



CITY OF VANCOUVER

ADMINISTRATIVE REPORT

Date: June 5, 2006
Author: Annette Klein
Phone No.: 873-7789
RTS No.: 6047
CC File No.: 05-1000-30
Meeting Date: June 29, 2006

TO: City Services and Budgets Committee

FROM: General Manager of Corporate Services/Director of Finance

SUBJECT: 2007 Operating Budget - Proposed Process

RECOMMENDATION

- A. THAT Council adopt the proposed 2007 Operating Budget timelines as outlined in Table 1, page 7 of the foregoing report.
- B. THAT Council instruct the Director of Finance on a target property tax increase that includes new or expanded programs but excludes an impact of outside agencies; and THAT the Director of Finance report back as part of the Interim Budget Estimates Report on how to achieve this target tax increase.
- C. THAT Council instruct the Director of Finance to proceed with a public consultation process by choosing one or more of the following options:
 - i) a public opinion poll on the 2007 Operating Budget challenge at an estimated cost of \$25,000 for residents
 - ii) a public opinion poll on the 2007 Operating Budget challenge at an estimated cost of \$20,000 for businesses
 - iii) a "City Choice" flyer outlining the budget challenge faced by Council at a cost of approximately \$35,000
 - iv) a "Forum" approach to seeking public input on the 2007 Operating Budget challenge, at a cost of approximately \$9,400 per forum and \$9,500 for a forum coordinator and that Council instruct staff on the number of forums to be held;
 - v) a public meeting on the 2007 Operating Budget to be held in Council Chambers prior to the Interim Report on the 2007 Budget at minimal cost to the City.

An additional \$8,000 is required for overall advertising should E(iii), E(iv), and/or E(v) be chosen. Total funding required will be offset by \$99,300 already included in the 2006 Operating Budget for public consultation.

And that Staff to report back on the results of the public consultation as part of the Interim Budget Estimate report.

- D. THAT Council request BC Assessment review its processes to accommodate municipal budget approval by December 31st of the prior year and that this request be sent to City Councils of all municipalities in British Columbia.

CITY MANAGER'S COMMENTS

The City's operating budget is generally approved in April of the budget year due to a number of different factors. The result is that Council provides direction on priorities and spending limits after the budget year has commenced. In response, in May 2006 Council passed a motion asking Staff to bring forward the annual budget to as close to the beginning of the year as possible and not in the second quarter of the fiscal year.

Staff has identified two immediate ways to improve the budget process and facilitate a more timely approval of the budget. The first proposal is to obtain Council direction on the public consultation early in the process to allow the consultation to be held in the fall. The second proposal is to obtain Council direction on a target property tax increase in July. This will allow the Director of Finance, in consultation with the Corporate Management Team, to begin formulating budget proposals within the property tax increase target early in the process. These proposals will then be reviewed by Council when the Interim Budget Estimates are reported along with the results of the public consultation. It is important to note that giving staff direction on a target tax increase in July does not commit Council to that level of a tax increase. Council will be asked at the Interim Estimate budget stage to provide final direction on the property tax increase taking into account the results of public consultation.

Even with these proposals, constraints from external organizations limit the ability to move the budget process any further without unnecessary risk. BC Assessment, key to the annual revenue estimates, does not complete its final assessment roll until April of the budget year due to legislative requirements. For this reason Recommendation D would have Council request that BC Assessment review its current process to facilitate a December 31st budget approval timeline.

Finally, every three years when the Civic Election is held, modifications to the budget process need to occur. This is due to the needs to orientate the new Council in the late fall and early January as well as the need to avoid public consultations in the fall that could potentially conflict with the municipal election process.

To conclude, the 2007 and 2008 Operating Budgets can be moved up by approximately two months compared to the timing of the 2006 Operating Budget. However, without changes to the BC Assessment process, further gains cannot be achieved.

COUNCIL POLICY

The Vancouver Charter requires the Director of Finance to present the estimates of revenues and expenditures to Council not later than April 30 each year and for Council to adopt a resolution approving the budget and a rating bylaw establishing general purpose tax rates as soon thereafter as possible.

There are generally three reports in the budget building process:

- the Preliminary Estimates Report provides Council with the first indication of the budget requests from Departments and Boards.
- the Interim Estimates Report summarizes the budget strategies developed for Council and seeks Council approval to finalize the estimate, bringing the budget into balance.
- the Final Report on the Operating Budget presents the finalized revenue and expenditure estimates including any final adjustments approved by Council at the interim report stage. The final report is accompanied by a resolution in which Council adopts the estimates for the year.

PURPOSE

The purpose of this report is to outline an Operating Budget process that will allow Council to adopt the 2007 Operating Budget as early as possible in the first quarter of 2007. This involves:

- approving a proposed budget schedule
- approve a public consultation process
- provide direction on a 2007 target property tax increase
- request BC Assessment to review its processes to allow the City to approve its Operating Budget no later than December 31st of the prior year

BACKGROUND

On May 4, 2006, Council passed a motion requesting that staff report back on a plan to move forward the budget process to assure approval in the first quarter of the year.

WHEREAS:

- 1. the City of Vancouver fiscal year begins on January 1;*
- 2. the legislative requirement to finalize the budget by April 30 has resulted in annual budgets being finalized during the second quarter of the fiscal year;*
- 3. this creates uncertainty and requires interim funding in advance of the final budget approval;*

THEREFORE BE IT RESOLVED

THAT the Director of Finance report back on a plan to ensure the operating budget is finalized as close to the beginning of the year as possible and not in the second quarter of the fiscal year.

As noted in the motion, section 219 of the Vancouver Charter stipulates that the financial estimates be approved no later than April 30th of each year.

The Director of Finance shall, as soon as practicable in each year, and in any event by the thirtieth day of April, cause to be prepared and shall submit to the Council a report setting out his estimate in detail of the anticipated revenues and expenditures of the city for that year.

The legislative requirement is not the only issue that has impacted the timing of the Operating Budget. The Civic Election; the timing of Public Consultation process; and the Property Assessment process also impact the timing of the City's Operating Budget Process.

The proposed budget process will address most of these issues; however, the Property Assessment process will continue to place some constraints on the budget process.

DISCUSSION

The budget process includes a number of different milestones. Below is a summary of the 2006 Operating Budget process and a description of these milestones.

Summer 2005	Budget Development <ul style="list-style-type: none"> Staff develop a budget on the basis of anticipated inflation and identify any proposed new programs or initiatives that may require funding.
Fall 2005	Budget Reviews <ul style="list-style-type: none"> Detailed administrative reviews of departmental budgets by Corporate Budget Services
January 31, 2006	Preliminary Budget Estimates <ul style="list-style-type: none"> Provides the first indication to Council as to the potential gap between revenues and expenditures. Council at this stage provides direction to the Corporate Management Team to bring back options for balancing the budget at a tax increase lower than that indicated by the Preliminary Estimates and no lower than inflationary levels. Finally, Council also provides direction to staff on the type and extent of public consultation.
February 2006	Public Consultation <ul style="list-style-type: none"> The public consultation process is intended to educate the public on any issues associated with the budget and obtain feedback on any of those issues
Jan - Feb 2006	Corporate Management Team Strategies <ul style="list-style-type: none"> CMT develops proposals to bring the property tax increase to the rate of inflation to be reported to Council in the Interim Budget Estimates
Jan - Mar 2006	Staff Briefings to Council <ul style="list-style-type: none"> Throughout the process, staff briefings are prepared for Council on different aspects of the Operating Budget.
March 21 & 23, 2006	Funding Requests <ul style="list-style-type: none"> Council receives information reports on new and expanded program requests prior to the Interim Budget Estimates at which time Council approval is requested. In 2006, one session was devoted solely to the VPD Operational Review.
April 4 & 6, 2006	Interim Budget Estimates and Public Consultation Results <ul style="list-style-type: none"> Council receives information on the results of the public consultation and provides direction on the proposals developed by the Corporate Management Team for balancing the budget including any new funding requests. Council also sets the level of property tax increase
April 20, 2006	Final Estimates <ul style="list-style-type: none"> Final budget report that incorporates the Council instructions from the Interim Budget Estimates
March - May 2006	Tax Rate Reports

1. Key Impact on Timing of the Operating Budget

There are four variables that impact the operating budget: Civic Election, Target Tax Increase, the Public Consultation process, and the Property Assessment process.

- *Civic Elections* - in the last two Civic Elections (2002 and 2005) there has been significant change in Council membership. When Council memberships changes dramatically, the new Councillors require an extensive orientation process in November, December and early January of the budget year which results in deferral of the budget reporting and public consultation to the new-year. It is not expected that the proposed schedule will alleviate this issue. Therefore, Table 1 provides a modified schedule that would occur every three years that anticipates the impact of the Civic Election.
- *Target Tax Increase* - during the budget process, Council has historically requested that Staff provide options to balance the budget to achieve a tax increase below the indicated Preliminary Estimated property tax increase and higher than the rate of inflation for base services only. This direction is provided only after Council receives the Preliminary Estimates. Furthermore, Council generally approves a higher than inflation property tax increase to accommodate wage settlement increases and new programs. Given that the budget strategy formulation process is complex, it would be beneficial to obtain from Council direction on a target property tax increase, which includes new or expanded programs, early in the process.
- *Public Consultation Process* - the public consultation process has grown significantly over the last five years. In the past, the consultation process mainly involved a telephone survey and newsletter occurring every two years. In the last few years, these two processes have occurred annually as well as there has been greater emphasis on holding public and stakeholder meetings. The direction on public meetings may change dramatically during the budget process (e.g. timing and extent of public consultation). This in the past has resulted in a longer budget process. The proposed budget schedule requests direction from Council on the public consultation process up front to allow staff to proceed with the public consultation sooner.
- *Property Assessment* - a key component of developing the revenue estimates is receiving property assessment values from BC Assessment. BC Assessment is a provincial Crown Corporation that determines the market value of all real properties in British Columbia. After determining the correct classification, actual value and exemption status of every property, BC Assessment provides the City with an Assessment Roll, which lists all properties, names of the owners and the taxable values of the land and any improvements (buildings). The key dates of importance to the budget process are:
 - January - Completed Roll is received by the City which provides an estimate of new taxation revenue from new construction
 - January - property owners can appeal their assessment
 - February - special reports provided to City of Vancouver on non-market movements related to class shifts
 - February/March - The Property Assessment Appeal Panel reviews property owners' appeals
 - March 20th - Revised Roll issued

- March 30th - 3-year land Average Roll delivered which forms the basis of the property tax rates

BC Assessment's process are legislated and the timing that the processes are built upon appear to be based on historical timelines such as those in our own Vancouver Charter that requires the Director of Finance to bring in estimates by April 30th of the budget year. Therefore, any significant modifications to BC Assessment's process need to be considered within a Provincial and legislative context.

Finance staff met with BC Assessment to discuss ways in which information can be received earlier. BC Assessment has indicated that new construction values can be estimated after the first week of November at 96% to 98% accuracy, any earlier the accuracy is reduced to about 70%. However, major shifts in classifications (non-market movement), which is needed to finalize the base property tax revenue for the year, is not available till the first week of January (which previously had been provided in February)

The most accurate method of determining tax revenue is from the Revised Roll since it will include all decisions of the Property Assessment Appeal Panel. However, this roll is not available until March of the budget year. Therefore, in the long term, it would be beneficial that BC Assessment review the timing of its processes and request legislative changes that can facilitate earlier budget approval. On June 29, 2006, Council approved a motion that the Union of BC Municipalities request BC Assessment to modify its processes to facilitate the City approving its budget by December 31st prior to the budget year (motion included in Appendix A). Similarly, approval of Recommendation D would result in Council directly request BC Assessment to review its processes.

2. Proposed 2007 Budget Schedule

The key to achieving an earlier approval of the Operating Budget is obtaining confirmation from BC Assessment of the expectation for new construction revenues in November and class shift information in January, the completion of public consultation in November and early December, and obtaining direction from Council on an acceptable tax increase early in the budget process. Given all these, Council can receive the Interim Budget Report in mid February which is submitted to the City Clerk by the end of January. The Final Estimates can be submitted to Council by the end of February.

There are two ways in which Council can facilitate the budget process: a) to provide direction on the public consultation process; and b) provide direction on an acceptable property tax increase. This report, therefore, requests direction on these two matters in section 3 and section 4 below.

Table 1 - Proposed Budget Schedule

Regular Budget Year	Process	Civic Election Budget Year
Summer	Budget Development	Summer
Summer (July 20, 2006)	Obtain direction from Council on the 2007 Operating Budget Schedule, Public Consultation, and Target Tax Increase	Summer
Fall	Budget reviews conducted by Corporate Budget Services	Fall
End of October (October 31, 2006)	Preliminary Estimates to Council	Mid January
November/Early December	Public Consultation	February
August - December	Corporate Management Team Strategies	August - January
November/December	Staff Briefings to Council	January/February
November/December (December 14, 2006)	Information Report to Council on New Program Proposals <ul style="list-style-type: none"> • Non-Police • VPD Operational Review - Phase II 	February
(January 31, 2007)		
Mid February (February 13, 2007)	Interim Budget Estimates to Council	Mid to Late March
End of February (February 27, 2007)	Final Estimates to Council	Late March/Early April
March - May	Tax Rate Reports	March - May

3. Public Consultation Options

As noted, it is anticipated that the Interim Report on the budget will be reported to Council in February 2007. The interim stage is the point at which it is expected that Council will make the decisions necessary to bring the budget into balance. Between the Preliminary Report and the Interim Report time frame the City could consult the public on the budget challenges and provide them an opportunity to make their views known.

The following are options that are available and staff seek Council decisions on which option(s) should be pursued.

i) Committee Meetings/Council Reports

The City's Committee Meeting process is a minimum form of public consultation in that the public has access to Budget reports and can attend Committee meetings to provide input to Council. Council reports are available five days prior to Council meetings which are attended by the public. Speakers who desire to provide input to the budget process would have the opportunity to speak at City Services and Budget Committee meeting at the time Council deliberates over the Interim Budget Report.

The positive elements of this option is that it may expedite the budget process and does not result in incremental cost. On the other hand, the process does not have broad public reach, does not engage the public in a dialogue on budget issues, nor does it allow for extensive input.

ii) Public Opinion Poll

The City has used surveys of public opinion in 1997, 1999, 2001, 2002, 2003, 2004, 2005, and 2006. This consultation tool involves the use of a professional polling firm to undertake telephone surveys with approximately 600 City residents (in 1997 and 2006 approximately 300 businesses were also polled). The sample would take into consideration a number of demographic characteristics to ensure the results represented the view of a statistically significant sample of the population. The survey firm provides translation services (Punjabi, Cantonese, & Vietnamese) to ensure that all those contacted have the opportunity to provide input. The survey would cost approximately \$25,000 (residents only) to \$45,000 (residents and businesses) and take about 14 days to complete. Polling would be done immediately after the Preliminary Budget report on October 31, 2006.

The format and the responses to the surveys has generally been consistent. The City has used a set of questions that were developed in 1997, allowing for trend information. Questions cover:

- the most important issues facing the City;
- perceptions of City services and property taxation;
- reactions to the budget options facing the City;
- acceptance of property tax increases; and
- priorities for City services

The telephone survey provides the City with an opportunity to obtain the views of taxpaying citizens who may not attend a public meeting or complete a questionnaire in a newspaper or on-line. It also has the advantage of providing us with statistically reliable input on issues that are of interest to Council in making its budget decisions at a relatively low cost for the number of responses. It also offers the City an opportunity to examine the trends in how citizens are feeling about different issues. The disadvantage, on the other hand, is that the survey does not engage the public in a dialogue on those issues.

iii) Newspaper Flyer

The City has also made use of newspaper flyers distributed in the community newspapers and at City facilities. "City Choices" flyers were published in 1997, 2002, 2003, 2004, 2005, and 2006. The cost of developing and publishing approximately 145,000 copies of the flyer is estimated at \$35,000 plus staff time. The flyer would be published on the basis of the City's advertising policy in community and a Chinese language paper, distributed through Community Centres and Branch Libraries, and posted on the City's website. Should Council wish to include businesses in the consultation process, the flyers will also be distributed to the City's Business Improvement Areas. The flyer will most likely be published in the first week of November.

The flyer normally contains background information on the budget process, where the City spends its money and where it comes from and the issues that are facing Council in bringing the budget into balance. In the last few years, these issues tended to be choices between raising taxes to maintain City services at one extreme and cutting City services to keep tax increases down at the other.

An integral part of the flyer was the opportunities it offered for providing feedback on the issues identified. Flyers contain a number of questions similar to those utilized in the public opinion poll. The questionnaire will also be made available on-line on the City's website and will be widely advertised.

The flyer is an educational vehicle for the public. It is especially valuable in years when there is a considerable budget challenge because it gives Council the opportunity to explain the issues to the public in more detail than a public survey.

The survey is self-selecting, and therefore, not statistically reliable: the results do not necessarily reflect the opinions of the community as a whole. Response rates have been low, usually less than 700 questionnaires have been returned, despite allowing a number of weeks for completion. In 2005 and 2006, the City received approximately 1000 responses. In 2005, the increase was due to the comprehensive Mayor's Forum process described below which generated an additional 300 submissions and in 2006 due to the increased utilization of the City's web site.

On the other hand, the flyer offers more citizens the opportunity to learn about the budget debate and the issues facing Council. In that way, it serves as a public education tool. As well, it provides one more avenue for residents, who for certain reasons may not attend a public meeting on the budget, to offer their opinion. The flyer is an excellent vehicle when Council wishes to engage the public in a dialogue related to a significant budget issue but has less value in seeking input on more routine matters.

iv) Forums/Meetings

A Forum approach was utilized in 2003, 2004, and 2005 each year taking a slightly different approach. In 2003, two meetings were convened by the Mayor at which a short presentation on the budget issue was presented and the public was invited to respond. In 2004, the Forums revolved around two themes - "Crime and Safety" and "Poverty, Homelessness and Provincial Offloading" - and included panel discussions. For 2005, the consultation program consisted of 10 meetings with community organizations and 7 meetings that were open to the public at community centers.

The estimated cost of holding a Forum is \$9,400 per forum which includes the cost of materials and rental of a hall. As well, funding would be required to hire a forum coordinator at \$9,500 to help facilitate these meetings.

v) Public Meeting

The City had not used specific public meetings to deal with the budget for many years due to experience in the early 1980s where public meetings were poorly attended. Instead, Council

invited the public to make its views known at regular Committee meetings at which the budget was being discussed.

In 2006 Council held two special public meeting to hear input from individuals and groups on the Operating Budget. These meetings involved a short presentation by staff and attendees providing comments on the budget directly to Council.

There is no direct cost to this public consultation process other than advertising as noted below.

Advertising and Funding:

Should Council choose any of options iii, iv, and/or v above advertising funding of \$8,000 would be required to ensure that the public was aware of the public process. The 2006 Operating Budget includes \$99,300 funding for public consultation. The budget will be adjusted according to Council approvals included in Recommendation C.

4. Target Tax Increase

In April 2006, Council approved a number of adjustments and initiatives that will have impact on the 2007 Operating Budget. As well, there will be general inflationary impacts on base services. From these decisions as well as expected inflationary increases, the opening property tax increase would be in the range of 3.8% to 5.3% excluding any new initiatives that may be proposed for 2007. The key unknown at this time is the cost to maintain base services, such as fuel and gas, and the cost of any new or expanded programs that may be proposed for 2007. The table below details the assumptions leading to this estimated opening budget position.

	fte ¹	2007 Impact	
		\$000	tax %
<u>New & Expanded Program Approvals</u>			
<i>2006 Approvals</i>			
Police Staffing- 31 officers & 46 civilian	77	1,612	0.34%
Employee Advisory Relations	3	55	0.01%
Area Planning Public Process Funding		88	0.02%
Visions & Area Planning Implementation	2	75	0.02%
Vancouver Economic Development Commission			
- Compensation Adjustment		30	0.01%
- Economic Development Strategy		106	0.02%
Sport Hosting		200	0.04%
<i>Pre-approval for 2007</i>			
2005 Approval to Increase Cultural Grants		1,000	0.21%
Heritage Register Update		100	0.02%
Total Increases based on Council Approvals	82	3,266	0.68%
<u>One Time Budget Adjustments & Other Adjustments²</u>			
New and Non-Recurring		1,000	0.21%
Contingency Reserve		500	0.10%
Capital from Revenue		600	0.13%
Turnover		500	0.10%
Type 1 Adjustments		335	0.07%
Typ 2 Adjustments		(87)	-0.02%
Total One Time Budget Adjustments		2,848	0.60%
<u>Rate Changes Approved as Part of the 2006 Budget</u>			
Development Revenues		(588)	(0.12%)
Inflationary Increases			2.50% to 4.00%
<u>Council Requested Report Back</u>			
Drug Policy and Prevention Program ³	3	320	0.07%
Permit Processing ⁴	4	165	0.03%
Total Report Back	7	485	0.10%
Potential Opening Budget Position	89		3.76% to 5.26%
New Initiatives/Funding Requests			Amount Unknown

¹ Regular Full time and Part Time Positions

² Council approved a number of budget adjustments in 2006 on a one time basis that need to be restored in 2007.

³ Council approved the continuation of the Drug Policy and Prevention Program for one year with a report back in time for the 2007 Operating Budget. Should this program be approved for 2007, the annual requirement would be \$320,000.

⁴ Council requested a report back on permit processing staffing requirements in time for the 2007 Operating Budget. The 2007 estimate is based on \$0.165 million requirements established as part of the 2006 Operating Budget.

Historically, Council has directed the Director of Finance during the Preliminary Budget stage to come back to Council with options to achieve a property tax increase below the Preliminary Estimates property tax increase and no lower than the rate of inflation.

Rather than request for a similar direction on October 31st when the Preliminary 2007 Estimates are presented to Council, a more streamlined approach would be to have Council set a target tax rate at this time. This target tax increase would provide for base services and new funding requests. Obtaining this direction now would allow the Corporate Management Team to strategize on ways to achieve this target early in the process and ensure that base services and new funding requests are dealt with in the context of Council's target property tax increase.

Recommendation B requests that Council set a target tax that Council deems reasonable. This tax increase would include base services, new initiatives but exclude the impact of outside agencies.

FINANCIAL IMPLICATIONS

Funding for the public consultation process is currently at \$99,300. Depending on the choices Council makes the total budget will need to be adjusted to reflect these decisions.

CONCLUSION

The process outlined in this report will result in a budget approved approximately two months ahead of the 2006 Operating Budget. The key is to obtain direction from Council early in the budget process on the City's public consultation strategy and a property tax target for budget development purposes.

* * * * *

Appendix A - Union of British Columbia Municipalities Motion

City of Vancouver

PROVINCIAL PROPERTY ASSESSMENT PROCESS

WHEREAS the property assessments developed by British Columbia Assessment (a Provincial Crown Corporation), is required for budgeting and property tax purposes;

AND WHEREAS the City's relies on receiving accurate information from BC Assessment for developing a significant portion of its annual revenue budget;

AND WHEREAS Council would like to have the Operating Budget approved in December of the prior year;

AND WHEREAS the final property assessment information for budget purposes is not available until March of the budget year;

THEREFORE BE IT RESOLVED that BC Assessment review its processes to accommodate municipal budget approval by December 31st of the prior year.

PROVINCIAL PROPERTY ASSESSMENT PROCESS

Background

Approximately 65% of the City's revenues are generated from property taxes. Property taxes are calculated based on the assessed market value of all properties within the City. The BC Assessment Authority, a Provincial Crown Corporation, develops assessment values for municipalities which are then used to calculate individual property taxes.

One of the key components of the City's budget process is to estimate any impact on base taxation revenues as well as revenue from development that become new to the taxation roll. This information is provided to the City first with the Completed Roll (statutory deadline December 31st) and the Revised Roll which reflects decisions from the Property Assessment Review Panel (statutory deadline of March 20th).

The City has historically passed its budget in the second quarter of the budget year to ensure that the assessment values are properly factored. It is the desire of Council to move this process forward. However, to facilitate the timing of the City's budget process and minimize any financial risk, final assessment information should be available in the fall prior to the budget year. Therefore, it is requested that BC Assessment review its processes and the timing of those processes to better line up with municipal budget requirements.