



ADMINISTRATIVE REPORT

Report Date: September 19, 2017
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Meeting Date: October 3, 2017

TO: Vancouver City Council
FROM: Director of Finance
SUBJECT: 2018-2022 Budget Outlook

RECOMMENDATION

THAT Council receive for information the 2018-2022 Budget Outlook, attached as Appendix 1.

COUNCIL POLICY

The Vancouver Charter requires the Director of Finance to present the estimates of revenues and expenditures to Council no later than April 30 of each fiscal year and that Council adopt a resolution approving the budget and a rating by-law establishing general purpose tax rates as soon thereafter as possible.

COMMENTS OF THE CITY MANAGER AND DIRECTOR OF FINANCE

The 2018-2022 Budget Outlook provides the context and factors that will influence the development of the 2018 Budget and five-year Financial Plan to be presented to Council for approval in December 2017.

The City of Vancouver is regulated under the Vancouver Charter, a provincial statute. Other municipalities in the province are regulated under the British Columbia Community Charter. While the Vancouver Charter requires only that the City present a one-year budget, other local municipalities present five-year financial plans as required under the BC Community Charter. Prior to the 2016 Budget, the City included a 3-year financial view in the annual budget document. In order to better align with best practice, effective with the 2016 Budget report and continuing with the 2018 Budget report to be presented to Council in December 2017, the annual budget document now includes a financial plan covering a five-year period; for the 2018 Budget report, the financial plan covers the period from 2018 to 2022. The Budget Outlook describes the intended approach to budgeting and its anticipated direction,

all of which will be reviewed by Council and the public prior to Council approving the final 2018 Budget and five-year Financial Plan.

Between now and December 2017, under the direction of Council, staff will continue to refine estimates, undertake a public engagement process to seek input on the 2018 Budget and five-year Financial Plan, and develop strategies to achieve Council's priorities within available resources.

REPORT

Purpose

The purpose of this report is to present the 2018-2022 Budget Outlook to Council for information. The final budget strategy along with the results of the public engagement process will be presented to Council in early December 2017, for deliberation and final approval.

Background/Context

In order to improve the transparency, accountability and understanding of the City's finances, the 2015 Budget included for the first time a comprehensive consolidated budget across all entities and funds and, as well, was presented in a format that more closely aligns with the City's Annual Financial Statements. The 2016 and 2017 Budget documents continued this public sector budgeting best practice, and also incorporated a four-year forecast, resulting in a full five-year Financial Plan, consistent with the reporting presentation used by other municipalities in British Columbia. The 2018 Budget document will continue this reporting best practice.

Strategic Analysis

While having growing population increases Vancouver's vitality, this growth also challenges the City of Vancouver's finances, and puts pressure on the city's affordability. The City must continuously balance the need to provide targeted services, infrastructure and programs with the need to keep property-tax increases manageable for businesses and homeowners—while monitoring the impact of global, national and provincial financial and economic issues along the way, as well as responding promptly to serious issues and challenges such as the opioid crisis and the significant housing affordability issues in the City.

Vancouver's tax increases in recent years have been consistently below the Lower Mainland average, while the City continues to maintain or improve its service levels to its residents. The City continues to focus its priorities on investing in the maintenance and renewal of public infrastructure and facilities, adding new infrastructure and facilities to meet the demands of a growing population, managing the challenges of rapid growth and affordability, all the while creating and nurturing a resilient, healthy, and green community.

To continue to provide more services for residents without significant increases in taxes, the City will need to maintain its focus on delivering value for money spent. Over the past several years, the City has effectively used performance measurement and continuous process improvement to enhance decision-making and to gain additional insight into our businesses

and services in order to more effectively maintain the City's financial health and strengthen our operational effectiveness.

Public Engagement

Throughout the year, the City makes it a priority to continually engage with citizens, partners and stakeholders. Public opinion shapes much of what directs our budget priorities as each departmental service plan is based on the needs of their clients and the feedback they receive from them throughout the year on a variety of projects. The annual budget process provides a valuable opportunity for the City to check in with residents and businesses and develop a picture of what they see as important and how they would make the trade-offs between investing resources to improve or expand services, while keeping taxes and fees affordable.

Last year, through public engagement conducted in conjunction with the development of the 2017 Budget, more than five thousand people provided feedback on City services and the value they feel they are getting from those services, collected through several public engagement methodologies:

- Online Service Satisfaction survey (also available in Traditional Chinese)
- Insights West Survey
- Random 3-1-1 caller survey (three key questions asked from the Service Satisfaction survey)
- In-person budget road show at a number of community sites (interactive educational questions)
- Stakeholder meetings (members of advisory committees, community organizations, business improvement associations)
- Open house
- Public dialogue session

The feedback received from these surveys was used to inform the priorities of the 2017 Budget.

For the 2018 Budget and five-year financial plan, the City will again be offering a range of online and face-to-face opportunities for the public to learn more about the development of the 2018 budget and to share their experiences of City services as well as their priorities for public spending. Public consultation will be conducted between September 27 and December 1, 2017. A summary of the public feedback will be included in the 2018 Budget report.

Budget Timeline

The timeline for the 2018 Budget and five-year Financial Plan is as follows:

- **September 27 - December 1, 2017:** Public consultation, including an on-line survey through the City's Talk Vancouver platform, a number of in-person budget roadshows, a stakeholder meeting, and a public dialogue session.
- **November 22, 2017:** The 2018 Capital and Operating Budget and five-year Financial Plan report is posted to the City website, available for viewing by the public. The report provides a recommendation to Council for the 2018 Budget and five-year

Financial Plan, and summarizes the results of the public engagement and the proposed budget strategies developed by the City staff to finalize the estimates and bring the 2018 Budget and five-year Financial Plan into balance.

- **December 6, 2017:** Council meeting for staff presentation of 2018 Budget and five-year Financial Plan and to hear from speakers.
- **December 12, 2017:** Council meeting for final voting to approve the 2018 Budget and five-year Financial Plan.
- **May 2018:** Report presented to Council with the 2018 Property Taxation Bylaws and Averaging Resolution.

CONCLUSION

The 2018-2022 Budget Outlook provides the context and factors that will influence the development of the 2018 Budget and five-year Financial Plan to be presented to Council for approval in December 2017. The development of the budget will continue to reflect the public sector budgeting best practices incorporated into City budgets in recent years.

The 2018-2022 Budget Outlook identifies the potential revenue and expenditure changes for the 2018 budget year. Over the next two months, the public engagement activities will give citizens an opportunity to provide feedback on their priorities and concerns. As well, City staff will continue to explore options for bringing the budget into balance and prioritize funding for capital projects and ongoing operations. The 2018 Budget and five-year Financial Plan will be presented to Council in December 2017.

* * * * *

2018-2022

BUDGET OUTLOOK

Priorities and actions for a better city

Among the world's most livable cities, Vancouver is ranked third based on 30 factors across five areas: infrastructure, education, health care, environment and stability (*Source: The Economist*). Our greatest challenge in planning and budgeting for the future is to make the best use of our resources to maintain basic services while responding to the expanding needs of our growing population.

Each year, we refresh our five-year plan and set our annual budget, taking into consideration any new developments or challenges that have emerged as a result of changes in our environment, whether they be economic, physical or social.

We continue to move forward with planned initiatives that support our various strategies designed to improve services and amenities for all residents, while at the same time responding in real-time to serious issues and challenges such as the opioid crisis and the significant affordability issues in the City.

Contents

Our priorities in detail.....	pg 2
Fiscal responsibility	pg 4
Economic context.....	pg 4
Public engagement	pg 5
Highlights of City services.....	pg 6
Balancing affordability and services.....	pg 7
2017 Budget overview	pg 8
Looking ahead	pg 9
How to share your input.....	pg 15

2018 priorities

- Invest in renewing existing, and adding new, public facilities and infrastructure.
- Manage the challenges of rapid growth and affordability.
- Focus on equity and creating a resilient, healthy and green community.



How to get involved

Your input on the 2018 Budget will influence decisions about how your tax dollars are spent.

- Online survey via Talk Vancouver from September 27 to October 13
- Public meetings October 9, 18 and 19 (various locations)
- Public Dialogue session at City Hall on December 1, 4:30 - 7:30 pm Main Floor Town Hall Room 110

For more details and information about other opportunities to provide feedback, please see page 15 or visit vancouver.ca/budget

Our priorities

Invest in renewing existing, and adding new, public facilities and infrastructure

Renewing and adding public facilities and infrastructure will ensure that the health, safety and quality of life enjoyed by Vancouver residents and businesses is sustained and improved.

- The City of Vancouver provides services that are essential for daily living, such as: high-quality drinking water, waste water and solid waste management, streets, bridges, and emergency services.
- Vancouver residents and visitors expect public streets and buildings that are consistent with a modern and forward-looking city. Our investments in public facilities such as libraries, recreation centres and parks add to our quality of life and to our international reputation. Aging infrastructure must also be maintained so that it continues to perform well, meets safety standards, and continues to meet the expanding needs of citizens and businesses.

A key element is the planned extension of the Millennium Line SkyTrain along the Broadway Corridor.

- We are working with TransLink to support a shared 10-Year Vision for improved roads, transit service, and walking and cycling infrastructure. This includes increases in the number of SkyTrain cars, enhanced bus service, and more. A key element is the planned extension of the Millennium Line SkyTrain along the Broadway Corridor. This line will serve the second-largest employment centre in the province, and will allow more people to travel with dependable trip times along the corridor.
- Arts and culture are critical elements of a high functioning and healthy city and we will continue to elevate and emphasize this community in Vancouver. With this in mind, we've made additional investments in public art, increased grant programs that support non-profit organizations working in this space, and continue to provide robust support programs for arts and culture activities in our city.

Manage the challenges of rapid growth and affordability

Vancouver is rapidly growing. This makes our economy one of the strongest and fastest growing in Canada, but it also puts significant strain on existing systems and creates affordability challenges.

- Housing affordability is a significant challenge for the City of Vancouver. The 10-year Housing Vancouver Strategy introduced in 2017 aims to improve housing affordability by creating the right types of homes to meet the needs and incomes of the people who live and work in Vancouver.
- Lower income and homeless individuals in Vancouver are the hardest hit by the housing crisis and we are prioritizing actions that address the urgency of this crisis. A number of actions to increase the supply of appropriate housing for these people have been put in place over the past year, and more are planned including: an additional 600 temporary modular homes; new social housing buildings; and more temporary shelter spaces.
- Enabling greater supply of affordable housing is an important element in our housing strategy. We will work with the private and non-profit sectors to expedite the production of affordable housing.
- This past year was another strong one for residential and commercial building development in Vancouver. The City looks at the impacts of new building developments and collects fees and contributions to help fund amenities and infrastructure. We must also continue to invest in our staff and systems in areas such as planning and permitting to ensure this rapid growth can be accommodated.

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- Vancouver has begun to transition from the traditional model of business attraction to one that engages global demand, talent, and capital. Sectors we are targeting to help attract global talent and investments include: technology, digital and interactive entertainment, the green economy, and Asia Pacific trade. Beyond their rapid growth and ever-growing potential, these sectors are the new foundation of the knowledge economy.

Focus on equity and creating a resilient, healthy and green community

Vulnerable communities are at highest risk during an emergency and often face the greatest health and quality of life challenges. By pursuing the Healthy City and Greenest City Strategies, issues of poverty and resilience can be addressed and our residents and businesses can be more prepared for any challenges we may face.

- The capacity to anticipate, pre-empt, and resolve disruptive challenges to its vital functions has become a high priority for our city. This year, we launched a partnership with 100 Resilient Cities (led by the Rockefeller Foundation). With support and best practices from 100RC we will be better positioned to tackle our most pressing challenges such as housing affordability, emergency preparedness, climate change, and social connectedness.

As the number of overdoses and deaths have continued to increase, we have seen impacts across the City, particularly among first responders.

- This past year a major area of focus across the City has been the opioid crisis. As the number of overdoses and deaths have continued to increase, we have seen impacts across all of our facilities and services, particularly among first responders in Vancouver Fire and Rescue Services and the Vancouver Police Department. The City has taken action on a number of fronts, including: facilitation of expanded health services in the Downtown East Side; naloxone emergency overdose treatment training; public education events; community-based support for at-risk residents; and advocacy with senior governments for additional measures to support individuals suffering from addiction and to mitigate the extraordinary toll of illicit opioid use.
- The City of Vancouver was designated a City of Reconciliation in 2014. In 2017, to mark Canada 150+, the City of Vancouver hosted three signature events along with a number of other events throughout the year: the Gathering of Canoes; a week-long arts and performance festival called The Drum is Calling; and the Walk for Reconciliation.

- The Greenest City 2020 Action Plan launched in 2011 set the foundation for Vancouver to lead the fight against climate change, here and around the world. The 10 goal areas in the plan demonstrate how seriously we take the concept of environmental sustainability: clean energy, green buildings, green transportation, water quality, local food systems, zero waste, and more. Some of our targets, such as those in the green transportation goal area, have already been met, and in other areas we have more work to do.
- To build strong communities, the City offers a range of assistance for non-profit social service groups and neighbourhood organizations in the form of grants and in-kind support. There are grants available for childcare centres, for providing services to at-risk communities, support for small-scale renovations to facilities, and other needs.

Fiscal responsibility

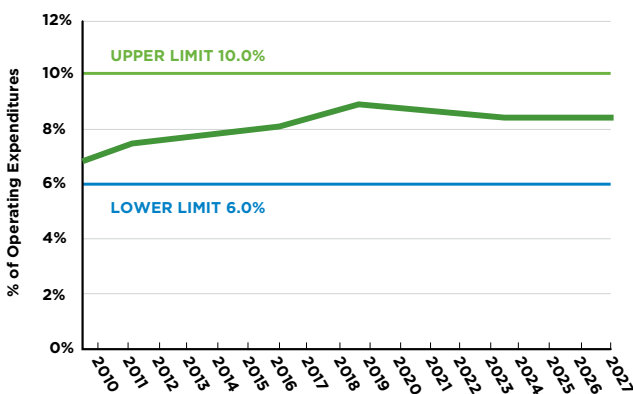
The City of Vancouver is committed to supporting Vancouver’s residents and businesses and to building a vibrant and livable city in a financially sustainable and resilient way. Over the last few years, the City has evolved our budgeting process to integrate mid- and long-term service, financial and capital planning. This transition, coupled with the introduction of performance metrics, helps guide strategic investment in the services, amenities and infrastructure needed to support a growing city.

The City’s strong financial management has been acknowledged by credit rating agencies with the highest credit rating of AAA.

By legislation, the City cannot run a deficit or borrow to fund its operating budget. The City adheres to strong fiscal discipline to ensure that: we live within our means and do not burden future generations with unsustainable obligations; services and programs are delivered in an affordable and cost-effective way; and public amenities and infrastructure are maintained in an appropriate state of repair. When developing the City’s long-term financial plan, a key consideration is to ensure that capital investments will not unduly burden the operating budget through debt servicing, operating and asset life-cycle costs. This strong financial management has been acknowledged by credit rating agencies – both Moody’s and Standard & Poor’s – which have awarded the City with the highest credit rating of AAA.

With the recent change in the Provincial government, as well as the multitude of Federal infrastructure programs under way, the City is well positioned to leverage strategic partnership and funding opportunities on key Council priorities such as rapid transit, affordable housing, childcare, arts and culture, climate change adaptation and economic development.

Tax-Supported Debt Servicing as % of Operating Expenditures



Tax-supported debt = general debt + 50% sewer debt

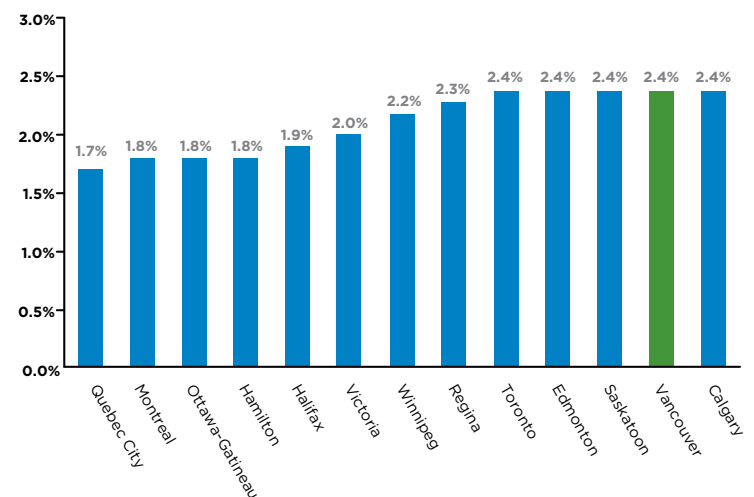
Economic context

A resilient economy fosters dynamic businesses and sustainable employment, and helps to attract and retain professionals, families and individuals to live and work in Vancouver. When developing the City’s long-term financial plan, the City considers global, regional and local economic factors. Understanding these constantly changing factors allows the City to manage near-term risks and uncertainties while also planning for long-term financial resilience and sustainability.

The global economy continues to build momentum in 2017, with world GDP growth forecasted to be 3.4-3.5%. Given the uncertainty in policy direction of the Trump administration, the US economy is anticipated to grow at 2.2%. The Euro area economy continues to grow at 2%, while the pending withdrawal from the EU is taking a toll on the UK economy. China’s economic growth appears to be decelerating after a period of stimulus-induced strength, but is forecasted to meet the 6.5% target as the Chinese government is expected to continue its fiscal injections to keep the economy’s growth trajectory on track.

The Canadian economy is poised to grow by 2.8% in 2017, due mainly to the recovery in commodity prices, fiscal stimulus and accommodative monetary policy, with moderation in 2018 to 1.9%. A disorderly correction of housing markets and the renegotiation of NAFTA remain the key risks to the outlook and could have far-reaching implications. BC is anticipated to top the provinces in economic growth again this year at 3%, with moderation in 2018 to 1.8% owing to downward pressure on the housing market in light of rising interest rates and the unresolved softwood lumber trade conflict with the US. Inflation is anticipated to be around 2% for 2017 and 2018.

Projected Real GDP Growth 2018–2021



Public engagement

What we heard last year

The City of Vancouver’s annual budget process offers an excellent opportunity for public dialogue on city-wide priorities. We check in with residents and businesses and develop a picture of what they see as important and how they would make the trade-offs between investing resources to improve or expand services, while keeping taxes and fees affordable. Every year, the City’s budget decisions are strengthened through the input of those who benefit from and are affected by these choices. Public input provides valuable context for budget decisions and helps staff track public priorities from year to year.

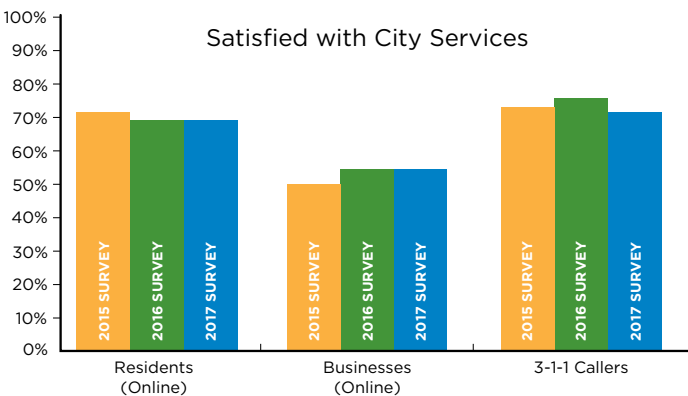
Our engagement process in support of the 2017 Budget, as in previous years, was robust. Thousands of citizens participated in surveys, meetings and neighborhood face-to-face activities.

The top priorities were fairly consistent across groups of respondents. Housing, cost of living and infrastructure/transportation are the key issues on the minds of Vancouver residents and business owners.

Top of mind issues

Residents (Online)	Businesses (Online)
Housing/Accommodations (56%)	Cost of Living (47%)
Cost of Living (52%)	Housing/Accommodations (44%)
Infrastructure/Transportation (37%)	Infrastructure/Transportation (38%)
Social Issues (34%)	Development (29%)
Development (30%)	Social Issues (22%)

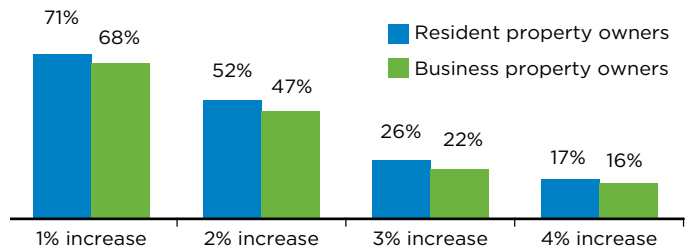
Other findings



- The average levels of satisfaction among residents have been stable over the last several years, at or above 70% of those surveyed. Among businesses, satisfaction has also been stable, with a small increase in the percentage who say they are satisfied ('very' or 'somewhat' satisfied) with City services to 54%, from 50% in previous years.

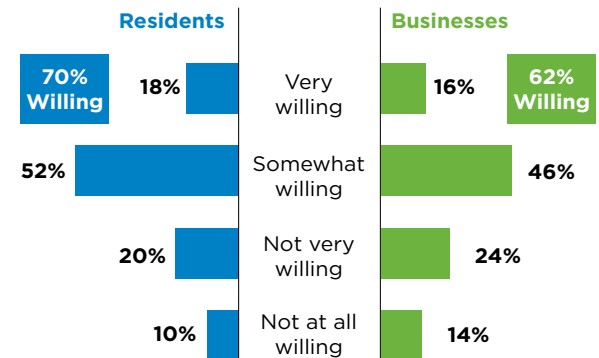
- The strongest satisfaction ratings were for provision of basic services (sewer, water, drainage), garbage collection, composting and recycling, fire prevention and responding to medical calls.

Willing to Pay Tax Increase



- The majority of resident property owners and business property owners are willing to pay a 1.0% tax increase. Overall, one-half are also willing to pay a 2.0% tax increase (though resident owners are somewhat more willing than businesses).

Support for User Fees Increases



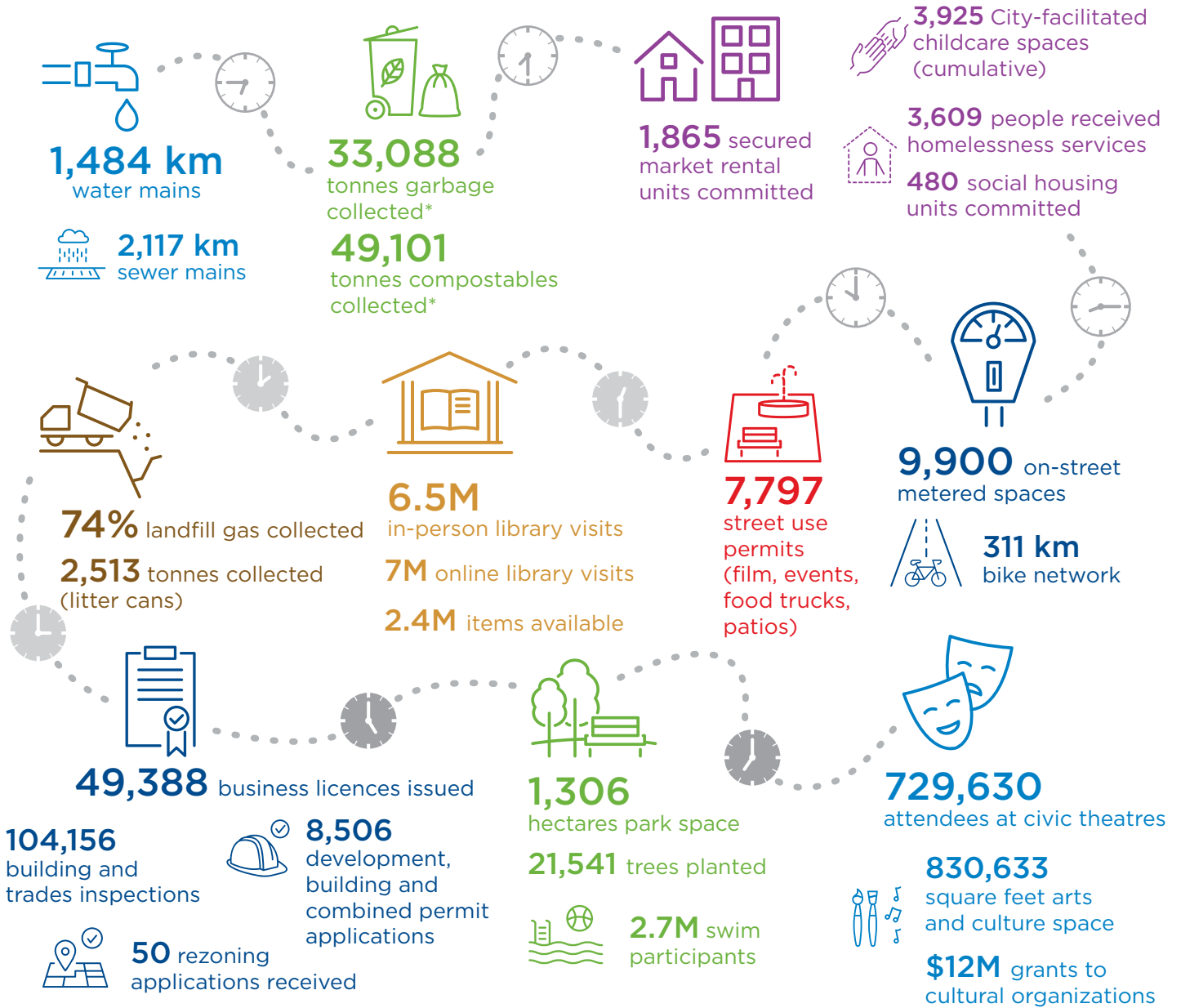
When prompted, respondents said they were personally willing to pay more in user fees for services they or their business use (66%).

The public is open to using a variety of tools to balance the City’s budget. They were more likely to support the following measures:

- Introduce new user fees for some City services that currently have no fees (46%);
- Increase user fees for City services that currently have fees (41%); and/or
- Reduce level of staff/personnel providing services (38%).

The use of online options for services and engagement, as well as green techniques for managing green spaces, received the most support for finding efficiencies in service provision.

Highlights of City services delivered last year



51,532 crimes reported; on average, 1 crime every 10 minutes and 14 seconds

852,868 calls made to 3-1-1
27,698 VanConnect service requests

571 City-owned buildings

1,797 fires with damage
13,325 fire safety inspections
44,389 medical incidents

176 public engagement projects

21% reduction in GHG emissions from City-owned buildings (since 2007)

6,468 residents trained in emergency preparedness

503 Freedom of Information requests received

2017 credit rating Aaa/AAA

Balancing affordability with quality of services and programs

How property assessments and property tax work

The City plays a leading role in enabling a thriving business environment and building a world-class, sustainable community for its residents. Vancouver is consistently ranked as one of the most livable cities in the world and, in 2016, the global accounting firm KPMG ranked the city as the second-most tax competitive in the world.

The City continues to strive to balance the affordability and competitiveness of property taxes, utility fees and user fees, while sustaining the breadth and quality of services for businesses and residents. Over the past several years, Vancouver has consistently had one of the lowest average property tax increases among Metro Vancouver municipalities. Even when combining municipal taxes with annual utility fee increases, Vancouver is in the mid-range among the municipalities in Metro Vancouver.

Approximately half of the property tax paid by Vancouver taxpayers goes towards funding City services while the remaining half goes to provincial and regional taxing authorities to fund regional services, schools, transit, and property assessment services. Vancouver City Council has no control over how much the other taxing authorities charge or how they distribute those levies across the region. As property values in Vancouver are generally higher than those in other Metro Vancouver municipalities, the amount of provincial and regional property taxes paid by a household in Vancouver are typically higher than the rest of the region.

Approximately half of the property tax paid by Vancouver taxpayers goes towards funding City services while the other half goes to provincial and regional taxing authorities to fund regional services, schools, transit, and property assessment services.

It is important to note that the City does not generate higher property tax revenue as a result of rising property values. Property values are determined by BC Assessment; Vancouver City Council has no jurisdiction over the determination of property values. To establish the City's tax rates, Vancouver City Council first determines the total property tax levy that is required to support the budget, and then divides the property tax levy by the assessment

The City does not generate higher property tax revenues as a result of rising property values.

base provided by BC Assessment. Under this approach, property tax increases are driven by the City's revenue requirements, and tax rates are adjusted annually to reflect changing property values.

While the Council-directed property tax increase applies to the overall tax levy, the extent of change in an individual property's tax year over year is determined primarily by how that property's assessed value has changed relative to the average change within its property class. Properties with a higher increase in value relative to the class average change could experience a much higher increase in property tax beyond the Council-directed increase, while properties with a lower increase in value could experience no change or a reduction in property tax.

Cost to deliver services



\$1.05M

to hire and train 10 new police officers



\$1.04M

to operate the Marine fire response program for one year

\$6.3M

to grow and maintain Vancouver's urban forest



\$1.3M

to operate a swimming pool for one year



\$350,000

to purchase one Compressed Natural Gas Refuse Truck



\$6.05M

to fuel city vehicles for one year



\$275,000

to install Pedestrian/Cyclist Actuated Signal

2017 Budget overview

Operating budget revenues and expenditures for 2017: \$1.322 billion

Property tax and utility fees for water, sewer and solid waste make up 76% of the revenue in the 2017 Budget. These revenue sources are highly predictable. Revenues from property development-related fees and permits are cyclical, but account for only 5% of the City's revenue base.

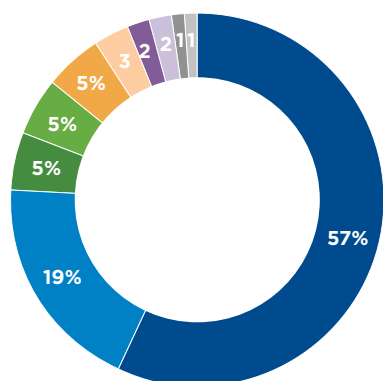
In 2017, Vancouver's property tax revenue increase of 5.1% (including the Council-directed tax increase of 3.87% and additional taxes generated from new development of 1.23%) provided funding for cost increases in existing services as well as new investments in key priorities such as: equity, safety and livability; housing needs and affordability; arts and culture; and financial health and operational effectiveness. The City of Vancouver's combined 2017 property tax and utility fees for a median single-family home was in the mid-range among the municipalities that comprise Metro Vancouver.

Public safety accounts for 31% of the City's operating budget while Engineering public works and utilities

expenditures (water, sewer, solid waste, neighbourhood energy) total 28%. Together, these services account for more than half of the City's operating expenditures budget. These costs have grown at a higher rate than other areas, reflecting the operating cost impact of substantial capital investments in recent years to replace aging regional infrastructure and above-inflation wage growth in the public safety sector across the region. Community-related services — such as parks and recreation, library, community services and planning — comprise 22% of the operating budget.

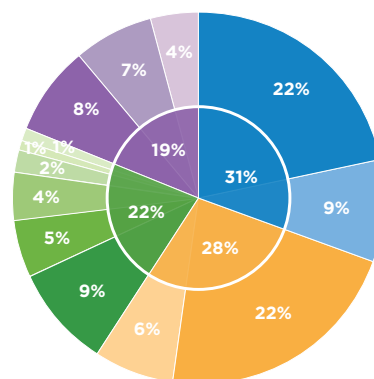
Staffing costs represent the largest component of the City's operating budget, at more than 57%. While utilities represent 22% of operating budget, more than 50% of those costs are passed on to the City directly by Metro Vancouver. A further 9% of the operating budget goes to interest and debt payments for capital investments, as well as transfers to other funds and allocations. This includes transfers to the Capital Fund which, along with development revenues and other external contributions, funds the City's capital investment. The remaining 23% of the operating budget goes to other non-salary costs, including facilities costs, grant payments and equipment.

2017 Operating Revenues \$1,322.2 Million



- 57% | Property Tax
- 19% | Utility Fees
- 5% | Program Fees
- 5% | Licence & Development Fees
- 5% | Parking
- 3% | Cost Recoveries, Grants & Donations
- 2% | Rental, Lease & Other
- 2% | Revenue Sharing
- 1% | Bylaw Fines
- 1% | Investment Income

2017 Operating Expenditures \$1,322.2 Million



- PUBLIC SAFETY**
 - 22% | Police
 - 9% | Fire
- ENGINEERING & UTILITIES**
 - 22% | Utilities
 - 6% | Engineering Public Works
- COMMUNITY-RELATED SERVICES**
 - 9% | Parks
 - 5% | Community Services
 - 4% | Library
 - 2% | Development, Buildings & Licensing
 - 1% | Planning, Urban Design & Sustainability
 - 1% | Other
- CORPORATE SUPPORT**
 - 8% | Debt & Capital (Non-Utility)
 - 7% | Corporate Support
 - 4% | Contingencies & Transfers

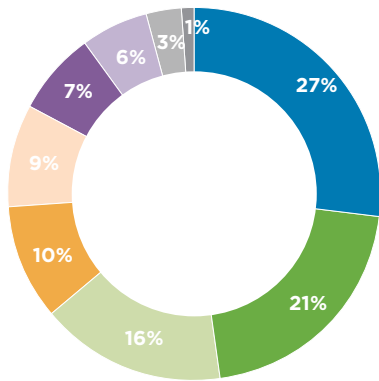
Capital Budget

The City owns more than \$20 billion of capital assets (based on replacement value, excluding land) encompassing parks and recreation, community facilities, affordable housing, public safety, roadways, walkways, bikeways, and underground water and sewer infrastructure. The need to renew, upgrade and expand public amenities and infrastructure to support residents and businesses is significant and growing. Infrastructure renewal is an investment in the future of our city and an important factor in achieving good value for money by maintaining and, where possible, extending the operational lifespan of the assets.

Annual capital expenditure budget for 2017

The City's annual capital expenditures budget for 2017 is \$485 million. Utilities and public works account for the largest share of planned capital investments at about 27%, followed by transportation at 21%. Housing investments represent the next largest proportion at about 16%, followed by parks, open spaces and recreation at 10%, equipment and technology at 9%, and community facilities, civic facilities and childcare accounting for about 16% of planned expenditures.

2017 Capital Budget Expenditures \$485.5 Million



- 27% | Utilities & Public Works (\$130M)
- 21% | Transportation (\$104M)
- 16% | Housing (\$80M)
- 10% | Parks, Open Spaces & Recreation (\$47M)
- 9% | Equipment & Technology (\$42M)
- 7% | Community Facilities (\$29M)
- 6% | Civic Facilities (\$29M)
- 3% | Childcare (\$15M)
- 1% | Citywide (\$7M)

Looking ahead: 2018-2022 operating and capital financial plan

2018 Operating Budget

Looking toward 2018, the projected growth in revenues is consistent with prior years with the exception of decreased traffic fine revenue from the Provincial revenue sharing program (which reflects the province-wide trend) and lower investment income, which is due to the current low interest rate environment. Wage increases are a key factor in determining the City's rate of budget growth.

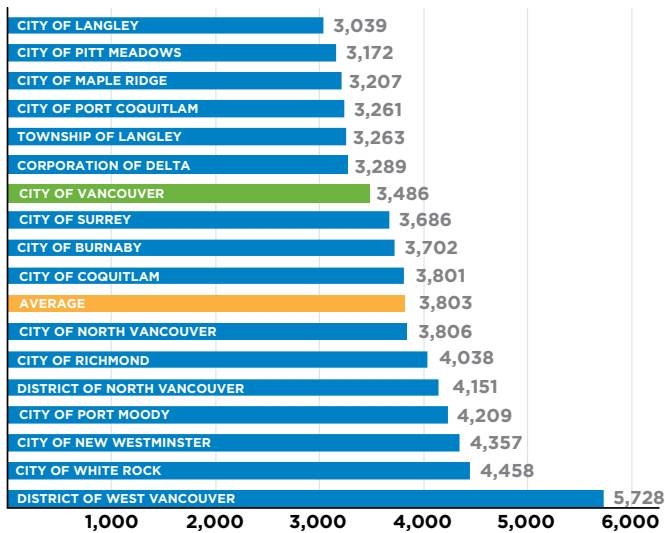
Costs rising faster than inflation

Costs for maintaining existing staff levels and existing services scope and levels are rising faster than inflation in a number of areas:

- Public safety collective agreements will increase in 2018 by 2.5%.
- Regional utility charges passed on to the City by Metro Vancouver are forecast to increase by 3% for water and by 8.5%-12% for sewer annually from 2018-2022, driven by major infrastructure investments.
- BC Hydro electricity rates are increasing by 3.5% in 2018, and an average of 3% for the next four years based on BC Hydro's 10-year plan.
- Increases in ongoing operating and life cycle costs arising from new and expanded amenities and infrastructure.

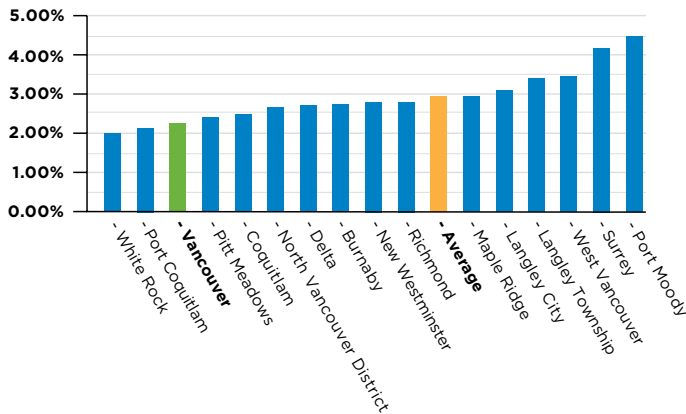
The outlook for 2018-2022 shows the potential for a significant gap between expenditure growth and revenue growth. This trend—common for all municipalities—will need to be addressed through continued review of City service levels, and innovation in how programs and services are delivered, including: strategic partnerships; process improvements and business and technology transformation; and new revenue sources to address the costs of City growth.

2017 Combined Municipal Property Tax and Utility Fees for Median Single-Family Home (\$)



Comparing median single-family homes, Vancouver tax and utility fees are mid-range in Metro Vancouver.

Vancouver vs Metro Vancouver Five-Year Average Property Tax Increase (2013-2017)



Over the last five years, Vancouver has had one of the lowest average property tax increases in the region.

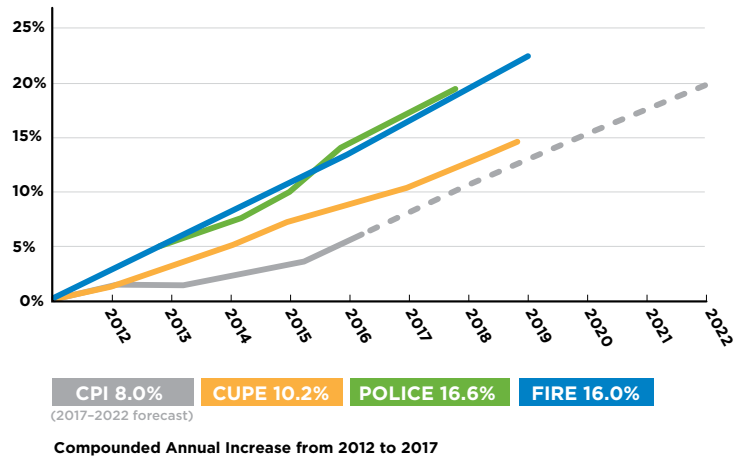
Collective agreements and other challenges

Collective agreements

The City has negotiated collective agreements for the majority of the unions as represented by Fire Fighters Union, CUPE Local 15, CUPE Local 1004, IATSE and CUPE Local 391 and arbitrated with Vancouver Police Union.

Given the magnitude of public safety wages relative to the other parts of the City, the recent trend of public safety wage increases above inflation will continue to put significant pressure on the City's budget and property tax rates.

Compounded Wage Increases



Other challenges

The increasing pressure for local governments to take on more and more services and responsibilities from senior levels of governments has increasingly hindered the City's ability to keep operating expenditure growth at the rate of inflation. Examples of some of the challenges the City faces include:

- The opioid crisis – in 2017, Council approved \$3.5 million to respond to this urgent crisis.
- Insufficient new housing supply that is affordable for low- to moderate-income individuals and families living and working in Vancouver. In 2017, the City invested \$80.1 million in capital and \$4.5 million in operating funds to support housing needs and affordability.
- Deterioration of the Single Room Occupancy (SRO) hotels and the aging social-housing stock is having a cumulative impact on homelessness, street disorder and related crisis-response costs at the municipal level. Recently, Federal and Provincial governments have acknowledged a need for increased investment in affordable housing. In the current housing crisis, municipalities have carried many of the costs of historical decreases in investments in social housing by senior levels of government.
- Inadequate access to treatment for people with serious mental health challenges and addictions puts pressure on local services. There has been a 43% increase in emergency room mental-health visits between 2009 and 2013 and an increase in the number of emergency responses, including mental-health apprehensions. The Vancouver Police Department provides significant resources to respond to these emergencies, and there is a need to ensure that appropriate treatments are available to those in need before an emergency occurs.

- The BC government has announced that income assistance rates will increase by \$100 a month beginning in September 2017. Prior to that, income assistance rates had been frozen for 10 years and have not increased significantly in 20 years, despite substantial increases in rents over this period. Even with the increase in income assistance rates, there is still risk of homelessness and a need for investment in support services to provide housing options to people facing increased rents.
- Existing rental stock is aging, requiring upgrades and refurbishment with potential displacement of long-term tenants who are not able to afford new, market housing.
- The decision by the RCMP and Provincial government to limit the financial contribution for the cost of DNA analysis services resulted in costs downloaded to municipalities.
- The availability of childcare spaces continues to be well below the number needed to meet current demand.

Operating Budget 2018-2022 Outlook

Budget decisions will be based on a five-year financial plan to ensure Council priorities are addressed, to enable proactive planning for revenues and business transformation opportunities, and to respond to emerging risks. The 2018 Budget is the first year of the five-year financial outlook and identifies the main drivers of the City's operating budget.

2018-2022 Operating Budget Preliminary Expense Pressures (\$ in millions)	2018	2019	2020	2021	2022
External Agency Costs passed on to the City					
Increased Metro Vancouver charges for Water and Sewer utility	\$8	\$10	\$9	\$9	\$9
Anticipated external party cost increases (including EComm)	\$1	\$1	\$1	\$1	\$1
Debt, Transfers and Capital Program Costs					
Operating impacts of capital projects	\$3	\$3	\$3	\$3	\$3
Transfers and debt & pay-as-you-go financing for Water, Sewer, NEU & Solid Waste	\$7	\$4	\$5	\$5	\$5
Increased non-utility debt cost	\$2	\$2	\$1	\$1	\$1
Inflationary Cost Pressures					
Inflationary costs (hydro, gas rates, rents & leases, insurance, grants)	\$2	\$2	\$2	\$2	\$2
Salary and Benefit Costs					
Salary and benefit increases required by existing collective agreements (contractual increments and projected benefit cost increases)	\$20	\$20	\$20	\$20	\$20
Total Preliminary Expense Pressures	\$43	\$42	\$41	\$41	\$41

Expenses are projected to increase primarily due to:

- Increases in salaries and benefits, due to contractual increases as per collective agreements.
- Increases in regional utility charges passed on to the City by Metro Vancouver, forecast to increase by 3% for water and by 8.5%-12% for sewer annually from 2018-2022, driven by major infrastructure investments.
- Increasing costs associated with the 2015-2018 Capital Plan, reflecting increasing debt servicing costs, ongoing operating and lifecycle costs of new amenities and infrastructure, and use of pay-as-you-go capital for water and sewer utilities.
- Estimated \$1-2 million per year for cost increases passed on from external agencies and senior levels of government. In addition, indirect cost pressures in the areas of housing, mental health and addiction, childcare, and emergency medical response, formally the responsibility of the Provincial and Federal governments, continue to add to the City's budget pressures.

2018–2022 Operating Budget Projected Revenue Changes (\$ in millions)	2018	2019	2020	2021	2022
Property Tax					
Increase in property tax revenue (estimated at 2%)	\$14	\$15	\$16	\$16	\$17
New construction tax revenue	\$5	\$5	\$5	\$5	\$5
Utility fees					
Increase in utility fee revenue (Water, Sewer, Solid Waste, NEU)	\$12	\$11	\$10	\$10	\$10
Program fees					
Inflationary increases in program fees and development fees	\$3	\$3	\$3	\$3	\$3
Lower investment income - lower interest rate environment	(\$2)				
Provincial traffic fine revenue sharing	(\$3)				
Total Projected Revenue Changes	\$29	\$34	\$34	\$34	\$35

Operating revenues are projected to increase primarily due to:

- Property tax to increase in line with inflation projected to be approximately 2% annually.
- Additional property tax revenues from new development to increase by \$5 million annually, representing less than 1% of our annual property tax base.
- Utility fees to increase by 5% annually on average for the next five years, based on Metro Vancouver regional utility charge forecasts (subject to change when Metro Vancouver rates for 2018 are finalized in October 2017).
- Program fee and development fee revenues to increase in line with inflation. Fee increases identified through fee reviews to be incremental.
- Declining investment income in 2018 due to lower interest rate environment, offsetting some of the revenue increases.
- Lower provincial revenue sharing of traffic fines in 2018 due to declining ticket revenues and declining City of Vancouver share in municipal allocation, offsetting some of the revenue increases.
- Additional revenue from the Empty Homes Tax is not known at this time, but is anticipated to cover the costs of implementation, with any additional revenue available to fund affordable housing programs.

The final 2018 Budget will incorporate feedback from public consultation with Vancouver residents and business owners.

NOTE: The estimates contained in this report are preliminary and are based on assumptions related to future events and rate changes that have been estimated based on the current economic outlook, recent expenditure growth and revenue trends and available Metro Vancouver forecasts. These assumptions will be refined and adjusted over the coming months to reflect ongoing revenue trends, productivity improvements and service-delivery changes to bring the 2018 Budget into balance.

Capital Budget 2018-2022 Outlook

The City's capital program consists of a 10-year strategic outlook, a four-year plan, and an annual budget plus four-year forecast (Five-Year Financial Plan) with quarterly capital program status reports.

The 2015-2018 Capital Plan (four-year plan) was approved by City Council in October 2014 and included \$1.085 billion of capital investments. As factors impacting capital priorities change, the capital plan is adjusted as needed to align with current priorities and budget challenges. With Council approved adjustments to July 25, 2017, funded primarily by development revenue and senior government funding that was not included in the original plan, the 2015-2018 Capital Plan is now \$1.337 billion. The Capital Plan provides the framework for the 2018 Capital Budget, the fourth and final year of the four-year Capital Plan. Funding from the multi-year capital plan is allocated to specific capital programs and projects through the annual Capital Budget process.

Capital investments vary from year to year depending on funding availability, amenities and infrastructure needs, asset condition and evolving priorities. The key objective of the 2015-2018 Capital Plan is to balance three areas: maintaining the City's infrastructure and facilities in an appropriate state of repair; optimizing the City's network of public amenities to best serve residents, businesses and people who visit and work here; and advancing Council and community priorities within the City's long-term financial capacity. The Capital Plan is designed to be flexible to accommodate evolving needs and priorities.

Development contributions are essential to support public amenities and infrastructure for a growing city. The City of Vancouver is also leveraging strategic partnership and funding opportunities. In 2015 and 2016, the City was successful with several applications to obtain modest Federal and Provincial government funding toward the City's capital program (approximately 3% of the City's projected five-year capital expenditures), including

improvements to transportation infrastructure, childcare and the Stanley Park Seawall. Further senior government funding in 2017 is anticipated to enable key priorities such as affordable housing, childcare, utility and transportation projects. In 2018 and beyond, the City will continue to leverage strategic partnership and funding opportunities with the Provincial and Federal governments to advance key Council priorities in the areas of affordable housing, childcare, sewer separation, bridge infrastructure, recreation facility renovations and upgrades, and park renewal.

The City has a 2017 capital budget of \$485 million, the largest annual capital investment by the City since 2010. A number of major capital projects are advancing from planning and design to construction or implementation, including social housing, several City/Vancouver School Board partnership childcare facility projects, the construction of the Arbutus Greenway, and the replacement of Fire Hall #5 co-located with new social housing.

Capital investments in 2018 are expected to be consistent with 2017 levels, much higher than previous years, reflecting the continuation or completion of major construction phases in 2018 for several multi-year capital projects. The level of annual capital investment for 2019 through 2022 is forecast to stabilize somewhat at levels comparable to 2016. The forecasts for 2019 through 2022 are early estimates given that the 2019-2022 Capital Plan will be presented to Council for consideration and approval in mid-2018. Over the next few months, staff will review the projects schedule across the five-year outlook to further refine the 2018 Budget based on Council and community priorities, as well as capacity to deliver.

New capital investments in the 2018 Capital Budget will be based on the current 2015-2018 Capital Plan, prioritized based on need, opportunities to leverage senior government and partner funding, and initiatives to drive business transformation. Investments in affordable housing, childcare, and active transportation remain high priorities, as well as a continued focus on utility maintenance, renewal and upgrades.

Key capital investments

Affordable housing, including replacement and expansion of Roddan Lodge in the Downtown Eastside, new affordable housing in Southeast False Creek Area 3B, and development of affordable housing on City sites managed by the Vancouver Affordable Housing Agency.

Child care investments, including a number of childcare facilities in partnership with Vancouver School Board (construction for Lord Nelson Elementary and Sir Sandford Fleming Elementary childcares, planning for Lord Tennyson Elementary School and David Lloyd George Elementary childcares), as well as planning for new childcare facilities at City parkades in Gastown.

Community facilities, including planning for renewal of Marpole and Britannia community centres, planning for a new outdoor pool, and completion of the new Killarney Seniors Centre and expansion of Central Library to levels 8 and 9 to replace formerly leased space with a vibrant public learning and gathering space.

Civic facilities, including completion of Fire Hall #5, incorporating a social housing component, and start of construction for the replacement of Fire Hall #17, with completion in late 2019.

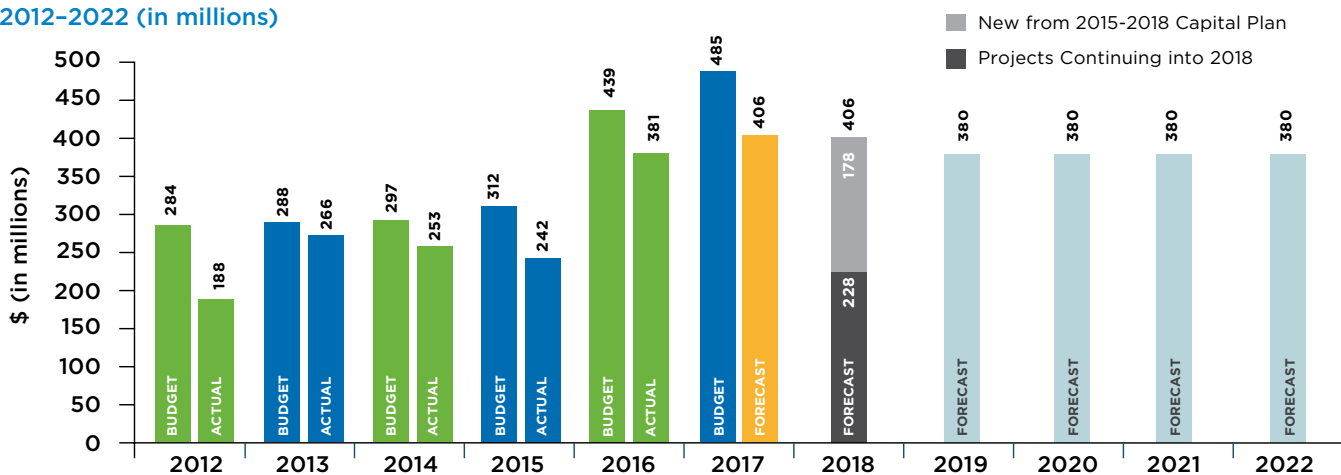
Parks, open spaces, and recreation, including completion of the Parks and Recreation Master Plan, park designs for Northeast False Creek, playground renewals, park renewals in Renfrew Community Park and Ravine Park, and China Creek North Park, a new downtown park at Smithe and Richards, and completion of major repairs to the Stanley Park Seawall.

Transportation, including detailed design and costing for development of the Arbutus Greenway, planning and costing for the next phase of the Georgia and Dunsmuir viaducts removal and Northeast False Creek redevelopment, and continued investments in bikeways and greenways.

Utilities, including continuation of construction for the multi-year closure and gas collection infrastructure project for the west 40-hectare section of the Vancouver Landfill, and phased construction of a dike as part of street construction and park development at the base of Kerr Street to align with the development plan in East Fraser Lands.

Equipment and technology, including replacement of the City's fleet management system in 2018 and a continued focus on fleet purchases with reduced greenhouse gas impacts and improved operational efficiencies.

Capital Expenditure Trend Comparison 2012-2022 (in millions)



Operating and Capital Budget risks 2018–2022

There are a number of internal and external risks that can affect the City's five-year financial outlook and are considered in developing the City's budget.

Revenue risks

Approximately 76% of the City's operating revenue comes from property taxes and utility fees, which form a stable and predictable revenue base for the City. Some revenues come from cyclical activities such as development and permit fees which make up 5% of the City's revenues.

Revenue risks include:

- Development permits and licence fees, which represent 5% of the revenue budget, may be negatively affected by senior government policy directions towards housing, such as the Provincial 15% foreign buyers tax, increases in mortgage rates and economic slowdown.
- Program fee revenue, parking, rental and lease income combined generate 12% of the City's revenue and are also sensitive to general economic conditions, seasonal weather factors and increased market competition.
- Cost recoveries, grants and donations from external parties and provincial revenue sharing provide 5% of City revenue and 6% of the City's 2015-2018 Capital Program funding and are typically project-specific and less predictable.
- Development contributions are a significant source of funding for growth-related capital investment. An economic downturn could lead to less real estate development and therefore less development-related capital sources of funding, resulting in some capital projects being delayed or cancelled.
- Investment income could decline should interest rates decrease.

Expenditure risks

A significant portion of non-salary expenses are contractually fixed and predictable in the short-term. For expenses that are less predictable during the year, the City's annual budget includes a contingency to cover unanticipated expenses, subject to approval by Council before the funding is accessed.

Expenditure risks include:

- Costs associated with collective agreements for 2018 and beyond, including arbitrated agreements, for which the City has no control over final settlement costs.
- Unforeseen increases in employee benefit costs, including costs associated with employer pension contributions, WCB premiums, employee extended health and dental benefits, and long-term disability insurance claims.
- Unanticipated costs passed on to the City from other levels of government.
- Costs for unforeseen events, such as public emergencies and issues related to climate change or unusual weather events. These could include costs for higher water consumption during periods of low rainfall, costs for flooding and wind damage, or higher costs for snow and ice removal in periods of high winter storm activity.
- Delays in benefit realization and payback from business and technology transformations.
- Any significant increase in interest rates, which will increase the City's debt servicing on new debt and limit future borrowing capacity.
- Future needs for rapid transit and affordable housing could be a potential pressure in the five-year plan.

Summary

Looking ahead for the next five years, we expect that continued rapid growth in our city will create challenges and the need for further investments from all levels of government. We need to continue to invest in public facilities and infrastructure to ensure that the health, safety and quality of life enjoyed by Vancouver residents and businesses is sustained and improved. As our costs to maintain and improve public facilities and infrastructure rise, we also need to find opportunities to create more value for money in service delivery, while we continue to focus on equity and creating a resilient, healthy and green community.



How to share your input on the 2018 budget

Between now and when the 2018 Budget is approved by Council in December, your input will influence decisions about how your tax dollars are spent.

The City is again offering a range of online and face-to-face opportunities for the public to learn more about the development of the 2018 budget and to share your experiences of City services as well as your priorities for public spending.

Online

Members of the public can take a brief online survey through our Talk Vancouver platform.

vancouver.ca/budget

Community

Will be meeting with members of the City's advisory committees, community organizations, business improvement associations, and not-for-profit organizations to listen and learn.

Public Dialogue

Come join us at City Hall on **December 1** from 4:30 – 7:30 pm to learn about the draft budget that includes community and public input to date, for a final chance to learn and comment before the 2018 budget goes to City Council.

For more details and information about other opportunities to provide feedback, please visit vancouver.ca/budget



Budget Roadshow

We will be popping up at Community Centres, Libraries and Neighbourhood Houses to bring the conversation to you, including family-friendly learning opportunities.

Monday, October 9

Outside on northwest corner of 4th and Vine (near Safeway/Whole Foods), 9 – 11 am

Save-On-Foods (3535 West 41st Avenue), 12 noon – 2 pm
Britannia Breezeway (1661 Napier Street), 3 – 5 pm

Wednesday, October 18

Trout Lake Community Centre (3360 Victoria Drive), 8 – 10 am

Collingwood Neighbourhood House (5288 Joyce Street), 11 am – 1 pm

Killarney Community Centre (6250 Killarney Street), 2 – 4 pm

Thursday, October 19

Mount Pleasant Neighbourhood House (800 East Broadway), 9 – 11 am

Creekside Community Centre (1 Athletes Way), 12 noon – 2 pm

Vancouver Public Library, Joe Fortes Branch/West End Community Centre, 3 – 5 pm

