

NO: **R067**

COUNCIL DATE: **April 8, 2013**

REGULAR COUNCIL

TO: **Mayor & Council**

DATE: **April 8, 2013**

FROM: **General Manager, Finance & Technology**

FILE: **1880-01**

SUBJECT: **Report on the Downloading of Responsibilities by the Province to Local Governments**

RECOMMENDATION

Finance and Technology Department recommends that Council:

1. receive this report as information; and
2. request that the Mayor on behalf of City Council forward a copy of this report along with a copy of Council's resolution related to this report to each of the political parties that is running candidates in the upcoming provincial election with a request that they provide a response to the City of Surrey as to how they intend to address the pressures that Surrey and other BC local governments are facing in relation to the on-going downloading of responsibilities by the Province to local governments that has occurred over the last six years as documented in this report.

INTENT

The purpose of this report is to provide an update on the costs and impacts to the City of Surrey related to Provincial Government decisions that have resulted in the downloading of services and in the reduction of grants to local governments over the last six years.

In view of the upcoming provincial election, it is recommended that Council request that the Mayor on behalf of Council forward a copy of this report along with a copy of Council's resolution related to this report to each of the political parties that is running candidates in the upcoming provincial election with a request that they provide a response to the City of Surrey as soon as possible as to how they intend to address the pressures that Surrey and other BC local governments are facing in relation to the on-going downloading of responsibilities by the Province to local governments that has occurred over the last six years as documented in this report.

BACKGROUND

In January, 2009 the Intergovernmental Affairs Committee received Corporate Report #IAC 003 – "Financial Impacts Over the Last 10 Years to the City of Surrey of Provincial Government Decisions".

Since that time, the role of local governments has continued to expand both in terms of the types of services that must be provided and the complexities of delivering core services. The division of responsibilities between the Province and municipalities for the provision of certain types of services has become less well defined. In general, responsibilities have been shifted to local governments and away from the Province.

Local government services continue to expand into areas such as health care, immigration settlement, social service provision, affordable housing and addressing homelessness. At the same time, traditional municipal services, such as public safety services (police, fire, by-law enforcement, etc.) have become significantly more complex and costly to deliver. The primary revenue sources available to municipalities from which to fund the delivery of services have not changed significantly.

BC residents pay a variety of taxes ranging from income tax, sales tax, gas tax, property transfer tax, probate tax, carbon tax and property tax. Local governments continue to rely on property taxes, which are not directly connected with the economy like sales taxes and incomes taxes. The result is that municipalities are receiving a smaller proportion of the total governmental revenues.

Legislation requires that municipalities maintain a balanced operating budget. Legislation also places restrictions on the sources of revenues available to local governments. Local governments are increasingly stretched financially because they do not have sufficient access to funding relative to their responsibilities.

According to the Federation of Canadian Municipalities (FCM) 50 cents of every tax dollar collected in Canada goes to the federal government, 42 cents goes to the provincial and territorial governments and 8 cents goes to municipal governments.

More recently, FCM published, "The State of Canada's Cities and Communities 2012". This publication states that municipalities lack the funding tools to support the national economy and meet the needs of Canadians. Municipalities are responsible for building more than one half of the country's core infrastructure; they pay the salaries of two out of three police officers; and they fund downloaded responsibilities for social services, immigrant settlement and law enforcement.

The only major form of on-going sustainable funding for Canadian municipalities remains the slow-growing property tax. According to the FCM publication "It (*property taxes*) is an out-of-date and regressive funding tool that hits middle and low-income Canadians hardest, including working families, senior citizens and small-business owners."

The FCM publication then goes on to state that without access to revenues that grow with the economy, and without sufficient long-term investments by other governments, municipalities continue to face a structural gap between their growing responsibilities and the resources they have to meet them. This fiscal imbalance continues to grow.

This is of particular concern to the City of Surrey. Surrey is the second largest city in the Province, and continues to take a responsible approach to increasing property taxes and the distribution of property taxes amongst the various classes of property within its boundaries.

DISCUSSION

A variety of provincial government decisions since 2007 have impacted the City of Surrey from a financial perspective. The comparison of Surrey's consolidated operating budgets for 2007 and for 2012 is documented in the following Table 1:

Table 1

	2007		2012		Year Over Year	
	\$ 000's	% of Total	\$ 000's	% of Total	\$ 000's	% of Total
Revenues:						
Property Taxes	\$ 198,212	56%	\$ 280,489	55%	\$ 82,277	54%
Sales and Service Fees	129,831	36%	196,399	39%	66,568	44%
Interest Earnings	14,238	4%	16,372	3%	2,134	1%
Provincial Grants:						
Traffic Fine Revenue sharing	5,695		5,965		270	
Gaming Revenue	3,800		3,000		- 800	
Library Grant	1,059		911		- 148	
Carbon Tax Rebates			400		400	
Total Provincial Grants	10,554	3%	10,276	2%	- 278	0%
Sub Total	352,835		503,536		150,701	
Transfer from Surplus	3,013	1%	3,998	1%	985	1%
Total	\$ 355,848	100%	\$ 507,534	100%	\$ 151,686	100%
Expenditures:						
Protective Services	\$ 127,019	36%	\$ 170,739	34%	\$ 43,720	29%
Engineering Services	110,212	31%	142,418	28%	32,206	21%
Parks, Recreation & Culture	39,241	11%	60,790	12%	21,549	14%
Library Services	11,764	3%	13,729	3%	1,965	1%
Planning and Development	15,577	4%	23,448	5%	7,871	5%
Other Corporate Operations	27,323	8%	44,181	9%	16,858	11%
Transfer to Capital	24,712	7%	52,229	10%	27,517	18%
Total	\$ 355,848	100%	\$ 507,534	100%	\$ 151,686	100%

City Operating Revenues

The following sections provide information about how Surrey's revenue sources have been impacted over time.

Property Taxes

Property taxes are the only predictable and stable source of funding for local governments. Property taxes do not provide a good link between those who pay the tax and those who receive the benefit of the services that are funded by the tax nor do they reflect the relative ability to pay and as mentioned above property taxes are not directly linked to growth in the general economy like sales taxes and income taxes.

The City of Surrey has followed the practice of collecting the same amount of property taxes from each classification of property each year with adjustments to reflect the new growth in each classification from year to year and any general property tax rate increase that is approved by Council as part of the annual budgeting process. The market value of properties within each classification of properties can fluctuate quite significantly over time and the market value of properties across classifications does not shift uniformly over time. The City of Surrey attempts through its approach to property taxes to provide a predictable property tax regime for its residents and businesses.

BC municipalities also collect property taxes on behalf of various other taxing authorities. In 2012 the City of Surrey collected a total of \$527 million in property taxes of which \$275 million were kept by Surrey for the delivery of City services. Approximately \$193 million of the property taxes collected by the City were remitted to the Province for funding schools. The remaining amounts were collected on behalf of and forwarded to the Metro Vancouver Region and other authorities.

Property taxation continues to make up about 55% of the City's total operating revenue, including utilities. Since 2007, Surrey's property tax revenue has grown from \$196 million to \$274 million in 2012. Of this amount, \$37 million is due to the City's growth (new taxable properties) with the remaining \$45 million attributable to general property tax rate increases to fund the delivery of City services.

Provincial Caps on Municipal Tax Rates

In 2003 the provincial government introduced the Ports Competitiveness Initiative (PCI) to provide property tax relief to port operators of major industrial ports located in BC. This initiative was the result of a review, which concluded that the competitive position of the port industry could be eroded in the future if certain factors were not immediately addressed. Amongst the many factors was the issue of property taxation. The *Ports Property Tax Act (PPTA)* was enacted in March 2004, which introduced tax caps on port properties in BC, beginning with the taxation year 2004. The general tax rate for the municipal portion of designated port properties in BC (Class 4 Major Industry) was subject to a cap of \$27.50 per \$1,000 of assessed value. This cap was intended to remain in place for a five-year period (i.e. ending in the 2008 taxation year). In addition to this, a cap of \$22.50 per \$1,000 of assessed value was introduced for any new construction started by January 1st, 2009. The cap on new construction was intended to remain in place for a ten-year period.

For cities whose Class 4 tax rate was higher than the cap (\$27.50), the Province of BC issued a temporary offsetting grant for the corresponding five years to compensate for the reduced tax revenue. A breakdown of the individual tax rates and corresponding compensation received is outlined in the table below.

Table 2

Municipality	2003 Class 4 Tax Rate	2011 Class 4 Tax Rate	Annual Compensation (2004 - 2008)	Annual Compensation (2012 estimate)
Delta	28.86130	30.1458	\$291,240	\$339,563
North Van City	36.88477	27.5000	1,254,813	1,463,015
North Van District	40.37832	42.4862	709,324	827,017
Port Moody	48.68740	57.4521	494,005	575,972
Prince Rupert	43.53170	42.1628	1,383,536	1,613,096
Squamish	54.12939	27.5000	345,144	649,128
Surrey	13.67102	11.6885	NIL	NIL
Vancouver	27.71701	31.4658	41,616	49,492
Total			\$4,519,678	\$5,517,283

All of the cities in the Province that are affected by the PCI have received annual compensation from the Province except the City of Surrey. This is due to the fact that Surrey's Class 4 property tax rate is well below the cap of \$27.50 per \$1,000 of assessed value while all of the other cities had Class 4 property tax rates, which were higher than the cap. The Province subsidized those municipalities for the amount of revenue difference that they would experience as a result of the cap being imposed.

The Province committed to review the PCI three years after its introduction to determine how to proceed once the first five years of the initiative was complete (2008). This review took place in 2006 and 2007. The outcome of this review resulted in the extension of the Class 4 tax cap for an additional ten years, which included indexed compensation to seven of the eight municipalities affected by the cap. Surrey again did not receive any compensation due to our relatively low tax rate on port-related properties.

In February 2012, as part of the “Canada Starts Here: The BC Jobs Plan”, the Province announced plans to make the current municipal port property tax cap permanent for the designated ports. The BC Wharf Operators Association estimates that this property tax cap could stimulate over \$2 billion in future private sector investment in BC ports. The Province confirmed that they will continue to compensate local governments for the resulting impact of the property tax cap.

The City of Surrey has recognized the importance of the port industry and for that reason has kept the Class 4 tax rate (major industry) at reasonable levels and well below the current cap. However, the current distribution method for provincial compensation only supports those municipalities that have increased their Class 4 tax rates beyond those levels considered to be reasonable. A more reasonable approach for the Province would be to provide compensation to local governments using the assessed value of port-related properties as the means by which provincial grants would be shared. The City of Surrey is currently being penalized for its approach to property taxes on port properties.

Provincial Grants

The City of Surrey receives some on-going funding from senior levels of government from a variety of sources.

Gaming Revenue Sharing

In 2004 the City approved the Fraser Downs Casino. The revenue received by the City from the Casino reached a high in 2007 of \$3.8 million. Since then the revenues dropped to \$2.8 million in 2011 and is currently projected at \$3 million for 2013. The Province requires that municipalities report annually on how this revenue has been used.

Traffic Fine Revenue Sharing

In 2000, the Province established a program to share with local governments some of the proceeds of provincial traffic fine revenues, based on each participating local government’s share of total local government policing costs within the Province. In 2007, Surrey received a total of \$5.7 million from its share of the traffic fine revenue collected Province-wide. The funds are to be used to assist in funding the delivery of local police services.

In 2009, the Province introduced a new mechanism for distributing traffic fine revenue to local governments called the Strategic Community Investment Fund. The Fund was created through the restructuring of the small community and regional district grants and the traffic fine revenue sharing grants and runs through to 2014. To be eligible for proceeds from this Fund, local governments had to enter into a Strategic Community Investment Agreement with the Province. Traffic fine revenue sharing is not included as an item in the Province’s base budget and must be reapproved each year by a special order of the Treasury Board. There is currently no guarantee

that traffic fine revenue sharing will continue after the expiry of the current agreement which ends in 2014.

In 2012 the City received a total of \$6.1 million, which represents an increase of 7% over the last 6 years. During that same period of time the cost of policing in Surrey has increased from \$79.2 million in 2007 to \$118 million in 2013 which represents an increase of 49% over that same period.

Annual Library Grants

All British Columbia public libraries established by authority of the Library Act (the Act), are eligible for provincial funding. Support is conditional on compliance with the terms of the Act. Funding may be withheld or reduced by the Province if the amount allocated exceeds local support. Annual funding provided to public libraries by the Province must be used to either purchase library materials or to defray general operating expenses.

The most substantive portion of provincial funding available to Surrey Library is based on population. Until 2008, the per capita rate was \$2.00. Since 2009, this rate has been reduced by the Province on an annual basis and in 2012 sits at \$1.78 per capita. This revenue source is the equivalent of approximately 8% of Surrey Libraries operating budget and the cutbacks have resulted in the City of Surrey having to dedicate more of its property tax revenues to funding library services in lieu of the provincial funding.

Climate Action Revenue Incentive Program

On July 1, 2008, British Columbia implemented the first phase of a carbon tax on all fossil fuels. This applies broadly to all fossil fuels such as gasoline, diesel, coal, propane, home heating fuel and natural gas. The tax started at \$10 per tonne on July 1, 2008 and increased by \$5 each year to \$30 per tonne in 2012. The tax on gasoline is 7.2 cents a litre as of July 1, 2012. The City is required to pay this tax on the fuel that it purchases, which is estimated to be \$400,000 in 2013.

At the 2008 UBCM Convention, the then Premier, Gordon Campbell, announced the Climate Action Revenue Incentive Program (CARIP) that focuses on offsetting the carbon tax paid by local governments who have committed under the BC Climate Action Charter to the goal of becoming carbon neutral in their corporate operations by 2012. To be eligible for a grant under the CARIP Program, local governments were required to sign on to the BC Climate Action Charter, and by doing so, commit to the goal of becoming carbon neutral in their corporate operations by 2012.

The City's Sustainability Charter that was approved by Council in 2008 includes a commitment by the City to develop strategies and take action to achieve the goals of the BC Climate Action Charter. In 2010 Council approved a Corporate Emissions Action Plan which outlines priority actions for the City to reduce corporate GHG emissions and energy use and sets the target of a 20% reduction in GHG emissions by 2020. In 2010 Council also included community-wide greenhouse gas (GHG) reduction targets in the City's Official Community Plan, targeting a 33% per capita reduction in such emissions by 2020.

Local governments who have signed onto the BC Climate Action Charter are eligible for a rebate of the carbon taxes paid. To fulfill the annual grant requirements they must report on their plans and progress toward meeting their climate action goals. It is estimated that the grant will amount to approximately \$400,000 in 2012. The funds that are received as a result of the application will be targeted towards sustainability initiatives that are planned for 2013. It is important to Surrey that

the Provincial carbon tax rebate program remains in place since in its absence the City's payment of carbon taxes on its fuel purchases would be the equivalent of the provincial government taking scarce local government revenues.

Reintroduction of the Provincial Sales Tax

The former HST was comprised of a 5% Federal component (effectively the GST) and a 7% Provincial component, for a combined total of 12%. Under the HST, municipalities were provided a rebate of 85.42% of the total HST or the equivalent 10.25% of the 12% tax, which resulted in an effective rate for municipalities after the rebate of 1.75%.

Municipalities are not eligible for any rebate or exemptions in relation to the new PST; however, municipalities will continue to be fully exempt from the GST. The effective tax rate for Municipalities with the new PST reinstated will be 7% instead of the 1.75% under the HST tax structure. It is important to note that the tax base for PST is smaller than HST, for example there is no PST on Professional Services or on labour charges related to improvements to real property; however, materials utilized in the construction of real property are subject to the full 7% PST. As such, due to the reintroduction of PST, the City will be incurring additional, unexpected and therefore non-budgeted direct costs related to many capital projects such as the New City Hall Project.

With respect to the new City Hall as an example, this project commenced under the HST tax structure but will be completing under the PST/GST tax structure. It is expected that the construction cost of the new City Hall will cost an additional \$1.2 million to \$1.5 million as a result of the re-instatement of the PST. This amount predominantly represents the value of PST on materials required to complete New City Hall from April 1, 2013 until the end of the project. A separate more fulsome report on this matter complete with recommendations will be forwarded to Council for its Regular meeting on April 22, 2013.

The elimination of the Harmonized Sales Tax and the reintroduction of the Provincial Sales Tax have resulted in the City of Surrey being exposed to paying provincial sales tax on purchases that were formerly eligible for almost a full rebate under the HST program. This change in the provincial government's approach to the collection of provincial sales taxes is a clawing up of local government revenues to the provincial coffers.

City Operating Expenditures

Table 1 above documents the changes in Surrey's expenditures since 2007. The following provides some commentary as to how expenditures have been impacted over time.

Protective Services

As indicated earlier in this report, the Provincial Government is not keeping up in delivering services for which it is responsible in relation to the demands of growth in areas such as health care, immigration settlement, social service provision, affordable housing and addressing homelessness. This places greater demands on local governments to address these growth issues within their boundaries. Services such as local police services and by-law enforcement are directly impacted when the Province does not properly fulfill its responsibilities in these important areas.

Policing

The City's cost to provide policing services has increased by 49% since 2007. The Province is responsible for policing in British Columbia and through legislation has transferred most of this responsibility to local governments. The Province has the ability to influence the cost of policing to municipalities in several ways.

The Federal "Seized Property Management Act" allows for the seizure of property that has been acquired from the proceeds of criminal activity. The Minister of Public Works and Government Services is responsible for the disposition of this property as well as the sharing of the proceeds. The Federal government distributes to each Province their share of the proceeds resulting from seized properties in that Province. The Province of BC has established the Forfeited Crime Proceeds Fund (Special Accounts Appropriation and Control Act). The Ministry of Attorney General and the Ministry of Finance and Corporate Relations are jointly responsible for the distribution of this fund back to communities throughout the Province.

Current Provincial legislation related to the distribution of these funds is based on the premise that police investigations could become unduly influenced if forfeited property was returned directly back to the policing agency that was responsible for its seizure. It is likely that municipalities who spend more to fight crime (police investigations) will remit more proceeds of crime to the Federal government through their local policing agencies. It would be reasonable for the proceeds of crime to be returned directly back to those municipalities who effect seizures of property for use in enhanced crime prevention and crime reduction initiatives.

Fire Services

Citizens who are in need of medical assistance are the responsibility of the BC Ambulance Service, which is funded by the Province. Surrey Fire Services (SFS) has historically also responded to the emergency calls from citizens in Surrey. The medical services provided by SFS is cost effective when compared to the more costly medical response models currently employed by the Province. It is estimated that the annual cost to Surrey of SFS responding to medical-related emergency calls is several million dollars. The Province needs to recognize the inherent efficiencies with Fire Services providing first responder service to medical calls and provide funding to local governments including Surrey to allow this service to continue in a cost-effective and complementary manner to the BC Ambulance Service.

Engineering Services

Major Road Network

The Greater Vancouver Transit Authority (GVTA) was established in June 1998. Road systems that were formerly the responsibility of the Province to construct and maintain were transferred to this Authority. In addition, some of the City's major roads have become part of the TransLink Major Road Network (MRN).

A funding model for the operation, maintenance and rehabilitation, (OM&R) of the MRN roads was established in 1999, based on construction costs at that time. For the first few years of the MRN, this funding was adequate and the average condition of the roads in the network was maintained or improved. At that time, the City received transfers from TransLink totalling \$5.8 million annually for the rehabilitation and maintenance of the MRN roads located in Surrey.

The OM&R for the MRN is now being fully funded by TransLink; however, due to funding constraints TransLink has eliminated the major capital funding and minor capital funding (cost sharing) for MRN roads. Growing municipalities such as Surrey have no choice but to continue to make improvements on the MRN using local revenues. There is an urgent need for TransLink to reinstate the capital funding for the MRN and this requires that a sustainable funding model be established for TransLink that will require decisions by the Province in relation to revenue sharing and legislative changes.

TransLink also receives significant funding from the Federal Gas Tax Fund that would otherwise have been distributed to each municipality for use in constructing infrastructure.

Capital Works

In addition to operations, the City also funds a significant capital program annually. Municipalities have access to several revenue sources that provide funding for capital projects. These sources range from development cost charges to one-time grants from the Federal/Provincial Infrastructure Program.

Development Cost Charges

The *Local Government Act* allows municipalities to recover the capital costs directly related to the provision of infrastructure required to service new development through development cost charges. Since 2006, Surrey has collected over \$277 million in development cost charges, which have been used to build infrastructure that includes roads, drainage, water, sewer and parkland acquisitions in support of new development.

Development Cost Charges can only be used for capital construction. The Province requires that the DCC Program be supplemented by a municipal contribution; the percentage of this contribution requires Provincial approval. In Surrey's case, the City contributes 5% of the cost for roads construction and parkland acquisition and 10% of the costs of water, sewer and drainage construction. This contribution erodes the ability for the City to direct capital funding to other pressing needs.

In May 2008 the Province amended the *Local Government Act* by adding Section 933.1 that allows local governments to waive or reduce development cost charges for 'eligible' development. Eligible development includes:

- Not-for-profit rental housing, including supportive living housing;
- For-profit affordable rental housing;
- Small lot subdivisions with designs resulting in low greenhouse emission, and
- Development that is designed to result in a low environmental impact.

Provincial officials advised that municipalities were to replace the foregone development cost charges related to such projects with general revenue. The Province therefore mandated the use of municipal revenues for purposes that fall more directly under the jurisdiction of the Province (i.e., affordable housing and the environment) and did it with little regard for the impact on local governments.

Section 933 (4.01) was added to the *Local Government Act* in 2008, which eliminated DCCs for dwelling units under 29 m² (312 ft²). This strays from the “benefactor pay” principle, which is outlined in the Province's Development Cost Charge Best Practice Guide. The Guide explains that DCCs seek to provide a fair and equitable process that shares infrastructure costs between existing users and new development in a fair manner. All dwelling units have an impact on infrastructure services regardless of their size and in some cases demand on services such as the demand for park space per capita may actually increase as the dwelling unit size decreases. As a result, all dwelling units regardless of their size should be subject to DCCs in accordance with the user-pay principle. This new section of the Act should be dropped.

Surrey Capital Program

Since 2007, Surrey's Capital Program has grown from \$229 million to \$409 million in 2012. Over and above the annual Capital Program, new development in the City constructs engineering services (roads, water, sewer and drainage works) that are turned over to the City once they are completed.

The current replacement value of the City's engineering and other assets is estimated to be:

Engineering Infrastructure	\$9.812 billion
Land (Market Value)	\$2.128 billion
Buildings	\$0.398 billion
Vehicles and Equipment	<u>\$0.208 billion</u>
Total	\$12.546 billion

Within the existing revenue structure, Surrey cannot properly maintain, rehabilitate and replace this infrastructure as it ages. New sustainable revenue sources must be identified in the near future to address infrastructure demands in a sustainable manner.

Other Provincial/Municipal Issues

There are other areas where the City of Surrey has been expected to take on responsibilities beyond its legislated mandate. These are discussed in the following sections:

Health care

Health care is a Provincial responsibility; however, due to shortcomings in the health care system, Surrey has become involved financially in ensuring the delivery of high quality hospital services in the City. In 2007, Surrey Council approved a grant to offset the costs of City fees and charges associated with the Emergency Ward expansion at Surrey Memorial Hospital and related to the construction of the Jim Pattison Outpatient Hospital. The total City contribution to these projects was over \$4 million.

Refugee and Immigration Settlement Action Plan

Immigration and settlement programs and services are not a municipal responsibility. The federal and provincial levels of government have the mandate and resources to select new immigrants and refugees, and to design and deliver settlement services. However, the integration of newcomers into the social and economic life of the community is vitally important to the health and vibrancy

of the community. Cities tend to bear the brunt of any shortcomings that occur in this regard. Cities can play an important role in helping newcomers integrate into Canadian life; however, they need new resources to be effective in this expanded area of responsibility.

Surrey has emerged as a primary destination for government assisted refugees (GARS) arriving in Metro Vancouver. From 2005 to 2011, 1,536 GARS arrived in Surrey, representing 29% of all GARS that arrived in Metro Vancouver during that period. About half of these refugees are children and youth under 19 years.

In 2008, in partnership with a consortium of other government and community funders, the City of Surrey contributed 3 years of funding toward the development of a pilot program known as "First Steps – an intensive early childhood development program for refugee children and their caregivers." The "First Steps" pilot proved to be an effective approach for supporting the healthy development of refugee children. It is now funded by the Province and running in other communities as well as Surrey.

In 2008, the Province established a Committee that involves social planning staff from several Metro Vancouver municipalities, Provincial Immigration Integration and Multiculturalism Branch staff and Federal Citizenship and Immigration Canada staff. This Committee has provided the City of Surrey with an on-going opportunity to monitor and provide input into the redesign of settlement services.

In 2008, the Province launched a three-year Welcoming and Inclusive Communities and Workplaces Program (WICWP) pilot program. WICWP was designed to fill a gap in the range of the Province's Welcome BC Services by targeting the host communities rather than the immigrants. The program was focussed on supporting capacity building in communities with a view to better enabling communities and workplaces to be more welcoming and inclusive of newcomers including both economic immigrants and refugees.

The new Welcoming Communities Program provides an opportunity to establish the Community Partnership Table, and to develop and implement an Action Plan that will increase Surrey's capacity to support the integration of new immigrants including refugees. While the Welcoming Communities Program is intended to focus on all new immigrants, it will also provide an opportunity to engage community stakeholders in augmenting and refining the current Refugee Strategy.

City staff is currently working with community partners through the Welcoming Communities Program to refine the Strategy by developing a more detailed Action Plan to increase the partners' capacity to support the settlement and integration of new immigrants and refugees into the social and economic life of Surrey.

Success by Six

Success by Six is a community-driven United Way early childhood development initiative dedicated to providing children with a good start in life. It is supported by Provincial government funding. The Program helps to ensure that children between the ages of 0 and 6 years develop the emotional, social, cognitive, and physical skills they need to be successful as they enter school and to establish a healthy foundation for life.

In 2011 the Provincial government grant to *Success by Six* was \$5 million across the Province. In 2012 provincial funding was reduced to \$3.4 million. This has resulted in funding to Surrey-based initiatives being reduced by \$152,025 from \$324,600 in 2011 to \$172,575 in 2012. This has resulted in the elimination of some important programs including the Parent/Child Mother Goose Program and reduced days of operation for Family Resource programs in City Centre, Cloverdale, Guildford and Newton. The days of operation of the Family Resource Programs have been reduced by a minimum of one day per week across all communities. In some Surrey neighbourhoods families only have access to these services one day per week.

The reduction in funding for the Program will undermine important community development work that is currently underway in Surrey and will reduce the early childhood development initiatives that are currently in place in the City. It is broadly recognized that early childhood development is fundamental to a child's success in school and ultimately to successful adult life.

The City provides a variety of pre-school programs and the School District has created 25 "Strong Start" programs in schools across the City. A number of agencies and partners provide pre-school and day care programs. The collective efforts of these partners are significant but do not fully meet the needs for the optimal development of healthy babies and toddlers in Surrey. In efforts to continue serving families, agencies such as Options Surrey Community Services have kept their children's programs operational in spite of the pressure it creates on their organizational budget, which has put other important community programs in jeopardy.

Social Services

The delivery of social services is primarily a Provincial responsibility; however, to demonstrate the City's commitment to its residents, Surrey has developed a Plan for the Social Well-Being of Surrey Residents and a Surrey Poverty Reduction Plan, and has established the Surrey Homelessness and Housing Society and a related Homelessness and Housing Fund.

Plan for the Social Well-Being of Surrey Residents

The *Plan for the Social Well-Being of Surrey Residents* (the "Social Plan") that was developed in 2005/2006, provides strategic direction for taking action on social issues that are a high priority. Since it was adopted, the City of Surrey has been active in implementing its recommendations with a view to enhancing Surrey as a healthy and inclusive community. The *Plan for the Social Well-Being of Surrey Residents: 2011 Annual Report* highlights achievements in this regard over the past year.

Since the Social Plan was adopted, five annual reports have been prepared that document the City's progress on implementing its recommendations. Given that many actions are ongoing, interested members of the public can obtain detailed information from the City of Surrey's website at (www.surrey.ca/socialplanning).

Surrey Poverty Reduction Plan

While Surrey's poverty rate of 18% is below the Metro Vancouver average of 21%, it represents many families. Over the past year, the City of Surrey has been working in collaboration with Vibrant Surrey and other community partners on a Poverty Reduction Project, as the basis for City and community action in relation to addressing poverty in Surrey.

The Plan titled *"this is How We End Poverty in Surrey: Surrey Poverty Reduction Plan"* (the Plan) was developed to provide strategic direction for addressing poverty in Surrey. It provides a comprehensive and practical set of recommended actions towards the eradication of poverty. The Plan was based on a series of community consultations and grounded in a set of 12 fact sheets developed to ensure evidence-based decision-making in relation to the recommended actions.

The Plan focuses on policy areas that can make a difference for all low-income people. Access to affordable housing and transportation, an income that covers living expenses and opportunities that promote health, well-being, and inclusion are key features for addressing poverty among all individuals and families who are living on very low incomes.

The Plan is organized by the four policy areas or themes that include transportation, housing, income, and support. The Plan provides recommendations in each of these areas that identify the level(s) of government (federal, provincial or municipal) responsible for its implementation. In addition, the Plan makes reference to the broader community as having responsibility for selected recommendations; in this context, the "community" may include the private sector, non-profit and faith based organizations, and the general citizenry. The transportation section also includes TransLink as an agency that is responsible for implementation of some of the recommended actions.

The Plan includes a total of 19 priorities and 75 recommended actions. While the Plan includes a local role to advocate for federal and provincial action to support the recommendations in the Plan, it is primarily focused on actions that the City of Surrey and local community groups can take to tackle poverty.

The Plan outlines the activities that need to be taken to implement the Plan, including the establishment of a collaborative community roundtable with representatives from government, non-profit, and other groups. This Plan represents a starting point – a commitment by the community to take action. It is expected that the Plan will continue to evolve as ideas and opportunities emerge.

Surrey Homelessness and Housing Fund

Housing falls under the mandate of the Province. In July 2006, Surrey Council approved the establishment of a City of Surrey Homelessness and Housing Fund within an existing Foundation, to be used to address homelessness and housing related issues in Surrey. A Society has now been formed to oversee the growth and use of the Fund.

The Fund was established in response to the emerging trend of homelessness and lack of affordable housing in the City of Surrey as well as concerns from service providers who had identified a lack of funding, especially matching and seed funding, as a major barrier to addressing homelessness in Surrey.

This lack of funding has created an environment where agencies see themselves in competition for scarce dollars, which has curtailed collaborative, coordinated and innovative efforts to tackle the problem. Housing programs being delivered by the Province have not been consistent over time and this has placed more pressure on the City to become involved in creating solutions.

The City of Surrey's Affordable Housing Reserve Fund, which amounted to over \$9.0 million, was used to establish the Fund, which is an endowment – meaning the principal remains relatively intact. It was intended that this Fund would create new partnership opportunities; leverage monies from senior government and other sources; and provide a mechanism for business and community members to make a charitable donation.

The Board of Directors of the Surrey Homelessness and Housing Society is made up of diverse stakeholders including representatives from community, business, service, and faith groups, in addition to representatives from local government and labour organizations.

Since the establishment of the Society in 2007, the Society has invested approximately \$2 million in projects and initiatives that support and strengthen projects and initiatives for addressing homelessness in Surrey. The grants awarded by the Society have made a positive difference in Surrey by responding to the unique needs of diverse homeless and at-risk populations by funding projects that target specific groups, including youth, women, single parent families, Aboriginal people, people with mental health and addictions issues, and people living in poverty. The grants have also contributed to the creation of new housing units by supporting the development of new purpose-built housing facilities, as well as the purchase of existing housing that can be converted to housing for the homeless.

Provision of Land and the Waiving of Fees for Social Housing Projects

The Province has requested that the City provide land at no cost to accommodate social housing projects in Surrey that are being funded by BC Housing. Three such projects have been completed in this regard including the Creekside Centre at 13670 - 94A Ave in Surrey City Centre, the Timber Grove housing project at 13931 - 100 Avenue in Surrey City Centre and a YWCA Women's Housing project at 13775/93 - 70 Avenue in Newton. The land for these projects is estimated to be worth in the order of \$1.1 million per acre for a total contribution by Surrey of approximately \$6 million for the 3 projects. In addition to the capital cost of these properties, the City has also forgone the annual property tax revenue that would otherwise have been generated by these projects. The lost tax revenue is estimated at approximately \$67,000 per year.

Further the City waived the application processing fees and development cost charges on these projects which amounted to hundreds of thousands of dollars of additional subsidies to these projects.

In the absence of providing the land and fee and charge waivers, the City was concerned that the Province would not construct the subject projects and, as such, the City was left with little choice but to use the City's scarce resources to augment what should be fully funded by the Province under its mandate.

Environmental

The Federal Government has recently announced changes to the Fisheries Act under Bill C38. The changes place more onus on the Province to manage fisheries. The Province has stated they have no additional resources to take on this role and, as such, the changes will lead to longer approval times for capital construction projects that require authorizations from Fisheries and Oceans Canada and approvals under the Provincial Water Act as neither of these other orders of government is providing staff resources to address the larger volume of work that will likely result from Bill C38.

Wildlife management is a provincial responsibility under the *Wildlife Act*. The Province is also responsible for managing wildlife that is protected under the *Federal Species at Risk Act* (SARA). Provincial staffing reductions have minimized the Province's ability to provide consultation services for infrastructure and development applications within the City of Surrey. The lack of Provincial consultation often results in development applications being delayed in an attempt to determine due diligence in relation to the *Wildlife Act* and *Species at Risk Act*. To address some of these issues, the City of Surrey has currently negotiated a *Wildlife Act* Section 34(b) 'Memorandum of Understanding' (MOU) with Provincial staff in an attempt to determine due diligence in the management of some specific urban wildlife. Under the MOU, if a qualified professional biologist provides expert recommendations for a site that the City can support, the City will be understood to have undertaken its due diligence. This process assists in expediting the development process but requires additional City staff time to do the work that was previously done by Provincial staff.

Liquid Waste Management Plan

Recently, Metro Vancouver updated the Region's Liquid Waste Management Plan. During the approval process, the Province added some additional requirements to the previous plan which will result in additional expenses to local governments. Some of the items include monitoring and reporting of sanitary sewer overflows in a more comprehensive way, more intensive monitoring of receiving stream water quality for storm water management, and providing more details on the implementation of an Integrated Stormwater Management Plan. It should be noted that the Province has significantly cut its water quality monitoring budget and instead is placing a higher level of reliance on local governments to provide required data.

Invasive Species

The Province has a list of invasive species that are to be managed on private lands; however, management of some of the more intrusive, potentially harmful species to public health, such as fire ants and giant hogweed, is being directed to local governments to provide public advice and site inspection services. Giant hogweed and fire ants can cause significant burns to the skin and are considered to be a health hazard. Although the City has developed a Giant Hogweed Inspection Program primarily for City lands, staff is still required to conduct inspections for invasive species on private lands and then advise private land owners on how the invasive species should be removed from their lands. This is not a local government responsibility but rather should be delivered by or at least funded by the province.

Water Act

Under Bill C45 changes to the federal Navigable Waters Act are proposed. This means that many of the streams currently classified as navigable will be downgraded thus reducing Federal oversight on those waterways. City staff often has issues with derelict vessels, unauthorized docks or obstructions on waterways. The Province has not yet identified how they will be addressing this issue or the management of water rights and structures, given the proposed changes to the Federal Legislation.

Changes in agricultural practices and the demand for more irrigation water are leading to very high river extractions, which affects fisheries, recreational values and water quality. To date, the Province has not effectively managed surface water extraction, water lot leases or restrictive covenants on streams, which has led to low river flows in the summer from illegal water extraction,

water quality concerns in City waterways and bank instabilities. This has resulted in City staff having to deal directly with property owners on these issues.

The Provincial Government has recently conducted consultation sessions on proposed amendments to the Water Act, which is over 100 years old. Stronger and more consistent legislation around the issue of groundwater and surface water extraction needs to be adopted, which would reduce the workload currently being borne by municipalities such as Surrey.

Septic Systems

Management of septic systems and cross connections to City drainage systems is an issue in many parts of Surrey. In some rural areas where septic systems are failing, the City is finding poor water quality in local ditch systems. Staff collects samples from known cross connections or failed systems and passes this information onto the Fraser Health Authority. There is very little follow-up by Fraser Health due to limited resources. The City has limited abilities to deal with these situations except to remove any pipes that may be cross-connected.

PST/GST Conversion Relative to District Energy

Related to the PST/GST conversion is the issue of charging PST on purchases for gas and equipment by District Energy (DE) utilities. Under the original PST system, DE operators were taxed on energy purchases as well as on equipment purchases (piping, boilers, energy transfer stations, etc.). Residential and commercial consumers of electricity and natural gas did not pay PST on these commodities; however, they were required to pay PST on direct heat purchases. So, in effect, DE customers were being charged twice for PST. In 2006, the Lonsdale Energy Corporation (LEC) was successful in getting an exemption for residential heat sales on par with gas and hydro. This double taxation however, remained for commercial customers.

With respect to PST on equipment, large energy producers (BC Hydro, Fortis, etc.) were provided a PST exemption; however, municipally owned utilities were not eligible for this same exemption. With the re-instatement of the PST, it appears that the same conditions will apply as in 2006. LEC estimates that the additional cost of the PST they will pay, as compared to standalone energy systems (e.g., boilers and baseboards), results in increased rates in the order of 5%. This surcharge on DE commercial customers is not defensible and needs to be eliminated.

Agricultural Land Reserve

Lack of provincial funding to the Agricultural Land Commission (ALC) over the last decade has had a significant impact on the enforcement capability of the ALC. This work is often downloaded to municipal staff. The Commissioners do not meet as often as they have in the past, which has increased the processing time for development applications.

SUSTAINABILITY CONSIDERATIONS

The issues outlined in this Report support a number of actions under the City's Sustainability Charter; more particularly:

- Action item EC1: Corporate Economic Responsibility;
- Action item EC3: Sustainable Infrastructure Maintenance and Replacement;
- Action item EC14: Sound Taxation Policies and Financial Incentives;

- Action item EN15: Sustainable Transportation Options;
- Action item SC19: Equity in Social Infrastructure Investments; and
- Action item EN17: Land, Water and Air Quality Management.

CONCLUSION

This Report outlines Provincial Government decisions over the last few years that have resulted in the downloading of services and costs to the City of Surrey or in reduced revenues to the City of Surrey.

In view of the upcoming provincial election, it is recommended that Council request that the Mayor on behalf of Council forward a copy of this report along with a copy of Council's resolution related to this report to each of the political parties that is running candidates in the upcoming provincial election with a request that they provide a response to the City of Surrey as soon as possible as to how they intend to address the pressures that Surrey and other BC local governments are facing in relation to the on-going downloading of responsibilities by the Province to local governments that has occurred over the last six years as documented in this report.

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