



COUNCIL REPORT

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Meeting Date: May 29, 2024
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TO: Standing Committee on City Finance and Services
FROM: Director of Finance
SUBJECT: 2025-2029 Budget Outlook

Recommendations

THAT Council receive for information the 2025-2029 Budget Outlook which outlines the City's projected Operating and Capital financial outlook based on current state service levels.

Purpose and Executive Summary

The purpose of this report is to provide Council an overview of the key factors impacting the development of the City's 2025 Budget and the measures that staff are taking to balance the budget and improve service and project delivery. The Budget Outlook serves as a starting point for staff to begin the work of building the budget and is an opportunity for Council to provide direction to guide the development of the 2025 Budget.

The City continues to focus on multiyear financial planning strategies to address pressures associated with labour and supply cost inflation, increased demand for city services and higher costs passed on from external agencies. These strategies include initiatives to enable new revenue generation, process improvements for capacity building or reducing costs, and advocacy for senior government funding and partnerships. Staff continue to monitor revenue risks and take measures to manage costs while balancing with the need to protect core services.

Staff are presently reviewing the 2023-2026 Capital Plan and will be reporting back to Council with a recommended recalibration to reflect delivery capacity, cost escalation and emerging needs. The 2025-2029 Capital Expenditure Outlook is based on the delivery of existing projects that are underway and the remainder of the updated 2023-2026 Capital Plan.

To balance the budget over the Outlook period at the current state service levels, including the continuation of a 1% property tax increment in each year to address the City's infrastructure deficit, an average property tax increase of 7% each year would be needed. This projection

does not take into account additional actions to generate revenues and/or savings and would equate to an additional \$98 per year for a median strata property.

The Mayor's Budget Taskforce presented a report to Council in January 2024, which included recommendations intended to ensure the City's fiscal sustainability over the long term. There are many actions currently in progress which align with the Task Force recommendations and staff anticipate further direction from Council regarding prioritization of the recommended measures. The financial impacts of the Task Force recommendations will be incorporated into the City's budget going forward as initiatives are implemented and benefits realized.

Council Authority/Previous Decisions

The *Vancouver Charter*, the Library Act, the Police Act, and the City's Operating and Capital Budget policies govern the requirements for the City budget.

On December 12, 2023, Council approved the 2024 Capital Budget and 2024 Operating Budget, respectively.

City Manager's Comments

The City Manager concurs with the foregoing recommendations.

Context and Background

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 Budget Outlook will be followed by public consultation and the development of detailed budgets and service plans in quarter four of this year.

Discussion

Operating Multi Year Financial Plan

The foundation of the Budget Outlook is the projected increase in City expenditures required to maintain existing service levels. Inflation benchmarks and city-specific cost drivers are considered in developing this forecast. The Consumer Price Index (CPI) is a widely used measure of general inflation in the economy and CPI forecasts can provide an indication of general inflation trends. However, the City's cost base is driven by different inflation factors than the Consumer Price Index (CPI) which must be taken into consideration when building the City's Budget Outlook.

The Conference Board of Canada (CBOC) has forecasted that the average Consumer Price Index (CPI) for Vancouver will be an average of 3.1% for 2024 and further decline to an annual average of 2% for 2025 to 2028 period. While the general trend over the next 5 years is a return to lower inflation rates, the City is expected to continue to experience higher rates of inflation over the next several years due to a number of factors noted below.

Salaries and benefits form the largest component of the City's expenditures and are expected to

grow at rates above forecasted CPI inflation. These increases are driven by collective agreement patterns regionally and nationally.

In addition to negotiated collective agreement provisions and compensation adjustments for exempt staff, a number of compensation-related costs will contribute significantly to increasing costs in the 2025 budget:

- recent changes in the calculation of WorkSafe BC costs, and increases to the COV WorkSafe rates, has resulted in an 17% increase in projected WorkSafe expenditures.
- the addition of a second-tier contribution for Canadian Pension Plan will result in an 24% increase to the City's Canada Pension Plan expenditures.
- The cost of extended health and dental services has increased at rates in the range of 10-30% based on higher cost of services and utilization.

The City's cost of delivering existing services is also impacted by cost increases in non-salary related costs details of which are outlined in Appendix A under the Expenditure Outlook. Construction inflation continues to impact the City's cost base, with higher costs for maintenance of City's assets. Construction-related inflation also impacts the costs that are passed on to the City from Metro Vancouver for regional water and sewer infrastructure, which results in both higher utility fees and an additional \$9 million impact to property tax in 2025.

As a result of the above factors, the City's costs to deliver existing services is expected to increase by 6% in 2025. In addition to the increased cost of existing services, the 2025 Budget Outlook contemplates continuation of a 1% property tax increase to support infrastructure renewal and the infrastructure deficit.

The 2025 Budget Outlook also includes the full-year impact of investments approved by Council in the 2024 budget. Examples include additional fire-fighters hired mid-year, and the ongoing costs related to the transition to PFAS-bunker free gear.

For ongoing financial stability, the Outlook includes a budgeted investment to replenish the General Stabilization Reserve to pre-pandemic levels. Material risks include costs associated with encampments, protests and demonstrations, and unbudgeted overtime associated with staff illness in several departments.

To address the financial pressures described in this section, the City will continue to advance revenue generation opportunities and measures to reduce expenses, improve efficiency and build capacity. Program, Licence and Development fees are projected to increase by ~ 6% annually, aligning to the increased cost of service delivery. Revenue generation opportunities such as expansion of on-street parking, ride hailing, street furniture, etc. are outlined in Appendix B.

Utility fees are estimated to increase by approximately 9% annually on average for the next five years, based on Metro Vancouver regional utility charge forecasts and the increased pace to replace and maintain the city's infrastructure and assets.

The Mayor's Budget Task force report also provides opportunities to address systemic fiscal challenges. Subject to Council direction, staff will incorporate the impact of such measures into the budget for 2025 and future years.

Appendix A outlines incremental impacts and details of Operating Revenues and Expenditures for 2025-2029.

Capital Planning & Delivery

The City’s capital planning framework consists of a longer-term 10-year Capital Strategic Outlook and a medium-term 4-year Capital Plan, which is implemented via the Annual Capital Budgets. The level of specificity related to project details increases from the Capital Plan to Capital Budget. Through the annual budget process, the Capital Budget is created to establish spending authority for capital projects.

2023-2026 Capital Plan

The original 2023-2026 Capital Plan was approved by Council in June 2022 and contemplates \$3.5 billion worth of capital investment, comprised of \$2.8 billion of city-led capital programs and \$0.7 billion of in-kind projects. Adjustments to the Plan are implemented throughout the 4 years to address new projects, incorporate additional external funding and for administrative reasons.

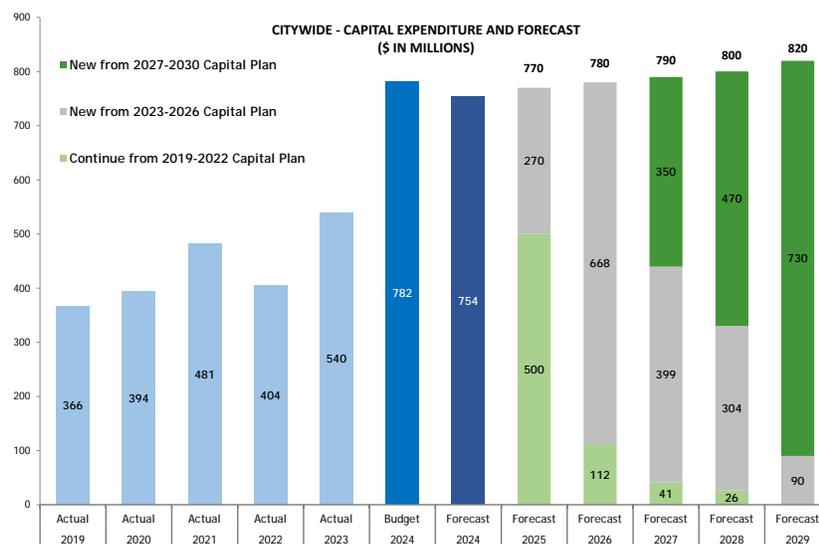
Staff are presently reviewing the 2023-26 Capital Plan and will be reporting to Council with an update on delivery, including recommended recalibrations to accurately reflect projected delivery and address cost escalation and emerging demands. Recommended adjustments to the Capital Plan will be brought forward to Council in June 2024.

Enhanced Focus on Capital Delivery

Commensurate with the annual 1% property tax increment to address the City’s infrastructure deficit as well as investments to accommodate growth, the 4-year Capital Plan and Annual Capital Budget have been increasing over time. In order to expedite project schedules and mitigate capital costs, staff are pursuing a range of initiatives to speed processes and increase delivery capacity.

2025-2029 Capital Expenditure Outlook

The 2025-2029 Capital Expenditure Outlook is based on the expected delivery of existing projects that are underway and the remainder of the 2023-2026 Capital Plan. The Capital Expenditure Outlook will be refined and updated based on Council’s direction as part of the Capital Mid-term update and the annual capital budget process. The following chart shows the trending of historical and forecasted capital expenditures.



It is important to note that the forecasts for 2025 through 2029 are preliminary and represent early estimates, which will be further refined as part of the 2025 Capital Budget process.

Sustainable Financial Planning Framework

The following key initiatives underway will inform the 2025 Budget and multiyear financial plan:

Revenue Generation

Staff are reviewing existing and new revenue streams, focussing efforts on the highest impact opportunities that will contribute to a sustainability in future years. These initiatives will be evaluated based on their financial benefits and impact on affected stakeholder groups. The opportunities will be presented to Council for consideration either through specific fee reports or as part of the annual budget process.

Appendix B provides detailed information on short and long term opportunities with estimates and timing.

Service Improvements & Capacity Building

Staff are implementing a range of process and technology improvement projects to enhance efficiency and service effectiveness across full scope of the City's diverse operations. Additional detail regarding these initiatives will be provided to Council through the 2025 budget process and through updates pertaining to specific initiatives (e.g. permit process improvement).

Senior government funding and partnerships

In 2024 and 2025, the City will continue to align its advocacy with FCM's call for all levels of government to come together to modernize the Municipal Growth Framework. This reflects the need for a new framework that recognizes the evolving municipal role and enables the delivery of affordable housing with supporting infrastructure and amenities to accommodate population growth and build a strong economy. This is increasingly important as the City's intentional shift to rental housing, coupled with escalation in land and construction costs, has meant the "growth pays for growth" principle to fund infrastructure and amenities is increasingly challenging and financially unviable.

Currently, the majority of senior government funding is 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. The City also applies on behalf of, or supports, non-profit organizations in their applications for funding to build and operate housing on City land.

In 2023 and the first four months of 2024, the City secured approximately \$16 million through funding applications submitted in 2022 and 2023. The City secured additional funding of over \$200 million through negotiated agreements over the same period. This includes \$49.1 million from the BC Growing Communities Fund to support the delivery of infrastructure projects necessary to enable community growth, and \$114.9 million from the CMHC Housing Accelerator Fund. The City also partnered with non-profits to secure over \$600 million in grants and low-cost financing and over \$14 million in annual operating subsidies to build and support rental homes for people with low and moderate incomes.

Appendix C provides status and details on Competitive Funding Applications, as well as Secured Funding via Non-Competitive Funding Programs.

Public Engagement

Public engagement on the annual budget process will take place between August and September 2024. Vancouver residents and businesses will have the opportunity to provide input on the City’s spending priorities and preferences for balancing the budget via the budget survey. This input will be available to inform Council deliberations in December 2024.

Financial Implications

There are no financial implications associated with this report. Staff will work over the next few months to build the 2025 Budget and Multiyear Financial Plan and present to Council for approval in December 2024.

Legal Implications

There are no legal implications associated with this report’s recommendations. The report complies with the relevant statutory framework.

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APPENDIX A Operating Revenue and Expenditure Outlook

Expenditure Outlook

The 2025 Budget Outlook reflects initial estimates of operating expense increases in the following areas:

- External agency costs driven by Metro Vancouver charges for Water & Sewers utility at 14%, EComm levies at 7%
- Infrastructure renewal strategy based on 1% property tax increment as contemplated in the 2023-2026 Capital Plan
- Salaries and benefits costs excluding collective agreements not settled
- Contingencies to mitigate risks that may arise through future settlement of collective agreements
- Increases in fixed costs such as building costs, utilities, leases, insurance, etc.
- Annualization of costs related to 2024 Council-approved initiatives and replenishment of the General Stabilization reserve

These are estimates representative of maintaining the City's current resource and service levels.

Operating Budget Preliminary Expense Pressures (\$ in millions)	2025	2026	2027	2028	2029
External Agency Costs passed on to the City:					
Increased Metro Vancouver charges for Water and Sewer utility	\$40	\$30	\$32	\$31	\$38
Anticipated external party cost increases (including ECOMM levies)	\$3	\$3	\$4	\$2	\$3
Debt, Transfers and Capital Program Costs:					
Infrastructure Renewal, Pay-as-you-go Sewer & Water, Transfers and Debt Financing	\$14	\$26	\$28	\$26	\$26
Salary and benefit costs:					
Salary and benefit projected increases <i>(includes contractual increments and projected benefit cost increases, excludes collective agreement increases without agreements*)</i>	\$14	\$13	\$13	\$13	\$13
Other Cost Pressures:					
Fixed costs (Hydro, Gas rates, IT, Rents & leases, Insurance, Grants)	\$17	\$24	\$26	\$27	\$28
Annualization of 2024 Council Approved Initiatives	\$4	\$0	\$0	\$0	\$0
Emerging Risk & Reserve Replenishment	\$6	\$6	\$6	\$6	\$6
Preliminary Expense Pressures (excluding impact of collective agreements under negotiation)	\$97	\$103	\$109	\$106	\$115
Contingencies to mitigate risks	\$40 - \$75				

Note: Totals may not add due to rounding

Revenue Outlook

The 2025 Budget Outlook reflects initial estimates of operating revenue increases required to offset the increased cost pressures outlined above:

- An average property tax increase of 6% to offset the increased cost of services, plus an additional 1% increase to fund infrastructure renewal
- An average utility fee increase of 9%
- Increases to program fees, licence and development fees of 6%, aligned with the increased cost of service delivery
- Revenue Generation strategies including expansion of on-street parking, ride hailing, etc. (refer to Appendix B)

Operating Budget Preliminary Revenue Changes (\$ in millions)	2025	2026	2027	2028	2029
Property Tax:					
Increase in property tax revenue: average estimate of ~7%	\$81	\$93	\$83	\$87	\$100
New construction tax revenue	\$5	\$5	\$5	\$5	\$5
Utility fees:					
Increase in utility fee revenue (Average blended rate estimated - 9.0%)	\$35	\$34	\$34	\$31	\$34
User fees:					
Increase in Program fees, Licence and Development fees (Rate increase of ~6%)	\$11	\$11	\$12	\$12	\$13
Revenue Generation:					
Revenue Generation Strategies	\$8	\$1	\$2	\$1	\$0
Total Preliminary Revenue Changes	\$139	\$144	\$136	\$136	\$152

Note: Totals may not add due to rounding

Staff continue to review and take measures to reduce costs while monitoring risks to revenue streams. Staff will report back through the 2025 budget process with proposed adjustments to property tax rates, utility, and other fees for Council consideration.

APPENDIX B
Revenue Generation Strategy – Short and Long Term Opportunities

Short-Term Opportunities	2024 Incremental Increase (\$ in millions)	2025 Incremental Estimate (\$ in millions)
Residential Parking Permit Fees – continue to increase residential parking permit fees to better reach market rates	\$0.2	\$0.2
On-Street Parking – expand pay parking locations to areas with high parking demand	\$4.8	\$1.0
Congestion and Curbside Management Volume effect	\$2.9	\$3.0
Commercial Vehicle Decal Program - overall program review, fee schedule increases accompanying additional benefits to decal holders.	\$1.0	\$0.6
Charging not-for-profit – Parks	-	\$0.1
Parks Parking strategy	\$0.5	
Additional 3% fee increase for Parks program fees	\$1.4	
Street Furniture Contract renewal – Advertisement with street furniture assets (i.e. benches, bus shelters, digital panels) for the new contract.	-	\$2.9
Sponsorships, Advertising, Naming Rights & Donations	\$0.5	-
Business Licenses - increases to a number of license categories and align the fees more closely with fees in other BC municipalities	\$3.9	-
Total Incremental Estimates	\$15.2	\$7.8*

*Estimate is based on currently identified opportunities, and additional future year opportunities are under development.

Longer-Term Opportunities (<i>estimates and timing to be determined</i>)
Leasing City-owned fibre optic capacity and underground ducts - opportunity to leverage current investments in new 80km fibre network to generate fibre revenue and investments in expanding city network to license fibre.
Park Board Motion “Think Big Strategy” - Initiatives will include development of guiding principles & policy related to revenue generation. Park Board approval would be required.
Public Realm Marketing, Private Events - initiatives include Experiential Marketing & Private Events (EMPE) program and other initiatives.
Sponsorships, Advertising, Naming Rights & Donations - Project scope includes relative advertising (including digital signage, billboards), sponsorship (events, programs, fixed and moving assets (buildings, fleet), naming rights and donations for City and Park Board.

APPENDIX C
Senior Government Funding & Partnerships Overview

Status of Competitive Funding Applications by Priority Area Jan - 2023 to Apr 2024

	Requested		Approved		In Progress		Unsuccessful	
	# App	\$ Value	# App	\$ Value	# App	\$ Value	# App	\$ Value
Climate Emergency & Resiliency Infrastructure	15	\$68.8 M	4	\$10.3 M	5	\$11.7 M	6	\$46.8* M
Community & Cultural Infrastructure	7	\$21.1 M	0	\$0 M	6	\$20.1 M	1	\$1.0 M
Rapid Transit & Transportation Infrastructure	10	\$91.3M	6	\$5.5 M	2	\$84.8 M	2	\$1.0 M
TOTAL	32	\$181.2	10	\$15.8	13	\$116.6	9	\$48.8

*\$46.8 M in Unsuccessful Climate Emergency & Resiliency Infrastructure includes \$1.4 M due to grant approved being \$1.4 M lower than grant requested

Funding Secured via Non-Competitive Funding Programs – Jan 2023 to Apr 2024

Type	Description	Amount
Federal	Housing	\$143.9 M
Federal	Public Safety	\$4.2 M
Provincial	Growing Communities Fund	\$49.1 M
Provincial	Housing	\$3.3 M
Provincial	Homelessness	\$2.0 M
TOTAL		\$202.5M