



ADMINISTRATIVE REPORT

Report Date: February 14, 2019
Contact: Patrice Impey
Contact No.: 604.873.7610
RTS No.: 12924
VanRIMS No.: 08-2000-20
Meeting Date: February 26, 2019

TO: Vancouver City Council
FROM: Director of Finance
SUBJECT: Terms of Reference – Financial Review

RECOMMENDATION

THAT Council accept this report for information.

REPORT SUMMARY

On December 5, 2018 Council approved a motion to undertake a baseline review of City finances with a goal of giving the new Council:

- a baseline of knowledge so any financial decisions made going forward can be informed ones;
- an understanding of what the current and projected financial capacity is of the City and what contingencies, risks, and assumptions have been considered in that determination; and
- help to identify potential opportunities for efficiencies.

Council requested staff to report back in February 2019 with draft Terms of Reference, and a recommended budget and timeline, with an expected report back of the review by the end of Q2 2019 to inform the 2020 budget planning process.

Over the past decade, staff have undertaken significant work internally and with consultants to improve the understanding of the City's financial capacity and improve its financial sustainability and resilience, including benchmarking of taxation, evaluation of debt capacity, and analysis of cost and revenue trends and drivers. In 2015, staff initiated a project to formalize the development and implementation of long term financial sustainability strategies. Significant progress has been made to evaluate and measure the City's financial health and sustainability, and actions have been taken which reflect these strategies. Much of this information is

available to develop a baseline summary for Council of our financial capacity, contingencies, risks and other information that would enable future financial decisions.

Through the evaluation of the City's financial health and sustainability, staff have also identified that there is significant financial pressure to respond to the increasing needs of Vancouver as a growing city – including needs for service delivery, infrastructure renewal, increased amenities and increased scope of services that have traditionally been the responsibility of senior levels of government. Recognizing this pressure, the 2019 Budget Outlook noted that staff plan to “work with external consultants to chart a course for the next 10 years to grow our city in a financially sustainable way, including developing new and enhanced revenue opportunities and updating our service delivery models to increase capacity to deliver services to the public.”

This report recommends Terms of Reference for a 3rd party that would achieve both the objectives of Council to better understand the city's baseline financial position as well as to work with staff to understand municipal best practices and identify opportunities to address our growing demand by building our capacity for growth through improvements to our current service delivery and revenue models.

COUNCIL AUTHORITY/PREVIOUS DECISIONS

In July, 2018, Council approved the 2019 – 2022 Capital Plan and associated funding strategies which included proposed investments in Infrastructure renewal funded through additional debt as well as pay-as-you-go tax and rate changes.

In December 2018, Council approved the 2019 Operating and Capital Budgets which provided funding for the Capital plan implementation for 2019, outlined the 5 year financial plan and documented risks and opportunities to the City's financial position..

CITY MANAGER'S/GENERAL MANAGER'S COMMENTS

Each year, in developing the City's budget for the following year, there is an ongoing challenge of maintaining core services at the level our residents and businesses expect, while at the same time making the right investments for the future to ensure we can respond to the pressures and opportunities of a growing City. In developing budget recommendations, staff have taken a prudent approach to funding key priorities, while staying true to our financial sustainability principles.

Staff support Council's motion to engage a 3rd party to report on the current state of the City's financial capacity as a baseline to support future budget decisions by Council. Staff also recommend engaging the 3rd party to look at best practices in the public and private sector and identify opportunities for the City to consider to respond to the challenge of increasing demands with limited funding resources.

REPORT

Background/Context

Over the past decade, staff have undertaken significant work internally and with consultants to enhance the understanding of the City's financial capacity and assessment of its financial sustainability and resilience. This included evaluating the City's infrastructure and amenity conditions and future needs, determining the City's debt capacity to support ongoing capital reinvestment, benchmarking tax and fees with comparable Canadian cities, and monitoring financial health metrics aligned to the rating agencies. In 2015, staff initiated a project to formalize the development and implementation of the City's long term financial sustainability strategies. The city's financial plans, capital plans and operating and capital budgets have reflected this work with sustainability principles guiding decision making in the organization. The following are examples of that analysis and actions over the past decade.

Long-term Financial Sustainability & Resilience - Vancouver, like other Canadian cities, offers a broad range of services but has a limited revenue stream. The City adheres to prudent fiscal stewardship with careful financial planning that balances short-term operating needs with long-term public amenity and infrastructure requirements. To ensure that appropriate capital investments are made in a fiscally prudent and financially sustainable manner, the City has undertaken a number of initiatives to guide strategic long-term financial and capital planning over the past decade:

- Adopted the City's financial sustainability guiding principles
- Adopted the City's strategic capital planning guiding principles
- Established a long-term capital planning horizon, with mid-term (10-year Capital Strategic Outlook) and short-term (4-year Capital Plan) plans nested in long-term strategies
- Integrated capital planning and community planning and public benefit strategies to address asset renewal and growth from both Citywide and neighborhood perspectives

Debt Management - When developing its long-term financial plan, the City adheres to strong financial discipline and proactive debt management to ensure that capital investments will not unduly burden the current and future tax and fee payers through debt servicing, operating costs and asset lifecycle costs.

The City determines its long-term borrowing capacity by limiting the ratio of annual debt servicing to operating expenditures at a maximum of 10%. This is to ensure that the City does not accumulate debt at unacceptable levels, and that annual debt servicing does not put undue pressure on the annual budget. As part of the long-term debt management strategy, the water utility has recently completed a multi-year program of transitioning from debt financing to pay-as-you-go. The sewer utility has started a similar transition in 2015 and will continue in future capital plans. This strategy helps improve the City's long-term debt profile, save interest costs and enhance credit ratings. As well, the City has created room in its debt capacity to enable a more robust asset renewal program over the next decades.

Credit Ratings - Implementing a sustainable long-term financial health framework over the past decade has resulted in very positive credit ratings and opinions from both globally recognized corporate credit ratings agencies, Moody's Investors Service ("Moody's) and S&P Global

Ratings (“S&P”). Both credit rating agencies awarded the City with the highest credit rating AAA, which is among the best municipal credit ratings in Canada.

	Credit Ratings	Outlook
Moody’s Investors Service	Aaa	Stable
S&P Global Ratings	AAA	Stable

Tax & Fee Competitiveness - Property taxes in recent years have seen a modest increase – ranging from 1.4% to 4.3% – in line with most other Metro Vancouver municipalities. Even when combining municipal taxes with utility fee increases, Vancouver continues to be in the mid-range among the municipalities in Metro Vancouver.

Public Amenity & Infrastructure - The City owns approximately \$25 billion of infrastructure and amenities, encompassing underground water and sewer infrastructure; roadways, walkways and bikeways; affordable housing; community facilities, parks and open spaces; public safety facilities and service yards. Having a network of well-maintained infrastructure and amenities is essential to our quality of life and helps create equity, support economic development, increase prosperity and create jobs. As Vancouver continues to grow, the City needs to make strategic, long-term infrastructure investments to enhance the sustainability and resilience of the city.

The 2019-22 Capital Plan outlines \$2.8 billion of strategic capital investments, comprised of \$2.2 billion City-led capital programs and \$0.6 billion in-kind contributions achieved through development. Approximately two-thirds of City-led capital programs are dedicated towards maintenance and renewal of aging assets, while the remaining one-third is dedicated towards adding or upgrading infrastructure and amenities to support growth.

As part of capital planning, a key consideration is to address the City’s growing portfolio of aging infrastructure and amenities in a financially sustainable and resilient manner. The infrastructure challenge is not unique to Vancouver. As cities across Canada continue to understand more about the needs and costs associated with infrastructure renewal, many have developed long-term asset management strategies with dedicated funding for infrastructure renewal. A number of municipalities, including Toronto, Winnipeg, Saskatoon, North Vancouver and New Westminster all have implemented an infrastructure levy, or some form of dedicated revenue, to address the growing deficit. For Vancouver, a gradual increase in funding, which began in 2019, is required for the next decade to support the multi-decade infrastructure renewal strategy.

Emerging needs (e.g. climate change adaptation, shoreline flood protection, seismic), evolving municipal mandate (e.g. housing, childcare), and the growing need for critical infrastructure renewal require strategic, long-term inter-government partnership and predictable long-term funding arrangements. Without support from senior governments, the City with its limited revenue sources will not be able to address these broad issues in a meaningful way. The City, in consultation with other Metro Vancouver municipalities, Union of BC Municipalities, and Federation of Canadian Municipalities, is actively engaging senior levels of government to pursue such opportunities to augment our capital program in a financially sustainable way.

Strategic Analysis

As a growing City with continued demands to increase service delivery, increased cost drivers, and increased needs for infrastructure and public amenities, pressure on the City's limited funding sources is a continuous challenge. Council has requested a financial review to provide them with a baseline of knowledge so any financial decisions made going forward can be informed ones; an understanding of what the current and projected financial capacity is of the City and what contingencies, risks, and assumptions have been considered in that determination; and help identify potential opportunities for efficiencies. Through the City's Long Term Financial Sustainability plan, significant analysis and action has been taken to understand the City's financial status and identify risks to the City's financial sustainability. With a new Council term, it is appropriate to have a 3rd party review the work to date and provide insights and perspectives on the City's financial status, its health metrics and fiscal challenges.

As well, staff recognize that a longer term view is needed to identify opportunities to build capacity in the organization to enable growth while maintaining financial sustainability. A 3rd party with access to best practices and benchmarks for municipalities can perform a review of the current financial capacity, look out over the next 10 year trends, and identify areas of focus for the City to address over the next 5 years.

Terms of Reference

The Terms of Reference for the 3rd party review would focus on the following phases:

A) Baseline Financial review:

- a. Review of Staff's financial sustainability and capacity analysis including financial health metrics and targets
- b. Provide 3rd party insights and perspectives and identify risk, opportunities, and feedback on key financial sustainability and capacity metrics
- c. Develop a baseline report to summarize for Council a baseline of knowledge of the City's current financial status and health and key financial challenges over the next 10 years to inform decision-making in the 2020 budget process

B) Building Capacity for Growth:

- a. Identify municipal, public and private sector best practices aligned to the City's baseline situation, identifying appropriate benchmarking comparators appropriate to the City of Vancouver context;
- b. Identify initiatives for a limited set of key impact areas that are sufficient in size and scope to achieve financial sustainability targets over the next 10 years considering estimated cost and service demand growth. Objectives to include:
 - i. Revenue opportunities where appropriate
 - ii. Opportunities for efficiencies and effectiveness
 - iii. Service delivery model enhancements
 - iv. Scope of services delivered

Timeframe:

- Phase A:

- o Short term focus building on existing staff information.
- o RFP will be issued in March, with work to begin in April
- o Report back by June to provide information to inform 2020 budget process

- Phase B:
 - o Initiatives would be developed based on a 10 year outlook, with a focus on:
 - Deliverables in the 3-5 year timeframe, and
 - Quick wins identified for the upcoming budget year;
 - o Report back by September 2019 to inform work plans for 2020 to address key initiative areas. Quick Wins to be incorporated into 2020 budget.

Budget:

Given the timeframe for report back to Council, it is anticipated this work would require a budget of approximately \$50 - 100,000, to be finalized following an RFP process. Funding for this work would be from prioritizing within the existing 2019 operating budget.

Future work and budget:

Following completion of Phase B, the City may choose to action the recommended initiatives. Staff and/or consulting work associated with those initiatives would require an additional budget outside of this ToR.

Financial Implications

The cost of the initial 2 phases of this 3rd party analysis is expected to be in the range of \$50,000 - \$100,000 subject to the completion of a RFP. Costs would be managed within the existing 2019 operating budget through prioritization of activities.

Following completion of Phase B, the City may choose to action the recommended initiatives. Staff and/or consulting work associated with those initiatives would require an additional budget outside of this ToR.

CONCLUSION

Council has requested a baseline review of the City's finances to provide a base of knowledge of the City's financial capacity. This baseline will provide Council with information to support decisions with a new term of council. Building on the prior work of staff to address the City's financial health and sustainability, staff recommend engaging a 3rd party to review staff's work and provide additional insights and perspectives on the City's finances for Council, as well as to provide their recommendations on initiatives the city can undertake, aligned with best practices, to manage the growth in demand for services and infrastructure while maintaining our financial sustainability and affordability of city fees and taxes.

* * * * *