

Date: February 15, 1996

SUBJECT: GLOBAL BUDGET - BASE ADJUSTMENT

RECOMMENDATION

- A) THAT the Global Budget deficiency as outlined in this report be funded by the Board.
- B) THAT the new revenues being proposed by staff as per Appendix I be considered by the Board on March 11, 1996 with delegations being heard at that time.

BACKGROUND

On February 28, 1992, City Council approved the first Global Budget for the Park Board for the 1992 fiscal year. Under the terms of the global budget, Council provides an annual allocation (block funding) representing the City contribution to the parks and recreation programs. Within this global amount, the Board has complete authority to allocate funding according to its priorities and is accountable for balancing revenues and expenditures.

There is provision within the global budget agreement to deal with unexpected and/or unbudgeted items. In the case of expenditures, it is agreed that the Board is not accountable for unbudgeted costs over which it has no control. For example, additional fringe benefit costs assessed by the City or increased costs due to an unexpected W.C.B. order, etc. These non-controllable expenditures will be funded by the City. On the other hand, in the case of revenues there is a more complex problem. This is related to large fluctuations in annual revenues from programs which are weather sensitive. This includes golf courses, concessions, swimming pools, etc. The revenue from these programs can fluctuate considerably from year to year depending on the overall weather particularly in the peak summer months. In order to accommodate these fluctuations within the global budget framework, a revenue stabilization fund was established within the agreement. This stabilization fund is to cushion the impact of revenue fluctuations attributable to the weather.

The rationale for the operation of this fund was that the global base budget would include an amount for revenues that was considered to be at a level that represented the amount realized for an "average" year. In most cases this amount was based on the average of the three prior years actual revenues earned. With this "average" established in the base budget, it is then expected that in future operations that actual annual revenues will exceed the

base 50% of the time (in good weather years) and fall short of the base the other 50% of the time (in poor weather years). In good years the excess revenues (over the base budget) would be transferred to the revenue stabilization fund. Conversely in poor years, any revenue deficiencies would be made for by transfers out of the fund. Over the long run the revenue stabilization fund would be self supporting in perpetuity and would smooth the impact of fluctuating revenues in the annual operating results.

DISCUSSION

The rationale behind the revenue stabilization fund is sound and provides a reasonable method for smoothing out the weather related non-controllable fluctuations in Park

Board revenues. However, what was not foreseen at the outset of the Global Budget process was the impact of long term declines in revenues attributable to factors other than weather. It is because the formula failed to address these extended revenue declines that the accumulated revenue shortfalls over the four year period amount to approximately \$2.8 million. Although these deficits have been absorbed in the annual accounts of the City, the outstanding amount still represents a measure of the Board's accumulated revenue declines over the four year period. Appendix II analyses this accumulating revenue shortfall for each of the four years under the Global Budget (1992 to 1995).

A review of this analysis bears out the fact that there have been recurring revenue declines in certain areas of the Park Board operation. These have been reviewed in detail by Board staff and the underlying causes have been reviewed to determine what portion, if any, is seasonal and what portion is longer term. As previously described, the seasonal fluctuations should be accommodated by the revenue stabilization reserve. However, in the case of the extended reductions, a base adjustment is required in order to avoid continuing deficits. A strategy for funding this base adjustment is described later in this report.

The longer term revenue deficient areas which staff feel require a base adjustment are outlined below together with some detail describing the underlying causes:

1. Miniature Railway/Farmyard - base adjustment required \$125,000

In November, 1993 the Zoo referendum was placed before the voters resulting in a negative vote on maintaining the Zoo. Shortly thereafter, the Board voted for the Zoo closure. The disposition of the animals to other Zoos began and has continued to the present date. With the removal of the animal exhibits in the train enclosure there was a considerable drop in public interest and ridership. In addition, with the removal of the animal exhibits in the Lower Zoo area (adjacent to the Aquarium), the overall pedestrian traffic between the former Zoo, the train area and Lumbermen's Arch dropped. This loss of interest in the area severely impacted revenues.

2. Concessions - base adjustment required \$200,000

The drop in concession revenues are primarily related to the closure of the Zoo. As outlined above, the general pedestrian traffic in the Train and former Zoo areas has been greatly reduced as the animal attractions have been removed. This has seriously impacted on the sales of concessions in the area, i.e., the Duck Pond, Lumberman's Arch and the Children's Farmyard concessions. In addition, with the relocation of the bus loop from Lost Lagoon to within the park, the Lagoon Concession revenues have declined.

3. Golf Courses and Driving Range - base adjustment required \$235,000

Although there is a high demand for golf in the Lower Mainland, over the past few years there has been a significant increase in competition. Several new courses (at least 12) have opened within the market area, giving a wider choice to the golfing public. The result has been lower prices in the non peak season (October - March) in order to meet competition. Although this is being considered as an extended reduction in revenues, it is expected that the continued popularity in the sport will eventually result in recovery of these revenues.

4. Pay Parking - base adjustment required \$ 65,000

The Hastings Park parking lot has experienced a major reduction in revenues due to the opening of G.M. Place and the relocation of the Canucks and other special events. In 1996 and future years it is estimated that these revenues will be reduced by \$40,000. In addition, the Stanley Park pay parking revenues are \$25,000 less than originally estimated. With two years experience in hand it is felt that this adjustment will better reflect achievable parking revenues.

5. Indoor Pools - base adjustment required \$140,000

Pool revenues have been declining over the past few years. This is primarily attributable to the impact of the Leisure Access program which has provided access to the people on social assistance as well as other low income citizens.

Total Base Budget Increases Required \$765,000

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6. Burrard Marina

In the early 1980s the Burrard Marina incurred a loan from the P.E. Fund to replace worn out floats to upgrade the electrical systems. Moorage rates were increased at a level exceeding inflation with the excess being allocated to loan repayment. In 1996 the small balance remaining on this loan will be fully repaid with these excess revenues being available to offset the other budget shortfalls. -
Less

\$215,000

Total Net Base Budget Adjustment Required \$550,000

Staff feel that with this \$550,000 adjustment to the global base the budgeted revenues would then represent a new and attainable average and that the original intended operation of the Stabilization Reserve Fund would be workable.

As stated earlier, a strategy for funding this base adjustment of \$550,000 must be

determined. In this regard staff have reviewed alternate sources of new revenues in order to replace those lost revenues previously described. After thorough examination by staff, it was determined that the most suitable revenue additions that would have the least impact on the overall parks and recreation system are as outlined in Appendix I. It is proposed that these new revenue sources be implemented in 1996 in order to fund the global budget base shortfall. This will preclude the Board from the necessity of making major program reductions in order to reduce expenditures.

In order to follow the normal community process, it is proposed that the Board authorize the release of this proposal to all interested parties and that it be dealt with by the Board at the March 11, 1996 meeting at which time delegations will be heard.

Prepared by:

Finance Department
Board of Parks & Recreation
Vancouver, B.C.
DH:bcs

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