



ADMINISTRATIVE REPORT

Report Date: November 15, 2017
Contact: Ben Russell
Contact No.: 604.673.8157
RTS No.: 11834
VanRIMS No.: 08-2000-20
Meeting Date: December 6, 2017

TO: Vancouver City Council
FROM: Director of Finance
SUBJECT: 2018 Capital and Operating Budget

RECOMMENDATION

THAT Council approve the following recommendations related to the 2018 Operating Budget:

- A. THAT Council approve \$34.7 million for the following four investment areas included in the 2018 Operating budget, as detailed in Appendix 1 and comprising the following:
 - i. \$15.3 million for initiatives that focus on housing supply, affordability, and critical social issues;
 - ii. \$9.1 million for initiatives to maintain and upgrade utilities, facilities, and streets;
 - iii. \$6.1 million for initiatives to build vibrant communities; and
 - iv. \$4.2 million for initiatives to maintain and improve public safety.
- B. THAT, subject to approval of Recommendation A, Council approve the Vancouver Board of Parks & Recreation 2018 Operating Budget of \$122,805,851 in expenditures, and \$59,549,538 in fee and program revenues as outlined in Appendix 1.
- C. THAT, subject to approval of Recommendation A, Council approve the Vancouver Police Board 2018 Operating Budget of \$307,693,385 in expenditures, and \$22,992,944 in revenues as outlined in Appendix 1. Included within this amount is a budget of \$3,300,000 in 2018 for the Vancouver Police Board to begin implementation of recommendations in the Vancouver Police Department Operational Review.
- D. THAT, subject to approval of Recommendation A, Council approve the Vancouver Public Library Board 2018 Operating Budget of \$52,094,440 in expenditures, and \$4,932,000 in fee and program revenues as outlined in Appendix 1.

- E. THAT, subject to approval of Recommendations A, B, C, and D, Council approve the budget resolution attached as Appendix 2, thereby adopting the final 2018 Operating Budget as outlined in Appendix 1, with a property tax increase of 3.9%.
- F. That Council approve the 2018 Property Endowment Fund (PEF) Operating Budget of \$51.3 million revenue and \$51.3 million expenses (including transfers) as outlined in Appendix 1.

And THAT Council approve the following recommendations related to the 2018 Capital Budget:

- G. THAT Council approve an increase of \$114.8 million to the 2015-2018 Capital Plan, as outlined in Appendix 1 and detailed in Appendix C, reflecting new capital priorities identified in conjunction with the development of the 2018 Capital Budget.
- H. THAT Council approve the varying of \$2.0 million of borrowing authority in the 2015-2018 Capital Plan from "Public Safety and Public Works/Street and Bridge Infrastructure" to "Public Safety and Public Works/Street Lighting, Traffic Signals, Communications Systems."

The variation of borrowing authority requires 2/3 affirmative votes of all Council members.

- I. THAT Council approve the diverting of accumulated surplus borrowed funds of \$4.8 million from debt issued under borrowing authority in various borrowing categories in the current and prior capital plans (representing < 1% of cumulative borrowing authority approved in these capital plans) to "Parks and Recreation/Parks":
 - i. From debt borrowed under 2009-2011 Borrowing Authority \$3,963,083
 - ii. From debt borrowed under 2012-2014 Borrowing Authority \$827,902
 - iii. From debt borrowed under 2015-2018 Borrowing Authority \$58,946

The diverting of debt financing requires 2/3 affirmative votes of all Council members.

- J. THAT Council, subject to approval of Recommendations G, H, and I, approve funding sources for new Capital Projects to begin in 2018 in the amount of \$282.0 million as outlined in Appendix 1, with specific project detail provided in Appendix A, of which \$175.9 million is budgeted as expenditure in the 2018 Capital Budget and \$106.1 million is forecast to be spent in future years for projects spanning multiple years.

(\$ millions)	2018 New Funding Requests	2018 Expenditures	Future Year Expenditures
Housing	\$45.8	\$5.2	\$40.6
Childcare	8.8	2.5	\$6.3
Parks, Open Spaces and Recreation	43.8	26.5	17.3
Community Facilities	13.7	5.9	7.8
Civic Facilities	25.2	12.4	12.9
Transportation	45.5	38.8	6.7
Utilities	67.9	63.3	4.6
Equipment and Technology	25.1	15.2	9.9
City-Wide	6.1	6.1	0.0
Total	\$282.0	\$175.9	\$106.1

NOTE: Totals may not add due to rounding.

Funding sources as follows:

- Operating revenue that funds capital projects \$41.5 million
- Debenture borrowing \$91.7 million
- Special purpose reserves totalling \$40.0 million:
 - Plant and Equipment Reserve \$16.0 million
 - Capital Facilities Reserve \$8.0 million
 - Hastings Park Reserve \$5.1 million
 - Sewer/Water Rate Stabilization Reserve \$3.6 million
 - Green Fund (Golf Reserve) \$3.2 million
 - OMR (Translink Operations/Maintenance/Repairs) Reserve \$0.8 million
 - Public Art Reserve \$0.8 million
 - Revenue Stabilization Reserve \$0.7 million
 - Signature Project Public Art Reserve \$0.6 million
 - Parking Meter Reserve \$0.5 million
 - LED Reserve \$0.5 million
 - Public Art Maintenance Reserve \$0.2 million
- Developer contributions totalling \$67.5 million:
 - Development Cost Levies \$41.2 million
 - Community Amenity Contributions \$26.3 million
- User fees and levies \$8.0 million
- Reallocation of funding from previously approved capital projects \$14.1 million
- Other/External \$19.2 million

- K. THAT Council, subject to approval of Recommendations G, H, I, and J, approve the 2018 Capital Budget (expenditure budget) in the amount of \$426.4 million as outlined in Appendix 1 and detailed in Appendix B, consisting of:

(\$ millions)	Previously Approved Projects	New Projects	Total 2018 Expenditures
Housing	\$41.1	\$5.2	\$46.3
Childcare	21.7	2.5	24.2
Parks, Open Spaces and Recreation	38.2	26.5	64.7
Community Facilities	20.8	5.9	26.8
Civic Facilities	19.2	12.4	31.5
Transportation	29.1	38.8	67.8
Utilities	56.6	63.3	119.9
Equipment and Technology	23.8	15.2	39.0
City-Wide	0.0	6.1	6.1
Total	\$250.5	\$175.9	\$426.4

NOTE: Totals may not add due to rounding.

- L. THAT Staff consider all available programs from senior levels of government and other entities to leverage additional funding to support the City's capital and operating plans. Staff to report back to Council on a regular basis as funds are confirmed.

REPORT SUMMARY

The purpose of this report is to present the Operating Budget final estimates of revenue and expenditures for 2018 to Council for approval and adoption of the budget resolution in Appendix 2; to present the Property Endowment Fund 2018 Operating Budget to Council for approval; to present the Consolidated Budget for Council information; to request Council approval of an increase to the 2015-2018 Capital Plan; and to present to Council for approval the 2018 Capital Budget, which includes new Capital programs/projects and associated funding requests, and 2018 capital expenditures for continuing (previously approved) programs/projects. Forecast capital expenditures for 2019, 2020, 2021 and 2022 are also provided for information.

COUNCIL AUTHORITY/PREVIOUS DECISIONS

The Vancouver Charter requires that the Director of Finance presents the estimates of Operating budget revenues and expenditures to Council no later than April 30 each year and that Council adopt a resolution approving the budget and a rating bylaw establishing general purpose tax rates as soon thereafter as possible. It has been Council policy to approve the Operating budget in December (with the exception of an election year) in order to give certainty to plans and expenditures for the upcoming year.

The City has a policy to plan for capital project expenditures on a multi-year cycle. Since 1990, capital plans were developed in 3-year terms in order to match the term of Council and allow for a borrowing plebiscite to be held in conjunction with the civic election. On May 29, 2014, the Province enacted legislation to extend the term of Council from 3 years to 4 years effective 2014. Capital Plans are now developed in 4-year terms, starting with the 2015-2018 Capital Plan. In October 2014 (RTS 10507), Council approved the 2015-2018 Capital Plan in the amount of \$1.085 billion. As factors impacting capital priorities change, the Capital Plan is adjusted as needed to align with current priorities and budget challenges.

Examples include the addition of new priority projects, the deletion of cancelled or deferred projects and changes in planned sources of project funding. New capital priorities identified and approved by Council since 2014, including the acquisition of the Arbutus Corridor in February 2016, have increased the 2015-2018 Capital Plan to a current total of \$1.343 billion.

It has been Council practice to fund capital expenditures for waterworks, sewerage and drainage, and energy utility systems from debenture borrowing. As part of the City's debt management strategy, commencing in the 2012-2014 Capital Plan, the water utility began to transition its infrastructure lifecycle replacement program from debt financing to pay-as-you-go over two Capital Plans. The transition will be completed in the 2015-2018 Capital Plan. Similarly, commencing in the 2015 Capital Budget, the sewer utility also began a transition to a pay-as-you-go funding model. The balance of capital expenditures are funded from a combination of debenture borrowing, direct contribution from the annual Operating Budget (Capital from Revenue), Development Cost Levies (DCLs) and Community Amenity Contributions (CACs) from developers, special-purpose reserves, internal loans, fees and levies collected from property owners and contributions from senior governments and other funding partners.

Funding from the four-year Capital Plan is allocated to specific capital programs and projects through the annual Capital Budgeting process. Council approval of the annual Capital Budget is required before work can proceed on specific programs/projects.

Section 242 of the *Vancouver Charter* gives Council the authority to borrow funds for the construction, installation, maintenance, replacement, repair and regulation of waterworks, sewerage and drainage, and energy utility systems without the assent of the electorate; borrowing authority for all other purposes must be established through the electorate's approval of a borrowing plebiscite. A change in the use of electorate-approved borrowing authority prior to borrowing funds, or diverting borrowed funds to some other purpose, requires approval by a two-thirds majority of Council members.

When a capital project that is funded from borrowed funds is completed under budget, the surplus borrowed funding is held for future capital use within the same electorate-approved borrowing authority classification. Diverting the use of the surplus borrowed funds to a different classification also requires approval by a two-thirds majority of Council members.

The requirement to borrow funds to finance capital expenditures is established by Council at the time of the approval of the annual capital budget. Borrowed funds are generally paid back over 10 years to ensure that outstanding debt does not accumulate to unacceptable levels, and that annual debt servicing charges (principal and interest) are maintained at a level that does not put undue pressure on the operating budget.

Section 247A of the *Vancouver Charter* requires that full provision of annual debt servicing charges, both principal and interest, be made in the annual operating budget. This ensures that debenture holders are paid the interest component at the prescribed rate and time, and that sufficient funding is available to retire the obligation at maturity.

In June 2003, Council approved the Financing Growth Policy which sets out policy for the collection and use of DCLs and CACs. Pursuant to Section 523D of the *Vancouver Charter*, DCLs are collected to assist in recovering growth-related capital costs that arise from new developments. DCLs are generally allocated on a "cash available" basis among park,

replacement housing, transportation, utility, and childcare projects in proportions specified in various DCL By-laws. CACs are developer contributions that arise from rezonings. Within the context of the City's Financing Growth Policy, an offer of a CAC to address the impacts of rezoning can be anticipated from the owner of a rezoning site. CAC offers typically include either the provision of on-site amenities or a cash contribution towards other public benefits and they take into consideration community needs, area deficiencies and the impact of the proposed development on City services. The allocation of both DCL and CAC funding to specific amenities requires Council approval.

Council authority is required to reallocate capital funding over \$50,000.

The Property Endowment Fund (PEF) was created by Council in 1975, at which time "[it] was agreed by Council that the Property Endowment Fund should be regarded as a legacy or an endowment which belongs to all the taxpayers and should be managed for the benefit of future generations."

Since that time, the PEF has continued as a separate fund of the City. Key property transactions have been brought forward to Council for approval, and financial operations have been reported publicly as a supplementary schedule to the Annual Financial Statements.

PEF operating budgets were formerly approved by Council in camera, but beginning with the 2015 Budget are now included in the City's annual public consolidated budget report to provide a more comprehensive view of the City's financial plans. The PEF capital budget, due to the confidential nature of the property transactions accounted for in that budget, will continue to be approved by Council in camera.

COMMENTS OF THE CITY MANAGER AND DIRECTOR OF FINANCE

The 2018 Budget and Five-Year Financial Plan will enable continued progress in advancing key Council and Board priorities, including:

- Housing, affordability and homelessness;
- Safety, inclusion and creativity;
- Economic development;
- Greenest city; and
- Value for money.

The 2018 Budget and Five-Year Financial Plan have been developed within the City's guiding principles for financial sustainability, including keeping property taxes and fees affordable, living within our means, keeping debt at a manageable level, and maintaining our assets in an appropriate state of repair.

The City of Vancouver is regulated under the Vancouver Charter, a provincial statute. Other municipalities in the province are regulated under the Community Charter. While the Vancouver Charter requires only that the City present a one-year budget, other local municipalities present five-year financial plans as required under the Community Charter. Prior to the 2016 Budget, the City included a 3-year financial view in the annual budget document. In order to better align with best practice and improve the transparency, accountability and understanding of the City's finances, commencing with the 2016 and 2017 budgets and continuing with the 2018 Budget document, the financial plan now covers a

five-year period; for the 2018 Budget, the financial plan covers 2018 through 2022. With the inclusion of this five-year financial plan, the City's reporting is consistent with the reporting presentation used by other municipalities in British Columbia.

The 2018 Budget includes a property tax increase of 3.9%, that provides funding for cost increases in existing services as well as new investments in key priorities to address housing supply, affordability and critical social issues; to improve service and maintain and upgrade streets, utilities, and facilities; to continue building vibrant communities; and to increase investments in public safety.

REPORT

Background/Context

The 2018 Capital and Operating Budget (Appendix 1 - 2018 Budget and Five-Year Financial Plan) contains information about the City of Vancouver's fiscal plans, steps involved in creating the budget, economic outlook, fiscal responsibilities, an update of the progress of achieving Council and Board priorities, and an understanding of property taxes and fees. It also includes the 2018 Capital and Operating Budget details as well as departmental service plans and performance metrics (metrics are reported in departmental service plans in Appendix 1, as well as in summary format in Appendix D).

The proposed 2018 PEF Operating Budget is also included in this report, to be approved in conjunction with the City's Operating and Capital budgets.

The Consolidated Budget, which summarizes the City's full financial budget including all funds and entities are also included in this report for information. The Consolidated Budget is aligned to the City's consolidated financial statements which are reported annually. This Best Practice has been incorporated into the City's budget process since the 2015 Budget.

As part of the 2015-2018 Capital Plan and reflected in the 2018 Capital Budget, leverage of funding from senior levels of government is anticipated in order to meet the objectives of the capital plan. A number of federal and provincial funding programs were announced in 2016 and 2017, and the City has been successful in several applications for funding from these programs toward City priorities in affordable housing, childcare, and transportation. Staff will continue to review these programs during 2018 to assess the applicability to the City's capital program and submit funding applications as appropriate. Successful funding applications will be confirmed with Council through the regular quarterly Capital Budget updates.

Strategic Analysis

1. 2018 Budget

The balanced 2018 Operating Budget presented in Appendix 1 is \$1.405 billion.

The 2018 Capital Budget (expenditure budget), also presented in Appendix 1, totaling \$426.4 million includes new program/project requests and associated funding, and continuing Capital program/project expenditures from prior years. Forecast capital expenditures for 2019-2022 are also provided for information.

Over the four years of a capital plan, the original planned uses of debenture funding across the capital plan categories may change or new priorities may arise that require more debenture funding than is provided for in the capital plan borrowing plebiscite categories. Recommendations H and I accordingly bring forward debt financing adjustments necessary to support the capital priorities included in the proposed 2018 Capital Budget.

The 2018 PEF Operating Budget of \$51.3 million revenue and \$51.3 million expenses (including transfers) is detailed in Appendix 1.

The 2018 Consolidated Budget (on a Financial Statement basis) of \$1,669 million revenue and \$1,595 million expenses (including transfers) is also detailed in Appendix 1.

2. Public Engagement

In late September and through October 2017, more than 3,500 touchpoints with the public were collected through a range of public engagement tools, providing feedback on City services and the value perceived from those services. The public engagement included:

- an Online Service Satisfaction survey (also available in Traditional Chinese), and
- Face-to-Face Outreach including in-person budget road shows held at a number of community sites and a meeting with stakeholders from community organizations, advisory committees and City of Vancouver partners such as Business Improvement Associations.

The feedback received from this engagement has been used to inform the priorities of the proposed 2018 budget. A summary of results is included in the 2018 budget report.

3. The Budget Resolution

With approval of the Recommendations for the Operating Budget in this report, the 2018 budget will be brought into balance and the 2018 budget cycle completed. Council approval of this final position requires adoption of the budget resolution attached as Appendix 2. The resolution identifies estimates of revenues and expenditures of the City for 2018 with total estimated gross expenditures of \$1,404,842,741 including a General Purpose Tax Levy of \$749,596,940 and other revenue sources of \$655,245,801.

4. Final Steps

Approval of the 2018 Operating Budget is occurring prior to the finalization of the 2018 Assessment roll. In mid-April 2018, the Director of Finance will seek Council approval on the distribution of the general purpose tax levies among the property classes in 2018. After receiving Council direction, the Director of Finance will, in early May 2018, bring forward a report summarizing the property taxes levied by the City and other taxing authorities for each property class, and seek Council adoption of the applicable rating by-laws and resolutions. Based on the 2018 Revised Assessment Roll, the final property tax increase will be adjusted in April to collect \$749.6 million of general purpose tax levy as set out in the attached 2018 Budget Resolution.

CONCLUSION

The approval of the attached resolution will finalize the process of balancing the 2018 Operating Budget totaling \$1.405 billion with a property tax increase of 3.9%.

This report provides an overview of funding requested for new Capital Projects to begin in 2018 including specific funding sources, a summary of the 2018 Capital Budget (expenditure budget) of \$426.4 million, and capital expenditure forecasts for 2019, 2020, 2021, and 2022 for information. Capital Budget detail is provided in Appendices A and B.

The 2018 PEF operating budget of \$51.3 million revenue and \$51.3 million expenses (including transfers) and the Consolidated Budget (Financial Statement basis) of \$1,669 million in revenue and \$1,595 million in expenses are also included in this public consolidated budget document.

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