



REPORT

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Meeting Date: July 6, 2021
[Submit comments to Council](#)

TO: Vancouver City Council
FROM: Director of Finance
SUBJECT: 2022 Budget Outlook

RECOMMENDATION

THAT Council receive for information the 2022 Budget Outlook.

REPORT SUMMARY

The purpose of this report is to present the 2022 Budget Outlook to Council for information as an overview of the financial landscape going into the next budget cycle, including external factors, the current 2021 budget forecast, and a review of the key revenue and expense drivers in the 5 year financial plans. The Budget Outlook also provides Council with information on the timing and approach of ongoing staff work to find efficiencies and cost savings across the organization that will inform multiple scenarios of property tax increases of no more than 5% for Council's consideration as part of the 2022 Budget development process.

The 2022 Budget will be developed in an environment of continued service and financial impacts to the City from the pandemic. The City faced significant revenue losses and increased costs in 2020 and 2021 due to the COVID-19 pandemic, and there will be lasting impacts that span multiple years. Much of the City's resources continue to be focused on recovery from the pandemic, and while the provincial reopening plan will improve the financial picture, the City will still face significant cost pressures and service demands, along with our significantly reduced stabilization reserve. The City has received senior government support in a number of areas including \$16.4 million from the Safe Restart BC funding program. The amounts received are far below the levels needed to offset the estimated \$180 million in revenue losses noted above. The City will continue to seek funding from senior governments and has applied to Safe Restart BC funding programs to support homelessness-related costs and permit transformation. In addition to funding to restart funding to offset revenue losses, the City has also received funding

from the federal Reaching Home initiative and the Rapid Housing initiative for additional programs.

The Budget Outlook will outline steps that staff will take to look for cost savings, efficiencies, and new sources of revenue, as well as to provide Council with options to consider to keep the property tax increase to 5% or less. Staff will undertake an engagement process in July and August to hear from residents and businesses on input into the process and staff will report back to Council with progress on developing the service plans, financial plan and budget over the next few months. These options for a tax increase of no more than 5% will be brought to Council to consider in early November, with the full draft 2022 Budget and service plans expected to be available to the public and Council in late November.

Given the current Budget outlook for the city and following on Council's direction to provide options for a property tax increase of no more than 5%, 2022 will be a 'limited spending' budget. City staff are working hard to maintain services within financial constraints, and on reducing costs for 2022. There will be limited funds available for new programs or improvements. Decisions may need to be made about where to spend less in next year's budget, and that could impact programs and services. Should the financial situation improve, there is a need to begin to build back our reserves that were depleted due to COVID in order that the City is prepared to deal with future revenue fluctuations.

COUNCIL AUTHORITY/PREVIOUS DECISIONS

There is no applicable Council Authority or previous decisions relevant to this report.

CITY MANAGER'S/GENERAL MANAGER'S COMMENTS

The City Manager recommends approval of the foregoing.

REPORT

Background/Context

The Budget Outlook is an important step in the budget process to provide Council and the public with information about the financial landscape that will inform the budget development process. The Outlook will be followed in the fall with further updates to Council, public consultation and the development of detailed budgets and service plans.

On April 28th, 2021, Council passed a motion to set a target limit on the property tax rate increase to no more than 5% in the 2022 Budget, with direction to staff to first find efficiencies and cost savings across the organization that will inform multiple scenarios of property tax increases for Council's consideration as part of the 2022 Budget development process.

Strategic Analysis

The 2022 Budget Outlook provides an overview of financial landscape going into the next budget cycle, including external factors, the current 2021 budget forecast, and a review of the key revenue and expense drivers in the 5 year financial plans. The Outlook also provides Council with the principles and approach that will be used in the development of the budget, as well as options for different tax increase scenarios.

Staff will develop service plans, revenues and costing, and options for a tax increase of up to 5% based on Council's priorities and engagement with the public prior to Council's consideration of the Draft 2022 Budget. The outlook initiates the budget process, and specific budget decisions are not made at this time to allow for development of service plans and options, and seek input from the public.

The planning framework for the City below illustrates the continuum that connects the public, City Council, Boards (Park, Library, Police) and City staff. The continuum integrates vision, strategies, plans and budgets with the delivery of services to the public. The early setting of Council priorities for the 2022 budget is an important part of this continuum.



Council priorities

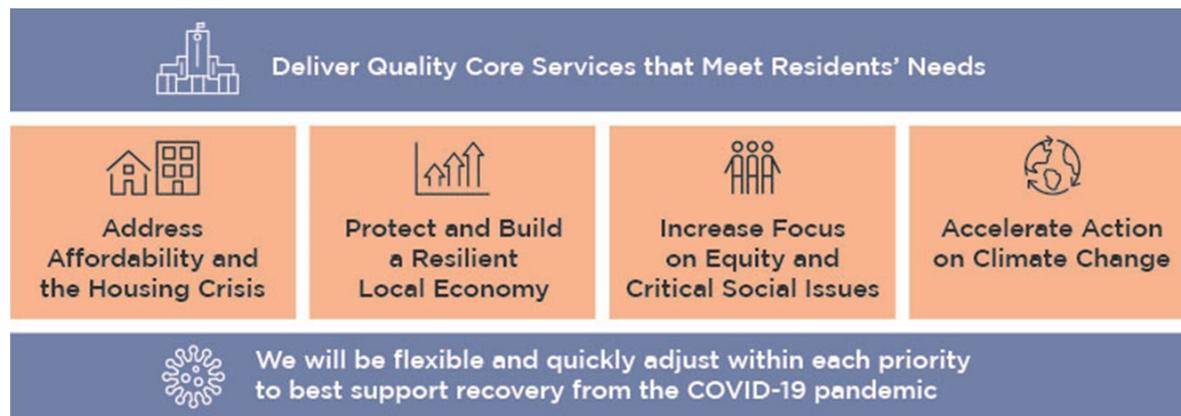
In 2019, City Council approved a set of priorities to guide the development of the 2020 Budget. In 2020, Council identified economic and community recovery from the COVID-19 pandemic as an additional areas of focus for the City, supporting the existing priorities. This has helped Staff ensure the City is focusing its attention and resources on the activities that are most important to Council and to Vancouver's residents and businesses. The proposed priorities for the 2022 Budget are consistent with Council's direction on priorities for 2021.

The primary priority is to maintain and improve the core services that meet the needs of residents. Four additional priorities will also guide City staff's development of departmental service plans and budgets:

- Deliver quality core services that meet residents' needs
- Address affordability and the housing crisis
- Protect and build a resilient local economy

- Increase focus on equity and critical social issues
- Accelerate action on climate change

As the City continues to respond to the challenges created by the pandemic and plan a careful and considered return to full operations, we will be flexible and quickly adjust the approach within each priority to best support recovery from the COVID-19 pandemic and its economic, social and other impacts on the city.



COVID recovery

In April 2020, shortly after the start of the Covid-19 pandemic, the City initiated the COVID-19 Recovery Program, intended to drive, coordinate and align the City's contributions to Vancouver's community and economic recovery, in addition to the substantial COVID-19 response efforts undertaken by the City's Emergency Operations Centre (EOC) and various City departments.

Within the context of significant COVID-related financial constraints as outlined in this report, the City prioritized allocation of constrained budget resources where possible to support response and recovery initiatives. In a report to Council on April 27, 2021, staff outlined 46 initiatives the City has undertaken that have contributed to Vancouver's community and economic recovery, guided by the recommendations of Council Covid-19 Recovery Committee (CCRC).

As part of the 2022 annual budget process, staff will prepare options for Council to consider that will continue to allocate existing budget resources to support community and economic recovery.

External landscape

The 2022 Budget will be developed in an environment of continued uncertainty regarding future COVID-19 impacts expected into 2022. With the announcement of the provincial reopening plan and continued progress on vaccinations, there are many positive signs about the recovery for next year. However, many of the impacts of COVID will continue for many years.

As part of building the Budget Outlook, staff have reviewed economic forecasts from a variety of external organizations, including the Conference Board of Canada, and the provincial and federal governments. These economic forecasts inform forecasts for a number of revenue

streams such as parking that historically have been linked to economic growth. For the rest of 2021 and 2022, the level of COVID restrictions will have a significant impact on many city revenue streams. As such the Budget Outlook draws on the provincial reopening plan to inform revenue projections, recognizing that reopening dates may change depending on vaccination rates and case counts.

While COVID resulted in a significant drop in economic activity in 2020, a strong recovery in 2021 and 2022 are expected to bring economic activity in Metro Vancouver to higher than pre-COVID levels. In 2020, Metro Vancouver real GDP fell by 5% from 2019 as a result of COVID. In 2021, real GDP is forecast to grow by 4.9%, nearly regaining the 2020 drop. By 2022, Metro Vancouver real GDP will exceed 2019 levels by an estimated 3.9%. In their respective 2021 budgets, both Province of BC and the Federal Government project that real GDP growth in 2021 and 2022 will more than offset revenues due to COVID, although different sectors of the economy will see different paths to recovery, and some forms of activity such as daily commuting for office work may see permanent shifts.

The Consumer Price Index (CPI) for Metro Vancouver increased by 0.6% in 2020, and is forecast to increase by 1.8% in 2021 and 2.5% in 2022, for an average of 1.6% since 2019. The increase in inflation in 2021 and 2022 is driven mainly by energy, metal and food price increases due to growth in commodity raw material prices in industries such as the petrochemical, metal, semiconductors and agriculture industries. Furthermore, there has been supply chain disruptions that sent industrial production and distribution costs soaring such as the winter storm in Texas earlier this year that affected electricity supply and forced refineries and businesses shutdown. Shortages in ocean shipping containers due to strong restocking demand and unload congestion at ports also send the container freight rates to a historic level to bring products manufactured in Asia to North America. Additionally, the re-opening of the economy increases demand of products and services, which generate additional underlying inflation pressures.

Construction materials such as lumber, cement, concrete have seen considerable increases in prices year over year and continue to look to be firming as construction and housing continue to be heated markets.

Products used heavily by the City such as PVC pipes and fittings or electrical conduit have seen a scarcity in the market and therefore price increases, due to shortage of raw material resins used for their production. Moreover, other high use products such as ductile iron and copper pipes and fittings, electrical supplies, wire and cabling, waterworks brass fittings, mechanical couplings and steel street lighting poles are anticipated to have price increases associated with inflation in international metal prices.

2021 Forecast update

An updated financial forecast for 2021 has been posted to the City's web site <https://vancouver.ca/files/cov/2021-first-quarter-review-operating-capital-budgets.pdf>. This section summarizes some of the key revenue and expenditure changes and the impacts on the City's general revenue stabilization reserve uncommitted balance. The forecast was prepared prior to the announcement of the provincial reopening plan, and staff are reviewing the impacts and opportunities for the City's financial forecast.

Revenue forecast update

The revised forecast shown in the table below anticipates revenues to be lower by \$8.8M vs the 2021 Budget. Key items impacting the revenue forecast include:

- Additional provincial health restrictions which were put in place between January and May, including restrictions on indoor activities and travel within BC. These restrictions have resulted in a reduction in parking activity and a reduction in program fee revenue.
- Development permit revenues have increased, as a result of an improvement in development activity.

Expenditure forecast update

The expenditure forecast is revised to include changes related to:

- The continued cost savings as a result of facilities operating at lower capacity in line with Provincial Health Orders, including vacancy savings, delayed hiring and other fixed costs savings
- Impacts of fringe benefits rate increases
- Estimated impact of collective agreements

There is still a high level of uncertainty in revenue forecasts, and forecasts will continue to be updated on a regular basis and shared with Council.

Reserve update

As a result of the forecast changes above, the anticipated draw on reserves in 2021 is \$66M. After considering the upcoming commitments, including additional permit backlog accumulated in 2020, the current forecast of the reserve balance at year-end shows no uncommitted balance left. The target range is 8-16% of annual non-utility operating revenues. Committed balances include items such as revenue received and set aside to complete outstanding rezoning and permit applications.

Other Taxing Authorities

The City's property taxes fund approximately 59% of the Operating Budget. The City also collects taxes on behalf of other taxing authorities, including the provincial government (regular school tax as well as the additional school tax on homes valued above \$3 million), TransLink, BC Assessment, Metro Vancouver, and the Municipal Finance Authority of BC.

Over the last decade, property taxes levied by the provincial government and regional taxing authorities to fund regional services, schools, transit and property assessment services have increased substantially. Vancouver City Council has no control over how much other taxing authorities charge or how they distribute those levies across the region. As property values in Vancouver continue to be higher than those in other Metro Vancouver municipalities, the amount of provincial and regional property taxes paid by Vancouver businesses and residents is typically higher than those in the rest of the region. This impacts businesses and residents' capacity to pay property tax increases.

Municipal Finance Reform

Local governments and their representative organizations, Federation of Canadian Municipalities (FCM) and Union of BC Municipalities (UBCM), have noted for over a decade that the current municipal funding model and the overreliance on property taxes are neither sustainable nor resilient. The COVID-19 pandemic has highlighted the fragility of the current model that is fundamentally misaligned with the modern reality of the role of local governments, and elevated the need for a thorough review and reform of how infrastructure, public amenities and services should be funded in the future.

To deliver their expanded mandates, local governments need appropriate funding sources that are sustainable, predictable and reliable. Consideration should also be given to address the evolving economic activities (e.g., e-commerce, sharing economy) that rely less and less on bricks-and-mortar businesses, on which property taxes are based.

UBCM is undertaking work to refresh the 2013 report, “Strong Fiscal Futures: A Blueprint for Strengthening BC Local Governments’ Finance System”. This work was delayed due to COVID-19, but is now on track to deliver a report to the UBCM Convention in September. Staff will take a coordinated approach and work with UBCM and Metro Vancouver municipalities to evaluate recommendations coming out of this report.

Senior Government Partnerships and Funding

The City continues to pursue strategic inter-government partnerships and predictable long-term funding sources to address the critical infrastructure and community needs.

Below are five priority areas staff have been focusing on to seek senior government support:

- Affordable Housing
- Child Care
- Climate Emergency and Resilience Infrastructure
- Community and Cultural Infrastructure
- Rapid Transit and Transportation Infrastructure

Currently, funding is typically secured through applications to specific programs or negotiated funding agreements with senior governments. Some projects are delivered by the City with senior government support while others are delivered by our non-profit partners.

As of June 15, 2021, the City has secured approximately \$58.5 million through funding applications and \$87.0 million through negotiated funding agreements to support the Capital Plan and address City priorities.

The following table provides a summary of the senior government support secured through applications and negotiated agreements since late 2018 for projects and programs delivered by the City and projects delivered by partners as part of the 2019 – 2022 Capital Plan.

Status of Funding Applications by Priority Area

| | Requested | | Approved | | | In Progress | | Unsuccessful | | |
|--|-----------|-----------|----------|----------|-----|-------------|----------|--------------|-----------|-----|
| Housing | 12 | \$180.9 M | 5 | \$1.2 M | 1% | 4 | \$29.2 M | 3 | \$150.5 M | 83% |
| Childcare | 3 | \$4.0 M | 2 | \$1.0 M | 25% | 1 | \$3.0 M | 0 | \$0.0 M | 0% |
| Climate Emergency & Resiliency Infrastructure | 22 | \$145.3 M | 9 | \$19.2 M | 13% | 8 | \$38.7 M | 5 | \$86.9 M | 60% |
| Community & Cultural Infrastructure | 7 | \$21.5 M | 4 | \$6.5 M | 31% | 1 | \$9.7 M | 2 | \$5.0 M | 23% |
| Rapid Transit & Transportation Infrastructure | 29 | \$48.3 M | 20 | \$30.6 M | 63% | 7 | \$14.4 M | 2 | \$2.0 M | 4% |
| TOTAL | 73 | \$400.0 M | 40 | \$58.5 M | 15% | 21 | \$95.0 M | 12 | \$244.4 M | 61% |

Funding Secured via Negotiated Agreements

| Type | Description | Amount |
|---|---|----------|
| Federal | Housing | \$51.5 M |
| MOU - Provincial | Childcare | \$33.0 M |
| Federal | Reaching Home | \$1.6 M |
| Other - Canadian Medical Assn Foundation | COVID-19 Community Response Fund for Vulnerable Populations | \$0.9 M |
| TOTAL | | \$87.0 M |

Operating Budget Outlook 2022 -2026

Initial 2022 Outlook

The City of Vancouver was under immense pressure in 2020 and again in 2021 due to the financial, community, and service impacts of COVID-19. Vancouver's budget was significantly impacted with \$89 million in revenue losses in 2020 and \$90 million expected in 2021. As well, additional costs were incurred in responding to the community needs and provincial health orders in response to the pandemic. With approximately \$180 million in revenue losses, the City received only \$16 million from the Provincial Restart program, which was in place to support municipalities to address revenue shortfalls. This was significantly less than other municipalities on a per capita basis.

Looking to the 2022 budget, many revenues and costs are uncertain at this time. Revenues decreased substantially in 2020 and 2021, and while some revenues have begun to recover, it is uncertain when revenues will return to pre-COVID levels. The City is in the process of collective bargaining and wage increases for 2020-2022 are not yet fully known. As well, the Vancouver Police Board is in the process of appealing the 2020 Budget to the province, and the results of that review are unknown at this time. While many services are currently open operating within COVID restrictions, it is not clear when services will be fully open, and what additional costs incurred during COVID, such as additional cleaning and PPE, will need to continue longer term.

At the same time, there are a number of known cost pressures that will impact the 2022 budget including:

- Negotiated wage settlements
- Fixed cost increases that exceed the rate of CPI inflation i.e. metro utility charges, WorkSafe BC premiums, insurance
- Previous Council direction to implement multi-year staffing increases for VPD and VFRS, which was deferred in 2021
- Funding for infrastructural renewal as identified in the 2019-2022 capital plan

Parking revenues were quick to recover when business activity reopened – reaching 90% of normal levels during the summer of 2020. Based on the planned reopening schedule, parking revenues are expected to recover to those levels in September of 2021 and remain at that level throughout the first half of 2022, reaching 100% by the summer of 2022 as international travel ramps up. Provincial revenue sharing is expected to increase in 2022, as a result of the limited reopening of casinos. Program fee revenues in Parks and Recreation are expected to improve, but are forecast to remain depressed in the remainder of 2021 and 2022 as a result of capacity limitations that are expected to persist for the foreseeable future.

Based on all the above, without mitigating actions, the tax increase required to balance the budget for 2022 would be 10% (blended tax and utilities of 8.3%) before considering cost savings initiatives and new revenue opportunities. This increase would provide for the City to maintain service levels, continue with the planned public safety operational review staffing growth, and begin replenishing the reserves, but would not provide for new program funding or service level increases.

Five Year Plan Financial Outlook

As we look past the immediate pressures in 2021 and 2022 as a result of COVID, the Budget Outlook for the next five years continues to show expenses growing faster than revenues. Without taking action to increase revenues or reduce costs, the Budget Outlook over the next 5 years would require property tax increases of 5+% and blended utility fee increases of 6+% to balance the budget and replenish reserves to target levels.

This expenditure growth is driven by:

- Growing asset base
- Assets coming due for replacement (i.e. Water/sewer)
- Growth in certain expenses at rates above CPI – public safety compensation costs, Metro utility charges, construction and raw material costs
- Increased involvement by the City in domains such as housing and child care that fall within the formal jurisdiction of senior governments
- Expanding service demand / service level expectations

2021-2024 Budget Outlook forecast - Revenue changes

Through a preliminary scan of the financial drivers, the outlook reflects initial estimates that operating revenues will increase in the following areas:

- Property tax increases of 5% are shown for 2022. Council has directed that staff prepare options to limit property tax increases to no more than 5%. The tax rate will be decided by Council as part of the annual budget process, and staff will provide options to Council for tax rate increases up to 5%.
- Taxes from new development are estimated to increase by \$5 million annually representing less than 1% of our property tax base.
- Program fee revenues are estimated to increase by 2% or \$3 million each year which assumes that rates are increased at a rate consistent with forecasted inflation. User fees will also need to be adjusted to reflect actual increases in service costs.
- Development fee revenues are estimated to increase, due to a recovery of permit application volumes as well as a rate increase to cover permit program cost increases. As part of the ongoing review of the permit area, staff will review permit revenues and costs and will update Council in the fall with further options to align permit revenues and costs.
- Utility fees are estimated to increase by 8% annually on average for the next five years, based on Metro Vancouver regional utility charge forecasts and the need to replace and maintain the city's infrastructure and assets.
- On May 22, 2021 the province government, without any prior engagement with cities, cancelled the Climate Action Rebate Incentive Program (CARIP). Cities in BC that are signatories of the BC Climate Action Charter have access to an annual grant equivalent to the carbon tax paid for by that city over the previous year. Vancouver's CARIP grant

is approximately \$1.2m per year and is used as the operating budget for the Sustainability team in Planning, Urban Design and Sustainability. The funding is used to support climate and ecological work across all City departments. Staff are reviewing options to adjust workload and reallocate existing budgets to ensure work can continue as planned until the end of 2022. Staff are also looking at ways to replace this budget on a permanent basis, the first step being waiting to see if the Province announces an appropriate replacement this fall.

- Revenue shortfalls continue to pose a risk as we plan for 2022. Revenue shortfalls in 2021 are largely driven by revenues streams such as parking, permit fees, program fees, and provincial revenue sharing (such as casino revenue) which are impacted as a result of service interruptions, facility closures and event cancellations caused by restrictions. While the table below highlights a scenario where revenues return to 2020 budget levels, staff will continue to monitor the recovery of these revenue streams based on the provincial health orders and economic recovery. The impact on the 2022 budget will be addressed through the 2022 budget process.

| Operating Budget Preliminary Revenue Changes (\$ in millions) | 2022 | 2023 | 2024 | 2025 | 2026 |
|--|-------------|-------------|-------------|-------------|--------------|
| Property Tax: | | | | | |
| Increase in property tax revenue: estimated at 5% | \$46 | \$48 | \$51 | \$54 | \$57 |
| New construction tax revenue | \$5 | \$5 | \$5 | \$5 | \$5 |
| Utility fees: | | | | | |
| Increase in utility fee revenue (Average blended rate estimated – 5.4%) | \$23 | \$28 | \$23 | \$30 | \$35 |
| User fees: | | | | | |
| Inflationary increases in Program fees, Licence and Development fees | \$3 | \$3 | \$3 | \$3 | \$3 |
| Revenue Shortfall Risk | TBD | | | | |
| Total Preliminary Revenue Changes | \$77 | \$84 | \$82 | \$92 | \$100 |

Note: Totals may not add due to rounding

2021-2024 Budget Outlook forecast - expenditure changes

Through a preliminary scan of the financial drivers, the outlook reflects initial estimates that operating expenses will increase in the following areas:

- Cost increases passed on from external agencies and senior levels of government are estimated to be \$1 million to \$3 million per year. In addition, indirect cost pressures in the areas of housing, mental health and addiction, childcare, and emergency medical response, which are primarily the responsibility of the Provincial and Federal governments, continue to add to the City's budget pressure.
- An additional \$17 million to \$30 million each year to maintain our infrastructure and public amenities in a state of good repair as outlined in the 2019-2022 Capital Plan. As part of the 2019-2022 capital plan recalibration which was approved by Council, projects were identified for deferral which resulted in savings of \$8 million, which Council

reallocated to fund priority initiatives as part of the 2021 operating budget. Incremental funding is required in each year to fund projects as outlined in the 2019-2022 recalibrated capital plan, and options will be identified by staff for further project deferrals which could temporarily reduce this amount. However, over the course of the 5 year plan, based on projected asset condition, there will be a need for continued growth in renewal funding needed to address aging infrastructure and maintain current assets.

- Regional utility charges passed on to the City by Metro Vancouver are forecast to increase between 5% and 11% for Water and between 7% and 12% for Sewer from 2022-2025, driven by major infrastructure investments.
- The outlook for 2022-2025 shows estimates of increases in wage expenses, however the total wage impacts are unknown at this time as they are significantly dependent on the terms of future collective agreement settlements, of which some remain outstanding. CUPE 1004 and CUPE 15 have settled at a rate of 2% each year in 2020-2022 with different effective dates; since the 2020 amount is higher than what was assumed in the 2021 budget, there is an incremental impact in 2022.
- Fringe benefit costs for the City have increased during 2021 as a result of Canada Pension Plan and WorkSafe BC rates.
- Other Fixed costs are projected to increase in the range of up to \$11 million for the next five years (such as energy, fleet, rent and insurance). A large portion of the 2022 increase is attributable to a significant increase in 2022 insurance rates due to changes in the industry post-pandemic.
- \$9 million each year to replenish the general revenue stabilization reserve, to build back to the target level of 8-16% of annual non-utility operating budget revenues, which were drawn down as a result of the pandemic in 2020 and 2021.

These are conservative estimates and staff will review as the province's restart plan is implemented, and revised estimates will be brought forward as part of the options analysis and final draft budget. Staff will identify options to reprioritize existing resources, adjust service models, and look for additional cost savings in order to present a balanced budget. Where these programs cannot be accommodated within existing resources, staff will bring back to Council options for potential trade-offs in services or additional tax/fee impacts.

| Operating Budget Preliminary Expense Pressures (\$ in millions) | 2022 | 2023 | 2024 | 2025 | 2026 |
|--|---|-------------|-------------|-------------|-------------|
| External Agency Costs passed on to the City: | | | | | |
| Increased Metro Vancouver charges for Water and Sewer utility | \$14 | \$13 | \$21 | \$25 | \$23 |
| Anticipated external party cost increases (including EComm) | \$3 | \$1 | \$1 | \$1 | \$1 |
| Debt, Transfers and Capital Program Costs: | | | | | |
| Infrastructure Renewal, Pay-as-you-go Sewer & Water, Transfers and Debt Financing | \$17 | \$18 | \$17 | \$26 | \$30 |
| Operating impacts of capital projects | \$5 | \$5 | \$5 | \$5 | \$5 |
| Salary and benefit costs: | | | | | |
| Salary and benefit projected increases <i>(includes contractual increments, negotiated wage settlements and projected benefit cost increases, excludes collective agreement increases without agreements)</i> | \$25 | \$9 | \$9 | \$8 | \$8 |
| VFRS Operational Review staffing recommendations | \$3 | \$4 | \$3 | | |
| VPD Operational Review staffing recommendations | \$5 | \$4 | \$2 | | |
| Other Cost Pressures: | | | | | |
| Other risks | \$7 | \$7 | \$7 | \$7 | \$7 |
| Reserve Replenishment | \$9 | \$9 | \$9 | \$9 | \$9 |
| VPD 2021 Budget Appeal risk | \$6 | | | | |
| Fixed costs (Hydro, Gas rates, IT, Rents & leases, Insurance, Grants) | \$11 | \$11 | \$10 | \$9 | \$8 |
| Preliminary Expense Pressures (excluding impact of collective agreements under negotiation not included above) | \$105 | \$80 | \$83 | \$89 | \$91 |
| * Plus wage increases related to collective agreements currently under negotiation <i>(each 1% increase equals approximately \$9 million annually)</i> | + impact of wage increases to be determined | | | | |

Note: Totals may not add due to rounding

Managing costs

Throughout 2021, City departments continued reprioritizing resources and transforming operations to deliver on key priorities and service requirements. As part of the annual budget process, departments will continue identifying areas where costs can be adjusted and resources reprioritized to respond to Council priorities. Services and transactions are increasingly being delivered electronically and through 3-1-1 rather than in person, improving the productivity of City resources.

Collective Agreements

At the end of 2019, all collective agreements between the City, its related Boards and its unions had expired. This includes inside and outside workers, certified by CUPE Local 15, CUPE 391, CUPE Local 1004 and IBEW, and also emergency services personnel represented by the Vancouver Fire Fighters' Union and the Vancouver Police Union including Teamsters Local Union No. 31.

CUPE 1004 and CUPE 15 have ratified agreements covering a three-year term 2020 through 2022; both agreements are reflected in this outlook. Bargaining is underway for several additional agreements but are not complete at the time of writing this document. The table above only includes the wage increases for unions that have negotiated wage settlements (CUPE 15 and CUPE 1004); therefore, does not include the financial impact of all unions.

Given the magnitude of public safety wages relative to the other parts of the City, the recent trend of public safety wage increases in excess of compensation increases provided other City

employees will continue to put significant pressure on the City's budget and property tax rates. As a result of the provincial statutory framework for public safety, collective agreements for VPU and VFU are subject to binding arbitration and wage outcomes are not within the City's control.

Risks

The following are a number of risks that may impact the City's financial revenue or expenses. These will be considered over the next months as the 2022 budget and 5 year financial plan is developed.

- Uncertainty related to the ongoing impact of COVID-19, including but not limited to;
 - Casinos are expected to be among the later services to reopen that could have a positive impact on revenues
 - Cost related to cleaning and personal protective equipment
- Impacts of senior government policies on local conditions, such as income assistance rates, health system responses to complex mental health issues, and homelessness response.
- Compensation costs arising out of collective bargaining
- Price increase in supplies and materials used in City's operations

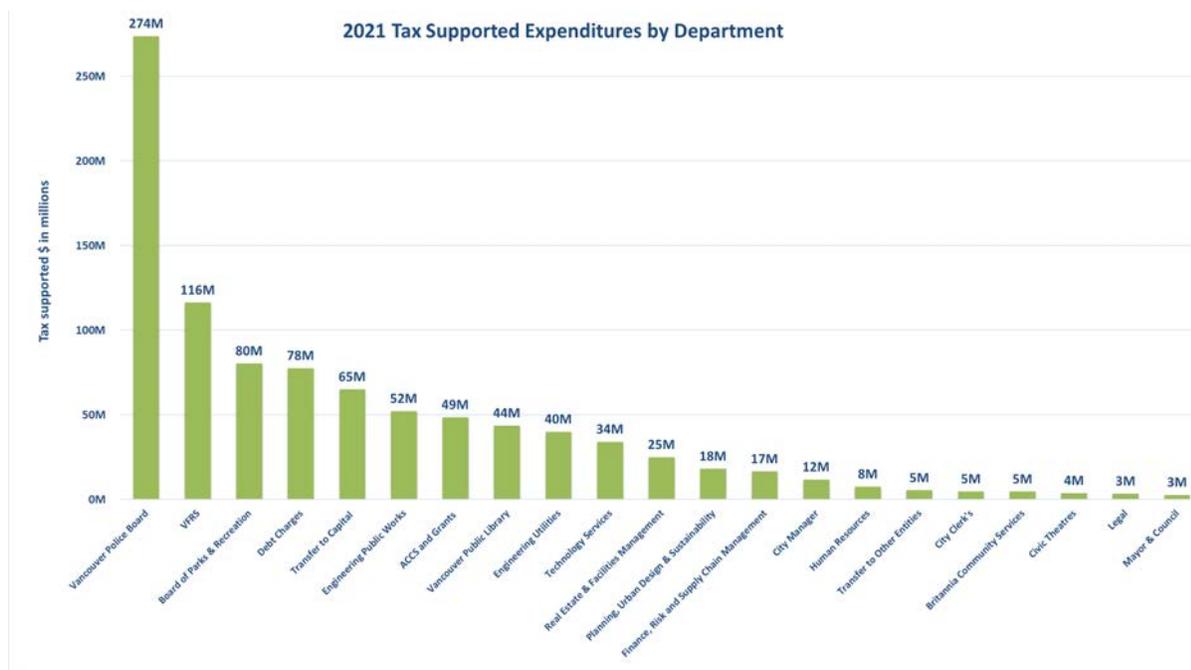
Property tax scenario options development

Over the next months, staff will identify options for limiting to the property tax increase to no more than 5% while maintaining service levels where possible, including:

- Reducing cost of service delivery
- Reducing discretionary expenses
- Delaying planned public safety staffing growth and limit other staffing growth
- Deferring projects (operating and capital)
- Investments that result in future cost savings
- Reducing service levels
- Increasing fees and other options to increase revenues
- Identifying new revenue opportunities and building partnerships:
 - Advocate for senior government funding and for changes to the municipal funding model
 - Partnerships with senior levels of government and other organizations to ensure those best able to deliver the service have the right funding model in place to do so

To impact the property tax increase, budget adjustments must be from service areas that are tax-funded. Should service levels need to be adjusted to reduce the tax increase, the section below provides examples of potential service areas and the service impacts to property tax funded departments.

The chart below highlights the departments that are funded by property tax and which could experience service impacts in a lower tax rate scenario. The service impacts referenced in this section are focused on the tax-funded service areas in proportion to the size of their respective budgets. The city will continue to identify opportunities to reduce the budget in non-tax funded areas of the budget.



In order to reduce the potential property tax increase by 2%, estimated 2022 costs would need to reduce by approximately \$18 million. As noted above, staff will look to close this gap with actions that would not significantly impact service levels. Options for balancing the budget will be brought forward to Council for consideration as part of the budget development, where possible maintaining service levels by identifying cost savings, efficiencies, and revenue opportunities.

Cost for a median household and business

An estimate of the annual property tax increase for a median household and business for 3%, 4% and 5% tax increases are shown below. This reflects only the City portion of the tax bill, and does not include impacts of increases from other taxing authorities including the provincial government, Metro Vancouver, and other regional authorities that are included as part of the overall tax bill.

| Increase in annual property tax (\$) | 3% tax increase | 4% tax increase | 5% tax increase |
|--|-----------------|-----------------|-----------------|
| Median strata (assessed value of \$688,000) | 34 | 45 | 57 |
| Median residential overall (assessed value of \$1.1 million) | 57 | 76 | 95 |
| Median single-family (assessed value of \$1.6 million) | 82 | 110 | 137 |
| Median commercial (assessed value of \$1.0 million) | 148 | 198 | 247 |

The above amounts are based on current assessment roll data and may change as the 2022 assessment roll is finalized.

Public Engagement and Opinion Research

Between now and the presentation of the proposed 2022 Budget to City Council in December 2021, engagement will take place to solicit the public's input on their priorities for City spending and preferences for delivering a balanced budget.

Budget engagement is planned for July and August. Due to the COVID-19 pandemic, this year's engagement process will take place online as it did in 2020, including:

- Shape Your City project pages in English, Simplified and Traditional Chinese and Punjabi
- Talk Vancouver survey
- Focused conversations with traditionally under-represented groups.

Preliminary engagement findings will be shared with Council in the fall.

As a complement to the above engagement efforts, the City commissioned opinion research in the form of a random and representative telephone survey with City of Vancouver residents and businesses. In April and May, Ipsos conducted telephone surveys with 600 residents and 200 businesses to determine satisfaction with municipal services and provide insight into service priorities. Full results can be found on the City's website at: <https://vancouver.ca/files/cov/2021-civic-service-satisfaction-survey-report.pdf>.

Key takeaways from this year's Civic Service Satisfaction Survey include the following:

1. The COVID-19 pandemic has negatively impacted many aspects of everyday life for both residents and businesses.
2. Key survey measures around overall quality of life and service satisfaction are positive but lower than previous years.
3. Among those who said that quality of life had "worsened" over the past year, this was attributed partly to the COVID-19 pandemic but also to issues around the cost of living, housing/accommodations, poverty/homelessness, and public safety/crime.
4. For residents, overall satisfaction has dropped for a number of City services, including homelessness services, police services, recreation, emergency preparedness, social policies and projects, and making streets vibrant. There are also two services where business satisfaction has significantly decreased (police services and development and building permits).
5. COVID-19 tops this year's issue agenda for the public, but social issues (homelessness, poverty, childcare) are also growing concerns.
6. Residents prioritize budget investments in homelessness, affordable housing, and social policies. Businesses have more diverse priorities, led by community cleanliness and street infrastructure.
7. Overall perceptions of value for taxes have not significantly changed from 2019 when this survey was last conducted (due to many services being unavailable or significantly reduced at the time the survey would have been conducted, it was cancelled for 2020).
8. Continuing to offer the same services but at a reduced level is the most preferred option for balancing the budget. Raising residential and business property taxes is the least preferred option.

Budget Process Timeline

Since the 2021 budget cycle, staff have implemented Council's direction to schedule multiple briefings with Council and this has been embedded in the annual process. The property tax scenario options will be shared with Council as part of these briefings, prior to presentation of the Draft Budget. The budget process will follow a number of key steps as outlined below:

| Budget Process step | Date |
|--|-------------|
| Budget Outlook Council presentation – overview of financial landscape and budget process | July 6 |
| Budget Public Engagement | July-Aug |
| Draft Budget presentation – Property tax scenarios and options | Nov 2 |
| Draft Budget and Service Plans available to the public | Nov 22 |
| Draft Budget presentation to Council and budget speakers | Dec 1 |
| Final Budget vote | Dec 7 |

CONCLUSION

The 2022 Budget Outlook provides an overview of the financial landscape facing the City at the start of the 2022 budget development process, and provides Council with an opportunity to provide direction on priorities and tax revenue targets to guide service plan and budget development. The public will be able to provide input on priorities through public engagement opportunities that have been adapted for the current environment based on feedback received last year. While there are many positive signs as reopening and recovery continue, there continue to be financial risks and pressures on city services which will make 2022 a challenging budget year. As directed by Council, staff will provide options for a tax increase of 5% or less in the fall of 2021 as part of the annual budget development.

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