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CITY CLERK'S DEPARTMENT  
PUBLIC ACCESS AND COUNCIL SERVICES

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## MEMORANDUM

October 13, 2010

TO: Vancouver City Council  
FROM: Charlene Imai, Meeting Coordinator  
SUBJECT: 2011 Operating Budget: Preliminary Estimates

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Patrice Impey, General Manager - Financial Services Group, and Julia Morrison, Manager - Corporate Operating Budget, will present a Report Reference on the 2011 Operating Budget: Preliminary Estimates.

The attached Administrative Report dated October 8, 2010, refers.

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## ADMINISTRATIVE REPORT

Report Date: October 8, 2010  
Contact: Julia Morrison  
Contact No.: 604.873.7184  
RTS No.: 08882  
VanRIMS No.: 08-2000-20  
Meeting Date: October 19, 2010

TO: Vancouver City Council  
FROM: General Manager of Financial Services  
SUBJECT: 2011 Operating Budget: Preliminary Estimates

### RECOMMENDATIONS

THAT Council receive for INFORMATION the preliminary estimates for the 2011 operating budget as outlined in this report and summarized in Appendix 1.

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

The Preliminary Report on the 2011 Operating Budget is the first opportunity that Council has to review the budget position and to begin the process of bringing the estimates into balance.

The estimates show total pressures on the 2011 operating budget of \$60.2 million. These pressures reflect a number of fixed cost drivers including a compensation increase for staff (both exempt staff and unionized staff) averaging 4%, incremental operational costs of new facilities, as well as increases imposed by other agencies (including the Greater Vancouver Sewerage and Drainage District) over which Council has no direct control.

Over the last few months, work across the organization has identified offsets through departmental savings and projected revenue increases, all of which total \$39.6M, bringing the preliminary budget gap to \$20.6M as outlined in Table 2.

Between now and December 2010, under the direction of Council, staff will continue to refine estimates, develop the final budget management strategies, undertake a public consultation process to seek public input on the 2011 Operating Budget, and develop strategies to achieve Council's priorities within resources allocated. Council will receive the results of the consultation in time for the final deliberations on the 2011 Operating Budget on November 30, 2010. The final estimates will be presented on December 14, 2010.

## 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 fiscal year and that Council adopt a resolution approving the budget and a rating bylaw establishing general purpose tax rates as soon thereafter as possible.

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 2011 budget and refer the report to the budget consultation process. The final budget strategy along with the results of the consultation process will be presented to Council on November 30, 2010, when Council will deliberate on the 2011 Operating Budget.

## BACKGROUND

There are four key reports in the 2011 Operating Budget process:

- **October 19, 2010:** The "Preliminary Estimates" report provides Council with the 2011 opening budget position, and advises Council about the next steps in the 2011 budget process.
- **November 30, 2010:** The "Interim Estimates & Public Consultation Results" report reviews the results of the 2011 Budget Consultation process, and summarizes the proposed budget strategies developed by the Corporate Management Team to finalize the estimates and bring the 2011 Operating Budget into balance.
- **December 14, 2010:** The "Final Estimates" report presents the final 2011 revenue and expenditure estimates approved by Council, and is accompanied by a resolution in which Council adopts the estimates for the year.
- **May 2011:** Council Report with 2011 Property Taxation Bylaws and Averaging Resolution

The preliminary estimates for the 2011 Operating Budget indicate a shortfall of \$20.6M. Major factors contributing to this increase are:

- Salary increases related to exempt staff compensation plans and collective agreements
- Inflationary Increases eg, rents and leases, insurance, fleet expenses, and utilities
- Incremental costs of outside agencies eg, GVS&DD
- Incremental operating costs of new facilities such as the Hillcrest Community Centre and Library, new Park Board facilities, the VPD Relocation to Graveley Site Facilities and the VPD Property Forensic Storage facility

- Impact of the Capital program - increased debt financing costs and capital from revenue
- Revenue, although projected to increase, still remains down from prior year levels due to the continued downturn in the economy

The global economic downturn that began in 2008 has significantly impacted Vancouver's development sector. In early 2009, staff anticipated lower development related revenues and adjusted revenue projections downwards by \$12.6M (approximately 50% of previous levels). This reduced level of development activity was projected to continue throughout the 2010 fiscal year.

The development market is showing signs of improvement throughout 2010, with Development and Trade Permit fees projected to exceed budget by year-end.

The 2011 estimates discussed in this report include an increase from the 2010 budget of approximately \$8M for development, trade permit and inspection fees, reflecting increasing activity in this sector of the economy and the increased fees approved by Council.

### *2010 Budget Adjustment Implementation*

The 2010 budget included a number of service adjustments and plans for transformational change in the organization.

Through the first quarter of 2010, the organization gave considerable attention to implementing those changes in the most respectful, strategic and supportive way in order to minimize the impact to citizens and to staff.

The Human Resources Transition Team worked closely with management to utilize temporary assignments, management of vacancies and alternative funding sources to provide alternatives for impacted staff. As a result of these strategies, of the original 128 estimated positions that would be impacted, the majority of positions were accommodated with vacancies, attrition, retirements, department transfers or other alternatives, with to date less than 10 people leaving the organization. While this was a difficult process, and not everyone was able to be accommodated within the organization, the impacted individuals were supported by their managers and the Human Resources transition team throughout the process.

### *Vancouver Services Review (VSR)*

In 2009, the City undertook a comprehensive strategic review of its businesses, service delivery practices and operations, resulting in a number of transformational projects. In addition, hundreds of ideas and suggestions from staff were compiled into an Opportunity Log that departments continue to mine for innovative ways to provide services to our citizens and internal customers and for potential savings.

Following the review, the VSR Program Office (PMO) was created to provide program management for the selected projects, and to provide standardized reporting and tracking of

benefits. The VSR program has been a critical enabler of transformation in the City. By providing the structure and support to key city-wide transformation projects and departmental initiatives, significant changes are being made in the way the city manages and delivers services.

VSR's current projects include: IT Shared Services, Supply Chain Shared Services, Rationalization of Sanitation Services, Attendance Management, Permits and Licenses, Capital Program, Electronic Pay Notices and Web Redevelopment.

To date in 2010, four projects have been completed (or partially completed) and have achieved financial savings. These are:

1. Sanitation - Sanitation services in the Park Board and Engineering were consolidated. Through the changes implemented in July and September 2010, the city will achieve annual savings of \$0.7M.
2. IT Shared Services (Phase 1) - IT resources were aligned into a single IT organization. Through the changes implemented in July 2010, the city will achieve annual savings of \$0.8M. Phase 2 of this project has begun, with additional savings expected in 2011.
3. Supply Chain Strategic Sourcing - Through our procurement activities to date in 2010, \$8.1M of reduced costs have been achieved. This initiative will continue, and further savings will be identified as additional strategic sourcing opportunities are reviewed. These reductions in cost are realized primarily in the capital fund, with a smaller percentage impacting the operating fund.
4. Attendance Management - This initiative is underway throughout city departments and will continue on an ongoing basis. To date, the absentee rates have been reduced on a city-wide basis from an average of 15.7 days annualized in 2009 to 15.1 days as of Q2 2010. While absentee rates do not all translate to direct savings, they represent increased capacity for the organization. The 0.6 day reduction equates to over 30,000 additional productive hours, the equivalent of which is approximately \$0.8M per year of increased productivity.
5. Electronic Pay Notices - Delivering employee pay statements via email (with an encrypted password) versus paper, this project will launch within the coming weeks and is estimated to reduce costs by \$0.14M as well as improving our environmental impact.

These savings figures are based on the latest data available to the VSR PMO. The annualization represents the first 12 consecutive months of savings from each respective project.

Projects undertaken by the VSR will have many benefits in addition to financial. Other benefits include standardization, consolidation, removal of duplication, service responsiveness for our customers and partners, and providing value for money in service delivery. Sustainability is also an overarching goal as we improve processes and technology to reduce the need for paper, printing and driving of vehicles. Other projects currently underway include:

- Capital Program - focuses on process improvement and will provide greater efficiency, accuracy, and accountability, and improved reporting of capital status, costs and outcomes.
- Permits and Licenses - focuses on improving customer service and operating efficiencies by transforming the process for City permits and licences. The project will improve the technology platform, improve the quality of service, create a regulatory review framework, reduce regulations, and deliver a more sustainable service.
- Web Redevelopment - The purpose of this project is to create an integrated, citizen-centric web presence for the City that will provide users with an easy-to-use and reliable platform for fulfilling online transactions, accessing timely and authoritative information; and participating in democratic processes. This improved web presence will be enabled and supported by a new content management system.

A number of other projects are planned to launch in late 2010 or 2011 including:

- Communications Shared Services
- Finance Shared Services
- Facilities Shared Services
- HR Shared Services
- Inventory & Warehouse Management
- Manufacturing & Fabrication
- Time Entry
- Public Works Rationalization

In addition to the VSR specific city wide projects, departments have also undertaken other initiatives and transformations, which have resulted in improvements and savings. Many of these were identified in the Opportunity Log of the VSR. These include reduction of take home vehicles in Engineering, restructuring of EQS services, reduced debt requirements for the 2010 capital budget, electronic distribution of Council reports (reducing printing costs), and consolidated advertising spend across the organization. These initiatives have resulted in a savings of approximately \$2M, reflected in departmental results.

In summary, the VSR has been a collaborative effort between departments and business units, key stakeholders and the project teams and has resulted in some key accomplishments in addition to the ones already discussed, including:

- Framework for tracking performance measures and qualitative benefits
- Tools for the implementation of shared services
- Enhanced project management tools and oversight strategies

In the coming year, VSR will continue to be facilitating departmental initiatives arising from the Opportunity Log as well as the projects outlined above.

## DISCUSSION

### 1. Preliminary Budget Position

The following table summarizes the potential 2011 budget position, prior to consideration of a property tax increase:

Table 1 - Summary of Preliminary 2011 Budget Estimates

|                            | 2010 Budget \$M | 2011 Preliminary Estimates \$M |
|----------------------------|-----------------|--------------------------------|
| <b>Revenues</b>            |                 |                                |
| Taxation Revenue           | 602.9           | 610.3                          |
| General Revenue            | 174.2           | 192.0                          |
| Utility Fees               | 186.4           | 193.7                          |
| Transfers                  | 7.2             | 8.9                            |
| <b>Total Revenues</b>      | <b>970.7</b>    | <b>1,004.9</b>                 |
| <b>Expenditures</b>        |                 |                                |
| Departmental Expenditures  | 680.0           | 716.1                          |
| Utility Expenditures       | 214.2           | 223.5                          |
| Capital Program & Debt     | 76.5            | 85.9                           |
| <b>Total Expenditures</b>  | <b>970.7</b>    | <b>1,025.5</b>                 |
| <b>Net Budget Position</b> | <b>0.0</b>      | <b>20.6</b>                    |

The preliminary estimates, prior to any consideration of a property tax increase, include revenues of \$1,004.9 million in 2011, compared to \$970.7 million in 2010 (an increase of 3.5%). These revenue projections include an across-the-board 2.75% inflationary fee increase. Preliminary expenditure estimates of \$1,025.5 million for 2011 show an increase of 5.6% from the 2010 approved budget.

## 2. Budget Process to Date

Staff began preparing the 2011 Operating Budget estimates during the summer of 2010 based on approved levels of service, and key inflationary guidelines.

Budgets were built based on detailed salary calculations for all approved positions, and a review of key non-salary accounts such as utilities, rents and leases, fleet and insurance. Finance staff conducted detailed administrative reviews of the revenue estimates.

At the same time, departments were asked to identify any significant budget pressures or unfunded programs which are considered to be of high priority and closely aligned to core services, Council priorities and the Corporate Strategic Business Plan. The Corporate Management Team has prioritized only the most critical funding requests. These funding requests will be brought forward to Council for recommendation.

Recognizing the continued pressure on costs, Departments and Boards were requested to review areas within their budget that were considered more discretionary in nature. Areas identified for adjustment include: initiatives from the opportunity log, reductions in overtime, temporary help, consulting and contract services, reallocation of travel and training resources, cost allocations to capital if appropriate as well as new revenue opportunities.

### 3. 2011 Preliminary Estimates - Budget Drivers

In summary, the key drivers to the 2011 budget estimates are highlighted in Table 2.

Table 2 - Major Drivers for the 2011 Operating Budget - Preliminary Estimates

| Budget Driver   | \$million     |
|---|---------------|
| <b>Projected Increases to the Operating Budget</b>  |               |
| Salary & Fringe Benefit Increases<br><ul style="list-style-type: none"> <li>Exempt Compensation plans and Collective Agreements</li> </ul>  | 34.9          |
| New Facilities Operating Costs<br><ul style="list-style-type: none"> <li>Hillcrest</li> <li>VPD - Partial Relocation to Graveley Site Facilities</li> <li>VPD Property Forensic Storage facility</li> <li>Other Park Board facilities</li> </ul>  | 7.9           |
| Capital Program<br><ul style="list-style-type: none"> <li>Capital from Revenue</li> <li>Debt Costs - Principal and Interest</li> </ul>  | 9.4           |
| Outside Agency Impact<br><ul style="list-style-type: none"> <li>GVS&amp;DD Levy</li> </ul>  | 3.7           |
| Funding Requests<br><ul style="list-style-type: none"> <li>Prioritized funding requests in alignment with the Corporate Strategic Business Plan</li> </ul>  | 1.7           |
| Revenue Reductions<br><ul style="list-style-type: none"> <li>Investment Income</li> </ul>   | 1.7           |
| Council Approvals and Other<br><ul style="list-style-type: none"> <li>311 Common Costs</li> <li>Election Expenses</li> <li>Insurance, Utilities, Rent &amp; Leases, Fleet</li> </ul>  | 0.9           |
| <b>Total Projected Increases to the Operating Budget</b>  | <b>60.2</b>   |
| Projected Revenue Increase<br><ul style="list-style-type: none"> <li>2.75% Fee Increases</li> <li>Net Property Tax Increase - New Construction</li> <li>Removal of transfer to Olympic Legacy Reserve</li> <li>On-Street Parking and Enforcement Revenues</li> <li>Civic Theatre bookings</li> <li>Development Revenue</li> </ul>   | (28.5)        |
| Departmental Adjustments<br>Departments were requested to review areas within their budget to identify savings without service impacts. Areas identified for adjustment include: opportunity log initiatives, maintenance of existing vacancies, reduced overtime, consulting and contract services, reduction of temporary help, adjustment of travel and training allocations and a review of cost allocations. | (11.1)        |
| <b>Total Projected Reductions to the Operating Budget</b>   | <b>(39.6)</b> |
| <b>PRELIMINARY NET BUDGET GAP</b>   | <b>20.6</b>   |

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

#### **4. Funding Requests**

During the budget process, a number of unfunded initiatives are under consideration for funding. These initiatives currently total \$1.7 million; examples include replacement of VFRS Personal protective equipment; initiatives required under the BC Police Act; activities related to Vancouver's 125<sup>th</sup> Anniversary; and e-learning initiatives to allow training obligations to be met more efficiently.

These funding requests will be brought forward to Council in the interim budget report on November 30, 2010.

#### **5. Vancouver Services Review (VSR)**

The 2010 budget reflected a savings target of \$10.2M from projects to be initiated through the Vancouver Services Review. This savings target was based on business case analysis performed in the summer of 2009 by a broad cross section of city staff, under the direction of consultants, Sierra Systems.

The \$10.2M target was built into the 2010 budget, in anticipation of the VSR projects launching and being fully implemented in 2010. At the time the budget was approved in December 2009, the specific project plans had not yet been defined. A contingency was put in place to recognize the uncertainty of project launch dates and scope. More time than originally anticipated has been taken to ensure a respectful, best practice human resource management of business transformations with priority attention given to staff impacted by budget adjustments to enable us in many cases to find alternative positions within the organization. This has delayed most of our projects. Annualized savings to date for the operating fund are close to \$4M with the total \$10.2M of savings expected to be realized in 2011.

#### **6. Implications of the Municipal Tax Levy Redistribution ("the shift") in 2011**

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 1 highlights the policy changes approved by Council). 2011 will be year four of this 5-year policy change.

## 7. Harmonized Sales Tax (HST)

Effective July 1, 2010, the Province of British Columbia harmonized its Provincial Sales Tax (PST) (7%) with the federal Goods and Services Tax (GST) (5%) to implement the HST (12%), comprised of a 5% federal portion and 7% provincial portion.

Since July 1, 2010 the City:

1. Collects 12% HST on taxable goods and services we supply - HST collected on our revenues are remitted to the Canada Revenue Agency (CRA) monthly, and
2. Pays 12% HST on most goods and services we purchase.

Prior to the introduction of HST, PST was mainly applied to goods purchased by the City, but not services. The City did not receive a PST rebate, which resulted in a 7% cost to the City on all purchased goods. GST of 5% was applied to both goods and services, but this was 100% rebated to the City.

Since the introduction of HST, the impact of the 12% tax on goods and services purchased is significantly mitigated, by a municipal rebate of 100% of the federal portion and 75% of the provincial portion. The result is an effective net tax of 1.75% across all goods and services we purchase.

By providing the municipal rebate, the Province's objective is to achieve a neutral impact on Municipalities' costs.

## 8. Public Consultation

The 2011 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 3 on the following page.

**Table 3: Budget Consultation Process - Overview of Proposed Communications - "Budget 101"**

| Target  | Communications Tactic  | Details   |
|---|--|---|
| <p>Businesses:<br/>owners &amp; renters,<br/>business associations</p>          | <ul style="list-style-type: none"> <li>• Survey</li> <li>• Learning City 1 on 1s</li> <li>• Website</li> </ul>   | <ul style="list-style-type: none"> <li>• <i>Telephone survey:</i><br/>Benchmarking on priorities and issues such as tax increase tolerance and other key budget metrics - 250 sample size</li> <li>• <i>Learning City 1 on 1s (VPL):</i><br/>Over the course of October, Learning City will conduct a number of interview sessions with business leaders and provide a report on key issues for this audience</li> <li>• <i>Website:</i><br/>Customized pages to inform and engage with <i>Budget 101</i>, process overview and an online survey, - parallel to telephone version</li> </ul>  |
| <p>Opinion Leaders:<br/>community organizations,<br/>multilingual audiences</p> | <ul style="list-style-type: none"> <li>• Advertising</li> <li>• Survey</li> <li>• Learning City 1 on 1s</li> <li>• Open house events</li> <li>• Website</li> <li>• Displays</li> </ul> | <ul style="list-style-type: none"> <li>• <i>Paid Advertising:</i><br/>Advertising specifically directed at multilingual communities</li> <li>• <i>Telephone survey:</i><br/>Specifically includes other cultures - benchmarks priorities and issues - 500 sample size includes up to 25% multilingual component</li> <li>• <i>Learning City 1 on 1s (VPL)</i></li> <li>• <i>Open house events:</i><br/>Special presentation planned at City Hall on October 27 aimed at multilingual groups - organized by Social Planning</li> <li>• <i>Website:</i> See above</li> <li>• <i>Displays:</i><br/>Displays summarizing the city budget will be placed in community centres and at City Hall &amp; main VPL branch</li> </ul>  |
| <p>Residents:<br/>owners &amp; renters</p>                                      | <ul style="list-style-type: none"> <li>• Advertising</li> <li>• Survey</li> <li>• Open house events</li> <li>• Website</li> <li>• Displays</li> <li>• Info booklet</li> </ul>          | <ul style="list-style-type: none"> <li>• <i>Paid Advertising:</i><br/>Raise awareness - directs reader to City's website and events</li> <li>• <i>Telephone survey:</i><br/>Benchmarks priorities and issues - 500 sample size has &lt;5% margin of error and is considered statistically relevant</li> <li>• <i>Online survey - City website:</i><br/>Creates further engagement and participation on budget priorities and issues, but is not considered statistically relevant - helpful as a general gauge of public opinion</li> <li>• <i>Open house events:</i><br/>More dynamic format - to be held at Langara Open House, City Hall as well as Community and possibly commercial centres</li> <li>• <i>Website:</i> See above</li> <li>• <i>Displays:</i> See above</li> <li>• <i>Budget101 Booklet:</i><br/>Being produced for distribution at events, at City Hall, in Community Centres, VPL etc. - explains the basics of the City budget and differences from other governments, and also provides info on how to join the dialogue</li> </ul> |

|                       |   |   |
|-----------------------|---|---|
| <p>General Public</p> | <ul style="list-style-type: none"> <li>• Advertising</li> <li>• Survey</li> <li>• Open house events</li> <li>• Website</li> <li>• Displays</li> <li>• Info booklet</li> </ul> | <ul style="list-style-type: none"> <li>• <i>Paid Advertising: See above</i></li> <li>• <i>Telephone survey: See above</i></li> <li>• <i>Online survey - City website: See above</i></li> <li>• <i>Open house events: See above</i></li> <li>• <i>Website: See above</i></li> <li>• <i>Displays: See above</i></li> <li>• <i>Budget101 Booklet: See above</i></li> </ul> |
| <p>City Staff</p>     | <ul style="list-style-type: none"> <li>• City Wire</li> <li>• Displays</li> </ul>   | <ul style="list-style-type: none"> <li>• Educate and inform on key budget issues</li> <li>• Displays will be in City Hall rotunda for both public and staff</li> </ul>  |
| <p>Media</p>          | <ul style="list-style-type: none"> <li>• Media Relations</li> </ul>   | <ul style="list-style-type: none"> <li>• News releases, information bulletins, etc.</li> <li>• Media interviews</li> </ul>  |

## 9. Completing the Budget Cycle

The following outlines the next steps in the budget process:

|  |                          |
|--|--------------------------|
| <p>Public Consultation</p>                                 | <p>October/November</p>  |
| <p>Interim Estimates &amp; Public Consultation Results</p> | <p>November 30, 2010</p> |
| <p>Council Deliberation</p>                                | <p>November 30, 2010</p> |
| <p>Final Budget Estimates*</p>                             | <p>December 14, 2010</p> |
| <p>Tax Reports</p>   | <p>May 2011</p>          |

\*The final roll from BC Assessment will not be available prior to the Final Budget Estimates. Therefore there may be changes to the 2011 budget once the final roll is received and tax rates are set in the spring of 2011.

## CONCLUSION

The preliminary estimates of the 2011 Operating Budget identified an initial gap of \$60.2M. Following revised revenue estimates and the identification of preliminary savings, without service reduction by staff, this gap has been reduced to \$20.6 million. The Corporate Management Team will continue to look for opportunities to bring the budget into balance over the coming months. 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 - Preliminary 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 are 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 non-residential property classes 2, 4, 5 and 6, to residential 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.
- The 2011 tax year is the fourth year of the property tax distribution policy.

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 in March 2011.

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 \$1,004.9 million in 2011, up 3.5% from 2010. 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 \$610.3 million.

i) The general purpose tax levy has been set at \$568.5 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, and reflecting no change from the 2010 budget.

iii) Receipts-in-lieu of taxes totals \$37.7 million, reflecting an increase of \$4.4 million from the 2010 budget, primarily due to lease revenue which is no longer required to be allocated to the Olympic Legacy Reserve.

iv) Penalties and Interest has been set at \$4.4 million, based on prior years experience, compared to \$3.9 million in 2010.

### *General Revenues*

A variety of general revenue sources support the expenditure budget. Overall, General Revenues are anticipated to increase to \$192.0 million or \$17.8 million over the 2010 budget level of \$174.2 million, a 10.2% 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 is a 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, reflecting no change from the 2010 budget.

*Gaming Revenue* - The Preliminary estimates include \$7.2 million in gaming revenue, no change from the 2010 budget level, reflecting 2010 experience.

ii) Investment Income is dependent on the cash balances the City has to invest and on market interest rates. Interest rates are projected to remain low in 2011, after reducing dramatically in 2008, with preliminary estimates of short term interest earnings of \$11.8 million, a decrease of \$1.7 million from the 2010 budget level. Through 2010, actual short-term interest rates are lower than the budgeted rate by an average of 0.75%.

iii) On-Street Parking and Enforcement Revenues have increased by \$7.3 million to reflect program changes approved by Council in 2010 (including implementation of new meters, hours and rates), and improved by-law fines collection, combined with adding back in the 2010 decrease for expected revenue reductions during the 2010 Winter Games.

iv) The development market is showing signs of improvement throughout 2010, with Development and Trade Permit fees projected to exceed budget by year-end.

The 2011 estimates discussed in this report include an increase from the 2010 budget of approximately \$8.3M for development, trade permit and inspection fees, reflecting increasing activity in this sector of the economy and the increased fees approved by Council.

v) License Fees have increased by \$0.4 million based on increased fees approved by Council.

vi) Park Board Revenues have increased by \$1.2 million or 3.0% based on inflationary guidelines.

vii) Civic Theatres Revenues are anticipated to increase by \$1.6 million based on inflationary guidelines and an anticipated increase in the number of bookings, based upon 2010 experience.

viii) Miscellaneous Revenue is anticipated to increase by approximately \$0.6 million in 2011, to \$7.5 million. This increase is primarily due to property tax search fees and mortgage company fees, which are tracking ahead of expectations in 2010.

### *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.

iii) Transfer from the Election Reserve for the upcoming civic election for \$1.76 million.

## 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 \$1,025.5 million in 2011, an increase of 5.6% from the 2010 final budget.

### *Departmental Expenditures*

Departmental expenditures are those related to the programs and services provided by the City. The increases in program costs total \$36.1 million and are driven by the following factors.

#### i) Salary and Benefit Costs

Salary and Benefit costs are a significant 2011 budget driver, as employment costs make up approximately 60%-70% of the City operating expenditures. An average wage increase of 4% across the board for Exempt Compensation plans and Collective Agreements translate to an increase of approximately \$34.9 million in 2011.

#### ii) Non-Salary Costs

Besides the costs associated with salaries and benefits, departmental budgets are provided with material, equipment and other input costs associated with the specific programs offered by each department and Board. For 2011, there has been small adjustments made to departmental budgets to reflect the actual costs projected for insurance, utilities (hydro, natural gas and telephone), rents, leases and fleet.

### iii) Corporate Adjustments

Departments were requested to review areas within their budget that were considered more discretionary in nature. Areas identified for adjustment include: initiatives identified in the opportunity log; reduced overtime, consulting/contract services, and temporary help; cost re-allocations to capital if appropriate; reallocation of travel and training resources; and new revenue opportunities. These adjustments amount to approximately \$11.1 million in 2011.

### iv) New Facilities Operating Costs

The 2011 preliminary estimates include \$7.9 million for the ongoing operating cost, maintenance and support of new capital projects (buildings and parks infrastructure) approved by the Park Board and Council. For 2011, this includes funding for the following:

- Hillcrest
- VPD - Partial Relocation to Graveley Site Facilities
- VPD Property Forensic Storage facility
- Park Board facilities

### *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 2011:

- GVS&DD levies the City for its share of regional sewerage costs. In 2011, the GVS&DD levy is estimated to increase 6% over 2010. In 2011, these costs are estimated to increase by \$3.7 million. These costs are recovered 63% from user fees and 37% from property taxes. The impact on the tax supported operating budget of this increase is \$1.3 million over 2010.

The requisitions from E-Comm for radio and dispatch services, and the Vancouver Economic Development Commission (the "VEDC"), remain unchanged from the 2010 level.

It has been Council practice to pass these expenditure increases through to taxpayers as a tax increase rather than providing offsetting reductions in City services/programs.

### *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 2011 Operating Budget reflects the third of a three year implementation costs of \$5.1 million, an increase of \$0.6 million over 2010. The increase to the budget in 2011 will be funded through Department adjustments of \$0.4 million and \$0.2 million from corporate efficiencies.

### *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 November 2010, Council will be asked to approve the budgets and rates for 2011 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 approximately 14% in 2011 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 \$19.25 million, a 9% increase over 2010. 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 13% in 2011. For single family dwellings, the annual flat rate for water is anticipated to increase from \$417 to \$471. A report with final estimates and rates will be presented to Council on November 30, 2010.

#### 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 anticipated in 2011 are attributed primarily to an increase in wage rates and increased costs related to replacement of recycling trucks. A combined fee increase of approximately \$9 or 4% per homeowner will be needed to absorb the 2011 increase in costs. A report with final estimates and rates will be presented to Council on November 30, 2010.

Future new program cost increases will be necessary for Vancouver to implement aggressive new waste diversion and management actions anticipated under the new Regional Solid Waste Management Plan. The specifics of these programs are uncertain at this time. Staff will report back to Council as the details become known.

#### c) Sewer Utility

There are two main drivers of costs in the Sewer Utility, the Greater Vancouver Sewerage and Drainage District (GVS&DD) levy, and debt charges. In 2011, GVS&DD levy is estimated to increase 6% over 2010. The Sewer Utility debt costs are estimated to increase by 8%. As a result of these factors, it is estimated that the sewer user rates will increase by approximately 8%. For single family dwellings, the annual flat rate for water is anticipated to increase from \$227 to \$245. A report with final estimates and rates will be presented to Council on November 30, 2010.

#### D) Neighbourhood Energy Utility

The NEU became fully operational in January of 2010, delivering energy from its sewage heat recovery system to the SEFC. The rates are comprised of two elements, an energy use charge based on amount of energy consumed in megawatt-hours and a capacity levy based on floor

area measured in square meters. In 2010, rates were established using one rate class for all residential, commercial and mixed-use buildings within the SEFC neighbourhood. In July of 2010, Council approved the addition of two new customer rate classes, one for residential and mixed use outside SEFC and one for non-residential both inside and outside SEFC. The NEU rates are established based on a levelized rate approach, designed to under-recover full costs in the early years of operation and build rates gradually over time using an Annual Levelized Rate Escalation factor (initially set at 1.15% over inflation). This factor may be adjusted over time based on updated forecasts of revenues and expenses. Any proposed rate adjustments will be reviewed by the NEU Expert Rate Review Panel (established by Council in July 2010) to ensure they are in keeping with Council's approved rate setting principles and that they provide a fair price for service while ensuring the NEU is financially self sustaining. A report with recommendations for rate adjustments for 2011 will be presented to Council on December 2, 2010.

### *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, 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 2011, 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 \$28.4 million has been allocated in the 2011 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.