



ADMINISTRATIVE REPORT

Report Date: September 15, 2009
Contact: Kenneth Bayne
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RTS No.: 08337
VanRIMS No.: 08-2000-20
Meeting Date: September 22, 2009

TO: Vancouver City Council

FROM: General Manager of Business Planning and Services in consultation with the Director of Finance

SUBJECT: Provincial Budget Update 2009

RECOMMENDATION

THAT Council receive this report for information.

CITY MANAGER'S COMMENTS

The City Manager RECOMMENDS Council receive this report for information.

COUNCIL POLICY

There is no applicable Council Policy.

PURPOSE

The purpose of this report is to respond to Council's request for information on the impacts of the *September Budget Update 2009* on the City's 2010 Operating Budget.

BACKGROUND

On September 1, 2009, the new provincial government introduced September Budget Update 2009, an amendment to the provincial budget introduced in February 2009 and adopted by the Legislature before the provincial election.

DISCUSSION

In General

The *Budget Update* contains revised deficit forecasts of \$2.8 billion in 2009/10, an increase from the \$495 million deficit in the February budget. The three year fiscal plan update

anticipates continuing deficits of \$1.7 billion in 2010/11 and \$945 million in 2011/12. Legislation will be introduced to amend the balanced budget requirements to allow the government to run these deficits for up to four years.

The updated budget position identifies revenue reductions of \$1.45 billion primarily resulting from the current economic downturn being experienced in the province. The largest reductions are concentrated in personal and corporate income and sales taxes, and revenues from natural resources. These revenue losses are offset by a contribution from the federal government related to the introduction of the Harmonized Sales Tax (\$1.6 billion over the three year fiscal plan, \$750 million of which is being recognized in 2009/2010).

On the expenditure side, current economic conditions and several new program initiatives have increased costs by \$826 million over the levels approved in April. Major changes - which provide some indication of the program priorities of and pressures faced by the government - are summarized in Table 1 (extracted from the government documents).

Table 1: Major Expenditure Area Changes from the February 2009 Budget

| Expenditure Area | 2009/2010 | 2010/2011 | 2011/2012 |
|-----------------------------------|-----------------|-----------------|-----------------|
| Pandemic preparedness | \$80 million | - | - |
| All Day Kindergarten | - | \$44 million | \$107 million |
| Social Services | \$113 million | \$171 million | \$171 million |
| Supporting communities | \$67 million | \$126 million | \$60 million |
| Forest Fire costs | \$347 million | - | - |
| HST Rebates on Residential Energy | - | \$175 million | \$220 million |
| School Districts | 102 million | \$3 million | \$6 million |
| Post Secondary | 103 million | \$16 million | - |
| Health Authorities | \$142 million | \$91 million | \$135 million |
| Increased Contingency | \$115 million | - | \$50 million |
| Other Changes (mostly recoveries) | \$210 million | \$(7) million | \$24 million |
| Management of Public Debt | \$(14) million | \$111 million | \$158 million |
| Discretionary Spending Reductions | \$(454) million | \$(514) million | \$(529) million |

Source: *September Update Budget and Fiscal Plan 2009/10 - 2011/12, Province of BC*

The documents released by the government on September 1, and the briefing by the Finance Minister, do not provide a lot of clarity about the impacts of the *Budget Update* on specific program expenditure areas. However, in the days leading up to the update and since it was introduced, a series of announcements have provided additional information. As details continue to become public over the coming weeks and months, the information in this summary of issues that impact on the City directly or indirectly may have to be updated.

Appendix A to this report contains a memo provided by Board of Education staff to the School Board addressing the impacts of the provincial Budget Update on their operating and capital budgets.

Significant Areas of Impact on the City

The significant impacts of this budget to the city's services that are known at this time are:

- 1. Introduction of the Harmonized Sales Tax:** The government announced that it would harmonize the provincial sales tax (PST) and the federal Goods and Services Tax (GST) into

a 12% HST effective on July 1, 2010. In return, the federal government will provide the province with \$1.6 billion over three years to deal with integration issues.

The new HST will be applied based on the rules for the GST meaning that a much broader range of goods and services will be subject to provincial sales tax than under the separate tax regimes. There are a number of initiatives related to the implementation, including an increase in the basic personal tax credit and the introduction of a new low income tax credit, both intended to partially offset the broader based tax. The province will also provide a rebate program for the provincial portion of the HST that applies to home energy bills.

The province announced a 75% rebate of the provincial portion of the HST for municipalities with the intention to hold municipalities neutral overall. Preliminary review indicates relative neutrality for the Operating Fund and Capital Funds. Impacts on the PEF, which deals mostly in property transactions, will be determined once additional information is available on how the tax will be applied.

The HST will also be applicable to some City fees and charges that have taxes included. The most significant of these is parking meter revenues where the 7% portion of the tax will result in additional remittances to the province by the City of over \$2.0 million. Staff are currently reviewing where the impacts will affect the City and will bring forward a proposal for fee increases to offset the additional cost.

The introduction of the HST is of particular interest to the City in relation to our involvement in real estate transactions and most immediately the Olympic Village development. The government indicates that the tax will only apply to new housing and that rebates of up to a maximum of \$20,000 will be provided for residential (not commercial) purchases; this will effectively neutralize the impact of the HST on residential purchase up to a value of \$400,000. The budget also references a "transitional arrangement" to deal with residential real estate transactions that straddle the implementation date; however, no details have been announced. While this change may not impact on the City budget directly, it could impact on the marketing of the Olympic Village market units in which the City has a strong interest.

2. **Infrastructure/Stimulus Funding:** The *Budget Update* documents provide an accounting of the infrastructure funding that has been allocated to projects in the period leading up to the budget. There has been no increase from the February 2009 budget in the funding available through 2010/2011 for these programs. As outlined in the report on Infrastructure funding (RTS08259), discussions continue with the federal government on the allocation of infrastructure funding already in the budget toward the identified provincial priorities of transportation, housing and community support. There is no further indication of how much funding might be made available to assist larger municipalities like Vancouver with infrastructure challenges or what the process for accessing those funds will be. UBCM has expressed increasing concern about the delay in the agreement with the federal government and with the absence of a clear commitment from the province to match the available federal funding over the next three years.
3. **Affordable Housing:** The *Budget Update* continues operating funding for existing affordable housing and adds additional funding for supports to committed affordable housing projects through an increase in the commitment to BC Housing of approximately

\$113 million (35%). However provincial staff indicate it is likely there will be no additional operating funding for new projects during this fiscal year. The ongoing financial pressures faced by BC Housing mean that the lack of operating funds for any new projects could extend for a couple of years, but this timeframe is unknown.

Funding for the first six of the City's 14 affordable housing sites is in place and these projects will proceed. However, capital and operating funding for the balance of the sites - 8 in total - is clearly tied to the income generated from the Little Mountain redevelopment which is still years from completion.

The budget does include a specific allocation of \$2.0 million to extend the HEAT shelters funding through the 2009/2010 fiscal year. No certainty of continued funding beyond the end of 2009/2010 is provided.

4. **Olympic Funding:** Funding continues for the 2010 Games at the levels announced by the Premier in February (\$765 million). The *Budget Update* indicates that the provincial costs are now covered and there is a \$69 million contingency related to Games operations. An additional \$10 million is available in the subsequent fiscal year to deal with costs that may arise following the games. It remains unclear whether these allocations will address challenges identified by VANOC over the last few months. Specifically, there is as yet no confirmation of funding for incremental, games related municipal services which are currently the topic of negotiation with the province.
5. **Translink:** The province acknowledges the capital and operating challenges faced by TransLink but defers possible solutions to the *TransLink Review* that is underway in the Ministry. Introduction of the HST will eliminate approximately \$16 million in Parking Tax revenues annually from the Translink Budget with no identified mechanism to substitute for this revenue shortfall. Furthermore, TransLink, in its recently released plan, had proposed increasing the tax to generate up to \$57 million annually, however, resolution of this issue is also deferred to the *TransLink Review*.
6. **Major Projects:** Funding for BC Place Stadium is continued at \$365 million, however the minister indicates that cost pressures for the current retractable roof proposal could mean further decisions on how to proceed with the upgrade will be required shortly. The province has fully funded the pre-Olympic upgrading to BC Place, having spent \$75 million by June 30, 2009. Funding is identified for the Lower Mainland Pre-Trial (Remand) Center though no timing or location for the project is provided. There is no reference to the Vancouver Art Gallery project.

7. **Provincial Funding for Municipalities:** A variety of provincial programs fund grants to the Vancouver Public Library. Staff are aware of reductions of approximately \$60,000 for the City's 2009 fiscal year. While there has been discussion of further funding reductions to follow, there is some uncertainty as to the impact beyond this fiscal year.

In the fall of 2008, the Police Revenue Sharing Grants (about \$14 million) for 2009/2010 and 2010/2011 were announced with these amounts to be paid before the end of 2009 as a means of assisting municipalities deal with the economic downturn. The budget makes no further reference to the status of these payments beyond the 2010.

8. **Provincial Grants to Arts and Other Community Organizations:** The Minister of Housing and Social Development announced in advance of the *Budget Update* that granting programs from the province would be reduced and that available funding would be reallocated. The Minister provided examples of sectors that will not receive additional funding in 2009/10, including environmental organizations, adult sports groups, alumni associations, and a number of arts and cultural organizations. In addition, the Minister indicated that major capital project grants and playground grants would not be available.

The budget documents themselves provided no additional clarity to these statements however, since Sept 1, 2009 there have been a number of announcements about the changes. It appears that the province is reducing the total amount of grant funding from gaming revenues from \$156 million to \$139 million (by \$17 million or 11%). In addition, funding for the BC Arts Council and *CommunityLink* programs will now be drawn from gaming revenue after a shift from direct provincial funding (\$60 million) in prior budgets. As a result, it is anticipated that funding available for a range of arts, cultural and community organizations will be down by approximately \$77 million and the available funding will have to be spread more thinly across organizations.

The Minister has also indicated that an additional \$30 million in grants will be allocated through future government contingency votes however, there has been no confirmation of if or when these funds will be available and how they will be prioritized.

Finally, the Minister announced that the government had rethought its decision not to follow through on three year grant commitments made to a wide range of arts and cultural organizations by restoring funding of approximately \$20 million in funding in 2010/2011.

Almost all of the more than 100 social services and many of the arts and cultural organizations and childcare groups that the City funds also receive grants funded by gaming revenue. However, neither the budget nor the subsequent announcements have provided specific detail about these changes. Staff continue to work with these organizations to determine the impacts on their operations and the potential impacts on City funding.

9. **Recreation and Sport:** The *Budget Update* indicates a reduction in the estimates of approximately \$55 million in the Healthy Living and Sport, 80% of which is related to the operations of the Olympic Games Secretariat. The government has confirmed that grant funding available to sports and recreation organizations and *ActNow BC* will be set at \$38 million, a reduction of approximately \$14 million from prior years. It is uncertain as to the

potential impact of these reductions on the City. Funding of \$130,000 for BC School Sports has also been cut which will impact on VSB school related sports programs.

- 10. Childcare:** There is no additional funding in the *Budget Update* for childcare, however the funding committed in February 2009 for the support of children in care and preventative and family support services; the child care subsidy program; the support of children and families with special needs; programs and services to adults with developmental disabilities and their families is continued. Overall, funding for these programs is up by about 3%. In addition, the budget references the provincial commitment to the Neighborhood Learning Centers model for providing services to children and families although the level of funding and required participation by partners (including municipalities) is uncertain. In 2008, the Premier announced that Strathcona School would be one of a number of sites in the lower mainland that would be reviewed for inclusion in this program.

There are two areas related to childcare that could impact the City. The first is the announced implementation of full day kindergarten for 5 year olds beginning September 2010. This will create additional room in full day child care programs for three and four year olds, relieving some of the pressure. However it may also increase community demand for before and after school care for 5 year olds. There are no immediate cost implications but this could result in increase requests for city capital grants to assist out-of-school care programs trying to respond to the need.

The other area of concern is a reduction in the facilities repair and replacement grants from \$5,000 to \$2,000 a year per facility. This grant is typically used for replacing worn carpeting, old fridges and general health and safety issues. If these reductions continue, childcare (and other) operators will either have to increase parent fees and/or find funding elsewhere to properly maintain facilities. This may also put pressure on the City's capital grants program.

- 11. LiveSmart Program:** In August, the government announced that the LiveSmart BC program had reached its financial targets and would be ending two years early. The program provided homeowners with access to provincial, utility and federal incentives for energy refits. Cancellation of this program will affect the access for the public to funding to support environmental improvements.

The elimination of this program will further impact residential property owners facing major expenditures related to building envelope failure as this program was often used in tandem with the building envelope financing program that was cancelled several months ago.

The *Budget Update* continues the extension of a number of PST exemptions for energy efficient (Energy Star) appliances and home improvements until March 2011 and introduces a new exemption for high efficiency commercial boilers which may impact on the ongoing City initiatives to update facilities. As noted above, a number of environmental groups will have their funding significantly reduced related to reductions in Gaming Fund grants.

- 12. Education:** The impact of the provincial budget on the VSB is significant. The memo prepared by VSB staff for the VSB Board members is appended to this report.

13. Taxation Initiatives: In addition to the HST implementation, the *Budget Update 2009* introduces a number of taxation and revenue initiatives that build on those announced in previous budgets. For individuals there is:

- An increase in basic personal tax credit from \$9,300 to \$11,000;
- Introduction of a low income tax credit available to offset cost of the HST.
- - \$230 per family member for family incomes to \$20,000 (individual) and \$25,000 (family)
 - Credit phased out at 4% of income above these thresholds
- Introduction of a rebate of PST portion of the HST on residential energy bills administered by province.
- An increase in Medical Services Plan premiums by 6% or \$3/ month for singles and \$6/month for couples. The budget also makes reference to future annual adjustments based on the growth in health care costs in the provincial budget. The budget also increases eligibility for income based premium subsidies that are expected to at least hold costs steady for an additional 180,000 lower income taxpayers;

For business, the *Budget Update* carries through on a number of tax measures previously announced to support the business community and introduces an additional benefit for small business:

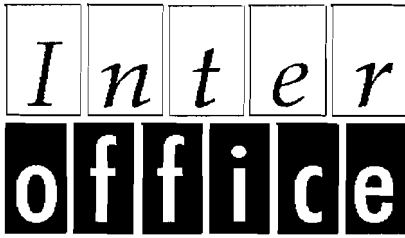
- reduce the general corporate income tax rate from 11% to 10.5% with a further reduction in January 2011;
- reduce small business corporate income tax rate from 3.5% to 2.5%, earlier than originally scheduled;
- remove expiry dates for film tax credit program scheduled to expire and expand eligibility for Film Incentive BC Tax Credit;
- increase in the threshold for small business tax from \$400,000 to \$500,000;

These taxation initiatives will provide some relief for both individuals and businesses in Vancouver.

CONCLUSION

There are many other initiatives reported as part of the *September Budget Update 2009*. Staff will continue to monitor the ongoing announcements and seek clarity from the government and stakeholder organizations as more information becomes available. Estimate debates will be monitored for any information relevant to the city. Reference to relevant changes resulting from the Provincial Budget 2009 will be integrated into our own budget reports scheduled for the end of October 2009.

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Memorandum

vancouver school board

The logo for the Vancouver School Board, featuring the letters "VSB" in a stylized, handwritten font.

Item III-A-2

September 9, 2009

To: Trustees

From: Brenda Ng
Rick Krowchuk

Subject: **Three-Year Operating Budget Projection**

Attached is a summary of the three-year operating budget projection for the VSB. It should be noted that this is a preliminary, high-level estimate based on assumptions as to the major budget change factors over the next three years. Accordingly, these projections should be considered as a range estimate rather than discrete numbers.

The projections are based on the following key assumptions:

- general student enrolment will continue to decline by 578, 571 and 550 FTE students over the next three years;
- ESL students will continue to decline by 200 FTE per year (no change is assumed for other students with unique needs);
- there will be continued cost increases of 1.5% per year for employee benefit costs and inflation for goods and services;
- assumes that the Province will fund the teacher salary increase of 2% for July 1, 2010 (\$4.8 million) included in the current collective agreement;
- no net cost increase for future labour settlements (assumes no increases or that they are fully funded by the Province);
- no change in per student operating grants from the Province or in the provincial funding formula;

- no net cost impact to the VSB as a result of implementing all day Kindergarten;
- assumes no rebate for the 7% provincial portion of the HST effective July 1, 2010; and
- the Annual Facilities Grant reduction of \$10.6 million for 2009/2010 is a one-time reduction and is reinstated for 2010/2011 and future years.

Based on the above assumptions, a funding shortfall in the range of \$14.8 million is estimated for 2010/2011. Additional funding shortfalls in the range of \$6.5 million would be faced for 2011/2012 and 2012/2013.

A key assumption is that the \$10.6 million AFG grant would be reinstated in 2010/2011. If this is not the case, the projected funding shortfall could be in the range of \$25 million for 2010/2011 (\$14.8 million plus \$10.6 million).

If the Province increased the per student operating grants over this period, the projected funding shortfall would be reduced.

Currently, the VSB has \$1.35 million uncommitted funds remaining in its Local Capital Reserve (about 0.28% of the annual expenditure budget).

This projection will be updated as additional information becomes available.

This report is provided for information.

Operating Budget Three Year Projection

| | 2010/2011 | 2011/2012 | 2012/2013 |
|--|-------------------|------------------|------------------|
| One-Time (2009/2010) ¹⁾ | \$ (6.96) | \$ | \$ |
| Enrolment Decline ²⁾ | (1.30) | (1.29) | (1.29) |
| Salary and Fringe Benefit Increase ³⁾ | (4.00) | (4.07) | (4.13) |
| Inflation ⁴⁾ | (0.94) | (0.98) | (1.02) |
| Carbon Offsets ⁵⁾ | (0.28) | | |
| HST ⁶⁾ | (1.00) | | |
| MSP rate increase ⁷⁾ | (0.21) | (0.22) | (0.23) |
| BCeSIS | (0.15) | | |
| Total Projected Deficit ⁸⁾ | \$ (14.84) | \$ (6.56) | \$ (6.67) |

1) Prior Year Appropriated Surplus \$4.26 million and Transfer from LCR \$2.70 million

2) Estimated 200 ESL student FTE decline for each of the years, regular decline 578,571,550 student FTE

3) Includes cost increases for Salary Increments and Fringe Benefits, offset by Teacher Turnover Savings

4) Based on 1.5% inflation and estimated utility rates

5) Estimated carbon offsets cost to be updated when carbon offset pricing and measurement methodology confirmed

6) HST impact estimated with no rebate for 7% provincial portion

7) MSP rate increase of 6% per year 2009/2010 - 2012/2013

8) Assumes current level of provincial funding is maintained and does not include any provision for additional expenditure requirements (for programs or infrastructure). Additional costs for carbon offsets, H1N1, and the 6% MSP rate increase for 09/10 will have to be covered in the 09/10 amended budget. No net cost increases for labour settlements or all day kindergarten. Also assumes that the \$10.6 million AFG grant will be reinstated for 2010/2011 and future years.