



## ADMINISTRATIVE REPORT

Report Date: December 10, 2014  
Contact: Neal Stratton  
Contact No.: 604.363.7138  
RTS No.: 10550  
VanRIMS No.: 08-2000-20  
Meeting Date: December 17, 2014

TO: Standing Committee on City Finance and Services  
FROM: Director of Finance  
SUBJECT: 2015 Budget Outlook

### **RECOMMENDATION**

THAT Council receive for information, the 2015 Budget Outlook as outlined in Appendix 1.

### **COMMENTS OF THE CITY MANAGER AND DIRECTOR OF FINANCE**

The Budget Outlook provides the context and factors that will influence the creation of the 2015 operating and capital budget to be presented to Council in March 2015. The Budget Outlook also describes the intended approach to budgeting and its anticipated direction, all of which will be reviewed by Council and the public prior to Council passing the final budget.

Between now and the beginning of March 2015, under the direction of Council, staff will continue to refine estimates, undertake a public engagement process to seek input on the 2015 Operating and Capital Budgets, and develop strategies to achieve Council's priorities within available resources.

The final Budget will be presented to Council in March 2015.

### **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<sup>th</sup> of 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.

## PURPOSE

The purpose of this report is to present the 2015 Budget Outlook to Council. The final budget strategy along with the results of the public engagement process will be presented to Council in early March 2015, when Council will deliberate on the 2015 Operating and Capital Budget.

## BACKGROUND

On March 5th, 2012, Vancouver City Council approved the 2012 operating budget. At that meeting, Council directed Staff to:

*“...Report back, in advance of or concurrent to the initiation of the 2013 Budget process, on best practices in Canadian cities for budget process in relation to both robust public consultation and ensuring council members are adequately equipped to discharge their fiduciary responsibilities.”*

Separately, the Vancouver Services Review (VSR) program identified the Budget process as one of the Financial Shared Services’ transformation initiatives, recognizing that the current budget process was both time intensive and limited in its strategic value. Council’s request to report on budget best practices provided an opportunity to accelerate the Budget transformation initiative to meet Council’s request and the VSR project goals.

In July 2012, staff provided Council with the following findings of the budget review:

### Leading Practices

Staff engaged PricewaterhouseCoopers (PwC) public sector practice to identify leading practices in public sector budgeting. PwC is a global professional services firm with more than 169,000 people in 158 countries.

PwC examined over 100 leading practice documents and material from the following sources:

- PwC best practice database
- PwC subject matter advisors
- Canadian municipal, provincial and federal governments
- American municipal, state and federal governments
- Public sector organizations
- Private sector organizations
- Third-party best practice documentation

The work of PwC established that, while we are not yet leaders in our budget practices, we are primed to move ahead quickly given the work we have done in our VSR program and improvements in our financial reporting and rigour. A summary of leading budget practices identified by PwC included:

1. Linking Budget to Strategy
  - Performance-based budget decisions informed by service plans aligned to the City’s strategic goals

- Use of a financial framework which outlines the City's financial health, sets financial goals and guides budget allocation in advance of the budget process
2. Enhancing Public Consultation
    - Public consultation in advance of the budget process every three years versus annual
    - Consultation informs strategic goals and goals inform the budget
  3. Providing relevant Budget Information
    - Performance metrics aligned to the City's strategic goals
    - Align operating and capital budget information
    - Budget for all City funds and entities
    - Budget and financial statements aligned in an understandable way
    - User-friendly information tailored to the needs of each audience (Council, Management, Public)
  4. Streamlining the Budget Process
    - Minimize budget versions and reviews
    - Integrate operating and capital budget processes
    - Integrate the budget process with the other corporate planning and performance management processes

## STRATEGIC ANALYSIS

### Budget Process

Through the development of the 2013 and 2014 Operating and Capital Budgets, staff have made significant progress toward these best practices, incorporating most of these practices into the City's budget process. With the 2015 budget, the final few items will be addressed, including:

Enhancing Public Consultation - With the development of the 2015-18 Capital Plan, the public consultation was repositioned to solicit feedback on the longer term view of the public that inform council in determining long term strategies. The 3 primary areas of importance identified during that consultation were Affordable Housing, Transit, and Childcare. The annual engagement is focused primarily on a shorter term satisfaction survey and feedback related to the annual budget.

Providing relevant budget information - While primarily focused on the Operating and Capital budgets which represent the majority of the City's spending, the 2015 budget will include a summary of all relevant funds and entities, and will be the first comprehensive budget for the City of Vancouver. As well, significant work is underway to further align the City's budget and financial statements to increase the understanding of the City's financial position. With the 2015 public consultation, more information is available on the web making it easier to navigate and understand the budget.

With these final few changes in 2015, the City of Vancouver will have adopted the best practices in providing comprehensive and understandable budget information.

The timeline for the 2015 Operating and Capital Budget process is follows:

- **November 28, 2014:** Public Consultation launch.
- **February 17, 2015:** The 2015 Budget Report is available to the public for review. The 2015 Budget Report provides a recommendation to Council for the 2015 Operating and Capital Budgets, and summarizes the results of the Public engagement and the proposed budget strategies developed by the Corporate Management Team to finalize the estimates and bring the 2015 Budget into balance.
- **March 2015:** Council meeting for final voting to approve the 2014 Budget.
- **May 2015:** Council Report with 2013 Property Taxation Bylaws and Averaging Resolution.

## CONCLUSION

The 2015 Budget Outlook, attached as Appendix 1, builds on the changes initiated with the 2013 and 2014 budget process, incorporating the budget best practices identified by PWC. The Budget Outlook identifies the potential revenue and expenditure changes for the 2015 year. Over the next 2 months, the public engagement activities will give citizens an opportunity to provide feedback on their priorities and concerns. As well, the Corporate Management Team will continue to look for opportunities to bring the budget into balance, and prioritize funding for capital projects and ongoing operations. The 2015 Operating and Capital Budget will be presented to Council in March, 2015.

\* \* \* \* \*

# 2015

# BUDGET OUTLOOK

## Looking to 2015

This 2015 Budget Outlook provides the context and factors that will influence the 2015 Budget. It describes the City's current budget and the anticipated direction for the 2015 Budget, all of which will be reviewed by Council and the public prior to final Council approval of the 2015 Budget in March 2015.

Vancouver is one of the world's most beautiful, livable and diverse cities, attracting people from around the world. While its population is just over 600,000, it's a global, cultural and economic centre in a larger region of 2.5 million people, many of whom come here every day to visit, work and play. Such a great city does not happen by accident. It happens through careful planning and investment, and by continuing to ensure Vancouver's residents can enjoy and rely on the services our City provides.

Through hard work and focused effort, property tax increases have been kept in line with inflation in recent years, while achieving priorities and sustaining core services. In 2014, the City's property tax increase was one of the lowest in the region. However, this has been a challenge: each year, the base costs of providing the same services are rising faster than inflation.

The full cost increases have not been passed on to property owners as the City has continued to transform its services to provide more value for money, and

### City Services

- Public - 71% somewhat or very satisfied or neutral
- Businesses - 84% somewhat or very satisfied or neutral

redirect existing staff and funds to our highest priorities while sustaining core services. Through these changes, the City has maintained high satisfaction ratings from both residents and businesses.

**The trend of costs growing faster than inflation is expected to continue over the next four years and beyond. As a result, the City will be challenged to continue to keep property tax increases in line with inflation.**

In particular, the trend of above-inflation wage increases for fire rescue and police services is a significant driver of the preliminary gap, and a major challenge for the City and many municipalities.

Continued transformation of services will be needed to deliver the same or improved service levels at cost increases that do not exceed inflation. Opportunities still exist, particularly by leveraging technology and updating service delivery models to the public and within City departments. However, these changes require investment, take time and will impact the organization and the public.

### City of Vancouver's Mission:

To create a great city of communities that cares about its people, its environment, and the opportunities to live, work and prosper.

Without these changes, tax increases will trend above inflation over the next four years.

Currently the gap between estimated revenues and expenditures for 2015 is approximately \$26-\$30 million, assuming a 2% tax increase aligned with forecasted inflation. Without looking for ways to reduce expenditures further or increase non-property tax revenues, this would represent a 6-7% tax increase. This revenue/expense gap will need to be brought into balance by the time the budget is presented to Council in March.

## CONTENTS

Looking to 2015 .....	1
Economic Context .....	2
Fiscally Responsible .....	3
Long-term Priorities .....	5
Spending to Support Valued Services .....	6
2014 Budget Overview .....	9
Looking to the 2015 Budget .....	11

# Economic Context

A healthy economy ensures viable businesses and fair-paying jobs, and makes it possible for people to afford to live in Vancouver, and for businesses to operate.

In developing the City's long-term financial and capital plan (which informs the annual budget), we must consider local, regional and global economic factors, which are in a constant state of change. Understanding the necessary economic context allows us to plan for known risks and to focus on long-term financial sustainability and resilience.

## Local Context

Vancouver's economy is projected to remain relatively stable over the next four years. However, our local economy is highly sensitive to the health of the BC, Canadian and major economies in the US, China and Europe.

Vancouver's (Census Metropolitan Area) economic growth, as measured by Gross Domestic Product, is projected to be stable over the next four years (2.7% in 2013, 3.2% in 2014, 3.0% to 3.2% between 2015 and 2017, and 2.9% in 2018).<sup>1</sup> Economic growth is critical to creating and sustaining good-paying jobs for residents and sustaining profitable businesses, all of whom pay – either directly or indirectly – property taxes and utility fees to the City. Inflation is projected to be 1.4% in 2014 and 2.1% for 2015 to 2018.

The job market is expected to improve, with a falling unemployment rate from 6.7% in 2013 to 5.6% in 2014, and to 4.9% by 2018.<sup>1</sup> Greater employment means that residents and businesses are better off, and that people can more easily pay for housing and services. It's expected that Vancouver's population will grow between 1.5% and 1.7% annually over the next four years (1.4% in 2013, 1.5% in 2014, 1.6% in 2015 and 2016, and 1.7% in 2017 and 2018).<sup>1</sup> This population growth rate ensures a vibrant city and a growing property tax base without growing too much too fast. Office vacancies in the city of Vancouver are among the lowest in the region, and the number of new businesses is growing.

Metro Vancouver (Census Metropolitan Area) housing starts fell 2% in 2013 to 18,700 and are expected to be relatively stable between 2014 and 2018 (18,300 in 2014, 18,400 in 2015, 17,400 in 2016, 18,300 in 2017 and growing to 19,100

1 - Conference Board of Canada: Metropolitan Outlook, Autumn, 2014

in 2018).<sup>1</sup> The slight slowdown in the new housing market is expected to be compensated by the steady non-residential construction activity. For the City of Vancouver, 2013 was a record year as housing starts reached 6,071. In 2014, total housing starts through October reached 3,567, which is closer to the average historical level. Development-related operating revenues account for 4% of overall operating revenues on an annual basis.

Even with the anticipated slowdown in the housing market, affordability remains a concern for the foreseeable future. As well, household after-tax income has not kept pace with inflation during the past five years, and discretionary household income will continue to be under pressure. Furthermore, continued fiscal constraints at senior levels of government will add pressure on local governments to provide additional services to taxpayers.

A key measure of the economy is Gross Domestic Product (GDP). Generally, growth in GDP leads to more profitable companies, more jobs and higher-paying wages. Vancouver is projected to have one of the highest GDP growth rates among major Canadian municipalities over the next four years.

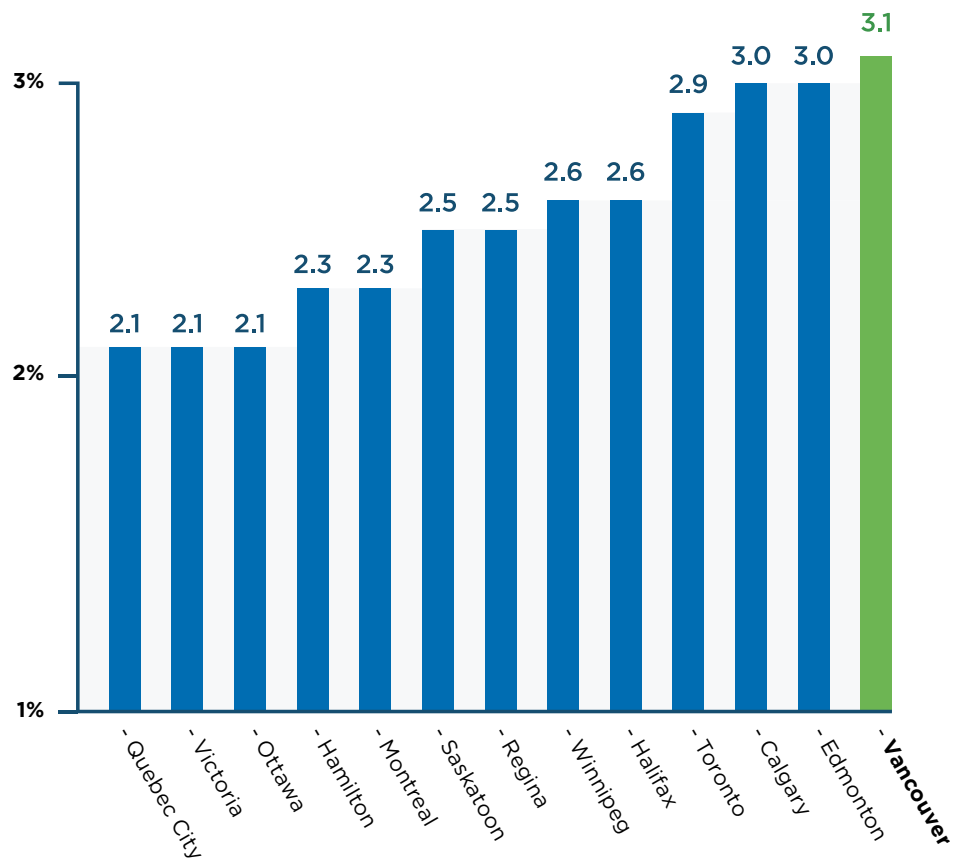
## Regional / National Context

Canada's economy has had real GDP growth of only 1.7% in 2012 and 2.0% in 2013. Near-term economic performance is expected to remain subdued with real GDP growth for 2014 forecasted to remain at 2.0%. This is due to a number of factors: a harsh winter at the start of the year, lackluster business investments, continued fiscal restraint at all levels of government, and weak employment creation and household income growth.

Economic growth is forecasted to improve to 2.7% in 2015 as solid growth in the US economy would help stimulate business investment and hiring and boost exports. Economic growth is further projected to stabilize at 2.3% in 2016 and 2017, and come down to 2.1% in 2018.<sup>1</sup> Falling oil price in recent months, if continued, could have an impact on Canada's economic outlook, but such impact could be offset by the robust US economic growth and higher consumer discretionary spending.

In the reality of a weaker Canadian dollar and a stronger US economy, overall provincial economic growth is forecast to be 2.4% in 2014, improve to 2.9% in 2015, stabilize at 2.7% in 2016 and 2017, and

PROJECTED REAL GDP GROWTH, 2015-2018



come down to 2.6% in 2018. Employment growth, however, is expected to outpace that of the labour force, and reduce the unemployment rate gradually from 6.6% in 2013 to 5.1% in 2018. With solid growth in employment and wage gains, household disposable income in BC is expected to increase 4.7% in 2014 and 4.6% in 2015, which will further support the retail and housing markets over the next few years.

BC was one of only two provinces that managed to balance their budget in 2013, but there will be continued fiscal restraint by the provincial government. The main economic risk over the next few years is related to the liquefied natural gas industry. If investments do not proceed as expected, provincial economic growth will be lower than forecast.

## Global Context

Vancouver's economy is closely linked to the global economy. For instance, if global companies experience economic challenges, they are less likely to buy BC's key exports, such as forest products.

Despite some improvement observed in the first half of 2014, the global economy remains uncertain for the next few years in light of the recent elevated geopolitical risks in Russia, Ukraine and the Middle East, and the mixed economic performance with both advanced and emerging economies in Europe and Asia.

The United States economy is continuing to improve in the second half of 2014, with moderate employment growth, a slow but gradual recovering housing market, and accelerated business capital investments and consumer spending.

Emerging from recession in the second half of 2013, the European Union's economy has since stalled in 2014. While Germany and the United Kingdom have consistently been leading in growth, both have shown signs of slowing down in recent months. Economic recovery for the rest of the Eurozone has not been encouraging as unemployment remains historically high and the risk of disinflation has elevated in recent months, while progress on sovereign debt and structural economic reform has been slow.

After slowing for two years, China's economy began to stabilize in 2013; however, growth has since stalled in 2014. Annual GDP growth is expected to be around 7%, which is below the original target of 7.5% and far lower than the double-digit growth China experienced over the last decade as its government continues to focus on economic and social reform.

## Did you know...

Canadian cities receive 8% of total tax revenues to all levels of government, yet are responsible for 60% of the country's infrastructure?

## Fiscally Responsible

Vancouver, like other Canadian cities, offers a broad range of services but has limited revenue sources. By legislation, the City is prohibited from running a deficit in its operating budget, or using debt to finance day-to-day operations. The City uses prudent fiscal stewardship and careful financial planning to balance the budget each year.

The City's budget is built with a long-term view in mind. This ensures long-term priorities are pursued in a financially sustainable and resilient manner and considering external economic conditions that could impact citizens and businesses. The City has adopted Financial Sustainability Guiding Principles to guide the development of our service plans, medium-to long-term financial and capital plans, and annual budgets.

## Financial Health Indicators

For long-term financial planning purposes, the City tracks a number of metrics to provide an indication of its financial health and long-term borrowing capacity. These inform the budget and capital planning processes. In developing the 2015-2018 Capital Plan, a key constraining factor is the impact on the operating budget and property tax increase arising from debt servicing, future operating costs and asset lifecycle costs. Our goal is to minimize the year-over-year increase in debt servicing, stabilize the debt level and decrease the debt per capita over the long term. In this way, our capital program does not drive significant operating budget increase, thereby maintaining our property tax and user fees at affordable levels.

### Keep Debt at a Manageable Level

Like other major Canadian cities and senior levels of government, the City uses debt in its mix of payment methods to fund capital investments. This allows payment to be made over a longer timeframe to align with the useful life of the underlying capital assets, and ensures that more residents and businesses benefit from them.

## Financial Sustainability Guiding Principles

These principles guide the development of our service plans, annual budgets and medium-term to long-term financial and capital plans.

### Fiscal Prudence

- Live within our means
- Consider long-term implications in all decisions
- Maintain a stable and predictable revenue stream
- Keep debt at a manageable level
- Build in flexibility and contingencies for emerging priorities and opportunities

### Affordability and Cost Effectiveness

- Deliver services that are relevant and result in desired public outcomes
- Ensure value for money through productivity and innovation
- Keep property tax and fees affordable (in line with inflation)

### Asset Management

- Maintain assets in an appropriate state of repair
- Optimize capital investments to meet public and economic needs while achieving value for the investment

These Guiding Principles are all considered in developing the 2015-2018 Capital Plan and the 2015 Service Plan and Budget.

The City takes a very careful approach to its use of debt, ensuring a balanced operating budget and keeping property tax and fees at an affordable level. The City's consistently strong credit ratings and favorable borrowing rates reflect this careful approach.

As part of the City's long-term debt management strategy, the water utility is transitioning its infrastructure lifecycle replacement programs from debt financing to pay-as-you-go. This will help lower the City's overall debt and save interest costs over the long term. Looking ahead, we will continue to explore opportunities, where appropriate, to

transition our general capital program and the sewer utility to a higher proportion of pay-as-you-go to improve the City's long-term debt profile and enhance our credit ratings. Tracking Debt per Capita is another measure the City uses to track financial health. The debt increase related to the Olympic infrastructure construction will peak in 2015-16, then a significant reduction will occur in net debt per capita.

**Maintain Strong Credit Ratings and Access to Low Borrowing Costs**

The City's strong credit ratings (AAA/AA) are among the best for Canadian cities, and are supported by a diverse economy and a strong and stable tax base. Continued management of debt within target levels is critical to maintaining and enhancing the City's credit ratings. Maintaining current favorable credit ratings is critical to Vancouver's long-term competitive advantage in the financial markets.

**Keep Property Tax and User Fees Affordable**

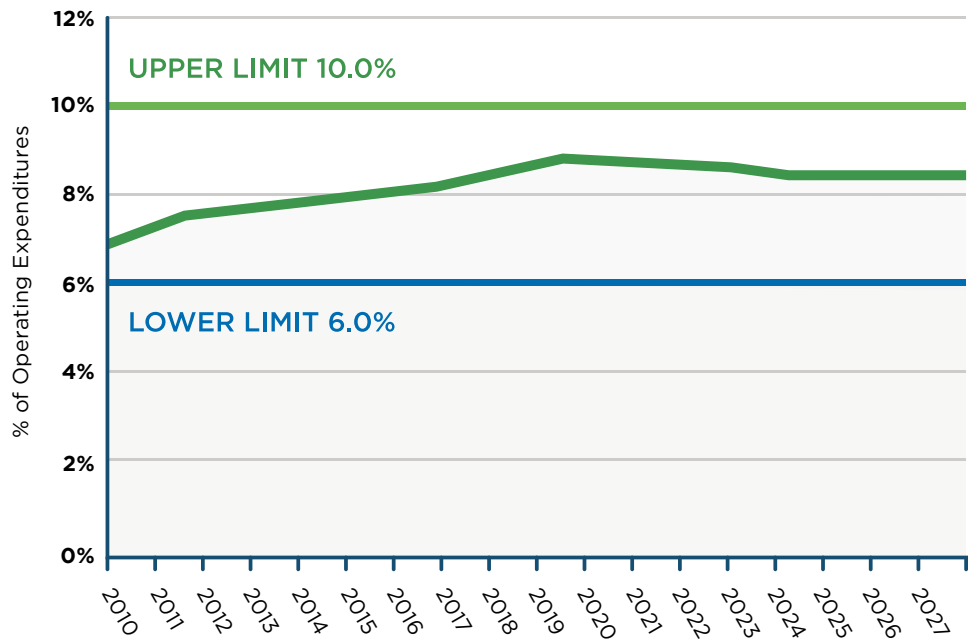
Property taxes in recent years have seen a modest increase, ranging from 1.4% to 2.8%, generally aligned with inflation (0.4% to 2.3%). During this period, the City has enhanced our network of public amenities in the areas of housing, community facilities and public safety, and has invested in core infrastructure, such as sewer separation and renewal, and upgraded transportation infrastructure for pedestrians, bikes and vehicles. All these were accomplished through continuous innovation, business transformation and productivity enhancement, while absorbing above-inflation wage increases.

Looking ahead, the growth in public amenities and infrastructure will put increasing pressure on the City's budget. Understanding the long-term impacts on tax and fee payers arising from our capital investment decisions, including debt servicing, ongoing operating costs and asset lifecycle costs, was a key consideration in developing the 2015-2018 Capital Plan.

**Maintain Assets in an Appropriate State of Repair**

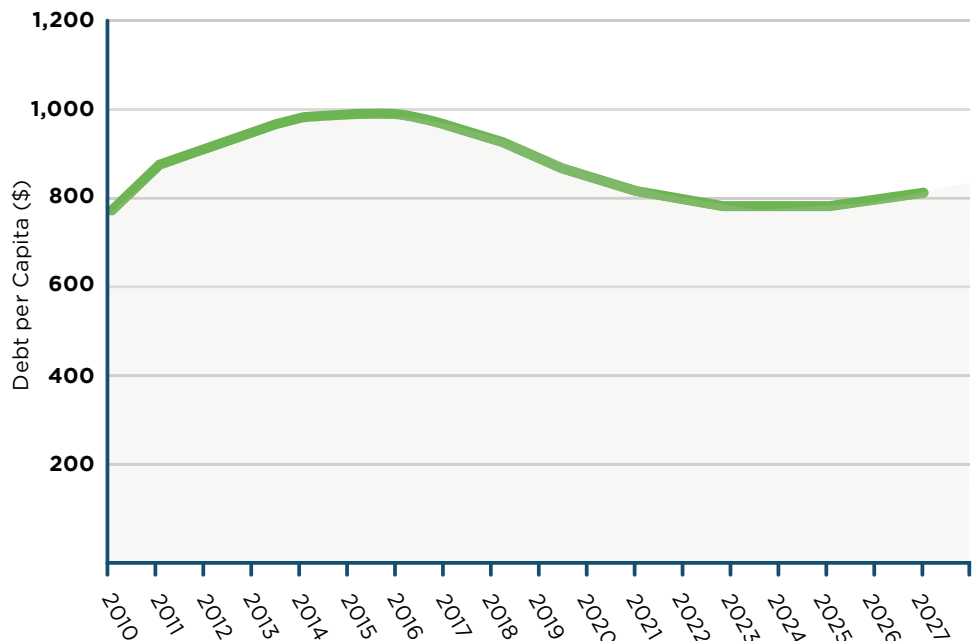
Maintaining core infrastructure and amenities in an appropriate state of repair is critical to the City's long-term financial health and resilience, and helps ensure asset management obligations are not deferred and infrastructure deficits do not accumulate to unacceptable levels. The City's target, which we expect to achieve, is to ensure at least two-thirds of City assets are in good or fair condition.

**TAX-SUPPORTED DEBT SERVICING AS % OF OPERATING EXPENDITURES**



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

**DEBT PER CAPITA**



Debt = total debt less sinking fund

**Optimize Capital Investments**

Before adding new facilities, the City considers repurposing and right-sizing existing facilities, and continuing to advance on colocation and functional

integration of services to enhance operational efficiency and customer service. All new facilities will be designed with flexible, adaptable and expandable spaces to accommodate changing demographics and future growth.



---

# Long-Term Priorities

Council supports the City's mission "to create a great city of communities that cares about its people, its environment, and the opportunities to live, work and prosper" by aligning spending with programs that support Vancouver's people, environment and prosperity.

The budget is informed by the City's strategic plans that represent these priorities. These include, for example, the City's Housing and Homelessness Strategy, the Greenest City Action Plan, the Transportation 2040 Plan, the Healthy City Strategy and the Vancouver Economic Action Strategy. Public consultation, conducted during development of these plans, helps inform the budget in directing spending toward the services that Vancouverites want and need.

---

## People

**City's Goal: Cultivate and sustain vibrant, creative, safe and caring communities for the wide diversity of individuals and families who live in, work in and visit Vancouver.**

Vancouver is the eighth largest city in Canada. Our city is remarkable for its diverse population, with half of our residents speaking English as a second language. The health and vitality of Vancouver's neighbourhoods, and the celebration of their diversity, make the city a magnet for people from around the world. New residents bring a cultural richness to our city, and Vancouver provides significant economic opportunities in a global economy.

With 5,249 people per square kilometre, Vancouver is one of the most densely populated cities in the country. Our limited land base and growing population have given rise to unique issues related to affordability, economic activity and the availability of land for housing.

Council has prioritized the issues of housing, environmental sustainability, a vibrant economy, and a safe, inclusive and creative community. Council's direction is reflected in key strategic plans that support Vancouverites, encourage them to engage with the City, and provide direction to policy development and resource allocation. These include:

- 2012-2021 Housing and Homelessness Strategy
- 2012 Report on Mayor's Taskforce on Housing Affordability
- Healthy City Strategy
- Greenest City 2020 Action Plan
- Vancouver Economic Action Strategy
- Transportation 2040
- Digital Strategy
- Report of the Engaged City Task Force
- 2011 Regional Growth Strategy
- 2014-2018 Cultural Plan
- Park Board Strategic Plan
- Library Board Strategic Plan
- Police Board Strategic Plan

## Environment

**City's Goal: Protect and enhance Vancouver's climate, ecology, natural resources and connections to the city's remarkable natural settings for future generations.**

Vancouver is home to world-class parks and green spaces and the wealth that stems from our abundant natural setting. Council supports the protection and enhancement of Vancouver's climate, ecology and natural resources for future generations, and has prioritized the goal to become the world's greenest city.

The City's Greenest City 2020 Action Plan has measurable and ambitious targets for reducing carbon and waste and improving ecosystems. This key plan addresses goals and issues across diverse areas - including city-wide carbon emissions, waste production and water consumption - and has put Vancouver on the path to sustainability in most aspects of life and work in the city.

## Prosperity

**City's Goal: Provide and enhance the services, infrastructure and conditions that sustain a healthy, diverse and resilient local economy.**

Vancouver is fortunate to have one of the most diverse and resilient economies in North America. We have a strong foundation in the robust natural resource sector, augmented by the growing and unmistakable prominence of Vancouver's technology community, and our strong tourism brand. These all contribute to the city's continued economic growth, prosperity and livability.

Vancouver is North America's gateway to Asia and a major regional transportation hub. The city is home to Port Metro Vancouver - the busiest and largest port in Canada - and is in close proximity to the Vancouver International Airport, often rated as one of the world's best. Our well-educated, highly skilled and

---

## Budget Public Opinion Survey:

Satisfaction with Overall Service Quality

### 2014 Budget

- Public - 71 % somewhat or very satisfied or neutral
- Businesses - 84% somewhat or very satisfied or neutral

### 2013 Budget

- Public - 81% somewhat or very satisfied or neutral
- Businesses - 82% somewhat or very satisfied or neutral

### 2012 Budget

- Public - 84% somewhat or very satisfied
- Businesses - 71% somewhat or very satisfied

### 2011 Budget

- Public - 81% somewhat or very satisfied
- Businesses - 85% somewhat or very satisfied

### 2010 Budget

- Public - 84% somewhat or very satisfied
  - Businesses - 68% somewhat or very satisfied
- 

culturally diverse labour force further reinforces our competitive position in the global market.

Council has prioritized economic development by promoting and strengthening local businesses while also making the city an attractive destination for businesses from around the world.

The Vancouver Economic Action Strategy, spearheaded by the Vancouver Economic Commission, focuses on changes that will most improve Vancouver's business climate, support existing local businesses, facilitate new investment and attract the people essential to our future economic success. It places particular emphasis on our global leadership in creative industries and clean technology, and on opportunities for greening our local businesses.

# Spending to Support Valued Services

The City has been working within budgets defined by modest tax increases, yet has made significant progress in advancing Council and community priorities on affordable housing, ending street homelessness, promoting economic development, becoming the greenest city, and ensuring a safe, inclusive and creative community. While reshaping the organization to provide services more efficiently, we have maintained or increased the quality of service, initiated new programs and demonstrated leadership as a sustainable and livable city. What do these results look like? The following are highlights of the investments and achievements accomplished in recent years across the City's five main priority areas: Housing and Homelessness; Safety, Inclusion and Social Services; Economic Development; Greenest City; and Value for Money.



## Housing and Homelessness

### End Street Homelessness by 2015

The City continues to make progress on our strategic goal of ending street homelessness by 2015. In 2014, the City purchased, leased or facilitated the creation of new interim housing units by converting four hotels: the Kingsway Ramada Hotel (123 rooms), the East Hastings Ramada Hotel (54 rooms), the Kingsway Howard Johnson Hotel (95 rooms) and the Quality Inn (157 rooms) on Howe Street in downtown south. This interim housing stock will mitigate some of the impacts of changes within the low income housing stock and further lower the number of street homeless. Winter response shelters in various locations throughout the city will also accommodate street homeless individuals.

In March of 2014, the number of street homeless declined to 536 from the 2008 count when the number of street homeless was over 800 people, and the City remains committed to solving street homelessness in 2015.

## Affordable Housing

The City is continuing to implement the Housing and Homelessness Strategy with progress on specific projects and incentive policies that will increase the availability and range of affordable housing choices for all residents.

Projects completing in 2014 include Taylor Manor, a 56-bed facility serving the mentally ill homeless that is owned by the City, with operating funding provided by a private donor and a capital contribution from BC Housing; as well as City sites donated for new supportive housing, built with Provincial funds and managed by non-profit societies. In 2014 these City sites are at 111 Princess Street, 1134 Burrard, and supportive housing combined with an aboriginal youth hub at Broadway and Fraser Street (total 383 new supportive housing units).

The City has entered into agreements with the Community Housing Land Trust Foundation (Land Trust) – a non-profit charity established by the Co-op Housing Federation of BC – to develop 355 units of affordable housing on four sites owned by the City. This innovative development will create new affordable homes for families, seniors and people living with mental illness. Construction on the four City-owned properties will begin in summer 2015, with units completing in mid 2017.

The City has enabled the commitment for an additional 626 units of new social housing in 2014.

In 2014, the Vancouver Affordable Housing Agency (VAHA) was established. The VAHA is a legally separate, City-controlled entity created to implement one of the critical recommendations from the Mayor's Task Force on Housing Affordability, to improve the City's ability to develop its own land for housing and to find innovative partnerships. Their mandate is to deliver 2,500 affordable housing units on City and partner land by 2021, commencing with an initial program of 500 affordable housing units subject to interim review.

The establishment of the VAHA is a key step toward meeting the targets of the Vancouver Housing and Homelessness Strategy 2012-2021. Its creation will enhance the City's ability to expedite the delivery of a larger number of more affordable housing options for a target range of residents who are currently struggling to find affordable housing options.

The recent introduction of new policies and incentives in the land use approvals process has generated significant

numbers of new market rental housing. Incentives – such as parking relaxations and additional density for the development – have resulted in over 3,700 units of market rental housing being committed since 2010. In addition, the City has issued permits for nearly 2,400 secondary suites and laneway houses since 2010, with over 700 permits for this form of rental housing being issued so far in 2014.

Other incentive programs and enforcement mechanisms have served the significant tenant population in Vancouver.

The Vancouver Rent Bank continued to offer short-term funding to families and individuals at risk of eviction or essential utility disconnection due to a temporary shortage of funds. The City also continued to refine a public searchable Rental Standards Database, designed to help renters understand the condition of rental buildings in terms of outstanding bylaw infractions.



## Safety, Inclusion and Creativity

### Healthy City

Vancouver now has a long-term integrated plan for healthier people, healthier places and a healthier planet. In 2014, Council approved the Healthy City Strategy, a comprehensive approach to urban health and well-being that brings together diverse services and departments of the City to achieve the goal of healthy people, communities and environments now and into the future.

The Healthy City Strategy sets out 13 long-term goals and aspirational targets for collective efforts to create and improve the conditions that enable everyone to enjoy the highest level of health and well-being possible. These include, among others: a good start for young children, a home for everyone, environments to thrive in, cultivating of connections and active living.

The strategy was developed with input from an extensive public engagement process that included over 10,000 residents. It was also guided by the 30 members of the Healthy City for All Leadership Table, bringing together different sectors, such

as health care, social justice, business, education, and arts and culture.

### Child Care

Making sure every parent and guardian has access to quality, affordable child care is a City priority. Since 2009, the City has invested \$62 million into child care, facilitating the creation of 1,132 new child care spaces, with 908 built, and an additional 224 committed.

Major projects for 2014 included the redevelopment and construction of Kitsilano Neighbourhood House. Opened in November 2014, the Neighbourhood House includes child care spaces, programming for the neighbourhood and new housing units for seniors.

### Vancouver Police Department Community Safety Officers

2014 is the second year in the three-year pilot of Community Safety Officers who handle some of the less complex police tasks. The first year has shown very positive results. Community Safety Officers contribute to the five-year strategic plan to reduce property crime by 25% from 2012 to 2016, by enabling sworn officers to focus on more serious violent crimes and emerging forms of criminal activity.

### nóca?mat ct Strathcona Branch Library

In 2014, work continued on an innovative project in Strathcona that offers a much-needed community facility and affordable housing on the Downtown Eastside. Made possible through a partnership between the City of Vancouver, Vancouver Public Library and YWCA Metro Vancouver, the site will have a new full-service Strathcona Branch library (the first to have a First Nations name), and will also provide new safe, affordable housing for low-income single mothers and their dependent children, as well as community space.

### Vancouver Board of Parks and Recreation

In 2014, the Park Board introduced the OneCard which was a major change in the way citizens access recreational programs across the City. The OneCard allows access to recreation facilities across the city's network of community centres which means people can participate in recreation activities near their home, their place of work or while travelling across the city. Since July 2013, nearly 160,000 residents have obtained a OneCard and recreational use has increased by approximately 25%.

The Leisure Access Program helps address affordability as it provides low-income Vancouver residents with access

to basic recreation programs and services at Park Board facilities at a reduced cost. The subsidy is loaded on the OneCard for discounted access to all Park Board pools, rinks and fitness centres, and participating community centres.



## Economic Development

### The Innovation Hub

In 2014, the City announced plans to open The Innovation Hub, Vancouver's first Technology and Social Innovation Centre, in partnership with the Vancity Community Foundation and the Vancouver Economic Commission (VEC). The overall vision for the centre, which will be located at 312-324 Main Street, is to build a financially sustainable economic development platform that fosters innovation and creates great companies and social enterprises that drive social impact and key economic development performance measures in Vancouver.

The centre will support a broad range of entrepreneurs, social innovators and non-profit organizations through incubation and acceleration programming. It will also offer business services, financing and training for a variety of sectors including technology start-ups, sustainability and clean-tech, social enterprise and micro-enterprise.

### Green & Digital Demonstration Program

The Green and Digital Demonstration Program (GDDP) was created to help local clean technology and digital companies succeed and grow by providing support to entrepreneurs and start-ups in Vancouver's clean technology and digital sectors. Participants in the program are given the opportunity to gain temporary access to City-owned assets (e.g. buildings, streets, vehicles) for technology demonstrations and proof-of-concept trials.

Spearheaded by the VEC and the City of Vancouver, the goal of the program is to accelerate the pace of innovation, commercialization and job growth, by providing entrepreneurs with the opportunity to leverage local reference

sites and use the City as a reference when marketing their products and services around the world.

Successful GDDP participants from our local innovation centres will be able to leverage City of Vancouver assets, and Vancouver's brand cachet: a brand that is bound to a reputation of excellence in innovation, sustainability and creativity.

### Digital Strategy

The City's Digital Strategy is a roadmap for Vancouver to become an open, connected and digitally enabled City. This strategy outlines both immediate and future ways to enhance digital engagement and access, improve infrastructure, and support the digital economy, for people who live, work and play in Vancouver.

Achievements in 2014 included enhanced online and mobile access to City information and services, and expansion of digital channels for citizen involvement and interaction with the City. This was achieved via the increased integration of social media channels, the delivery of new online systems for permits and licenses, tax and utilities self-serve billing and several mobile initiatives including the delivery of a responsive website experience.

From an infrastructure perspective, the City also entered into a strategic partnership with BCNet to enhance the City's fibre optic network, which in turn will lead to improved digital access and economic development opportunities. The City further supported the digital economy with the successful launch of the Green and Digital Demonstration Program designed to showcase local digital technologies using City-owned assets as a demonstration site.



## Greenest City

### Broadway Transit

In 2014, the City was a key participant in the development of the Mayor's Council Transportation Plan, including the Broadway Subway, which will be fundamental to reaching the economic

Vancouver has been recognized for environmental leadership with many awards:

**Sustainable Communities Award: Transportation (for Electric Vehicle Charging Infrastructure)** - Federation of Canadian Municipalities (2014)

**Green Champion Award for Climate Leadership** - Federation of Canadian Municipalities (2014)

**Best Green Building Policy** - World Green Building Council (2013)

**Global Earth Hour Champion** - World Wildlife Fund (2013)

**Canada's Greenest Employer** - Mediacorp (2012)

**#2 Green City in North America** - Economist Intelligence Unit (2011)

**Canada's Clean 50** - Delta Management Corp. (2013)

**CityStudio: The Greenest City is the Classroom** - Canadian Association of Municipal Administrators Willis Award for Innovation (2013)

**Environmental Award – Public Sector Category, for the Greenest City 2020 Zero Waste Action Plan** - Recycling Council of BC (2012)

**Greenest City and Housing Affordability Initiatives** - Inaugural Guangzhou, International Award for Urban Innovation (2012)

**Sustainable Community** - Federation of Canadian Municipalities (2012)

potential of the second-most important economic corridor in the province. The City's 2015 Transportation Plan has identified the implementation of the Broadway Subway as the City's number one transportation priority and is one of the City's most important economic initiatives.

The Broadway Corridor, which runs from Commercial Drive to UBC's Point Grey campus, is BC's second largest business and innovation area and North America's busiest bus route. More than 200,000 people currently live and work in the area, and 50% of the corridor transit riders currently come from beyond Vancouver. Vancouver Coastal Health and BC Cancer Agency operations along the corridor create the largest health care and life sciences precinct in the province, bringing an estimated 10,000 workers to the area. Vancouver Community College, on the eastern part of the corridor, brings 6,000 students.

Development of more detailed plans for the Broadway Subway is underway and the major focus for 2015 will be a Transit Funding Referendum. Both are in progress and expected to be completed in 2015. In addition, plans for near-term transit improvements for the Broadway Corridor and the Downtown Bus Service Review are also being prepared in 2014.

#### District Energy

A high-priority part of the Greenest City Action Plan is the implementation of the District Energy Strategy and the development of the new neighbourhood-scale renewable energy systems. The first of these, the award-winning Southeast False Creek Neighbourhood Energy Utility, has reduced greenhouse gas emissions by 55% over conventional technologies and energy sources. This is a cost-effective model for providing low-carbon, secure and affordable heating to buildings in denser neighbourhoods and other developments in the city.

This system is expanding, with service area extensions planned to the education hub and campus on Great Northern Way. Future low-carbon district energy systems serving downtown and the Cambie Corridor are in the works. To further their development, the City is identifying utility development partners and securing agreements from large developments to connect their buildings to these systems.

#### Solid Waste Diversion

The Greenest City 2020 Action Plan includes measurable and ambitious targets for reducing and diverting waste. The City is currently finalizing the strategy for diverting food scraps from the

multi-unit residential sector, and will develop a strategy to address demolition and construction waste management in preparation for Metro Vancouver's planned ban on the disposal of these materials in 2015, as well as adapting recycling programs to include additional paper and packaging materials as part of the Multi-Material BC (MMBC) recyclable product stewardship program.

Due to the 2013 implementation of food scraps diversion through weekly green bins and bi-weekly garbage collection, there has been a notable decline in the tonnes of garbage collected and corresponding rapid increase in green bin materials. In 2014, we project 38,000 tonnes of waste, a notable decrease from 44,825 tonnes in 2013.



### Value for Money

#### Permits & Licences Project

In 2014, the Planning and Development Services Department underwent a major transformation, introducing one streamlined application tracking system to replace 39 existing separate systems. The project represents an entirely new way of doing business for development applications and permits. More and more, applicants will be able to apply for, monitor and receive approvals online. The number of face-to-face meetings will be reduced, increasing staff efficiency and reducing application approval times. Since the launch of the online permitting system in early August, 230 online accounts have been created and over 740 trades permits have been issued electronically to the end of November.

#### Performance Metrics

The City of Vancouver has embedded the value-for-money concept into all of its services by linking budgetary decisions with service metrics. These service metrics are the key component of the City's performance measurement framework and drive performance and cost efficiency by quantitatively attempting to answer the following four questions for each service:

1. Quantity – How much did we do?
2. Quality – How well did we do it?
3. Cost Efficiency – Was it cost effective?

### Did you know...

Vancouver consistently ranks as one of the Most Livable Cities in the World.

- Economist Intelligence Unit



4. Result – Is anyone better off?

The City began implementing this framework in 2012, and the 2014 Budget included service plans and more than 250 metrics across all City services. These metrics and plans will continue to be enhanced in the 2015 Budget.

**Embracing Technology and Improving Business Processes**

Through technology and business process improvements, the City continues to transform both internal processes and its services delivery. Thousands of transactions in our Park Board and

Recreation community centres will be enhanced with a new system, with improved online registration as well as more efficient backend processes, which will streamline the process, making it simpler, faster and more efficient.

## 2014 Budget Overview

The 2015 Capital and Operating Budget will be developed by building on the current 2014 Budget: both operating revenues and expenses, as well as capital budget expenditures. Legislation requires that the City balance its operating budget each year, ensuring revenues are sufficient to fund all planned expenditures.

### Operating Budget Revenues for 2014: \$1,178 Million

Property tax and utility fees for water, sewer and solid waste make up 76% of the 2014 Budget. These revenue sources are highly predictable. Property development-related fees and permits are the most unpredictable, but account for only 4% of our revenue base.

In 2014, Vancouver’s property tax increase of 1.62% was in line with forecasted inflation and was one of the lowest property tax increases in the region.

### Operating Budget Expenditures for 2014: \$1,178 Million

The City’s expenditures are relatively stable from year to year. By streamlining the way we do business, the growth of the organization has slowed without affecting the quality of service offered to residents and businesses. Over the last five years, by carefully watching vacancies and retirements to manage staffing levels, the number of staff has been reduced with minimal disruption to service delivery.

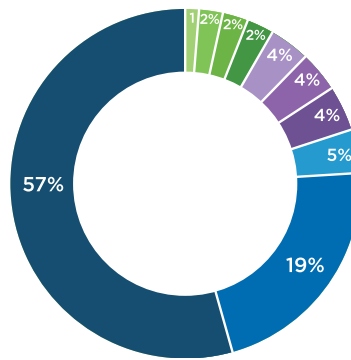
Fire Rescue and Policing account for nearly one third of total expenditures. Engineering and Utility expenditures (water, sewer, solid waste, NEU) account for 28% of total expenditures. Together, these service delivery functions account for over half of total City expenditures. Many of these expenses fall in areas that

are challenging to streamline. For Police and Fire Rescue, nearly 90% of expenses go toward salaries and benefits. Over 60% of the costs for water and sewer utilities are charges passed on by Metro Vancouver that are set at the regional level. These have grown at a higher rate than other areas due to the need for heavy capital investments to replace aging infrastructure across the region.

Looking at City expenditures by type of expenditure rather than by department,

### 2014 OPERATING REVENUES

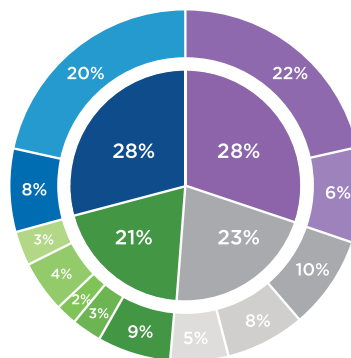
**\$1,178 MILLION**



● Property Tax	57%
● Utility Fees	19%
● Program Fees	5%
● License & Development Fees	4%
● Parking	4%
● Cost Recoveries, Grants & Donations	4%
● Revenue Sharing	2%
● Investment Income	2%
● Rental, Lease & Other	2%
● Bylaw Fines	1%

### 2014 OPERATING EXPENDITURES

**\$1,178 MILLION**



● Police	20%
● Fire	8%
● Engineering Public Works	6%
● Utilities	22%
● Parks	9%
● Community Services	3%
● Planning & Development	2%
● Library	4%
● Other	3%
● Corporate Support	10%
● Debt & Capital	8%
● Contingencies & Transfers	5%

staffing costs, at over 57%, are the largest component of the City’s budget and the main driver of the budget gap. Utilities are at 22% of operating expenditures. Community-related services such as parks, library, community services and planning make up 21% of the budget. Eight percent of the operating budget is transferred to the capital fund which, along with development revenues and other external contributions, fund the City’s capital budget.

## Capital Planning

The City owns over \$20 billion of capital assets (replacement value excluding land) encompassing parks and recreation, community facilities, affordable housing, public safety, roadways, walkways and bikeways, and underground water and sewer infrastructure. The need for renewing, upgrading and expanding our infrastructure and facilities to support our residents and businesses is significant and growing.

The City's capital program consists of a ten-year strategic outlook, a four-year plan, and an annual budget with quarterly reports at the project level.

On May 29, 2014, the Province enacted legislation to extend the term of Council from three years to four years, effective 2014. Prior to this enactment, the City's capital plans were developed in three-year terms; beginning with the 2015-2018 Capital Plan, capital plans are now developed in four-year terms.

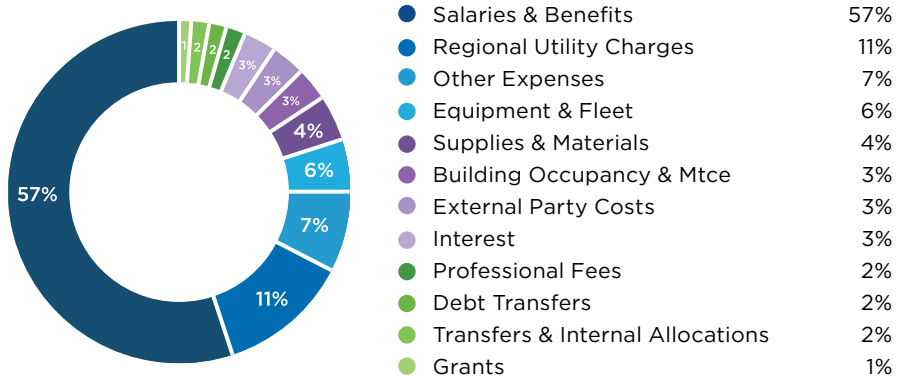
Investment in capital projects varies from year to year depending on funding availability and capital needs. In recent years, significant investment was required to host the 2010 Olympic and Paralympic Winter Games. This placed extra pressure on the operating budget and the City's overall debt profile. In response to this, the 2012-2014 Capital Plan and 2015-2018 Capital Plan have stabilized the total capital spend, and deliberately reduced funding from debt to reduce the impact on property taxes.

Development-related fees and contributions are key to our ability to provide public amenities for our growing city. Through strategic partnerships, we are also finding new partners from whom to source capital, particularly in the area of housing, to meet ambitious targets for affordable housing in the city.

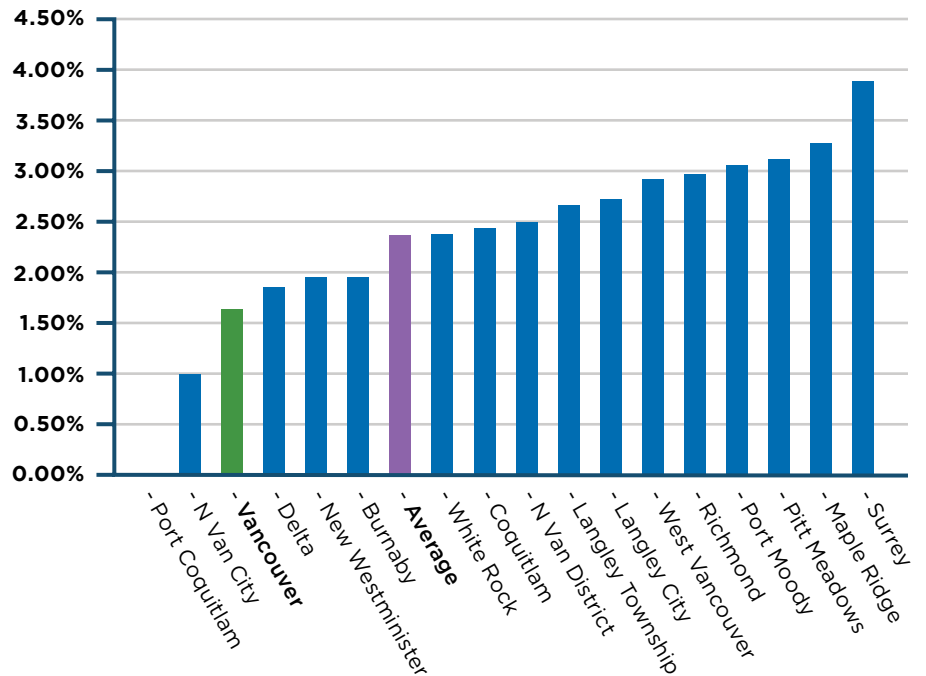
### Annual Capital Expenditure Budget for 2014: \$285 Million (Original)

The 2014 annual capital expenditures budget was set at \$285M with midyear Council-approved additions of \$11M, an adjusted total of \$296M. The capital program in 2014 is projecting to spend approximately 90% of the adjusted budget, an improvement over prior years, and the result of enhanced project management, increased transparency through quarterly reporting and forecasting, and adjustments to expenditure planning timelines. In 2014,

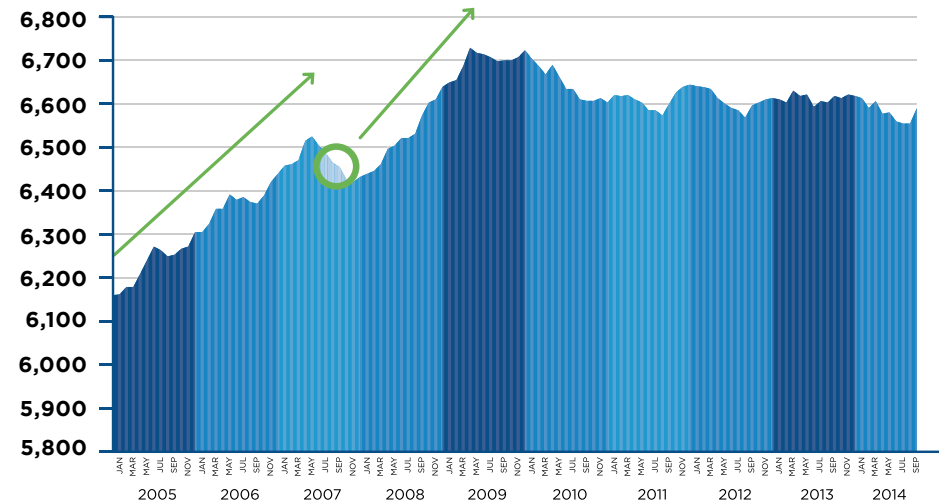
## 2014 OPERATING EXPENDITURES BY TYPE \$1,178 MILLION



## 2014 PROPERTY TAX INCREASE



## ACTIVE REGULAR FULL-TIME STAFF

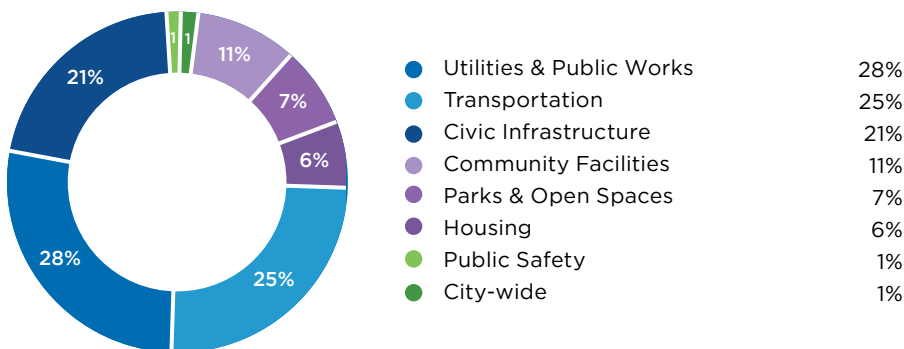


(Note: Count as of last day of month. Job Action 2007)

utilities and public works will have accounted for the largest share of planned capital investments at about 28%. Transportation investments will make up nearly 25%, and civic infrastructure will make up approximately 21%. Community facilities (11%), parks and open spaces (7%), housing (6%), and public safety (1%) together account for almost a quarter of expenses. Though only 6% of the capital budget is designated for housing, the City leverages these housing investments (and in some cases City-owned land) to a high degree to meet our housing targets as outlined in the 2012-2021 Housing and Homelessness Strategy.

## 2014 ANNUAL CAPITAL EXPENDITURE BUDGET

**\$285 MILLION**



## Looking to the 2015 Budget

Over the last five years, Council has approved modest annual property tax increases that have been in line with inflation. This reflects the City's desire to continue providing valued services to the community while keeping property taxes reasonable. This approach has enabled Council to continue to address specific priorities such as housing, public safety, economic development and the environment. Grants to community non-profit organizations in the areas of arts and culture and social services have been maintained and increased at projected inflation rates, which has provided important stability during a time of senior government cutbacks in these areas.

### 2015 Operating Budget

Currently the gap between estimated revenues and expenditures is approximately \$26-30 million. Without looking for ways to reduce expenditures further or increase non-property tax revenues, this would represent a 6-7% tax increase. This revenue/expense gap will need to be brought into balance by the time the budget is presented to Council in March.

The trend of growing costs faster than inflation for the same services is expected to continue over next four years and beyond. As a result, the City will be challenged to be able to continue to keep property tax increases in line with inflation.

### Costs Rising Faster than Inflation

Costs for maintaining both existing staff and existing levels of public services are rising

### 2015 OPERATING BUDGET PRELIMINARY EXPENSE PRESSURES

Increased public safety wage and benefit costs (includes arbitrated wage rates, pension contribution and WCB premium increases, additional compensation and VPD secondment recoveries) - 2580 employees	+ \$18 million
Increases to other wage and benefit costs (including wage rates, pension contribution and WCB premium increases) - 4010 employees	+ \$14 million
Increased capital program cost (debt servicing, increased utility pay-as-you-go capital, increased sewer separation)	+ \$8 million
Increased Metro Vancouver charges for Water and Sewer utility	+ \$7 million
Investments in new and enhanced services and programs	+ \$3-\$5 million
Inflationary costs - hydro rates, leases, materials and supplies, other	+ \$3 million
Other - volume based increase to pay by phone contract costs, inflationary increase for grants, other expenses	+ \$2 million
<b>TOTAL PRELIMINARY EXPENSE PRESSURES</b>	<b>+ \$55-\$57 million</b>

### 2015 OPERATING BUDGET PROJECTED REVENUE CHANGES

Increase in property tax revenue (estimated at 2%)	+ \$12 million
Increase in utility fee revenue (Water, Sewer, Solid Waste, NEU)	+ \$7 million
Increase in external cost recoveries <sup>1</sup>	+ \$5 million
Inflationary increases in program user fees and development fees	+ \$3 million
New construction tax revenue	+ \$3 million
Increase in parking revenues	+ \$1 million *
Reduced income from end of term lease	- \$4 million
<b>TOTAL PROJECTED REVENUE CHANGES</b>	<b>+ \$27 million</b>

<sup>1</sup> - Increased cost recoveries are offset by increased recoverable costs including VPD wage expenses from secondments and the annualized impact of recycling costs in the Solid Waste utility which are recoverable from Multi Materials BC.

faster than inflation in a number of areas:

- Compounded impact of multi-year Police (2013-2015) and Fire (2012-2015) arbitrated wage increases above inflation
- Increases to employer pension contributions required by the Municipal Pension Plan (8% in 2014)
- Increase in workSafe BC premiums by 21%
- BC Hydro electricity rate increases of 9% in 2014 and 6% in 2015
- Increasing regional utility charges passed on by Metro Vancouver (1.7-3.4%)
- Increasing operating costs related to the City's capital plan, including a shift to increasing pay-as-you-go water main replacement capital reducing the need for debt

This trend of costs increasing faster than inflation has been occurring for a number of years. The City has managed these cost increases, while limiting tax rate increases to inflation, by realizing ongoing budget savings and value for money initiatives. As previously noted, the outlook for 2015-2018 shows a significant gap between the growth in expenses and the growth in revenues, which will require ongoing improvements in productivity and the way services are delivered in all areas of City services, including process improvements, information technology transformation, and rationalization of service delivery models to address the higher costs of labour, facilities and operations. Because over 41% of the tax-funded budget is related to Police and Fire Rescue services, the City will look to these areas to help drive productivity.

## Collective Agreements

In 2014, the Vancouver Police Union and Vancouver Police Department recently received an arbitrated settlement which establishes collective agreement terms for 2013-2015. The arbitrated settlement included annual wage increases of 2.5%, 2.0% and 2.5% over the three-year term, higher than the equivalent increases for CUPE of 1.75%, 1.75% and 2.0% for that same period.

The City and the Vancouver Fire Fighters' Union recently received an arbitrated settlement which establishes collective agreement terms for 2012-2015. The arbitrated settlement included annual wage increases of 2.5% per year over the four-year term and an additional 0.5% increase in 2014. This increase is also higher than the equivalent increases for CUPE.

Firefighter compensation costs were also impacted by a 1% increase to the wage rate for firefighters with 10 years of service that took effect in 2014 pursuant to a negotiated grievance settlement.

Given the size of public safety wages relative to the rest of the City, the impact of public safety wage increases above inflation will continue to put significant pressure on the City's budget and tax rates.

The City's contracts with CUPE and other unions will expire at the end of 2015, adding uncertainty to the 4-year financial outlook.

## Additional Challenges

The growing trend of federal and provincial governments transferring service delivery to municipalities has put pressure on the City's ability to keep expenditure growth below inflation. Recent examples of service downloading include:

- BC Ambulance Service resource allocations made by the Provincial Health Services Authority has presented challenges for Vancouver Fire and Rescue Services first responders
- Municipalities are increasingly required to provide housing supports to respond to homelessness, a problem within the mandate of the Province
- Daycare spaces continue to be well below the number needed to meet demand
- Child Poverty - Food programs in Schools and subsidies in recreation fees are examples of costs being borne by municipalities

## Operating Budget 2015-2018 4-Year Outlook

The 2015 Budget is year one of a 4-year outlook. The following outlines the main budget drivers over the next four years.

Operating revenue is projected to increase by an average of 2% per year from 2015-2018. This increase is driven by the following assumptions:

- Property tax increases in line with inflation (forecast at 2.0% annually)
- Increased property taxes from new construction of \$3M annually
- Increases to utility rates averaging 4% per year based on Metro Vancouver regional utility charge forecasts
- Program fee revenue increases in

line with inflation, and license and development fees to be adjusted as part of a regular fee review.

- Parking revenues remaining flat from 2016-2018 (with growth in metered parking spaces in some areas offset by reduced space related to City projects such as public bike share).

Expenditures are projected to increase by an average of 3% per year from 2015-2018 primarily due to:

- Increases in salary and benefits expense estimated at 4.6% in 2015 and 2.8% annually in 2016-2018. These increases are primarily driven by the impact of recently arbitrated collective agreements with the Police Union and the Vancouver Fire Fighters Union based on regional trends, as well as increases to employee benefit costs including employer pension contributions, WorkSafe BC premiums, Canada Pension Plan and Employment Insurance. CUPE and Exempt wage increases are projected to remain aligned with projected inflation from 2015-2018.
- Increases to regional utility charges assessed by Metro Vancouver of 2-3% per year to fund the cost of new capital infrastructure (based on Metro forecasts).
- Increases to capital program transfers from the operating budget averaging 4% annually, supporting the recently approved 2015-2018 Capital Plan and reflecting a transition to increasing use of pay-as-you-go capital.
- \$3M annually for investment in new and enhanced services.

The final 2015 Budget will ultimately depend on direction from Council and the results of public consultation with Vancouver residents and business owners.

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



## Capital Budget Outlook

The 2015-2018 Capital Plan (located at <http://vancouver.ca/your-government/capital-plan.aspx>) was approved by Council in October 2014, and includes \$1.085 billion of capital investments. This provides the framework for the 2015 Capital Budget. Projects anticipated in the Capital Plan are not initiated until funding is approved through the Capital Budget Process. Historically, the City has spent approximately \$250 million per year, varying depending on the timing of projects within capital plan period. Based on the new plan, the Budget for the next four years will average approximately \$275 million; however, it will vary by year depending on the timing of projects.

The 2015 Capital Budget will be based on the 2015-2018 Capital Plan, which outlines key projects across City departments for the four years. Specific projects will be prioritized based on need, the opportunity to leverage senior government funding, and the enabling of business transformation through capital investments. Utility maintenance and upgrading remain a critical mandate.

The 2015 Capital Budget will include continuing projects approved as part of the 2014 Budget but not yet completed, and new projects that will start in 2015 based on the approved Capital Plan. Over the next few months, staff will review the scheduling of projects across the four-year outlook to further refine the 2015 Budget.

The following highlights key capital investments being planned for 2015:

### Community Facilities

Construction will continue on the new Strathcona branch library, and work will continue on the Southeast Vancouver Seniors Centre. Restoration work is expected to commence on the underground portion of the Vancouver Art Gallery Plaza as well as redevelopment of the North Plaza. Planning for the Britannia Community Centre renewal phase 1 is planned to commence.

### Parks and Public Open Spaces

Planned capital work includes the completion and opening of Hastings Park: Empire Fields, Plateau and Greenways, improvements and upgrades to field houses, and the replacement of the Eric Hamber/Oak Park artificial turf field. Completion of the greening of Hillcrest Park and Riley Park including a Challenger baseball diamond, and engaging with Vancouverites about a new park for downtown south near Richards and Smithe,

and about the renewal of Sunset Park, are also scheduled for 2015.

Greenest City 2020 Action Plan projects include the construction of a pollinator garden near 6th Avenue and Pine Street, the development of 2-3 new community gardens, developing a new park at Yukon Avenue and 17th Street, and the planting of 12,000-15,000 new trees throughout the city.

### Housing

The City will continue to create and renew social and supportive housing through innovative partnerships with non-profit partners, senior levels of government and private sector. The Vancouver Affordable Housing Agency (VAHA) will lead this initiative by leveraging City and partner land and capital grants. Renewal of the Roddan Lodge in the Downtown East Side will commence with planning and design in 2015, followed by construction in subsequent years. Construction of the Taylor Manor supportive housing project is near completion, with the start of occupancy anticipated by the end of 2014.

## 2014 Budget Public Opinion Survey:

### Possible Cost-saving Measures

### Most supported by residents and businesses

- Reduce enforcement of nuisance or minor bylaws
- Hold fewer public consultations and hearings
- Reduce hours of operation at City facilities

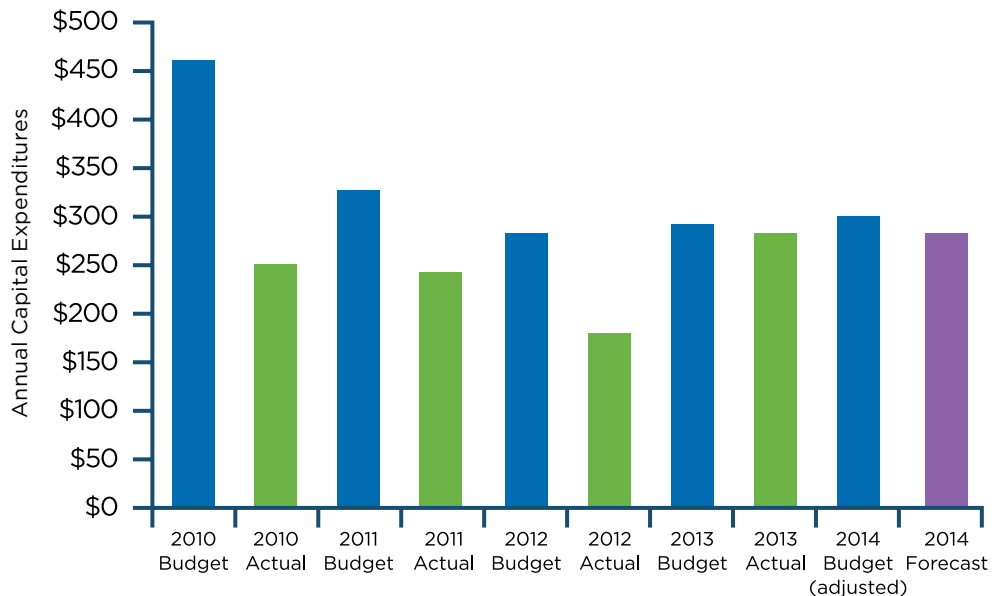
### Public Safety

Construction of Fire Hall #5 will commence, continuing the multi-year program to upgrade and replace the City's fire halls. Also planned for 2015 is the delivery of two fireboats to replace four aging vessels currently in service.

### 2015 ANNUAL CAPITAL EXPENDITURE BUDGET PRELIMINARY OUTLOOK

2015 capital expenditures for continuing projects	\$145 million (estimated)
2015 capital expenditures for new projects (first year of 2015-2018 Capital Plan)	\$130 million (estimated)
<b>TOTAL CAPITAL EXPENDITURE BUDGET ESTIMATE</b>	<b>\$275 million (estimated)</b>

### CAPITAL EXPENDITURE TREND COMPARISON, 2010-2014 (in millions)



## Transportation

In June 2014, the TransLink Mayors' Council approved a Regional Transportation Investments Vision for Metro Vancouver. This includes the first phase of the Broadway SkyTrain Extension, which would extend the line west in a tunnel to Arbutus Street. Implementation of the plan will be subject to a successful Regional Transportation Referendum in Spring 2015.

In 2015, the City of Vancouver will finalize plans to complete the rehabilitation of the Burrard Bridge and safety improvements at Burrard and Pacific as well as planning safety improvements on other existing walking and cycling routes.

In 2015, progress will also be made on the City's Comprehensive Parking Strategy, which looks at the management of parking in an effort to support more sustainable transportation choices, reduce housing and business costs, improve neighbourhood livability, support local businesses and enable the efficient delivery of goods and services.

## Civic Infrastructure and Business Transformation

Implementation of the Permit and License Transformation Program will continue, with the next phase of the rollout, modernizing the way the City delivers permit and license services and establishing the City of Vancouver as a leader in government service delivery. Fleet purchases will be focused on reduced greenhouse gas impact and improving operational efficiencies.

## 2015 Budget Risks

There are a number of internal and external risks that can affect the City's 4-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. Less than 5% of the revenues come from cyclical revenues such as development and permit fees. However, because a significant portion of operating expense budgets are related to salary and contractual expenses that are fixed in the short-term, the City takes a prudent approach to revenue forecasting.

Revenue risks include:

- Development permits and licence fees, which represent 4% of the revenue budget, are variable depending on economic trends. Changes in the economy may impact revenues.
- Program fee revenue, parking, rental and lease income generate a combined 12% of City revenue and are sensitive to general economic conditions in the City, seasonal weather factors and increased market competition.
- Cost recoveries, grants, and donations from external parties provides 4% of City revenue and is subject to risk of program reduction or discontinuation.
- Traffic fine revenue sharing with the Province of BC accounts provide \$14.5M annually to the City. The current agreement expires in 2014, and 2015 allocations are unknown at this time.
- Developer cost levies and community amenity contributions are a significant portion of our capital budget revenues. An economic downturn could lead to less real estate development than planned and less capital revenues which would result in certain capital projects being delayed or cancelled.

### Expenditure Risks

The largest City expense is payroll, which accounts for 57% of the operating budget. A large portion of this is stable and predictable. A significant portion of

non-salary expenses are contractually fixed and predictable in the short term. For expenses that are subject to unpredictability during the year, the budget includes a \$4M contingency fund to cover unanticipated expenses, subject to approval by Council before funding may be accessed.

Expenditure risks include:

- Unforeseen increases in employee benefit costs, including costs associated with employer pension contributions, WCB premiums, employee extended health and dental benefit or long-term disability insurance claims.
- Higher than expected snow removal expenses and Emergency response to unforeseen events.
- The ability to generate financial benefits from service transformations in the timeframe expected.
- The City borrows between \$110 million and \$120 million a year in long-term debt to finance our capital program, and debt service costs (principal and interest) are provided for in our operating budget. Any significant increase in interest rates will increase the City's debt servicing on new debt and limit future borrowing capacity.
- The health of our infrastructure directly relates to the success of our local economy. The City strives to strike a balance between maintaining and optimizing existing assets and adding new assets needed for the city's growth. The need for rapid transit represents a major capital investment, and the costs of public works are increasing.
- As the owner of vast infrastructure networks and many buildings, the City conducts ongoing maintenance and upgrades to ensure the integrity of major infrastructure assets. The City is mindful of threats posed by climate change and natural disaster (particularly earthquakes), and strive for fiscally responsible investment in all planning, response, and mitigation techniques. The flooding and severe storms witnessed throughout Canada in recent months offer lessons to help be as prepared as possible to respond to such events as they happen and to quickly resume business across the city. All of this influences the capital infrastructure investments, increasing financial pressure on both our medium- and long-term financial and capital plans.

---

## Summary

The trend of costs growing faster than inflation is expected to continue over next four years and beyond. As a result, the City will be challenged to continue to keep property tax increases in line with inflation. In particular, the trend of above inflation wage increase for Fire Rescue and Police is a significant driver of the estimated gap between revenues and expenditures and is a major challenge for the City and many municipalities.

We will also need to continue to transform other services to deliver the same or improved service levels with tax increases that do not exceed inflation. Opportunities still exist, particularly through leveraging technology and updating service delivery models; however, the transformations require increasingly more investment, take more time, and will have a greater impact on the organization, and the public.

Over the next four years, based on current assumptions, including wage increases aligned to inflation and continued police and fire rescue wage growth above inflation, a gap is expected to continue in future years in the range of \$12-15 million.

## For more information on the City of Vancouver's priorities and actions, visit:

### HOUSING STRATEGY

<http://vancouver.ca/people-programs/vancouvers-housing-strategy>

### COMMUNITY PLANS

<http://vancouver.ca/home-property-development/neighbourhood-planning-projects>

### ECONOMIC ACTION STRATEGY

<http://www.vancouvereconomic.com>

### TRANSPORTATION

<http://vancouver.ca/streets-transportation>

### PARK BOARD STRATEGIC PLAN

<http://vancouver.ca/files/cov/park-board-strategic-plan-presentation-20120627.pdf>

### GREENEST CITY

<http://vancouver.ca/green-vancouver/greenest-city-2020-action-plan>

### CLIMATE CHANGE ADAPTATION STRATEGY

<http://former.vancouver.ca/ctyclerk/cclerk/20120724/documents.rr1.pdf>

To learn more about the City of Vancouver's budget, visit:

[vancouver.ca/your-government/budgets](http://vancouver.ca/your-government/budgets)

or call: 3-1-1



© City of Vancouver