBER 31ST, 1999 (WITH MANAGEMENT LETTER)**

(Memo: June 7/00; File No.: 1200-02) (REDMS No. 157715)

Mr. Don Matthew, representing KPMG LLP Chartered Accountants, advised that the audit proceeded smoothly and this was reflected in the management letter which the company was obligated to prepare. He noted that a number of small issues had arisen as a result of certain controls, however these matters were not critical.

In response to questions, he advised that the contents of the management letter was reviewed in the following year to determine whether improvements had been made to address particular concerns. Mr. Matthew stated that if the issue did not appear in the next year's letter, then it had been addressed satisfactorily.

Reference was made to the need for 'off-site backups'. Information was provided by the General Manager, Finance & Corporate Services Jim Bruce, that the City had been advised by KPMG to store its daily backup tapes at a secure off-site location on a daily basis, and staff were now reviewing this proposal. Discussion continued briefly, during which advice was given on how the backup discs would be retrieved in the event of a disaster, such as an earthquake.

Also briefly discussed were such matters as (i) whether building depreciation was reflected in capital assets, and (ii) the debt for the acquisition of the Terra Nova properties.

It was moved and seconded

- (1) ***That the memorandum (dated June 7th, 2000 from the Director of Finance), regarding the Audited Financial Statements for the Year Ended December 31st, 1999 and Management Letter, be forwarded to Council for information; and***
- (2) ***That the Director of Finance place a notice in the City Notice Board, indicating that a public meeting on the Audited Financial Statements for the Year Ended December 31st, 1999 and Management Letter statements will be held on Monday, June 26th, 2000.***

CARRIED

4. **UNPAID TAXES**

(Report: June 8/00, File No.: 0925-01) (REDMS No. 158141)

The Manager, Property Taxes, Ivy Wong briefly reviewed the report with Committee members, and discussion then took place amongst Committee members and staff on this problem.

With reference to the taxes owned by the tenants of Crown land, the suggestion was made that the City should be approaching the Vancouver International Airport Authority to seek their assistance in obtaining these funds.

Advice was given however that the Authority would only advise the tenant that any improvements that they might want for their site would not be approved until such time as the overdue taxes had been paid. Further advice was given that the City had been successful when advertising about these delinquent firms and staff were working with the City Solicitor to take some of these companies to court.

Reference was made to the three classes in which residents and companies owed taxes to the City, and questions were raised about whether the City could advertise that the owners had unpaid property taxes. Information was then provided on the procedures in place regarding the annual property tax sale and notification to owners about unpaid taxes.

During the brief discussion which ensued, the suggestion was made that when the media called each year for information on property tax sales, information could be given that 'yes, these people do not have to pay for 3 years, but the City is subsidizing their unpaid taxes' by increasing taxes to cover expenses.

It was moved and seconded

That staff continue to monitor the status of the unpaid taxes and to actively pursue all avenues in collecting from former tenants of Crown Land.

CARRIED

5. **DEPARTMENT VARIANCE REPORTS FOR 1999**

(Memo: June 7/00; File No.: 1200-05) (REDMS No. 157746)

The Director of Finance, Danley Yip, briefly reviewed his memorandum with the Committee. In response to questions about the consequences of a department being over or under spent on its budget limit, he provided information on the steps which were taken to address this problem.

(Councillor Steves entered the meeting at 5:10 p.m., during the above discussion.)

Mr. Bruce also provided additional information on how budget overruns were addressed, indicating that money was not physically moved because this would require adjustments to the City's budget bylaws. He noted that each of the departments and divisions were monitored, and if a problem arose, TAG would review the situation and make a decision on the situation should be addressed.

Discussion continued briefly, during which reference was made to the RCMP budget overrun. Advice was given that now that new accounting information was available, City staff would be in a better position to monitor the situation even more.

6. **FINANCIAL STATEMENTS FOR THE 5 MONTH PERIOD ENDING MAY 31ST, 2000**

(Memo: June 7/00; File No.: 1200-02) (REDMS No. 157765)

Reference was made to the financial statements, and the Chair asked that the next report be prepared which matched budget to budget and not year to year. A brief discussion ensued on the format of the report, during which Cllr. Johnston requested a more functional report which did not use percentages. The suggestion was made that a separate column could be created to provide an explanation on the rationale for costing to date.

Discussion then ensued among Committee members and staff on various department budgets, such as the Gateway Theatre and the RCMP, and the reasoning as to why these departments were showing such a high percentage of expense at this time of year.

As a result of the discussion, it was agreed that Mr. Yip would create another column in the document and provide an explanation for the variance against each department. It was also agreed that a comparison would be provided with the year 1999.

7. **EARLY RETIREMENT OF LONG TERM DEBT**

(Report: June 12/00, File No.: 1040-01) (REDMS No. 158755)

The Manager, Treasury Services, Gavin Julius, reviewed his report with Committee members.

In response to questions, the following information was provided:

- the 'sewerage lateral' debt would retire in 2003 but could be retired earlier as there were sufficient funds in that receivable account to pay the debt; however, because receivables were only paid to the City at the end of the borrowing cycle, if the debt was paid now, the City would still have to wait until 2003; the money was borrowed by the Municipal Finance Authority on behalf of Richmond and other municipalities

Discussion ensued on which debts should be retired, during which the suggestion was made that prior to the Committee making a decision on which debts should be retired, staff could prepare information on the cost of retiring the debts. As a result of the discussion, staff were directed to provide a report on the cost of retiring debits which had high interest rates - 12.35%, 11.63%, and 10.25%. Staff were also requested to provide an update on the City's statutory reserves.

8. **UPDATE ON OPERATING RESERVES AND POSITIONS**

(Memo: June 7/00; File No.: 1075-01) (REDMS No. 157772)

Mr. Bruce reviewed the memorandum with the Committee. Discussion took place among Committee members and staff on the various funds, during which explanations were provided on some of the accounts referred to by Committee members. The request was made during the discussion that staff categorize the funds as to legal obligations rather than alphabetically, so that the Committee would know which funds should not be utilized for other purposes. The Committee was reminded during the discussion that spending any of the funds would affect the City's interest income.

(Mayor Halsey-Brandt left the meeting at 6:10 p.m. during the above discussion, and did not return.)

At the conclusion of the discussion, Mr. Bruce advised that he would review the list of operating reserve funds and advise on those funds which were liabilities and provide information on those accounts where funds could be transferred to other areas.

9. **NEXT MEETING TOPICS - JULY 20TH, 2000**

- Revenue split
- Statutory reserves
- Quarterly report variance with a narrative.

ADJOURNMENT

It was **MOVED** and **SECONDED**
That the meeting adjourn (6:10 p.m.).

CARRIED

Certified a true and correct copy of the Minutes of the meeting of the Finance Select Committee of the Council of the City of Richmond held on Thursday, June 15th, 2000.

Councillor Ken Johnston
Chair

Fran J. Ashton
Executive Assistant

**Telephone Service Pricing
Overview**

**Prepared for
The City of Richmond**

Al Litynsky

TELUS

June 15, 2000

27

Purpose of this Presentation

- » **To provide an overview of how telephone service rates have evolved over the last decade**

- » **To provide perspective on what to expect in the future**

Factors which caused rate increases up to Dec. 31, 1997

» **General Rate increases**

- (same % applied across the board)
- no relationship to cost of providing service

» **CRTC Rate Rebalancing Increases**

- Residential increases applied in 1995 to 1997

» **Distance from, size and scope of an exchanges in your local calling area**

- each exchange was assigned to a rate group based on the following formula that multiplies the following values
 - lines in home exchange
 - lines in other exchange within same free calling area
 - miles between the two affected exchanges

Factors which have influenced rates since Jan 1, 1998

» **Cost of Providing local telephone service**

- Total allowable rates subject to following CRTC Price Cap formula each year

- previous year's local revenue, plus inflation (1.8% in 1999), less 4.5%

- » For example, if 1999 revenue was \$1000, 2000 revenue cannot exceed \$973

- TELUS has discretion in how to apply rates changes

- Services that are below cost (residence) cannot be reduced

» **TELUS can apply to recover extraordinary costs incurred to facilitate entry of competition**

» **Local calling area expansion**



Greater Vancouver Rate History

Year	North Van	Ladner	Vancouver	Richmond	Langley
1990	\$ 12.05	\$ 13.60	\$ 13.60	\$ 14.55	\$ 17.35
1991	\$ 12.05	\$ 13.60	\$ 13.60	\$ 14.55	\$ 18.35
1992	\$ 12.05	\$ 14.55	\$ 13.60	\$ 14.55	\$ 18.35
1993	\$ 12.05	\$ 14.55	\$ 14.55	\$ 14.55	\$ 18.35
1994	\$ 12.05	\$ 14.55	\$ 14.55	\$ 15.50	\$ 18.35
1995	\$ 13.55	\$ 16.05	\$ 16.05	\$ 17.00	\$ 20.85
1996	\$ 16.15	\$ 19.00	\$ 19.00	\$ 19.00	\$ 23.80
1997	\$ 18.15	\$ 21.00	\$ 21.00	\$ 24.10	\$ 25.95
1998	\$ 21.80	\$ 24.15	\$ 24.15	\$ 27.00	\$ 27.00
1999	\$ 22.00	\$ 24.75	\$ 24.75	\$ 27.60	\$ 27.60
2000	\$ 23.30	\$ 25.45	\$ 25.00	\$ 27.85	\$ 28.30

1993 - Long distance competition

1995 - Rate re-balancing begins

1998 - Price Cap regulatory regime begins



2000 Rate Changes

GVRD Rate Changes					
Band	99 Rate	Calling Area	00 Increase	2000 07 Rate	Communities Affected
B3	\$ 22.00	\$ 0.70	\$ 0.60	\$ 23.30	North Vancouver, West Vancouver
B4	\$ 24.75	\$ 0.25	\$ -	\$ 25.00	Vancouver, Burnaby, New West
B5	\$ 24.75	\$ 0.70	\$ -	\$ 25.45	Port Moody, Whalley, Ladner
B6	\$ 27.60	\$ 0.25	\$ -	\$ 27.85	Richmond
B7	\$ 27.60	\$ 0.70	\$ -	\$ 28.30	Southern & Eastern GVRD
D3	\$ 24.75	\$ 0.70	\$ 1.25	\$ 26.70	Bowen Island
Other Areas of B					
B1 & C	\$ 19.70	\$ -	\$ 1.95	\$ 21.65	Victoria, & Larger Regional Centres
B2	\$ 22.00	\$ -	\$ 1.95	\$ 23.95	Saanich, Sooke
D1	\$ 18.95	\$ -	\$ 1.85	\$ 20.80	Smaller towns across BC
D2	\$ 23.25	\$ -	\$ 1.95	\$ 25.20	Smaller towns across BC
D4	\$ 18.80	\$ -	\$ 1.85	\$ 20.65	Smaller towns across BC

TELUS Future Residential Rating Plans

- » Continue to move rates towards cost
- » Focus increases towards exchanges where current rates are furthest from cost

Factors which may lead to further increases in Richmond

- » **New CRTC Regulations**
 - Reductions in subsidies paid by long distance carriers
 - Cost recovery of local competition expansion expenses
- » **Future local calling area expansion**
- » **Continuing rate increases to move prices towards cost**

In Summary

- » **Richmond rates are higher than most other GVRD exchanges primarily due to the large local calling area residents have enjoyed for many years.**
- » **Rate increases during the 1990's are a direct result of increased competition that triggered rate re-balancing to move prices closer to the cost of providing service.**
- » **Near-term TELUS pricing plans should result in relative rate stability for Richmond residential customers**
 - changes to the regulatory regime may cause more increases