



CITY OF VANCOUVER

ADMINISTRATIVE REPORT

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TO: Standing Committee on City Services and Budgets  
FROM: General Manager of Corporate Services/Director of Finance  
SUBJECT: City of Vancouver 2004 Annual Financial Report

**RECOMMENDATION**

*THAT Council receive for information the City of Vancouver Financial Statements for the year ended December 31, 2004.*

**COUNCIL POLICY**

The Director of Finance is required under Section 211 of the Vancouver Charter to advise Council on the financial position of the City. Section 231 requires the City's external auditors to report on the financial statements to Council by April 30 of the following year.

**PURPOSE**

The 2004 Financial Statements are presented to Council for information and to fulfil the legislative requirements of the Vancouver Charter.

## DISCUSSION

The discussion will focus on three primary areas as follows:

- I Major Financial Highlights
- II Major Reporting Change in 2004
- III Future Potential Impacts

### I Major Financial Highlights

The City of Vancouver continued to maintain a strong financial position in 2004:

1. Total assets of the City increased by \$647.3 million to \$8.1 billion.
  - Cash and temporary investments totalled \$622.6 million, an increase of \$149.1 million over the 2003 year end position of \$473.5 million. The increase was mainly due to the issuance of \$100 million City of Vancouver debenture in early 2004. The cash is amounts set aside for repayment of sinking fund debentures, reserves for specific purposes and to finance future capital projects approved in the capital plan.
  - Capital Assets increased by \$507.5 million or 7% to \$7.3 billion. An increase in the appraisal surplus on land accounted for \$420.8 million or 83% of the change as a result of new assessment values from BC Assessment. The balance of the increase was a net of new capital spending, disposals and depreciation.
2. The City ended the year with an operating surplus of \$1.2 million bringing the total Revenue Fund Balance to \$9.2 million. This represents only 1.3% of the 2004 total Revenue Fund expenditures.
3. Capital expenditures totalled \$127.2 million. Major expenditures included \$73.8 million spent for streets, sewer and water infrastructure improvements and \$18.4 million on vehicle and equipment purchases.
4. The City issued a \$100 million 10-year serial debenture to finance the capital expenditure program. The financing cost of 4.2% was the lowest financing rate in the City's 20 years history. At the time of issue, it was the largest municipal serial debenture issued in Canada.
5. Total debt outstanding at the year end was \$552.5 million. \$80.2 million or 14.5% of that was held internally by the Sinking Fund. The remaining \$472.3 million or 85.5% was City of Vancouver bonds sold in the financial market.
6. There was a continued improvement in tax collections in 2004 as the outstanding taxes dropped \$9.1 million from \$34.4 million at the end of 2003 to \$25.3 million at the end of 2004. One of the contributing factors is the increased number of taxpayers participating in the Tax Installment Prepayment Program (TIPP). More taxpayers are finding the Program to be a convenient way to budget and pay their property taxes and they also receive interest on their prepayments.

7. Reserves set aside for specific purposes totalled \$243.8 million, a \$38.5 million increase from 2003. Major increases included Community Amenities Contributions of \$11.4 million, Future Revenue Fund Budgets of \$13.2 million, Water and Sewer Utility Rate Stabilization of \$4.0 million and Solid Waste Capital of \$5.8 million. Major spending from reserves included \$14.1 million from Parking Sites Reserve for the Gastown Parkade redevelopment and \$16.9 million for vehicle and equipment purchases from the Plant and Equipment Reserve.
8. The liability for the solid waste landfill closure and post-closure costs was \$19.5 million at the year end, an increase of \$7.5 million in 2004 compared to \$1.2 million in 2003. The City is required to recognize a liability for future costs of closure and post-closure activities at the landfill site based on utilization of the total capacity of the landfill site. The unusual increase in the liability is attributable to a number of factors:
- 2004 utilization of landfill capacity \$1.6 million
  - Reduction in the discount rate used to calculate the present value of future costs reflecting low market interest rates \$3.8 million
  - Change in technology used to cover the landfill after closure \$2.1 million

Engineering Services is currently reviewing the technology to be used to cover the remaining portion of the landfill site. The financial impact of the review will be reflected in the 2005 Annual Financial Report.

Funding for the closure and post closure costs will be provided from the Solid Waste Capital reserve which accumulates net user fees from the landfill operations. At the year end the fund had a balance of \$57.9 million.

9. The Property Endowment Fund Balance dropped by \$2.8 million in 2004 compared to a decrease in 2003 of \$0.9 million. The decrease was mainly due to the fact that capital expenditures exceeded revenues in 2004.

## II Major Reporting Change in 2004

As mentioned in the 2003 Annual Financial Report, starting in 2004, Public Sector Accounting Board (PSAB) standards require the City to recognize a liability and report an expense all the benefits that will have to be provided by the City to employees when they are no longer providing active service (e.g. non-vested accumulated sick leave, long term disability income continuation, statutory holiday banks, full vacation at retirement).

In 2004, the City engaged an actuary to complete an actuarial evaluation of all the future payroll benefit obligations. The amounts reported in the financial statements are based on the actuarial evaluation.

Previously, the City reported a liability of \$25.3 million for deferred vacation and sick leave gratuity. The actuarial review estimated the liability for all future payroll benefit obligations at \$68.9 million.

Payments of future payroll benefit obligations are managed within the City's normal operating budget as they come due through a number of strategies including:

- Where operationally feasible, positions are not filled immediately, or
- Where minimum manpower requirements must be maintained, provision is made in annual budgets to cover vacancies with temporary help and/or overtime.

In addition, there is a total of \$14.3 million in reserve to reduce the potential impact of an anticipated increase in the number of retirements of staff over the next five to ten years. Cash flow estimates prepared by the actuary estimate \$27 million in payments of future payroll obligations may be required over the next five years.

### III Future Potential Impacts

#### 1. Sinking Fund

Historically, the Sinking Fund has had a surplus that has been transferred to the Revenue Fund as a source of funding for the operating budget. In 2004, \$0.5 million was transferred to the Revenue Fund compared to \$2.0 million in 2003. The decrease in the surplus is due to declining interest rates (average rate of return on the Sinking Fund was 4.76% in 2004 compared to 5.47% in 2003). If low interest rates continue, the annual amount of principal installments from the operating budget may have to be increased to meet future debt repayments.

#### 2. Self Funded Liability Insurance Reserve

The Self Funded Liability Insurance Reserve decreased slightly in 2004, continuing a trend of declining balances since 2001. A review of the adequacy of the reserve will be completed in 2005. If an increase in the reserve is necessary, it will impact future operating budgets.

#### 3. New Capital Asset Accounting Standards

The Public Sector Accounting Board is currently developing new accounting standards with regard to how capital assets should be reported by local governments. Based on preliminary information available to the City, it is likely that the new standards will require reporting of capital assets at "amortized historical cost". This will be a major departure from the City's current accounting policies regarding the reporting of land values.

The City currently values land at BC Assessment property assessment values as a proxy of the current market value. A change in accounting standards to historical cost would reduce the capital asset values reported on the City's financial statements.

Finalization of the accounting standards and their implementation is expected to take several years.

A more detailed analysis of the financial position and the results of operations are provided in the 'Report of the Director of Finance' in the 2004 Annual Financial Report distributed to Council under separate cover. A copy is also on file in the City Clerk's office.

The Financial Statements contained in the 2004 Annual Financial Report have been audited by the City's External Auditor KPMG LLP.

## **CONCLUSION**

The 2004 Annual Financial Report is presented to Council for the information as per the Vancouver Charter requirement. The financial position and results of operations of the City includes its Boards and City owned/controlled entities.

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