



ADMINISTRATIVE REPORT

Report Date: November 16, 2018
Contact: John Miles
Contact No.: 604.673.8157
RTS No.: 12577
VanRIMS No.: 08-2000-20
Meeting Date: December 11, 2018

TO: Vancouver City Council
FROM: Director of Finance
SUBJECT: 2019 Capital and Operating Budget

RECOMMENDATION

THAT Council approve the following recommendations related to the 2019 Operating Budget:

- A. THAT Council approve \$27.8 million for the following five investment areas included in the 2019 Operating Budget, as detailed in Appendix 1 of this report and comprising the following:
 - i. \$7.7 million for initiatives to address housing supply and affordability and improve availability and supports for renters and vulnerable citizens;
 - ii. \$7.7 million for initiatives to improve and maintain service levels;
 - iii. \$5.4 million for initiatives to increase investments in public safety;
 - iv. \$3.7 million for initiatives to continue to build vibrant communities and public spaces that support arts, culture and the environment; and
 - v. \$3.2 million for initiatives to provide safe and healthy workspaces and public spaces.
- B. THAT Council approve the Vancouver Board of Parks & Recreation 2019 Operating Budget of \$128,124,175 in expenditures, and \$61,597,742 in fee and program revenues as outlined in Appendix 1 of this report.
- C. THAT Council approve the Vancouver Police Board 2019 Operating Budget of \$317,287,565 in expenditures, and \$22,921,167 in revenues as outlined in Appendix 1 of this report. Included within this amount is a budget of \$2,581,530

in 2019 for the Vancouver Police Board to continue implementation of recommendations in the Vancouver Police Department Operational Review.

- D. THAT Council approve the Vancouver Public Library Board 2019 Operating Budget of \$54,075,149 in expenditures, and \$4,932,000 in fee and program revenues as outlined in Appendix 1 of this report.
- E. That Council approve the 2019 Property Endowment Fund (PEF) Operating Budget of \$61.5 million revenue and \$61.5 million expenses (including transfers) as outlined in Appendix 1 of this report.
- F. THAT, subject to approval of Recommendations A, B, C, and D, Council approve the budget resolution attached as Appendix 2 of this report, thereby adopting the final 2019 Operating Budget of \$1,516,474,153 as outlined in Appendix 1, with a property tax increase of 4.9%, comprised of 1.0% to fund additional investments in infrastructure renewal approved in the 2019-2022 Capital Plan, 1.7% to cover increased costs related to the provincial government's new Employer Health Tax, and 2.2% to cover inflationary and wage costs of existing services, and new investments as outlined in Recommendation A, to maintain and improve services.

And THAT, subject to approval of Recommendation F, Council approve the following recommendations related to the 2019 Capital Budget:

- G. THAT Council approve funding sources for new Capital Projects to begin in 2019 in the amount of \$371.1 million as outlined in Appendix 1 of this report, with specific project funding detail provided in Appendix A, of which \$302.4 million is budgeted as expenditure in the 2019 Capital Budget and \$68.7 million is forecast to be spent in future years for projects spanning multiple years.

(\$ millions)	2019 New Funding Requests	2019 Expenditures	Future Year Expenditures
Affordable Housing	\$30.4	\$24.3	\$6.2
Childcare	0.6	0.6	\$0.0
Parks and Open Spaces	44.3	34.5	9.8
Community Facilities	12.2	10.0	2.2
Arts and Culture	9.5	8.3	1.2
Civic Facilities and Equipment	27.2	20.2	7.0
Public Safety	11.7	8.8	2.8
Transportation	77.8	61.8	16.0
One Water	86.3	86.3	0.0
Solid Waste	15.4	11.2	4.2
Renewable Energy	23.1	3.7	19.4
Technology	27.0	27.0	0.0
Overhead	5.8	5.8	0.0
Total	\$371.1	\$302.4	\$68.7

NOTE: Totals may not add due to rounding.

Funding sources as follows:

- Operating revenue that funds capital projects \$75.5 million
- Debenture borrowing \$130.3 million
- Special purpose reserves totalling \$34.3 million:
 - Plant and Equipment Reserve \$30.0 million
 - Public Art Reserve \$1.4 million
 - Parking Meter Reserve \$1.0 million
 - Green Fund (Golf Reserve) \$0.5 million
 - LED Reserve \$0.5 million
 - Public Art Maintenance Reserve \$0.4 million
 - Solid Waste Capital Reserve \$0.4 million
 - Hastings Park Reserve \$0.1 million
- Developer contributions totalling \$101.0 million:
 - Development Cost Levies \$93.7 million
 - Community Amenity Contributions \$7.3 million
- User fees and levies \$7.5 million
- Other/External \$22.5 million

H. THAT Council, subject to approval of Recommendation G, approve the 2019 Capital Budget (expenditure budget) in the amount of \$568.1 million as outlined in Appendix 1 and detailed in Appendix B of this report, consisting of:

(\$ millions)	Previously Approved		Total 2019 Expenditures
	Projects	New Projects	
Affordable Housing	\$54.0	\$24.3	\$78.2
Childcare	17.8	0.6	18.4
Parks and Open Spaces	19.6	34.5	54.1
Community Facilities	22.8	10.0	32.8
Arts and Culture	12.5	8.3	20.8
Civic Facilities and Equipment	24.5	20.2	44.8
Public Safety	11.4	8.8	20.2
Transportation	32.5	61.8	94.3
One Water	20.2	86.3	106.5
Solid Waste	39.7	11.2	51.0
Renewable Energy	4.9	3.7	8.5
Technology	5.3	27.0	32.3
Overhead	0.3	5.8	6.1
Total	\$265.7	\$302.4	\$568.1

NOTE: Totals may not add due to rounding.

I. 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 2019 to Council for approval and adoption of the budget resolution in Appendix 2; to present the Property Endowment Fund 2019 Operating Budget to Council for approval; to present the Consolidated Budget for Council information; and to present to Council for approval the 2019 Capital Budget, which includes new Capital programs/projects and associated funding requests, and 2019 capital expenditures for those new projects and continuing (previously approved) programs/projects. Forecast five (5) year financial plan and five (5) year capital expenditures for 2020, 2021, 2022, and 2023, are also provided for information in Appendix 1. It is noted that on November 13, 2018, Council voted to request urgent funding from the Provincial Government in the amount of the 0.5% tax increase approved in 2016 (\$3.5 million) to fund resources allocated to the overdose crisis. This potential funding is not factored into this Budget, however an adjustment to the Budget can be made should funding confirmation be received by December 18, 2018,

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, in line with best practice, to approve the Operating budget in December in order to give certainty to plans and expenditures for the upcoming year.

On March 5, 2012, 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”*.

The City engaged PricewaterhouseCoopers (PwC) public sector practice to review the City's budget process. A summary of leading budget practices identified by PwC included:

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

Enhancing Public Consultation

- Conduct public consultation in advance of the budget process every three years versus annual consultation
- Consultation informs strategic goals which then inform the budget

Providing Relevant Budget Information

- Align performance metrics to the City's strategic goals
- Align operating and capital budget information
- Budget for all City funds and entities
- Align budget and financial statements in an understandable way

- Tailor user-friendly information to the needs of each audience (e.g., Council, Management, Public)

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

Since 2013, the City has continued to refine its budgeting process based on these best practices.

The City has a policy to plan for capital project expenditures on a multi-year cycle. Since 1990, capital plans were developed in three-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 three years to four years effective 2014. Capital Plans are now developed in four-year terms, starting with the 2015-2018 Capital Plan. In July 2018 (RTS 12408), Council approved the 2019-2022 Capital Plan in the amount of \$2.8 billion, comprised of \$2.2 billion City-led capital programs and \$0.6 billion in-kind contributions achieved through development. As factors impacting capital priorities change, the Capital Plan will be 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.

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, the water utility has transitioned its infrastructure lifecycle replacement programs from debt financing to pay-as-you-go, helping to lower the City's overall debt and save interest costs over the long-term. The City will continue to explore opportunities, where appropriate, to transition the 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 further enhance our credit ratings. 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.

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.

In April 2018, Council approved a new Operating Budget policy and updates to the Capital Budget policy. These policies reflect delegated authorities and expenditure thresholds.

COMMENTS OF THE CITY MANAGER AND DIRECTOR OF FINANCE

Key priorities for the 2019 Budget and Five-Year Financial Plan are:

- Increase housing supply and affordability, and improve availability and supports for renters and vulnerable citizens.
- Maintain and improve operations and service levels.
- Invest in public safety.
- Continue to build vibrant communities and public spaces that support arts, culture and the environment.
- Meet our commitments to provide safe and healthy workplaces and public spaces.

The 2019 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 a state of good 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 three-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 budget and continuing with the 2019 Budget document, the financial plan now covers a five-year period; for the 2019 Budget, the financial plan covers 2019 through 2023. 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 2019 budget follows the best practices outlined by the PWC review of the City's Budget process in 2013 and its continued improvements. As well, the budget follows the recommended criteria for transparency of municipal budgets outlined by the C.D. Howe Institute. In their annual report released in November 2018 ("Show Us the Numbers: Grading the Financial Reports of Canada's Municipalities"), the C.D. Howe Institute evaluated the financial presentations of major Canadian municipalities in their most recent 2018 budget and 2017 financial statements. Letter grades were derived for each city by adding weighted scores in a number of categories, including:

- **Timeliness of budget:** Councillors should vote on budgets before the beginning of the fiscal year. The City received the highest score in this category as Council approved the budget on December 12, 2017, two weeks before the start of the fiscal year.
- **Key figures presented early and prominently:** Key information such as the total operating and capital budgets should be visible to the reader early in the report. The City includes a highlight sections with the Operating and Capital totals on page 2.
- **Presents City-wide gross revenues and expenditures:** Municipal budgets should show gross revenue and expense figures so that users of financial statements have a comprehensive overview of the municipality's fiscal footprint. Since 2012, the City has presented revenues and expenditures on a gross basis.

The City of Vancouver received an overall grade of A- in the 2018 report.

In developing the 2019 Budget and Five-Year Financial Plan, an objective of City staff was to present the information in a form that would be accessible to all, placing particular emphasis on explaining the rationale behind budgetary decisions, creating infographics that summarizes the data, and using language that is easy to understand. In November 2018, the Government

Finance Officers Association (GFOA) named the City of Vancouver as a recipient of the Distinguished Budget Presentation Award for the City's 2018 Budget and Five-Year Financial Plan. This award recognizes organizations whose budget documents explain complex information in a clear and engaging way. The GFOA program encourages and assists local governments in Canada and the United States in preparing high-quality budget documents that reflect guidelines established by the GFOA's best practices. The award recognizes individual governments that succeed in achieving that goal of making budgeting information accessible to residents and businesses.

The 2019 Budget includes a property tax increase of 4.9%, reflecting the additional investments in infrastructure renewal approved in the 2019-2022 Capital Plan (1%), the property tax impact of the provincial government's new Employer Health Tax (1.7%), and inflationary and wage costs of existing services and new investments to maintain and improve services (2.2%). Appendix 1 of this report (2019 Budget and Five-Year Financial Plan) includes commentary on the financial pressures the City faces, a summary of the progress made on Council priorities, and details about the priority investments the City will be making over the next five years to respond to the needs of our residents and businesses and to ensure Vancouver remains a vibrant, sustainable and livable city. These include increased investment in infrastructure renewal as part of the Capital Budget and increases in key service areas such as public safety in the Operating Budget. In 2017 the Vancouver Police Department completed an operational review which outlined a multi-year plan for operations and staffing – 2018 was the first year of that plan which continues in 2019. In 2018, Vancouver Fire and Rescue Services completed an operational review, and the 2019 budget reflects the first year investment of a six year investment plan which addresses all staffing resources recommended in that review.

REPORT

Background/Context

The 2019 Budget and Five-Year Financial Plan (Appendix 1) 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 2019 Capital and Operating Budget details, as well as departmental service plans and performance metrics (metrics are reported in departmental service plans in Appendix 1, and in summary format in Appendix C).

The proposed 2019 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 2019-2022 Capital Plan and reflected in the 2019 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 recent years, 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 2019 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. 2019 Budget

The balanced 2019 Operating Budget presented in Appendix 1 (2019 Budget and Five-Year Financial Plan) is \$1.516 billion.

The 2019 Capital Budget (expenditure budget) totaling \$568.1 million, also presented in Appendix 1, includes expenditures in 2019 for new capital programs/projects and expenditures in 2019 for previously approved programs/projects continuing from prior years. Forecast capital expenditures for 2020-2023 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.

The 2019 PEF Operating Budget of \$61.5 million revenue and \$61.5 million expenses (including transfers) is detailed in Appendix 1.

The 2019 Consolidated Budget (on a Financial Statement basis) of \$1.852 billion revenue and \$1.739 billion expenses (including transfers) is also detailed in Appendix 1.

2. Public Engagement

City staff developed a two-pronged approach to help inform and then validate the 2019 Budget with input from residents, businesses and stakeholders:

- Phase one involved a detailed research project with an external opinion research firm to understand resident and business satisfaction with City services and to understand the priorities among a representative sample of Vancouver residents.
- Phase two involved a range of digital and in-person activities to test priorities for spending (including the emerging directions in the budget), perceptions of financial management, and approaches to managing service delivery including taxation.

Nearly 5,500 touchpoints were tracked over the course of the budget consultation process, not including the online social media outreach and visits to the budget information pages on the City of Vancouver's website.

The feedback received from this engagement has been used to inform the priorities of the proposed 2019 budget. A summary of results is included in the 2019 budget report Appendix 1.

3. The Budget Resolution

With approval of the Recommendations for the Operating Budget in this report, the 2019 budget will be brought into balance and the 2019 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 2019 with total estimated gross

expenditures of \$1,516,474,153 including a General Purpose Tax Levy of \$793,827,940 and other revenue sources of \$722,646,213.

4. Final Steps

Approval of the 2019 Operating Budget is occurring prior to the finalization of the 2019 Assessment roll. In April 2019, the Director of Finance will seek Council approval on the distribution of the general purpose tax levies among the property classes in 2019. After receiving Council direction, the Director of Finance will, in May 2019, 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 2019 Revised Assessment Roll, the final property tax increase will be adjusted in April to collect \$793.8 million of general purpose tax levy as set out in the attached 2019 Budget Resolution.

CONCLUSION

The approval of the attached resolution will finalize the process of balancing the 2019 Operating Budget totalling \$1.516 billion with a property tax increase of 4.9%.

This report provides an overview of funding requested for new Capital Projects to begin in 2019 including specific funding sources, a summary of the 2019 Capital Budget (expenditure budget) of \$568.1 million, and capital expenditure forecasts for 2020, 2021, 2022, and 2023, for information. Capital Budget detail is provided in Appendixes A and B.

The 2019 PEF operating budget of \$61.5 million revenue and \$61.5 million expenses (including transfers) and the Consolidated Budget (Financial Statement basis) of \$1.852 billion in revenue and \$1.739 billion in expenses are also included in this public consolidated budget document.

* * * * *