

COUNCIL AGENDA/INFORMATION

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Director	CAO

Committee of the Whole Nov 27 # 2

DISTRICT OF WEST VANCOUVER
750 - 17TH STREET, WEST VANCOUVER, BC V7V 3T3

COMMITTEE REPORT TO COUNCIL

Date: November 21, 2006 File: 115.20.FSTF1
From: Fiscal Sustainability Task Force
Subject: Fiscal Sustainability Task Force's Report to Council

RECOMMENDED THAT:

1. The report dated November 21, 2006 titled Fiscal Sustainability Task Force's Report to Council be received.

Purpose

To provide Council with the Fiscal Sustainability Task Force's report and recommendations on fiscal strategies and actions that will assist the District with making decisions that are fiscally responsible and ensure a sustainable economic future for the community.

1.0 Background

1.1 Prior Resolutions

Prior Resolutions were passed by Council on:

April 24, 2006

THAT the report dated April 24, 2006 from the Chief Administrative Officer re Financial Sustainability Review be received.

May 1, 2006

THAT the recommendations regarding the creation of a Fiscal Sustainability Task Force be endorsed and that staff report back on proposed membership by no later than May 08, 2006.

May 8, 2006

"Mayor Goldsmith-Jones ... announced appointments to the Fiscal Sustainability Task Force ... noting that Councillors Clark, Smith and Soprovich were appointed to the Fiscal Sustainability Task Force." (May 8, 2001 DWV Council Minutes)

May 29, 2006

THAT

1. The Fiscal sustainability Task force Terms of Reference dated May 17, 2006 be approved as amended in sections 2 and 3;
2. The appointments of the following individuals to the Fiscal Sustainability task force, effective May 29, 2006 to October 30, 2006 be approved:
 - Nancy Farran
 - Greg Fleck
 - Roff Johannson
 - Jim Mutter
 - David Roach
 - Ralph Turfus

October 30, 2006

"THAT the term of the Fiscal Sustainability Task Force be extended to November 27, 2006." (October 30, 2006 DWV Council Minutes)

1.2 History

In response to Council and community concerns about long-term taxation trends, Council approved the creation of a Fiscal Sustainability Task Force on May 1, 2006. The purpose of the Task Force is to examine broad trends affecting local government and to explore the tools to address those trends, in order to provide recommendations to Council on a long-term fiscal sustainability strategy for implementation commencing in 2007.

2.0 Policy

2.1 Reference to Corporate Business Plan

Referenced in the District of West Vancouver's 2006 – 2008 3-Year Corporate Business Plan called the "The District of West Vancouver's Sustainable Future", under the Economic Sustainability Priority, Goal 2 Budget Development – *"Develop a long term capital and operating budget strategy by conducting a review of expenditures (Finance and Audit Committee) and by designing a new approach to budgeting (Fiscal Sustainability Task Force)"*.

The 2006 Priority is to "review and adopt appropriate recommendations from the Fiscal Sustainability Task Force Report" with the 2007 Priority being, "commence implementation of appropriate short and medium-term recommendations from the Fiscal Sustainability Task Force."

3.0 Analysis

3.1 Discussion

Introduction

How does a community prepare to deal with fiscal change and challenge? That question lies at the core of the request West Vancouver Council made on May 08, 2006 when it appointed a nine person Task Force to examine the issue of Fiscal Sustainability. Essentially, the Task Force was charged with:

- Reviewing the District's current financial state including relevant legislation, bylaws, policies and guiding documents;
- Developing a high level estimate of long-term Trends and Issues which will impact the District's fiscal sustainability;
- Comparing the District to other municipalities through the use of appropriate indices, benchmarks and performance indicators;
- Affirming or recommending adjustments to the District's current service levels and the underlying assumptions/guiding values;
- Recommending alternative service delivery methods;
- Reviewing public input received in recent years on taxation and service levels and seeking new input from staff and the community, and
- Preparing a report to Council with recommendations on a fiscal strategy and action that should be taken to ensure the District's fiscal sustainability.

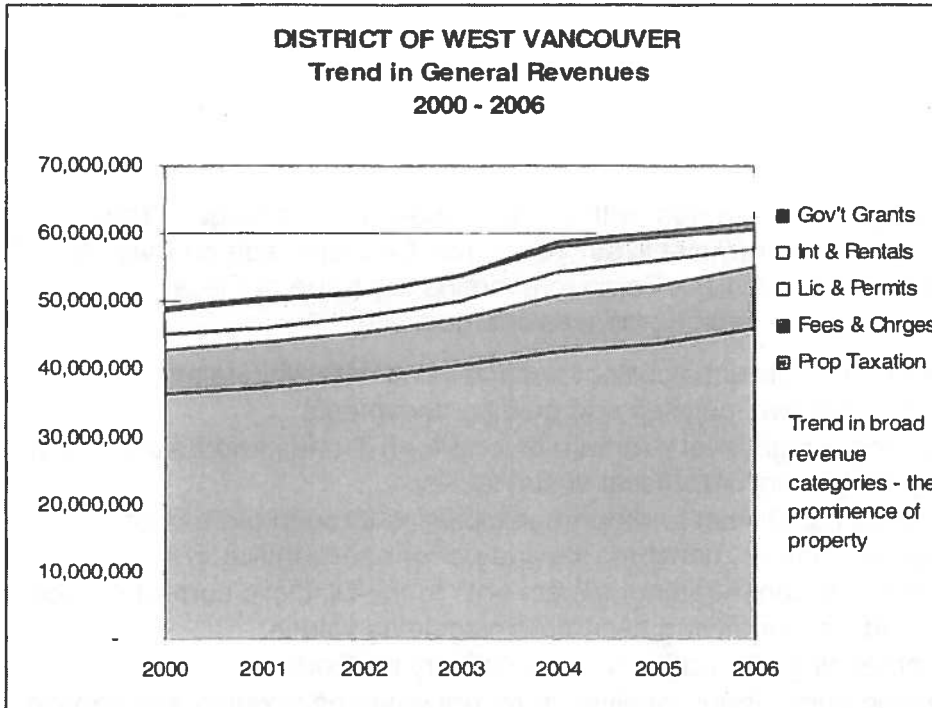
This Report is a summary of the Task Force's recommendations.

We began the process by defining the central concept:

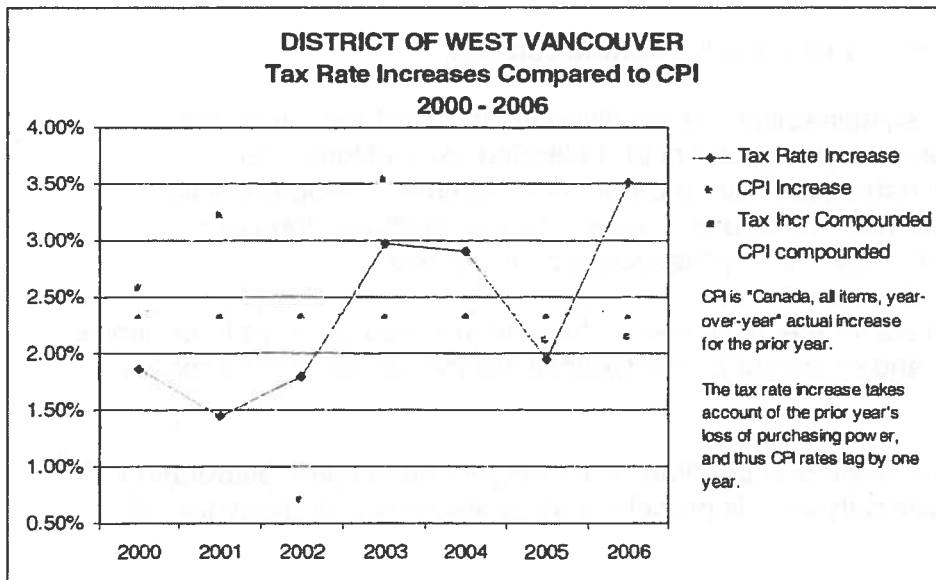
Fiscal sustainability is a condition where fiscal resources are sufficient to meet present and planned expenditures. To achieve this condition, a disciplined plan must recognize and monitor revenue sources, operating expenditures, long term capital projects and prospective contingencies.

As the work of the Task Force progressed, the work focused on ways to enhance planning, discipline and oversight by the Council, for the benefit of the broader community.

The conditions that prevailed at the time of the enquiry need some elaboration. To some, the issue starts with what is perceived as an escalating property tax bill.



However, the relative rate of increase of the individual property tax statement is not the full story. To begin with, West Vancouver Councils have limited tax increases to the level of CPI inflation since 2000.



Two broad effects that are relevant to the Task Force appeared during this period. First, by not meeting inflation's effects and combined with expansive policies, there has been a strain on expenditure patterns of the Municipality, with likely future implications

for infrastructure. Second, despite this limiting behavior on the part of their local government, West Vancouver taxpayers have seen a continuing rise in their local tax bill. Rapidly expanding demands for revenue for services that are regional in nature—that is, not local to West Vancouver—but which are funded by property assessment, have driven the increased taxes. Having limited those expenditures through an inflation cap on local matters, the community has nonetheless seen a painful increase in their taxation levels because of demands of regional authorities.

These pressures are not restricted to West Vancouver, it needs to be noted. Local governments throughout Canada are under severe pressure to maintain existing services. As noted by the June 2006 report from the Federation of Canadian Municipalities “Building Prosperity from the Ground Up: Restoring Municipal Fiscal Balance”:

“Property tax does have advantages and will remain the backbone of municipal finance. It is a highly stable and predictable form of taxation, one that does not vary much from year to year. The property tax is certainly appropriate for financing certain types of services, primarily services to property, such as infrastructure and fire fighting...But the property tax also has a number of fundamental weaknesses, most notably that it is a regressive tax.” (Page 25)

The report concludes:

“Fiscal imbalance is said to exist when the fiscal capacity of a government is insufficient to meet its spending responsibility. Since municipalities in Canada are required to balance their operating budgets and the amount of borrowing they undertake for capital purposes is restricted by provincial governments, it does not appear initially that they suffer from a fiscal imbalance. **Yet, the required balance has been achieved in large part by under-investing in infrastructure and service delivery. Unfortunately, the state of municipal infrastructure and the quality of services are much more difficult to quantify than are fiscal measures and so less is known about them. This lack of information does not mean, however, that municipalities are not facing a fiscal crisis.** (Emphasis added.)

Although there may be some room for municipalities in some provinces to increase residential property taxes and user fees, there does not appear to be sufficient room for them to solve the problems of under-investment in infrastructure and services. Moreover, the ability of municipalities to increase their revenues is different from the ability of provincial and

territorial governments to increase their revenues. Municipalities cannot easily increase their own-source revenues (property taxes and user fees) because of provincial restrictions on municipal revenues and because of the inelasticity and visibility of the property tax." (Page 27)

Seen against this broader context, West Vancouver's fiscal situation is representative of other Canadian municipalities.

A quick answer to the problem is to provide mechanisms that would channel more federal and/or provincial tax monies to the local level of government where it is needed, particularly as federal and provincial governments off-load responsibilities. But it is probably a mistake to anticipate early, meaningful reforms of this sort. The changes require modification to the Canadian Constitution and while there is sympathy to the plight of local governments about funding needs, the other levels of government have other agendas, most of which run counter to efforts to modify the Constitution. It may be the short-term solutions may appear, but a long-term resolution of the place of local governments seems a distant hope.

So what is required is a design that does two things: makes the local government more responsible, effective and responsive and engages the citizenry through conducting community affairs with transparency such that Council can speak with confidence that the community supports their efforts. An involved and informed electorate is a vital part of the design. Developing these two themes in West Vancouver is what goes forward from the work of this Task Force.

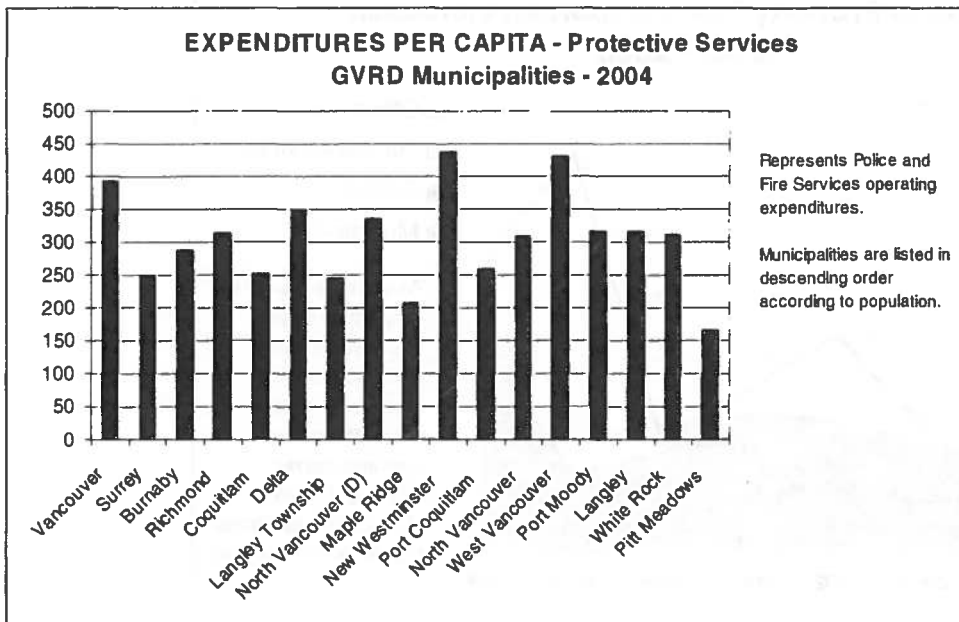
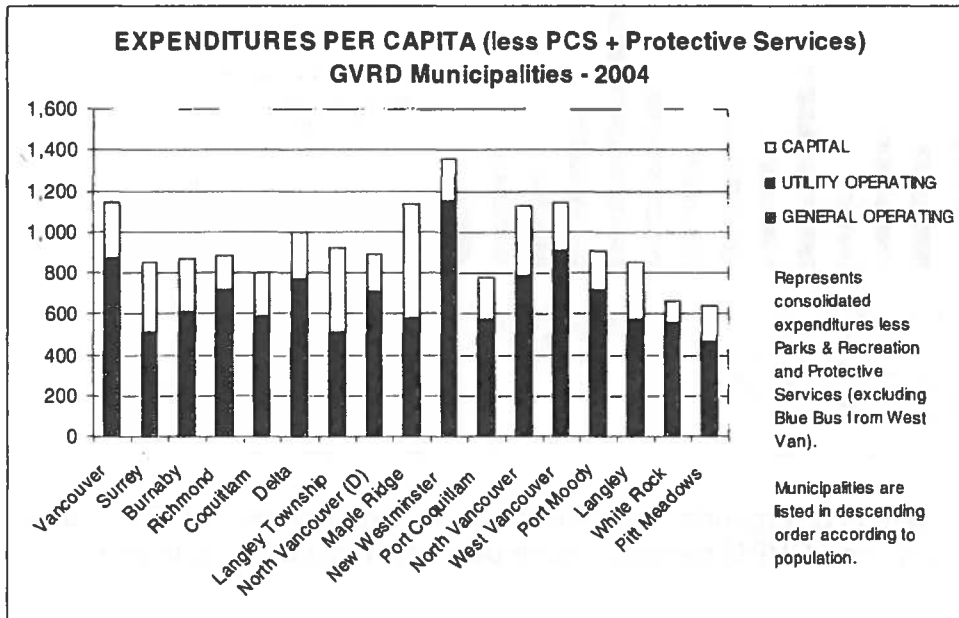
This Report is a thematic encapsulation of the work of the Task Force. Early on, the work was divided into subcommittees, with individuals serving on one or more of these smaller bodies. The subcommittees dealt with matters that appeared to that level of analysis and made recommendations. The subcommittee reports are appended and should be read in their own context.

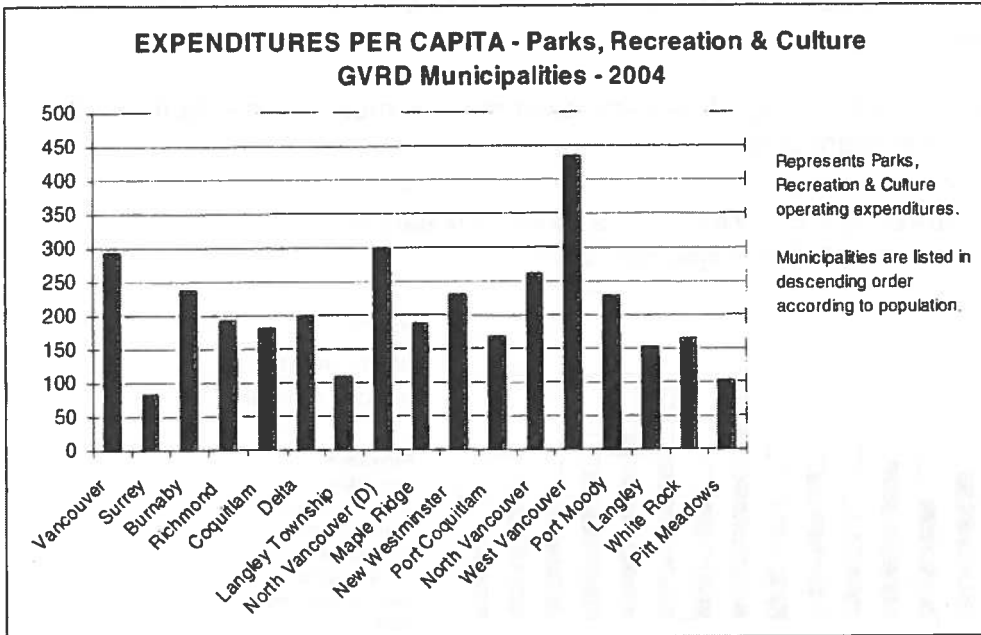
The Setting

The Trends & Issues subcommittee, reviewed the 'state of the District,' and identified several significant matters that require attention. Among these, they pointed out that although wages and benefits make up a significant portion of West Vancouver's municipal expenditures, the power to negotiate the wage levels lies elsewhere. The District follows trendsetting settlements for Fire and Police wages, and is heavily influenced by GVRD settlements for other labour agreements. Essentially, then, absent an improvement in productivity and management process, a decision to save on expenditures at this level is a decision to cut services. Complicating resolution of this issue is the reality of public opinion: there is little support for significant cuts to services. The Task Force heard from the public that things were liked "as they are." Satisfaction—indeed, pride—in the way things are in West Vancouver strongly marks the comments received by the Task Force. This is echoed in public opinion surveys. This would suggest that there is little support for radical changes in services in West Vancouver.

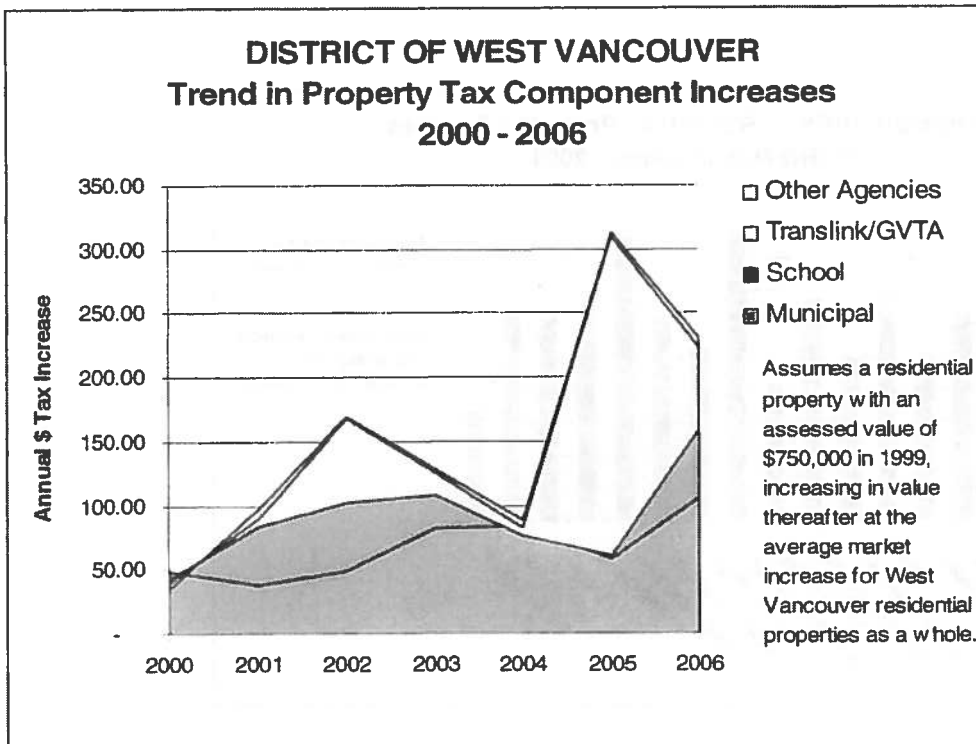
Equally, there is little enthusiasm for constantly increasing real property taxes, in excess of the rate of inflation. Addressing these pressures has been the focus of the Task Force's activities.

Set against other municipalities, West Vancouver spends more per capita than other districts, albeit in significant areas.





The areas where there is divergence from others involve expenditures on Fire, Police and Parks. TransLink and GVRD demands have been the most obvious increases in recent years.



14

That said, the Trends and Issues subcommittee nonetheless found other areas of concern for future fiscal implications. There is a clear need for infrastructure replacement and renewal in West Vancouver. When added to the possible costs of projects that are being discussed, the Task Force identified future costs conservatively estimated as being more than \$100 million in today's dollars. (For every \$ 5 million borrowed at 5% for 15 years through the MFA (Municipal Finance Authority), a one-time increase in taxation of about 1% is needed in order to service the resulting debt.) These projects have not been approved, it should be pointed out, but they should be recognized for the future implications. But, most significantly, there is no financial framework in place to address these expenditures.

In concluding, the Trends and Issues subcommittee identified a number of "elephants in the room" issues that may yet appear before Council and the taxpayers, but which have not been given an adequate accounting. (Details can be found in Appendix A). Three stand out: the possibility of future downloading/offloading of responsibilities from other levels of government, the dearth of new revenue streams, and the development plans of the Squamish Nation. Any or all of these "elephant issues" need to be kept in mind when considering municipal government spending plans.

The Recommendations

Subcommittees of this Task Force examined fiscal sustainability through a unique analytical lens and delivered their reports accordingly. These reports are attached to this document as Appendices. The full Task Force reviewed the findings of each subcommittee and voted on those recommendations. The reader should note that, on occasion, the Task Force amended the recommendations of the subcommittees. The Task Force's approved recommendations are listed below. It should be noted that no recommendation had more than one vote opposed; most were unanimously accepted.

This report presents their findings through a thematic approach. In using this approach, it is hoped that the full flavor and complexity of the Task Force's work can be seen. (The code which precedes each recommendation is keyed to the Appendix; C7, for example, is the 7th recommendation of Appendix C.)

Structural/Procedural Changes Facilitating Transparency

- [A1]** Reinstatement of a Financial Advisory Commission. Council needs to appoint an independent group to tag with many issues, ideally comprised of five to six qualified people with financial skills.
- [A2]** We recommend specific resident task forces to help with financial oversight on capital projects. There are many skilled individuals who would be pleased to assist.
- [A3]** Study amalgamation of services over the North Shore with a goal of determining if both cost savings and retained efficiencies could be achieved.

- [D2]** The Task Force recommends that Council establish sustaining committees composed of members of Council and the community to review the following subjects:
- Budget planning and execution
 - Revenue sources from alternate means

Procedural Changes - Management

- [A4]** The budget process needs to be re-vamped. It should be approached differently. Rather than department budgets being determined based on what their budget was the year before plus some portion of inflation adjustments, Council and Senior Staff should determine desired outcomes, and then work the process backwards to determine what it would cost to achieve those outcomes.
- [A5]** Budgets should be operated on a rolling 1-3-5 year basis. The Community Plan that is established for a five-year period has specific goals listed. With this in mind, longer-term budgets can be established.
- [B5]** The Task Force recommends the undertaking of a systematic review of expenditures in each operating department and staff function at least once every three years to ensure that the expenditure levels are consistent with and justifiable from the community benefits arising from the spending.
- [B6]** The Task Force strongly recommends that the Municipality realign its resource use patterns with its primary missions in each of the departments on a regular basis to achieve higher levels of management effectiveness and efficiency.
- [B7]** The Task Force recommends that the management predicate the determination of service levels on the assessment of the outcomes-output-input resource use approach to operational plan and capital plan development, review and approval.
- [C5]** The Task Force recommends that the Council benchmark outcomes and outputs to the community goals and expectations. Benchmarks and performance measures will be determined through a systematic process and reported at least once per year in conjunction with the annual budget and financial plan review and development.
- [C7]** The Task Force recommends that Council adopt a transfer pricing policy that incorporates the following principles:
- Use of service organization's marginal costs
 - Recognition of revenues
- [C9]** The Task Force recommends that Council adopt a policy of continuous improvement in all aspects of the District's activities and that such policy will be a guiding principle and best practice.
- [C10]** The Task Force recommends that Council adopt a policy of infrastructure asset condition assessments performed periodically and in conjunction with a regular structured program of asset renewal and replacement.

- [C13]** The Task Force recommends that Council adopt a policy of ensuring that any borrowing will be at a minimum consistent with the ability of the District to service its retirement of borrowing outstanding and the payment of interest.
- [C14]** Without prescribing any one particular method of forecasting or control, the Task Force recommends that the District undertake an examination of its present procedures and practices to ensure that these are not impeding or restricting the organization's effectiveness and efficiency; in particular, the focus on input cost controls should be revisited.

Procedural Changes – Council

- [A6]** We recommend that all capital projects be fully costed and approved by Council before sod is turned so as to minimize "project creep". A detailed operating projection must accompany the capital budget.
- [A11]** A twenty and fifty year plan for infrastructure replacement must be developed along with an appropriate financial framework.
- [B1]** The Task Force recommends setting a hard target for maximum tax increases based upon a target inflation rate.
- [C1]** The Task Force recommends that the Council implement a multi-year financial plan that sets out a three (3) year detailed budget in conjunction with a two (2) year outlook.
- [C2]** The Task Force recommends that Council implement the British Columbia Performance Reporting Principles for all corporate, divisional, business unit, and staff unit reporting practices and all internal and external reports.
- [C3]** The Task Force recommends that Council adopt a performance measurement approach to accomplish its objectives.
- [C4]** The Task Force recommends that Council adopt an outcomes-focused performance-based management approach to service level determination to accomplish its objectives.
- [C8]** The Task Force recommends that Council adopt a policy whereby capital project proposals and evaluations will be conducted in a systematic and openly transparent manner with full accountability for costs and benefits prior to committing to undertake the capital project.
- [C14]** Without prescribing any one particular method of forecasting or control, the Task Force recommends that the District undertake an examination of its present procedures and practices to ensure that these are not impeding or restricting the organization's effectiveness and efficiency; in particular, the focus on input cost controls should be revisited.
- [D1]** In meeting with and listening, the Task Force heard clearly from the community that the matter of capital funding should be subject to wider consultation. Though the comments received cannot be said to represent a scientific survey of community opinion, the level of support for voting on money bylaws was very

strong. Accordingly, the Task Force recommends that Council adopt a policy of requiring community passage of money bylaw referenda (by 50% + 1 of the votes cast) when considering major capital projects of a discretionary nature.

User Fees and Subsidies

This subject was addressed by each subcommittee. Clearly, the Task Force recognizes that the subject of user fees and subsidies provided by the taxpayer needs some refurbishing. A summary statement would be that the Task Force concludes that user fees should be based on the full costs of the program or service; these real costs should be publicly known, and Council decisions to provide subsidies should be taken publicly and reviewed regularly. Special user fee rates should be restricted to West Vancouver taxpayers and their family. The individual recommendations include:

- [A8]** User pay is a concept we endorse. While 100% cost recovery in many cases is unrealistic, attempts must be made in all departments to cover a greater portion of the dollars spent. Council should target higher recoveries of all operating costs and explain to the public that the land and buildings are subsidized. Better information is required on who is using the services.
- [A9]** We recommend that core services be supported. But, we as a community need a better definition of what core means. Public input on what is valued most is helpful and should be used.
- [B2]** The Task Force recommends universal application of user fees coupled with appropriate subsidies where subsidies are deemed desirable.
- [B3]** The Task Force strongly recommends inclusion of natural turf surface fields in the 'point of use' cost recovery policy of the Municipality.
- [C6]** The Subcommittee recommends that the Council adopt a policy on user fees and cost recovery measures that include the following best practice principles:
 - o Efficiencies in service and program delivery;
 - o Efficient use of resources;
 - o Benefits matched to desired outcomes;
 - o Sustainable service levels;
 - o Fairness ;
 - o Cost reduction;
 - o Relate user fees and cost recoveries to market rates.
- [C15]** The Subcommittee recommends that Council adopt a policy whereby fee-setting should be market driven, transparent and set within a broad policy guideline to enable staff sufficient flexibility to tailor rates and program charges according to demand, and where subject to a cost recovery policy, be set according to the objectives in the policy.

Widen Financial Base

A theme that emerged from several sources was the need to expand the funding base of community activities; put another way, creative revenue generating activities should be welcomed by Council. We heard numerous ideas, from actively seeking charitable gifts, through naming of public facilities to suggestions that community assets should be expected to pay their way more than they do now. Additionally, the Municipality might seek new revenue opportunities from the Province.

- [A7]** We recommend that alternative forms of funding projects be considered including but not limited to 3-P.
- [A10]** A proper inventory of District land should be compiled. A special Task Force should be given the responsibility, coupled with appropriate Senior Staff, to make recommendations as to the best use of every piece of land. Where it makes sense to sell, land should be sold. Where it makes sense to swap, land should be swapped. Where it makes sense to develop, it should be done. Any proceeds of sale should only be used for capital, not operations or general revenue.
- [B4]** The Task Force recommends that the fee schedule for recreation activities and facilities be reconsidered with a view to bringing the fees more in line with the cost of service and the need to raise the cost recovery rates and lower the reliance on taxation.
- [C11]** The Subcommittee recommends that the District should undertake and maintain a diverse revenue base so that the relative share of the property taxpayer's portion of the District's revenue will decline over time.
- [C12]** The Subcommittee recommends that the Council adopt a policy whereby the burden on the taxpayer should be kept to a minimum and be distributed in a fair and equitable manner.

And finally,

- [D3]** The Task Force recommends that Council strike a committee in February of 2008 (i.e. – the last year of this Council's Mandate) to report to Council no later than September 30, 2008, on the number of Recommendations of this Task Force that have been adopted and implemented.

3.2 Consultation

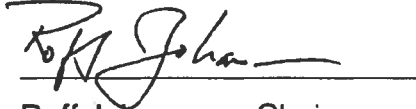
On September 26, 2006, the Task Force held a Public Meeting for residents and community groups. The Task Force also provided District staff and the West Vancouver Municipal Employees Association (WVMEA) with two opportunities to meet with them that day to hear employees' thoughts and comments on how the District could save money, operate more efficiently, or become more effective in the delivery of our services.

As well, the Task Force met with the District's Executive Team, the West Vancouver Memorial Library Board and had an opportunity to discuss fiscal issues with the West Vancouver Police Department's Chief Constable at a Task Force meeting. The Task Force maintained an email address, FSTF@westvancouver.ca from the end of September to the duration of their term, to which staff and residents could send their comments for the Task Force's consideration as well as maintaining a feedback form on the District's internal intranet site for employees to provide comments.

The Task Force also asked residents and staff to respond to eight survey questions (please see below) to help prioritize fiscal issues and/or provide any general comments. These responses and general comments are all summarized as Appendix E in the Task Force's report.

1. Do you favour increasing, maintaining or reducing current service levels? If you support change, please be as specific as possible.
2. When you think of value received for property taxes paid – do you get good value? Where do you think your dollars are best spent? Worst spent?
3. Do you have any suggestions for the district to cut costs or become more efficient?
4. Would you agree to more, or higher user fees to increase revenue and/or cover service or program costs?
5. Do you think user fees should cover all the costs associated with an activity, service or program?
6. Do you have suggestions for additional sources of revenue that should be considered?
7. To pay for major capital projects (over \$7 million dollars), should the District:
 - Wait and save up?
 - Borrow?
 - Partner with the Private Sector?
8. Should major capital projects be subject to voter approval through referendum at election time?

Respectfully submitted 21st of November, 2006



Roff Johannson, Chair
(on behalf of the Fiscal Sustainability Task Force members as below)

Nancy Farran

Greg Fleck

Jim Mutter

David J. Roach

Ralph Turfus (Served from May 29, 2006 to September 22, 2006 - did not vote on the Task Force's Report.)

Councillor John Clark

Councillor Bill Soprovich

Councillor Michael Smith

Appendices:

- A Trends and Issues Subcommittee Report
- B Economics Subcommittee Report and Annex(es)
- C Best Practices Subcommittee Report and Annex(es)
- D Other Matters
- E Public Responses/Copy of Information Presented/Requested to Public
- F Task Force Terms of Reference
- G Report on Task Force Expenditures
- H Prior Council Reports re the Fiscal Sustainability Task Force
- I Working Papers Prepared for/by the Best Practices and Economics Subcommittees

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FISCAL SUSTAINABILITY TASK FORCE TRENDS & ISSUES SUB-COMMITTEE REPORT

West Vancouver faces trends that it can choose to either observe or respond to. Trends are not all of our own making. Our reaction to those trends and an awareness of the long-term implications are what will help to define our community. Policies put in place today will help to shape our future. In 2002, TD Bank Financial group noted that we have 'a choice between investing in Canada's cities or disinvesting in Canada's future.'

When you overlay financial sustainability to many of these trends and issues, we see that an urgent response is needed. It is not enough for us to merely watch these developments. It is up to us all to respond and anticipate the changes that these may create.

Council and the Mayor have set as part of the job of the Fiscal Sustainability Task Force (FSTF):

"Developing a high level estimate of long term issues and trends which will impact the District's fiscal sustainability."

This report is an attempt to address both trends and issues that we see impacting our community. It is by no means an exhaustive or static list.

ISSUES & TRENDS IDENTIFIED BY SENIOR STAFF & THE TASK FORCE

Early in our information gathering process, senior staff of the District and Task Force members identified what they saw as trends and issues facing the municipality. These included:

- Labour issues (including costs and wage settlements)
- Infrastructure Issues (including major facilities replacements and deferred maintenance)
- Environmental Standard (increased expectations)
- Social Services downloading
- No new revenue streams
- Transportation issues (including TransLink)
- Population trends
- Service Expectations and Delivery
- Lack of appetite for property tax increases of magnitude
- Public Safety
- Financing issues – "Pay as you go"/Private Public Partnerships (3P)/Debt

- Governance issues
- Rezoning/Density
- User fees
- Instituting new fees
- Regional Growth
- Squamish Nation
- Reduction in revenue from BC Ferries & BC Rail
- Traffic congestion
- Redevelopment of Ambleside
- Transparency
- Accountability

It is a desire, judging by public input, to keep much of West Vancouver as it is. In the West Vancouver Community Survey, prepared for the District by Synovate and presented in their final report of August 10, 2004, the following conclusions can be drawn from the Executive Summary. While we have some concerns that surveys may be limited in their effectiveness, especially as regards the wording of many questions and the fact that responses are not always sought with a clear understanding by the respondents of the costs associated with alternatives.

Overall Satisfaction West Vancouver heads of households are highly pleased with the quality of life in West Vancouver, with nine in ten rating it very good and about $\frac{3}{4}$ saying the District is also a good place to raise a family and to retire.

Heads of households remain very satisfied with the services they receive from the District and the value received for the property taxes they pay. Virtually all, 93%, are satisfied with the municipal services they receive and 87% believe they receive good value for the property taxes they pay. Both of these levels are consistent with those recorded in 1995 and 2001.

Satisfaction with Specific Services Nine in ten residents are satisfied with most of the 24 service areas assessed in the survey. The Library, Fire & Rescue, Garbage Collection, senior services, Police protection, Recreation Facilities and Parks are the top rated service areas.

Satisfaction with the five new or renovated recreation facilities is quite high. Residents are particularly pleased with the Seniors' Activity Centre and the Aquatic Centre, both earning satisfaction from virtually all residents, including at least $\frac{3}{4}$ who say they are very satisfied with these facilities. Almost nine in ten also say they are satisfied with the all-weather sports field, the ice arena and the Gleneagles Community Centre.

Funding Preferences As in 2001, residents would generally like to see the new or replacement facilities funded through a self-sustaining fund

when affordable (55%) or through public-private partnerships (44%). Only one in four residents favour borrowing funds and repaying it over time through taxes or selling or leasing District land in order to provide the funding.

The high satisfaction with the 24 service areas is reflected in the clear preference for maintaining rather than increasing or decreasing service levels.

Residents are generally supportive of an increase in taxes in order to either maintain or increase current service levels. At least half of all resident groups support a tax increase.

As for funding specific service improvements, residents believe that user fees should bear most or part of the cost for services which residents would voluntarily utilize, such as the library, recreation facilities and programs, playing fields, inspections/permits, arts/culture and transit. For services that are generally enjoyed by all residents, such as fire and police protection and sewers, residents tend to favour funding cost increases with a tax increase, or a tax increase in combination with a user fee, where possible.

Twenty-six percent of respondents felt that controlling growth and maintaining West Vancouver's character was the top issue and challenge facing the District.

DEMOGRAPHIC & INCOME TRENDS

Our population in 2001 was 43,229. In 2005, that number had grown to 43,967 – an increase of under 2%. Population is projected by the 2004 BC Stats P.E.O.P.L.E. Run 29 forecasting model to continue to grow modestly, rising to 47,272 people in 2031 if trends continue. (This figure excludes potential population growth of any magnitude on Squamish reserve lands in Eastern Ambleside). This implies that West Vancouver cannot “grow” its way into extra revenues.

Income in West Vancouver continues to be substantially higher than the Greater Vancouver Regional District (GVRD). According to the 2001 Census by Statistics Canada, median household income in West Vancouver is \$75,583 compared to \$49,940 for the GVRD as a whole. This compares to \$65,127 and \$43,964 respectively in 1996 – an increase in West Vancouver of 16% and in the GVRD of 13.5%). Average income has grown even more dramatically in West Vancouver (by 24% vs. the GVRD's 16.5%) – pointing to the fact that incomes are growing faster in West Vancouver. While 53% of households have income over \$70,000 in 2001 (versus 45% in 1991), there are 19% of our households

living on less than \$30,000 a year (from 21% in 1991). In the GVRD, fully 29% of households live on income less than \$30,000 a year.

Age distribution is another area where West Vancouver varies dramatically from the province. In a nutshell, we are very light on 24 – 44 year olds:

Age Range:	West Vancouver:	BC:
0 - 14	15.2%	18.1%
15 - 24	12.4	13.2
25 - 44	19.0	30.1
45 - 64	31.4	25.1
65+	22.0	13.6

BC Stats projections indicate that the aging trend in West Vancouver will continue, with a smaller proportion of young people, a greater proportion of older people, and a decline in average household size.

RISING WAGES AND SALARIES

Labour costs account for over two-thirds of the municipal operating budget.

Negotiated wage settlements, particularly in fire and police services, are higher than the rate of inflation. With this in mind, one realizes that it becomes very difficult to keep tax increases to less than the rate of inflation and assumes no additional services or staffing.

Overtime costs needs to be closely managed.

Staff count, as reviewed by the Economics sub-committee, has held fairly stable to slowly rising over the last few years.

RISING CAPITAL PROGRAM COSTS

The District faces some very large capital program expenses going forward. These include Eagle Lake, the Recreation Centre, potential new Police Station and District Hall facilities, the purchase of the remaining Bellevue properties and their subsequent development. Demands for "better" and "more" have led to capital programs exceeding their original targets (i.e.: the original Aquatic Centre renovation budget was made irrelevant when the extra "needs" were identified and the scope of the project grew significantly beyond the original plan. Proposed upgrades estimated at \$2 million quadrupled to \$8 million).

RISING VARIABLE COSTS

The concern is that the trend appears to be toward significant price increases in construction costs, materials used, increased land costs.

What is “Core”? Increasingly higher expectations for services, including fields, recreation, arts, health care, emergency and policing services.

There has been a move, according to many, to expand the concept of “core services” over the years. As one senior staff member has noted, “With increased services, come increased costs. It is going to be up to this community to decide what they want to pay for.”

It has been a recurring theme on our Task Force – what can we truly afford to do? As West Vancouver positions itself as a first class community, the expectations that go with that continue to grow.

This is where the emphasis on high-level policy decisions, “outcomes”, becomes important. What outcomes does the community seek, what standard of service, what priority does it place on various services provided? These can only be ascertained at the political level if the community is engaged in a broad-based discussion and the special interest effect is negated.

On a comparative basis, per capita, the District’s total costs for government and services are notably higher than all municipalities in the lower mainland. We refer you to the BC Municipal Statistics, which indicates that total expenditures per capita in West Vancouver in 2004 was \$1914.16 contrasted with Vancouver at \$1566.03 and North Vancouver between \$1224.18 (District) and \$1443.67 (City). One of the biggest areas of difference comes in our spending on parks, recreation and cultural services (\$425.70 in West Vancouver compared to \$292.12 in Vancouver). In general, we spend more because we expect more.

That said, we recommend that Council separate very clearly what is needed versus what is wanted. Council needs to address the subject of core services (those that everyone pays for) and “non-core” (those which are funded primarily by user fees). There is a political distinction between the two that can then shape future policy.

INFRASTRUCTURE REPLACEMENT

This is undoubtedly one of the biggest issues facing West Vancouver right now. Between the police station, fire stations, Recreation Centre and Municipal Hall, there are apparent demands for enhanced facilities from the broad community, operating departments, such as protective services, and from special interest groups. Changes in infrastructure needs require careful study including, a long

range plan, a differentiation of needs versus wants, realistic cost assessments, alternative solutions, a review of 3P possibilities, leased versus owned land and other factors.

There is already a framework in place for much of this. There is an infrastructure program that establishes annual funding for the ongoing maintenance and replacement of seven categories of existing infrastructure from the general fund. Water and sewer utility projects are self-funding, with capital provided by user rate structures as well as Development Cost Charges (DCCs) as available. Both the Cemetery and the Gleneagles Golf Course are stand-alone business units, each of which generates an operating bottom line for transfer to their respective development funds for capital improvements. The Recreational Facilities Master Plan (RFMP), which terminates in 2008 with the completion of the Community Centre, has been thought out and the funding framework has been from the Endowment Fund resources above the minimum threshold plus amounts available in the Capital Facilities Reserve.

Unfortunately, but most significantly, there is no framework in place for major civic buildings (including the replacement and/or relocation of the municipal hall and the Police Building). Nor is there a framework for the waterfront land yet to be acquired (apart from estimates that the remaining properties could cost as much as \$21 million to acquire). While a good job has been made of acquiring most of the properties, escalating land values has made the final accumulation of land an expensive proposition. Further, an integrated plan of the intended use of these properties, both in light of the Squamish nations intentions around Ambleside Park and the community's needs, is essential.

The overall Ambleside redevelopment (including extending the seawalk, developing the waterfront park, and relocating/replacing the museum), and other projects require further review and clarity.

Current, planned and possible projects over the next five years could include:

Current Projects

Estimated costs approximately \$75 million in current dollars:

- Recreation Facilities Master Plan
- Water Utility
- Sewer Utilities
- Cemetery
- Golf

Planned & Possible Projects

Estimated costs approximately \$65 to \$75 million in current dollars:

- Infrastructure including:
- Major Civic Buildings:

District hall
Police Station
Fire Hall
Waterfront/Ambleside
Including remaining properties to be purchased

While these are general estimates, there is no plan in place for the funding of all of these future projects.

LAND HOLDINGS – IDEAL USE?

We both need land and own land. How we deal with that precious resource is important. West Vancouver could consider land swaps, land sales and leasing of land. It is possible to create more density in the site currently occupied by the Municipal Hall. Creative and thoughtful work needs to go into the use of our land.

Parks are always deemed sacrosanct by those who live around them. But, perhaps tradeoffs need to be considered, especially if/as the District moves to change the use of the Argyle land from residential to park/beach/arts/community gardens/floral clocks.

There are many pieces of land that are owned by the District that have no current or intended usage including dead-end streets and lanes as well as odd shaped properties. These could be sold at then current market value or, for larger pieces, as new building sites. There are other possible sites that could be amalgamated for development sites.

We have over 132 parks in West Vancouver; many are small and service only immediately adjacent homes. Consideration might be given to return some of these properties to the inventory for potential sale. An example is the lot at 11th and Keith.

We recommend that the Municipality prepare a detailed inventory of properties available. An advisory group would be set up to classify and price those properties that are fact marketable. All sales must be fully transparent and at fair market value (if not sold then returned to inventory for sales at a later date) Guidelines must be in place for the proceeds of these sales to be committed for specific capital projects or land swaps (i.e. Ambleside water front acquisitions), These proceeds must not be used to fund any operating or general expenditures; they are mandated to go to the Endowment Fund.

West Vancouver has used “Pay as You Go” historically to fund large community capital projects. It is not clear that we can continue to use this approach alone.

This is a big philosophical issue in the community. We define the term to mean a process of saving up to buy something, as opposed to building it and paying for it using borrowed funds. We have worked to "Pay as you Go" for many years, but in the building particularly of facilities that will be enjoyed not only by this but by future generations of taxpayers, where should the burden logically go or be shared? Do we need to consider a model that embraces debt if it is deemed to be for the longer term good of the community? Long term financing needs to be widely discussed and considered. Referenda may be appropriate in deciding what the community is truly willing to pay for.

Many would not likely be able to buy a home without a mortgage. Nor can West Vancouver achieve some of its objectives without debt. That being said, it is not a wish of this Task Force to see debt abused. The first question is always, do we need to spend the money in the first place?

According to the last survey done of the community by Synovate, and the results of the input we have received from the public, there is willingness to look at all forms of financing projects. We need to be cognizant of the danger of spending too much and inflicting future Councils and our population with too much debt. We therefore favour putting a debt service limit into our budget that is more stringent than the Provincial regulation of 25% of prescribed total revenues.

USER PAY

There is reluctance in West Vancouver to flow full costs through to users of services in areas, particularly in recreation. A full study of what costs should be borne by whom might be better reflective of a general move to recover costs where they are incurred. Again, the Economics sub-committee has done a fine job of studying this and we would direct the reader to their work.

An equally unpopular idea is pay parking in our streets and parks.

Yet, before we dismiss these ideas and others out of hand, a thorough understanding of who uses our services, what they are worth and what should be paid for them should be undertaken.

We should look closely at services and distinguish between those services that are for all (i.e. protection services) and those that are much more user specific (such as the recreation centers)/

Our objective would be that user fees recover more costs. It is not clear that the formula currently utilized includes all relevant costs.

We recommend that a complete review of all programs costs relative to revenue be done. Costs must include all overhead, facilities, staffing, management and

marketing. An Advisory Group should review and provide recommendations to continue or drop prices or to re-price to market rates. Many in the community are utilizing full-cost alternative services for their recreation services (examples include Hollyburn Country Club, Capilano Golf Club, etc.). The municipality should be cautious about competing in the marketplace.

Progressive pricing should be in place that provides the deepest discounts to the taxpayers of the community. Peak versus non-peak time pricing should also be considered.

Subsidization would be considered for those in true economic need who reside in the community.

SQUAMISH NATION DEVELOPMENT PLANS

What are their long-term building plans in the municipality and what impact will it have not only on our community but also on our budgets? We will need to ensure that careful negotiations go into cost recovery. While it can be argued that the Squamish Nation costs the municipality in areas such as policing to a larger extent than what their inputs back to West Vancouver recover, if they develop the Ambleside lands as indicated long term (12,000 to 15,000 people added), the development will put a strain on resources, including increased recreation programming needs, infrastructure, policing, fire, and streets.

Our current arrangement provides us with 75% of normal tax revenue that would otherwise be collected. The risk is that even this number could be negotiated down, as it is high in comparison to other municipalities.

We recommend that we continue to build communications between the District and the Squamish Nation, particularly as the effect of the Squamish developments could have serious cost implications for all West Vancouver taxpayers.

PUBLIC SAFETY

West Vancouver puts a high value on safety. Communication expenses will rise in the future. Camera surveillance may become a need. New technology in policing, especially to capture cyber crimes, will be expensive. These are all important issues that imply money must be spent.

West Vancouver has a "cop to pop" ratio of about 1 to 550. Vancouver has a cop to pop ratio of about 1 to 1200, according to their annual report.

Our municipality's cost per capita for protective services runs just under \$450 per year. This is higher than Vancouver at about \$300 per year.

OVERSIGHT ON CAPITAL PROJECTS

Capital projects have had cost problems in the past in part due to changing scope of projects. Tight oversight is essential. This is exemplified by the scope and budget creep for the pool, community center, water system, and the Gleneagles Community Center. Council needs outside support in the design and management of projects. We recommend a resident Task Force to help in this process. There are many skilled individuals who would be pleased to assist. Careful selection and independence for the projects needed. There has been a tendency for outside paid consultants for generalized reviews. Outside consultants are fine for specific and technical recommendations.

"THE ELEPHANTS IN THE ROOM"

There are a number of elements that we are all uncertain about, and that perhaps need to be explored. These are too big to be ignored, but they are difficult to deal with. These include but are not limited to:

Squamish Land Development in Ambleside We don't know what the potential population explosion will mean to us or what implication it will have on budget issues. It will be important to determine what portion of our doubtless attendant expenses will we be able to recoup. We should start talking about what an estimated 12,000 people may require in services, including extra policing, increased strain on our recreation services and use of parks.

Traffic Congestion If the Squamish land is developed, as well as regional development through Squamish and Whistler, there may be hidden costs to West Vancouver as regards infrastructure, security and quality of life? Congestion will be a factor in the liveability of our community.

2010 While Vanoc handles the Olympics and West Vancouver has little influence, we do have a concern that pet projects may emerge in advance of the games?

GVRD/Translink/Downloading We ask ourselves, "What value do we really get? Are we content, or obliged, to carry on? Are we being asked to shoulder more than our share of the expenses? Can we opt out?" We should be taking a more active role.

Downloading How can we encourage “uploading” instead of “downloading”?

Dialogue with BC Ferries We have had to give up \$175,000 of revenue from this source. Are we content to leave the issue alone? Have we exhausted all avenues of appeal?

Revenue Streams West Vancouver must creatively identify new sources of revenue

Environmental Standards Even matters such as enhanced water filtration could totally change our established budget plans.

RECOMMENDATIONS ARISING:

(The reader should note that, on occasion, the Task Force amended the recommendations of the subcommittees. The Task Force's approved recommendations appear in the main body of the Task Force's final report.)

- A1.** Reinstatement of a Financial Advisory Commission. Council needs to appoint an independent group to tag with many issues, ideally comprised of five to six qualified people with financial skills.
- A2.** We recommend specific resident task forces to help with financial oversight on capital projects. There are many skilled individuals who would be pleased to assist.
- A3.** Study amalgamation of services over the North Shore with a goal of determining if both cost savings and retained efficiencies could be achieved.
- A4.** The budget process needs to be re-vamped. It should be approached differently. Rather than department budgets being determined based on what their budget was the year before plus some portion of inflation adjustments, Council and Senior Staff should determine desired outcomes, and then work the process backwards to determine what it would cost to achieve those outcomes.
- A5.** Budgets should be operated on a rolling 1-3-5 year basis. The Community Plan that is established for a five-year period has specific goals listed. With this in mind, longer-term budgets can be established.

- A6.** We recommend that all capital projects be fully costed and approved by Council before sod is turned so as to minimize “project creep”. A detailed operating projection must accompany the capital budget. This would then be reported to (see item 2 above) the Capital Project Oversight Task Force.
- A7.** We recommend that alternative forms of funding projects be considered including but not limited to 3-P.
- A8.** User pay is a concept we endorse. While 100% cost recovery in many cases is unrealistic, attempts must be made in all departments to cover a greater portion of the dollars spent. Council should target higher recoveries of all operating costs and explain to the public that the land and buildings are subsidised. Better information is required on who is using the services.
- A9.** We recommend that core services be supported. But, we as a community need a better definition of what core means. Public input on what is valued most is helpful and should be used.
- A10.** A proper inventory of District land should be compiled. A special Task Force should be given the responsibility, coupled with appropriate Senior Staff, to make recommendations as to the best use of every piece of land. Where it makes sense to sell, land should be sold. Where it makes sense to swap, land should be swapped. Where it makes sense to develop, it should be done. Any proceeds of sale should only be used for capital, not operations or general revenue.
- A11.** A twenty and fifty year plan for infrastructure replacement must be developed along with an appropriate financial framework.

FISCAL SUSTAINABILITY TASK FORCE ECONOMICS -- REVENUES, EXPENDITURES, SERVICE LEVELS SUBCOMMITTEE REPORT

INTRODUCTION

The question of budgets and operating plans is usually a matter of anticipated revenues and expenditures relating to some set of service levels chosen to achieve a specified set of outcomes pertaining to the primary and secondary purposes of the organization. In this case, the organization is a local government, i.e., a municipality.

Service Levels

The choice of service levels, in their various manifestations, is central to the development of budgets and operating plans. Generally, the organization makes few changes in its service levels unless there is a change in one or more its goals or objectives, or there is a shift in the environment in which the organization operates.

A change in the organization's goals or objectives is generally the result of a new focus in one or more of its sub-units arising from a change in policy. In the case of policy changes arising within the municipality, the periodic changes in elected officials may occasion a wholesale shift in organizational focus or it may result in a gradual change in the way business is done through incremental alterations of service levels in response to perceived changes in the values of the community and the relative voting weights of one or more of the myriad constituencies.

A shift in the environment, called a shock, may occur infrequently or it may be a common occurrence, depending on the nature of the organization. In the case of a municipality, shocks can result from governmental policy shifts (e.g., loss of government grants, or the 'downloading' of service obligations) or unanticipated changes in price levels.

Whatever way the process of transformation of service level emphasis is achieved, the budget and operating plans alter accordingly through the actions of management to reflect the anticipated revenues and expenditures expected to be associated with the planned service levels and the desired outcomes.

In an ideal world, the service level selected is uniquely related to the outcome being sought. Management has sufficient experience to expertly gauge the level of effort, the use and application of resources, required to bring about the service level leading to the outcome targeted. The resources or inputs are optimally selected and efficiently combined. In this ideal world there is no friction or uncertainty, and the outcomes identified as desirable are aligned fully with the majority will of the community. Such an

ideal world does not yet exist.

Expenditures

The use and application of resources causes the expenditure of funds. Expenditure, in the accounting sense of the term, measures the utilization of resources in pursuit of an object, the outcome, through the production of a service level or output. The measure of expenditure is the measure of the consumption of resources in monetary terms.

When expenditure is recorded, although the item entered into the ledger is an input cost, it is generally related to an output, a service level, and an outcome. Whether it is the correct output, service level or outcome is often beside the point. This may seem surprising, but the mere fact of expenditure is not sufficient to ensure that the outcome desired was in fact achieved. The term 'management effectiveness' is used to denote the degree to which the expenditure made in pursuit of the outcome in fact achieved its object or if it fell short then the extent to which it came up short of its purpose. The term 'management efficiency' is used to convey the degree to which the use of resources is a minimum consistent with the purpose--- the fewer the resources consumed in the pursuit of an outcome, assuming that the use of the resources was effective, i.e., the goal was achieved, then the greater the efficiency of the management.

Revenues

The delivery of a service generally gives rise to a revenue but not always in the case of a municipality. Often, the provision of a service is without charge or the service and the revenue on which the service is predicated are not directly connected. Taxation is a revenue for which there is no direct linkage to the service being provided, at the level of the individual taxpayer. Recreation may or may not be tied to the generation of revenue for the service provider, the municipality. A library provides services to its patrons, but there is no payment from them directly for this service. This is because the revenue that could have been levied in the case of its primary purpose is not levied as a result of provincial legislation that prohibits user fees on the library's basic services. Public works is another example where revenues and the provision of services are not linked except in the case of specified area taxes and the specified area improvements.

Revenue may be entirely foregone because of municipal policy. A parking garage at a recreational centre that does not charge for its parking area in order to encourage patronage of the centre is one example. Another is the absence of user fees for sports fields even though neighbouring municipalities levy a user fee per use to ration usage and defray costs (i.e., lower taxation), because the municipality has historically never levied a user fee and maintains this as a policy.

Revenue may be partially foregone because the municipality favours high utilization of its indoor recreation facilities and the taxpayer is indifferent or unknowledgeable about the practice or the alternatives and the level of taxation is not onerous at the present time. Or the council prefers to avoid antagonizing special interest groups that support low user fees, effectively shifting the burden onto the larger community rather than bearing the actual cost fully themselves.

The municipal management may lack the motivation to maximize revenue for the simple fact that it is against their principles to charge more than the direct out of pocket costs of providing the service, or because they are not motivated to charge more than such costs by the budget and planning system. The management culture plays a large role in determining how and where revenues are generated, and whether or not the revenues so generated cover a small or large fraction of the actual costs of delivering the service levels or achieving the desired outcomes.

In municipal government, if revenues are to be generated from the provision of service levels, it is necessary that a clear policy be adopted setting forth the basis on which revenues will be generated, how the revenues will be determined ahead of the provision of the service, and the extent to which the revenues will cover the costs related to the activity itself and those costs related to ensuring that the activity can be performed in the first place, i.e., the indirect costs and overheads.

Where a service does not generate sufficient revenue to offset its cost or the expenditure that the service gives rise to, it is often the case that an implicit subsidy is given if the user of the service is identifiable and the service is separable, i.e., provided to the individual or group of individuals exclusive of others--- the service in this case being a private good in the economic sense benefits those individuals who receive it to the exclusion of all others. An example is a one-on-one or small group swimming lesson, or ice time reserved for a hockey game or a skating lesson or field time for a soccer game. The subsidy may be the result of overt policy or merely an implicit policy from long practice.

Subsidies

It is generally considered to be good practice to make the subsidy, if any is provided, visible so that the user may be made aware of the full cost of the service---at least in theory. Practically, it is seldom feasible to ascertain the subsidy, and the user is only infrequently interested in how much a municipal service costs unless the user bears the full cost directly. Subsidies are therefore seldom made visible.

There is no subsidy for public goods. A public good is a service or an amenity that cannot be charged for because use of it cannot be rationed in the ordinary sense. A public walkway adjacent to the beach with multiple entry points that cannot be regulated

is a public good. A public road is an amenity that is a public good. Police protection, in general, is a public good.

Implicit subsidies are common in recreation and arts and culture. In the case of recreation, the subsidies serve the purpose of increasing participation and utilization. The subsidies in this case may not be entirely voluntary, but result from competitive forces when alternative service providers price below cost. In the case of arts and culture, subsidies are often explicit to the provider in order to ensure that the service is performed and the patron is almost never aware of it. The subsidy in this case is a payment to the performer to engage in the performance because the audience does not value the activity highly enough to pay the full cost itself—the sponsor makes up the difference with the subsidy. Arts and culture are often treated as public goods by those who favour these activities, but these activities are actually private goods unless the display is in the open air and the audience is free to come and go and then it is a public good and no subsidy is attached except to the artist who is paid to provide it. When arts and culture are performed as a recreation activity, the activity becomes a private good and the subsidy, if any, is implicit to the user if access to the activity is exclusive. A pottery studio in a recreation facility supported only in part by user fee revenue and in part by taxation, is an example of an arts recreation activity provided with an implicit subsidy.

WEST VANCOUVER -- 1999 TO 2006 BUDGET VALUES AT CONSTANT 2005 DOLLAR VALUES

With the year 2000 budget, the municipality transformed its service levels and raised its expenditures, in certain of its departments.

General Government

From 1999 to 2006, the annual General Fund budget for General Government services rose at an average annual compound growth rate of 4.67%, in constant 2005 dollars, i.e., adjusted for inflation. The 1999 provisional budget total for general government stood at \$6,304,859 measured in 2005 dollars, versus \$8,678,958 for 2006, in 2005 dollars.

On a per-capita-basis, the cost of general government rose from a 1999 budget of \$152.99 to a 2006 budget of \$197.25, in constant 2005 dollars. The real per-capita rate of growth was 3.7% per annum. The fastest growing component of general government over this period has been Information Systems at 18.36% per annum, constant 2005 dollars (17.25% per capita annual average real growth rate). Purchasing exhibited the greatest rate of decline at -14.33% per annum, constant 2005 dollars (-15.1% per capita, real). See Exhibit 1 for details.

Protection Services

From 1999 to 2006, the annual General Fund budget for Protection Services (police, fire, permits, animal control, emergency preparation, and bylaw enforcement) rose at an average annual compound growth rate of 1.88% in constant 2005 dollars (i.e., inflation adjusted). In the 1999 Provisional Budget, protection services totalled \$19,294,837 in constant 2005 dollars. The 2006 annual plan provided \$21,982,269 in constant 2005 dollars. On a per-capita-basis, the 1999 budget provided for \$468.20 while the 2006 budget provides \$499.60, both figures in constant 2005 dollars. The per-capita rate of increase amounts to 0.93% per annum, inflation adjusted.

Police services increased at an average annual compound real rate of growth of 1.02% (0.08% on a per-capita basis, constant 2005 dollars). The per capita 1999 budget at constant 2005 dollars was \$222.79 versus \$224.02 for 2006 in constant 2005 dollars. The 1999 figure has been adjusted to remove bylaw enforcement expenditures which are stated separately.

Fire & rescue services rose at an average real rate of 2.37% per annum (1.42% on a constant dollar per capita basis). For 1999, the per capita budget expenditure in constant 2005 dollars was \$209.05 versus \$230.67 in 2006 at constant 2005 dollars.

Bylaw enforcement expenditure increased at an average annual compound rate of 25.4% from 1999 to 2006 (budget figures). For 1999 the per capita budget was \$3.19 (constant 2005 dollars), versus \$16.48 for 2006 (constant 2005 dollars).

Revenues for police services declined at an average annual rate of 14.7% over the 1999 to 2006 period (at constant 2005 dollars). Revenues for fire & rescue services increased at an average rate of 6.17% per year (2005 dollars), while revenues for bylaw enforcement increased at 4.35% (constant 2005 dollars) in the same period at budget values.

See Exhibit 2 for further details.

Engineering, Public Works, and Transit

From 1999 through 2006, expenditures budgeted for engineering, public works and transit increased by 1.61% per annum at constant 2005 dollar values. The 1999 Provisional Budget provided \$10,806,476 for engineering, public works and transit (constant 2005 dollars), versus \$12,085,178 for 2006 budget (constant 2005 dollars). Growth in transit expenditures at a real rate of 5.48% per annum was offset by declines in public works expenditures (in the General Fund) at a real rate of -8.5% per annum. Engineering budget expenditures grew at an inflation-adjusted average annual compound rate of 1.67%. See Exhibit 3 for details.

Utilities

From 1999 through 2006, operating expenditures budgeted for utilities (water, sewer, and solid waste) increased at an average annual real rate of 2.56% (1.6% per annum on a per capita basis) from \$9,991,457 (2005 dollars) at 1999 to \$11,924,184 (2005 dollars) at 2006. Per capita operating expenditure budgeted, in constant 2005 dollars, was \$242.45 at 1999 vs \$271.00 for 2006.

Water utility operating costs increased at a real rate of 1.1% per annum over the seven year period (1999-2006), versus sewer at a real rate of 5.79% per annum and solid waste at a real rate of -0.77% per annum. For the water utility, the corresponding per capita constant dollar expenditure budgeted was \$104.80 at 1999 vs \$105.98 for 2006. In the case of the sewer utility, the corresponding values were \$85.55 at 1999 vs \$118.80 for 2006 and, for the solid waste utility, \$52.10 at 1999 vs \$46.22 for 2006.

Parks and Community Services, and Library

From 1999 through 2006, expenditures budgeted for parks, environment and community services (recreation and arts & culture) increased at an average annual rate of 11.1%, adjusted for inflation (10.1% per annum on a per-capita-basis, constant 2005 dollar values). Per capita expenditures for 1999 provisional budget, was \$167.08 versus \$327.00 for 2006 budget levels, both expressed in constant 2005 dollar values.

Recreation and culture grew at an average annual real compound growth rate of 20.97% from 1999 through 2006, at budget expenditure levels (19.8% per capita). On a per capita basis, in constant 2005 dollars, the 1999 expenditure was \$64.17 while the 2006 expenditure level is \$226.79.

Parks maintenance expenditures rose at an average annual compound real growth rate of 0.29% for the same period (constant 2005 dollar values). The per capita expenditure was \$94.55 in 1999 (2005 dollar values) versus \$90.35 in 2006 (constant 2005 dollars), for a decline of -0.65% per annum adjusted for inflation.

See Exhibit 4 for details.

The municipal library operations increased by 1.9% per annum, inflation adjusted, from 1999 through 2006. Expenditures in 1999 (provisional budget) amounted to \$2,938,830 in constant 2005 dollar values, versus \$3,352,320 for 2006 (2005 constant dollars). On a per-capita inflation adjusted basis, the expenditure for library services increased from \$71.31 in 1999 to \$76.19 in 2006, an average annual real growth rate of 0.95%. See Exhibit 6 for details.

Information and comparison of expenditures, revenues and net expenditures for parks, environment, community services and library services is given in Exhibits 6, 7 and 8,

respectively.

Capital Expenditures – Annual Averages on a Five Year Forward Basis

Infrastructure capital expenditure, in constant 2005 dollars, declined from a five year annual average of \$8,641,831 (\$209.70 per capita) in the 1999 provisional budget to \$7,381,793 (\$167.77 per capita) in the 2006 budget. These figures represent five-year forward averages as foot-noted in the final paragraph of this section.

Major capital projects annual average spending, in constant 2005 dollars, rose at an average annual rate of 4.52% (3.55% per capita), inflation adjusted, from \$6,616,035 (constant 2005 dollars) at 1999, to \$9,015,765 at 2006. On a per capita basis, the annual average expenditure in 1999-2003 averaged \$160.54 (2005 dollars) versus \$204.90 (2005 dollars) for the 2006-2010 period.

Utilities capital expenditures the five year annual average for the 1999-2003 period (constant 2005 dollars) was \$4,164,115 (\$101.04 per capita) versus \$4,957,576 (\$112.67 per capita) for the 2006-2010 period. The increase, in constant 2005 dollars, is equivalent to a growth rate of 2.52% per annum (1.57% on a per capita basis). The per capita expenditure rate for 1999 is \$101.04 vs \$112.67 for 2006, in constant 2005 dollars.

See Exhibit 5 for details.

The foregoing capital expenditure figures are based on an inflation-adjusted five-year annual average expressed in constant dollar terms based on the five year expenditure plans then in effect. For the 1999 five year infrastructure capital plan the inflation rate assumed for the five years ending 2003 is 1.5% per annum, while for the 2006 five year financial plan infrastructure capital expenditures the inflation rate assumed is 2.5% per annum.¹

¹ The method of calculation of the 1999 expenditure at 1999 constant dollars is as follows: (1) a rate of inflation is estimated, 1.5% per year in the case of 1999 and this establishes the discount factor, $d = 1.015$; (2) for each of the five years, 1999 through 2003, the capital plan expenditure, $C(t)$, is discounted to the then present value by the formula $C(t)/d^t$ where t is the number of years forward from 1999 (e.g., for 2003 $t=4$), thus the expenditure values are expressed in 1999 constant dollars; (3) the sum of the expenditures thus calculated is divided by the number of years, five, to obtain the annual average capital expenditure for the period in question (1999-2003) in 1999 dollars; and, (4) the figure so obtained is translated into constant 2005 dollars by reference to the CPI deflator for 1999. The procedure is repeated for the 2006-2010 capital expenditure plan using an assumed inflation rate of 2.5% per annum.

Conclusions Drawn From Comparison of 1999 Provisional Budget and 2006 Budget

Expenditure growth rates at budget values, in constant 2005 dollars, have not been uniform over the operating departments—some have seen real growth rates at double digit values at annual averages while one or two have experienced real declines on a per capita basis. Generally, the real rate of increase has been on the order of 1% to 5% per annum. The following rates of change, in constant 2005 dollars, may be noted:

Police (excluding bylaw enforcement)	1.02% p.a.	0.08% p.a. per capita
Fire & Rescue	2.37% p.a.	1.42% p.a. per capita
Bylaw Enforcement	25.4% p.a.	24.3% p.a. per capita
Mayor & Council	4.37% p.a.	3.40% p.a. per capita
Manager	5.43% p.a.	4.44% p.a. per capita
Clerks	2.24% p.a.	1.28% p.a. per capita
Finance	2.55% p.a.	1.60% p.a. per capita
Personnel (H.R.& Payroll)	3.33% p.a.	2.37% p.a. per capita
Information Systems	18.4% p.a.	17.3% p.a. per capita
Purchasing	-14.3% p.a.	-15.1% p.a. per capita
Planning & Development	7.57% p.a.	6.57% p.a. per capita
Public Works	8.5% p.a.	- 9.4% p.a. per capita
Engineering	1.67% p.a.	0.72% p.a. per capita
Permits& Licenses	- 0.02% p.a.	- 0.95% p.a. per capita
Emergency Preparedness	3.21% p.a.	2.24% p.a. per capita
Library	1.90% p.a.	0.95% p.a. per capita
Parks Maintenance	0.29% p.a.	- 0.65% p.a. per capita
Cultural Services (incl. Youth)	13.1% p.a.	12.1% p.a. per capita
Recreation Administration	6.78% p.a.	5.78% p.a. per capita
Parks & Community Services Administration	1.77% p.a.	0.82% p.a. per capita
Seniors Centre	4.92% p.a.	3.95% p.a. per capita
Central Community Centre	-1.0% p.a.	- 1.92% p.a. per capita
Aquatics	14.77% p.a.	13.71% p.a. per capita
Ice Arena	1.55% p.a.	0.61% p.a. per capita
Eagle Harbor Ctre/Day Camp/GECC ²	9.36% p.a.	8.34% p.a. per capita
Golf Courses	3.06% p.a.	2.10% p.a. per capita
Cemetery	1.25% p.a.	0.30% p.a. per capita
Water Utility (Operating Budget)	1.10% p.a.	0.16% p.a. per capita
Sewer Utility (Operating Budget)	5.79% p.a.	4.80% p.a. per capita
Solid Waste	-0.77% p.a.	-1.70% p.a. per capita

² Eagle Harbour Community Centre, District Day Camps, and Gleneagles Community Centre (GECC) are counted as one entity for purposes of this presentation. GECC is the successor to Eagle Harbour CC. District Day Camps were consolidated at GECC for administrative purposes.

The growth in expenditures has been greatest in those functional areas where the need was perceived to be the most urgent, if one assumes that needs are matched to expenditure rates. This will be the case where management has established a systematic budget process that matches outcomes, outputs and inputs (expenditures) in a close functional methodology. In certain instances determination of the level of inputs is established by reference to a net expenditure baseline, i.e., expenditures after deduction of related revenues. This practice is prevalent where the emphasis is on measuring the net taxation burden: recreation & community services, and planning & development.

Where new facilities have been constructed for recreation, expenditures have risen at double digit rates indicating that demand was not being met in the former facilities. This is seen in contrast to the older facilities (central community centre and the ice arena). The relationship is generally one of marginal benefits vs. marginal costs—the newer facilities provide enhanced (and more costly) amenities for those who would use them while the older facilities usually lack the same level of amenity or have significant deficiencies that limit their appeal to the present generation of potential users. Put into context, the newer facilities should be capable of covering a greater proportion of the cost of their operation through new revenues (higher fees per use; more usage) because the demand is generally higher as a result of the higher level of amenities (and the wider range of activities under one roof). However, it does not follow that the net expenditure rate will fall below or even match the rate experienced in the older less flexible facility. From the perspective of taxation, new facilities tend to increase rather than reduce the tax burden. The offset is obtained from serving a broader range of potential users, thereby recouping the higher costs and the investment as a dividend paid in social benefits which are largely unmeasured and thus remain uncounted by the financial system. The question of whether or not this is a desired outcome looked for by the broader community and whether the taxation raised for this purpose is being effectively and efficiently applied are matters for debate. What is clear, however, is that the present system for determining the pricing of user fees in the newer facilities should be reviewed facility by facility and set according to the benefits provided and the usage rates (admissions or attendances)—high usage rates generally indicating that benefits are not priced properly and costs are therefore not being recovered sufficiently, or at least to their potential recovery rate.

Revenue growth rates in the recreation facilities have not kept up with the rate of growth in operating expenditures. The difference has been borne by taxation and cross-subsidization from other revenue generating sources. The following comparisons are instructive (average annual rates of increase 1999-2006 budget values, constant 2005 dollars):

<u>Facility</u>	<u>Expenditure</u>	<u>Revenue</u>	<u>Net Expenditure</u>
Central Rec Centre	- 1.0 % p.a.	- 2.4 % p.a.	1.13 % p.a.
Aquatics	14.77 % p.a.	15.08 % p.a.	12.79 % p.a.
Ice Arena	1.55 % p.a.	0.18 % p.a.	4.30% p.a.
Eagle Hbr/DC/GECC	9.36 % p.a.	12.45 % p.a.	4.82 % p.a.
Seniors Centre	4.92 % p.a.	6.89 % p.a.	1.46 % p.a.
Cultural	13.13 % p.a.	12.77 % p.a.	13.26 % p.a.
Golf Courses	3.06 % p.a.	3.77 % p.a.	5.06 % p.a.
Cemetery	1.25 % p.a.	10.9 % p.a.	59.15 % p.a.

A thorough review of user fees, admission procedures, and cost recovery policies, facility by facility (including facilities on the drawing board and under construction) is strongly recommended. In particular, membership and drop-in fee policies are an area where cost recovery can be improved by proper application of standard pricing and discounting principles.

General Government is the activity of regulating and facilitating the delivery of service levels by the operating departments. It is here that policies of a broad nature are determined and promulgated, taxation rates are established and collected, budgets and financial plans finalized, community plans and bylaws developed, and the various support functions are provided and performed (purchasing, information systems, human relations, and payroll, etc.). The aggregate rate of growth of 4.67% (3.7% per capita) in constant 2005 dollars over the seven years 1999-2006 at budget values, indicates that at the start of the period examined (1999) there was some deficiency in the level of expenditure relative to the level of service required. Since the benefits from general government are only indirectly related to the delivery of services, the expansion in general government must parallel the expansion in the service level delivery in some fashion otherwise the expansion in spending will not be sustainable. Per capita spending in general government rose from \$152.99 (2005 dollars) at 1999 to \$197.25 (2005 dollars) for 2006. It might be expected that the rate of increase, going forward, will moderate and approach a real rate near zero. Application of a service review to general government would likely be a useful step towards determining the degree of management effectiveness and efficiency in the functions comprising this category of expenditure and lead to the desired outcome of lean administrative processes.

The purpose of capital expenditure is to increase service levels in the case of expenditure for expansion or to maintain service levels in the case of expenditure for maintenance. New facilities expenditure should lead to improved service levels, community-wide benefits, and higher revenue generation and higher cost recovery. Maintenance investments provide for the continuing life of the asset to ensure realization of an adequate life for the original investment. New facilities investment has increased at a rate of 4.5%, in constant 2005 dollars, according to the method of

forward averaging employed for this report, whereas, maintenance investments (primarily related to infrastructure, equipment, and existing facilities and grounds) has declined at a rate of -2.2%, in constant 2005 dollars. ³

Investment in new facilities whether these be for recreation, sports, culture or basic services (such as sewer and water or roads or telecommunications) must meet a defined need and provide a specific outcome or set of outcomes that exceed the cost of investment. That is to say, the social benefits must exceed the social opportunity cost incurred when the investment is made. The usual practice is to develop a 'business case' for the investment. When the business case development has been neglected or incompletely performed, the case favouring the investment is tenuous and intuitive. In those instances the risk that the investment will not deliver on its promised social benefits or that the social benefits promoted ahead of the investment are optimistic in light of experience, are greater than if the business case had been properly and completely made. Where an investment in a new facility is proposed, the investment should encompass the full cost of the facility or life cycle cost including subsequent maintenance capital spending (as far as foreseeable) in order that the net social benefits, equally forecast over the life of the facility, arising from the investment can be demonstrated and 'proven'. Otherwise, the opportunity for inadvertent capital expenditure which does not provide a net social benefit to the broad community rises with the consequent risk of less than optimal allocation of community resources. The subcommittee sees this as an area needing a more systematic and thorough treatment than has been demonstrated in the past.

Investment in maintenance of capital assets and providing for renewal and replacement of short-lived capital assets is a function of the rate of depletion or loss of function of the assets in question. In the case of infrastructure (roads, bridges, sewers, water mains, etc.), these relatively long-lived assets wear at varying rates and must be replaced. The risk of catastrophic failure was brought home by the collapse of a City of Montreal highway overpass recently. Comparison of the 1999 budget infrastructure road and bridge maintenance investment vs the 2006 budget level, in constant 2006 dollars, indicates that the level of spending has just kept up with inflation (CPI) and fallen slightly behind on a per capita constant dollar basis (-0.89% average annual rate). This element of the capital plan may require further consideration. In the case of grounds and parks, the level of expenditure in maintenance capital investment has declined at an average annual rate of -3.5%, constant 2005 dollars (- 4.38% per capita, inflation adjusted). The drop in real expenditure may be the result of management efficiency, but is more likely caused by an alteration in spending priorities that give rise to lowered

³ The determination of a forward average of a five year planned level of expenditure differs from the approach used in the case of operating budget comparisons, and the reader should be aware that this method is somewhat unconventional and experimental.

service levels and revised outcomes—the pull back from outlying parks and park facilities has been documented. It has been suggested that in certain instances the reduced service levels in outlying areas have actually led to lower management effectiveness and efficiency at the operating budget level.

LOOKING FORWARD -- 2006 TO 2010 AND BEYOND

Sustainable Revenues

Taxation is sustainable if it is within the taxpayer's means and the purpose for which it is levied yields benefits at least as great as, if not greater than, the alternative use to which the funds could be put to by the taxpayer. Where this is not the case, taxation is oppressive and ultimately unsustainable. Redistribution of wealth by means of taxation can occur through the provision of services that benefit a few at the expense of many; when this practice becomes commonplace a backlash is generally not long in abeyance and the practice is usually discontinued when it is abused. The reason for holding the line on taxation increases is to impose a constraint on the propensity of municipalities to redistribute wealth in the belief that this is one of the central purposes of government. Tying taxation to some measure of external price inflation, population growth, and real incomes tends to enforce a degree of restraint on municipal government managers, although the effect is variable and not always consistent. In the case of West Vancouver, the policy has been to limit taxation increases in the aggregate to the level of local inflation. Based on the analysis of the previous section, this has had a somewhat mixed degree of success.

Going forward, the Subcommittee recommends setting a hard target⁴ for taxation increases in the aggregate at the Bank of Canada target inflation rate⁵, currently on the order of 2% per annum. In order to allow some latitude in the transition it is suggested that a three-year trailing average be permitted. A slightly less rigorous target may be afforded by combining the expected rate of increase in population and the Bank of Canada target inflation rate by addition. By this means, the taxation rate of increase will track both the increase in the consumer price level (and cost of living) and the increase

⁴ The intention when the subcommittee considered this subject was that the 'hard target' would represent an upper limit on the year to year rate of increase in the "headline" increase in the rate of municipal property taxation as the term is generally understood by municipal finance officers. Consequently it should not be construed that the 'hard target' is by default a recommendation to increase taxation by this rate and not a lesser rate, if the spending needs indicate a lower rate is all that is necessary.

⁵ Subsequent analysis indicates that the Bank of Canada target is biased downward, and a more representative inflation rate is the Bank of Canada's estimate of the inflation expectations index implicit in the real/nominal bond yield spread. See discussion in Annex II "Financial Model—General Fund".

in the immediate population being served. At the present time, the average annual rate of population growth is 0.3% per annum, so that the modified target rate is 2.3% rather than 2% as under the basic target. A real household incomes growth measure may be applied as a test of affordability when the household aggregate income is comprised of only households having incomes of less than \$100,000 per year.

User fees are appropriate where the services are voluntarily utilized and where user fees are not prohibited by legislation (e.g., Library or essential medical services). The Subcommittee recommends universal application of user fees coupled with appropriate subsidies where subsidies are deemed desirable for social equity and social development and maintenance of the individual. Where services are involuntarily utilized, such as emergency services or protection services, the application of user fees and charges are inappropriate and if currently in place should be curtailed and eliminated.

The Subcommittee considers the use of sporting fields to be a voluntary use of service and that the application of user fees to both natural turf/surface fields and artificial turf/surface fields is therefore considered to be equally justifiable irrespective of the sport or historical precedent. The Subcommittee strongly recommends inclusion of natural turf/surface fields in the point of use cost recovery policy of the municipality.

Recreation facility use is generally a voluntary activity and a fee for use at the point of use is appropriate. The municipality currently generates revenues from this source for a variety of programs and specific and general use equipment and activity rooms and gymnasiums. At present the practice is to set the fee rate (or price) at a level approximating the direct cost of service for specific programs, or at a level established by policy through an annual fee-setting bylaw for general use of specific facility admissions (pool, weight rooms, etc.). The Subcommittee has been told that the fee-setting has been based on rates set originally during the mid-1980s and have varied little except for increments at or about the rate of inflation. The rationale for the original fee has been lost over the course of time. The Subcommittee recommends that the fee-schedule for recreation activities and facilities be reconsidered with a view to bringing the fees more in line with the cost of service and the need to raise the cost recovery rates and lower the reliance on taxation. For those facilities that are currently experiencing high utilization rates, admission fees should be raised to ration use and improve amenities and improve cost recovery. For facilities that lack sufficient utilization, fees should be reviewed to ensure that the fee itself is not an impediment to use of the service; where this is not the case then the facility should be re-evaluated for an alternative use or set of programs.

Sustainable Expenditures

Within the context of sustainable revenues (whether from taxation or user fee revenues), expenditures should be managed to obtain the greatest value (social benefit) for the given level of funds expended. Operating plans should be considered in the context of outcomes targeted, and the outputs adjusted accordingly. Where the expenditures are not justifiable in terms of the social benefits or outcomes, reduction or elimination of the spending is warranted. This maxim is applicable to operating departments as well as to staff functions (general government) and, additionally to capital programs and infrastructure spending. The Subcommittee recommends the undertaking of a systematic review of expenditures in each operating department and staff function at least once every three years if not more frequently to ensure that the expenditure levels are consistent with and justifiable from the social benefits arising from the spending. An outcomes-output-resource input methodology may be an appropriate basis for conducting such a review.

Notwithstanding, the method employed, the Subcommittee strongly recommends that the municipality realign its resource use patterns with its primary missions in each of the departments on a regular and periodic basis to achieve higher levels of management effectiveness and efficiency and minimize resource consumption throughout its various branches.

Sustainable Service Levels

As the service level chosen by the management for delivery to the community is predicated upon the targeted outcomes (goals) and the associated social benefits to targeted constituencies and the broad community, some means of connecting outcomes to service levels is desirable and necessary. Just stating a service level and letting the outputs represent the target outcome is not a satisfactory practice, if it exists. Management must actively and pro-actively make the relationship between target outcome and output clear and definite to all. If, for instance, the target outcome is a reduction in the average speed on the Upper Levels Highway by 15%, say, then the police department officers in charge of patrol must be capable of operationalizing that goal by identifying the output, the patrol assets in place and at times to effect the desired result, with the outcome, namely the impression that in W Van the marginal cost of being ticketed (i.e., a higher probability of being caught speeding) exceeds the marginal benefit of being at one's destination sooner, which in turn leads to the desired outcome a 15% reduction in average speed overall.

The Subcommittee recommends that the management predicate the determination of service levels not on the number of authorized full-time equivalent employees, as appears to be done now, but on the assessment of the outcomes-output-input-resource use approach to operational plan and capital plan development, review and approval.

In conjunction with the concept of sustainable revenues and sustainable expenditures, the approach to determining sustainable service levels will ensure that the business of the municipality continues in a fashion and at a cost that the community can both afford and support going forward.

NEW UNDERTAKINGS -- EXPANDED SERVICE LEVELS

The Subcommittee did not have time to look into the question of new services and expanded services, particularly arts and culture. In general, if revenues and resources are constrained, but it is desirable to expand services and venture into new fields of endeavour and build new facilities, a change to the present way of doing business is often needed to enable these to be undertaken. Often the way in which this is done is to sell off or discontinue old lines of business or to acquire new sources of revenue (commonly by acquisition of a competitor) or to combine resources with a complementary business or organization that enables resources to be reassigned by reduction of duplication.

The Subcommittee has the following views on this subject: First, it is desirable to maintain the independence of action of the municipality and its identity and its protective services, therefore combinations with other municipalities in whatever form should be approached carefully and cautiously and under no circumstances should the municipality be obliged to give up its independence or restrict its scope of independent action; Second, new service levels should be justified only on the basis of new proven sources of revenue (not taxation or fees from existing services, i.e., no cross-subsidization); and, Third, the use of debt funding should only be considered when all other sources of funding have been demonstrated to be inferior on a sound business basis.

Within the context of expanded service levels, the Subcommittee's recommendation is to first look to reducing the cost of services and support staff functions, next to new revenue sources, and lastly to combinations with other organizations.

RECOMMENDATIONS

(The reader should note that, on occasion, the Task Force amended the recommendations of the subcommittees. The Task Force's approved recommendations appear in the main body of the Task Force's final report.)

Adopt an Upper Limit on the Rate of Increase in Taxation*

Taxation is sustainable if it is within the taxpayer's means and the purpose for which it is levied yields benefits at least as great as, if not greater than, the alternative use to

which the funds could be put to by the taxpayer. Where this is not the case, taxation is oppressive and ultimately unsustainable. Going forward, the Subcommittee recommends setting a hard target for taxation increases in the aggregate at the Bank of Canada target inflation rate, currently on the order of 2% per annum. In order to allow some latitude in the transition it is suggested that a three-year trailing average be permitted. A slightly less rigorous target may be afforded by combining the expected rate of increase in population and the Bank of Canada target inflation rate by addition. By this means, the taxation rate of increase will track both the increase in the consumer price level (and cost of living) and the increase in the immediate population being served. At the present time, the average annual rate of population growth is 0.3% per annum, so that the modified target rate is 2.3% rather than 2% as under the basic target. A real household incomes growth measure may be applied as a test of affordability when the household aggregate income is comprised of only households having incomes of less than \$100,000 per year.

Adopt Universal User Fees

User fees are appropriate where the services are voluntarily utilized and where user fees are not prohibited by legislation (e.g., Library or essential medical services). The Subcommittee recommends universal application of user fees coupled with appropriate subsidies where subsidies are deemed desirable for social equity and social development and maintenance of the individual. Where services are involuntarily utilized, such as emergency services or protection services, the application of user fees and charges are inappropriate and if currently in place should be curtailed and eliminated.

User Fees to Support Maintenance of Sports Fields

The Subcommittee considers the use of sporting fields to be a voluntary use of service and that the application of user fees to both natural turf/surface fields and artificial turf/surface fields is therefore considered to be equally justifiable irrespective of the sport or historical precedent. The Subcommittee strongly recommends inclusion of natural turf/surface fields in the point of use cost recovery policy of the municipality.

Flexibility in Setting User Fees for Recreation Activities & Facilities

The Subcommittee recommends that the fee-schedule for recreation activities and facilities be reconsidered with a view to bringing the fees more in line with the cost of service and the need to raise the cost recovery rates and lower the reliance on taxation. For those facilities that are currently experiencing high utilization rates, admission fees should be raised to ration use and improve amenities and improve cost recovery. For facilities that lack sufficient utilization, fees should be reviewed to ensure that the fee itself is not an impediment to use of the service; where this is not the case then the

facility should be re-evaluated for an alternative use or set of programs.

Undertake a Systematic Review of Expenditure Levels At Least Once Every Three Years

The Subcommittee recommends the undertaking of a systematic review of expenditures in each operating department and staff function at least once every three years if not more frequently to ensure that the expenditure levels are consistent with and justifiable from the social benefits arising from the spending. An outcomes-output-resource input methodology may be an appropriate basis for conducting such a review.

Realign Resource Use Patterns with Primary Missions

Notwithstanding, the method employed, the Subcommittee strongly recommends that the municipality realign its resource use patterns with its primary missions in each of the departments on a regular and periodic basis to achieve higher levels of management effectiveness and efficiency and minimize resource consumption throughout its various branches.

Determine Service Levels and Outputs on An Assessment of Goals & Outcomes Being Sought

The Subcommittee recommends that the management predicate the determination of service levels not on the number of authorized full-time equivalent employees, as appears to be done now, but on the assessment of the outcomes-output-input-resource use approach to operational plan and capital plan development, review and approval.

* 1. See footnotes 4 and 5 under "Sustainable Revenues".

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**FISCAL SUSTAINABILITY TASK FORCE
ANNEXES TO THE ECONOMICS SUBCOMMITTEE REPORT**

These papers are for background purposes and are supplementary to the Economics – Revenues, Expenditures, Service Levels Subcommittee report.

Annex 1 – Exhibits 1 through 8

Annex 2 – General Fund Model Update – Taxation Rate Guidance

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Exhibit I -- General Government

Expenditures	Population Index		44,000		Average Annual Growth		Per Capita	
	41,211	1,1284	0.98	Constant 2005 \$	Nominal \$	Constant \$	Pop. Adjusted	Constant \$
Function	1999 Provisional Budget	2006 Operating Plan	2006 Operating Plan	% ACGR/YL	% ACGR/YL	% ACGR/YL	% ACGR/YL	% ACGR/YL
	Then Current Yr \$	Constant 2005 \$	Current Yr \$	Constant 2005 \$	Nominal \$	Constant \$	Nominal \$	Constant \$
Mayor & Council	227,100	256,252	352,553	345,640	6.48%	4.37%	6.48%	4.37%
per capita	5.51	6.22	8.01	7.86				3.40%
Grants in Aid	150,200	169,481	253,400	248,431	7.76%	5.62%	7.76%	5.62%
per capita	3.64	4.11	5.76	5.65				4.63%
Manager	282,300	318,538	470,319	461,097	7.56%	5.43%	7.56%	5.43%
per capita	6.85	7.73	10.69	10.48				4.44%
Clerks	629,800	710,645	846,165	829,574	4.31%	2.24%	4.31%	2.24%
per capita	15.28	17.24	19.23	18.85				1.28%
Legal	281,000	317,071	247,188	242,341	-1.81%	-3.77%	-1.81%	-3.77%
per capita	6.82	7.69	5.62	5.51				-4.66%
Finance	894,200	1,008,985	1,227,826	1,203,791	4.63%	2.55%	4.63%	2.55%
per capita	21.70	24.48	27.91	27.36				1.60%
Personnel	669,100	754,990	968,715	949,721	5.43%	3.33%	5.43%	3.33%
per capita	16.24	18.32	22.02	21.58				2.37%
Systems	406,500	458,681	1,522,104	1,492,259	20.76%	18.36%	20.76%	18.36%
per capita	9.86	11.13	34.59	33.91				17.25%
Purchasing	1,235,500	1,394,096	481,723	472,277	-12.59%	-14.33%	-12.59%	-14.33%
per capita	29.98	33.83	10.95	10.73				-35.12%
Planning & Development	811,900	916,121	1,557,308	1,526,773	9.75%	7.57%	9.75%	7.57%
per capita	19.70	22.23	35.39	34.70				6.57%
Communications	NA	NA	337,352	330,737	NA	NA	NA	NA
per capita	NA	NA	7.67	7.52				NA
Public Health	NA	NA	4,574	4,484	NA	NA	NA	NA
per capita	NA	NA	0.10	0.10				NA
[not used]	NA	NA	NA	0	NA	NA	NA	NA
per capita	NA	NA	0.00	0.00				NA
Municipal Hall	NA	NA	298,310	292,461	NA	NA	NA	NA
per capita	NA	NA	6.78	6.65				NA
Special Projects exc. Varian:	NA	NA	285,000	279,412	NA	NA	NA	NA
per capita	NA	NA	6.48	6.35				NA
Total General Gov't.	5,587,600	6,304,859	8,852,537	8,678,958	6.79%	4.67%	6.79%	4.67%
per capita	135.59	152.99	201.19	197.25				3.70%

Exhibit 2 -- Protection Services

Function	1999 Provisional Budget		41,211		Population		2006 Operating Plan		Average Annual Growth		Index	
	Then	Current Yr.	Constant 2005 \$	1.1284	Current Yr.	Index	Current Yr.	Constant 2005 \$	Nominal % Change	Constant \$ % Change	Pop. Adjusted Constant \$ % Change	
Police (excl. Bylaw)	\$ 8,136,970	\$ 9,181,482	\$ 10,053,964		\$ 9,856,827			3.07%	1.02%	0.08%		
per capita	\$ 797.45	\$ 222.79	\$ 228.50		\$ 224.02			4.45%	2.37%	1.42%		
Fire	\$ 7,635,000	\$ 8,615,076	\$ 10,352,581		\$ 10,149,589			2.01%	-0.02%	-0.95%		
per capita	\$ 785.27	\$ 209.05	\$ 235.29		\$ 230.67			NA	NA	NA		
Permits & Licenses	\$ 990,400	\$ 1,117,534	\$ 1,138,636		\$ 1,116,310			5.30%	3.21%	2.24%		
per capita	\$ 24.03	\$ 27.12	\$ 25.88		\$ 25.37			27.96%	25.42%	24.25%		
Animal Control	\$ 110,200	\$ 124,346	NA		NA			3.95%	1.88%	0.93%		
per capita	\$ 2.67	\$ 3.02	NA		NA							
Emergency Prep.	\$ 95,600	\$ 107,872	\$ 137,225		\$ 134,534							
per capita	\$ 2.32	\$ 2.62	\$ 3.72		\$ 3.06							
Bylaw Enforcement	\$ 131,630	\$ 148,527	\$ 739,508		\$ 725,008							
per capita	\$ 3.19	\$ 3.60	\$ 36.81		\$ 36.48							
Protection Services	\$ 17,099,800	\$ 19,294,837	\$ 22,421,914		\$ 21,982,269							
per capita	\$ 414.93	\$ 468.20	\$ 509.53		\$ 499.60							

Function	1999 Provisional Budget		41,211		Population		2006 Operating Plan		Average Annual Growth		Index	
	Then	Current Yr.	Constant 2005 \$	1.1284	Current Yr.	Index	Current Yr.	Constant 2005 \$	Nominal % Change	Constant \$ % Change	Pop. Adjusted Constant \$ % Change	
Police (excl. Bylaw)	\$ 403,730	\$ 455,555	\$ 152,351		\$ 149,364			-13.00%	-14.73%	-15.52%		
per capita	\$ 9.80	\$ 11.05	\$ 3.46		\$ 3.39			8.32%	6.17%	5.78%		
Fire	\$ 20,000	\$ 22,567	\$ 35,000		\$ 34,314			8.89%	6.72%	5.73%		
per capita	\$ 0.49	\$ 0.55	\$ 0.80		\$ 0.78			NA	NA	NA		
Permits & Licenses	\$ 1,058,400	\$ 1,194,263	\$ 1,921,000		\$ 1,883,333			NA	NA	NA		
per capita	\$ 25.68	\$ 28.98	\$ 43.66		\$ 42.80			6.47%	4.35%	3.38%		
Animal Control	\$ 39,700	\$ 44,796	NA		NA			5.04%	2.95%	1.95%		
per capita	\$ 0.96	\$ 1.09	NA		NA							
Emergency Prep.	\$ NA	\$ NA	NA		NA							
per capita	\$ NA	\$ NA	NA		NA							
Bylaw Enforcement	\$ 277,270	\$ 312,862	\$ 430,060		\$ 421,627							
per capita	\$ 6.73	\$ 7.59	\$ 9.77		\$ 9.58							
Protection Services	\$ 1,799,100	\$ 2,030,044	\$ 2,538,411		\$ 2,488,638							
per capita	\$ 43.66	\$ 49.26	\$ 57.69		\$ 56.56							

Exhibit 3 -- Engineering, Public Works and Transit

Expenditures Function	Population Index		41,211 1,1284		44,000 0.98		Index Pop. Adjusted Constant \$ % ACGR/Yr.
	1999 Provisional Budget Then Current Yr \$	Constant 2005 \$	2006 Operating Plan Current Yr \$	Constant 2005 \$	Average Annual Growth Nominal % ACGR/Yr.	Constant \$ % ACGR/Yr.	
Public Works per capita	3,154,200 76.54 \$	3,559,093 86.36 \$	1,949,401 44.30 \$	1,911,177 43.44 \$	-6.64%	-8.50%	-9.35%
Engineering per capita	947,500 22.99 \$	1,069,127 25.94 \$	1,224,481 27.82 \$	1,200,472 27.28 \$	3.73%	1.67%	0.72%
Total Eng & Pblc. Wks. per capita	4,101,700 99.53 \$	4,628,220 112.31 \$	3,173,882 72.13 \$	3,111,649 70.72 \$	-3.60%	-5.51%	-6.39%
Transit per capita	5,475,400 132.86 \$	6,178,257 149.92 \$	9,153,000 208.02 \$	8,973,529 203.94 \$	7.62%	5.48%	4.49%
Total Eng'g & Transit per capita	9,577,100 232.39 \$	10,806,476 262.22 \$	12,326,882 280.16 \$	12,085,178 274.66 \$	3.67%	1.61%	0.66%

Exhibit 3A -- Utilities

Expenditures Function	Population Index		41,211 1,1284		44,000 0.98		Per Capita Pop. Adjusted Constant \$ % ACGR/Yr.
	1999 Provisional Budget Then Current Yr \$	Constant 2005 \$	2006 Operating Plan Current Yr \$	Constant 2005 \$	Average Annual Growth Nominal % ACGR/Yr.	Constant \$ % ACGR/Yr.	
P&CS Admin. per capita	305,200 7.41 \$	344,377 8.36 \$	397,217 9.03 \$	389,428 8.85 \$	3.84%	1.77%	0.82%
Recreation & Culture per capita	2,343,600 56.87 \$	2,644,499 64.17 \$	10,223,404 232.35 \$	10,022,945 227.79 \$	23.42%	20.97%	19.84%
Parks Maintenance per capita	3,453,300 83.80 \$	3,896,587 94.55 \$	4,055,062 92.16 \$	3,975,551 90.35 \$	2.32%	0.29%	-0.65%
Total P&CS per capita	6,102,100 148.07 \$	6,885,404 167.08 \$	14,675,683 333.54 \$	14,387,925 327.00 \$	13.36%	11.10%	10.07%
Library per capita	2,604,500 63.20 \$	2,938,830 71.31 \$	3,419,366 77.71 \$	3,352,320 76.19 \$	3.97%	1.90%	0.95%

Exhibit 4 -- Parks & Community Services, and Library

Expenditures	Population Index		44,000		Average Annual Growth		Per Capita	
	41,211	1,1284	0.98		Nominal \$	Constant \$	Pop. Adjusted	% ACGS/Yr.
Function	1999 Provisional Budget		2006 Operating Plan		Average Annual Growth		Per Capita	
	Then	Current Yr \$	Constant 2005 \$	Current Yr \$	Constant 2005 \$	Nominal \$	Constant \$	Pop. Adjusted
						% ACGR/Yr.	% ACGS/Yr.	% ACGS/Yr.
P&CS Admin. <i>per capita</i>	\$ 305,200	\$ 344,377	\$ 344,377	\$ 397,217	\$ 389,428	3.84%	1.77%	0.82%
Recreation & Culture <i>per capita</i>	\$ 2,343,600	\$ 2,644,439	\$ 2,644,439	\$ 10,223,404	\$ 10,022,945	23.42%	20.97%	19.84%
parks Maintenance <i>per capita</i>	\$ 3,453,300	\$ 3,896,587	\$ 3,896,587	\$ 4,055,062	\$ 3,975,551	2.32%	0.29%	-0.65%
Total P&CS <i>per capita</i>	\$ 6,102,100	\$ 6,885,404	\$ 6,885,404	\$ 14,675,683	\$ 14,387,925	13.36%	11.10%	10.07%
	\$ 148.07	\$ 167.08	\$ 167.08	\$ 333.54	\$ 327.00			
Library <i>per capita</i>	\$ 2,604,500	\$ 2,938,830	\$ 2,938,830	\$ 3,419,366	\$ 3,352,320	3.97%	1.90%	0.95%
	\$ 63.20	\$ 71.31	\$ 71.31	\$ 77.71	\$ 76.19			

Exhibit 5 -- Capital Expenditures

Expenditures	Population		44,000		Average Annual Growth		Per Capita	
	Index	41,211	1,1284	0,98	Nominal \$	% AGR/Yr.	Constant \$	% AGR/Yr.
(£) 5 Yr. Forward Average	1999 Provisional Budget		2006 Operating Plan		Average Annual Growth		Per Capita	
	Then Current Yr \$	Constant 2005 \$	Current Yr \$	Constant 2005 \$	Nominal \$	% AGR/Yr.	Constant \$	% AGR/Yr.
Capital Expenditures								
Computers & Comm'n	\$ 876,053	\$ 988,509	\$ 805,807	\$ 790,007	\$ -1.19%	-3.15%	\$ -4.05%	
per capita	21.26	23.99	18.31	17.95				
Equipment	\$ 424,767	\$ 479,292	\$ 667,934	\$ 654,837	\$ 6.68%	4.56%	\$ 3.59%	
per capita	10.31	11.63	15.18	14.88				
Fleet	\$ 964,782	\$ 1,088,627	\$ 1,128,732	\$ 1,106,600	\$ 2.27%	0.23%	\$ -0.70%	
per capita	22.41	26.42	25.65	25.15				
Grounds & Parks	\$ 1,207,765	\$ 1,362,801	\$ 1,084,325	\$ 1,063,064	\$ -1.53%	-3.49%	\$ -4.38%	
per capita	29.31	32.07	24.64	24.16				
Marine Structures	\$ 302,126	\$ 340,909	\$ NA	\$ NA	\$ NA	NA	\$ NA	NA
per capita	7.33	8.27	NA	NA				
Roads/Transport'n I/S	\$ 2,552,976	\$ 2,880,692	\$ 2,947,795	\$ 2,889,995	\$ 2.08%	0.05%	\$ -0.89%	
per capita	61.95	69.90	67.00	65.68				
Facilities Maintenance	\$ 768,686	\$ 867,359	\$ 894,836	\$ 877,290	\$ 2.19%	0.16%	\$ -0.77%	
per capita	18.65	21.05	20.34	19.94				
Facilities Improvement	\$ 561,557	\$ 633,642	\$ NA	\$ NA	\$ NA	NA	\$ NA	NA
per capita	12.63	15.38	NA	NA				
Infrastr. Capital Expend.	\$ 7,658,711	\$ 8,641,831	\$ 7,529,429	\$ 7,981,793	\$ -0.24%	-2.23%	\$ -3.14%	
per capita	185.84	209.70	171.12	167.77				

Exhibit 6 -- Recreation, Parks & Cultural Services Expenditures

Expenditures Function/Facility	Population		41,211		Population		44,000		Average Annual Growth		Per Capita	
	Index	Index	1,1284	Index	Index	2006 Operating Plan	Constant 2005\$	Constant 2005\$	Normal	Constant \$	% ACGR/Yr.	% ACGR/Yr.
	1999 Provisional Budget		Constant 2005 \$		Current Yr \$		Constant 2005\$		% ACGR/Yr.		% ACGR/Yr.	
Rec Centre	1,261,600	1,423,547	1,353,759	1,327,215					1.01%	-1.00%		-1.92%
per capita	30.61 \$	34.54 \$	30.77 \$	30.16 \$								
Aquatics	1,021,200	1,152,288	3,083,737	3,023,272					17.10%	14.77%		13.71%
per capita	24.78 \$	27.96 \$	70.08 \$	68.71 \$								
Ice Arena	427,000	481,812	547,337	536,605					3.61%	1.55%		0.61%
per capita	10.36 \$	11.69 \$	12.44 \$	12.20 \$								
District Day Camps (**)	196,600	221,837	NA	NA					NA	NA		NA
per capita	4.77 \$	5.38 \$	NA	NA					NA	NA		NA
Eagle Harbour (**)	460,800	519,951	NA	NA					NA	NA		NA
per capita	11.18 \$	12.62 \$	NA	NA					NA	NA		NA
Gleneagles Ctre.	NA	NA	1,415,347	1,387,595					11.58%	9.36%		8.34%
per capita	NA	NA	32.17 \$	31.54 \$								
Srs. Centre	997,200	1,125,207	1,606,707	1,575,203					7.05%	4.92%		3.95%
per capita	24.20 \$	27.30 \$	36.52 \$	35.80 \$								
Cultural	556,700	628,161	1,519,317	1,489,526					15.42%	13.13%		12.07%
per capita	13.51 \$	15.24 \$	34.53 \$	33.85 \$								
Parkade & Geothermal	NA	NA	56,855	55,740					NA	NA		NA
per capita	NA	NA	1.29 \$	1.27 \$								
Rec. Admin.	351,600	396,734	640,345	627,789					8.94%	6.78%		5.78%
per capita	8.53 \$	9.63 \$	14.55 \$	14.27 \$								
Parks Maint.	3,453,300	3,896,587	4,055,062	3,975,551					2.32%	0.29%		-0.65%
per capita	83.80 \$	94.55 \$	92.16 \$	90.35 \$								
Golf (excl. capital)	598,800	675,666	851,200	834,510					5.15%	3.06%		2.10%
per capita	14.53 \$	16.40 \$	19.35 \$	18.97 \$								
Cemetery (excl. capital)	332,900	375,633	417,860	409,667					3.30%	1.25%		0.30%
per capita	8.08 \$	9.11 \$	9.50 \$	9.31 \$								
Parks & Rec. Admin.	305,200	344,377	397,217	389,428					3.84%	1.77%		0.82%
per capita	7.41 \$	8.36 \$	9.03 \$	8.85 \$								
Total Parks & Cmty Services	9,962,900	11,241,800	15,944,743	15,632,101					6.95%	4.82%		3.85%
per capita	241.75 \$	272.79 \$	362.38 \$	355.28 \$								
Library	2,604,500	2,938,830	3,419,366	3,352,320					3.97%	1.90%		0.95%
per capita	63.20 \$	71.31 \$	77.71 \$	76.19 \$								
Total Parks, Rec. & Culture	12,567,400	14,180,630	19,364,109	18,984,421					6.37%	4.26%		3.29%
per capita	304.95 \$	344.10 \$	440.09 \$	431.46 \$								

(**) Incorporated in Gleneagles Cmty Ctre. 2003/2004; comparison ACGR%/yr figures GCC vs. EHCC + Day Camps

(**) Includes: "Culture", "Ferry", "Museum", "Spedal Events", "Youth Outreach".

Exhibit 7 -- Recreation, Parks & Cultural Services Revenues

Revenues Function / Facility	Population Index		1999 Provisional Budget		2006 Operating Plan		Average Annual Growth		Per Capita	
	Then	Current Yr	Constant 2005 \$	Constant 2005 \$	Current Yr	Constant 2005 \$	Nominal % ACGR/Yr.	Constant % ACGR/Yr.	Pop. Adjuste Constant \$	% ACGR/Yr.
Rec Centre	792,000	768,900	893,666	753,824	768,900	753,824	-0.42%	-2.40%		-3.31%
per capita	19.22 \$	17.48 \$	21.69 \$	17.13 \$	17.48 \$	17.13 \$				
Aquatics	764,200	2,350,600	862,297	2,304,510	2,350,600	2,304,510	17.41%	15.08%		14.01%
per capita	18.54 \$	53.42 \$	20.92 \$	52.38 \$	53.42 \$	52.38 \$				
Ice Arena	296,100	345,100	334,109	338,333	345,100	338,333	2.21%	0.18%		-0.75%
per capita	7.18 \$	7.84 \$	8.11 \$	7.69 \$	7.84 \$	7.69 \$				
District Day Camps (*)	153,900	NA	173,656	NA	NA	NA	NA	NA	NA	NA
per capita	3.73 \$	4.21 \$	4.21 \$	NA	NA	NA	NA	NA	NA	NA
Eagle Harbour (**)	167,600	NA	189,114	NA	NA	NA	NA	NA	NA	NA
per capita	4.07 \$	4.59 \$	4.59 \$	NA	NA	NA	NA	NA	NA	NA
Gleneagles Ctr.	NA	841,300	NA	824,804	841,300	824,804	14.73%	12.45%		11.40%
per capita	NA	19.12 \$	19.12 \$	18.75 \$	19.12 \$	18.75 \$				
Srs. Centre	599,200	1,099,550	676,117	1,077,990	1,099,550	1,077,990	9.06%	6.89%		5.90%
per capita	14.54 \$	24.99 \$	16.41 \$	24.50 \$	24.99 \$	24.50 \$				
Cultural (***)	149,500	399,000	168,691	391,176	399,000	391,176	15.05%	12.77%		11.72%
per capita	3.63 \$	9.07 \$	4.09 \$	8.89 \$	9.07 \$	8.89 \$				
Parkade & Geothermal	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
per capita	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Rec. Admin. (excl. Golf transfr.)	6,300	85,650	7,109	83,971	85,650	83,971	45.18%	42.30%		40.97%
per capita	0.15 \$	1.95 \$	0.17 \$	1.91 \$	1.95 \$	1.91 \$				
Parks Maint.	660,400	252,000	745,173	247,059	252,000	247,059	-12.86%	-14.59%		-15.39%
per capita	16.02 \$	5.73 \$	18.08 \$	5.61 \$	5.73 \$	5.61 \$				
Golf	911,700	1,360,000	1,028,732	1,333,333	1,360,000	1,333,333	5.88%	3.77%		2.81%
per capita	22.12 \$	30.91 \$	24.96 \$	30.30 \$	30.91 \$	30.30 \$				
Cemetery (excl. Interest inc.)	346,500	822,600	390,979	806,471	822,600	806,471	13.15%	10.90%		9.86%
per capita	8.41 \$	18.70 \$	9.49 \$	18.33 \$	18.70 \$	18.33 \$				
Parks & Rec. Admin.	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
per capita	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Total Parks & Cmty Services	4,847,400	8,324,700	5,469,643	8,161,471	8,324,700	8,161,471	8.03%	5.88%		4.90%
per capita	117.62 \$	189.20 \$	132.72 \$	185.49 \$	189.20 \$	185.49 \$				
Library	337,100	488,620	380,372	479,039	488,620	479,039	5.45%	3.35%		2.39%
per capita	8.18 \$	11.11 \$	9.23 \$	10.89 \$	11.11 \$	10.89 \$				
Total Parks, Rec. & Culture	5,184,500	8,813,320	5,850,015	8,640,510	8,813,320	8,640,510	7.87%	5.73%		4.75%
per capita	125.80 \$	200.30 \$	141.95 \$	196.38 \$	200.30 \$	196.38 \$				

(*) Incorporated in Gleneagles Cmty Ctr. 2003/2004; comparison ACGR%/yr figures GCC vs. EHCC + Day Camps

(**) Includes: "Culture", "Ferry", "Museum", "Spedal Events", "Youth Outreach".

Exhibit 8 -- Recreation, Parks & Cultural Services Net Expenditures

Net Expenditures Function/Facility	Population		41,211		Population		44,000		Average Annual Growth		Per Capita	
	1999 Provisional Budget Then Current Yr \$	Index	Constant 2005 \$	Index	2006 Operating Plan Current Yr \$	Index	Constant 2005 \$	Index	Nominal % ACGR/Yr.	Constant \$ % ACGR/Yr.	Pop. Adjusted Constant \$ % ACGR/Yr.	
Rec Centre per capita	\$ 469,600	11.40	\$ 529,881	13.29	\$ 584,859	13.03	\$ 573,391	13.03	3.19%	1.13%	0.19%	
Aquatics per capita	\$ 257,000	6.24	\$ 289,990	7.04	\$ 733,137	16.66	\$ 718,762	16.34	16.15%	13.85%	12.79%	
Ice Arena per capita	\$ 130,900	3.18	\$ 147,703	3.58	\$ 202,237	4.60	\$ 198,272	4.51	6.41%	4.30%	3.32%	
District Day Camps (*) per capita	\$ 42,700	1.04	\$ 48,181	1.17	NA	NA	NA	NA	NA	NA	NA	
Eagle Harbour (*) per capita	\$ 293,200	7.11	\$ 330,837	8.03	NA	NA	NA	NA	NA	NA	NA	
Gleneagles Ctr. per capita	NA	NA	NA	NA	\$ 574,047	13.05	\$ 562,791	12.79	7.96%	5.81%	4.82%	
Srs. Centre per capita	\$ 398,000	9.66	\$ 449,090	10.90	\$ 507,157	11.53	\$ 497,213	11.30	3.52%	1.46%	0.52%	
Cultural per capita	\$ 407,200	9.88	\$ 459,471	11.15	\$ 1,120,317	25.46	\$ 1,098,950	24.96	15.56%	13.26%	12.20%	
Parkade & Geothermal per capita	NA	NA	NA	NA	\$ 56,855	1.29	\$ 55,740	1.27	NA	NA	NA	
Rec. Admin. per capita	\$ 345,300	8.38	\$ 389,625	9.45	\$ 554,695	12.61	\$ 543,819	12.36	7.01%	4.88%	3.90%	
Parks Maint. per capita	\$ 2,792,900	67.77	\$ 3,151,414	76.47	\$ 3,803,062	86.43	\$ 3,728,492	84.74	4.51%	2.43%	1.48%	
Golf (excl. capital) per capita	\$ (312,900)	(7.59)	\$ (353,066)	(8.57)	\$ (508,800)	(11.56)	\$ (498,824)	(11.34)	7.19%	5.06%	4.08%	
Cemetery (excl. capital) per capita	\$ (13,600)	(0.33)	\$ (15,346)	(0.37)	\$ (406,740)	(9.20)	\$ (396,804)	(9.02)	62.38%	59.15%	57.67%	
Parks & Rec. Admin. per capita	\$ 305,200	7.41	\$ 344,377	8.36	\$ 397,217	9.03	\$ 389,428	8.85	3.84%	1.77%	0.82%	
Total Parks & Cmty Services per capita	\$ 5,115,500	124.13	\$ 5,772,158	140.06	\$ 7,620,043	173.18	\$ 7,470,630	169.79	5.86%	3.75%	2.79%	
Library per capita	\$ 2,267,400	55.02	\$ 2,558,458	62.08	\$ 2,930,746	66.61	\$ 2,873,280	65.30	3.73%	1.67%	0.72%	
Total Parks, Rec. & Culture per capita	\$ 7,382,900	179.15	\$ 8,330,615	202.15	\$ 10,550,789	239.79	\$ 10,343,911	235.09	5.23%	3.14%	2.18%	

(*) Incorporated in Gleneagles Cmty Ctr. 2003/2004; comparison ACGR%/yr figures GCC vs. EHCC + Day Camp

(**) Includes: "Culture", "Ferry", "Museum", "Special Events", "Youth Outreach".

Introduction

This short note briefly describes an updated financial model of the General Fund and the interaction of the various growth rates of revenues, expenses, expenditures and debt service and how these affect the rate of increase in taxation. Inflation measures and expectations are touched on and a concise paper with tables drawn from the Bank of Canada's web-site is appended for reference. An updated wages & benefits model is presented and discussed. The financial model of the General Fund is given. The financial model's year-to-year differences are the important aspects and this note sets down the basis for estimating the rate of taxation increase required to balance the General Fund budget. The implications arising from the model and the input parameters are commented on, and recommendations are presented.

Wages & Benefits Model

On August 15th at a meeting of the Fiscal Sustainability Task Force, a model of the wages and benefits expense was presented to the committee. The model related the rate of change in department wages and benefits expense, year-over-year, to the annual rate of change in the consumer price index. The model was given in the following form: $w_t = a + b x_t + u_t$ where a and b are constants and the variables w , x , and u represent the rates of increase in wages, consumer price index, and a variable which measures changes unrelated to CPI. The subscript t is the index denoting the year in which the change is measured or estimated. In this model the values of a and u_t were arbitrarily set at zero; and, the value of the constant b was estimated at 1.85 for police & fire-fighters and 1.25 for other employees. The rate of consumer price inflation was set at 2%, the Bank of Canada target. The General Fund departmental expenses forecast by this model were found to be in good agreement with the estimates in the 2006 Five Year Financial Plan.

Subsequent review of five out of the six labour contracts covering the District's union-represented employees indicate that the annual rate of increase in wage rates is not directly related to the rate of consumer inflation with the exception of the final contract year of the police and fire-fighter agreements and then only to the extent that the rate of inflation exceeds a specified minimum (2.5%) and is less than a specified maximum (3.5%). In addition, all five of the agreements reviewed contain a length of service component that is additive to the rate of increase in wage rates. The length of service provision will result in growth in compensation at varying rates, depending on the length of service of the workforce. In the case of WYMEA members the length of service contribution adds about four percentage points to the annual rate of economic increase for each "step" of satisfactory performance to a maximum of five steps. In the current year of the contract, for those moving up a step in a pay grade the annual rate of increase exceeds 7%. In the case of the WVPA members (police) and the IFFA members (fire-fighters) the length of service contract provisions add between 8.7 pct points and 14 pct points to the current year of the contract's economic increase (3.4%) for members in their early years of service.

As a consequence, the wage & benefits model is modified to $w_t = a_t + u_t + e_t$ where the first term a_t becomes a variable representing the "economic increase" as set down in the respective labour contracts for the period t , and the variable u_t now represents the expected rate of change in pay and benefits, other than the economic increase, to account for length of service and various other factors such as shift differential changes, changes in the rates of overtime intensity, etc. The variable e_t is a random error term with zero mean and non-zero variance. The mean rate of increase predicted by the new model is given by $\bar{w}_t = a_t + \bar{u}_t$, which is the form most often used in estimates for budget. When a measure of the dispersion of the estimate is required the dispersion can be obtained by calculating the variance¹.

The rate of inflation, x_t , is now dropped from the model. The economic increase variable, a_t , can be decomposed into two components: a real wage rate increase, r_t , and a general price level change expectation, p_t . The variable p_t is a measure of the forward expectation of inflation over the term of the contract. In the case of the

¹ variance is given by $Var(w_t) = Var(u_t) + Var(e_t) + 2 Var(u_t, e_t)$ where $Var(z)$ is the variance of the variable z .

police and fire-fighters labour agreements, the value of this variable, judging from the wording of the contracts, is estimated to be 2.5%. In the case of the WVMEA members' agreements, a similar expectation of 2.5% for the variable p_t can be imputed to the contracts. Based on the foregoing, the real rate of increase, r_t , is about 1.5% in the case of police and fire-fighters, and about 0.5% in the case of WVMEA members.

In addition to the economic increase, there is, in the case of a relatively young workforce (as the police and fire-fighters are described, according to HR), a length of service component which must be factored in. This depends on the composition of the workforce service ages and the proportion that is eligible for length of service adjustments. As a practical matter, these calculations are best handled by a computer routine set up using the employee database and the pay and benefit structure of the agreements, in order to estimate the value of the variable u_t in relation to a_t to complete the estimate of the rate of wage & benefit expense increase.²

For the purposes of the examples illustrated in this paper, an assumption is made that the overall rate of increase in wages and benefits (the mean estimate value of w_t) is 4.5% per year, factoring in economic escalation, length of service, job "step" increments and benefits cost escalation. It should be noted that this is not a prediction, nor is it a recommendation.³ It is worthwhile noting that the historical average over the past five years is 5.5% which includes approximately one percentage point for labour force growth.⁴

Inflation Measures

Looking Back—Historical View

Our expectations of inflation are in part predicated on our past experience with it, and in part on the pronouncements of the Bank of Canada and other organizations and economic experts. Inflation in almost all cases refers to the rate of increase in the general price level as measured by a basket of commodities and services purchased by a representative family in Canada.

According to the October 19th, 2006, report by the Bank of Canada, the CPI annual rate of change over the past seven quarters (2004: Q4 through 2006: Q2) has averaged 2.31% (∇ 0.096%). The latest reading is 2.1% (August 2006). By contrast, the measure of "core inflation" has averaged 1.67% (∇ 0.036%). The latest reading of the core inflation is 2.0% (Aug., 2006).

Expectations—Looking Forward

The forward-looking expectations on inflation vary according to who is making the assessment of future price movements. Consensus forecasts put the rate of inflation at 2% going forward for the next two to ten years. At the same time, the Regional Office Survey by the Bank of Canada indicates that expectations over the next two years for CPI inflation are weighted toward figures between 2% and 3% (63% of respondents surveyed); of the remaining respondents, 20% put the future inflation rate at more than 3%, while only 15% believe that inflation will be between 1% and 2%.

The bond market measure of implicit inflation expectations puts the future rate at 2.4% at October 2006. The average over the past eight calendar quarters is 2.625% (∇ 0.037%). This estimate has been remarkably stable and represents a reasonable proxy for the expectation of future inflation.

For purposes of estimation, the average value over the past eight calendar quarters for the implicit inflation expectation, as measured by the difference in yields between the real and nominal bond spreads, is recommended as

² For estimating purposes only the mean or expected values of w_t are usually of interest; and the error term, e_t , is ignored.

³ This estimate is in the nature of a "what-if" or scenario exploration figure and no weight or significance should be attached to it for purposes of estimating the wage and benefits costs going forward for any budgeting or planning purpose

⁴ Geometric mean average growth in labour force is 0.96% per year over the past five years.

the forward expectation of inflation. This value is 2.625%.

General Fund Model

A financial model of the General Fund is needed in order to determine the appropriate level of taxation rate increases, if a policy of limiting property tax year-over-year change is to be adopted with a degree of confidence.

Since 2000, the District has followed a policy of keeping taxation revenue increases to a level approximating the local CPI inflation. The historical rates of increase may be found by reference to the five-year statistical section of the 2005 Annual Report. It has been past policy to determine property taxation levels based on the need to balance the current budget year spending and revenues to yield a zero net excess of revenue in the financial plan. This has led to the situation in which the rate of taxation increase, in aggregate, is not predictable in advance but is only determined as a residual after the budget spending and revenue estimates have been finalized.

As part of its deliberations, the Economics Sub-committee determined that the practice was not in keeping with the expectations of the community and recommended that the rate of taxation be set at a level that approximates the Bank of Canada target inflation rate plus the expected population growth rate. Accordingly, estimates of this revised policy were conducted and compared to the 2006 Five Year Financial Plan revenues estimate. At the level of 2.63% year-to-year taxation rate increase, the cumulative difference in revenue over the 2006-2010 period is \$400 thousand favourable variance.

In order to gain further insight, a financial model of the General Fund was developed and this is presented here.

The derivation of the model is omitted and only the year-over-year change in the components of the General Fund is considered in the following discussion. A revenues-expenditure presentation approach is taken, consistent with the accounting method employed by the District. Revenues are represented on the left-hand side of the equation below and the expenditures are represented on the right-side. The model in its general form is given by the following equation:

$$w_r(\Delta R/R)_t + w_s(\Delta S/S)_t + (\Delta D/TE)_t = w_{wb}(\Delta W/W)_t + w_q(\Delta Q/Q)_t + b_t(\Delta D/TE)_t + w_e(\Delta E/E)_t$$

On the left-hand side (revenue side), the first term, $w_r(\Delta R/R)_t$, represents the rate of increase in taxation multiplied by its proportionate weighting relative to the total expenditure budget (TE) for the period; the second term, $w_s(\Delta S/S)_t$, represents the weighted change in sales of goods and services, and the third term, $(\Delta D/TE)_t$, represents the proportion of new debt issued as a ratio of the total expenditure budget. This third term would ordinarily be left out of the general fund Schedule A presentation but is included here for completeness.⁵

On the right-hand side (expenditure side), the first term, $w_{wb}(\Delta W/W)_t$, represents the weighted rate of increase in wages and benefits paid to employees; the second term, $w_q(\Delta Q/Q)_t$, is the weighted rate of increase in expenditures for operating supplies and services; the third term, $b_t(\Delta D/TE)_t$, represents the increase in debt service arising from new debt issued as a ratio of total expenditures; and, the fourth term, $w_e(\Delta E/E)_t$, is the weighted rate of increase in expenditures for capital assets (infrastructure and new projects).

The rate of increase required in taxation, year-to-year, can be found by resolving the model given above for the term $(\Delta R/R)_t$. This has been done and the equation is given below.

$$(\Delta R/R)_t = m_{wb}(\Delta W/W)_t + m_q(\Delta Q/Q)_t + m_e(\Delta E/E)_t - m_s(\Delta S/S)_t - [(1 - b_t)/w_r](\Delta D/TE)_t$$

In this equation, the weighting factors w have been replaced by relative weights m which measure the weight of the component relative to the level of taxation rather than to the level of total expenditure. The values of the terms "m" are given by: $m_{wb} = (w_{wb}/w_r)$; $m_q = (w_q/w_r)$; $m_e = (w_e/w_r)$; and, $m_s = (w_s/w_r)$.

⁵ Omitted from the revenue side of the model are government grants and transfers in from surplus and reserves. While important, they are not considered necessary for ascertaining how a policy on taxation rate increases should be established; but, if warranted they can be included if their rate of change is expected to be significant.

Using this model and estimates of the rate of increase in the components of expenditure and revenue and new debt, the required rate of increase in taxation can be estimated.

As an example, for wage & benefits rising at 4.5% (see "wages & benefits model" above), operating supplies and services at 2%, expenditures for capital rising at 4.1%, sales of goods and services declining at 1.47%, and no new debt issues, the rate of growth in revenue from taxation is:

$$()R/R)_t = 0.853 (4.5\%)_t + 0.226 (2\%)_t + 0.150 (4.1\%)_t - 0.314 (-1.47\%)_t = 5.37\%$$

The weights have been computed from the 2006 budget figures. The decline in sales of goods and services, -1.47%, arises because of lower activity in planning and permits expected for 2007. If this activity remained unchanged year-to-year, the resulting requirement for taxation revenue growth would be 4.9%; and, if it increases at 1% per year, the resulting tax revenue growth would be 4.6%.

There are two components contributing to the growth in taxation revenue. These are: (1) year-over-year increase in taxation on existing properties; and, (2) new construction values. The first is the headline number reported each year by the municipalities as they finalize their annual budgets and it is the parameter that is the subject of concern to the Economics Sub-committee. The second, new construction values, makes an important contribution to the rate of growth of taxation. This second component varies with the level of economic activity in a range approximately bounded by 1.25% during periods of recession and 2.75% in periods of economic expansion.

The two-component model of taxation revenue growth is given by the approximate relation set out below, where g_t represents the rate of increase in taxation on existing properties, and y_t represents the rate of increase in taxation revenues from new construction values.

$$()R/R)_t = g_t + y_t$$

The above relation can be resolved for g_t by deducting the new construction values growth component from the estimate of the growth in taxation revenue needed, thus:

$$g_t = ()R/R)_t - y_t$$

Taking the value of $()R/R)_t$ at 4.9% (ignoring the short term drop of goods and services) and y_t in the range of 1.25% to 2.75% with a mean value of 2.0%, gives an estimate for g_t of 2.9% (\forall 0.5%) or 2.6% (\forall 0.5%) with a 1% growth rate in the sales of goods and services⁶.

Estimate of the Taxation Rate Increase

The model and the corresponding estimate of the rate of increase in taxation on existing properties, 2.9% (\forall 0.5%), can be compared to the forward estimate of inflation (2.625%) plus a population growth rate estimate (0.3% per year) to arrive at a mean value of 2.925% or rounded down, 2.9%.

The sensitivity of the growth rate estimate can be assessed by varying the parameter values in the model. This is a straight-forward numbers exercise and it is omitted here.

The Economics Sub-committee recommended a value for g_t between 2% and 2.3% (Bank of Canada target, and Bank of Canada target plus population growth). In light of the inflation expectations apparent in the real/nominal bond yield market spread, it may be appropriate to raise this recommended value to 2.9% (= 2.625% + 0.3% rounded down.)

Commentary

Limitations

The numerical values are subject to some degree of uncertainty because of limited access to information

⁶ User fees and cost-recovery measures are likely to be the source of revenue growth in the sale of goods and services.

Introduction

This short note briefly describes an updated financial model of the General Fund and the interaction of the various growth rates of revenues, expenses, expenditures and debt service and how these affect the rate of increase in taxation. Inflation measures and expectations are touched on and a concise paper with tables drawn from the Bank of Canada's web-site is appended for reference. An updated wages & benefits model is presented and discussed. The financial model of the General Fund is given. The financial model's year-to-year differences are the important aspects and this note sets down the basis for estimating the rate of taxation increase required to balance the General Fund budget. The implications arising from the model and the input parameters are commented on, and recommendations are presented.

Wages & Benefits Model

On August 15th at a meeting of the Fiscal Sustainability Task Force, a model of the wages and benefits expense was presented to the committee. The model related the rate of change in department wages and benefits expense, year-over-year, to the annual rate of change in the consumer price index. The model was given in the following form: $w_t = a + b x_t + u_t$ where a and b are constants and the variables w , x , and u represent the rates of increase in wages, consumer price index, and a variable which measures changes unrelated to CPI. The subscript t is the index denoting the year in which the change is measured or estimated. In this model the values of a and u_t were arbitrarily set at zero; and, the value of the constant b was estimated at 1.85 for police & fire-fighters and 1.25 for other employees. The rate of consumer price inflation was set at 2%, the Bank of Canada target. The General Fund departmental expenses forecast by this model were found to be in good agreement with the estimates in the 2006 Five Year Financial Plan.

Subsequent review of five out of the six labour contracts covering the District's union-represented employees indicate that the annual rate of increase in wage rates is not directly related to the rate of consumer inflation with the exception of the final contract year of the police and fire-fighter agreements and then only to the extent that the rate of inflation exceeds a specified minimum (2.5%) and is less than a specified maximum (3.5%). In addition, all five of the agreements reviewed contain a length of service component that is additive to the rate of increase in wage rates. The length of service provision will result in growth in compensation at varying rates, depending on the length of service of the workforce. In the case of WVMEA members the length of service contribution adds about four percentage points to the annual rate of economic increase for each "step" of satisfactory performance to a maximum of five steps. In the current year of the contract, for those moving up a step in a pay grade the annual rate of increase exceeds 7%. In the case of the WVPA members (police) and the IFFA members (fire-fighters) the length of service contract provisions add between 8.7 pct points and 14 pct points to the current year of the contract's economic increase (3.4%) for members in their early years of service.

As a consequence, the wage & benefits model is modified to $w_t = a_t + u_t + e_t$ where the first term a_t becomes a variable representing the "economic increase" as set down in the respective labour contracts for the period t , and the variable u_t now represents the expected rate of change in pay and benefits, other than the economic increase, to account for length of service and various other factors such as shift differential changes, changes in the rates of overtime intensity, etc. The variable e_t is a random error term with zero mean and non-zero variance. The mean rate of increase predicted by the new model is given by $\bar{w}_t = a_t + \bar{u}_t$, which is the form most often used in estimates for budget. When a measure of the dispersion of the estimate is required the dispersion can be obtained by calculating the variance¹.

The rate of inflation, x_t , is now dropped from the model. The economic increase variable, a_t , can be decomposed into two components: a real wage rate increase, r_t , and a general price level change expectation, p_t . The variable p_t is a measure of the forward expectation of inflation over the term of the contract. In the case of the

¹ variance is given by $Var(w_t) = Var(u_t) + Var(e_t) + 2 Var(u_t, e_t)$ where $Var(z)$ is the variance of the variable z .

police and fire-fighters labour agreements, the value of this variable, judging from the wording of the contracts, is estimated to be 2.5%. In the case of the WVMEA members' agreements, a similar expectation of 2.5% for the variable p_t can be imputed to the contracts. Based on the foregoing, the real rate of increase, r_t , is about 1.5% in the case of police and fire-fighters, and about 0.5% in the case of WVMEA members.

In addition to the economic increase, there is, in the case of a relatively young workforce (as the police and fire-fighters are described, according to HR), a length of service component which must be factored in. This depends on the composition of the workforce service ages and the proportion that is eligible for length of service adjustments. As a practical matter, these calculations are best handled by a computer routine set up using the employee database and the pay and benefit structure of the agreements, in order to estimate the value of the variable u_t in relation to a_t to complete the estimate of the rate of wage & benefit expense increase.²

For the purposes of the examples illustrated in this paper, an assumption is made that the overall rate of increase in wages and benefits (the mean estimate value of w_t) is 4.5% per year, factoring in economic escalation, length of service, job "step" increments and benefits cost escalation. It should be noted that this is not a prediction, nor is it a recommendation.³ It is worthwhile noting that the historical average over the past five years is 5.5% which includes approximately one percentage point for labour force growth.⁴

Inflation Measures

Looking Back—Historical View

Our expectations of inflation are in part predicated on our past experience with it, and in part on the pronouncements of the Bank of Canada and other organizations and economic experts. Inflation in almost all cases refers to the rate of increase in the general price level as measured by a basket of commodities and services purchased by a representative family in Canada.

According to the October 19th, 2006, report by the Bank of Canada, the CPI annual rate of change over the past seven quarters (2004: Q4 through 2006: Q2) has averaged 2.31% (∇ 0.096%). The latest reading is 2.1% (August 2006). By contrast, the measure of "core inflation" has averaged 1.67% (∇ 0.036%). The latest reading of the core inflation is 2.0% (Aug., 2006).

Expectations—Looking Forward

The forward-looking expectations on inflation vary according to who is making the assessment of future price movements. Consensus forecasts put the rate of inflation at 2% going forward for the next two to ten years. At the same time, the Regional Office Survey by the Bank of Canada indicates that expectations over the next two years for CPI inflation are weighted toward figures between 2% and 3% (63% of respondents surveyed); of the remaining respondents, 20% put the future inflation rate at more than 3%, while only 15% believe that inflation will be between 1% and 2%.

The bond market measure of implicit inflation expectations puts the future rate at 2.4% at October 2006. The average over the past eight calendar quarters is 2.625% (∇ 0.037%). This estimate has been remarkably stable and represents a reasonable proxy for the expectation of future inflation.

For purposes of estimation, the average value over the past eight calendar quarters for the implicit inflation expectation, as measured by the difference in yields between the real and nominal bond spreads, is recommended as

² For estimating purposes only the mean or expected values of w_t are usually of interest; and the error term, e_t , is ignored.

³ This estimate is in the nature of a "what-if" or scenario exploration figure and no weight or significance should be attached to it for purposes of estimating the wage and benefits costs going forward for any budgeting or planning purpose

⁴ Geometric mean average growth in labour force is 0.96% per year over the past five years.

the forward expectation of inflation. This value is 2.625%.

General Fund Model

A financial model of the General Fund is needed in order to determine the appropriate level of taxation rate increases, if a policy of limiting property tax year-over-year change is to be adopted with a degree of confidence.

Since 2000, the District has followed a policy of keeping taxation revenue increases to a level approximating the local CPI inflation. The historical rates of increase may be found by reference to the five-year statistical section of the 2005 Annual Report. It has been past policy to determine property taxation levels based on the need to balance the current budget year spending and revenues to yield a zero net excess of revenue in the financial plan. This has led to the situation in which the rate of taxation increase, in aggregate, is not predictable in advance but is only determined as a residual after the budget spending and revenue estimates have been finalized.

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The rate of increase required in taxation, year-to-year, can be found by resolving the model given above for the term $(\Delta R/R)_t$. This has been done and the equation is given below.

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In this equation, the weighting factors w have been replaced by relative weights m which measure the weight of the component relative to the level of taxation rather than to the level of total expenditure. The values of the terms "m" are given by: $m_{wb} = (w_{wb}/w_r)$; $m_q = (w_q/w_r)$; $m_e = (w_e/w_r)$; and, $m_s = (w_s/w_r)$.

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Using this model and estimates of the rate of increase in the components of expenditure and revenue and new debt, the required rate of increase in taxation can be estimated.

As an example, for wage & benefits rising at 4.5% (see "wages & benefits model" above), operating supplies and services at 2%, expenditures for capital rising at 4.1%, sales of goods and services declining at 1.47%, and no new debt issues, the rate of growth in revenue from taxation is:

$$()R/R)_t = 0.853 (4.5\%)_t + 0.226 (2\%)_t + 0.150 (4.1\%)_t - 0.314 (-1.47\%)_t = 5.37\%$$

The weights have been computed from the 2006 budget figures. The decline in sales of goods and services, -1.47%, arises because of lower activity in planning and permits expected for 2007. If this activity remained unchanged year-to-year, the resulting requirement for taxation revenue growth would be 4.9%; and, if it increases at 1% per year, the resulting tax revenue growth would be 4.6%.

There are two components contributing to the growth in taxation revenue. These are: (1) year-over-year increase in taxation on existing properties; and, (2) new construction values. The first is the headline number reported each year by the municipalities as they finalize their annual budgets and it is the parameter that is the subject of concern to the Economics Sub-committee. The second, new construction values, makes an important contribution to the rate of growth of taxation. This second component varies with the level of economic activity in a range approximately bounded by 1.25% during periods of recession and 2.75% in periods of economic expansion.

The two-component model of taxation revenue growth is given by the approximate relation set out below, where g_t represents the rate of increase in taxation on existing properties, and y_t represents the rate of increase in taxation revenues from new construction values.

$$()R/R)_t = g_t + y_t$$

The above relation can be resolved for g_t by deducting the new construction values growth component from the estimate of the growth in taxation revenue needed, thus:

$$g_t = ()R/R)_t - y_t$$

Taking the value of $()R/R)_t$ at 4.9% (ignoring the short term drop of goods and services) and y_t in the range of 1.25% to 2.75% with a mean value of 2.0%, gives an estimate for g_t of 2.9% (\forall 0.5%) or 2.6% (\forall 0.5%) with a 1% growth rate in the sales of goods and services⁶.

Estimate of the Taxation Rate Increase

The model and the corresponding estimate of the rate of increase in taxation on existing properties, 2.9% (\forall 0.5%), can be compared to the forward estimate of inflation (2.625%) plus a population growth rate estimate (0.3% per year) to arrive at a mean value of 2.925% or rounded down, 2.9%.

The sensitivity of the growth rate estimate can be assessed by varying the parameter values in the model. This is a straight-forward numbers exercise and it is omitted here.

The Economics Sub-committee recommended a value for g_t between 2% and 2.3% (Bank of Canada target, and Bank of Canada target plus population growth). In light of the inflation expectations apparent in the real/nominal bond yield market spread, it may be appropriate to raise this recommended value to 2.9% (= 2.625% + 0.3% rounded down.)

Commentary

Limitations

The numerical values are subject to some degree of uncertainty because of limited access to information

⁶ User fees and cost-recovery measures are likely to be the source of revenue growth in the sale of goods and services.

regarding the District's labour model. The relative proportions or weighting of the components will change over time as the spending patterns shift and price levels and wage rates evolve, but this is a slow process of evolution. Expenditures for capital may jump up or down year-to-year depending on capital spending patterns, but the effect on the General Fund taxation will be contained by the presence of reserves and surplus as well as the ability to borrow as needed. The figures shown in the preceding sections are given for purposes of illustration and are not recommendations or forecasts. The reader should not impute undue importance to the values cited.

Effect of Debt Service & Borrowing

In the foregoing example, the effect of new debt was ignored. If expenditures for capital in excess of the ability of the taxation revenue and other revenues are needed, then it may be necessary to resort to debt and borrowing, provided the resulting debt service is supportable.

Based on a cursory examination, existing revenues to the endowment fund along with the \$1.24 million annual transfer to the capital facilities fund, can support debt service for capital expenditures funded by term loans of between \$17 million and \$23 million without necessitating increased taxation.⁷ For debt borrowing above this range, the impact on taxation will be found from the term,

$$(b_i/w_k)(D/TE)_t$$

which represents the ongoing debt service requirement, assuming that the new debt principal value offsets the current increase in capital outlays funded by new debt. Which is to say, if an all-borrowing or 'pay as you use' financial policy is followed with respect to capital expenditures above the level that can be carried on a 'pay as you go' basis supported from existing financial resources and taxation revenues noted above, the impact on taxation is measured by this equation.

Substituting for the parameters values that are reasonable in terms of current conditions and planned revenue and expenditure levels of the current five year financial plan, gives an estimate for the incremental increase required in taxation revenue growth.⁸

$$(0.104 / 0.738)(10 / 70)_t = 0.02 \quad \text{or} \quad 2\%.$$

From this estimate, it is apparent that \$10 million in new borrowing funded entirely from taxation of properties will necessitate an additional 2 percentage points of tax revenue growth in the year of borrowing.

Thus, for each \$10 million in borrowing requiring a debt service rate of 10.4% (5% interest rate plus 5.377% sinking fund factor) an additional 2% is required in addition to the annual rate of increase of approximately 2.9% in taxation needed to maintain existing service levels in the face of the assumed rates of increase in employee costs, supplies & services, and ongoing expenditures for capital. Together, this amounts to a total rate increase of 4.9% in the year of borrowing. The rate of increase is marginally lower as the length of the amortization term is increased. For 20-year debt, the debt service rate is 8.722% and debt service related increase in taxation is 1.7 percentage points, a reduction of 0.3 of a percentage point.

It is evident from this that new capital expenditure requiring borrowing (or increased transfers to reserves if a pay as you go policy is followed) over and above that which is provided for at present or supportable from existing financial resources, necessitates an increase in taxation revenue approximately twice that of the annual taxation increase level recommended by the Economics Subcommittee.

Infrastructure Expenditures

A rate of growth in infrastructure expenditure of 4% per year is used in the example set out above. In point of fact, the increase is a set annual increment in the dollar amount of \$300 thousand annually which continues forward through 2010. In the year 2000, the annual dollar increase was put at \$100 thousand, and it was found that

⁷ See the short paper "Debt Levels Supportable From Existing Financial Resources"

⁸ MFA \$10MM debenture debt: 15 year amortization, 3% capitalization rate, 5% debenture interest rate, 0.05377 sinking fund factor.

over time this was insufficient. It is entirely possible, in view of the general price level increase and the age of infrastructure, that the present dollar amount of increase will be insufficient. The sensitivity of the rate of taxation to increases in the annual increment value can be ascertained as follows.

Using the financial model above, and a weighting of 0.150, if the rate of increase in infrastructure increase is raised to 6% from the current 4%, a 2 pct point rise, the impact on the rate of taxation is to raise it by 0.30% over the 2.9% target limit. At a rate of increase of 6%, the dollar increase amount of infrastructure spending is \$488 thousand on the 2008 plan level of \$8.1 million, or \$188 thousand higher than the present financial plans calls for. The incremental rate of increase in taxation for a two-percentage point rise in infrastructure spending is 0.30% per annum.

New Construction Impact on Taxation Rate Increases

The variability of the revenue growth component relating to new construction values is evident in the range given for historical values (1.25% to 2.75%). From this, it will be concluded that if the District desires to maintain a reasonably low rate of taxation increase on existing properties, measures that may tend to restrict or impede new construction should be given careful consideration prior adoption. The financial implications of the policy changes should be established and set forth before the council at the time that the measure affecting new residential or business property construction is proposed.

Labour Productivity & Technological Change

The Bank of Canada has noted that Canadian productivity related factors contributes approximately 1.5% to real economic growth.⁹

In view of the relative weighting of wages & benefits to taxation revenue in the financial model set out above, approximately 0.85 (= 0.629/0.738), implementing productivity improvement measures is an appropriate response to an increasingly competitive labour market and rising compensation expectations.

Just how much of the 1.5 pct/yr productivity improvement noted by the Bank of Canada might reasonably be expected to be obtainable by municipal government is an open question. If it is related to the rate of taxation increase year-over-year, the headline figure, one might target something on the order of 1/5th to 1/4th of the 1.5% or say 0.3% per year.

Translated into terms relating to the rate of increase in wage & benefit expenditures, this would require a *productivity improvement target* of 0.35% per year¹⁰. Comparing this modest rate of improvement to the estimated 4.5% per year increase in the wages and benefits component of the General Fund financial model, lowers the rate of increase to a net increase after productivity enhancements on the order of 4.15% per year.

Recommended Policies

Tying Taxation Rate Increases to Inflation Expectations

Relaxation of the previously proposed range for the rate of taxation increase, g_t , from that specifically tied to the Bank of Canada target rate of inflation is recommended.

Replacement by a value for g_t referenced to the expected forward rate of inflation as measured by the implicit inflation expectation in the real/nominal bond yield as reported periodically by the Bank of Canada, plus a population growth rate as estimated by the planning department, is recommended.¹¹

⁹ Financial Post article, October 2006.

¹⁰ 0.3% divided by the relative weight $m_{wb} = 0.85$

¹¹ The use of a bond market measure for forward expectations of inflation is unbiased and presents an improvement compared to the Bank of Canada target rate which is an administrative goal and not an adequate measure of the actual movement expected of the general price

The revised measure would be 2.9% with a band of $\pm 0.5\%$ at current levels of inflation expectations. This will provide adequate latitude to the policy maker but ensure that rates higher than this range are ruled out in all but exceptional circumstances.

Cost Control Measures Related to Productivity & Performance Management

The purpose of productivity and performance measures is to control costs while delivering the outcomes valued by the community. A productivity target of 0.35%/year is recommended as a floor to hold taxation rate increases to an affordable level, or to provide latitude for transfer of the savings to a capital reserve fund for future capital purposes.

Debt, Borrowing & Specified Area Improvements

The use of debt in excess of that which is supportable from existing financial resources will add approximately 2 percentage points to the rate of taxation increase in the year of borrowing for every \$10 million of 5% 15-year term debt borrowed that is not serviced from external revenues.

The guideline for borrowing as set out in the Best Practices recommendations would be too restrictive if applied under these circumstances. It is therefore recommended that a revision to the guideline be developed that will allow the policy maker sufficient latitude in the case of necessary ("essential") capital expenditures to be funded by debt for which the source of debt service is residential and business property taxation.

Specified area improvements debt service should be paid through external revenues raised by tax levy on the properties that benefit from the capital expenditure, in keeping with precedent. This will ensure that only necessary capital improvements, for which no external revenues are possible because of the nature of the capital expenditure, are borne by the general taxpayer.

Use of Existing Financial Resources

The existing resources consisting of revenues generated from within the Endowment Fund and rental revenues transferred to the Fund, but in no case reducing the principal value of the Fund below the threshold value, along with the annual \$1.24 million transfers to the Capital Facilities Reserve will support new debt without requiring a taxation increase. In consequence it is recommended that these resources be applied to service debt borrowed for the purpose for capital expenditures over and above the RFMP project currently underway.

Annex: **Bank of Canada** "Indicators of Capacity and Inflation Pressure", October 19, 2006.

level.

Annex
Bank of Canada
 "Indicators of Capacity and Inflation Pressure"
 October 19, 2006

The following four pages reproduce data presented by the Bank of Canada covering various measures of inflation, including the Bank's measure of core inflation.

The measure that has the most relevance for gauging forward expectations of general price level inflation is the following measure of the implicit expectations captured in the yield spread between real and nominal bond discount rates. This market-based measure can be reasonably be taken to be an unbiased estimate of the future rate of inflation weighted by the market sentiment. In contrast, the Bank of Canada target rate of inflation, an administrative measure, is biased insofar as it is an institutional target or goal and not a concurrent measure of actual price level changes.

The portion of the data tables reproduced immediately below is included in the Bank's compilation of statistics from Canadian sources set out in the following four pages. The average of the eight quarterly values is 2.625%.

Expectations (year-over-year percentage change)										
	2004Q4	2005Q1	2005Q2	2005Q3	2005Q4	2006Q1	2006Q2	2006Q3	2006Q4	Latest data
Expectations implicit in real/nominal bond spread	2.7	2.7	2.6	2.4	2.6	2.7	2.7	2.6	2.4	2.4

Bank of Canada
 Indicators of Capacity and Inflation Pressures for Canada
 Updated: 19 October 2006 Page 1 Next release: 7 December 2006

	Inflation (year-over-year percentage change)									
	2004Q4	2005Q1	2005Q2	2005Q3	2005Q4	2006Q1	2006Q2	2006Q3	2006Q4	Latest data
Core inflation	1.6	1.8	1.6	1.6	1.6	1.7	1.8			2.0^{Aug}
CPI excluding food, energy, and the effect of changes in indirect taxes	1.1	1.4	1.2	1.4	1.4	1.4	1.6			1.9^{Aug}
CPIW	1.8	1.7	1.7	1.9	1.8	1.8	1.8			1.5^{Aug}
Weighted Median	1.8	1.9	1.7	2.2	2.1	2.5	2.1			2.2^{Aug}
CPI Inflation	2.3	2.1	1.9	2.6	2.3	2.4	2.6			2.1^{Aug}
Chain price index for GDP	3.6	3.0	2.3	3.4	4.1	3.7	2.8			2.8^{Q2}
Chain price index for consumption	2.0	1.7	1.4	1.9	1.7	1.8	1.7			1.7^{Q2}
Chain price index for consumption excluding food and energy	1.1	0.9	0.8	1.0	1.0	0.9	0.8			0.8^{Q2}

Bank of Canada
 Indicators of Capacity and Inflation Pressures for Canada
 Updated: 19 October 2006 Page 1 Next release: 7 December 2006

	2004Q4	2005Q1	2005Q2	2005Q3	2005Q4	2006Q1	2006Q2	2006Q3	2006Q4	Latest data
Product market										
Output gap (Bank of Canada's conventional measure)	0.3	0.2	0.3	0.4	0.3	0.5	0.3	0.4		0.4^{Q3*}
Capacity utilization rate										
Non-farm goods (%) (1987-2001 avg. = 82.51)	86.3	86.3	86.0	86.3	86.0	85.7	85.5			85.5^{Q2}
Manufacturing (%) (1987-2001 avg. = 81.72)	84.5	84.9	84.2	84.3	84.2	83.7	83.1			83.1^{Q2}
Bank of Canada Regional Office Survey										
Difficulty meeting an unanticipated increase in demand/sales (% firms)	45.0	37.0	43.0	45.5	49.6	44.6	47.6	46.6		46.6^{Q3}
Unfilled orders/shipments - Manufacturing excluding aerospace products and parts	0.50	0.53	0.54	0.56	0.56	0.58	0.58			0.55^{Aug}
Aggregate stock-to-sales ratio	0.630	0.630	0.630	0.619	0.613	0.622	0.632			0.632^{Q2}

* As shown in the most recent issue of the <i>Monetary Policy Report</i>.

Labour market

	2004Q4	2005Q1	2005Q2	2005Q3	2005Q4	2006Q1	2006Q2	2006Q3	2006Q4	Latest data
Unemployment rate	7.1	7.0	6.8	6.8	6.5	6.4	6.2	6.4		6.4^{Sep}
Participation rate (%)	67.5	67.3	67.2	67.1	67.1	67.1	67.2	67.2		67.1^{Sep}
Growth in employment (annualized rate, %)	1.4	0.9	1.7	1.5	2.4	1.6	3.1	0.4		0.1^{Sep(1)}
Skilled labour shortage (% firms) - Manufacturing (Statscan survey)	7.0	5.0	7.0	8.0	9.0	6.0	8.0	9.0		9.0^{Q3}
Labour shortage (% firms) - All sectors (Bank of Canada Regional Office Survey)	36.0	33.0	36.0	51.0	49.0	44.0	27.0	37.0		37.0^{Q3}

1. Percentage change at monthly rate.

Wages and costs (year-over-year percentage change)

	2004Q4	2005Q1	2005Q2	2005Q3	2005Q4	2006Q1	2006Q2	2006Q3	2006Q4	Latest data
Labour Force Survey - average hourly earnings (unweighted)										
All employees	2.3	2.7	2.7	3.6	3.9	3.4	3.4	3.5		3.0^{Sep}
Permanent employees	2.7	2.9	2.8	3.4	3.6	3.2	3.6	3.8		3.4^{Sep}
Wage settlements - Private sector	2.7	2.3	2.7	2.7	2.1	2.5	2.2			2.8^{Aug}
Compensation per hour - Business sector	3.0	3.5	4.9	5.2	5.4	5.1	4.0			4.0^{Q2}
Unit labour costs - Total economy (labour income/GDP at market prices)	1.3	1.8	2.1	3.0	3.3	3.9	2.9			2.9^{Q2}
Unit labour costs - Business sector	1.6	1.7	1.8	2.6	3.1	3.0	2.6			2.6^{Q2}
Bank of Canada commodity price index										
Total	24.2	17.5	14.7	27.8	31.5	17.1	16.1	3.2		-10.9^{Sep}
Energy	39.2	27.2	30.6	62.8	57.3	27.9	14.1	-12.6		-33.0^{Sep}
Non-energy	12.4	9.6	1.6	-1.4	6.3	6.9	18.1	24.9		23.8^{Sep}

Real estate market (year-over-year percentage change)

	2004Q4	2005Q1	2005Q2	2005Q3	2005Q4	2006Q1	2006Q2	2006Q3	2006Q4	Latest data
New-housing price index	5.4	5.1	4.7	4.7	5.6	7.0	9.1			12.1^{Aug}
Resale-housing prices: Royal LePage	5.7	6.2	6.6	6.8	7.3	8.3	9.6			9.6^{Q2}
Vacancy rate apartments (%)	2.7				2.7					2.7^{0ct}
offices (%)	10.6	10.3	9.5	8.9	8.2	7.4	7.1			7.1^{Q2}
industrial market (%)	4.9	4.5	4.5	4.6	4.4	4.3	4.3			4.3^{Q2}

Expectations (year-over-year percentage change)

	2004Q4	2005Q1	2005Q2	2005Q3	2005Q4	2006Q1	2006Q2	2006Q3	2006Q4	Latest data
Business Confidence Survey (Conference Board)										
% of firms expecting price increases over the next six months of:										
1% or less	14	22	10	7	8	9	13	13		13^{Q3}
2% or less	74	57	65	37	49	52	58	63		63^{Q3}
3% or less	96	92	93	84	88	95	93	95		95^{Q3}
more than 3%	4	7	5	16	12	4	5	5		5^{Q3}
CPI inflation: Consensus Forecasts										
2006		1.9	1.9	2.1	2.3	2.0	2.0	2.1		2.2^{Sep}
2007						1.8	1.8	1.8		1.9^{Sep}
2-3 years	1.9		1.9		2.0		2.0			2.0^{Apr}
6-10 years	2.0		2.0		2.0		2.0			2.0^{Apr}
Bank of Canada Regional Office Survey										
% of firms expecting CPI inflation over the next two years to be:										
less than 1%	0	0	1	0	0	2	0	0		0^{Q3}
1-2%	29	33	18	10	14	15	15	15		15^{Q3}
2-3%	56	60	68	60	61	63	61	63		63^{Q3}
more than 3%	12	4	7	27	19	18	22	20		20^{Q3}
Expectations implicit in real/nominal bond spread										
	2.7	2.7	2.6	2.4	2.6	2.7	2.7	2.6	2.4	2.4^{0ct}

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FISCAL SUSTAINABILITY TASK FORCE

BEST PRACTICES AND BENCHMARKING SUBCOMMITTEE REPORT

This final report sets forth the opinion of the Subcommittee on the question of Best Practices and Benchmarking in the area of Fiscal Sustainability. The report sets out a definition for "best practice" and "benchmarking", and then provides recommendations as well as concepts and ideas for implementation to achieve the goal of fiscal sustainable operations for the District of West Vancouver.

The Subcommittee wishes to compliment the Council on requesting the input of the public on the issue of best practices and benchmarking. While the District has followed best practice approaches in a number of areas in the past, the Subcommittee feels that the District could do better and the Subcommittee has focused on opportunities for the District to make significant improvements to its policies and procedures.

A. Definitions

Best Practice is a management idea, which asserts that there is a technique, method, process, activity, incentive, or reward that is more effective at delivering a particular outcome than any other technique, method, process, activity, incentive or reward. The idea is that with proper processes, checks, and testing, a project can be rolled out and completed with fewer problems and unforeseen complications.

Benchmarking (also "best practice benchmarking" or "process benchmarking") is a process used in management and particularly strategic management, in which organizations evaluate various aspects of their processes in relation to best practice, usually within their own sector. This then allows organizations to develop plans on how to adopt such best practice, usually with the aim of increasing some aspect of performance. Benchmarking may be a one-off event, but is often treated as a continuous process in which organizations continually seek to challenge their practices.

<http://en.wikipedia.org/wiki/Benchmarking>

"Best practice" is situation-specific, depends on the organization's purpose, its goals and its people. By definition, the best practice is identified by reference to the outcomes that the particular organization is seeking or targeting. Choice of relevant "best practices" must be made in concert with an assessment of the organization's strengths and weaknesses, opportunities and threats, and in relation to the outcomes that the organization or its customers, stakeholders and employees seek to achieve.

Benchmarking, used in conjunction with best practice policies, seeks to tie the performance of the organization to specific measurable standards in an openly

transparent and politically neutral manner. Benchmarks are generally associated with outcomes. Therefore, the benchmark selected must relate to the outcome being sought. Benchmarks may also be related to outputs, if the output is an intermediate product in the process of achieving a specific outcome. Output measurement can generally be made more conveniently and more quickly than the measurement of an outcome can. Consequently, most systems measure outputs as a proxy for the determination of the more elusive outcome measurement, although the output may have at best only a tenuous connection with the outcome targeted.

B. Concepts & Ideas for Best Practices & Benchmarking–Fiscally Sustainable Operations

(The reader should note that, on occasion, the Task Force amended the recommendations of the subcommittees. The Task Force's approved recommendations appear in the main body of the Task Force's final report.)

The Subcommittee considers the following strategic concepts to be worthwhile undertaking in conjunction with a “best practices” and “benchmarking” approach to sustainable government activities.

1.0 Multi-year Perspective for Fiscal Planning & Budgeting

The Subcommittee recommends that the Council implement a multi-year financial plan that sets out a three (3) year detailed budget in conjunction with a two (2) year outlook. The five (5) year overall planning horizon conforms to the legislative requirement under the provisions of the Community Charter. The process would include the following:

- Annually update the three year detailed budget and the two year outlook on a roll-forward basis to maintain the five year planning horizon and ensure that the budget and outlook are current;
- Tie the three-year corporate business plan objectives and milestones to the multi-year financial plan, and establish funding criteria and limits on major capital undertakings to guide the budget and planning activities where appropriate; and
- Annually review and update the corporate business objectives and business plan to take into account the completion of elements of the business plan and such changes in outlook, environment or strategic direction, as may have a bearing on the fiscal plan and budget.

The Subcommittee recommends that Council not less frequently than once every third year conduct a thorough re-evaluation of the objectives and strategies of each of the District's business units and operating divisions and staff units to ensure that such objectives and strategies are aligned with overall District goals and strategies and that the fiscal plans and budgets are optimal.

The Subcommittee recommends that Council benchmark the multi-year financial plan to external standards for comprehensiveness, disclosure, transparency, accountability and relevance to enable the continual improvement of the budgeting and planning functions and related corporate communications for the benefit of the organization and the public alike.

2.0 Transparency and Accountability

The British Columbia Performance Reporting Principles set forth the best practices and benchmarking standards for reporting on the activities of British Columbia governments. All provincial government ministries and agencies and crown corporations have adopted the British Columbia Performance Reporting Principles, and the BC Auditor General supports the principles.

The Subcommittee recommends that Council implement the British Columbia Performance Reporting Principles for all corporate, divisional, business unit, and staff unit reporting practices and all internal and external reports. At a minimum the process would include:

- Implementing a policy of quarterly reporting on the financial and operational performance of each of the District's operating divisions, business units and staff units to Council and the public, not later than thirty (30) days following the close of each calendar quarter; and
- Implementing a policy of annual reporting on the financial operation's and condition of the District to Council and the public not later than ninety (90) days following the close of the District's fiscal year.
- Implementing a policy whereby, following the publishing of each quarterly or annual report set out in the above policies, Council in public session:
 - Undertakes a thorough review and debate of the results presented by the report;
 - Receives input, comment and recommendations from the public; and,
 - Makes a determination whether it is satisfied or not satisfied with the report and the results, and, if not satisfied, specifies action to be taken by management for improvement in those aspects requiring performance improvements.

3.0 Performance Measurement

The Subcommittee recommends that Council adopt a performance measurement approach to accomplish its objectives.

Improving responsibility and accountability requires that detailed performance targets with appropriate flexibility be signed by departments and employees through performance-based budgeting and performance-based human resource management at different levels, and that employees, business units, divisions and departments report their performance against the assigned targets on a regular basis.

Improving government efficiency and effectiveness requires performance information systems which include collecting, reporting, reviewing and using performance information. ^{[0] 1N}

The process would include the following:

- Each of the District's operating divisions, business units and staff units will have clear and measurable goals, objectives and targets for the outcomes it is responsible for achieving;
- Each operating division, business unit and staff unit will be measured on its performance against established standards for service delivery, outputs and achievement of outcomes;
- The standards for service delivery, outputs and achievement of outcomes will be set with reference to externally-accepted or internally-developed best practices and benchmarks;
- The standards will be directed to:
 - (1) Ensuring that an efficient and effective "community-centric" approach to the delivery of services is achieved;
 - (2) Comparing performance against a composite benchmark standard of comparable local governments in terms of geographic location, population size, demographic composition, and income, as appropriate;
 - (3) Ensuring that trends in performance are revealed and reported in meaningful terms, and that performance improvements or degradations will be determined to be significant (statistically) before being highlighted as such;
- Implementing a systematic context-sensitive organization-wide performance assessment and review process as an essential component of this performance-based management approach to the achievement of efficient and effective organizational processes and the attainment of broadly supported community goals.
- Where appropriate, financial performance will be compared to budget and plan targets and variances will be disclosed and explained accompanied by a

∇ Endnotes shown thus: ^[0]

description of the measures being taken to correct performance if the variance is unfavourable (the disclosure of management performance corresponding to the quarterly and annual financial reporting cycles made to Council and the public);

- Implementing a policy whereby, at appropriate stages in the development of each annual financial plan or long-term capital plan and at every subsequent revision of an adopted annual financial plan or long-term capital plan, Council in public session called specifically for the purpose:
 - Receives, reviews, and debates the estimates, the performance measures, and the expenses, revenues, cost recovery policies and subsidies of each operating division, business unit and staff unit;
 - Provides opportunity for the public to make comments and recommendations and receives and considers the public input when deliberating on the estimates and plans; and,
 - Indicates whether it is satisfied or not satisfied with the plans, estimates, expenses, revenues, cost recovery policies and subsidies, and if not satisfied, specifies action to management for change in those aspects requiring improvement, or modification.

4.0 Service Levels & Service Level Pricing

The Subcommittee recommends that Council adopt an outcomes-focused performance-based management approach to service level determination in order to accomplish its objectives.

A performance-based management approach generally requires that the organization undertake a thorough examination of its service levels, the manner in which the service levels are set relative to the organization's resources and missions, and the way in which its services are priced.

Pricing services in this context involves relating the cost of service performance to the value of the service performed. If the value received by the community from performance of the service is less than the cost of performing the service, then there is a clear case for undertaking a service level review. Conversely, if the value of the service level is greater than its price or its revenue is less than the cost of resources used in the performance of the service, there rises the question of whether the price of the service is being set to an appropriate standard.

Service level pricing can be determined in the context of market-based reference prices, willingness-to-pay, or marginal cost pricing. The value of a service level must be judged in the context of the outcomes sought by the community at large. An on-going process of periodic service level reviews undertaken with reference

to the values of the community and the mission of the organization is considered to be central to a best-practices approach to the establishment of service levels.

The process would include the following:

- Service levels will be established in relation to the outcomes being sought by the organization and the community as a whole;
- Each of the District's operating divisions, business units and staff units will have service levels established with reference to the outcomes targeted for the division, business unit or staff unit;
- Performance of the service levels may be measured in terms of the outputs of the organization provided the outputs are directed to the outcomes sought by the community;
- Service levels must be balanced across all divisions and units to ensure efficient and effective allocation of resources, and to maximize the total benefits and minimize the total price of the activities of the corporation;
- Service levels will be priced through the budget process in a unified approach encompassing both operating and capital inputs; Service level pricing requires that inputs (direct and indirect labour, overheads, consumable supplies, commodities and goods, contract and subcontract services and capital goods) be priced at their market or standard rates;
- The price of a given service level will be established by calculation factoring in all inputs and their respective prices; economic externalities whether to an external body or to an internal division or unit, will be priced and included in the pricing of the service level. (To avoid doubt, economic externalities are costs resulting from the service activity that are imposed on, or borne by, others who are not otherwise compensated for bearing those costs.);
- Outputs priced in conjunction with an Input-Production Function-Output model wherever the production function can be described, or by management judgement utilizing scenario models where a production function is not apparent, is the preferred approach in the absence of a standard service model;
- Optimum service levels will generally be found through a decision-process of ranking the outcomes and the prices of services over the range of practicable alternative service levels;
- Where outcomes being sought require the combination of service levels from two or more divisions, business units or staff units, the service level from each contributory division will be an input the price of which is the price of the respective service level. Optimizing the total benefits for a given total price or the total price for a given level of benefits will be an objective for setting the service levels of the contributing divisions and units.

5.0 Benchmark to Community Goals and Expectations

The purpose of benchmarking to community goals and expectations and reporting on the benchmarks and performance measures is to ensure that the corporation, its divisions, business units and staff units, and their respective goals and objectives are aligned with those of the community.

The Subcommittee recommends that the Council benchmark outcomes and outputs to the community goals and expectations:

- Benchmarks and performance measures will be determined through a systematic process and reported not less frequently than once per year in conjunction with the annual budget and financial plan review and development.

6.0 User Fees & Cost Recovery Measures ^[1]

The best practice principle underlying the imposition of user fees, cost recovery measures and transfer pricing policies is the principle of reducing reliance on the General Fund taxation revenues to support services directed to the delivery of private goods to identifiable individuals, groups or organizations.

The Subcommittee recommends the adoption of User Fee and Cost Recovery Measure policies that:

- Support and drive the search for greater efficiencies in service and program delivery in order to achieve the highest quality and broadest scope of outcomes for the community and our citizens;
- Shape the demand for services and the quality of service delivery to ensure that resources are efficiently and effectively utilized and benefits are appropriately distributed, in keeping with the outcomes sought by the community at large;
- Address the fundamental challenge of funding services without raising taxes to ensure that services and outcomes are sustainable for the community as a whole;
- Apply universally to ensure fairness and reduce the overall dependence of the District on any one revenue source, thereby avoiding distortion in the distribution of benefits and costs that might otherwise arise if one or more segments of the community were to receive a benefit or bear a cost that it would not receive or bear except for the absence of a fair and equitable apportionment of benefits and costs;
- Use a blended approach to reduce, avoid and recover costs to ensure that the user fee and cost recovery policies are responsive, flexible and concord with the principles of equity;

- Apportion the cost of services and programs equitably to those for whom the benefits have the greatest value because sustainable service and program levels ultimately depend on revenues derived from the delivery of services and programs; and,
- Discourage the transfer of costs from the individual, group or organization onto the general tax base where the principal beneficiary of the service or program is an identifiable individual, group or organization, except in the case of genuine hardship or for social development of the community or where application of cost recovery and user fees is prohibited by legislation.

The foregoing policy recommendation is based on the following principles:

User fees and cost recovery measures ensure that those making use of the service or acquiring the benefits arising from the service bear some measure of the cost of providing the service and the related benefits. The principle of "user pays" is sufficiently well founded that the only controversy is the degree to which the user fee or cost recovery measure covers the cost of the service and recognizes the monetary value of the benefit.

The user fee or cost recovery measure acts as a 'price signal' which serves to simultaneously ration use (*cf.* "demand management") and stimulate the search for more effective and efficient means to provide the service or benefit so as to limit the upward pressure on the fee or cost.

By tying user fees and cost recovery measures to market rates ("benchmarking") the policy encourages alternative service delivery approaches wherever cost reduction is achievable. Market rates may be determined with reference to the practices and policies of public or private organizations offering comparable services or by undertaking a survey of consumer "willingness to pay", or a combination of the two approaches.

Sustainable services require that the cost of the services is fully covered. This requires that the costs be funded from one of three sources: user fees, taxation, or cross-subsidization from other service fees and revenues. Taxation and cross-subsidization of costs is generally undesirable as a basis for an ongoing service unless the service falls into the category of an essential service for which limited cost-recovery is possible. In order that revenues from taxation and cross-subsidization be conserved for application to essential services, a policy of user fees and cost-recovery is generally applied for all other services provided by local government.

Application of cost recovery measures, and user fees, to activities and services where "private good" is dominant serves to ensure that the community is not asked to bear costs that the individual or organization receiving the benefit would otherwise incur if the good or service in question were obtained from a private business or individual or organization through a market transaction. Exceptions to this rule will usually occur a) in the case of genuine hardship, b) where it is prohibited by provincial statute to impose

fees or recover costs, or c) where it is policy that for the purpose of social development, or in the case of clear social need, cost recovery measures and user fees are not imposed.

A "private good" is present whenever an activity or service is delivered or provided to an individual or organization to the exclusion of others and the activity or service provides a benefit that is specific to that individual or organization. Examples of "private good" include: aa) exclusive use by an organization, group or individual of municipal land or foreshore that confers a benefit solely to that organization, group or individual; bb) use by an organization, group or individual of a playing field or facility that has been specifically maintained by the municipality for such purpose and the use or occupation excludes the general public from simultaneous use or occupation of the field or facility.

Cost reduction remains a priority because funding to maintain the service levels where "private good" is dominant depends on revenues received. Services that are supported 100% by user fees or cost recovery measures would not be sustainable if the cost of the services were not acceptable to the paying public. Therefore, in order for the service to continue it must be provided on a cost-effective basis, and it has to be beneficial.

Where the service costs are only partially funded by user pay fees or cost recovery, it is usually found to incur a greater resource consumption per unit of service primarily because the full costs are not borne by the user. In those instances where the service is provided free, resource consumption is only limited by the capacity of the resource or the willingness of the public to partake of the service. The burden imposed on the tax base in such cases results in a diversion of taxation revenues from essential services to the free or essentially free service. This acts to the detriment of the general public and community as a whole when inessential services are provided free or practically free and the spending on the inessentials consumes increasing proportions of total revenues. The resulting imbalance in resource consumption is ultimately unsustainable although it may not be immediately evident. The "special interest effect" is particularly manifest wherever focused community groups organize to demand higher spending and lower fees and exemption from cost-recovery measures for inessential services that appeal primarily to members of those groups and offer little in the way of benefits to the broader community. The user fee and cost recovery measure policies address this situation with reference to services that are private goods—the policy imposes a full cost recovery or user fee of 100% of the cost on the user to ensure that the party that receives the benefits bears the costs accordingly.

7.0 Transfer Prices for Goods & Services Delivered to & Received from Internal Customers/Suppliers

Transfer pricing policies should be established to encourage the utilization of underused facilities and to ration the use of overused facilities by internal District customers. Where cost recovery measures and cost recovery benchmarks are applied to divisions, business units and staff units, it is important that the service organization be adequately compensated by the internal customer organization for the use of the service organization's assets and personnel.

The Subcommittee recommends that Council adopt a transfer pricing policy that incorporates the following principles:

- Marginal cost pricing to encourage utilization wherever facilities or services of the providing organization are operating at less than full capacity;
- Full cost or the equivalent market pricing wherever facilities or services of the providing organization are at near full capacity or at full capacity;
- Recognition of revenues and costs resulting from transfer priced goods and services delivered to internal customers on the same "arms-length" basis as goods or services delivered to external customers or received from external suppliers.

In the case of under-utilized facilities or services operating at less than full capacity, the transfer price for the services performed should be set at the service organization's marginal cost to encourage utilization. In the case of over-utilized facilities or services operating at near-full or full capacity, the appropriate transfer price for the services performed is the full cost or equivalent market price to an external customer. The policy assumes that the costs, whether marginal cost or full cost, are known or knowable. The burden is on the providing organization to demonstrate the validity of the cost measure.

Service revenues resulting from transfer priced services performed for internal customers should be regarded on the same basis as revenues resulting from services performed for external customers. The performance measurement policy and practice will include all revenues and costs arising from the transfer of goods and services as between operating divisions, business units, and staff units on the same basis as for external customers and suppliers to encourage cooperation and efficient and effective allocation of resources. If the providing organization diverts resources from an external customer to an internal customer and the revenues are not recognized within the performance measurement metric, there will be little incentive for the providing organization to provide the service and an over-incentive for the recipient to consume the service. Recognition of the internal revenues and costs serves as a price signal and counterbalances this tendency and thereby should act to conserve resources generally, enhancing the drive to sustainable activities.

8.0 Capital Project Evaluation

The Subcommittee recommends that Council adopt a policy whereby capital project proposals and evaluations will be conducted in a systematic and openly transparent manner with full accountability for costs and benefits prior to committing to undertake the capital project.

Most public projects will ordinarily result in (a) direct benefits which accrue to taxpayers in general, in the form of cost savings for particular services which the government is already committed to provide, and/or (b) indirect benefits accruing to individuals or groups in the community as a result of the project (they may or may not pay for these services, and whether they do is, in principle, irrelevant in determining whether the project should be undertaken). The sum of these two classes of benefit is the total social benefit generated by the project. The components may be weighted to reflect the social evaluation of benefits accruing to particular identifiable groups.

Public benefits are obtained only through utilizing resources, costs of which are the costs of the project. Costs incurred to obtain public benefits are also of two types (aa) direct public costs, borne by the general taxpayer through the tax levy, and (bb) associated private costs, borne by individuals or groups within the community. Total social cost is the appropriately weighted sum of these costs.

Government is not a profit maximizer as are business firms, but is, or should be, a social welfare maximizer, and it is for this reason that the analytical techniques of the private sector may be utilized by the government with appropriate modifications. Because government is concerned with social welfare maximization, it goes without saying that it should consider social benefits and social costs only.^[2]

The process would include the following:

- At the initiation of a capital project proposal, the Manager will, in consultation with the executive committee, establish a plan for ascertaining the need for the capital project and the probable total cost of the capital project as if implemented during the then-current budget year. The Manager will advise Council and the public of the ascertained probable total cost of the proposed capital project at the next available public session of the Council and will provide an estimate of the effect of the capital project on the financial condition of the District and provide an opinion of the likely means of funding for the proposed capital project before the capital project proposal goes to the public for information and public consideration and input;
- The evaluation of each capital project proposal of significance will be conducted in accordance with best practices for determination of life-cycle costs and benefits. This principle will be applied equally to infrastructure projects and to capital projects relating to recreation, parks, community services or arts and

cultural facilities. Risk will be explicitly considered and taken account of by the evaluator, and will be reported to Council and the public. Risk includes but is not limited to the variability of revenues, the uncertainty of costs, and the uncertainty of benefits;

- Costs and benefits will be adjusted for the time value of money at the social opportunity cost of capital. The social opportunity cost of capital is the pre-tax cost of capital funds in their highest and best use or occupation, whether private or public, irrespective of the nature or purpose of the project proposed; and
- A formal economic benefit-cost study will be undertaken, before the proposal proceeds to the design stage, to demonstrate that the social benefits of a capital project proposal outweigh the social costs, provided the capital project is of significant size and complexity or risk, or is categorized as a major capital project for purposes of the financial planning process and/or performance measurement and reporting . The economic benefit-cost study will be presented to Council at the next available public session of Council.

9.0 Continuous Improvement (“Kal-Zen”, Change for the Better ⁽³⁾)

The Subcommittee recommends that Council adopt a policy of continuous improvement in all aspects of the District’s activities and that such policy will be a guiding principle and best practice. Service delivery gains and financial performance achievement are at the heart of this continuous improvement best practice. The policy will include the following:

- Activities that add cost but do not add value will be identified and eliminated. All employees will be responsible for participating in this endeavour irrespective of station or title;
- At least every third year, the District’s management will engage in a process of re-examination of the District’s systems, policies, practices and services with a view to ensuring that District is operating at optimum effectiveness and efficiency.

10.0 Infrastructure Maintenance & Sustainable Funding

Reporting on the condition assessment of the District’s infrastructure assets at least once every fiscal year guides the Council and assists the public in determining the appropriate level of expenditure required to maintain the assets in serviceable condition, and contributes to the best practice policy.

The Subcommittee recommends that Council adopt a policy of infrastructure asset condition assessments performed periodically and in conjunction with a regular structured program of asset renewal and replacement. The policy, as envisioned, would include the following:

- Recording the actual spending on the maintenance of the capital assets is economically sound and the preferred best practice provided the District has undertaken an *asset condition assessment* and follows a strict disclosure policy setting out the parameters and conditions of assets and the degree to which expenditure for renewal and replacement has been deferred in the period and cumulatively. More costly, this approach achieves closer conformance with the actual economic activity of acquiring and maintaining capital assets than the CICA-promulgated 'depreciation expense' method because it requires the District to undertake a more thorough and systematic approach to infrastructure management than would be undertaken in response to any simple book-entry 'depreciation expense' procedure ; furthermore,
- Since the District has put in place such an asset assessment program and is currently following an active program of infrastructure management such as would likely comply with GASB 34 provided the financials were brought into line with the *disclosure requirements*, this application of best practice principles should be continued, and, if not already the case, be expanded to encompass all corporate infrastructure and facility assets irrespective of the accounting method imposed by legislation or accounting pronouncements of CICA.^[4]

11.0 Revenues

The Subcommittee recommends that the District undertake and maintain a diverse revenue base so that the relative share of the property taxpayer's portion of the District's revenue will decline over time. In developing an appropriate policy the following principles are generally acknowledged to be central to best practices:

- Undertaking the development of, and maintaining a diverse revenue base to avoid dependence on any one segment or customer, to the extent practicable;
- Ensuring that the taxation revenue base is not burdened unnecessarily because the organization wishes to avoid unpleasantness or confrontation by declining to levy user fees or impose cost recovery measures where a service or expenditure is for a "private good" (defined above) and an identifiable individual or group. Wherever a "private good" is entailed or is the output or outcome of any service or expenditure, whether for operating or capital purposes, a user fee or cost recovery measure will be imposed except in the case of hardship or where hardship would result if the user fee or cost recovery measure were to be imposed;
- Unless otherwise provided for, the user fee or cost recovery measure is set at a level that recovers not less than the full direct and indirect costs of service.^[5] The amount of the direct and indirect cost recovery and subsidization for each service should be disclosed and made available publicly in order to allow for the appropriate planning within the District and to allow for the citizens to better

understand the benefit they receive in return for the cost they pay. For clarity and to avoid doubt, in this context full direct costs of service include, but are not limited to, costs incurred by the provision of labour and materials relating to the activity or service; and, full indirect costs of service include, but are not limited to, costs incurred in the administration and maintenance of programs and assets relating to the activity or service;

- Cost recovery for specified local area improvements which benefit a defined group or individual will be a guiding best practice principle. Consequently, and in keeping with established precedent, full cost recovery of any capital cost relating to improvements should be a condition of any expenditure in specified local area improvements;
- Where a "private good" is commingled with a "public good", the benefits accruing from the delivery of the "private good" will be separated and accounted for and a user fee or cost recovery measure imposed according to best practice principles; in this context, a "public good" is any municipal service or public place that confers a benefit that is non-exclusive to any one individual, group or organization, cannot be diminished by use or occupation, and is not provided privately for the exclusive use or benefit of any individual, group or organization to the exclusion of all others;
- A clear policy which on adoption sets forth the basis on which revenues will be generated, how revenues will be determined ahead of the provision of the service, and the extent to which revenues will cover the costs related to the activity itself and those costs related to ensuring that the activity can be performed in the first instance.

12.0 Expenditures

The Subcommittee recommends that the Council adopt a policy whereby the burden on the taxpayer should be kept to a minimum and be distributed in a fair and equitable manner. The policy would include the following principles:

- Expenditures for a "private good" will be subject to full cost recovery unless otherwise excepted by reason of personal hardship on the part of the beneficiary;
- Expenditures for a capital purpose of a size, risk profile and complexity that is significant enough to warrant undertaking an evaluation of benefits, costs and risks, will be preceded by a formal study of the benefit-cost net balance supported by a life-cycle cost analysis in which the capital cost and operating and maintenance and renewal costs will be determined and disclosed. Off-setting revenues, debt service refunds, and cost recovery amounts will be separately presented and formally disclosed;

- Expenditures for an operating purpose will be made only in conjunction with and conformance to the adopted multi-year financial plan and budget, unless excepted by an emergency provision or with the approval of Council in public session; and
- Ensuring that with respect to expenditures for the acquisition of all goods and services by the District the value to the community is maximized through an arms-length, fair and open competitive process designed to realize the greatest benefit for the value paid; and, furthermore, where a cooperative program for the acquisition of goods or services has been established in accordance with and following government best practices to realize scale economies, participation is encouraged unless mitigating circumstance dictate otherwise.

13.0 Debt & Debt Service

The Subcommittee recommends that Council adopt a policy of ensuring that any borrowing will be at a minimum consistent with the ability of the District to service its retirement of borrowing outstanding and the payment of interest. The policy would include the following principles:

- Debt borrowed for a capital purpose will be done only in conjunction with an approved plan of repayment, subject to the provision that the debt service will not result in an increase in the rate of taxation beyond the guideline annual rate of increase in the year of borrowing or in any subsequent year unless the expenditure for which the debt is issued is (aa) a necessary (“essential”) expenditure or (bb) council has received elector approval by referendum for the expenditure and the debt issue;
- The guideline annual rate of increase in the rate of taxation will mean the year over year percentage increase in the aggregate tax revenues levied on ratepayers of record as recommended in the report of the Economic Subcommittee (nominally, the Bank of Canada reported real/nominal bond yield implicit inflation expectations averaged over the most recent eight calendar quarters plus expected population percentage increase);
- Utility debt borrowing will follow the “prudent knowledgeable expert” principle with respect to the amount of debt service relative to revenue and utility rate increases and the risk of default of the utility. Where there is a chance that the debt service of the utility resulting from any borrowing or any series of borrowing should require supplemental support from the General Fund, then the debt will conform to the requirements for debt borrowed in the General Fund with respect to the guideline annual rate of increase.

14.0 Forecasting & Control

The purpose of forecasting or projecting is to ensure that the organization achieves its goals within its budget and takes timely corrective measures to minimize or avoid variances to plan.

Without prescribing any one particular method of forecasting or control, the Subcommittee recommends that the District undertake an examination of its present procedures and practices to ensure that these are not impeding or restricting the organization's effectiveness and efficiency. In particular, the focus on input cost controls should be revisited. The examination should include the following:

- An outcomes-output-input pricing performance-based model is preferred for purposes of establishing organizational goals and objectives;
- The setting of objectives for each of the District's operating divisions, business units, and staff unit management is conducted in the context of outcomes sought and not inputs used;
- Control measures will be centered on service deliverables and ensuring that prices for service levels are achieved optimally;
- Consistent with this performance based management strategy is a process of forecasting or projecting the future state and condition of the District and the price entailed in achieving those outcomes and that future state in an optimal way; and,
- Additionally, in conjunction with the quarterly performance reporting requirement set out above, the District will undertake forecasts on a more frequent and more time constrained basis than previously. As this is expected to impose requirements on the management information system, which have not hitherto been imposed, it will therefore be necessary to make additional investments in systems to ensure that accurate and timely information is provided to operating divisions, business units and staff units.

15.0 Specific Measures in Recreation Management

The Subcommittee recommends that Council adopt a policy whereby fee-setting should be market driven, adjusted for type of facility and usage rate, including time of day and day of week usage; be set within a broad policy guideline to enable staff sufficient flexibility to tailor rates and program charges according to demand; and, be transparent, and, where subject to a cost recovery policy, be set according to the objectives in the policy. The best practice policy would include the following principles:

- Where rationing of the attendance is required, e.g., the aquatic centre, then recreation management should be allowed the discretion to set fees according to

utilization patterns, and to encourage the utilization of low-demand periods of day or week;

- Where 'Surf' cards or 'Wave' memberships are the preferred means of revenue collection and it is deemed appropriate to encourage migration from Drop-in payments to one or other of the former payment methods, recreation management should be granted the latitude to set Drop-in fees at a level that encourages use of the Surf or Wave promotions;
- Membership card rates for monthly, quarterly and annual memberships should bear some relation to the time value of money and the cost of card issuance. The annual membership rate is a 35% discount to the quarterly membership rate annualized and bears no relationship to the cost of funds or the cost of issuance;
- Provide a seamless integrated point of use management information system to enable supervisors to better manage the delivery of services and the assignment of staff. Increase the frequency and timeliness of reports to supervisors and managers through an automated management information system. Create a fully integrated point of sale, recreation management and accounting system; and
- Provide directed training to supervisors and managers in financial reporting and interpretation to better enable those employees to participate in and prepare financial budgets and plans and to better establish and set fees and program rates.

16.0 Specific Measures in Parks & Environment

The Subcommittee notes that staff commentary and responses indicate the need for a review of organizational policy with respect to operations in parks and environment directed at improving service delivery and reducing costs.

With respect to new development subdivision parks, it is evident that the design of park features by developer architects and advisors is imposing an ongoing maintenance burden on the tax base which is not provided for and should not be imposed on existing taxpayers, therefore:

- As a best practice principle, the design of park features in new developments will be approved by the parks and environment division's gardeners, in conjunction with senior District management, prior to implementation with respect to the maintainability of the new park or park feature and with respect to the on-going cost of maintenance such that those costs and the diversion of Parks & Environment resources to the new park features impose no more than a minimal burden on the general taxpayer; and further, that

- Development fees relating to the new development subdivision are sufficient to ensure that the burden of maintenance and upkeep of the park features in the new development is covered on a full-cost-recovery basis for a period;

With respect to planting areas within traffic features (curbs, sidewalks, etc.) installed for traffic control and traffic calming and pedestrian safety, for the purpose of minimizing undue rainfall runoff by providing for infiltration of precipitation, which have contributed to service level challenges in Parks & Environment and impose an additional burden on the tax base that results in lowered service levels elsewhere in the Parks & Environment mandate, the following best practice proposals are advanced, therefore:

- Each planting area within a traffic feature will be,
 - Designed in conjunction with parks and environment gardeners to minimize ongoing maintenance costs and to ensure maintainability;
 - Supported on a full-cost-recovery transfer price basis, recoverable from engineering and public works, to ensure adequate funding for and avoid unwarranted diversion of resources from Parks & Environment to a public works purpose ; and
 - On a full-cost-recovery basis, maintained by Parks & Environment with respect to specified local area improvements.

End Notes

- [0] Anon., *International Themes in Public Sector Reform and Performance Management*, Victoria, BC: Queen's Printer.
- [1] www.hc-sc.gc.ca/ahc-asc/pubs/extern-charg-frais/first_session-premiere_seance_e.html
- [2] Quirin, G. David, *The Capital Expenditure Decision*, 1967, Homewood, Illinois: Richard D. Irwin, Inc.
- [3] <http://en.wikipedia.org/wiki/kaizen> <http://en.wikipedia.org/wiki/kaizen>
- [4] GASB 34 alternative method of accounting for infrastructure assets is one approach to determining and reporting on asset condition and maintenance expenditure in lieu of depreciation expense accounting. GASB 34 is one standard upon which a best practice policy and procedure may be determined.
- [5] The phrase "unless otherwise provided for" allows significant latitude in the setting of user fees and recovery measures in the case of hardship or for a social development purpose. The use of this latitude should be made sparingly for reasons given in the section on user fees and recovery measures.

**FISCAL SUSTAINABILITY TASK FORCE
ANNEXES TO THE BEST PRACTICES AND BENCHMARKING
SUBCOMMITTEE REPORT**

These papers are for background purposes and are supplementary to the Best Practices and Benchmarking Subcommittee report.

The documents are abridged versions of the BC Government papers dealing with best practices and performance-based management and performance-based reporting.

Annex 1 – BC Performance Reporting Principles.

Annex 2 – Quick Reference Guide to Measurement Principles.

Annex 3 – Best Practices – Compilation of Summaries of Management Principles

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1. BC Performance Reporting Principles ¹

a. *WHAT ARE PERFORMANCE REPORTS?*

i. Performance reports are strategic and multi-year service plans and related annual reports published by the government and each of its ministries and agencies.

b. *WHY REPORT ON PERFORMANCE?*

i. Performance reports are the key means by which government is able to report on its performance and is held accountable to the legislative assembly and the public for its planned and actual performance.

ii. The purpose of reporting on performance is to:

- (1) Encourage healthy debate of plans and priorities
- (2) Allow assessment of government's actual performance
- (3) Engage the public's interest in the business of government, and
- (4) Demonstrate to the public that government is open and accountable.

c. *BC'S PERFORMANCE REPORTING PRINCIPLES*

i. Explain the public purpose served

(1) Purpose—Do you know:

- (a) whose interests are being served
- (b) how those interests are being met, and
- (c) by what standard

(2) Criteria—Is it clear:

- (a) why an organization exists
- (b) what the organization does
- (c) who the organization serves
- (d) how its services are delivered.

ii. Link goals and results

(1) Purpose—Do you know:

- (a) whether the organization accomplished what it set out to accomplish, and
- (b) whether it is still on track for the future.

(2) Criteria—Is it clear:

- (a) what the organization intended to achieve
- (b) what it actually achieved
- (c) what the impact that the organization's results will have on its future direction.
- (d) that is there a logical 'chain of events' from the goals, objectives and strategies through to the performance measures and results

iii. Focus on the few critical aspects of performance

(1) Purpose—Do you know:

- (a) where the organization is placing its emphasis and how it is measuring its success:
 - (i) are the key issues that matter to the organization's performance apparent; and,
 - (ii) will council and the public have a clear and concise and balanced picture of the performance of the organization.

(2) Criteria—

- (a) that the report focus is on what is important to
 - (i) the public and its elected representatives
 - (ii) government at the overall corporate level

- (iii) the organization in terms of its priorities, goals and objectives
 - (b) that key results—both financial and non-financial—are clear and readily apparent
- iv. Relate results to risk and capacity
 - (1) Purpose—Do you know:
 - (a) the challenges and opportunities facing the organization and the trade-offs that a well-managed organization must make.
 - (2) Criteria—Is it clear:
 - (a) how the organization's results were affected by
 - (i) its risk management
 - (ii) its current capacity
 - (iii) the capacity of others
 - (b) whether the organization has sufficient capacity to meet its objectives in the future and to manage its risks
- v. Link resources, strategies and results
 - (1) Purpose—Do you know:
 - (a) the costs of delivering government's programs, products and services, its goals and objectives or its results; and,
 - (b) information about costs that can lead to meaningful discussions about the choices that government makes and the impact of those choices on the people it serves.
 - (2) Criteria—Is it clear:
 - (a) what the planned and actual costs were of the organization's
 - (i) core business areas (e.g., programs, products or services)
 - (ii) key goals, objectives and strategies
 - (iii) results achieved
- vi. Provide comparative information
 - (1) Purpose—Do you know:
 - (a) whether an organization's performance is improving, deteriorating, or remaining unchanged; and,
 - (b) that trend information on key performance measures, with comparisons to past performance or the performance of others, helps put the organization's current and expected future results in context.
 - (2) Criteria—Is it clear:
 - (a) whether (and, if so, why) the performance of the organization is
 - (i) improving
 - (ii) deteriorating
 - (iii) remaining static
 - (b) how the organization expects to perform in the future.
- vii. Present credible information, fairly interpreted
 - (1) Purpose—Do you know:
 - (a) whether the information is credible; and,
 - (b) that council and the public will have a clear sense of whether they can rely on the information when making decisions or judgements about the District's performance.

- (2) Criteria—Is it clear:
 - (a) that the information in the report is
 - (i) credible—i.e., relevant and reliable
 - (ii) consistently and fairly presented
 - (iii) understandable.

- viii. Disclose the basis for key reporting judgments
 - (1) Purpose—Do you know:
 - (a) the kinds of choices the organization made in reporting and have confidence in using the information; and,
 - (b) that by knowing the basis on which information has been prepared and the limitations that apply to its use, council and the public will also better understand how the performance report should be used.

 - (2) Criteria—Is it clear:
 - (a) why the organization made the reporting choices it did
 - (b) why it chose the performance measures it did

1. *Quick Reference Guide to the BC Performance Reporting Principles*, Office of the Auditor General of British Columbia, Victoria: Queen's Printer. Adapted for the District of West Vancouver.

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1. Quick Reference Guide to Performance Measures ¹
 - a. What is a Performance Measure?
 - i. A performance measure is a way of assessing aspects of an organization's performance.
 - b. There are several types of performance measures an organization can use:
 - i. Input -- the resources (dollars & FTEs) used to undertake a function;
 - ii. Output -- the level of service provided by a program or the products and services delivered. The measure may be a number, percentage or ratio.
 - iii. Outcome -- the result, the consequence or the change in conditions, behaviours or attitudes.
 - (1) Outcomes are of direct importance to customers and the public. They may be intermediate, ultimate or somewhere in between.
 - (2) Intermediate outcomes are expected to lead to the desired ends, but are not themselves "ends". In many programs, a progression or sequence of outcomes usually occurs.
 - (3) Ultimate outcomes are the desired end or ultimate results that are hoped to be achieved by the organization's activities. These results are directly related to the organization's mission.
 - c. Outcome measures are the most important type of measure because, ultimately, they deal with the *effectiveness* of an organization. However, outcomes are also the most difficult to measure. This is so, in part, because *outcomes* are often broad statements of the *benefits* an organization wants to bring to the community or public.
 - d. Outputs are easier to measure because they are usually *quantifiable*. Measures include: quality, cost and timeliness. *Output measures* are important because they *describe the service levels* of an organization and, in combination with *outcome measures*, provide useful information.
 - e. Inputs (such as budgets and FTEs) on their own are of limited value, but when linked to *outputs* provide useful measures of *efficiency*. *Input measures* provide an important *link between resources and results*—key information for decision-making.
 - f. Program delivery moves along a continuum. *Inputs* are consumed and *outputs* are produced with the expectation of good *outcomes*.
 - g. Performance measures may be presented as *targets* (intended results) in the service plan or as *actual results* in the annual service plan report.
 - h. Service plans are forward-looking documents. They should *set out an organization's intended outputs and outcomes, and its performance targets*, for each of the organization's goals and objectives, key program areas or core businesses.
 - i. The annual service plan report should look back on *what was achieved relative to what was planned*. The report should explain the *variances* or differences between the two and give some sense as to what the organization will do differently in the future as a result.

- j. Performance measurement may be difficult to do, but it is worthwhile. It is a vital activity because:
 - i. It provides the information government needs, to be *open, transparent and accountable* to the public and its representatives.
 - ii. It supports rational decision-making when it comes to *allocating* public funds.
 - iii. It provides valuable feed-back to managers and legislators about the *extent* to which the program is *getting the job done*.
 - iv. It helps demonstrate to the public and to the legislators *that services are delivered fairly*.

- k. Characteristics of Performance Information
 - i. Relevant --
 - (1) Relates to the stated *objectives, strategies and programs* of the organization, and allows for an assessment of the extent to which the *objectives* are being achieved.
 - (2) Is reported in sufficient time to influence *decisions*.
 - (3) Measures something that is significant; i.e., it is useful in forming *assessments and judgements*.
 - (4) Aggregated at an appropriate and meaningful level.
 - ii. Reliable --
 - (1) Neutral and fair; i.e., judgements about performance are not influenced by the way the information is presented.
 - (2) Reasonably accurate and complete; i.e., free from material error or omissions.
 - (3) Capable of being replicated or verified by independent and knowledgeable observers.
 - (4) Faithfully represents the event, results or situation it is measuring.
 - iii. Understandable --
 - (1) Provides the minimum level of detail necessary to understand the activities and performance.
 - (2) Focuses on a small set of key performance measures.
 - (3) Provides comparative information over time and explains the context as to what happened and why; judgements can be made as to whether performance is improving or declining over time.
 - (4) Includes comparative information from similar organizations, when reliable, and information about best practice, to provide a frame of reference for assessing performance.

Quick Reference Guide to Performance Measures (P. 3 of 3)

I. Four Steps to Performance Measurement

- i. Be clear about what is to be achieved—the intended results. Results may be expressed as outputs or outcomes.
- ii. Identify what will be measured to determine success—the performance measures.
- iii. Identify the concrete, measurable targets that will, over time, lead to the intended results—the performance targets.
- iv. Compare progress against the target and against the intended results—the actual versus intended performance.

1. *Quick Reference Guide to Performance Measures*, Office of the Auditor General of British Columbia, Victoria: Queen's Printer. Adapted for the District of West Vancouver.

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1. Notes on Public Sector Reform and Performance Management—International Themes ¹

- a. Generic framework for public sector reform—three core elements necessary to initiate reform:
 - i. Pressures driving the need for reforms which derive from both the socioeconomic and the political context;
 - ii. Feasible changes that can be achieved (as opposed to what might be desirable);
 - iii. The extent to which the reforms can be implemented.
- b. Key elements:
 - i. Leadership (a key success factor)
 - (1) Must come from both the political leaders and the senior managers
 - (a) the political level ensures:
 - (i) the continuity of reforms, and
 - (ii) consolidation of the previous reforms.
 - (b) senior managers:
 - (i) contribute to strategic thinking
 - (ii) cultivating a work environment
 - (iii) communication
 - (iv) achieving results
 - ii. Setting Objectives & Measuring Performance
 - (1) Common Objectives
 - (a) improve performance
 - (b) improve accountability
 - (c) provide better services to citizens
 - (d) focus on outputs and outcomes rather than inputs.
 - (2) Priorities are identified through
 - (a) strategic plans
 - (b) key results areas
 - (c) temporal elements
 - (i) short-term plans
 - (ii) mid-term plans
 - (iii) long-term plans
 - (3) Responsibilities and accountabilities
 - (a) clarified through performance agreements/plans
 - (4) Appropriate measures are developed concerning
 - (a) inputs
 - (b) outputs
 - (c) outcomes
 - (d) efficiency
 - (e) effectiveness
- c. Performance-based Budgeting
 - i. The budget is one of the critical areas to a review of government performance.
 - ii. Two advantages of a performance-based budget process are:
 - (1) The size of the budget will be related to past performance and future requirements.
 - (2) Budget process stability is provided by
 - (a) making targets explicit, and
 - (b) using performance information.

- d. Performance-based HR Management
 - i. Human capital is critical to performance management.
 - ii. Common incentives to improve performance are:
 - (1) Introduce the performance concepts to employees at all levels.
 - (2) Provide clear directions for performance target setting.
 - (3) Provide financial awards or job enrichments. And,
 - (4) Provide training opportunities for employees to improve their performance.
- e. Performance Reporting and Reviewing
 - i. The performance information system is the backbone of the performance management system.
 - ii. Annual performance reports are required.
 - iii. Performance is reported against:
 - (1) Performance targets
 - (2) Performance agreements, or
 - (3) Performance plans.
 - iv. The quality of the performance reporting process is reviewed to ensure that it is accountable and transparent.
 - v. Performance information is also considered and used in the next planning cycle.
 - vi. Special reviews may be undertaken periodically by independent review committees or commissions according to need or statute.
- f. Building Performance Culture
 - i. Management cultural change alters the focus from inputs to outputs and outcomes.
 - ii. Expectations are set through performance plans, and results are reported against targets set.
 - iii. Employees are said to feel comfortable making suggestions for improvement and questioning the policy or practice of government.
 - iv. A more outcome-focussed, citizen-centred, and performance-oriented culture is built.
- g. In Summation
 - i. Improving the performance of government requires strong legislative and leadership commitment which will ensure the continuity of the public sector reform and the development of a performance culture.
 - ii. Reducing public expenditure can be realized through downsizing and reorganizing, for example, by splitting big departments into small functional departments or by reorganizing departments based on their functions, rather than reducing the quantity or quality of public service.
 - iii. Improving responsibility and accountability requires that detailed performance targets with appropriate flexibility be signed by departments and employees through performance-based budgeting and performance-based human resource management at different levels, and that employees, agencies, and departments report their performance against the assigned targets on a regular basis.
 - iv. Improving government efficiency and effectiveness requires performance

information systems which include the collecting, reporting, reviewing and using of performance information.

- v. Improving government transparency requires more communication and consultation with citizens, stakeholders, interest groups, and the private sector, better partnerships with the private sector, and stronger coordination at different levels of government.
- vi. Public sector organizations should be citizen-centred, people-centred, change-oriented, and results-oriented.

1. *International Themes of Public Sector Reform and Performance Management*, Anon., Victoria: Queen's Printer.

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FISCAL SUSTAINABILITY TASK FORCE OTHER MATTERS

- D1.** In meeting with and listening, the Task Force heard clearly from the community that the matter of capital funding should be subject to wider consultation. Though the comments received cannot be said to represent a scientific survey of community opinion, the level of support for voting on money bylaws was very strong. Accordingly, the Task Force recommends that Council adopt a policy of requiring community passage of money bylaw referenda (by 50% + 1 of the votes cast) when considering major capital projects of a discretionary nature.

Passed 9 November 2006

- D2.** The Task Force recommends that Council establish sustaining committees composed of members of Council and the community to review the following subjects:
- Budget planning and execution
 - Revenue Sources from alternate means

On a quarterly basis.

Passed 9 November 2006

- D3.** The Task Force recommends that Council strike a committee in February of 2008 (i.e. – the last year of this Council's Mandate) to report to Council no later than September 30, 2008, on the number of Recommendations of this Task Force that have been adopted and implemented.

Passed 9 November 2006

- D4.** In the spirit of transparency that has driven this Task Force, we attach a report to the Council on the expenditure of taxpayer funds that was made by this Task Force in carrying out its mandate.

Passed 9 November 2006

FISCAL SUSTAINABILITY TASK FORCE PUBLIC RESPONSES

The following summarizes the quantitative estimates of respondent preferences and recommendations. Quite a few added qualifying statements to their responses. A small number wrote minor essays on the subject adding to the depth of understanding of issues from the ratepayers point of view which is helpful. Question #6 (Additional Sources of Revenue) was answered in varying detail by most respondents, but the responses were primarily qualitative rather than quantitative. The break-down of Questions #1, #7 and #8 are shown to enable a more complete understanding of the range of opinion on these important issues. In the case of Questions #4 and #5 there is a strong association between an Affirmative answer to Question #4 and an Affirmative Answer to Question #5, and the same may be said for a Negative answer to #4 and a Negative answer to #5, as well as DNS in #4 and DNS in #5. The level of association is estimated at 70%, which may be interpreted to mean that if the respondent answered in the affirmative to #4 he/she would be likely to answer in the affirmative to #5 seven out of ten times; likewise for an answer in the negative or DNS.

The Reader should be cautioned that the sample size is too small to be statistically significant.

Summary

1.	<u>Service Levels</u>	29 responses			
	a.	Favour Reduction	7 out of 29		
	b.	Favour No change	8 out of 29		
	c.	Favour Increase	2 out of 29		
	d.	Did Not State ("DNS")	12 out of 29		
2.	<u>Value for Taxes</u>	28 responses	10 Affirmative	6 Negative	12 DNS
3.	<u>Cut Costs</u>	30 responses	21 Affirmative	1 Negative	8 DNS
4.	<u>Raise Fees</u>	28 responses	13 Affirmative	9 Negative	6 DNS
5.	<u>Cover All Costs</u>	28 responses	11 Affirmative	11 Negative	6 DNS
6.	<u>Additional Sources</u>	(qualitative)			
7.	<u>Funding Major Capital Projects:</u>				
	a.	Pay as U Go 30 responses	17 Affirmative	6 Negative	7 DNS
	b.	Borrow 30 responses	14 Affirmative	9 Negative	7 DNS
	c.	P-3 30 responses	12 Affirmative	11 Negative	7 DNS

8. Approve by Referendum:

- | | | | | | |
|------|-------------------------|--------------|----------------|------------|-------|
| a. | All Responses | 30 responses | 20 Affirmative | 5 Negative | 5 DNS |
| b. | Affirmative Responses | | | | |
| i. | "Only If Very Major" | | 2 out of 20 | | |
| ii. | "Only If Over \$30MM" | | 1 out of 20 | | |
| iii. | "Only If Over \$7 MM" | | 2 out of 20 | | |
| iv. | "Only If Over \$1 MM" | | 1 out of 20 | | |
| v. | "Only if Non-essential" | | 1 out of 20 | | |
| vi. | No stated restriction | | 13 out of 20 | | |
9. Other Comments (qualitative)

Question No. 1:

Do you favour increasing, maintaining or decreasing current service levels?

I favour maintaining the current levels of service.

We favour reducing current service levels. The current level of taxation by all four levels of government keeps shifting the burden down to the property owners. The GVRD is not elected & the North Shore has minimum input (Highest taxation for transit & minimal benefit). Until this situation changes we cannot support any increased spending at the municipal level.

Parks staffing should be increased to allow for better monitoring of our mountain lands and natural area parks, and to provide for better maintenance of our forest trails. Our mountain lands and natural area parks are among West Van's most valuable assets. West Van is more than a "Waterfront Community."

Maintaining current service levels is exactly what we need to consider. More effectiveness and efficiency out of the existing infrastructure and project managers employed by the city is what is required, Make people accountable and reward the exercise of responsible behavior and decisions and the council will get more efficiency.

MAINTAIN. Would not wish to see a reduction in service levels and believe that any future increases should be the subject of community-wide discussion on a case-by-case basis.

Question No. 2:

When you think of value received for property taxes paid - do you get good

value? Where do you think your dollars are best spent? Worst spent?

I have no problem with the current value for dollars spent but have two main concerns:
- I have a great deal of sympathy with businesses who struggle to keep up under the weight of taxes passed onto them through increasing and exorbitant rents.
- It is unreasonable to expect long time residents to be charged ever increasing taxes based on the exorbitant increases in the market value of their properties.

I am proud of our local fire and police departments and feel we would not get better service if we were part of a wider group.

I think the senior centre is an obvious asset. I especially am in favour of continuing the high quality and affordability of the food services which are manned by volunteers under excellent direction.

I appreciate the excellent maintenance of our parks and gardens and value the high quality of the care they receive.

Best-spent - aesthetic appreciation such as Lighthouse Park; worst-spent - politically-induced waste of senior staff time.

The value received currently from property taxes in West Vancouver is reasonably good. An example of poor planning that costs dollars is in the focus on traffic calming in many areas. Some basic traffic calming is okay; however the long term costs associated with increased landscaping that requires annual maintenance is driving our taxes up!

Tax dollars are worst spent if and when they are being consumed by unnecessary layers of administrative personnel. In this regard, a District organization chart showing staff positions, present costs associated therewith, and the position's scope of authority and span of control would be a most useful piece of information to be considered as part of the next budget process.

West Vancouver is a safe community to live in. However concern has been voiced that the cost of our services are substantially higher than those of our neighbouring municipalities and in spite of already being higher have further increased by more than the cost of inflation. Often in governance, situations are perceived to be different to what they are due to poor communications or communications that are carefully monitored due to fear that further questions will be asked. One of the particular concerns around the last Increase was the municipalities' contracts of employment which many see as having built in escalation in excess of inflation. Particular for the Police and the Fire Service which are governed by union negotiated agreements and which if allowed to continue at their present levels may be unsustainable.

Value received for property taxes paid is good all around.

I feel council must recognize that West Vancouver is a unique residential community within the Vancouver metropolitan area and that we have no obligation to please every sector of the inhabitants. So called ‘~affordable housing” can only be accomplished with subsidies from some level of government but not the district of West Vancouver.

The role of government in West Vancouver is accomplished fairly well. There is some significant value, especially from the Police, Fire Safety and Public Parks. However, I would consider that the public works department could use more efficiency and effectiveness. 9 times out of 10, when I see a public work project being undertaken by that department, I ask “Does this really need to be done now?” This includes repaving streets that appear fine, laying new sewers when the old ones worked quite well (in the British Properties). There was an intersection on Highland and King George that was just fine. But then public works came in and narrowed it, paved all of the corners and building curbs, making a traffic collision more likely and more severe if there was one. Who decides the public works projects priority?

Where do you think your dollars are best spent? Probably on streets, roads and the fire department. Worst spent? Without a doubt property taxes are worst spent by the department of parks, recreation and culture in my opinion. The second worst is probably the property taxes paid to Translink although this is probably not a part of the District, at least the District is not very effective in dealings with Translink and doesn’t seem to try to be.

A significant portion of the recent increase in our taxes has been taken by the GVRD for TransLink transportation projects. Rapid West Vancouver property value increases in the past several years have not been offset by tax mill rate reductions, and this has caused taxes paid to the GVRD to balloon. This GVRD TransLink tax grab also needs to be contained by a limitation on annual increases to ensure that they do not rise faster than the national rate of inflation. Major GVRD capital projects should also require accurate total cost estimates and referendum approval before funding.

Good value best spent: recreation/parks/emergency services worst spent: anything supporting excessive development in higher lands

I feel we receive good value for our tax dollars, especially compared to the Provincial Government and Federal Government services we receive for which we pay a lot more taxes.

Question No. 3:

Do you have any suggestions for the District to cut costs or become more efficient?

A "good" organization identifies potential for efficiencies and keeps expense increases low, not necessarily to reduce expense, but to find funds for areas where expansion is necessary. That approach (part of "best practices") is not evident in the District nor in too many other municipal governments. For example, the draft 2006 budget that was posted on the District's website this spring included no hint of any identified efficiencies. In fact, there was no reduction in staff in *any* area, a tell-tale sign that identification of efficiencies was not much of a consideration.

The District Council seems to rely largely on staff to tell them where they can cut expenses. In a large corporate organization it would be the senior managers who would take ownership and come up with the suggestions.

Are people actively identifying areas where we can cooperate with the other North Shore municipalities to effect savings?

Residents who continually demand more and better need correction or pay higher taxes. The sea wall is stunning, and on cost the new community centre but both examples of over-indulgence. We can't have it both ways.

The basic solution to cutting costs is simple; just stop using outside consultants. We have very competent people working for West Vancouver; use them. A good example of all the traffic studies done on calming 21st Street. The money is wasted & nothing is done. The manager of Transportation; Brent Dozzi is more than competent. Use the knowledge; make a decision & move forward. Asking for reports from Managers in Council Meetings is done far too often; make a decision & act on it!

Firstly, consideration should be given to the contracting-out of certain municipal services, subject both to adequate public discussion of the proposed terms of any such move and to the maintenance of harmonious employee relations in District workplaces. Second, some services, such as the two main public safety functions, may be more efficiently provided on a pan North Shore basis. This would likely be especially so with respect to the fire department. Earlier ITAC research reveals that the WVPD is very efficiently run relative to other BC independent municipal police departments or RCMP detachments. Thirdly, given that in excess of 70% of the District's operating costs [evidently as much as 78% by some estimates relate to employee income and benefit packages, and that we apparently have one municipal employee [full or part-time] for every 44 District residents, and that 30% of the amount spent on staff remuneration goes to only 13% of our employees [see the DWV "schedule of remuneration" for 2005,

together with the District's operating budget for 2006), it would seem logical to pursue cost-savings first and foremost in this area of greatest expense. All departments, especially in the public safety area, should be encouraged to implement practices that reduce overtime costs [the aforementioned schedule of remuneration, as with earlier versions, appears to indicate quite a lot of overtime being paid in the fire and police departments]. Senior management and intermediate supervisory ranks should be reduced and re-organized so as to provide for more cost-efficient administration.

The District's relationship with the GVRD in its entirety could use a thorough re-consideration.

The use of facilities should be financially supported by a user pays basis. At present for the use of some facilities there is no charge and the facility or equipment is heavily subsidized by all members of the community for a few,, while for other facilities there are charges. If there are financial viable sustainable market rate user fees for all facilities some users who do not pay at the moment will face a charge whilst others who have always paid may not need to face an increase and may even find the present user fees can be reduced. In theory the removal of subsidies may allow property taxes to be reduced which in turn would offset the user fees for those members of the community who had not previously had to pay to use the facilities.

It is important that those tasked with running a facility are competent to run the facility in an efficient and cost effective manner and are held accountable for so doing.

Although the money saved may not be great, reducing/eliminating funding for certain somewhat ephemeral and less traditional community events could be considered, e.g. Olympics celebrations.

Make public works more accountable and publish the priority list of projects in the year before they are needed. Allocate only a certain percentage of their budget to 'unforeseen' events or emergency repairs

(a) Divest recreational activities and facilities to user groups divorced from the district. (b) Enable more oversight of costs by taxpayer groups with better publication of the costs and activities. There seems to have been a lot of money wasted on computers and software. (c) Eliminate subsidies to favoured groups such as the Seniors' Centre. (d) Keep the police department out of Ecom as this appears to be far too costly for the benefit received. (e) Significantly restrict growth of population because the costs of serving the increase seems to be increasing faster than any revenue from it. (f) contract out a lot of work. By contracting out the garbage collection, costs were reduced and the operation is conducted far more efficiently than it was by municipal crews. (g) There are tennis courts scattered throughout the district. Either lease them to groups of users in the neighborhood or sell them and use the proceeds to buy the lots on Argyle along the

waterfront. (h) get rid of about 20% of the highly paid staff and restrict the number of people employed by the district. It is ridiculous to have the district collect fees from people who hire personal trainers and then for the district to pay the personal trainers. The trainers should collect their own fees. This would reduce the administrative costs of the district.

Recycle better and have garbage pickup twice monthly.

Perhaps, we should sell or lease the community centres to the private sector for a one time payment and tax rebate to homeowners, as well as subsequent years' lower taxes through reduced operating expenses on these community centres. The private sector operator could then charge users of these facilities sufficient user fees to ensure that costs and an agreed rate of return to the operator are covered by the fees.

I doubt there are any suitable motivational bonuses in play (and by suitable I mean that a person is not bonused for just completing his/her job. I mean they are bonused for quantifiable improvements in efficiency, cost savings, and quality).

I think it is time Council started to say 'No' to certain facilities when they come asking for more money to embellish and change facilities that are more than adequate already. Our library, seniors' centre, etc. are the envy of other Municipalities in the Lower Mainland - and their services are widely used by non-residents.

If possible use hybrid vehicles where available and functional for the duties required.

Question No. 4:

Would you agree to more, or higher, user fees to increase revenue and/or cover service or program costs?

As much as possible municipal services should charge fees or earn revenue to cover their costs (e.g. swimming, golf, sports, rec center, arts & cultural facilities). And costs should include any indirect costs such as related District staff costs.

No, a cop-out

User fees should be competitive with other municipalities, but, more importantly there should be a 2 tiered system of user fees for residents and non-residents of West Van. I often find more residents of North Van using the golf facilities and the rec centre.

Either an outside firm with expertise in Municipal management should be hired or we should hire our own "Municipal Auditor General", reporting solely to the Mayor and Council, with the sole responsibility of examining every facet of the corporation and

making sure it is working at its most efficient — money well spent because then we, the taxpayers will get an idea of whether we are getting value for our tax dollars. A good place to start would be contacting the City of Winnipeg where they have reduced or maintained taxes every year for the past several years without reducing levels of service.

More or higher user fees ought not to be introduced unless and until each service concerned has been subjected to a thorough value for money audit, conducted by independent professionals, working in conjunction with District staff and under the direction, through council, of a committee of concerned and knowledgeable residents [i.e. something not unlike the FSTF]. No doubt our community has many others who would be able and prepared to make a significant contribution in this regard.

I believe that for each activity, service or program the revenues and expenses should be balanced including the replacement costs. If user fees are too high there may be less users creating a downward spiral. Cost may be contained by innovative marketing of a facility to maximize occupancy or use of a facility and the revenues.

I would NOT want to pay higher user fees simply to increase revenue, but YES, I definitely would agree to higher user fees to cover service or program costs provided I wasn't also paying property taxes to subsidize services or programs that I did not use. It must be realized that when an activity such as the weight room brought in revenue the staff simply went ahead and increased expenditures so there was no benefit to the taxpayers from the higher revenue. (b) I would be glad to pay a share of the full costs of a program provided the participants had some control over the costs and that all programs were conducted similarly.

I would not agree to higher fees of any sort until serious efforts have been made to reduce costs and to conduct value for money audits of all services provided. For those services in which it is determined that we are efficient, we need to determine whether the service is needed. Are we doing things which should best be done by others, public or private?

I would agree to higher user fees for non-residents using facilities like the Seniors' Centre, the Swimming Pool, and the Community Centre.

To a certain extent — as long as it's not overdone. I would support higher general taxes over many user fees. User fees could incur costs to collect which could limit their efficiency

Question No. 5:

Do you think user fees should cover all the costs associated with an activity, service or program?

Where operationally feasible, I believe fees should be charged to users and should recover the costs of providing the service. We all make choices as to how we spend our leisure time, and it seems only fair that we should fund them if we use them.

I assume the District charges the various sports associations and other users for the use of the Ambleside sports fields; if not, they should.

Some services, such as building permits, may even be charged at a profit. After all, the construction industry aims to be profitable; it should not be subsidized by the District.

Ideally the District's financials should, in addition to the traditional statement of income and expenses and a breakdown by department, indicate the operating costs and revenues of all the various programs: City Hall itself, the parks, the library, the various sports activities (individually), the rec and community centers, the permit program, road maintenance, etc. That is a perspective missing now but it is the kind of perspective that will show the residents more clearly what the District does, what the various activities cost and earn as income, and where the subsidies are. For example, how much do we spend on arts and culture versus sports activities? How many people use these services and is the balance of subsidy right? Again, this is a perspective top corporate organizations use; it not only increases transparency considerably but, more importantly, it lets one assess the priorities more readily.

Our taxes are what drive the services and programs for our community in which we share the costs and the benefits. User fees do already pay a portion of the costs.

User fees should cover the majority of the costs of using a facility.

All levels of activities have some user fees. We are not in favour of increasing these.

User fees should cover a portion only of the cost of programs and services, that portion to be determined on a case by case basis. It may be that, in certain instances, user fees should cover a very large portion of the costs associated with a given program or service. After all, the provision of basic municipal utilities is already in good measure paid for by user fees, with water usage, for example, about to become even more so.

I think the costs associated with all activities, services and programs should be determined and a calculation made to determine what user fee would recoup the costs associated with a particular program. Having done that, a decision should be taken at Council level either to establish a basic subsidization policy to apply across the board

(which may well be quite impractical) or a decision made in respect of various services based to some extent on a set of policy principles.

Consideration should be given to Innovative marketing of facilities for corporate advertising, sponsorship, corporate human resource programs and naming opportunities.

Consideration should be given to allowing corporate sponsorship of sports teams to provide revenues to clubs to cover the cost of user pay fees

Consideration should be given to find ways to facilitate sporting events within the community that will bring business to the community e.g. a swim meet. A low level lower mainland regional swim meet can bring 300 swimmers and there parents to the community for a half day or a day. Those attending the meet have to eat, they have to buy fuel for their cars, some may stay in accommodation (not much available in West Vancouver) and some will shop. A swim meet brings the participants past Park Royal to Ambleside and Dundarave. Other sports can have similar benefit to our community.

I agree with the principle with the reservation that all of us (through our taxes) should pay something because the activity is available. My suggestion is 75% user fees and 25% expenses.

Not necessarily. Like the aquatic center, I don't mind paying some fee for its use whether I use it or not.

This is a very broad question and appears to be purposely designed to obtain a no answer. If you had asked if people agreed with user fees covering 100% of the costs of the water and sewage utilities, then asked if recreational activities should be paid 100% by user fees you would probably receive a lot more people in agreement. The way the question is worded might result in people thinking about user fees to cover the costs of fire or police or parks services and since you ask respondents to be specific the question itself should have been more specific. No program should be instituted unless it covered 100% of all costs including administration and general overhead. So far taxpayers have not been provided with the full costs of various programs and services. My reply then is that YES user fees should cover all the costs of services or programs related to recreation and hobbies. Furthermore, the district applies the user fee principle to provide 100% of the costs, including capital costs and debt servicing costs, of the water and sewage services. The principle is established.

In direct answer to this question - if a program has a direct societal benefit (health, arts, child development or education, for example) then it should be subsidized to encourage participation. If it is strictly an amusement type program with little or no benefits (i.e.: "How to Improve your Golf Game"), then it should be paid by the user.

Question No. 6:

Do you have suggestions for additional sources of revenue that should be considered?

In the US some highways are kept clean (tidying the verges, for example) by businesses. There are areas of DWV that could be done or partly done by a local company with credit. This already happens to some extent with Murchie's offering tea at the Library. A garden or florist shop could display their talents and range by having an area in a park, or a street with flower pots, for example.

Higher property tax

Leasing a spot in Ambleside Park for a good quality restaurant. Start charging private groups with restricted membership lists from using municipal land below economic rents. Some examples are the waterfront property occupied by the Hollyburn Sailing Club (look at their posted membership list; 50% are non West Vancouver Residents - why subsidize them?) The private storage of boats under tarps is an eye sore. We certainly are not prepared to spend municipal dollars to relocate these facilities as posted in the Ambleside revitalization plan. Another example is the West Vancouver Tennis Club -- \$2000 to join -- a very exclusive club with a big ugly tent over 50% of the year. Return this land to community benefit as soon as possible.

Anything new should not compete with the business community. For example, any restaurant planned for the waterfront should be put out for bids, not operated by the district.

Sponsorships and advertising. Allow billboards and local businesses to sponsor and contribute to public works. Think of 3Com Park in San Francisco or PacBell Stadium (Candlestick Park or Giants Stadium, respectively).

Consider: (a) parking fees. (b) increase the rental of some of the arts facilities along the waterfront. (c) divorce the district from the Kay Meek centre (not revenue but cost reduction). (d) increase user fees, (e) increase development cost charges by at least 100% to equate to the market value of their share of capital invested in common facilities and core utilities, (e) require developers to pay the full costs of roads and utilities needed to serve the land being developed. f) require property owners of newly developed lands above the upper levels to pay for snow and ice clearing from streets in their developments by hiring contract cleaners to provide the amount of service they want.

Build more commercial premises, maybe even a casino to liven up the place, and why

not take advantage of the tourism dollars by building some hotels. I don't think there are any in West Vancouver? After all it is a tourist mecca, how dumb is that sending all the revenue to other areas with the hotels! How about a multi screen cinema also. I don't see why I should have to travel to N. Van to see a movie.

Question No. 7:

To pay for major capital projects (i.e. over \$7million] should the District: Wait and save up? Borrow? Partner with the private sector?

The management of capital projects by GVRD municipalities is not particularly good. There's a long list of problematic capital expenditures, with TransLink topping the list.

To wait and save up is a bit harsh. Even homeowners use mortgages. To partner with the private sector is good but won't work for all projects. So yes, wherever feasible. To borrow, I'm in favour of that but with two key restrictions that keep fiscal responsibility up front: a binding referendum and a cap on how much of the annual budget can be devoted to paying interest on loans (just as banks limit our mortgages by capping the percentage of our income needed for housing). As residents we should demand the same discipline as the banks.

Partnering with commercial interests can compromise the integrity of local community projects and must be entertained with caution, ever mindful of our desire to limit signage and commercial ghettoism. Partnering and leasing in operations such as the food and beverage outlet on Dundarave beach can be successful if highly controlled and monitored.

Wait and save up preferred -- or borrow -- or best not do it at all but rather put monies into improving what we have. Negative to partnership with private sector.

Referendums should be in place only for very major expenditures, such as the rec centre. Others should simply have a lot of public input.

Waiting and saving, or borrowing, or partnering with the private sector could all be the correct answer depending on the project.

As far as '~major' capital projects are concerned, the cost should be born principally by those who stand generally to benefit from any given project. It is, therefore, preferable to borrow rather than to tax in advance existing business owners and residents who may or may not be around when the project in question is complete. There is also the question of how urgent may be the need for a particular project. If the health or public safety of the community can be shown to be at risk due to the lack of a given facility, the imperative to borrow funds and commence work is obviously that much greater.

As for partnerships with the private sector, this may be a desirable route to pursue. Again, it would depend on the terms of any proposed deal. Throughout history, governments have proved to be notorious prey to improvident bargains. After all, it's only other people's money. Therefore, any and all negotiations with private sector entities over a public project should be subject to thorough public scrutiny, in a process similar to the value for money audits.

For projects that are of some priority, but lacking the funding to proceed, the District should actively pursue donations/contributions from individuals and corporations rather than entering into private sector partnerships.

In the last two annual reports, the Director of Finance makes reference to expected requirements of the PSAB for capitalizing these assets with annual depreciation charges to the operating statement. The fairness of this procedure is so obvious that I wonder why there needs to be any great amount of research. This results in meaningful operating statements instead of big swings due to large changes in Capital expenditures from year to year.

Together with this change, financing should be by borrowing on a term basis with loans being amortized over the useful life of the asset.

Waiting and saving is a hopeless choice and public sector partners would want a greater return than we can accomplish by borrowing on our own.

To wait and save means that some needed facilities may be a long time coming. On the other hand to borrow means that property taxes have to increase to service the debt then this may be self defeating. On occasions there may be the opportunity to borrow where the benefits justify the borrowing. If P3s are considered the market rate for the land or facility being provided by the Municipality should be factored in to the agreement with the appropriate benefit to the Municipality. In other words it needs to be on a case by case basis with financial sustainability being the keyword.

Wait and save up? YES!
Borrow? NO!
Partner with the Private Sector? YES!

Firstly the 7 million dollar amount is irrelevant because it would depend on the type of project as well as the cost thereof. (b) the wait and save up position puts the costs on property owners who may not benefit very much from the particular project while future property owners would escape the capital costs of the project. Consider the purchase of a multi-million dollar fire-fighting item that would not be available to assist present property owners who pay the taxes to save-up, and who have already paid for today's

equipment, but would benefit future property owners. Why should all taxpayers have to pay for equipment that is specially needed to serve upper lands developments? There should be a surcharge on these properties. This would be similar to the extra taxes on the Dundarave properties to pay for the lane improvements, flower baskets, etc. The precedent is there. (b) Borrowing will usually result in the users or beneficiaries of the project paying for all the costs of owning and operating the project including the cost of capital, particularly if the debt repayment period is close to the useful life of the project. This is a more acceptable method of funding than wait and save-up. (c) Partnering with the private sector is often a very desirable method of financing capital projects. This often results in competition that will control capital costs, provide more efficient operation by organizations with particular know-how, and the costs are usually borne by those who use or benefit from the project, particularly if user fees are involved but also if property taxes are used. Contracting the garbage service out to the private sector is an example for this district. It could also apply to utility services, a large building, an ice arena, harbour facilities and operations, a fire truck, a fire hall, a police station, etc.

I am a proponent of "Wait and Save Up", however where it makes sense the other two options should not be excluded. Borrowing has the negative that it costs more, but the positive that the services are available earlier. Partnering with the private sector is an excellent idea for certain assets if it's done with some taste and decorum.

Question No. 8:

Should major capital projects be subject to voter approval through a referendum at election time?

Higher taxes add to the problem of housing affordability (our children are already priced out of the markets here) and add to inflation, an economic problem with negative social implications.

To restore fiscal responsibility I believe we need to align our politicians more closely with the electorate. I favour a vote or binding referendum on all building and new development projects or facilities (e.g. a new park) from \$1 million up. That approach may occasionally cause a rude awakening, but in general should spur Council to focus more closely on facilities the electorate wants--and is willing to pay for. It adds discipline and will improve transparency. Referenda are notoriously rejected by a disinterested and uninformed public. Public information meetings and input through public forum is a better way to include the public in decisions.

I believe the district's current strategy of gaining input from advisory groups is useful but only if the recommendations from these groups is put to good use. Too often their hard work is wasted by lack of implementation of their recommendations by council and staff.

Too often even the long term business plans crafted by council and staff, with input from the public, are ignored and compromised.

No project over \$7m should go ahead without voter approval. It need not wait until election time but that is the least costly. It's the expenditure that's the criterion, not whether or not necessary to borrow -- it is taxpayers' funds, after all.

Yes, referendum on major projects.

Waiting and saving, or borrowing, or partnering with the private sector could all be the correct answer depending on the project.

Referendum on all major capital projects & the process must include the annual operating costs & any increased staffing levels.

A referendum ought not to be the preferred way in which to obtain public participation in such decisions, or significant zoning decisions, or anything similar. Rather, the ongoing engagement of an informed public is a better approach to adopt. Judging by our mayor's most recent *Quarterly Report*, this is something that council is attempting to encourage and is a welcome development.

A referendum at election time is certainly one way to gauge the mood of the community without incurring costs for a separate referendum but other ways may also be needed from time to time.

Elections are expensive and I would recommend that the current process through the city Council is all that is required. That's why we elected a city council to make these decisions.

I think that we cannot expect to enjoy the facilities and services that we do without additional costs through tax increases. We are touched with increased costs in everything we do. We trust the people elected to manage our finances and get the best value. At some point we will pay more.

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Fiscal Sustainability Task Force



Purpose:

Council created the Task Force to examine the broad trends affecting local government and to explore the tools at our disposal to address those trends, in order to provide recommendations on a long-term fiscal sustainability strategy for implementation commencing in 2007.

The Role of the Task Force Includes:

- Reviewing the District's current financial state including relevant legislation, bylaws, policies and guiding documents.
- Developing a high level estimate of long-term issues and trends which will impact the District's fiscal sustainability.
- Comparing the District to other municipalities through the use of appropriate indices, benchmarks and performance indicators.
- Affirming or recommending adjustments to the District's current service levels and the underlying assumptions/guiding values.
- Recommending alternative service delivery methods.
- Reviewing public input from staff and community.
- Preparing a report to Council with recommendations on a fiscal strategy and action that should be taken to ensure the District's fiscal sustainability.

Members:

- Nancy Farran
- Greg Fleck
- Roff Johannson
- Jim Mutter
- David Roach
- Ralph Turfus

Council Representatives:

- Councillor John Clark
- Councillor Michael Smith
- Councillor Bill Soprovich

Staff Liason:

- Richard Laing,
Director of Finance



Fiscal Sustainability Task Force

Community Trends

- the District's **low growth rate** results in revenue increases less than the CPI (Consumer Price Index)
- the **geography and low density** in the District drives service costs up
- West Vancouver's **population is aging** and an increased number are on **fixed incomes**
- **satisfaction with the quality of service and value received** for taxes is consistently rated high
- **service expectations**, particularly in public safety and recreation, **continue to increase** and very few residents express support for service reductions
- there is a need to examine the extent to which **some services are subsidized**
- there is **increased resistance to higher taxation and user fees**
- **regional growth is impacting quality of life**, especially with respect to transportation systems
- **regional transportation projects**, funded through assessment based property tax, have resulted in **significant increases in taxation and are funded disproportionately by West Vancouver residents**
- a general **reluctance to allow rezoning limits the community benefits** that the municipality can extract from new development
- the **development cost charge** for new development **does not adequately compensate the community** for the long term cost of new development
- increasing taxation may make it **more difficult for small businesses** to compete



Fiscal Sustainability Task Force

Municipal Government Trends

- **labour costs**, which account for 80% of the budget, are **projected to rise** at a higher rate than the CPI
- capital costs for **facility and infrastructure replacement** will **demand more resources** than are currently available
- **funding and grants** from the Federal and Provincial governments are being **directed to regional transportation** projects rather than local governments
- the **municipal portion of the property tax bill is decreasing**
- **local governments** have very limited access to revenue streams and **account for only 8% of the taxes** collected by government
- the Provincial government has **reduced the taxation revenue** that municipalities can receive **from railroad and ferry infrastructure**
- senior levels of government have **reduced support for many social programs**, placing pressure on local government to fund the services
- **insurance costs have increased** dramatically
- **increased transparency** in government and broader public consultation **requirements increase costs**
- **environmental standards** have increased **requiring costly upgrades** in water and sewer
- **property assessment changes** have resulted in significant **variability and skewing** in assessed property values

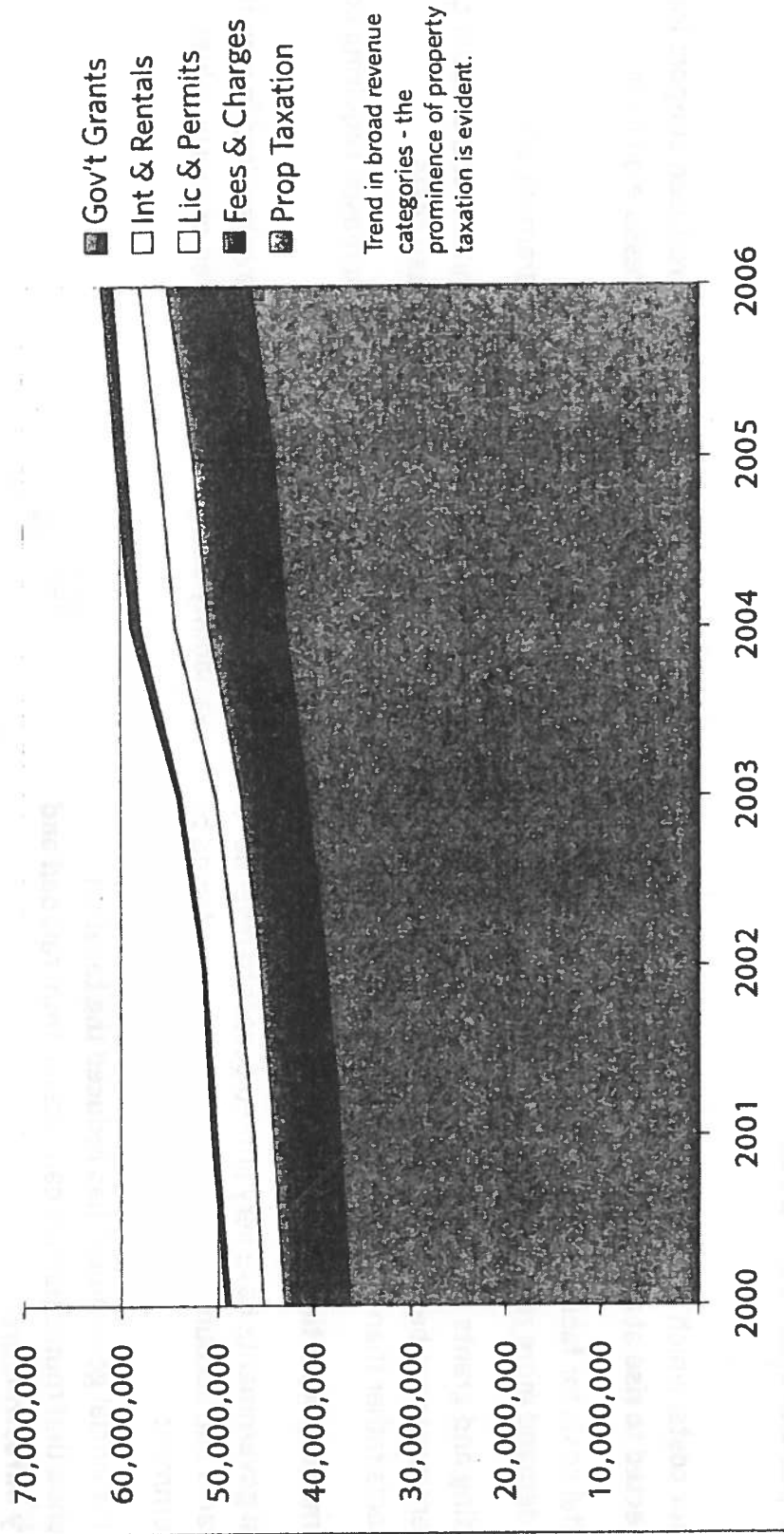


Fiscal Sustainability Task Force

DISTRICT OF WEST VANCOUVER

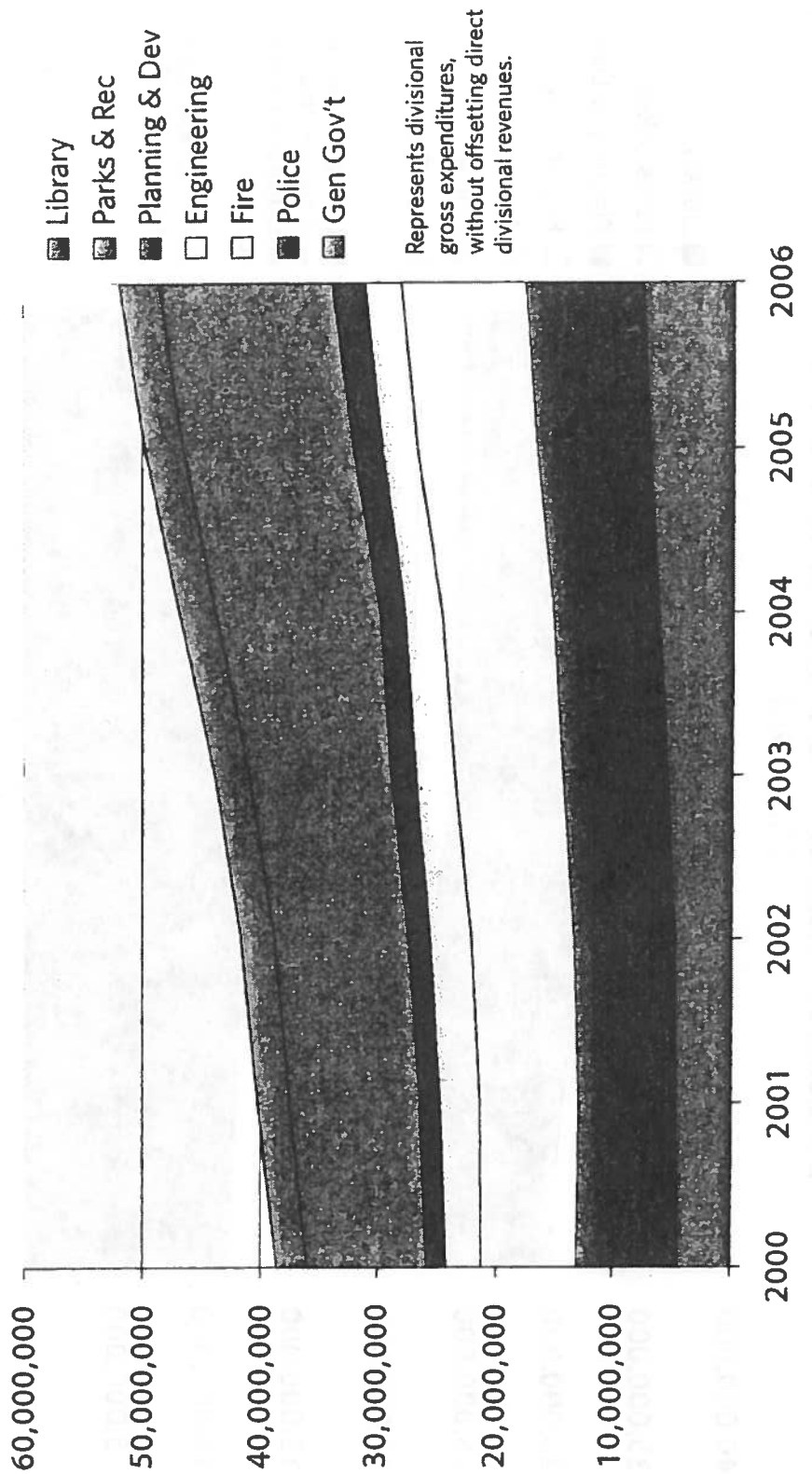
Trend in General Revenues

2000 - 2006



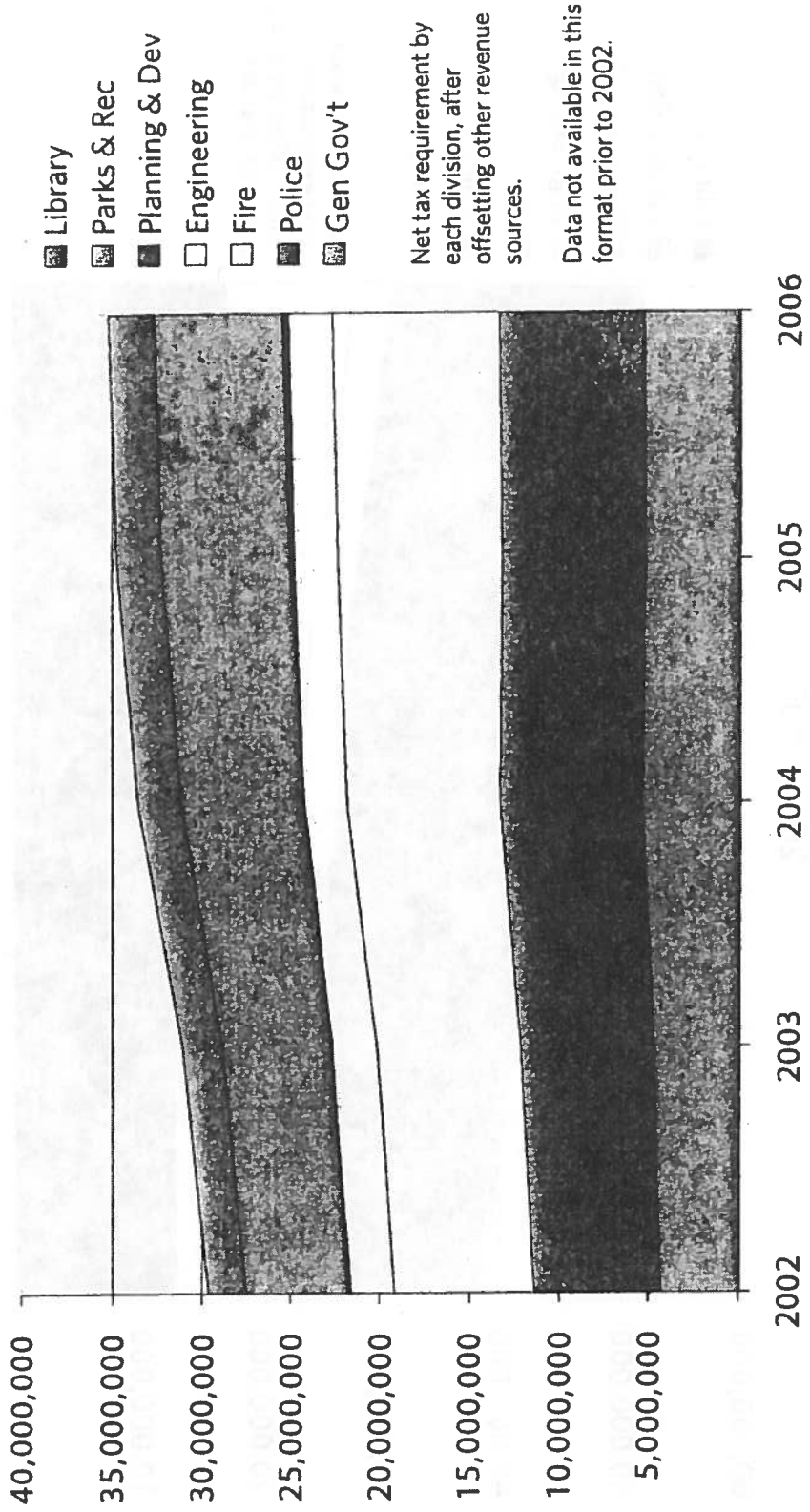
Fiscal Sustainability Task Force

DISTRICT OF WEST VANCOUVER
 Trend in Divisional Expenditures — Gross
 2000 - 2006



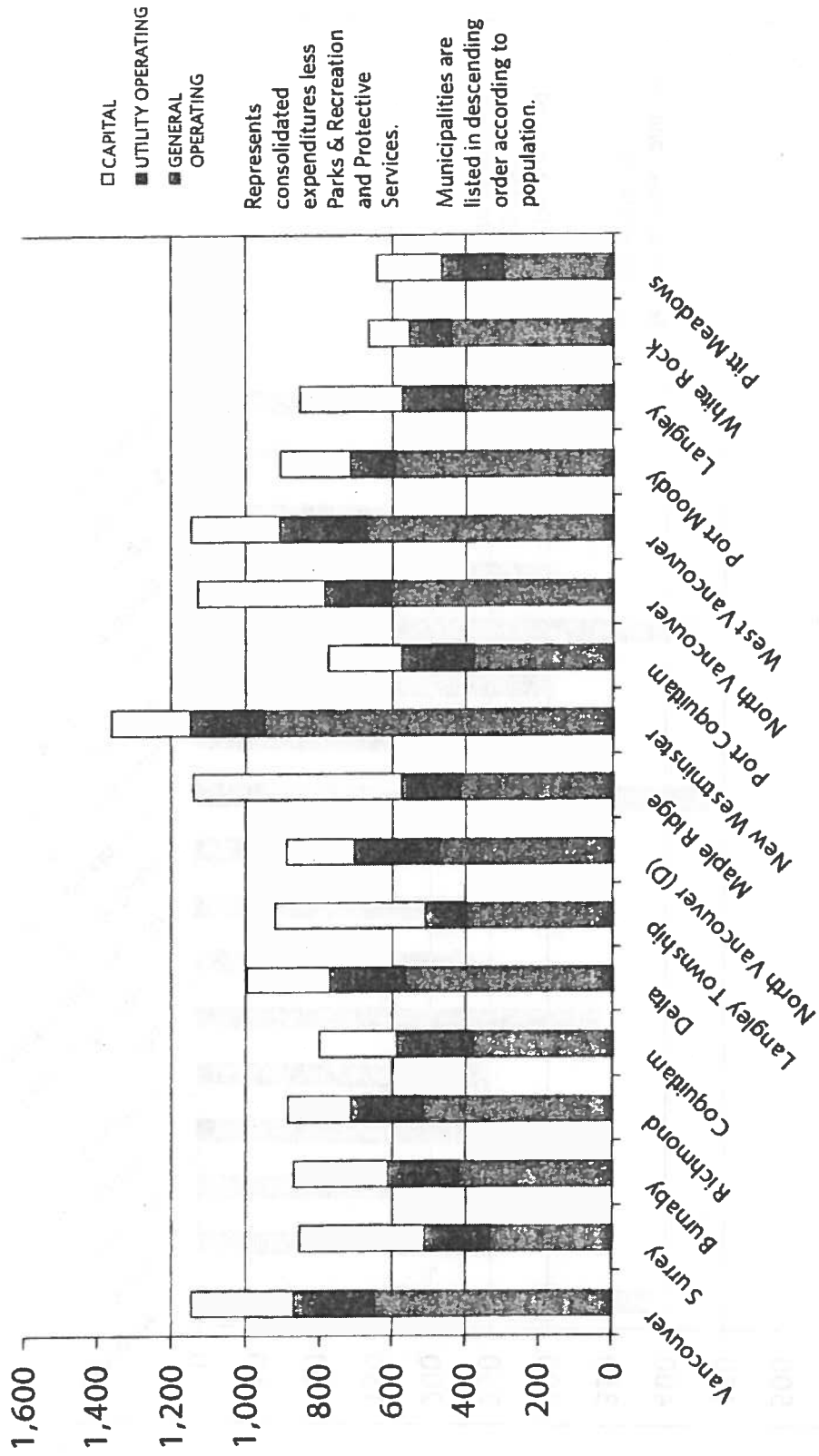
Fiscal Sustainability Task Force

DISTRICT OF WEST VANCOUVER
 Divisional Expenditures — Reliance on General Taxation
 2002 - 2006



Fiscal Sustainability Task Force

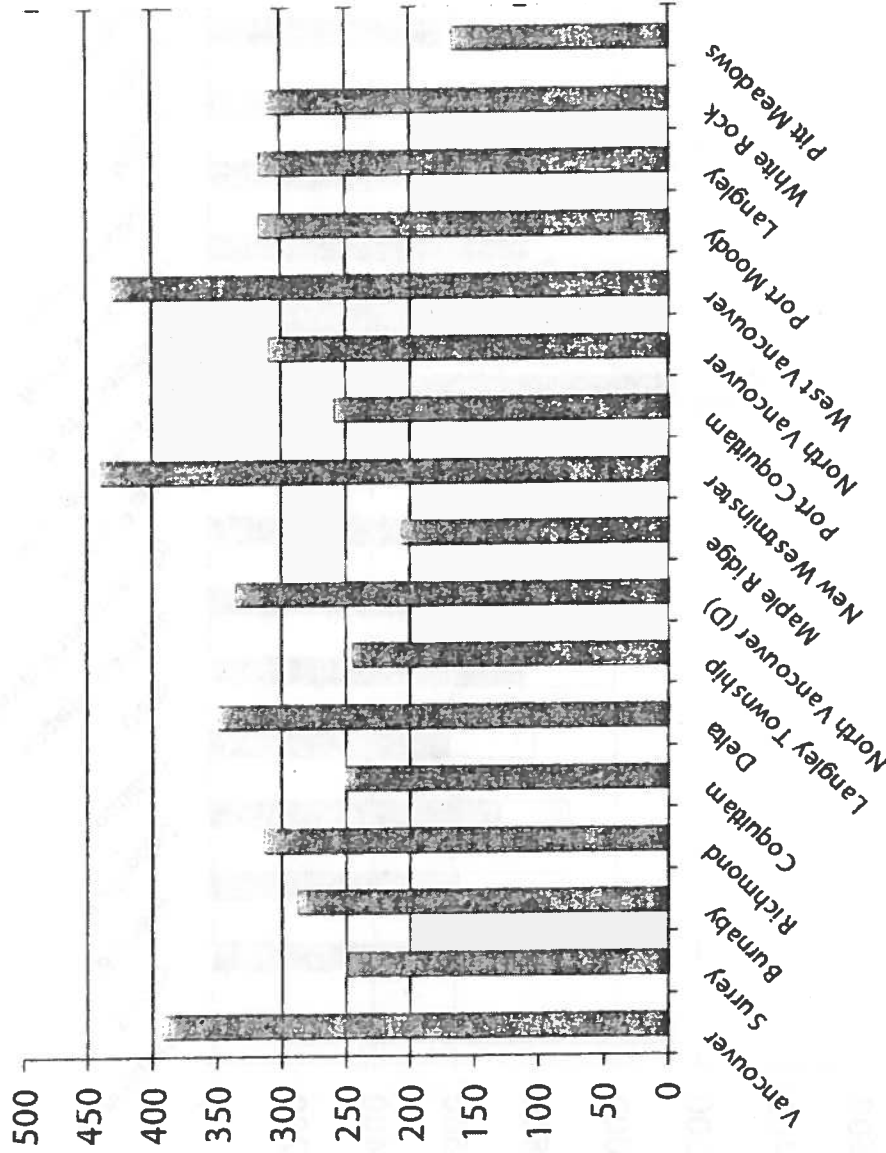
EXPENDITURES PER CAPITA (less PCS + Protective Services)
 GVRD Municipalities - 2004



Fiscal Sustainability Task Force



EXPENDITURES PER CAPITA - Protective Services
GVRD Municipalities - 2004

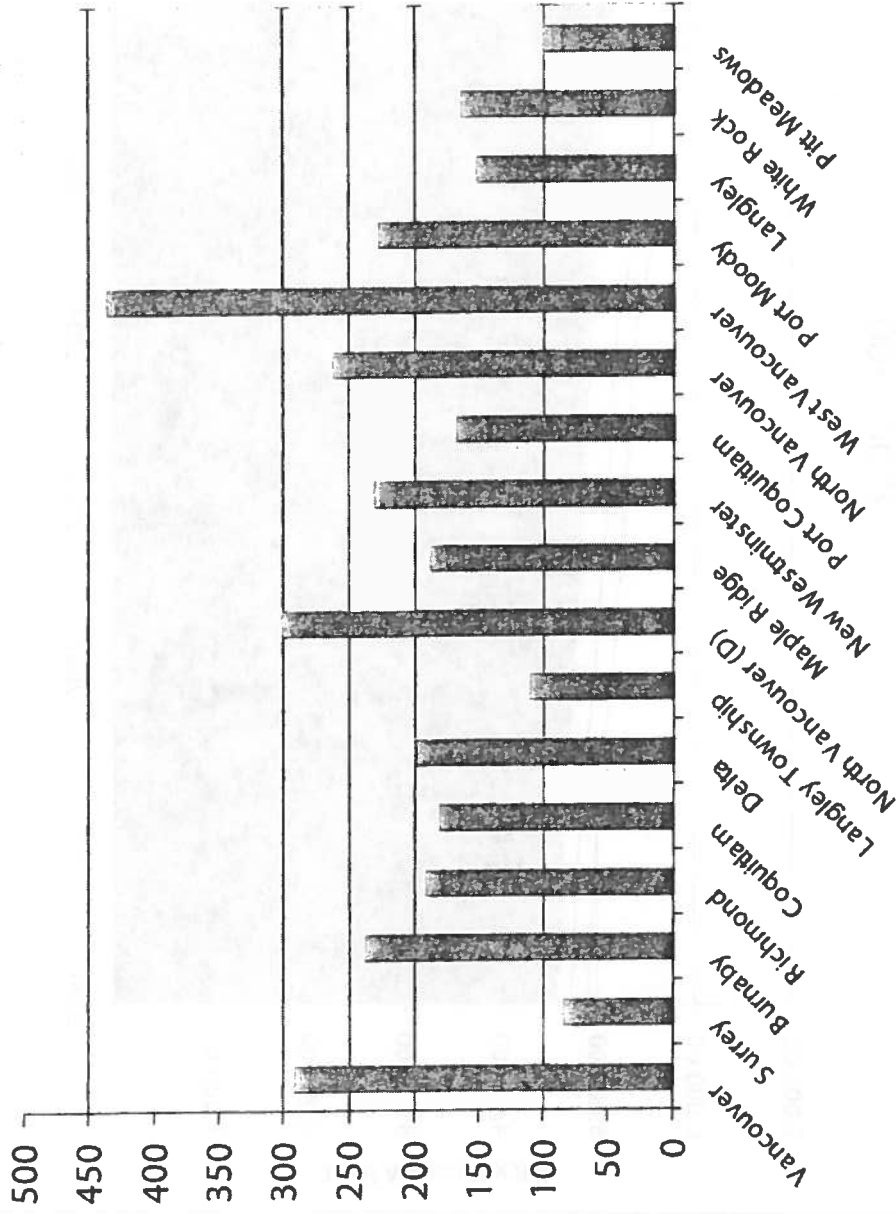


Represents Police and Fire Services operating expenditures.
 Municipalities are listed in descending order according to population.



Fiscal Sustainability Task Force

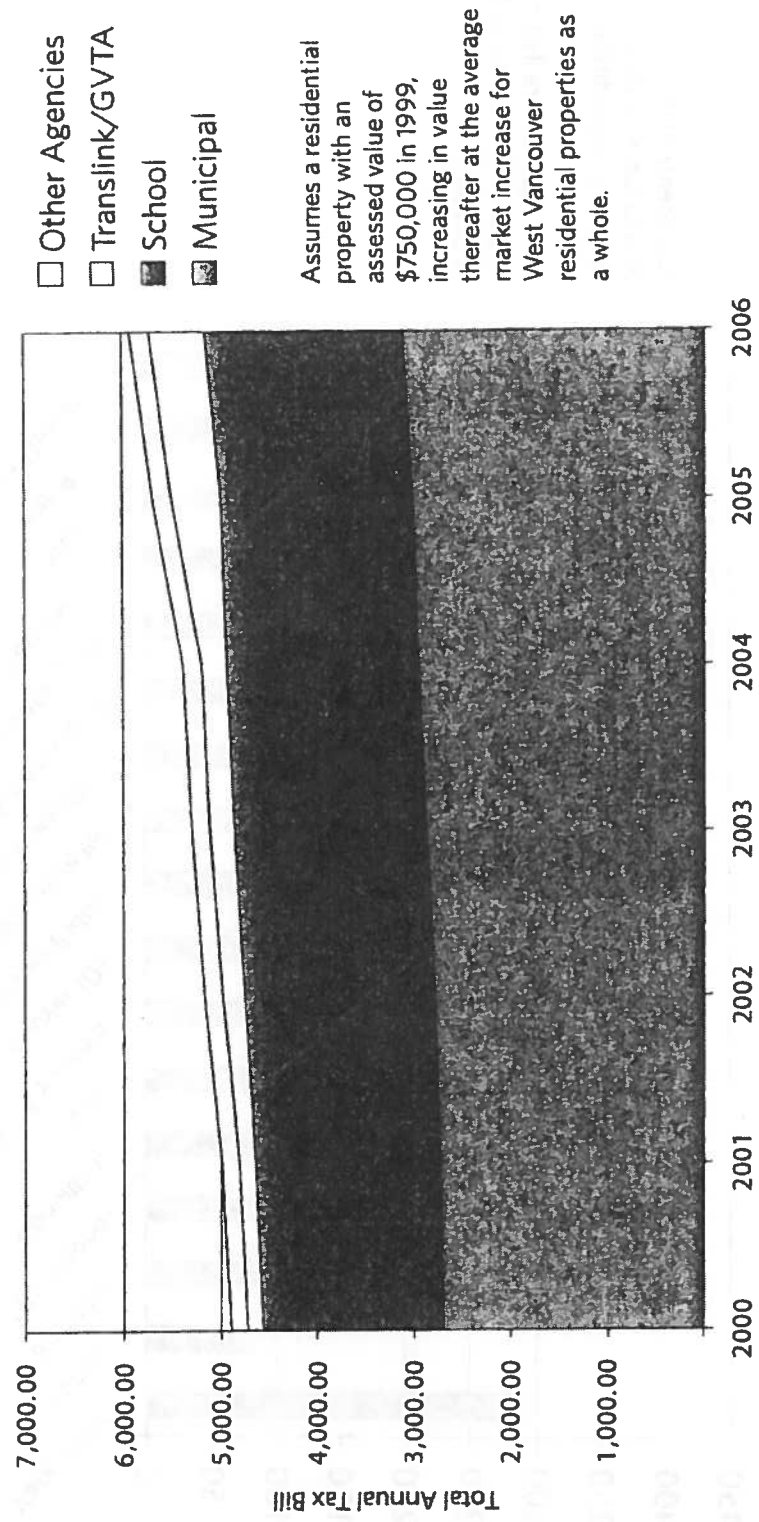
EXPENDITURES PER CAPITA - Parks, Recreation & Culture
GVRD Municipalities - 2004



Fiscal Sustainability Task Force



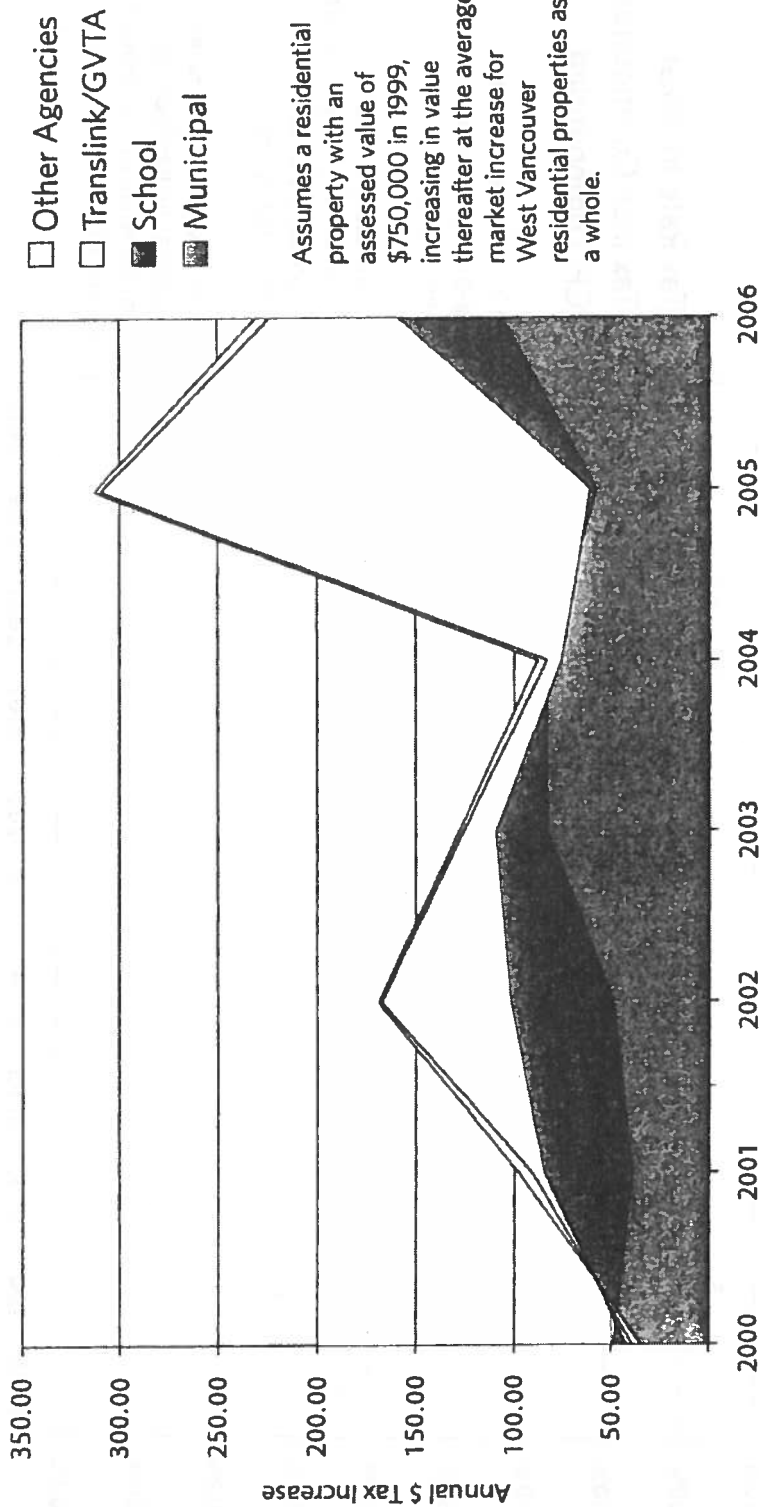
DISTRICT OF WEST VANCOUVER Trend in Components of Annual Property Tax Bill 2000 - 2006



Assumes a residential property with an assessed value of \$750,000 in 1999, increasing in value thereafter at the average market increase for West Vancouver residential properties as a whole.

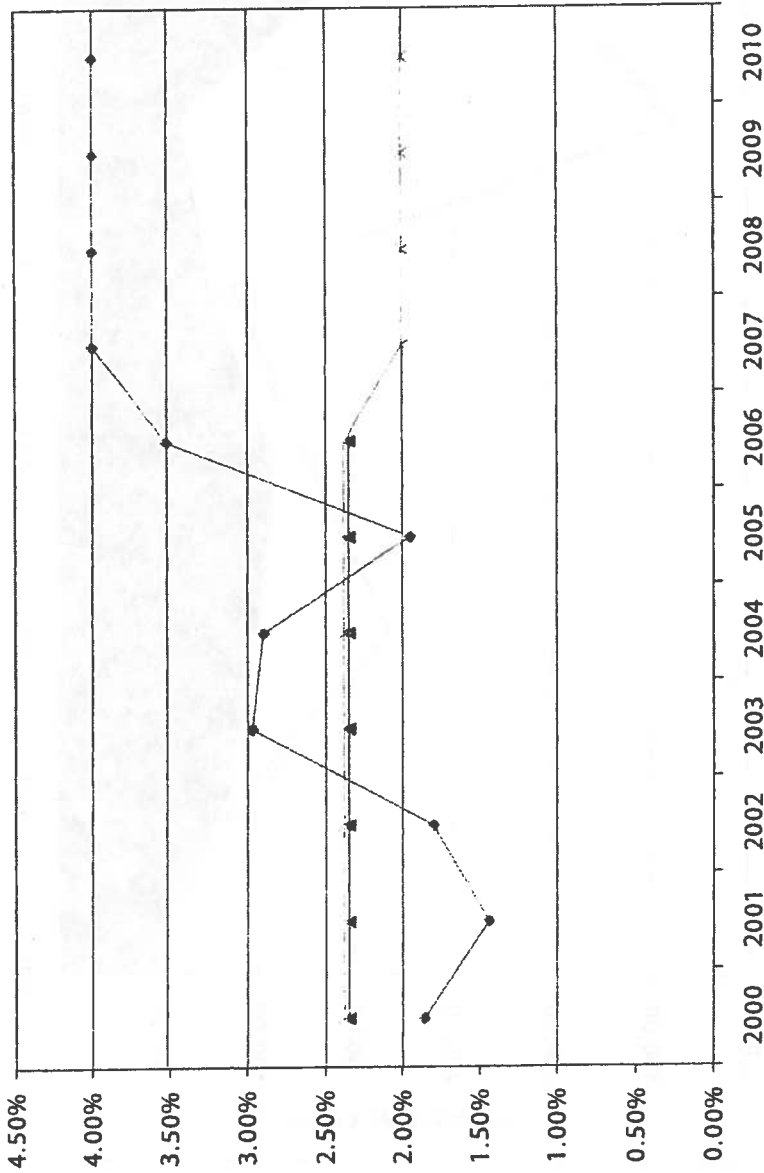
Fiscal Sustainability Task Force

DISTRICT OF WEST VANCOUVER Trend in Property Tax Component Increases 2000 - 2006



Fiscal Sustainability Task Force

DISTRICT OF WEST VANCOUVER Tax Rate Increases Compared to CPI 2000 - 2006 and Beyond



- ◆ Tax Rate Increase
- Tax Incr. Compounded
- * CPI compounded

CPI is "Canada, all items, year-over-year" actual increase for the prior year.

The tax rate increase takes account of the prior year's loss of purchasing power, and thus CPI rates lag by one year.

Future tax rate increases are forecast at upwards of 4% ongoing, while CPI is forecast at Bank of Canada targets.

Fiscal Sustainability Task Force

Tell Us What You Think:

1. Do you favour increasing, maintaining or reducing current service levels? If you support change, please be as specific as possible.
2. When you think of value received for property taxes paid — do you get good value? Where do you think your dollars are best spent? Worst spent?
3. Do you have any suggestions for the District to cut costs or become more efficient?
4. Would you agree to more, or higher user fees to increase revenue and/or cover service or program costs?
5. Do you think user fees should cover all the costs associated with an activity, service, program?
6. Do you have suggestions for additional sources of revenue that should be considered?
7. To pay for major capital projects (over \$7 million dollars), should the District:
 - Wait and save up
 - Borrow
 - Partner with the Private Sector
8. Should major capital projects be subject to voter approval through referendum at election time?

Over the summer, the Task Force met weekly and will be reporting to Council at the end of October with their findings.

The Task Force welcomes suggestions on how West Vancouver can become more fiscally sustainable, and invites you to participate in the discussion.



Fiscal Sustainability Task Force

Council Committee Terms of Reference

Committee Name: Fiscal Sustainability Task Force
Type: Advisory Committee

1.0 Committee Purpose

On May 8, 2006 Council endorsed the creation of a Fiscal Sustainability Task Force. The purpose of the Task Force is to examine broad trends affecting local government and to explore the tools at our disposal to address those trends, in order to provide recommendations to Council on a long- term fiscal sustainability strategy for implementation commencing in 2007.

2.0 Duties

The role of the Task Force will include (but not be limited to):

- Reviewing the District's current financial state including relevant legislation, bylaws, policies and guiding documents;
- Developing a high level estimate of long-term issues and trends which will impact the District's fiscal sustainability;
- Comparing the District to other municipalities through the use of appropriate indices, benchmarks and performance indicators;
- Affirming or recommending adjustments to the District's current service levels and the underlying assumptions/guiding values;
- Recommending alternative service delivery methods;
- Reviewing public input received in recent years on taxation and service levels and seeking new input from staff and the community, and
- Preparing a report to Council with recommendations on a fiscal strategy and action that should be taken to ensure the District's fiscal sustainability.

Origin of Work

In accordance with the approved Terms of Reference and direction received from Council.

3.0 Membership

Membership will consist of three Councillors and no more than six community representatives appointed by Council. Staff will be assigned as required to support and participate in an ex-officio capacity in the Task Force's activities.

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**FISCAL SUSTAINABILITY TASK FORCE
TASK FORCE EXPENDITURES**

Communication Costs (Newspaper, Public Meeting Info Boards, etc)	\$ 1,400.00
Meeting Costs (Room Rentals and Meeting Refreshments)	\$ 534.94
Stationery (Final Report Preparation)	\$ 314.55
Miscellaneous	
Total	\$ 2,249.49

(Please note that photocopying, paper and the cost of staff time to support the Task Force was not counted or included in the costs above.)

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**FISCAL SUSTAINABILITY TASK FORCE
PRIOR REPORTS TO COUNCIL RE THE FISCAL
SUSTAINABILITY TASK FORCE**

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COUNCIL AGENDA/INFORMATION			
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<input checked="" type="checkbox"/> Reg. Council	Date: <u>MAY 29/06</u>	Item # <u>6.5</u>	
<input type="checkbox"/> Supplemental	Date: _____	Item # _____	

Director	CAO

DISTRICT OF WEST VANCOUVER
750 - 17TH STREET, WEST VANCOUVER, BC V7V 3T3

COUNCIL REPORT

Date: May 17, 2006 File: 0005-01
From: David C. Stuart, Chief Administrative Officer
Subject: **Fiscal Sustainability Task Force Terms of Reference**

RECOMMENDED THAT:

1. The Fiscal Sustainability Task Force Terms of Reference dated May 17, 2006 be approved.
2. The appointments of the following individuals to the Fiscal Sustainability Task Force, effective May 29, 2006 to September 30, 2006 be approved:
 - (to be provided on table)
 -
 -

Purpose

To establish Terms of Reference for the Fiscal Sustainability Task Force and confirm Council appointments to the Committee.

1.0 Background

1.1 Prior Resolutions

Prior Resolutions passed by Council on:

April 24, 2006

The report dated April 24, 2006 from the Chief Administrative Officer re Financial Sustainability Review be received.

May 1, 2006

THAT the recommendations regarding the creation of a Fiscal Sustainability Task Force be endorsed and that staff report back on proposed membership by no later than May 08, 2006.

2.0 Analysis

This year, in response to Council and community concerns about long-term taxation trends, Council approved the creation of a Fiscal Sustainability Task Force on May 1, 2006. The proposed mandate of the Task Force is to examine taxation trends, service levels and service level adjustment options, including alternative service delivery methods and provide the municipality with a long-term financial sustainability perspective.

As well, over the past six years, Council has appointed a Finance and Audit Committee to review the proposed budget and the year-end financials. In the past, the mandate of this Committee has not included a detailed review of expenditures. As some members of Council and the community have expressed a desire to do a more detailed examination of expenditures, it was therefore agreed that the Finance and Audit Committee's mandate be expanded to include a detailed review of expenditures with conclusions and recommendations to be reported to the Fiscal Sustainability Task Force.

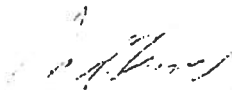
2.1 Financial Implications

The establishment of the Task Force will require staff support costs and some incidental expenses, which will be covered from existing operational budgets.

3.0 Options

- 1) Council approve the attached Terms of Reference and Task Force appointments as recommended.
- 2) Council amend the attached Terms of Reference and recommended Task Force appointments.
- 3) Council not approve the attached Terms of Reference nor the Task Force appointments recommended.

Author



David C. Stuart

Chief Administrative Officer

Appendices:
Fiscal Sustainability Task Force Terms of Reference (#247026)
April 24, 2006 Council Report (#244984)

Council Committee Terms of Reference

Committee Name: Fiscal Sustainability Task Force
Type: Advisory Committee

1.0 Committee Purpose

On May 8, 2006 Council endorsed the creation of a Fiscal Sustainability Task Force. The purpose of the Task Force is to examine broad trends affecting local government and to explore the tools at our disposal to address those trends, in order to provide recommendations to Council on a long-term fiscal sustainability strategy for implementation commencing in 2007.

2.0 Duties

The role of the Task Force will include:

- Reviewing the District's current financial state including relevant legislation, bylaws, policies and guiding documents;
- Developing a high level estimate of long-term issues and trends which will impact the District's fiscal sustainability;
- Comparing the District to other municipalities through the use of appropriate indices, benchmarks and performance indicators;
- Affirming or recommending adjustments to the District's current service levels and the underlying assumptions/guiding values;
- Recommending alternative service delivery methods;
- Reviewing public input received in recent years on taxation and service levels and seeking new input from staff and the community, and
- Preparing a report to Council with recommendations on a fiscal strategy and action that should be taken to ensure the District's fiscal sustainability.

Origin of Work

In accordance with the approved Terms of Reference and direction received from Council.

3.0 Membership

Membership will consist of three Councillors and no more than six community representatives appointed by Council. Staff will be assigned as

required to support and participate in an ex-officio capacity in the Task Force's activities.

Terms

May 15, 2006 to September 30, 2006

5.0 Administrative Liaison

Liaison: Chief Administrative Officer

Alternate: Director of Financial Services

7.0 Operations of the Task Force

7.1 Meeting Schedule

The Chairperson will take responsibility for working with the Chief Administrative Officer to schedule meetings and liaise with Council and staff. The chairmanship of the meetings may rotate to allow all members to participate fully.

7.2 Rules of Procedure

Meetings shall be conducted in accordance with the rules of procedure set out in Council Procedure Bylaw and Council Committee Policy.

7.3.1 Task Force Secretarial Services

A designated Administrative Staff person or other will provide secretarial services.

8.0 Sub-Committees

The Task Force is authorized to create sub-committees from within the Task Force membership in order to carry out the work.

9.0 Budget

Incidental costs to be paid out of existing operating budgets.

Council Committee Terms of Reference
Name of Committee: Fiscal Sustainability Task Force
Type: Advisory Committee

Approval Date: May 15, 2006	Approved by: Council
Amendment Date:	Approved by: Council
Amendment Date:	Approved by:

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COUNCIL AGENDA INFORMATION		
<input type="checkbox"/> Closed	Date: _____	Item # _____
<input checked="" type="checkbox"/> Reg. Council	Date: APRIL 24/06	Item # 5.6
<input type="checkbox"/> Supplemental	Date: _____	Item # _____

Director	CAO
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✓ Council May/06 Item 4.2

DISTRICT OF WEST VANCOUVER
750 - 17TH STREET, WEST VANCOUVER, BC V7V 3T3

COUNCIL REPORT

Date: April 24, 2006 File: 0005.01
 From: David Stuart, Chief Administrative Officer
 Subject: Financial Sustainability Review

RECOMMENDED THAT:

1. The April 24, 2006 report regarding Financial Sustainability Review from the Chief Administrative Officer is received.
2. The recommendations regarding the creation of a Financial Sustainability Task Force be endorsed and that staff report back on proposed membership by no later than May 8, 2006.

Purpose

To obtain Council support for the creation of a Financial Sustainability Review Task Force.

1.0 Background

During the introduction of the District's 2006 Capital and Operating Budget, Council and staff remarked that for a variety of reasons, 2006 represented a turning point. In the subsequent Council discussion, it was suggested that a review of the District's service and taxation levels would assist Council and the community in setting long-term policy on both issues.

2.0 Policy

The draft 2006 – 2008 Corporate Business Plan has a broad theme of sustainability and includes a number of goals in the governance and economic sustainability sections related to reviewing service levels and creating a long-term budget/taxation strategy.

3.0 Analysis

3.1 The Context

The District provides a wide variety of municipal services funded from general taxation revenue and user fees. We also collect revenue on behalf of a number of other organizations including the School Board, the Greater Vancouver Regional District, TransLink and the Squamish Nation. General taxation is based on assessed value and land use type. Topography, density, growth rate, demographics, transportation and land use can have a significant impact on the cost and type of services provided.

The Municipality sets annual and five-year budgets and does some long-term financial planning; recognizing the longer the term, the more susceptible the plans are to change. The taxation level is generally a direct reflection of the cost to provide the service levels established by Council in consultation with the community. The tri-annual Community Survey has been used in recent years to gauge community satisfaction with services, support for changes and the method of financing the changes.

In order to set taxation policy, a great many factors and issues must be considered including:

- The services actually provided including inputs, outputs and desired outcomes;
- Distinguishing between competing demands for resources and needs versus wants;
- Balancing effectiveness and efficiency (doing the right thing versus doing things right);
- Determining priorities within an affordability framework, and
- The need to constantly change, adjust and improve to react to community goals and expectations.

3.2 The Review Process

In 2006, with a new Council and term ahead, and in light of the pressures exerted on our tax base by inflation, labour costs and external forces, there is interest in creating a framework and process for the budget that is consistent with the principles of sustainability.

In 2002 and 2003, West Vancouver staff worked with the Banff School of Management to create a service inventory which spells out departmental mandates, goals, programs, financial and other resources consumed, service users, outputs, outcomes and possible quality of life indicators. The above information combined with detailed financial and trend analysis provides a useful place to start a process of reviewing service and taxation levels.

The review process should involve an appointed Task Force including Council (2) and community representatives (8), supported by staff. The process can be broken into three stages:

Phase 1 - Establishing the Framework

This first stage would involve researching and reviewing available information and establishing a general policy framework for consideration by Council including high level targets, fundamental service assumptions, and alternative funding approaches, tools to encourage investment and maintain quality of life.

Phase 2 – Service Level Review and Adjustment Strategy

The second stage would involve a review of services and potential adjustments that could be made (these generally involve changing funding strategies, adjusting service levels and changing service delivery methods) and evaluating the potential of implementation.

Phase 3 - Stakeholder Consultation

The third stage would involve reviewing the policy framework and possible service adjustments with interested parties and the general public to determine support for change. This also might involve a direct request to the public, interested parties and staff for ideas to improve our efficiency, effectiveness and long term sustainability.

3.3 Timelines

Assuming that the Task Force is appointed in mid-May in conjunction with the 2006 Budget, the review process could conclude by early fall, in time to impact the 2007 budget discussions. This is a tight timeline which could be impacted by the level of detail the Task Force gets into, member availability and extent of public consultation. Other significant initiatives underway at the same time (i.e. Ambleside/Waterfront planning, 2010 Olympics, Sea-to-Sky Construction, Community Centre construction, Arts and Culture strategy, Heritage and Environmental strategy implementation, Committee restructuring) will affect staff availability.

3.4 Cost

Staff time, meeting costs and advertising costs are likely to be the primary expenses unless there is a need to carry out survey work. If Council endorses the creation of a Task Force a more detailed budget can be developed in consultation with the Task Force.

4.0 Options

Council can:

- Endorse the creation of a Task Force as set out in the report;
- Not endorse the creation of a Task Force as set out in the report, and
- Identify some other approach to developing a long term service level and taxation strategy.

Author



David C. Stuart

Chief Administrative Officer

COUNCIL AGENDA/INFORMATION

!! Closed
✓ Reg. Council
!! Supplemental

Date: APRIL 24/06
Date: _____
Date: _____

Item # 5.4
Item # _____
Item # _____

Director	CAO

42

✓ Council May 1/06 Item 4.2

DISTRICT OF WEST VANCOUVER

750 - 17TH STREET, WEST VANCOUVER, BC V7V 3T3

COUNCIL REPORT

Date: April 24, 2006

File: 0005.01

From: David Stuart, Chief Administrative Officer

Subject: Financial Sustainability Review

RECOMMENDED THAT:

1. The April 24, 2006 report regarding Financial Sustainability Review from the Chief Administrative Officer is received.
2. The recommendations regarding the creation of a Financial Sustainability Task Force be endorsed and that staff report back on proposed membership by no later than May 8, 2006.

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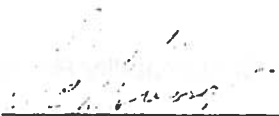
Staff time, meeting costs and advertising costs are likely to be the primary expenses unless there is a need to carry out survey work. If Council endorses the creation of a Task Force a more detailed budget can be developed in consultation with the Task Force.

4.0 Options

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- Endorse the creation of a Task Force as set out in the report;
- Not endorse the creation of a Task Force as set out in the report, and
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Author



David C. Stuart

Chief Administrative Officer

COUNCIL AGENDA INFORMATION		
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Director	CAO
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5.6
ON-TABLE
APRIL 24/06

DISTRICT OF WEST VANCOUVER
750 - 17TH STREET, WEST VANCOUVER, BC V7V 3T3

COUNCIL REPORT

Date: April 24, 2006

File: 0005.01

From: David Stuart, Chief Administrative Officer

Subject: Financial Sustainability Review

RECOMMENDED THAT:

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3.4 Cost

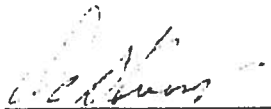
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4.0 Options

Council can:

- Endorse the creation of a Task Force as set out in the report;
- Not endorse the creation of a Task Force as set out in the report, and
- Identify some other approach to developing a long term service level and taxation strategy.

Author



David C. Stuart

Chief Administrative Officer

**FISCAL SUSTAINABILITY TASK FORCE
WORKING PAPERS PREPARED FOR/BY SUBCOMMITTEES**

These papers strongly relate to the work of the Task Force and its recommendations. They were not reviewed by the Task Force and as such, the Task Force has not had the opportunity to discuss or endorse them.

**ECONOMICS – REVENUES, EXPENDITURES, SERVICE LEVELS
SUBCOMMITTEE WORKING PAPERS**

- Annex 1 – Staffing Summary; Years 2000 – 2006
- Annex 2 – Recreation and Arts and Culture – Subsidies?
- Annex 3 – Revenue Model
- Annex 4 – Recreation Facility Utilization – Exhibits
- Annex 5 – Debt Levels Supportable From Existing Financial Resources

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District of West Vancouver Staffing Summary, Years 2000 through 2006 (Budget)

As part of the review of operating characteristics prepared for the Fiscal Sustainability Task Force, this summary of staffing levels (in terms of budget full-time equivalent employees or "FTEs") has been prepared from historical budget documents (1999 Provisional Budget, 2000 Provisional Budget, and 2006 Five Year Financial Plan updated at October 31, 2006 by the Department of Finance).

Budget year 2000 has been selected as the baseline year for determination of the overall growth in employment FTEs. As of the revised 2005 Five Year Financial Plan, total employment had risen by 4.68% over the 2000 level. With the adoption of the 2006 Five Year Financial Plan, employment has increased by 5.97% over the 2000 FTE level. The average annual compound growth rate works out to 0.97% per annum to 2006.

The distribution of FTEs to the various departments and business units reflects management's assessment of the relative manning requirements for the functions performed in those entities (see Table 1B). Because of the small numbers in some of the departments and business units a percentage change analysis is not meaningful. However, in those departments which have a significant share of the total work force an analysis may be useful to indicate trends in employment (see Table 1A below).

Table 1A. DISTRICT OF WEST VANCOUVER STAFFING SUMMARY--SELECTED DEPARTMENTS
Annual Budget -- Staffing Summary **Percentage Change in Full-time Equivalent Employees (FTE)**

	<u>Budget 2006</u>	<u>[Annual Budget 2000: Staffing Summary]</u> Actual <u>2000</u> (FTEs)
General Fund		
<u>Administration</u>		
Municipal Clerk	7.13%	8.00
<u>Financial Services</u>		
Finance	0.67%	15.00
<u>Police Department</u>		
Police Services (excl. Bylaw)	2.80%	97.76
<u>Fire Services</u>		
Fire Department	7.09%	98.05
<u>Engineering & Transportation</u>		
Engineering Administration	-7.67%	15.00
Public Works	-6.92%	38.30
<u>Planning, Lands & Permits</u>		
Permits & Licenses	0.07%	14.55
<u>Parks & Community Services</u>		
Recreation & Culture	2.02%	111.72
Parks Maintenance	-6.97%	44.50
Library Services	8.03%	42.58
General Fund Total	4.08%	531.31
Water Utility Total	30.95%	6.30
Sewer Utility Total	20.83%	6.00
Transit Total	6.80%	92.10
Grand Total, FTE	5.97%	640.03

Table 1B. DISTRICT OF WEST VANCOUVER EMPLOYMENT GROWTH AND DISTRIBUTION 2000 TO 2006.

Annual Budget -- Staffing Summary

Full-time Equivalent Employees (FTE)

	Budget 2006	Revised Budget 2005	Annual Budget 2000: Staffing Summary					
			Budget 2002	Budget 2001	Actual 2000	Budget 1999	Actual 1998	
General Fund								
<u>Administration</u>								
Mayor & Council	0.00		0.00	0.00	0.00			
Municipal Manager	4.18	4.18	2.25	5.25	5.00	4.00	3.00	
Municipal Clerk	8.57	11.45	10.80	7.80	8.00	7.80	7.80	
Clerk--Elections	0.00							
Human Resources & Payroll			9.25	9.25	9.25	8.00	8.00	
Human Resources	7.00	7.00						
Payroll Services	2.70	2.70						
Communications	2.88	0.00						
Public Health	0.00							
By-law Enforcement	6.23	6.23						
<u>Financial Services</u>								
Finance	15.10	15.10	13.40	14.40	15.00	14.70	13.70	
Information Systems	7.00	7.00	6.00	6.00	6.00	5.00	4.00	
Purchasing	4.50	4.50	4.75	4.75	4.50	5.60	5.60	
Municipal Hall	1.20	1.20	1.25	1.25	1.00			
Operations Centre	6.30	6.30	5.00	5.00	5.00			
Grants-In-aid	0.00							
<u>Police Department</u>								
Police Services	100.50	99.50	97.00	100.00	97.76	97.40	97.40	
Bylaw Officers			4.00	4.00	4.00	4.00	4.00	
<u>Fire Services</u>								
Fire Department	105.00	105.00	98.00	98.05	98.05	97.00	97.00	
Emergency Program	0.00		0.00	0.00				
<u>Engineering & Public Works</u>								
Engineering Administration	13.85	13.82	16.00	16.00	15.00			
Public Works	35.65	26.89	36.20	37.20	38.30	56.60	56.60	
<u>Planning, Lands & Permits</u>								
Planning & Development	12.20	12.20	10.10	10.10	8.10	11.20	11.20	
Permits & Licenses	14.56	13.56	14.36	14.36	14.55	15.35	15.35	
<u>Parks & Community Services</u>								
Central Administration	4.21	4.21	3.00	3.00	3.00			
Recreation & Culture	113.98	113.48	116.61	113.37	111.72	90.40	89.10	
Parks Maintenance	41.40	41.40	48.00	46.62	44.50	54.84	52.21	
Library Services	46.00	45.79	44.12	44.24	42.58	41.50	41.50	
General Fund Total	553.01	541.51	540.09	540.64	531.31	513.39	506.46	
<u>Other Funds</u>								
Water Utility Total	8.25	13.26	6.30	6.30	6.30	??	??	
Sewer Utility Total	7.25	11.64	6.00	6.00	6.00	??	??	
Waste Management Total	0.00	0.00	0.00	0.00	0.00	??	??	
Cemetery Total	4.60	4.60	3.16	4.32	4.32	??	??	
Transit Total	98.36	92.48	92.50	93.42	92.10	??	??	
Golf Fund Total	6.80	6.52	n/a	n/a	n/a	??	??	
Grand Total, FTE	678.27	670.01	648.05	650.68	640.03	513.39	506.46	
Percentage Change over Baseline Average	5.97%	4.68%	Baseline Average = 640.03					

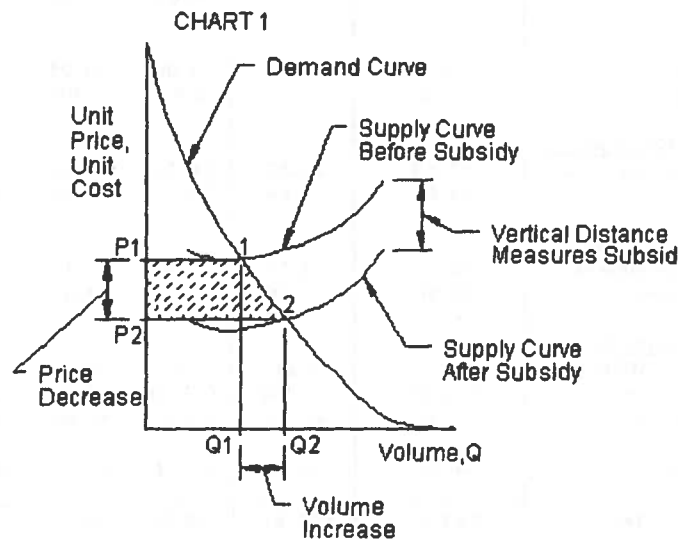
Recreation and Arts & Culture—Subsidies?

The ongoing losses or net expenditures in recreation and community services' arts & culture facilities present the appearance of subsidies given to those who choose to utilize the facilities and services being provided through the community services organization.

Of the acknowledged subsidies, the discounts given to children, youths, and seniors are generally understood to be necessary to encourage participation and use. Of less prominence are discounts afforded those in true need wherein only a nominal payment is asked for, to enable the individual to take advantage of the benefits that would otherwise be beyond the individual's modest means. Unlike the former categories where no qualification but age is invoked to qualify for the 'subsidy', those in the latter category, proportionately less than ten percent of the total of all participants, must evidence a true need or hardship in order to qualify. These are the two categories of residents receiving subsidies at present: those who qualify by age, and those who qualify by need.

The subject of implicit subsidy arises because the accounting treatment of revenues and expenses does not distinguish between a 'private good' and a 'public good', nor between a deliberate policy of subsidy and an accidental policy of inappropriate pricing practices.

Subsidy is the payment made to a supplier over the market price of a commodity or service to induce the supplier to produce the commodity or to refrain from producing more of the product. In the case of a customer, it is the payment to reduce the price of an article so as to induce purchase or use (e.g., dual-flush toilets, and solar heating systems). Subsidy is generally regarded as altering the marginal cost by lowering it in the amount of the subsidy. Price discounts have a similar effect as may be seen by reference to the chart below (Chart 1).



THE STIPLED AREA (P1-1-2-P2) MEASURES THE INCREASE IN CONSUMER SURPLUS DERIVED FROM THE APPLICATION OF THE SUBSIDY TO THE SUPPLY CURVE.

Recreation & Cultural Facilities

Recreation facilities serve three purposes: first, they enable the community services department to carry out its mandate of providing core recreation services; secondly, they provide a venue for the delivery of special programs that enhance health and wellness and personal development; and thirdly, they offer unstructured public areas for which no fee or charge can be properly levied, that is to say, they produce 'public goods' which have by policy no market price and for all intents and purposes of the same category as an open park or a seawall walkway.

Cultural facilities provide similar amenities: first, core cultural services; secondly, venues for the delivery of special programs; and, thirdly, public areas without charge as a 'public good'.

For those parts of the facilities which are in the nature of 'public goods', no revenues are possible and the 'recovery factor' is nil. By our definition, set out in the Economics Report, public goods have no market price and no subsidy attaches to the use of a public good. Unfortunately, the accounting system is not set up to capture the cost of carrying the 'public good' portion of these facilities, so it is currently impossible to state how much of the total cost or net expenditure is represented by this category. But some fraction of the administrative cost and the facility operations and maintenance cost may be assumed to support this aspect, depending on the nature and configuration of the facility.

Of the core services and special programs, the former is likely to be only indifferently priced and cost recovery is generally not of paramount consideration at present. In the case of the latter service category, special programs, cost recovery is of foremost importance and a criterion that must be met if the special program is to be given.

Core Services

Core services are generally undifferentiated, tend to be facility specific, and largely dependent for revenue on 'membership' fees and 'drop-in' charges. Since these revenues are only tangentially related to the cost of providing the service, and may be variable in both magnitude and timing, whereas the cost of service is mainly fixed in nature and exhibits only most variation through time, matching the revenues generated to the costs incurred is unlikely to be exact or accurate. It should therefore be no great surprise to find that, with the exception of one or two facilities, core services runs a deficit of revenue or a non-negative net expenditure balance. Further contributing to this imbalance is the procedure followed of setting fees for memberships and drop-in admittances based on historical precedent with adjustments for 'inflation' through an annual or biannual omnibus fees and charges bylaw authorization. It should be evident that what is apparently a subsidy, may in fact be little more than the result of an inappropriate price setting policy carried forward by unquestioned tradition rather than explicit subsidy by design, although there may well be a degree of subsidy design in the carrying on of the price setting tradition.

Special Programs

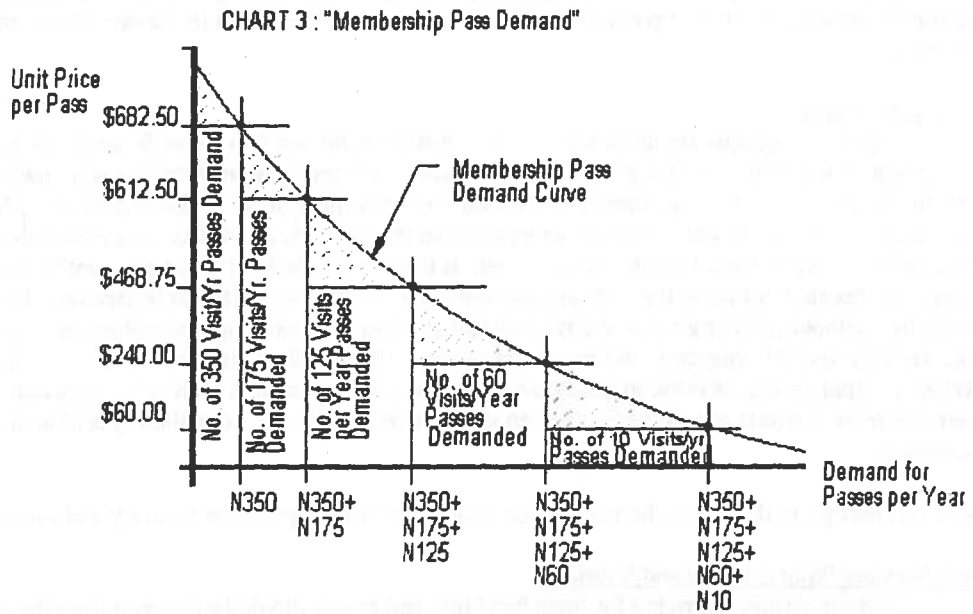
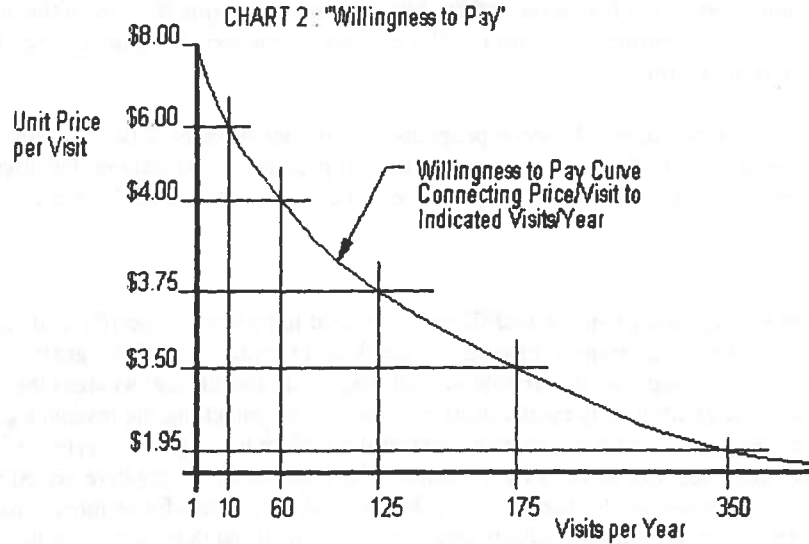
Special programs are those services intended to be delivered to a specific group of individuals by enrollment in accordance with a pre-published schedule and given by an instructor who may be a staff member, but who for the most part is independently contracted for the purpose of the program delivery. These services recover their costs and more; they are competitively priced on their merits, and subject to a minimum enrollment threshold criterion to ensure at least a break-even revenue. If there is a subsidy, it is not apparent to the participants and it arises only because not all of the costs are accounted for. Indeed it is difficult to ascertain the appropriate costs to be applied without resorting to some contrived full absorption accounting assumptions to spread costs between the core services, special programs, and merchandise sales. So, to attach the term 'subsidy' to these activities is probably inappropriate, because in the aggregate by facility they make a positive contribution to overhead, and their elimination would not likely result in an improvement in the net expenditure position of any of the facilities examined.

With this background, what is the proper approach to the challenge of cost recovery and subsidies?

Core Services Pricing Policy and Subsidies

Determination of pricing for 'memberships' and passes should be divorced from the strait-jacket annual or biannual omnibus fees and charges bylaw process. Instead a policy of setting membership prices and pass prices on a 'willingness-to-pay' basis should be adopted. Willingness-to-pay is a well-known principle in economics and business management: it is simply an expression of the market price according to those who have or might have an

interest in acquiring the product or receiving the service. In the hands of a discriminating market-oriented organization, the information contained in the willingness-to-pay data coupled with estimates of the number of persons prepared to commit to purchase at the indicated price points, describes sufficiently for practical purposes, the demand curve for the product or service in question. Armed with this information, the experienced market-oriented organization can maximise revenue. This proposition may be seen in the following charts [Chart 2] [Chart 3].



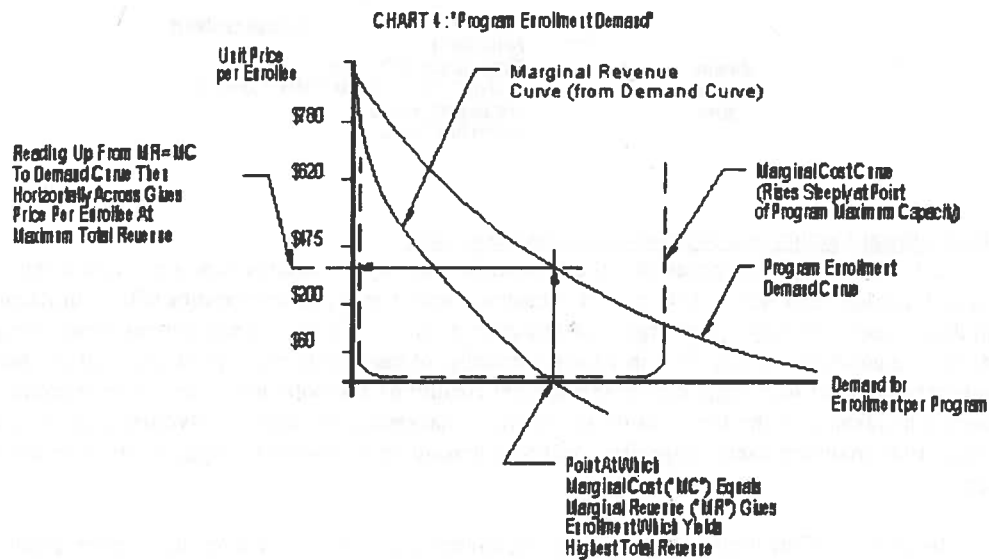
The stipled areas represent the consumer surplus when a discriminating monopolist prices the passes to maximise revenue and expand services.

By proper choice of the price for passes at each level of visits per year per pass, the discriminating marketing organization is able to gather greater revenues for the same level and quality of service that a non-discriminating marketing organization gathers by applying one price or a limited number of prices ineffectually set without reference to willingness-to-pay.

The present practice of establishing an annual pass based on a time limit instead of a number-of-uses limit (with an overall time limit) is evidence of non-discriminating marketing practice and inefficient utilization of marketing intelligence. It does not necessarily imply a deliberate policy of subsidization although that may be an inadvertent impression.

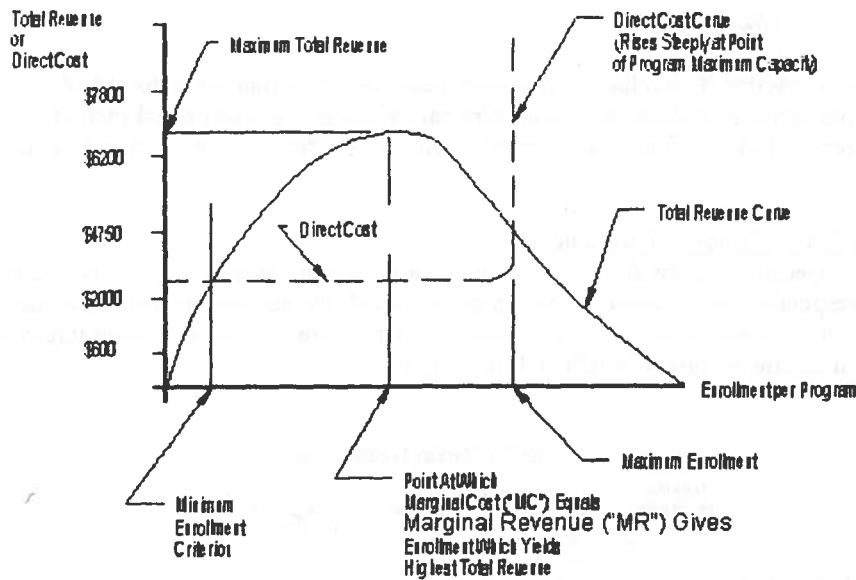
Special Programs Pricing Policy and Subsidies

Pricing of special programs should be set on the basis of willingness-to-pay, and the demand curve, such that the price corresponds to the number of participants for which the marginal revenue is at least equal to the marginal cost. In this manner, revenue is maximised, provided the minimum enrollment threshold is attained. The charts below illustrate the principle [Chart 4] [Chart 5].



Generally the practice is to operate just to the right of the maximum revenue position to capture market share and serve a wider population. The difference between total revenue and direct cost (or variable cost) is the contribution to overheads. In this approach, because the pricing policy is predicated on market ('willingness-to-pay') there is no subsidy even though the contribution may be insufficient to cover all overheads and indirect costs.

CHART 5: Program Total Revenue & Direct Cost



The Recreational Facility as a Multi-product Business Entity

It is not widely appreciated that the recreational facility is a multi-product business entity requiring specialized management skills. However, this business shares many characteristics with manufacturing facilities in a multi-product company. Both organizations carry a variety of products and deliver these through both scheduled and unscheduled activities in a limited number of essentially multi-product facilities. Both depend on accurate estimation of seemingly changeable market conditions and both must plan for their product offerings sufficiently in advance of the fact in order to produce a marketing catalogue to advertise their product/service offerings. Both maintain excess capacity. And both depend on a network of suppliers to share the burden of delivery.

In the case of the multi-product company, continuing losses or the inability to cover overheads and indirect costs leads to insolvency eventually. In the case of government service, ongoing net expenditures can be covered almost indefinitely by recourse to taxation. But the essential fact of similarity in the fundamental nature of their operating characteristics suggests that the recreation and cultural facility management may find some important pointers for improvement from the experience of the successful multi-product business manager, and thereby reduce reliance on the taxpayer for ongoing support.

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Year	1990	1991	1992	1993	1994	1995
1990	100	100	100	100	100	100
1991	100	100	100	100	100	100
1992	100	100	100	100	100	100
1993	100	100	100	100	100	100
1994	100	100	100	100	100	100
1995	100	100	100	100	100	100

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Taxation Revenue

The rate of increase in taxation revenue can be shown to be given by the relationship appearing immediately below to a close approximation, where the subscript t appearing in the equation refers to the current year's value and the subscript $t-1$ refers to the prior year's value.[1]

$$\frac{\Delta R_t}{R_{t-1}} = g_t + \frac{y_t}{1+v_t}$$

$$y_t = \frac{\text{New_construction_values}_t}{\text{Assessment_values}_{t-1}}$$

$$v_t = \frac{\text{Market_price_adjustment}_t}{\text{Assessment_values}_{t-1}}$$

$$g_t = \text{policy_tax_rate_increase}_t$$

In recent years the policy variable, g_t , has been more less set at a target value at or below nominal inflation (CPI-All Items, Vancouver, annual rate of change). The second term on the right-hand side of the relation is a measure of the rate of increase in revenue due to new construction values, deflated by the market housing price index one-year change, all scaled to the prior year's total assessment value.

The value of the variables from 2000 through 2005 is shown in the table below.[2]

Year	2000	2001	2002	2003	2004	2005
g_t		1.44%	1.80%	2.97%	2.90%	1.95%
y_t	1.79%	1.36%	1.65%	2.23%	2.61%	2.24%
v_t	-1.7%	4.1%	2.8%	7.1%	7.2%	15.3%
$y_t / (1+v_t)$	1.82%	1.31%	1.61%	2.08%	2.43%	1.95%
$\Delta R_t / R_{t-1}$		2.68%	3.47%	5.21%	5.39%	3.86%
error (= row 2 + row 5 - row 6)		0.07%	-0.06%	-0.16%	-0.06%	0.04%

The error, in percentage points, occurs because the value of the policy variable, g_t , is that for the residential class of property, whereas the values of y_t , v_t , and $\Delta R_t / R_{t-1}$, are those for the aggregate of all property classes of the District. This measurement effect will give rise to the error because of the past differences in taxation policy applied to the different property classes.

Now, it is desirable to fix in some way the rate of increase in property taxation from year to year so as to

ensure some measure of stable growth from this revenue source. In the past, this has been accomplished by use of a policy guideline, such as residential property taxation should not exceed the year-to-year change in CPI-All Items, Vancouver, as published by Statistics Canada.

The past practice may be compared to the policy guideline by setting the actual value of the policy variable against the reported change in CPI. This is done in the table below, and it may be seen that the policy has generally been adhered to, although for 2006 the policy guideline at 3.5% versus expected nominal inflation of 2.0% to 2.5% for the year, is breaking the pattern somewhat (as did 2003 and 2004, it may be pointed out).[3]

Year	2000	2001	2002	2003	2004	2005	2006*
g_t	1.86%	1.44%	1.80%	2.97%	2.90%	1.95%	3.50%
ΔCPI , (All items)	2.2%	1.8%	2.2%	2.0%	2.0%	1.9%	2.0%
Difference (= row 2 - row 3)	-0.34%	-0.36%	-0.40%	0.97%	0.90%	0.05%	1.50%
* Inflation for 2006 is estimated at the Bank of Canada target rate.							

Pressure on the District arising from price changes in materials, energy, and labour inputs, is said to be behind the recent divergence of the policy variable value in 2006 from its long-run neutral (vs. inflation) target (3.5% vs. 2%).

The policy stance taken when the value of variable g_t is set to a value at or below nominal inflation is one of negative or zero real increase of taxation revenue from the residential property class (excluding new construction values). As a consequence, the real component of taxation revenue growth will come from the combination of new construction values and the differential value of taxation policy variable applied to business and recreational/non-profit property classes.

Over the past five years (2001 to 2005, incl.) the average component of revenue growth from new values has been 1.87%. This compares with the average real rate of increase in taxation revenue over the past five years (2001 to 2005, incl.) of 1.92%. The agreement between these two averages is sufficiently close that it may be inferred that the real growth rate of taxation revenue is essentially the result of new construction values.

During periods of cost factor inflation not aligned with the consumer price index change, pressure will be exerted on the operating and capital budgets when the cost factor inflation is higher than the consumer price inflation rate. It is said in those periods that the District operations are "challenged" to meet the service level objectives. [4]

An alternative policy formulation for the policy variable, g_t , component of taxation revenue growth may be a composite value of the Bank of Canada's target consumer price inflation rate, the District's population estimated growth rate, and the weighted average change in real incomes for representative households (those with incomes of less than \$100,000 per year, say). Lagged variables for population growth rate and household incomes real growth rate may be substituted for concurrent values. The relation between the policy variable and the independent variables is set out in the following equations.

$$r_t = \left(\frac{\Delta \hat{C}_t}{\hat{C}_{t-1}} \right) + \left(\frac{\Delta \hat{V}_t}{\hat{V}_{t-1}} \right) + \left(\frac{\Delta \hat{W}_t}{\hat{W}_{t-1}} \right)$$

$$\left(\frac{\Delta \hat{C}_t}{\hat{C}_{t-1}} \right) = \text{Bank_of_Canada_CPI_target_rate_of_increase}$$

$$\left(\frac{\Delta \hat{V}_t}{\hat{V}_{t-1}} \right) = \text{Population_growth_rate}$$

$$\left(\frac{\Delta \hat{W}_t}{\hat{W}_{t-1}} \right) = \text{Household_Incomes_Real_Growth_Rate_weighted_average}$$

Under this particular policy, the real rate of growth in taxation revenue is linked to the rate of growth of the District's population, the weighted average rate of growth in middle- and lower-income household real incomes, and the percentage increase in new construction values (as before). For population growth on the order of 0.3% per annum, real income growth rate on the order of 0.75% (weighted average), and new construction values rate of increase at 1.5%, the real rate of increase in taxation revenues will be on the order of 2.57% per year.

The remainder of external revenues that the District requires to meet its operating and capital requirements must be obtained from the sale of goods and services by the Districts operating divisions, government grants and investment earnings.

Population growth is expected to decline progressively over the century, from a current rate of 0.31% per annum to 0.09% per annum by 2031. The District's planning department is indicating population estimates ranging from 44,082 for 2006 to 47,272 for 2031. The estimates and average annual growth rates are given in the table following.[5]

Population	2001	2006	2011	2016	2021	2026	2031
Estimate	43,229	44,082	44,765	45,725	46,476	47,050	47,272
Growth rate, average per year	----	0.39%	0.31%	0.43%	0.33%	0.25%	0.09%

Weighted average household incomes, for households with incomes of less than \$100,000 per year, in the period 1996–2001 recorded a negative real rate of change of -0.85% per year. Details, drawn from the planning department's publication "Income in West Vancouver", December 2005 revision, Table #5, (p. 4), are given in the following table. CPI price index values are from BC Statistics (Statistics Canada).

Household Incomes				
District of West Vancouver				
Census Years	1996		2001	
	No. in bracket	Relative Frequency	No. in bracket	Relative Frequency
All households	15,875	147.3%	16,345	163.0%
Income Bracket				
Less than \$10,000	590	5.5%	540	5.4%
\$10,000 to \$19,999	1,545	14.3%	1,405	14.0%
\$20,000 to \$29,999	1,340	12.4%	1,095	10.9%
\$30,000 to \$39,999	1,455	13.5%	1,260	12.6%
\$40,000 to \$49,999	1,190	11.0%	1,165	11.6%
\$50,000 to \$59,999	1,115	10.3%	1,050	10.5%
\$60,000 to \$69,999	1,135	10.5%	1,025	10.2%
\$70,000 to \$79,999	935	8.7%	890	8.9%
\$80,000 to \$89,999	830	7.7%	760	7.6%
\$90,000 to \$99,999	645	6.0%	750	7.5%
Less than \$100,000	10,780	100.0%	10,030	100.0%
Weighted Average Income	\$ 46,489		\$ 47,323	
Change, average per year, %, current year dollars	--		0.36%	
CPI-All Items Vancouver, Index 1992 = 100.0	109.2		116.0	
Average Inflation Rate, CPI, %, annual rate	--		1.22%	
Weighted Average Income, Constant 1992 dollars	\$42,572		\$40,796	
Change, average per year, %, constant 1992 dollars			-0.85%	

The period 1996—2001 was characterised by low inflation, mixed economic conditions in the province, and modest nominal wage raises. Real incomes for wage earners generally did not keep up with inflation, and cost of living adjustments for pensioners were modest if received.

For 2006—2010, local inflation can be expected to be modest, 2% to 3%, vs. a Bank of Canada target of 2%. Wage increases will likely keep pace with or slightly exceed inflation. In the Vancouver area, wages are anticipated to rise by 3.5% per year for 2006 and 2007.[6] If we take household income to be a composite 50% wage-earners and 50% pensioners, then an estimate can be formed of the average increase in real household income as $0.5(CPI\% + 3.5\%) - CPI\%$ or $0.5(3.5\% - CPI\%)$. Letting $CPI\%$ equal 2.5%, gives 0.5% per annum as the estimated average increase in real incomes for households with incomes of less than \$100,000 per year.

The policy variable, g , in this case (scenario) will be the sum of the Bank of Canada target for consumer price inflation, 2%, plus population growth, 0.31%, and the estimated weighted average increase, 0.5%, in real household incomes of household with income less than \$100,000 per year, for a total value of 2.81%.

In conjunction with the rate of increase of new construction values, on the order of 1.5% to 1.9% per annum, the nominal rate of growth in taxation revenue may be estimated at 4.3% to 4.7% per year through the

planning horizon. Taking a central value of 4.5%, the revenue from taxation may be developed as per the following table.

Period	2005	2006	2007	2008	2009	2010	5-Yr Growth Annual Rates
1 General Taxation Prior Year (excluding Grants-in-lieu & Specified Area taxes)	41,355	42,879	45,109	47,060	49,096	51,219	4.37%
Policy Variable, g t							
Consumer Price Index, change		2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Population Growth rate		0.30%	0.30%	0.30%	0.30%	0.30%	0.30%
Real Household Incomes, change		0.50%	0.50%	0.50%	0.50%	0.50%	0.50%
Other		0.70%	-0.18%	-0.18%	-0.18%	-0.18%	0.00%
2 Policy Variable, g t	1.95%	3.50%	2.63%	2.63%	2.63%	2.63%	2.80%
3 Taxation Increase per Policy Var.	720	1,504	1,184	1,235	1,289	1,344	13.31%
New Construction Values, growth							
Lower mean value estimate		1.50%	1.50%	1.50%	1.50%	1.50%	
Upper mean value estimate		1.90%	1.90%	1.90%	1.90%	1.90%	
Central value estimate	1.95%	1.70%	1.70%	1.70%	1.70%	1.70%	
Dollar New Construction Values							
Lower mean value estimate		643	677	706	736	768	
Upper mean value estimate		815	857	894	933	973	
4 Central value estimate	805	729	767	800	835	871	1.59%
5 Taxation Revenue Increase	1,525	2,230	1,951	2,035	2,123	2,215	7.76%
Taxation Revenue Other Sources							
Grants-in-lieu of taxation	734	700	700	700	700	700	
Specified Area taxation	260	250	200	200	200	200	
6 Other Taxation Revenue	994	950	900	900	900	900	-1.96%
7 Total Increase Taxation Revenue	2,519	3,180	2,851	2,935	3,023	3,115	4.34%
8 Property Taxation Revenue	43,873	46,059	47,960	49,996	52,119	54,334	4.37%
9 Five Year Financial Plan, Bylaw 4474		46,197	48,606	50,264	51,743	53,258	3.95%
10 Difference		(138)	(646)	(268)	376	1,076	
Cumulative Difference		(138)	(784)	(1,052)	(676)	400	
11 Population Estimate	43,967	44,082	44,214	44,347	44,480	44,613	0.29%
12 Taxation Revenue per Capita	998	1,045	1,085	1,127	1,172	1,218	4.07%
13 Taxation Revenue per Capita excl Grants-in-lieu & Specified Area taxes	975	1,023	1,064	1,107	1,152	1,198	4.19%

A number of observations may be made. New construction values provide a significant source of taxation

revenue and continue to contribute to taxation revenue growth via the policy variable increment each year after the year in which the new construction value is first recorded. Per capita revenue rises at the annual rate of taxation increase (4.5%) less the rate of population increase (0.3%), and by this mechanism per capita taxation of West Vancouver will continue to lead most BC municipalities. Of the 4.19% average annual increase in per capita taxation revenue, 1.70 percentage points will be attributable to new construction values taxation growth and 2.49% will be the result of consumer price change effects and real incomes growth. If the policy variable, g , omits the real incomes growth component, then per capita taxation revenue will rise at the lesser rate of 3.7% per year. The maximum difference of estimate to plan in this case will be a shortfall of \$938,000 in 2007 and a cumulative shortfall of \$2,653,000. Under the policy approach detailed in the table above, the maximum shortfall is \$646,000 in 2007 and a maximum interim cumulative shortfall of \$1,052,000 by 2008, with an overall positive variance to plan of \$400,000 by the end of the forecast horizon.

If it is desired that per capita taxation revenue be held constant through the planning period, then the following increasing revenue annual shortfalls will be experienced culminating in a \$29,300,000 cumulative shortfall. A policy of capping taxation revenue at 2005 per capita levels would be infeasible without significant accompanying efficiencies and retrenchments in the operating and capital budgets.

Alternative Taxation Revenue Proposals – No Growth in Per Capita Taxation Period	2005	2006	2007	2008	2009	2010	5-Yr Growth Annual Rates
14 Capped Taxation Revenue per Capita (excl. Grants-in-lieu & Specified Area taxes) at the 2005 level	975	975	975	975	975	975	0.00%
11 Population Estimate	43,967	44,082	44,214	44,347	44,480	44,613	0.29%
15 Capped Taxation Revenue (excl. Grants-in-lieu & Specified Area taxes)	42,879	42,992	43,121	43,250	43,380	43,510	0.29%
6 Other Taxation Revenue	994	950	900	900	900	900	-1.96%
16 Capped Taxation Revenue (incl. Grants-in-lieu & Specified Area taxes)	43,873	43,942	44,021	44,150	44,280	44,410	0.24%
9 Five Year Financial Plan, Bylaw 4474		46,197	48,606	50,264	51,743	53,258	
17 Difference		(2,255)	(4,585)	(6,114)	(7,463)	(8,848)	
Cumulative difference			(6,841)	(12,955)	(20,418)	(29,266)	

Establishing a capped real taxation per capita policy would be slightly less onerous, assuming a 2% per year CPI-change, as the following table shows. The cumulative shortfall decreases to \$16 million—a change of \$13 million. The per capita taxation at 2010 is \$1,077 vs. \$1,198 under the first policy alternative (4.5% annual taxation growth rate), a difference of 10.1% or \$121 per capita. Considering the displacement in taxation revenue that the capped real taxation per capita policy would necessitate, the savings to the average household may not be sufficiently large to justify the policy of capping real per capita taxation.

<u>Alternative Taxation Revenue Proposals</u>								
<u>- No Growth in Real Per Capita</u>								
<u>Taxation</u>								
Period	2005	2006	2007	2008	2009	2010	5-Yr Growth Annual Rates	
14a	Capped Real Taxation Revenue per Capita (excl. Grants-in-lieu & Specified Area taxes) at the 2005 level	975	995	1,015	1,035	1,056	1,077	2.00%
16a	Capped Real Taxation Revenue (excl. Grants-in-lieu & Specified Area taxes)	42,879	43,851	44,863	45,897	46,956	48,038	2.30%
6	Other Taxation Revenue	994	950	900	900	900	900	-1.96%
	Capped Real Taxation Revenue (incl. Grants-in-lieu & Specified Area taxes)	43,873	44,801	45,763	46,797	47,856	48,938	2.21%
9	Five Year Financial Plan, Bylaw 4474		46,197	48,606	50,264	51,743	53,258	
17a	Difference		(1,396)	(2,843)	(3,467)	(3,887)	(4,320)	
	Cumulative difference			(4,239)	(7,706)	(11,593)	(15,913)	

[1] Roach, D. J., unpublished manuscript, "Financial Review – Corporation of West Vancouver – 1996 to 2004", May 2005. Communication with R. Laing, District of West Vancouver.

[2] District of West Vancouver, Annual Report—Five Year Statistical Review, 2005. The value of the policy variable *g*, and the new construction values variable *y* are drawn from the tabulated statistics appearing in the statistical tables. Values of *g* are found on page 59. Annual assessment growth, market valuation increases, and new construction values are found on page 55.

[3] Op. cit.

[4] Various references to this particular condition appear from time to time in the reports to council in conjunction with the presentation of financial results. Service level challenges are often the result of insufficient budget room to accommodate spending in one or more service dimensions because higher priority spending items have consumed the available resources that would otherwise have gone to the service level challenged activities.

[5] "Facts and Stats: West Vancouver Population Projections", Planning Department, District of West Vancouver, 2006.

[6] "Business Section", Vancouver Sun, 2006:9.

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Recreation Facility Utilization -- Exhibits

Performance may be measured by any number of factors. In these two exhibits the results and planned activity levels are presented in terms of monetary measures along with attendance, operating hours, and percent recovery. Additional statistics showing revenue/hour, expense/hour are introduced in order to gauge the rate of usage in monetary terms—how much is earned or unrecovered per hour that the facility is open.

Exhibit 1 -- 2005 Performance Measures -- Interim Report

Facility	Ice Arena	GlensadesCC	Aquatic Ctr.	Srs. Ctr.	Central CC	Five Facilities
2005 Reported Results						
Revenue						
Programs - Net Revenue	\$ 54,394	\$ 179,216	\$ 335,604	\$ 104,848	\$ 110,302	\$ 674,062
Core Services Revenue	227,971	235,543	1,259,002	140,733	127,934	1,863,249
Merchandise - Net Revenue	10,957	(475)	69,377	15,770	2,031	95,629
Revenue	\$ 293,322	\$ 414,284	\$ 1,663,983	\$ 261,351	\$ 240,267	\$ 2,632,940
EXPENSES						
Core Services Delivery	\$ 94,019	\$ 304,364	\$ 1,112,610	\$ 301,783	\$ 430,857	\$ 1,812,776
Facility Operation & Maintenance	307,575	251,049	707,294	244,979	199,080	1,510,897
Administration	98,303	256,909	535,565	252,171	254,572	1,142,948
Recovery	(404)	(250)	(2,474)	(964)	0	(4,092)
Expenses	\$ 499,493	\$ 812,072	\$ 2,352,995	\$ 797,969	\$ 884,509	\$ 4,462,529
Excess of Expenses over Revenues	\$ 206,171	\$ 397,788	\$ 689,012	\$ 536,618	\$ 644,242	\$ 1,829,589
Statistics:						
Program Hours	3,600	10,200	17,900	22,500	15,300	54,200
Operating Hours	4,179	4,716	5,939	3,936	4,344	18,770
Program Hours/Operating Hour	0.86	2.16	3.01	5.72	3.52	2.89
Percent Recovery (Revenue/Expenses)	58.72%	51.02%	70.72%	32.75%	27.16%	59.00%
Program Net Revenue/Program Hour	\$ 15.11	\$ 17.57	\$ 18.75	\$ 4.66	\$ 7.21	\$ 12.44
Program Net Revenue/Operating Hour	\$ 13.02	\$ 38.00	\$ 56.51	\$ 26.64	\$ 25.39	\$ 35.91
Core Service Revenue/Operating Hour	\$ 54.55	\$ 49.95	\$ 211.99	\$ 35.76	\$ 29.45	\$ 99.27
Total Revenue/Operating Hour	\$ 70.19	\$ 87.85	\$ 280.18	\$ 66.40	\$ 55.31	\$ 140.27
Expenses/Operating Hour	\$ 119.52	\$ 172.20	\$ 396.19	\$ 202.74	\$ 203.62	\$ 237.75
Net Expenses/Operating Hour	\$ 49.34	\$ 84.35	\$ 116.01	\$ 136.34	\$ 148.31	\$ 97.47

Recreation Facility Utilization -- Exhibits
Exhibit 2 -- 2006 Performance Measures -- Planned

	<u>Ice Arena</u>	<u>GlennagesCC</u>	<u>Aquatic Ctr.</u>	<u>Srs. Ctrs.</u>	<u>Central CC</u>	<u>Five Facilities</u>
2006 Operating Plan						
Revenue						
Programs - Net Revenue	\$ 59,000	\$ 160,000	\$ 343,700	\$ 121,800	\$ 194,700	\$ 684,500
Core Services Revenue	223,200	164,200	1,423,100	135,000	146,900	1,945,500
Merchandise - Net Revenue	9,000	5,600	79,200	34,730	1,700	128,530
Revenue	\$ 291,200	\$ 329,800	\$ 1,846,000	\$ 291,530	\$ 343,300	\$ 2,758,530
<u>Expenses</u>						
Core Services Delivery	\$ 83,650	\$ 373,150	\$ 1,257,450	\$ 304,500	\$ 437,372	\$ 2,018,750
Facility Operation & Maintenance	304,587	263,797	707,187	249,287	257,887	1,524,858
Administration	105,200	266,900	553,900	247,600	232,900	1,173,600
Recovery	0	0	0	(2,700)	0	(2,700)
Expenses	\$ 493,437	\$ 903,847	\$ 2,518,537	\$ 798,687	\$ 928,159	\$ 4,714,508
Excess of Expenses over Revenues	\$ 202,237	\$ 574,047	\$ 672,537	\$ 507,157	\$ 584,859	\$ 1,955,978

The statistics section is omitted because attendance and hours of operation are not determined within the planning function at the time the revenues and expenses are estimated.

Debt Levels Supportable From Existing Financial Resources

The question of what level of debt service can be supported from existing financial resources without recourse to additional taxation or alteration of the Endowment Fund Bylaw is important in determining the course of action to be taken with regard to funding new capital projects in the District of West Vancouver. The level of debt service "affordable" from existing resources, in conjunction with current borrowing rates and maturity terms, determines the amount of capital obtainable through borrowing. It is assumed that the source of debenture debt is the Municipal Finance Authority of BC ("MFA-BC").

Two resources for supporting current borrowing are the Endowment Fund income stream, net of the annual increase in the Threshold Value (as defined in the Bylaw), and the annual transfer from the General Fund to the Capital Facilities Reserve which has been continued since at least 1995 at an annual rate of \$1.24 million.

The two resources are independent of one another. The Endowment Fund income stream relies on earnings from an actively managed investment portfolio of bonds and term deposits, and rental income from properties held in the Fund and properties held outside the Fund (e.g., 320 Taylor Way and the rental income from concessions at the new community centre, if any.) The annual transfer to the Capital Facilities Fund is a continuing current transfer affirmed through the annual budget setting policy as part of the five year financial plan, and relies on current General Fund revenues for support.

Taking the annual transfer of \$1.24 million from the General Fund, it is a straightforward matter to calculate the present value of the stream of payments, as if for debt service, that this annual transfer would support at a given interest rate and amortization term (i.e., the number of years to fully retire the debenture on a sinking fund basis which is the normal practice for MFA-funded borrowing). At an annual interest rate of 5.5%, semi-annual compounding payments, and amortization terms ranging from 15 years to 30 years, the present value of the sinking fund supported borrowing ranges from \$12.6 to \$18.1 million (see lower, table following page). Under these conditions, and assuming continuation of the current practice of annual transfers from the General Fund, it is reasonable to assume that between \$12 and \$18 million could be borrowed without necessitating an increase in taxation or revenues for this purpose, everything else being equal.

Looking at the Endowment Fund, we see that in the past the average return on the fund is about 4% per year. The Threshold Value increments annually by the local rate of nominal inflation as posted by Stats Canada (nominally, the year-over-year change all-Items CPI Vancouver as measured each December). This rate of inflation has varied recently between 1.5% and 2.5%. The difference between the rate of return (4%) and the rate of Vancouver CPI-All Items change (say 2% to 2.5%) is an approximate measure of the net available investment return available to support debt service. Add to this the amount of transfers to the Fund from rental revenues (approximately \$150 thousand per year, level), and we have a measure of the annual debt service supportable.

Because the Threshold Value is expected to continually rise over time, the actual dollar value of the return on investment will rise accordingly, thus, provided the returns are positive each year and exceed the rate of nominal inflation, the stream of payments from the Fund able to support debt service will rise accordingly. There is some level of uncertainty associated with the investment returns however, and an adjustment for risk must be assumed. Additionally, because of the growth in the fund balance over time it is necessary to project the balances in order to determine the amount of debt supportable by this resource. This is done in the table following, and it is found under the assumption of a 6% discount rate, a 2.5% per year increase in the Threshold Value, and a 4% investment return, that with an amortization of 20 years, the borrowing supportable is about \$5.9 million. Rounding this down to \$5 million would seem appropriate.

Thus, from existing resources, without recourse to increased taxation or additional revenues and without recourse to altering the Endowment Fund Bylaw or the present investment practices, debt service levels supporting debenture borrowing under MFA-BC terms can range from \$17 million to \$23 million, everything else being equal.

Debt Levels Supportable From Existing Financial Resources October 31, 2006

Yr.	Endowment Fund Threshold	Principal	Return @ 4%	Threshold Change @ 2.5%	Rental Income	Net Available	Dividend	Net Addition
1	20,000,000	20,000,000	800,000	500,000	150,000	450,000	\$ 450,000	500,000
2	20,500,000	20,500,000	820,000	512,500	150,000	457,500	\$ 457,500	512,500
3	21,012,500	21,012,500	840,500	525,313	150,000	465,188	\$ 465,188	525,313
4	21,537,813	21,537,813	861,513	538,445	150,000	473,067	\$ 473,067	538,445
5	22,076,258	22,076,258	883,050	551,906	150,000	481,144	\$ 481,144	551,906
6	22,628,164	22,628,164	905,127	565,704	150,000	489,422	\$ 489,422	565,704
7	23,193,868	23,193,868	927,755	579,847	150,000	497,908	\$ 497,908	579,847
8	23,773,715	23,773,715	950,949	594,343	150,000	506,606	\$ 506,606	594,343
9	24,368,058	24,368,058	974,722	609,201	150,000	515,521	\$ 515,521	609,201
10	24,977,259	24,977,259	999,090	624,431	150,000	524,659	\$ 524,659	624,431
11	25,601,691	25,601,691	1,024,068	640,042	150,000	534,025	\$ 534,025	640,042
12	26,241,733	26,241,733	1,049,669	656,043	150,000	543,626	\$ 543,626	656,043
13	26,897,776	26,897,776	1,075,911	672,444	150,000	553,467	\$ 553,467	672,444
14	27,570,221	27,570,221	1,102,809	689,256	150,000	563,553	\$ 563,553	689,256
15	28,259,476	28,259,476	1,130,379	706,487	150,000	573,892	\$ 573,892	706,487
16	28,965,963	28,965,963	1,158,639	724,149	150,000	584,489	\$ 584,489	724,149
17	29,690,112	29,690,112	1,187,604	742,253	150,000	595,352	\$ 595,352	742,253
18	30,432,365	30,432,365	1,217,295	760,809	150,001	606,486	\$ 606,486	760,809
19	31,193,174	31,193,174	1,247,727	779,829	150,002	617,900	\$ 617,900	779,829
20	31,973,004	31,973,004	1,278,920	799,325	150,003	629,598	\$ 629,598	799,325
							\$ 5,912,533	

Transfer to Capital Facilities Reserve

Annual Appropriation	\$ 1,240,000
MFA Rate of Borrowing	5.50%
Term of Full Amortization	Years
Loan Amount Available	Semiannual \$ 12,554,567
	20 \$ 14,928,423
	25 \$ 16,738,245
	30 \$ 18,118,050

