



## ADMINISTRATIVE REPORT

Report Date: October 9, 2009  
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Meeting Date: October 20, 2009

TO: Vancouver City Council  
FROM: General Manager of Financial Services  
SUBJECT: 2010 Operating Budget: Preliminary Estimates

### RECOMMENDATIONS

- A. THAT Council receive for INFORMATION the preliminary estimates for the 2010 operating budget as outlined in this report and summarized in Appendix 1.
- B. THAT the Director of Finance, in consultation with the Corporate Management Team, report the interim estimates to Council by December 1, 2009, along with options to achieve a property tax increase between 1.5% and 2.0%, of which 0.8% reflects outside agency costs.

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

The Preliminary Report on the 2010 Operating Budget is the first opportunity that Council has had to review the budget position and to begin the process of bringing the estimates into balance. As noted in this report, the 2010 estimates show a funding shortfall of \$61.7 million, equivalent to a property tax increase of 11.2% before considering anticipated revenue increases. These estimates reflect the cost to maintain services at Council approved levels and include a number of fixed cost drivers including a compensation increase for all staff averaging 4%. Low development related revenues associated with the economic downturn are anticipated to continue (at 50% of normal levels) through the 2010 fiscal year. Having budgeted an across the board 4% increase in fees, permits and licenses across all agencies of the City and transferred tax supported sewer utility costs to user pay, the net budget gap is \$50.9 million.

Under the direction of Council, staff from the City, Vancouver Police Department, the Vancouver Public Library and the Vancouver Park Board have completed a comprehensive service review, which included an examination of the City's businesses, service delivery practices and general operations to identify opportunities across the entire organisation to provide more efficient, effective and innovative service delivery for Vancouver's citizens. There are significant savings which have been identified through this process particularly in the area of shared services and business transformation. Though the savings identified through this review will take time to realize, they will contribute to closing the 2010 budget gap. In addition to the implementation these initiatives, the Corporate Management Team has committed to continue a number of temporary bridging measures instituted in 2009, such as the hiring freeze. These steps are summarized below:

Description	\$million	%Tax
Starting Budget Gap	\$61.7	11.2%
4% increase on fees & Utility Shift	(\$10.9)	(2.0%)
Vancouver Services Review Efficiencies	(\$10.2)	(1.8%)
Temporary Bridging Strategy	(\$12.6)	(2.3%)
Remaining Gap	\$28.1	5.1%

Staff across the City and its agencies are working to identify further savings. At this point, the Corporate Management Team has been directed to identify a further \$20 million in savings. The City Manager requests that Council direct staff to bring forward a plan to balance the budget within a tax increase of 1.5% to 2.0% on December 1, 2009, as part of the 2010 Interim Estimates.

Following submission of the Preliminary Estimates, under the direction of Council, staff will undertake a public consultation process to seek public input on the 2010 Operating Budget and other strategic engagement objectives. Council will receive the results of the consultation in time for the final deliberations on the 2010 Operating Budget on December 1, 2009. The final estimates will be presented on December 15, 2009.

## COUNCIL POLICY

The Vancouver Charter requires that the Director of Finance presents the estimates of 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.

In approving the annual Operating Budget, Council has in the past adopted the practice of passing on to taxpayers the tax increases related to cost pressures from outside agencies, including the Greater Vancouver Sewerage and Drainage District and E-Comm over which Council has no control, rather than providing offsetting reductions in City services/programs.

Appendix 1 details Council policies pertaining to City revenues.

## PURPOSE

The purpose of this report is to present to Council for INFORMATION an update on the 2010 budget and refer the report to the budget consultation process. The final budget strategy along with the results the consultation process will be presented to Council on December 1, 2010, when Council will deliberate on the 2010 Operating Budget.

## BACKGROUND

2009 revenue estimates indicated a projected 50% reduction in development related revenues as well as reduced short term interest earnings as a result of an unprecedented decline in economic activity across the world. In total the City revenue was reduced by \$15.7 million. At this point the 2010 budget does not anticipate revenue improvements above 2009 levels as economic conditions remain unstable. In addition, as in 2009, compensation rates across all staff groups will rise on average 4% - these increases were put in motion as a result of 2007 agreements with the City's labour unions and its exempt staff association.

In anticipation of the 2010 budget challenge and the likelihood of a slow recovery from the global economic crisis, Council instructed the City Manager to conduct a comprehensive review of City Services, which came to be known as the Vancouver Services Review, as follows:

*At the February 3, 2009 Council Meeting, City Council directed the City Manager to immediately take all necessary steps to produce a 2009 Operating Budget that will protect taxpayers and mitigate any compromise of key City services.*

*WHEREAS Council is committed to minimizing the property tax burden on residents and businesses by maximizing the efficiency of the City's operations without compromising necessary public services;*

*AND WHEREAS the recent economic downturn has challenged the City's finances and magnified the need to find lasting efficiencies and cost savings;*

*THEREFORE BE IT RESOLVED THAT the City Manager issue a request for proposal for external audit resources to assist with a comprehensive review of the businesses in all City departments and Boards, as well as Easy Park and the PNE. The review would include:*

- An examination of savings or shared service improvement opportunities in the City's provision of internal services, including I&T, human resources, legal services, accounts payable, purchasing, time entry, payroll, security, building maintenance, yards and other services.*
- An examination of City reserves and the five City funds to identify and report possible changes of process and structure to produce efficiencies, opportunities or cost reductions.*
- An examination of City activities to identify those not mandated by legislation, no longer a priority, of questionable efficacy, or otherwise a candidate for reduction or elimination.*

- *Any other change in business practices that could produce efficiencies or cost reductions.*

Following the completion of the 2009 budget process on April 1 2009, a Request for Proposals was released and, upon awarding the consultancy contract, the Vancouver Services Review (VSR) was initiated in May 2009. The VSR has been an integral part of addressing the 2010 budget challenge and many of its findings are incorporated in this report.

The 2010 Operating Budget process will involve a series of Council reports that update and seek Council direction. The key Council reports related to the 2010 Operating Budget and 2010 Property Taxes are:

- **October 20, 2009:** The "Preliminary Estimates" report provides an update on the 2010 Operating Budget estimates.
- **December 1, 2009:** The "Interim Estimates and Public Consultation Results" updates the 2010 preliminary estimates, outlines the recommendations of the Corporate Management Team to balance the budget, and summarizes the results of the 2010 Budget Consultation process.
- **December 15, 2009:** The "Final Estimates" report presents the final 2010 revenue and expenditure estimates approved by Council, and is accompanied by a resolution in which Council adopts the estimates for the year.
- **May 2010:** Council Report with 2010 Property Taxation Bylaws and Averaging Resolution.

The schedule for the 2010 budget is approximately three months in advance of the normal schedule. The City's obligations for hosting the 2010 Games in February and March 2010 will preclude the ability to undertake the budget process in the new year, and, as result, the City Manager has directed the Corporate Management Team (CMT) to finalize the 2010 budget by December 15, 2009.

## DISCUSSION

### 1. Preliminary Budget Position

The potential 2010 budget position, assuming: no change in service delivery models or approved service levels; reinvestment of one time savings from 2009; absorption of fixed cost increases; and the application of routine inflationary guidelines indicates a shortfall of \$50.9 million and a potential property tax increase of 9.2%.

Table 1 - Summary of Preliminary 2010 Budget Estimates (\$000)

<b>Revenues</b> <i>(roll over + 4% fee increase + sewer user pay)</i>		
Taxation Revenue	591,609	
General Revenue	172,111	
Utility Fees	176,911	
Transfers	7,160	
<b>Total Revenues</b>		<b>947,790</b>
<b>Expenditures</b> <i>(roll over 2009 + fixed costs)</i>		
Departmental Expenditures	705,841	
Utility Expenditures	204,742	
Capital Program	79,401	
Transfers	8,696	
<b>Total Expenditures</b>		<b>998,680</b>
<b>Net Budget Position</b>		<b>50,889</b>
<b>Potential Property Tax Increase</b>		<b>9.2%</b>

Two other issues create the context for the 2010 Operating Budget:

- **Property Tax Redistribution:** In March 2008, Council approved the redistribution of 1% percent of the property tax levy from the non-residential property classes to the residential property class every year for five years. 1% redistribution has the effect of increasing residential property taxes by 2% and decreasing non-residential property taxes by 2%.
- **Council Directed Efficiency Offsets:** Council requested that all costs related to the implementation of 311 Service for the City of Vancouver (totaling \$2.7 million) be funded through operational efficiencies. \$1.1 million of savings have been derived departmentally while \$1.6 million remains to be funded from further corporate efficiencies.

## 2. 2010 Preliminary Estimates - Budget Drivers

In summary, the key drivers to the 2010 budget estimates are highlighted in Table 2.

**Table 2 - Major Drivers for the 2010 Operating Budget - Interim Estimates**

Budget Driver	\$million	Property Tax Equivalent
<b>Projected Increases to the Operating Budget</b>		
Salary Increases <ul style="list-style-type: none"> <li>Collective Agreements</li> <li>Exempt Compensation Agreements</li> </ul>	26.7	4.8%
New Facilities Operating Costs <ul style="list-style-type: none"> <li>#1 Kingsway</li> <li>Force Options Training Centre</li> <li>Vancouver Olympic Centre (Hillcrest)</li> <li>Crossroads and Woodwards Lease</li> </ul>	5.4	1.0%
Capital Program <ul style="list-style-type: none"> <li>Pay as You Go - Capital from Revenue</li> <li>Debt Costs - Principle and Interest</li> </ul>	5.4	1.0%
Council Approvals <ul style="list-style-type: none"> <li>98 Police Officers Approved in 2008 (2<sup>nd</sup> Year Annualization)</li> <li>Phase II 311 Common Costs</li> </ul>	2.1	0.4%
Planned Reversal of 2009 "Bridging" Strategies <ul style="list-style-type: none"> <li>One-Time Budget Adjustments</li> <li>Hiring Freeze</li> <li>Reduction in Discretionary Savings</li> </ul>	14.3	2.6%
Outside Agency Impact <ul style="list-style-type: none"> <li>E-Comm</li> <li>Jail</li> <li>GVS&amp;DD Levy</li> </ul>	4.5	0.8%
Revenue Reductions <ul style="list-style-type: none"> <li>Provincial Traffic Fine Revenue</li> <li>Games time parking revenue</li> </ul>	3.4	0.6%
<b>Total Projected Increases to the Operating Budget</b>	<b>61.7</b>	<b>11.20%</b>
<b>Projected Offsets or Reductions to the Operating Budget</b>		
Projected Revenue Increase <ul style="list-style-type: none"> <li>4% Fee Increases</li> <li>Net Property Tax Increase - New Construction</li> </ul>	(5.4)	(1.0%)
User Pay - Increased Cost Recovery by Sewer Utility	( 5.5)	(1.0%)
<b>Total Projected Reductions to the Operating Budget</b>	<b>(10.9)</b>	<b>(2.0%)</b>
<b>PRELIMINARY NET BUDGET GAP</b>	<b>50.9</b>	<b>9.20%</b>

Salary increases across all staff groups of \$26.7 million represent more than half of the net \$50.9 million budget gap. Also included in this gap is the planned reinvestment of the

“bridging” strategies that Council approved to balance the 2009 budget, such as a hiring freeze in early 2009. Reversing these savings in the 2010 preliminary estimates account for \$14.3 million (or a 2.6% property tax equivalent) of the budget gap. A further \$4.5 million (or 0.8% property tax equivalent) relate to additional costs imposed on the City by E-COMM and other outside agencies.

The details on the changes to the Revenue and Expenditure Estimates are included in Appendix 1.

### 3. Vancouver Services Review

Vancouver Services Review (VSR) was a staff-led comprehensive examination of the City's businesses, service delivery practices and general operations undertaken at the direction of council. The goal of the VSR was to identify opportunities across the entire organisation (including Park Board, Vancouver Police Department, and the Vancouver Public Library) to provide more efficient, effective and innovative service delivery for Vancouver's citizens. The project was initiated by the City's Corporate Management Team (CMT) based on a February 2009 Council motion. The methodology for the review involved a team of 30 staff from across the organization (union, non-union, and management) working with external consultants. Best practice change management strategies were integral to the work which was undertaken over a 3 month period.

The project had two major components that have implications to the 2010 Operating Budget:

- **Operational Efficiencies:** An extensive review of “how” the City provides services was conducted to determine if there were opportunities for improvement. After receiving over one thousand ideas from staff across the organisation, the VSR focused on developing a number of business cases for change to service delivery that are anticipated to generate over \$30 million in annual savings by 2012. The overall savings identified by the VSR are based on high level business case analysis based on typical results experienced by others implementing similar process improvements. These net savings will be refined as each of the projects are designed and implemented. The CMT has approved the following improvement areas for detailed design and implementation:
  - **Shared Services:** Shared service represents the consolidation of resources in an organization to gain efficiencies in the delivery of services. Any service that is required to support a department and is currently provided in more than one department has the potential to be shared. The Corporate Management Team has identified the following areas to implement shared services: Finance, Facilities Management, Information Technology, and Supply Chain.
  - **Process Improvements:** The CMT approved a number of different processes that could be streamlined. Those with financial benefits include:
    - Absentee Management - enhance and implement a proactive absentee management program that brings down the average absentee level to the national average

- Time Entry/Pay Advice - automate the current manual time entry process and introduce electronic pay advice notice distribution.
- Service Rationalization - remove duplication of public works, archives, and sanitation
  
- **Corporate Prioritization:** All City services were identified and then ranked along a spectrum of priorities ranging from *basic* (an essential function which is mandated by legislation or through our regulatory role), *real* need (a function which addresses a defined need of citizens within the purview and the mandate of the City) and value added activities (functions that are not necessary to fulfill the essential mandate of the City but that are desirable, add value and contribute to the well-being of the citizens). This spectrum is being used by the CMT, Council, and the Boards for directional guidance and assistance in prioritizing budget adjustments to recommend to Council by December 1, 2009.

**Table 3: Vancouver Services Review Projected Savings from Shared Services and Business Transformation**

	Cumulative Savings * (\$ millions)	Cumulative FTE **
2010	10.17	58
2011	22.01	157
2012	27.77	204

\* Cumulative Net Savings after Implementation Costs

\*\*FTE - represents equivalent positions and are made up of regular, temporary and auxiliary positions

#### 4. Process for Achieving a Balanced Budget for 2010

The approach to achieving a balanced budget for 2010 involves a combination of strategies. These include a rapid implementation of the business transformation and shared services opportunities identified in the Vancouver Services Review which will result in an estimated \$10.2 million of savings in 2010. The second strategy proposed by the Corporate Management Team includes continuing key bridging strategies identified in 2009 into the 2010 fiscal year, with appropriate adjustment for items which cannot be continued. The bridging strategies are projected to save \$12.6 million and include:

- Hiring Freeze - this will continue to be strategically implemented to ensure that no part of the operation is inappropriately put at risk
- Departmental specific one-time adjustments - mainly related to deferral of projects/work due to either staffing limitations or competing priorities.
- Discretionary Savings - such as travel and training, contract services, etc.
- Reduction to New and Non-Recurring funding - corporate account used to fund one-time items such as equipment, small renovations, etc.

The total savings from the implementation of the VSR initiatives and the bridging strategies create a projected savings of \$22.8 million resulting in a reduction of the \$50.9 million budget gap to \$28.1 million (5.1% property tax equivalent).

Description	\$million	Property Tax Equivalent
Net Budget Gap After Offsets	\$50.9	9.2%
VSR initiatives	(\$10.2)	(1.8%)
Bridging Strategy	(\$12.6)	(2.3%)
<b>Remaining Gap</b>	<b>\$28.1</b>	<b>5.1%</b>

The CMT is currently reviewing other opportunities to reduce projected expenditures by a further \$20 million which will bring the projected budget gap to approximately \$8.1 million which could be recovered by a tax increase of 1.5% to 2.0%. If Council is in agreement, the CMT, in collaboration with Agency Boards (Park Board, Police Board and Library Board), will identify mitigating strategies for any potential service level reductions that will be part of any recommended strategies to address the budget shortfall. These will be discussed with Council as part of the Interim Estimates to be reported on December 1, 2009.

#### 6. Implications of the Municipal Tax Levy Redistribution (“the shift”) in 2010

Along with the change in the total municipal tax levy from year to year determined by Council, property taxes will also be impacted by the continuation of the 1% redistribution of the municipal tax levy from non-residential to residential properties as recommended by the Property Tax Policy Review Commission and adopted by Council in March 2008 (Appendix 2 highlights the policy changes approved by Council).

Table 4 demonstrates the impact of the 1% municipal tax levy redistribution at notional 5% and 2% increases to the total municipal tax levy with the related impact on a range of residential and non-residential properties.

**Table 4 - Potential Impact of Municipal Tax Levy Redistribution ("the shift")  
Based on Notional Increases to 2010 Municipal Tax Levy**

Property Value	2009 Municipal Tax Levy	Notional Changes to 2010 Municipal Tax Levy			
		5% Increase		2% Increase	
		Prior to Shift	After Shift from Non-residential to Residential	Prior to Shift	After Shift from Non-residential to Residential
<b>Residential Property</b>					
\$200,000	\$418	\$21	\$30	\$8	\$17
\$400,000	\$835	\$42	\$59	\$17	\$34
\$700,000	\$1,462	\$73	\$104	\$29	\$59
<b>\$782,000</b>	<b>\$1,633</b>	<b>\$82</b>	<b>\$116</b>	<b>\$33</b>	<b>\$66</b>
\$945,000	\$1,974	\$99	\$140	\$39	\$80
<b>Commercial Property</b>					
\$200,000	\$1,985	\$99	\$58	\$40	(\$1)
\$400,000	\$3,970	\$199	\$115	\$79	(\$2)
\$700,000	\$6,948	\$347	\$201	\$139	(\$3)
<b>\$782,000</b>	<b>\$7,762</b>	<b>\$388</b>	<b>\$225</b>	<b>\$155</b>	<b>(\$3)</b>
\$945,000	\$9,380	\$469	\$272	\$188	(\$4)

**Assumptions/Notes:**

- 2010 opening municipal tax levy is calculated based on 2009 Supplementary Roll Cycle 7 with no new construction and non-market adjustments
- Effect on legislative tax cap on Class 2 and eligible Ports properties not included
- 1% municipal tax levy redistribution is equivalent to 2.0% increase for residential municipal tax levy and 2.0% decrease for non-residential municipal tax levy
- The 2009 Average Residential Property was \$782,000
- Impact on individual properties may vary depending on the relative change in value of a property compared to other properties in the same class; and the impact that the City's rolling three-year land assessment averaging program has on the value of a property for tax calculation purposes
- Taxes levied by other taxing authorities - Provincial School, Translink, BC Assessment, Greater Vancouver Regional District (Now known as Metro Vancouver), and Municipal Finance Authority - are not included. Council has no control over the amounts collected by these taxing authorities.

## 7. Estimated Tax Impact in 2011

The challenges faced in bringing forward a plan for a balanced budget in 2010 are linked to our knowledge of projections for the 2011 budget year. There are a number of fixed costs which will create a budget gap in 2011, with compensation across all staff groups being the most significant. It is key that the City and its Agencies work throughout 2010 to put in place strategies which will not only assure a balanced budget for 2010, but will continue to reduce costs through to the end of 2011. The following section outlines a number of known issues which will have fiscal impacts on the 2011 budget.

**Table 5 - 2011 Property Tax Increase Estimate**

	<b>2011 Budget (\$million)</b>	<b>2011 Tax Impact<sup>1</sup></b>
Economic Impact - Revenues	(15.7) to 0.0	(2.8%) to 0.0%
Salaries	28.0	5.0%
2008 Police Approvals	0.4	0.1%
2010 Bridging Strategies	12.6	2.3%
Operating Costs of Capital Facilities	5.0	1.0%
VSR Operating Efficiencies	(12.0)	(2.2%)
Other Costs to Maintain Base Services	8.7 to 13.0	1.6% to 2.3%
<b>Total</b>	<b>27.0M to 47.0M</b>	<b>5.0% to 8.5%</b>

<sup>1</sup>Calculated using 2010 Preliminary Estimate Base Taxes of \$555 million

The potential property tax increase to maintain Council approved service levels will range from 5.0% to 8.5%. Key drivers include: wage increases; annualization of year 3 costs related to the 2008 police staffing approvals, cost of new facilities, and the reversal of 2010 temporary bridging strategies. Key offset include: VSR operational efficiencies and increased revenues should the economy begin to recover. Ultimately it is the question of economic recovery that creates the most uncertainty in projecting next year's budget position. These estimates are very preliminary and will be refined for the December 1, 2009 report on the Interim Estimates.

## 8. Public Consultation

The 2010 budget consultation will be combined with a number of public engagement objectives and will involve a number of different program elements as outlined in Table 6 on the subsequent page.

Table 6: Consultation Program Recommendations

Target	Communication Strategy	Details
Businesses (owners & renters);	<ul style="list-style-type: none"> <li>• Telephone Survey</li> <li>• Mayor's Forum</li> <li>• Open Houses</li> <li>• Website</li> </ul>	<ul style="list-style-type: none"> <li>• <i>Telephone Survey</i>: Gain statistically reliable input on priority services, acceptability of a tax increase, and any key budget issues</li> <li>• <i>Mayor's Forum - Mixed Stakeholder Meeting</i>: provide opportunity for business community to provide input in conjunction with other stakeholders to the City's budget</li> <li>• <i>Council-Led Neighbourhood Open Houses</i>: 8 open houses dispersed throughout the City's 22 neighbourhoods</li> <li>• <i>Website</i>: educate and solicit input/electronic version of a budget backgrounder can be printed on demand</li> </ul>
Opinion Leaders (e.g. community organizations, business associations)	<ul style="list-style-type: none"> <li>• Mayor's Forum - Mixed Stakeholder Meeting</li> <li>• Open Houses</li> </ul>	<ul style="list-style-type: none"> <li>• <i>Mayor's Forum - Mixed Stakeholder Meeting</i>: provide opportunity for business community to provide input in conjunction with other stakeholders to the City's budget.</li> <li>• <i>Council-Led Neighbourhood Open Houses</i>: 8 open houses dispersed throughout the City's 22 neighbourhoods</li> </ul>
Residents - (owners & renters)	<ul style="list-style-type: none"> <li>• Telephone Survey</li> <li>• Open Houses</li> <li>• Website</li> </ul>	<ul style="list-style-type: none"> <li>• <i>Telephone Survey</i>: Gain statistically reliable input on priority services, acceptability of a tax increase, and any key budget issues</li> <li>• <i>Council-Led Neighbourhood Open Houses</i>: 8 open houses dispersed throughout the City's 22 neighbourhoods</li> <li>• <i>Website</i>: educate and solicit input/electronic version of a budget backgrounder can be printed on demand</li> </ul>
General Public	<ul style="list-style-type: none"> <li>• Paid Advertising</li> <li>• Website</li> <li>• Open Houses</li> </ul>	<ul style="list-style-type: none"> <li>• <i>Paid Advertising</i>: raise awareness (direct reader to City's website)</li> <li>• <i>Website</i>: educate and solicit input/electronic version of a budget backgrounder can be printed on demand</li> <li>• <i>Council-Led Neighbourhood Open Houses</i>: 8 open houses dispersed throughout the City's 22 neighbourhoods</li> </ul>
City Staff	<ul style="list-style-type: none"> <li>• City Wire</li> </ul>	<ul style="list-style-type: none"> <li>• Educate and inform on key budget issues</li> </ul>
Media	<ul style="list-style-type: none"> <li>• Media Relations</li> </ul>	<ul style="list-style-type: none"> <li>• News Release</li> <li>• Media Interviews</li> </ul>

## 9. Completing the Budget Cycle

The following outlines the next steps in the budget process:

Public Consultation	October/November
Interim Estimates & Public Consultation Results	December 1, 2009
Council Deliberation	December 1, 2009
Final Budget Estimates*	December 15, 2009
Tax Reports	April - May/09

\*The final roll from BC Assessment will not be available prior to the Final Budget Estimates. Therefore there may be changes to the 2010 budget once the final roll is received and tax rates are set in the spring of 2010.

## 10. Personnel Implications

Over the past five months in consideration of the Vancouver Service Review (VSR) and the 2010 Budget, members of the Corporate Management Team (CMT) have been providing numerous updates to Unions and our staff. Effective Communications and Change Management will be critical aspects to managing through these changes as each project will have different organizational impacts.

Wherever individual positions and/or incumbent employees will be impacted, the departmental Human Resource Consultant (HRC) will be involved to ensure that consistent HR policies are applied and the collective agreements are adhered to. In the event of job re-design HRC's will determine, in consultation with departmental managers, when position descriptions have changed such that a classification valuation is warranted. Should such re-design result in whole or partial position redundancy, departmental supervisors and managers, in consultation with HRC and the employee will explore a number of options:

- Priority consideration for alternate available positions
- Re-bundling of work to create viable continuing positions
- Transition of employees to an existing vacant position
- Explore other options of interest to the employee and assist in coaching towards those goals

As employees are transitioned into alternative duties and positions become vacant, wherever possible this will be done through attrition and/or vacancy management in order to mitigate the impact on our staff and to avoid layoffs of regular fulltime positions. Historical turnover rates have trended around 5% per annum, and we expect 2010 to be within that range.

Retirements historically comprise between 40% and 50% the City's annual turnover rate. As a large number of regular full time staff are currently eligible to retire (between 8 and 16% inclusive of police and library) and based on our historical retirement patterns of age, service, and eligibility- approximately 200 RFT employees are projected to retire in 2010.

## CONCLUSION

The preliminary estimates of the 2010 Operating Budget indicate a budget gap of \$50.1 million (equivalent to a 9.2% property tax increase). The Vancouver Services Review savings and the temporary bridging strategies developed in 2009 provide \$22.8 million in savings. The Corporate Management Team will continue to look for opportunities to bring the budget into balance with a targeted property tax increase in the range of 1.5% to 2.0%. As well, staff will be initiating a public consultation process to provide input to the budget tradeoffs necessary to bring the budget into balance.

\* \* \* \* \*

## Appendix 1 - Interim Budget Estimates

### Council Policies Pertaining to City Revenues:

#### *Parking Meter Policy:*

Council policy is to provide parking meters to improve turnover of street parking for short term use, with the support of local businesses. Rates are general set at levels above adjacent off-street parking with consideration of local market demand.

#### *Charges and Fee Policy:*

It is Council policy that fees and charges for City services be established on a cost recovery basis and at market levels in circumstances where they are provided in competition with the private sector.

#### *Property Tax Policy:*

Property Tax Distribution:

Since 1982, it has been Council's policy to collect a fixed share of the total property tax levy from each of the seven property tax classes in Vancouver. Over time, this share has been adjusted slightly by properties transferring between classes, by the addition of new construction value to a property class and by Council decisions that have affected the shares of the tax levy.

On April 28, 2005, Council confirmed the policy of managing the property tax levy through a "fixed burden" approach where the allocation of the levy among the classes of property is determined annually by Council, subject to physical changes in the classes or to Council action to adjust the allocation. In March 2008 after receiving the recommendations from a Property Tax Policy Review Commission, Council:

- Council approve a target redistribution of the tax levy, that would shift \$23.8 million proportionately from Classes 2, 4, 5 and 6, to Classes 1, 8 and 9, in order to achieve the Property Tax Policy Review Commission's recommended tax levy distribution of 48% non-residential and 52% residential.
- Council approved, to achieve the target redistribution, the reduction of the tax share borne by the non-residential property classes (Classes 2, 4, 5 and 6) at a rate of one percent of the overall tax levy per year, and the increase in the share borne by the residential classes (Classes 1, 8, and 9) by the same amount until a total of \$23.8 million has been shifted from the nonresidential property classes to the residential property classes.
- Approved that following the achievement of the recommended target tax redistribution described above, the tax distribution shares be unchanged for a period of five years.

Council Priorities Pertaining to City Revenues (Continued)

Land Assessment Averaging:

Since 1994, Council has approved the use of three year land assessment averaging as the method for calculating property taxes for the residential and business classes (and light industrial class beginning in 2008), including the criteria for determining the eligibility of individual properties. In March 2008 after receiving the recommendations from a Property Tax Policy Review Commission, Council:

- Instructed staff to seek an amendment to the Vancouver Charter, to allow the City to use up to five years of land assessments in the land assessment averaging formula available to the City for the calculation of property taxes, as compared to the current formula which allows for three-year land averaging only. If the Charter amendment is approved, staff are to report back with an analysis that compares the use of five-year land averaging to three-year land averaging in the calculation of property taxes, with respect to their respective efficacy in mitigating year-over-year volatility in property taxes for individual properties.

Property Tax Exemptions:

Section 396 of the Vancouver Charter governs eligibility for property tax exemptions in the City. With the exception of exemptions related to the City's Heritage Revitalization program, Council has not provided permissive exemptions from property taxation. A more comprehensive summary of exemptions will be reported to Council later in 2009.

The following summarizes the major revenue and expenditure areas in the Preliminary Estimates:

**REVENUE ESTIMATES**

The revenue side of the Operating Budget is comprised of four components: Taxation Revenues, General Revenues, Transfers from Reserves/Funds, and Utility Revenues (as they relate to the utility expenditures). The Preliminary estimates include revenues of \$948.8 million in 2010, up 2.6% from 2009. This revenue position is prior to consideration of a property tax increase.

*Taxation Revenues*

Taxation revenues are those derived from property taxation sources including the general purpose tax levy, receipts-in-lieu of taxes (revenues from properties not subject to property taxation), as well as penalty and interest charges for outstanding and arrears taxes. The estimates established these revenues at \$591.6 million.

- i) The general purpose tax levy has been set at \$554.7 million prior to consideration of a tax increase. This includes a \$2.5 million in tax revenue from new construction.

ii) The provision for tax adjustments is set at \$3.0 million, based on prior years experience in assessment appeals before the Assessment Review Panel.

iii) Receipts-in-lieu of taxes totals \$33.3 million, reflecting no change from the 2009 budget.

iv) Penalties and Interest has been set at \$3.9 million, based on prior years experience, with no change from 2009.

### *General Revenues*

A variety of general revenue sources support the expenditure budget. Overall, General Revenues are anticipated to increase to \$172.1 million or \$2.8 million over the 2009 budget level of \$169.3 million, a 1.7% increase. These revenues are summarized below:

i) Provincial Revenue Sharing is comprised of two components:

*Provincial Traffic Fine Revenue* - The Provincial traffic fine revenue program increased substantially in 2004 based on the Provincial initiative to transfer 100% of traffic fine revenue to municipalities. This traffic fine revenue is provided to municipalities in order to defray the cost of local police enforcement.

The Preliminary estimates include \$13.8 million in Provincial Traffic Fine Revenue, a decrease of \$1.6 million, or 10.6%, over the 2009 budget. This decrease is attributable to a change in the Provincial calculation methodology, as well as the addition of municipalities which are now eligible for the cost sharing arrangement.

*Gaming Revenue* - The Preliminary estimates include \$7.2 million in gaming revenue, no change from the 2009 budget level, reflecting 2009 experience.

ii) Investment Income is dependent on the cash balances the City has to invest and on market interest rates. Interest rates have remained low in 2009, after reducing dramatically in 2008, with short term interest earnings remaining at the same budget level as 2009.

iii) On-Street Parking Revenue has increased by \$0.7 million to reflect program changes approved by Council in 2009 and historical experience, offset by an expected reduction in income during the 2010 Olympic and Paralympic Games.

iv) Service and Inspection Fees have also been negatively impacted by decreasing development activity during 2009 and are projected to increase by only \$0.7 million over the 2009 budget level of \$17.8 million attributed to a 4% fee increase.

v) License Fees have increased by \$0.6 million based on inflationary.

vi) Park Board Revenues have increased by \$1.6 million or 4.0% based on inflationary guidelines.

vii) Civic Theatres Revenues are anticipated to increase by \$0.3 million based on inflationary guidelines and anticipated bookings.

viii) Miscellaneous Revenue is anticipated to be mainly static in 2009 with no projected increase.

### *Transfers from Reserves*

The transfer from other funds and reserves includes:

- i) Annual dividend from the Property Endowment Fund remains unchanged at \$7.0 million.
- ii) Transfer from the Art Gallery Reserve remains unchanged at \$0.16 million; which partially offsets the Art Gallery operating grant.

## EXPENDITURE ESTIMATES

The expenditure side of the budget is comprised of four components: Departmental Expenditures, Utility Expenditures; Capital Program; and Transfers to Other Funds/Reserves. The estimates include expenditures of approximately \$998.7 million in 2010, up 8.1% from the 2009 final budget.

### *Departmental Expenditures*

Departmental expenditures are those related to the programs and services provided by the City. The increases in program costs total \$47.2 million and are driven by the following factors.

#### i) Salary and Benefit Costs

Wage increases for most employee groups are 4.0% in 2010. Wages are a significant driver as employment costs make up over 60%-70% of the City operating expenditures. This translates to an increase of \$26.7 million or a 4.8% property tax increase.

#### ii) Inflation in Non-Salary Costs

Besides the costs associated with salaries and benefits, the budget usually provides a general allowance of 2.0% in departmental budgets to account for increases in material, equipment and other input costs associated with the programs offered by the City. For 2010 there has been no inflationary increase on non-salary costs provided.

Utility rates have decreased by \$0.6 million mainly related to a decrease in natural gas rates (10.0%) equivalent to a 0.1% tax decrease.

#### iii) One-Time Corporate Adjustments

As part of the budget setting exercise, a series of departmental and corporate one-time budget adjustments were made to balance the 2009 Operating Budget. These budgets have been reinstated resulting in a net increase of \$14.3 million to the 2010 Operating Budget, equivalent to a 2.6% property tax increase. These included:

- New and non-recurring funds - \$0.4 million increase over 2009 leaving a balance in the fund of \$0.5 million
- Hiring Freeze - \$6.3 million increase over 2009 by reversing the savings associated with the 2009 hiring freeze

- Departmental Adjustments - \$5.4 million increase over 2009 by reinstating travel & training, consulting, overtime, temp help and fleet related expenditures
- Turnover - \$2.1 million reduction over 2009

iv) New or Expanded Services/Programs Approved in 2008 and 2009

There are a number of new or increased expenditures related to services/programs approved by Council in 2008 and 2009 totaling \$7.4 million, equivalent to a 1.3% tax increase. These included "Added Basic" (\$5.4 million), and services/programs approved in 2008 and 2009 (\$2.1 million).

The following added basic is the ongoing operating cost of capital projects approved that are anticipated to impact the 2010 Operating Budget at a net impact of \$5.4 million or 1.0% property tax increase.

	\$000
#1 Kingsway ( Library & Facilities)	431.3
Force Options Training Centre	1,117.6
Hillcrest Community Centre	964.5
SE False Creek Community Centre	800.0
Park Board - Others	54.8
Woodwards - Office Space	696.5
Cross Roads - Office Space	1,289.2
<b>Total Added Basic</b>	<b>5,353.9</b>

As well, Council approved the following services/programs during 2008 and 2009 at a net impact of \$2.1 million or a 0.37% tax increase:

Approval	Impact (\$000)	Tax Impact
Additional 96 Police Officers	1,184.2	
<b>Public Safety</b>	<b>1,184.2</b>	<b>0.24%</b>
IT Security Staffing	166.7	
IT Enterprise Data/ Applications Architecture Staffing	110.0	
Systems Support	165.1	
Operating costs for IT 2009 Expansion and Replacement Program	101.0	
<b>General Administration</b>	<b>377.7</b>	<b>0.07%</b>
Mental Health Advocate	150.0	
Childcare Support	150.0	
Carnegie Centre Outreach Program	9.2	
<b>Social Programs/Support</b>	<b>309.2</b>	<b>0.06%</b>
<b>Planning Resources</b>	<b>21.5</b>	<b>0.00%</b>
<b>Total Council Approvals</b>	<b>2,057.7</b>	<b>0.37%</b>

*Charges from Outside Agencies*

The City's Operating Budget must also fund costs imposed by outside organizations over which Council has little or no direct control. The following organizations are anticipated to increase their requisitions to the City in 2010:

- GVS&DD levies the City for its share of regional sewerage costs. In 2010, these costs are estimated to increase by \$2.2 million. These costs are recovered 63% from user fees and 27% from property taxes. The impact on the tax supported operating budget of this increase is \$1.0 million over 2009 or 0.2% tax increase.
- The requisition from E-Comm for radio and dispatch services is estimated to increase by \$1.6 million, a 0.3% tax increase.
- Additional funding has been requested to support the Vancouver Economic Development Commission (the "VEDC") of \$1.0 million, or 0.2% of a tax increase. The VEDC will be reporting to Council in November 2009 with their business plan to outline their 2010 economic strategy.
- In 2010 the City's jail will be fully operational after taking over its operations from the Province, with additional expenditure requirements of \$0.8 million, or a 0.2% tax increase.

It has been Council practice to pass these expenditure increases through to taxpayers as a tax increase rather than forcing reductions in the City's program to remain within acceptable taxation targets. Together these additional charges total \$4.5 million and represent a property tax increase of about 0.8%.

### *311 Consolidated Citizen Service Centre*

On November 30, 2006, Council approved the implementation of a consolidated citizen service centre and 311 Service for the City of Vancouver. As per Council's decision, all costs associated with the operation of the 311 Contact Centre are to be fully recovered by internal budget transfers by departments and operational efficiencies.

The 2010 Operating Budget reflects the second of a three year implementation costs of \$4.5 million, an increase of \$2.7 million over 2009. The increase to the budget in 2010 will be funded through Department adjustments of \$1.1 million and \$1.6 million from Corporate efficiencies (as identified by the Vancouver Services Review).

### *Utility Expenditures*

The City has established four utilities that are operated on a user-pay basis. The water, solid waste and neighbourhood energy utilities are fully funded from user fees so that increased expenditures are matched by increased user fees with no impact on property taxes. The sewer utility is funded approximately 63% from user fees and 37% from property taxes. In December 2009, Council will be asked to approve the budgets and rates for 2010 for these utilities.

#### *a) Water Utility*

Water utility costs are driven by increases in the cost of water purchased from the Regional District and by debt charges. The Regional unit cost of water is expected to increase by 12.3% in 2010 as a result of capital expenditures related to the water filtration project at the Seymour and Capilano Reservoirs. The City's water utility debt cost is estimated at \$17.65 million, a 6.8% reduction over 2009. Other City costs are not expected to change significantly. As a result of these factors, the Water Utility rates are estimated to increase by approximately 10% in 2010. For single family dwellings, the annual flat rate for water is anticipated to increase from \$379 to \$417. A report with final estimates and rates will be presented to Council on December 1, 2009.

#### *b) Solid Waste Utility*

Solid Waste Utility Fees are made up of three components: garbage collection fees, recyclables collection fees, and yard trimmings collection fees. Cost increases are anticipated in 2010 for both the garbage and recyclables collection programs. Those increases are attributed primarily to an increase in wage rates, increased apartment recycling contract costs and higher per tonne costs at the landfill due to reductions in tonnages from other customers at the landfill. In addition to 2010 program cost increases, it is forecasted that the three collection programs will have an accumulated deficit of about \$3.7 million, resulting from decreased recycling revenues, increased recycling collection costs and the reversal of the one-time strike savings. This deficit which has been financed by the Solid Waste Capital Reserve has accumulated primarily in 2008 and 2009 and will need to be recovered over time. If the deficit is recovered over a four year time frame, a combined fee increase of about \$28 or 14% per homeowner will be needed to absorb the 2010 increase in costs and to recover one

quarter of the accumulated deficit. A total fee increase of about \$19 or 9% per household would be needed if there is no accumulated deficit recovery in 2010.

Future new program cost increases will also be necessary for Vancouver to implement aggressive new waste diversion and management actions anticipated under a new Regional Solid Waste Management Plan (SWMP). While the timing of the approval of the Regional SWMP by Metro Vancouver is uncertain at this time, staff are in the process of assessing the expected financial impacts of those actions and will be in a position to report details to Council once a new Regional SWMP is finalized. The potential impacts of these cost increases will be considered in making the decision on the timeframe over which the accumulated deficit noted above could be recovered.

#### c) Sewer Utility

In 2008 Council approved a major change in the Sewer Utility: the transfer of sanitary system infrastructure costs from the property tax levy to user fees over two years. To mitigate the impact on user fees, a transfer from the Stabilization Reserve in 2009 and 2010 was approved by Council.

The two main drivers of costs in the Sewer Utility are the Greater Vancouver Sewerage and Drainage District (GVS&DD) levy and debt charges. In 2010, GVS&DD levy is currently estimated to increase by \$2.21 million or 5.2% over 2009. The final rates will be approved by the GVS&DD on October 30. The Sewer Utility debt costs are estimated to increase by 3.35%. These increases and the shift of the remainder of sanitary system costs to user fees will result in an estimated increase of approximately 17% in sewer fees. For a single family dwelling the annual flat rate sewer fee would increase from \$195 to \$228. However, the increase to the sewer utility fees is offset by a reduction to the general tax levy of approximately \$5.2 million. The tax reduction is approximately equal to the fee increase for the average residential property.

#### d) Neighbourhood Energy Utility

The Neighbourhood Energy Utility (NEU) was established in 2009 to provide space heating and domestic hot water to multi-family residential, commercial, institutional and industrial buildings in South East False Creek. The rates are structured so as to recover the operating, debt and other costs associated with the NEU. The NEU established rates in February of 2009 and has started to recover costs associated with the supply of pre-occupancy heat services to the Olympic Village. Next year will be the first full year operating as a utility and a report to recommend 2010 rates will be presented to Council on December 1, 2009. The rates recommended are expected to be consistent with the 2010 estimates that were indicated in the February 2009 report.

### *Capital Program*

The City's capital program is planned over a three-year horizon with financing provided by a combination of Debentures, Capital from Revenue (pay-as-you-go), Development Cost Levies/Community Amenity Contributions, and external funding. The costs of this program are carried in the Operating Budget through payments of principal and interest on Debentures with funding provided from utility user fees and the property tax levy.

In 2010, the Operating Budget includes debt charges related to all outstanding debentures and from an anticipated \$125 million debenture issue for general and utility.

The 2009-2011 Capital Plan anticipates Capital from Revenue totaling \$75.0 million, of which \$24.6 million has been allocated in the 2010 Operating Budget.

*Transfers to Reserves/Funds*

There are a number of transfers included on the expenditure side of the operating budget, including the Information Technology Long Term Financing Plan, Civic Election and the Liability Insurance Reserve.