



ADMINISTRATIVE REPORT

Report Date: December 2, 2011
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Meeting Date: December 15, 2011

TO: Standing Committee on City Finance and Services
FROM: General Manager of Financial Services
SUBJECT: 2012 Operating Budget: Preliminary Estimates

RECOMMENDATIONS

THAT Council receive for INFORMATION the Preliminary Estimates for the 2012 Operating Budget as outlined in this report and summarized in Appendix 1.

COMMENTS OF THE CITY MANAGER AND GENERAL MANAGER OF FINANCIAL SERVICES

The Preliminary Report on the 2012 Operating Budget is the first opportunity that Council has to review the budget position and to begin the process of developing the 2012 Budget Plan.

Between now and the end of March 2012, under the direction of Council, staff will continue to refine estimates, undertake a public consultation process to seek input on the 2012 Operating Budget, and develop strategies to achieve Council's priorities within available resources. Council will receive the results of the consultation in time for the final deliberations on the 2012 Operating Budget in February / March, 2012.

The final Budget Plan will be presented at the end of March, 2012.

Summary of initial Budget Gap

The Preliminary Budget Plan shows Expenses totalling \$1,100 million against Revenues of \$1,048 million resulting in total budget pressures of \$52 million.

Summary of Budget Pressures:

- Revenues are projected to rise by 1%. Utility revenue is increasing (as discussed in separate reports), other revenues are projected to decrease due primarily to reduce parking meter and by-law fine revenue.
- Inflationary Increases (eg. rents and leases, insurance, fleet expenses, and salaries, including VPU contract, cross city step increases, and benefits pressures)
- Incremental costs of outside agencies eg, GVS&DD
- Incremental operating costs of new facilities and facilities that were operational for only part of 2011, such as the Hillcrest Community Centre and Library, Trout Lake Community Centre, the VPD Annex / 312 Main street Site Facilities
- Program pressures including:
 - Community planning processes
 - Homelessness and Housing strategy
 - Public safety priorities
 - Economic development
 - Emergency management priorities
 - Open data information priorities
 - Training obligations
- Debt - increased debt financing costs and capital from revenue

COUNCIL POLICY

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

Appendix 1 details Council policies pertaining to City revenues.

PURPOSE

The purpose of this report is to present to Council with an update on the 2012 budget process for information and refer the report to the budget consultation process. The final budget strategy along with the results of the consultation process will be presented to Council in late February or early March 2012, when Council will deliberate on the 2012 Operating Budget.

BACKGROUND

Budget Processes and Environment

Key Processes

There are four key reports in the 2012 Operating Budget process:

- **December 15, 2011:** The “Preliminary Estimates” report provides Council with the 2012 opening budget position, and advises Council about the next steps in the 2012 budget process.
- **February/March, 2012:** The “Interim Budget Plan & Public Consultation Results” report reviews the results of the 2012 Budget Consultation process, and summarizes the proposed budget strategies developed by the Corporate Management Team to finalize the estimates and bring the 2012 Operating Budget into balance.
- **End of March, 2012:** The “Final Budget Plan” report presents the final 2012 revenue and expenditure estimates approved by Council, and is accompanied by a resolution in which Council adopts the estimates for the year.
- **May 2012:** Council Report with 2012 Property Taxation Bylaws and Averaging Resolution

Economic conditions and other Budget Environment factors

The City of Vancouver is engaging in collective bargaining agreements directly with CUPE 15/1004, FFU, IBEW and the teamsters which have previously been managed by Metro Vancouver. All the above agreements will have expired by the end of 2011. The settlement of these contracts adds uncertainty and risk to the 2012 budget plan which may not be resolved by March 31, 2012 and could require a mid-year budget restatement.

Deteriorating and continued uncertainty in global economic condition adds considerable risk to the 2012 budget. High unemployment rates and inflation put significant pressure on the public reception to increased taxes, while also putting pressure on social and community services. Expectations from major economists are that the global uncertainty driven by the European debt crisis and the US economic difficulties will exist for some time.

The development market has shown signs of improvement throughout 2011. The 2012 estimates discussed in this report include an increase from the 2011 budget of approximately \$1.0 million for development, trade permit and inspection fees, reflecting increasing activity in this sector of the economy and the increased fees approved by Council. While the Vancouver area continues to benefit from a stable development environment, this unique position, particularly relative to the economic situation in the USA, may be at risk and presents a potential downside exposure in our revenue estimates.

Major Projects & Transformation Initiatives

In 2011, more than a dozen major projects were completed or underway at the City of Vancouver - projects that are already literally transforming the way the City does its business and delivers its services. As a group, the projects centralize and streamline many City operations, thereby achieving greater efficiencies, reduced duplication, improved oversight and accountability and overall cost savings.

The projects were the result of a 2009 Council directive, which was made as the world-wide economic crisis was beginning to have serious impacts even on Canadian municipal governments.

Council directed that the City conduct a comprehensive strategic review of its businesses, service delivery processes and practices to identify operational efficiencies that would produce the best possible use of the City's financial and staff resources.

The review resulted in identification of a number of potentially transformational projects that called for significant changes in the way City business was done, some of which involved considerable process re-design and functional restructuring. As well, hundreds of ideas and suggestions from staff were compiled into an Opportunity Log that departments continue to mine for innovative, relatively simple ways to deliver services more efficiently to both citizens and internal customers, while realizing significant potential cost savings.

Following the review, the Vancouver Services Review (VSR) was created to be the 'incubator' of the City's key change initiatives. VSR has provided program management for the selected projects, as well as standardized reporting and tracking of deliverables and outcomes.

With fully 70 percent of its staff drawn from internal secondments, the VSR's Program Management Office (PMO) and the individual project teams have proven to be a positive influence in reducing the 'silos' within business unit functional areas, while supporting new learnings that will ultimately expand and enhance employee competencies and enable the development of specialized areas of professional expertise that will be available to serve the entire organization.

Although the completed projects have been up and running for only a few months - and others are in various stages of development or implementation - the consolidation of City processes and operations has already removed much unnecessary duplication and made significant strides toward City-wide standardization of processes, policies and practices.

Less than two years since Council mandated the centralized services model, the City is already better positioned to be more responsive to the needs of our customers and partners; to leverage potential cost savings, such as from volume discounts, to benefit the entire organization; and to develop centres of specialized expertise available to serve and support all business units.

As well, in keeping with Council's priorities, environmental sustainability of City operations is a priority when designing shared services projects as we improve our processes and technology to reduce the need for paper, printing and unnecessary vehicle use.

There have been some implementation challenges and delays - particularly in the development and introduction of the very sophisticated technology platforms needed to support the centralized functions - and some of the cost savings will be quantifiable only after the projects have been fully operational for at least a year. Nevertheless, the consolidation of several labour-intensive services has already resulted in considerable savings in employee time, thereby increasing the capacity of the entire organization.

Project Summary: Outcomes to date

By Q4, 2011 the following shared services projects were already complete, or well underway.

1. **Bylaw Adjudication:** The City issues some 450,000 bylaw infractions every year, of which 98 percent are for parking violations. Although more than 75 percent of the tickets were voluntarily paid, the remaining 25 percent - some 100,000 tickets annually - were either ignored or disputed. However, these outstanding tickets could not be collected by the City without a provincial court order and that meant a wait of more than two years.

To simplify and speed up the collection process, the City introduced a bylaw adjudication model similar to that used by some 40 other British Columbia municipalities. Under the new model, unpaid parking tickets can be dealt with by a provincially-appointed adjudicator by phone, email, in person, or through an agent.

Launched in February of this year, over 250,000 tickets have been written under this new model and over 750 adjudication hearings have taken place. The voluntary payment rate has increased from 75% to 80%. The new bylaw adjudication system will reduce both the time and cost of lengthy court proceedings, and will be more convenient for citizens and will free up court time for more complex cases.

2. **Capital Program Review:** This review was initiated to fulfill the City of Vancouver's goals to manage its capital assets and investments in a manner that yields 'value for money', maximize staff resources and enhance transparency and corporate oversight.

As noted in the C.D. Howe Institute's *Backgrounder 145, Holding Canada's Cities to Account (November, 2011)*, "Today's capital spending has key implications for tomorrow's capital and operating spending." (Page 13)

To ensure capital assets are well-managed over the long term, the City has significantly changed its budgeting and planning process. In 2011, a new step was added to the process: the preparation of a 10-year Capital Strategic Outlook that will provide a longer-term strategic approach to capital spending. It will be a key reference point upon which the City will build its future multi-year consolidated capital and operating budgets. The Capital Program Review has resulted in a number of improvements, including a new classification system for capital assets by service category; clear distinction between investments in existing and new assets, a City-wide inventory and initial condition assessment of capital assets, coordinated public consultation between City and Park Board and improved consultation tools. The 2012-14 Capital plan is a comprehensive plan, including all funding sources for the Capital plan, and resulted in reduced borrowing and capital from revenue.

In the future, it is expected that the City's preparation of each three-year Capital Plan will be based on the 10-year Strategy. And both the 10-year Strategy and three-year Plan will be structured to be responsive to changing priorities and fluctuating external conditions. Furthermore, more rigorous oversight and reporting on capital projects is providing better management and financial results in our capital program.

4. **Electronic Pay Notices:** This project is fully operational with close to 95 percent of employees now receiving their pay statements electronically. Besides saving paper - and thereby supporting the 'Green City' policy - email delivery of the 210,000 pay statements the City issues annually is expected to eventually result in employee time savings and significantly reduced delivery costs.
5. **Facilities Shared Services:** With some 600 buildings covering 10 million square feet, the City has identified the need for a robust asset management program and the need to streamline areas of service duplication in City facilities in the delivery of such services as janitorial, building maintenance, security and utilities management. Consolidating such services will help protect these public assets and mitigate corporate risk, while enabling the City to realize efficiencies from standardizing and consolidating operations that occur at multiple sites.
6. **Financial Shared Services:** The first step was achieved in October of 2011 when all business unit finance teams became part of one City-wide finance team. With a goal to create one 'best-in-class' City-wide finance organization with shared goals & objectives consistent with those of the City, over the next 3 years, twelve finance functions will be reviewed and redesigned. The systems, tools and organization will be put in place to enhance service levels, improve financial information for decision making, reduce duplication and increase efficiency.
7. **Information Technology Shared Services:** Having completed the first two phases of the project which included consolidating the management structure and governance of IT assets, establishment of standards and policies and realignment of departments, and resulted in annual operating savings of \$1 million, Phase 3 will focus on replacing legacy systems, increased optimization of enterprise software systems like SAP and Hansen and priorities such as digital and web services, mobility, analytics and single sign-on.
8. **Permits and Licensing:** Early 2012, the City expects to award a contract for a major technological advance: a system that will enable online issuing and renewing of the highest volume, paper-heavy categories of simple licences and permits. Currently, some 39 systems are needed to do the work the single new system will do.

Fully 70 percent of the licenses and permits the City issues - more than 200,000 every year - fall into four categories: dog licenses, residential parking permits, business licenses and security alarm permitting. In 2012, when the technology is operational and these four categories can be dealt with entirely online, it will be a major e-business transformation for the City and the public. Also, it will enable City staff to focus their efforts on handling more complex permits. Furthermore, we will be working to significantly shorten the turnaround time in issuing permits through Development Services.
9. **Sanitation Services:** Two departments were providing sanitation services across the City. The VSR identified an opportunity to realize significant savings by merging and streamlining the routes and services. No longer is there unnecessary service overlap and route duplication, as the City's sanitation operations moved to a higher level of 'green'.

- 10. Attendance Management:** This initiative, with comprehensive supervisor and employee training components, is underway throughout the City. Absentee rates dipped somewhat when the program was first introduced and will be monitored closely as the program's 'reach' extends throughout all business units. While reducing absenteeism will not result in direct dollar savings, it will increase the capacity and efficiency of the operational areas affected.
- 11. Supply Chain Shared Services:** The City took a major step toward transforming its Supply Chain with the recent consolidation of its high volume transactional Accounts Payable and Purchasing functions and standardization of the process and technology. Over 11,000 invoices (over 10% of the annual number of invoices) have already been paid through the new centralized process. The organization is still transitioning and stabilizing new processes, and working through the inevitable backlogs that have built up through the transition, however, improved oversight and process efficiencies have already been realized. Another key element of the Supply Chain Shared Services project is the strategic procurement initiative which has realized significant operating and capital savings in 2011 through more city-wide leverage of spend and strategic vendor negotiations.
- 12. Web Redevelopment:** The City has undertaken a major redesign of its website. Targeted for Q1 2012, the launch of www.vancouver.ca, the redesigned site will have updated and improved functionality, enabling the City to deliver - and the public to access - more relevant and timely information and high quality services online, quickly and efficiently.

The site will be a strategic asset for all of Vancouver, where a wide variety of business and service transactions are conducted and where consultative and democratic processes can bring citizens together. It will be a convenient and online gathering place for the public and an effective citizen contact point.

Next Steps:

Other shared services projects are due to move from the initial scoping and planning to design or implementation phases in 2012. These include:

- Warehousing & Manufacturing
- Public Works

City Priorities

Key themes and principles applied during the current year budget process have been to ensure alignment of the budget with the City's Corporate Strategic Business Plans. Priorities identified and included as identified pressures for the 2012 budget to reflect key council priorities:

- Affordable Housing
- Public Safety (including Earthquake preparedness)
- Economic Development
- Greenest City Initiatives

DISCUSSION

1. Preliminary Budget Position

The following table summarizes the preliminary 2012 budget position, prior to consideration of expenditure changes or a property tax increase:

Table 1 - Summary of Preliminary 2012 Budget Estimates

	2011 Budget \$M * (Restated)	2012 Preliminary Estimates \$M
Revenues		
Taxation Revenue	623.3	625.3
General Revenue	204.3	201.0
Utility Fees	199.2	214.6
Transfers	10.7	7.2
Total Revenues	1,037.5	1,048.1
Expenditures		
Departmental Expenditures	723.9	767.9
Utility Expenditures	228.4	245.1
Capital Program & Debt	85.2	86.8
Total Expenditures	1,037.5	1,099.8
Net Budget Position	(0.0)	51.7 (5% of total budget)

Note: Some Departmental Expenditures are reflected net of recoveries and some revenues.

* 2011 Budget Restated for mid-year VPD settlement and Development & Permit revenue and changes

2. Budget Build Process to Date

Staff began preparing the 2012 Operating Budget estimates in late summer of 2011 based on approved levels of service, and key inflationary guidelines.

Budgets were built based on detailed salary calculations for all approved positions, and a review of key non-salary accounts such as utilities, rents and leases, fleet and insurance. Finance staff conducted detailed administrative reviews of the revenue estimates.

At the same time, departments were asked to identify any significant budget pressures or unfunded programs which are considered to be of high priority and closely aligned to core services, Council priorities and the Corporate Strategic Business Plan. The preliminary budget plan includes these pressures and staff are actively working to identify areas of opportunity for ongoing business transformation, aggressive management of discretionary

spending overrun, and other opportunities for savings to bring projections into alignment with fiscal capacity.

3. Vancouver Services Review (VSR)

The 2011 budget reflected a savings target of \$10.2M from projects to be initiated through the Vancouver Services Review. As of the 3rd quarter of 2011, the VSR managed programs have contributed \$7 million in annualized operating savings and over \$10 million in capital savings. Departments have also initiated a number of projects within their areas to deliver to the savings target. In 2012, several initiatives will be operational, including Supply Chain, while others such as Facilities and Financial shared services will be in progress. 2012 incremental savings related to the VSR transformation opportunities will be considered in developing the final 2012 budget.

4. Implications of the Municipal Tax Levy Redistribution (“the shift”) in 2012

Along with the change in the total municipal tax levy from year to year determined by Council, property taxes will also be impacted by the continuation of the 1% redistribution of the municipal tax levy from non-residential to residential properties as recommended by the Property Tax Policy Review Commission and adopted by Council in March 2008 (Appendix 1 highlights the policy changes approved by Council). As 2012 will be the final year of this 5-year policy change, based on the impact of the prior 4 years, the remainder of the shift is expected to be approximately .25% rather than 1% in 2012.

5. Public Consultation

The 2012 budget consultation will be combined with a number of public engagement objectives and will involve a number of different program elements.

As in previous years, the City will conduct a statistically relevant phone survey (500+ responses) through a professional firm. The survey will be conducted with two respondent groups: the general public and businesses. Repeating the survey year over year allows us to measure changes in public and stakeholder opinion about operating budget priorities against benchmark data from previous years and monitor for changes.

Our ongoing public education program includes development of a Budget Basics public information booklet that provides an overview of the various parts of the budget and an explanation of where and how taxes are spent.

For those who prefer to be able to ask questions in person, a public open house with Budget Basics presentation and a Q&A session will be held at City Hall.

For those who are short of time, and for younger audiences, we will provide opportunities for online engagement, including a central web hub at talkvancouver.com for discovering more information about the draft operating budget and the chance to use a budget calculator tool that allows participants to make funding allocation choices and understand the associated impacts to operations and tax rates.

6. Completing the Budget Cycle

The following outlines the next steps in the budget process:

Public Consultation	January/February 2012
Interim Budget Plan & Public Consultation Results	February / March 2012
Final Budget Plan*	End of March 2012
Tax Reports	May 2012

*The final roll from BC Assessment will not be available prior to the Final Budget Estimates. Therefore there may be changes to the 2012 budget once the final roll is received and tax rates are set in the spring of 2012.

CONCLUSION

The preliminary estimates of the 2012 Operating Budget identified an initial gap of \$51.7 million. The Corporate Management Team will continue to look for opportunities to bring the budget into balance over the coming months. As well, staff will be initiating a public consultation process to provide input to the budget tradeoffs necessary to bring the budget into balance.

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Appendix 1 - Preliminary Budget Estimates

Council Policies Pertaining to City Revenues:

Parking Meter Policy:

Council policy is to provide parking meters to improve turnover of street parking for short term use, with the support of local businesses. Rates are general set at levels above adjacent off-street parking with consideration of local market demand.

Charges and Fee Policy:

It is Council policy that fees and charges for City services are established on a cost recovery basis and at market levels in circumstances where they are provided in competition with the private sector.

Property Tax Policy:

Since 1983, it has been Council policy to distribute the general purpose tax levy through a "fixed tax share" approach under which the share of the levy collected from each property class remains constant over time, subject to adjustments arising from non-market changes on the *Assessment Roll* (e.g. transfer of properties among classes, new construction within each class) and/or Council decisions to adjust the share for each class. This approach ensures that Council maintains control over the distribution of the levy rather than having differential market value changes influence how the levy is distributed among property classes.

In April 2005, Council reaffirmed the policy of distributing the general purpose tax levy through the "fixed tax share" approach.

In March 2008, Council adopted the recommendations of the PTPRC that the "fixed tax share" approach be continued and that a target distribution of 52% residential and 48% non-residential be achieved (based on the *2007 Assessment Roll*) by shifting \$23.8 million proportionately from Classes 2, 4, 5 and 6 to Classes 1, 8 and 9. In order to avoid the significant impact of the shift in one year, the PTPRC recommended that the shift be implemented at a rate of one percent of the overall tax levy per year until the \$23.8 million target is achieved.

By the end of 2011, \$22.2 million of the \$23.8 million target will have been redistributed with a balance of \$1.6 million of the original budget (approximately 0.3% of the annual tax levy) remaining for 2012

Council Priorities Pertaining to City Revenues (Continued)

Land Assessment Averaging:

In 1993, Council implemented three-year land assessment averaging for the purpose of calculating annual property taxes for Residential (Class 1) and Business & Other (Class 6) properties; and in 2007, Council extended the same to Light Industrial (Class 5) properties.

In 2008, Council instructed staff to seek an amendment to the *Vancouver Charter* to allow the City to use up to five years of land assessments in the land assessment averaging formula for property tax calculations. The request was submitted to the provincial government but to-date, the amendment has not been granted. If and when the amendment is enacted, staff will report back with an analysis that compares the use of up to five years of land assessments to the use of three years of land assessments in the land averaging formula with respect to their respective efficacy in mitigating year-over-year volatility in property taxes for individual properties.

Property Tax Exemptions:

It has been Council policy to rely on the statutory property tax exemptions available under Section 396(1) of the *Vancouver Charter* and limit the use of permissive property tax exemptions to heritage properties only (396A).

The following summarizes the major revenue and expenditure areas in the Preliminary Estimates:

REVENUE ESTIMATES

The revenue side of the Operating Budget is comprised of four components: Taxation Revenues, General Revenues, Transfers from Reserves/Funds, and Utility Revenues. The Preliminary estimates include revenues of \$1,048.1 million in 2012, up 1.0% from 2011. This revenue position is prior to consideration of a Property tax increase.

Taxation Revenues

Taxation revenues are those derived from property taxation sources including the general purpose tax levy, receipts-in-lieu of taxes (revenues from properties not subject to property taxation), as well as penalty and interest charges for outstanding and arrears taxes. The preliminary estimates established these revenues at \$625.3 million.

i) The general purpose tax levy has been set at \$583.5 million prior to consideration of a tax increase. This includes a \$2.0 million increase in tax revenue from new construction.

ii) The provision for tax adjustments is set at \$3.0 million, based on prior years experience in assessment appeals before the Assessment Review Panel, and reflecting no change from the 2011 budget.

iii) Receipts-in-lieu of taxes totals \$37.7 million, no change from the 2011 budget level.

iv) Penalties and Interest have been set at \$4.4 million, no change from the 2011 budget level.

General Revenues

A variety of general revenue sources support the expenditure budget. Overall, General Revenues are estimated to decrease to \$201.0 million or \$3.2 million under the 2011 budget level of \$204.2 million, a 1.6% decrease. These revenues are summarized below:

i) Provincial Revenue Sharing is comprised of two components:

Provincial Traffic Fine Revenue - The Provincial traffic fine revenue program is a Provincial initiative to transfer 100% of traffic fine revenue to municipalities. This traffic fine revenue is provided to municipalities in order to defray the cost of local police enforcement.

The Preliminary estimates include \$14.5 million in Provincial Traffic Fine Revenue, reflecting no change from the 2011 budget.

Gaming Revenue - The Preliminary estimates include \$7.2 million in gaming revenue, no change from the 2011 budget level, reflecting 2011 experience.

ii) Investment Income is dependent on the cash balances the City has to invest and on market interest rates. Interest rates are projected to remain low in 2012, after reducing dramatically in 2008, with preliminary estimates of short term interest earnings of \$11.8 million, reflecting no change from the 2011 budget.

iii) On-Street Parking revenues are estimated to decrease by approximately \$2.7 million to reflect prior years experience.

iv) The development market has shown signs of improvement throughout 2011, with Development and Trade Permit fees projected to exceed budget by year-end.

The 2012 estimates discussed in this report include an increase from the 2011 budget of approximately \$1.0 million for development, trade permit and inspection fees, reflecting increasing activity in this sector of the economy and the increased fees already approved by Council in fall of 2011.

v) License Fees are estimated to increased by \$0.3 million based on increased fees already approved by Council in fall of 2011.

vi) Park Board Revenues are estimated to decreased by \$0.7 million, based upon 2011 experience.

vii) Civic Theatres Revenues are anticipated to decrease by \$0.3 million, based upon anticipated decrease in the number of bookings and upon 2011 experience.

viii) Municipal By-Law revenue is anticipated to decrease by \$0.8 million due primarily to reductions in parking by-law fines and grow-ops recovery.

Transfers from Reserves

The transfer from other funds and reserves includes:

- i) Annual dividend from the Property Endowment Fund remains unchanged at \$7.0 million.
- ii) Transfer from the Art Gallery Reserve remains unchanged at \$0.16 million; which partially offsets the Art Gallery operating grant.

EXPENDITURE ESTIMATES

The expenditure side of the budget is comprised of four components: Departmental Expenditures, Utility Expenditures; Capital Program; and Transfers to Other Funds/Reserves. The estimates include projected expenditures of approximately \$1,099.8 million in 2012, an increase of 6.0% from the 2011 final budget.

Departmental Expenditures

Departmental expenditures are those related to the programs and services provided by the City. The estimated program based pressures are driven by a number of factors, including:

- i) Inflationary increases and Program priorities
For 2012, departmental budgets reflect increased fixed costs for insurance, utilities (hydro, natural gas and telephone), rents, leases and fleet. Salary and Benefit costs are a significant budget driver, as employment costs make up approximately 60%-70% of the City operating expenditures. Estimates include known compensation pressures including step increases and benefits cost pressures across the city, and the VPU collective agreement settlement,

Vancouver Police Board submitted a preliminary operating budget estimate including collective agreement impacts and pressures totaling \$11 million over the current 2011 budget. An additional pressure, not included in the Police Board submission, is the election commitment for 30 new metro officers (trained and equipped).

Other pressures have been identified as priorities. These include areas such as:

- Community planning processes
- Homelessness and Housing Strategy
- Public safety priorities
- Economic development initiatives
- Emergency management priorities
- Open data information priorities
- New Training obligations

- ii) New Facilities Operating Costs

The 2012 preliminary estimates include \$2.9 million for the ongoing operating cost, maintenance and support of new capital projects (buildings and parks infrastructure) approved by the Park Board and Council. For 2012, this includes funding for the following:

- Hillcrest Branch Library
- Trout Lake Community Centre
- VPD Annex - 312 Main Street
- Park Board facilities

Charges from Outside Agencies

The City's Operating Budget must also fund costs imposed by outside organizations over which Council has little or no direct control. The following organizations are anticipated to increase their requisitions to the City in 2012:

- GVS&DD levies the City for its share of regional sewerage costs. In 2012, the GVS&DD levy is estimated to increase 2.1% over 2011. In 2012, these costs are estimated to increase by \$1.0 million. These costs are recovered 63% from user fees and 37% from property taxes. The impact on the tax supported operating budget of this increase is \$0.4 million over 2010.

The requisitions from E-Comm for radio and dispatch services, and the Vancouver Economic Development Commission (the "VEDC"), remain unchanged from the 2011 level.

It has been Council practice to pass these expenditure increases from outside agencies through to taxpayers as a tax increase rather than providing offsetting reductions in City services/programs.

Capital Program

The City's capital program is planned over a three-year horizon with financing provided by a combination of Debentures, Capital from Revenue, Development Cost Levies/Community Amenity Contributions, and external funding. The costs of this program are carried in the Operating Budget through payments of principal and interest on Debentures with funding provided from utility user fees and the property tax levy.

In 2012, the Operating Budget includes debt charges related to all outstanding debentures and from an anticipated \$120 million debenture issue for general and utility.

The 2012-2014 Capital Plan anticipates Capital from Revenue totaling \$68 million, of which \$24.7 million has been allocated in the 2012 Operating Budget.

Transfers to Reserves/Funds

There are a number of transfers included on the expenditure side of the operating budget, including the Information Technology Long Term Financing Plan, Civic Election and the Liability Insurance Reserve.

Utility Expenditures

The City has established four utilities that are operated on a user-pay basis. The water, solid waste and neighbourhood energy utilities are fully funded from user fees so that increased expenditures are matched by increased user fees with no impact on property taxes. The sewer utility is funded approximately 63% from user fees and 37% from property taxes. In December 2011, Council will be asked to approve the budgets and rates for 2012 for these utilities.

a) Water Utility

Water utility costs are driven by increases in the cost of water purchased from the Regional District and by debt charges. The Regional unit cost of water is expected to increase by approximately 5.9% in 2012 as a result of capital expenditures related to the water filtration project at the Seymour and Capilano Reservoirs. The City's water utility debt cost is estimated at \$19.66 million, a 2.1% increase over 2011. Other City costs are not expected to change significantly. As a result of these factors, the Water Utility rates are estimated to increase by approximately 9.9% in 2012. For single family dwellings, the annual flat rate for water is anticipated to increase from \$467 to \$513. A report with final estimates and rates will be presented to Council on December 13, 2011.

b) Solid Waste Utility

Solid Waste Utility Fees are made up of three components: garbage collection fees, recyclables collection fees, and yard trimmings collection fees. Cost increases anticipated in 2012 are attributed primarily to an increase in wage rates and increased costs related to replacement of recycling trucks. A combined fee increase of approximately \$10 or 4.4% per homeowner will be needed to absorb the 2012 increase in costs. A report with final estimates and rates will be presented to Council on December 13, 2011.

Future new program cost increases will be necessary for Vancouver to implement aggressive new waste diversion and management actions anticipated under the new Regional Solid Waste Management Plan. The specifics of these programs are uncertain at this time. Staff will report back to Council as the details become known.

c) Sewer Utility

There are two main drivers of costs in the Sewer Utility, the Greater Vancouver Sewerage and Drainage District (GVS&DD) levy, and debt charges. In 2012, GVS&DD levy is estimated to increase 2.1% over 2011. The Sewer Utility debt costs are estimated to increase by 10.3%. As a result of these factors, it is estimated that the sewer user rates will increase by approximately 9.9%. For single family dwellings, the annual flat rate for water is anticipated to increase from \$248 to \$273. A report with final estimates and rates will be presented to Council on December 13, 2011.

D) Neighbourhood Energy Utility

The NEU became fully operational in January of 2010, delivering energy from its sewage heat recovery system to the SEFC. The rates are comprised of two elements, an energy use charge based on amount of energy consumed in megawatt-hours and a capacity levy based on floor

area measured in square meters. In 2010, rates were established using one rate class for all residential, commercial and mixed-use buildings within the SEFC neighbourhood. In July of 2010, Council approved the addition of two new customer rate classes, one for residential and mixed use outside SEFC and one for non-residential both inside and outside SEFC. The NEU rates are established based on a levelized rate approach, designed to under-recover full costs in the early years of operation and build rates gradually over time using an Annual Levelized Rate Escalation factor (initially set at 1.22% over inflation). This factor may be adjusted over time based on updated forecasts of revenues and expenses. Any proposed rate adjustments will be reviewed by the NEU Expert Rate Review Panel (established by Council in July 2010) to ensure they are in keeping with Council's approved rate setting principles and that they provide a fair price for service while ensuring the NEU is financially self sustaining. A report with recommendations for rate adjustments for 2012 will be presented to Council on December 13, 2011.