

From: "Mochrie, Paul" <Paul.Mochrie@vancouver.ca>
To: "Direct to Mayor and Council - DL"
Date: 7/28/2022 12:46:21 PM
Subject: 2023-2027 Budget Outlook
Attachments: FRS - Memo to Mayor Council - 2023-2027 Budget Outlook.pdf

Dear Mayor and Council,

The purpose of this memo is to provide Council with a Budget Outlook for the years 2023 – 2027. It provides an overview of the financial landscape to be considered for the next budget cycle, including external factors, and a review of the key revenue and expense drivers in the 5 year financial plan.

As well, the memo provides Council with information on the timing and approach for the development of the 2023 Budget and 5 year financial and service plans, given the upcoming Municipal Election and potential for changes to Council priorities for the next Council term.

There are no actions required from Council at this time, as this is informational only. The memo will also be posted on the City's website. The new Council will be provided an update on the budget early in the transition process, as they will be tasked with approving a new budget.

Should you have any questions, please feel free to contact me or patrice.impey@vancouver.ca for further details.

Best,
Paul

Paul Mochrie (he/him)
City Manager
City of Vancouver
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The City of Vancouver acknowledges that it is situated on the unceded traditional territories of the xʷməθkʷəy̓əm (Musqueam), Skwxwú7mesh (Squamish), and səliłwətał (Tsleil-Waututh) Nations.

MEMORANDUM

July 28, 2022

TO: Mayor and Council

CC: Paul Mochrie, City Manager
Armin Amrolia, Deputy City Manager
Karen Levitt, Deputy City Manager
Katrina Leckovic, City Clerk
Lynda Graves, Administration Services Manager, City Manager's Office
Maria Pontikis, Chief Communications Officer, CEC
Anita Zaenker, Chief of Staff, Mayor's Office
Neil Monckton, Chief of Staff, Mayor's Office
Alvin Singh, Communications Director, Mayor's Office
Colin Knight, Director, City-wide Financial Planning and Analysis
Pragya Grewal, Associate Director, City-wide Financial Planning and Analysis
City Leadership Team

FROM: Patrice Impey
General Manager, Finance, Risk and Supply Chain Management

SUBJECT: 2023 – 2027 Budget Outlook

The purpose of this memo is to provide Council with a Budget Outlook for the years 2023 – 2027. It provides an overview of the financial landscape to be considered for the next budget cycle, including external factors, and a review of the key revenue and expense drivers in the 5 year financial plan.

As well, the memo provides Council with information on the timing and approach for the development of the 2023 Budget and 5 year financial and service plans, given the upcoming Municipal Election and potential for changes to Council priorities for the next Council term.

The 2023 Budget will be developed in an environment of continued service and financial impacts to the City due to the pandemic. The recent increases in inflation experienced around the world will also impact the City's financial outlook. The largest component of the City budget is staffing costs and the pending renegotiation of collective agreements for City, Library and Police staff in 2023 adds a layer of uncertainty to the financial outlook. City revenues such as parking and recreation fees have rebounded from pandemic lows as restrictions have opened up, but will not fully recover to pre-COVID levels in 2022. These revenues are expected to continue to grow in 2023 as economic growth continues, however, there remains a risk that some revenues may take a number of years to recover.

The combination of these factors means that financial prudence will need to be a consideration when developing the 2023 budget and 2023-27 financial plan. Staff will work to maximize the delivery of services and project outcomes from within existing current state resourcing levels. Financial risks will be managed by establishing appropriate levels of contingency and phasing of deliverables. Staff will be seeking direction from the incoming Council regarding service delivery priorities and are aiming to develop a multi-year financial plan to support execution of those priorities over the coming four years. The City's general revenue stabilization reserve, which has supported the delivery of services throughout the pandemic, will need to be protected and replenished over time.

The 2023 budget process timeline and approach will reflect the municipal election and provide an opportunity for the incoming Council to duly consider resource allocation for 2023. Staff will present a current state budget to Council in December, to ensure smooth operations of the City in the new year. Over the first quarter of 2023, staff are anticipating detailed engagement with Council regarding priorities and any associated budget adjustments, as well as engagement with the public, to inform the determination of a final budget for 2023 in advance of the statutory deadline of April 30.

Background/Context

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

The 2023 Budget Outlook provides an overview of the financial landscape going into the next budget cycle, including external factors, the current 2022 budget forecast, and a review of the key revenue and expense drivers in the 5 year financial plan. The Outlook also provides Council with the principles and approach that will be used in the development of the 2023 budget. The outlook initiates the budget process, however, specific budget decisions are not made at this time, to allow for development of service plans and options, and seek input from the public.

The planning framework for the City below illustrates the continuum that connects the public, City Council, Boards (Park, Library, and Police Boards) and City staff. The continuum integrates vision, strategies, plans and budgets with the delivery of services to the public. The early setting of Council priorities for the 2023 budget is an important part of this continuum.



Council priorities

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

As outlined in the chart below, the primary priority is to maintain and improve the core services that meet the needs of residents. The following four additional priorities have also guided City staff's development of departmental service plans and budgets.



In October 2022, as a result of the Municipal Election, a new council will be formed. A similar priority setting process is planned for early 2023 where Council will establish a set of objectives to help guide City staff in the development of the 2023 Budget, Services Plans and Five-year Financial Plan. Public engagement will be conducted in early 2023 to solicit feedback from residents and businesses on how the city is managing its finances on their behalf, including their opinions on the relative importance of each of Council's priorities. In developing departmental service plans and budgets through the Council term, staff will work to align services and initiatives to these priorities—both in terms of existing projects and ongoing work, and for new projects and initiatives in response to Council motions and direction.

2023 Budget Process

The 2023 Budget Process considers the impacts of an election year and will focus on presenting a current state budget to the newly elected Council in December 2022. The current state budget represents existing resources and service levels with no new investments. This budget will include fixed and contractually obligated costs of the City, reflective of inflationary and uncontrollable costs at current resource levels. The current state budget will also entail that departments continue to hold vacancies from pre-pandemic staffing levels, consistent with the 2022 Budget.

Where Council has previously provided direction to staff to include new investments or enhanced service levels into the 2023 budget process, those items will be identified as additions to the current state budget that could be funded through increases to property taxes and fees, or through trade-offs directed by Council. Staff intend to have the draft current state Budget for

2023 as described above and service plans available to the public and Council in late November.

Provided the incoming Council is prepared to adopt the proposed current state budget to enable continuity of operations beyond January 1, 2023, staff are planning to engage with Council in early 2023 to seek direction on priorities and any adjustments to the current state budget. Such adjustments could include reprioritizing service plans through the year reallocating resources within the budget and/or adjustments to the final tax rate increase by April 2023.

Staff will also be seeking Council direction to guide a multi-year financial planning approach aligned to the new council term. As far as possible, staff will be recommending that Council plan for the implementation of policy and service priorities over a four-year horizon, based on a sustainable multi-year financial plan to resource that work. This longer-term view will ensure the City's ability to manage expense levels over time, to sustain and grow revenues and to achieve a balanced operating budget each year.

The 2023 Budget Process will follow a number of key steps as outlined below:

Budget Process step	Date
Budget Outlook Council Memo – overview of financial landscape and budget process	July, 2022
Draft current state Budget and Service Plans available to the public	Nov 25, 2022
Draft current state Budget presentation to Council and budget speakers	Dec 6, 2022
Final Budget vote	Dec 13, 2022
Priority Setting with New Council	Jan-Feb, 2023
Public Engagement	Jan-Feb, 2023
Approval of any adjustments to 2023 Budget and final property tax rates	March, 2023

External landscape impacting the 2023 Budget and 5 year financial plan

The global economic environment has changed significantly over the past year, as countries throughout the world reopened from COVID restrictions. Strong economic growth, low levels of unemployment, and pent up demand from the pandemic combined with war in Ukraine and continued global supply chain disruptions, have resulted in growing inflationary pressures and an environment of increasing interest rates not seen for many years. While growth is expected to continue into 2023, the risk of a recession has increased. The approach for building the 2023 Budget and Five year financial plan will need to take into consideration the significant economic uncertainty in the year ahead.

The impacts of COVID continue to impact the City's budget in a number of ways, as well as, high demands on City services in areas such as homelessness and the overdose crisis. Over the past year, the Vancouver region experienced a number of severe weather events, including extreme heat, cold and flooding. This trend, will continue to result in increased pressure on infrastructure and reinforces the urgency and importance of investing in infrastructure renewal and resilience.

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

The Consumer Price Index (CPI) for Metro Vancouver has recently increased to an annual rate of 8.1% as of May 2022, and the Bank of Canada has signalled an intention to raise interest rates in order to bring inflation back down to within the target range of 1 to 3 per cent. Over the past 20 years, CPI has averaged 1.7% and has not exceeded 2.7%. The Conference Board of Canada CPI forecast for the period of 2023-2026 is currently around 2%. As the forecast is updated in fall 2022, staff will reflect it the 2023 budget build process.

Inflation in a number of sectors has been well above the CPI inflation rate, with considerable impacts to the City's budget. Supply Chain Management has seen considerable cost escalations across different procurements, since start of 2022. Construction materials have seen considerable increases in prices in 2022. Fuel costs have risen sharply, which has compounded the inflationary pressures. Products used heavily by the City such as PVC pipes and fittings or electrical conduit have seen a scarcity in the market and therefore price increases, due to shortage of raw material resins used for their production. Moreover, other high use products such as ductile iron and copper pipes and fittings, electrical supplies, wire and cabling, waterworks brass fittings, mechanical couplings and steel street lighting poles are anticipated to have price increases associated with inflation in international metal prices.

Inflationary pressures are also beginning to have an impact on compensation trends across the public and private sectors in Canada. At this point, the implications for the City in this regard are unclear.

Municipal Finance Reform

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

Recognizing the evolving and expanded mandate of major urban cities across Canada, cities need appropriate funding sources that are sustainable, predictable and reliable. Consideration should also be given to addressing the evolving economic activities (e.g., e-commerce, sharing economy) that rely less and less on bricks-and-mortar businesses, on which property taxes are based.

In August 2021, UBCM released the report *Ensuring Local Government Financial Resiliency: Today's Recovery and Tomorrow's New Economy*. The report provides 20 recommendations under two broad categories:

- Moving Forward: Building on Strong Fiscal Futures and Preparing for the New Economy
- Addressing Cost Drivers: Attainable Housing, Community Safety and Climate Change

The report also recognizes that none of these challenges can be addressed by any level of government individually, and solutions must be anchored in shared provincial/local government goals, objectives and priorities.

Having a resilient funding framework that aligns appropriate revenue sources with programs and services is sorely needed to create a more equitable society, strengthen our economy, and address Council, Board and community priorities in a cohesive fashion. The city is committed to work with FCM, UBCM and Metro Vancouver to advocate to the Federal and Provincial governments for additional funding tools that are appropriate and necessary to fund the broad spectrum of critical infrastructure, public amenities and services to support economic growth and the health and well-being of those who live or work in Vancouver.

In addition to the external advocacy work, staff are looking for ways to transform delivery of services. This work will involve a number of work streams, including:

- i. optimizing our land, infrastructure and amenities;
- ii. rationalizing our service levels and cost base;
- iii. transforming our business delivery models to drive better outcomes;
- iv. optimizing our revenue sources; and
- v. aligning our policies and regulations with Council and Board priorities

Senior Government Partnerships and Funding

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

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

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

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

As of June 15, 2022, the City has secured approximately \$119.3 million through funding applications and \$126.6 million through negotiated funding agreements to support the Capital Plan and address City priorities.

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

Status of Funding Applications by Priority Area

	Requested		Approved		In Progress		Unsuccessful	
	# App	\$ Value	# App	\$ Value	# App	\$ Value	# App	\$ Value
Housing <i>*1 request was withdrawn</i>	22	\$209.0 M	10	\$28.4 M	5	\$6.6 M	6	\$152.0 M
Childcare	3	\$4.0 M	2	\$1.0 M	1	\$3.0 M	0	\$0.0 M
Climate Emergency & Resiliency Infrastructure	34	\$190.3 M	13	\$37.1 M	12	\$44.8 M	9	\$93.9 M
Community & Cultural Infrastructure	12	\$26.8 M	8	\$8.3 M	1	\$1.3 M	3	\$14.7 M
Rapid Transit & Transportation Infrastructure	40	\$77.7 M	29	\$44.5 M	8	\$28.5 M	3	\$2.5 M
TOTAL	111	\$507.8 M	62	\$119.3 M	27	\$84.2 M	21	\$263.1 M

Funding Secured via Existing Funding Programs

Type	Description	Amount
Federal	Housing	\$83.3 M
MOU - Provincial	Childcare	\$33.0 M
TransLink	Operations and Road Maintenance	\$7.7 M
Federal	Reaching Home	\$1.6 M
Other - Canadian Medical Assn Foundation	COVID-19 Community Response Fund for Vulnerable Populations	\$0.9 M
Other - Canadian Medical Assn Foundation	Carbon Neutral Cities Alliance Game Changer Fund	\$0.1 M
TOTAL		\$126.6 M

Operating Budget Outlook 2023 - 2027

Initial 2023 Outlook

The City of Vancouver continues to experience financial impacts as a result of COVID-19. The 2023 Budget Outlook estimates that all revenues have recovered to pre-pandemic levels as a result of the re-opening and release of Public Health Orders (PHO) in early 2022. However, there is still potential for revenue shortfalls resulting from slower economic recovery than anticipated. Regional utility charges passed on to the City by Metro Vancouver are expected to increase significantly in the next few years. Sewer rates, specifically, forecast significant cost growth of up to 16% from 2025-2027 as required to fund sewer treatment and maintenance of the infrastructure as well as the secondary treatment facility at Iona Island. Fuel costs are estimated to increase significantly in 2023 as prices of crude oil remain high in relation to current market trends. Other known cost pressures that will impact the 2023 budget included fixed cost increases that exceed the rate of CPI inflation i.e. WorkSafe BC premiums, insurance, metro utility charges, funding for infrastructural renewal as identified in the 2023-2026 Capital Plan, and the VPD budget appeal to the Province of BC, to name a few.

The City is taking a balanced approach to mitigating the continued impact of COVID-19 including actions such as cost containment, holding vacancies and utilizing reserves and monitoring impacts on 2023-2027 Budget Outlook.

Five Year Plan Financial Outlook

The Budget Outlook for the next five years continues to show expenses growing faster than revenues. Without taking action to increase revenues or reduce costs, the Budget Outlook over the next 5 years would require property tax increases of 5+% and blended utility fee increases of 6+% to balance the budget and replenish reserves to target levels.

This expenditure growth is driven by:

- Growing asset base
- Assets coming due for replacement (i.e. Water/sewer). In particular, the Metro Vancouver replacement of the Iona sewage treatment facility will have substantial multi-year impacts on both property taxes and utility rates.
- Growth in certain expenses at rates above CPI – public safety compensation costs, Metro utility charges, fuel, construction and raw material costs
- Senior government downloading and increased involvement by the City in domains such as housing and child care that traditionally have been the responsibility of senior governments
- Increasing demands on service delivery, particularly in areas impacted by homelessness, the overdose crisis, and climate change.

2023-2027 Budget Outlook forecast - Revenue changes

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

- Property tax increases of 5% are shown for 2023, of which 1% is for infrastructure renewal and 4% to support fixed and contractually obligated costs of the City. As part of the city's long term capital planning strategy, an ~1% property tax increase and ~5%

overall utility fee increase per annum has been assumed in the City's Capital Plan and incorporated into the multi-year financial plan to address the growing infrastructure deficit. The property tax increase will be decided by the newly elected Council as part of the annual Budget Process. Taxes from new development are estimated to increase by \$5 million annually representing less than 1% of our property tax base. The impact of a 5% municipal property tax increase on median overall residential property is estimated to be a \$101 increase from 2022 to \$2,113. This reflects only the City portion of the tax bill, and does not include impacts of increases from other taxing authorities including the provincial government, Metro Vancouver, and other regional authorities that are included as part of the overall tax bill.

- Program fee revenues are estimated to increase by 3% or \$2 million and License and Development fees by 5% or \$5 million each year. Rate increases are consistent with actual increases in service costs. As part of ongoing permit program transformation initiative, staff will review permit revenues and costs and will align permit revenues and costs through the Budget Process.
- Utility fees are estimated to increase by 10% annually on average for the next five years, based on Metro Vancouver regional utility charge forecasts and the increased pace to replace and maintain the city's infrastructure and assets.
- Shortfalls in non-tax revenues, including parking, program fees and permit fees, continue to pose a risk as we plan for 2023. Staff will continue to monitor the recovery of these revenue streams based on the economic recovery. The impact on the 2023 budget will be addressed through the 2023 budget process.

Operating Budget Preliminary Revenue Changes (\$ in millions)	2023	2024	2025	2026	2027
Property Tax:					
Increase in property tax revenue: estimated at 5%	\$49	\$52	\$55	\$58	\$61
New construction tax revenue	\$5	\$5	\$5	\$5	\$5
Utility fees:					
Increase in utility fee revenue (Average blended rate estimated - 10.0%)	\$31	\$33	\$37	\$42	\$43
User fees:					
Increase in Parking, Program fees, Licence and Development fees (Rate increase of 3.0% - 5.0%)	\$7	\$7	\$7	\$7	\$8
Revenue Shortfall Risk	TBD				
Total Preliminary Revenue Changes	\$92	\$97	\$104	\$112	\$116

Note: Totals may not add due to rounding

2023-2027 Budget Outlook forecast - expenditure changes

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

- Cost increases passed on from external agencies and senior levels of government are increasing each year. In addition, indirect cost pressures in the areas of housing, mental health and addiction, childcare, and emergency medical response, which are primarily the responsibility of the Provincial and Federal governments, continue to add to the City's budget pressure. In 2022, City staff estimated that the impact to the City's budget of costs downloaded from senior governments, as well as the operating costs incurred by the City in areas that have traditionally been the responsibility of senior government to be approximately \$41 million annually. The costs identified are the costs that the City has been able to quantify. However, there are many significant impacts that are difficult to quantify because they impact services in many different ways and can be difficult to track.
- Vancouver Police Board's 2021 budget appeal was supported by the Provincial government in April 2022, which reinstated \$5.7 million to Vancouver Police Board's 2022 Operating Budget. This impact was managed through one time reserve funding in 2022. For 2023 and onwards, permanent funding is required and will be considered as part of the 2023 Budget Process.
- Regional utility charges passed on to the City by Metro Vancouver are forecast to increase between 6% and 12% for Water and between 13% and 27% for Sewer from 2023-2027, driven by major infrastructure investments.
- An additional \$20 million to \$25 million each year to maintain our infrastructure and public amenities in a state of good repair as outlined in the 2023-2026 Capital Plan. Over the course of the 5 year plan, based on projected asset condition, there will be a need for continued growth in renewal funding needed to address aging infrastructure and maintain current assets. ~1% property tax increase and ~5% overall utility fee increase per annum has been incorporated in the City's financial plan to maintain our assets in a state of good repair and to address the growing infrastructure deficit.
- The outlook for 2023-2027 show higher estimates in fixed costs, wage expenses and fringe benefits. Fringe benefit costs for the City have increased during 2022 as a result of Canada Pension Plan and WorkSafe BC rates; however, total wage impacts are unknown at this time as they are significantly dependent on the terms of future collective agreement settlements. Other Fixed costs are projected to increase in the range of up to \$11 million for the next five years (such as energy, fleet, rent and insurance), with 2023 increase mainly attributable to higher fuel rates reflective of current market conditions.

These are estimates representative of fixed and contractually obligated costs, which include inflationary and market impacts at the City's current resource and service levels.

Operating Budget Preliminary Expense Pressures (\$ in millions)	2023	2024	2025	2026	2027
External Agency Costs passed on to the City:					
Increased Metro Vancouver charges for Water and Sewer utility	\$17	\$29	\$44	\$40	\$44
Anticipated external party cost increases (including EComm)	\$6	\$7	\$2	\$2	\$3
Debt, Transfers and Capital Program Costs:					
Infrastructure Renewal, Pay-as-you-go Sewer & Water, Transfers and Debt Financing	\$25	\$21	\$20	\$24	\$22
Operating impacts of capital projects	\$5	\$5	\$5	\$5	\$5
Salary and benefit costs:					
Salary and benefit projected increases <i>(includes contractual increments, negotiated wage settlements and projected benefit cost increases, excludes collective agreement increases without agreements)</i>	\$13	\$11	\$12	\$13	\$12
VFRS Operational Review staffing recommendations		\$3	\$4	\$3	
VPD Operational Review staffing recommendations		\$5	\$4	\$3	
Other Cost Pressures:					
Other risks	\$4	\$4	\$4	\$4	\$4
Reserve Replenishment		\$10	\$2	\$2	\$2
VPD 2021 Budget Appeal	\$6				
Fixed costs (Hydro, Gas rates, IT, Rents & leases, Insurance, Grants)	\$15	\$11	\$11	\$11	\$12
Preliminary Expense Pressures (excluding impact of collective agreements under negotiation not included above)	\$106	\$118	\$119	\$118	\$114
* Plus wage increases related to collective agreements currently under negotiation (each 1% increase equals approximately \$10 million annually)	+ impact of wage increases to be determined				

Note: Totals may not add due to rounding

Collective Agreements

As of January 1, 2023, all collective agreements between the City, its related Boards and the bargaining agents representing unionized staff will have expired. The results of the Collective Agreement negotiations will have a major impact on the city's budget and 4 year financial plan, however the impact is uncertain. As a result of the provincial statutory framework for public safety, collective agreements covering firefighter and police are subject to binding arbitration where wage outcomes are not within the City's control.

Other Taxing Authorities

The City's property taxes fund approximately 58% of the Operating Budget. The City also collects taxes on behalf of other taxing authorities, including the provincial government (regular school tax as well as the additional school tax on homes valued above \$3 million), TransLink, BC Assessment, Metro Vancouver, and the Municipal Finance Authority of BC.

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

Risks

The following are a number of risks that may impact the City's financial revenue or expenses. These will be considered over the next months as the 2023 budget and 5 year financial plan is developed.

- Uncertainty related to the ongoing impact of COVID-19, including but not limited to;
 - revenue streams such as Parking resulting from slower economic recovery than anticipated
- Impacts of senior government policies on local conditions, such as income assistance rates, health system responses to complex mental health issues, and homelessness response.
- Compensation costs arising out of collective bargaining
- Price increase in supplies and materials used in City's operations

Capital Budgeting and Planning

The City owns approximately \$34 billion of infrastructure and public amenities (replacement value excluding land), encompassing: underground water and sewer infrastructure; roadways, sidewalks and bikeways; affordable housing; community facilities, parks and open spaces; public safety facilities; and service yards. Following are the three principal objectives the City relies on to plan and manage its capital assets over the medium and longer term:

- Maintain City's critical infrastructure and amenities in an appropriate state of repair;
- Optimize City's network of infrastructure and amenities to address equity, support growth and economic development; and
- Advance Council, Board and community priorities in a financially sustainable & resilient manner

Based on an estimated replacement value of \$34 billion, ~\$800 million of investment would be needed annually to maintain our assets in a state of good repair. Compared to the ~\$300 million of asset renewal funding per annum in the 2019-2022 Capital Plan, an intentional, multi-decade funding strategy is needed to address the growing infrastructure deficit. Of the \$3.5 billion of strategic investments contemplated in the 2023-2026 Capital Plan, over 55% is dedicated for asset maintenance and renewal. This is equivalent to ~\$480 million of annual capital maintenance, upgrade & renewal funding, supported by an inflation-adjusted increase in City funding of ~8% per annum, as compared to the 2019-2022 Capital Plan. The increase in capacity is largely funded by a 1% property tax increase and ~5% overall utility fee increase per annum that have been incorporated in the City's financial plan for the next decade.

The 2023-2026 Capital Plan was approved by Council on June 29, 2022 for a total amount of \$3.5 billion of investment: \$2.8 billion worth of City-led capital investments and \$0.7 billion worth of in-kind contributions achieved through development.

The 2023-2026 Capital Plan has been segregated into 12 different Service Categories each representing the services that City would be investing in the next four years. The below table lists some of the major projects that City has included funding for in the 2023-2026 Capital Plan by each of the Service Categories:

Housing

- Acquisition of land to enable senior governments and non-profit housing partners to design, build, finance, operate and maintain social and supportive housing projects
- Capital grants to enable housing projects to be delivered through community partners
- Replace City-owned buildings beyond their useful life and leverage senior government funding to create new affordable housing through redevelopment

Childcare

- Renewal of childcare spaces as part of the renewal of Ray-Cam Cooperative Centre (includes spaces for 0-4 years and school age care)
- Creation of new spaces in City facilities and through partnership with developers
- Disbursement of Grants to non-profit partners to create new Childcare spaces

Parks and Open Spaces

- New parks at multiple locations within City (Southeast False Creek, Oakridge Centre, East Fraser Lands, etc.)
- Maintenance and repairs of existing shorelines and seawalls on the ocean and riverfronts
- Renovations and maintenance of Park Buildings, Infrastructure, pathways, etc.

Arts, Culture and Heritage

- Construction of open air venues including weather protection and front and back-of-house support buildings at the Outdoor Amphitheatre at Hastings Park/PNE
- Public Art programs for Oakridge Centre, River District and Northeast False Creek
- Major renovations of the childhood home of Canadian author Joy Kogawa

Community Facilities

- Design and construction for renewal and expansion of existing and new Community Centres at multiple locations within the City
- Planning, design and construction for the renewal and expansion of Vancouver Aquatic Centre located in the West End
- Detailed design for West-End Community Hub project, which includes renewal and expansion of multiple facilities including community centre, ice rink, Joe Fortes library, social/cultural space, etc.

Public Safety

- Planning, design and construction for renewal and expansion of the Downtown South fire hall
- Planning/scoping for a consolidated post-disaster police headquarters facility
- Replacement of end-of-service-life fleet used at Vancouver Fire & Rescue Services and Vancouver Police Board departments, with a continued focus on replacing combustion-engine vehicles with electric vehicles, reducing greenhouse gas impacts and improving operational efficiencies

Civic Facilities and Equipment

- Detailed design for the second phase of renewal at Sunset Service Yard (Main Street and 51st Avenue); Construction on the first phase started in 2022 and is expected to be completed in 2023
- Replacement of end-of-service-life fleet used at various City departments with a continued focus on replacing combustion-engine vehicles with electric vehicles, reducing greenhouse gas impacts and improving operational efficiencies

Streets

- Second phase of rehabilitation for the Granville and Cambie Bridge (Phase 2 of 5)
- West End street improvements: transportation & public realm projects on multiple locations, focusing on community and business priorities for the neighbourhood
- Construction of 6 km Millennium Line Broadway Extension to serve Central Broadway (VCC-Clark station west to Arbutus) in partnership with TransLink, Province and Federal government
- Installation of public realm electrification infrastructure to support on-street EV charging, micro-mobility charging hubs, and other public realm uses

One Water

- Replacement and upgrade of ~4.5 km of potable water transmission mains and renewal of ~75 km of potable water distribution mains
- Renewal of ~70 km of sewer mains, on major arterials such as Burrard, Marine Drive, Dunbar, etc.

- New and upgraded potable water mains, sanitary and storm sewer trunks, green infrastructure and flood protection infrastructure to support new developments
- 183 green rainwater infrastructure assets built managing more than 10 hectares or street runoff

Waste, Collection, Diversion and Disposal

- Multi-year closure & gas collection infrastructure projects for Phase 5 sections of Vancouver Landfill
- Replacement of end-of-service-life fleet with continued focus on replacing combustion-engine vehicles with electric vehicles, reducing greenhouse gas impact & improving operational efficiencies
- Infrastructure improvements at the Vancouver Landfill and Vancouver South Transfer Station

Renewable Energy

- Expansion of the NEU distribution network by up to 1.7km and complete connecting up to 20 buildings to the NEU system
- Off-street EV charging infrastructure and energy retrofits for non-City buildings

Technology

- End of Life infrastructure replacement for City of Vancouver, Vancouver Public Library and Vancouver Police Department
- Upgrades to key support systems such as Lagan, SAP, Tempest, Hansen, VanDocs, Posse

2023-2026 Capital Budget Allocations and 2023-2027 Expenditure Forecast

2023 will be the first year of the 2023-2026 Capital Plan. The main driver for the 2023 Capital Budget allocations will be the funding required towards the initial phases such as planning/scoping for one-time projects and for ongoing programs. Based on these assumptions, the estimate for new Capital Budget allocations in 2023 will be approximately 20% of the approved 2023-2026 Capital Plan.

The majority of one-time projects will be advancing to the design phase in 2024 and subsequently to construction phase in future years. It is also anticipated that several key programs will have increased funding allocations as the City ramps up investments to address aging infrastructure needs. As a result, it is anticipated that approximately 20% of the 2023-2026 Capital Plan will be allocated in 2024 and 30% in each of 2025 and 2026.

The 2023-2027 Capital Expenditure forecast will be built based on:

1. Current open Multi-Year Project Budgets to be delivered over 2023-2027 period
2. Funding for Projects and Programs included in 2023-2026 Capital Plan
3. Funding for 2027 to be informed by the City's next round of capital planning

As a result of the ongoing global supply chain and inflation, the City is facing challenges with timely project delivery and unanticipated cost escalation on major projects. In order to mitigate the impact, staff are focused intensely on expediting project delivery and managing cost escalation through improved efficiency and reallocation within the approved capital plan funding envelope.

CONCLUSION

The 2023 Budget Outlook provides an overview of the financial landscape facing the City at the start of the 2023 Budget Process. While there are many positive signs of recovery, there continue to be financial risks and pressures on city services which will make 2023 a challenging budget year.

The 2023 Budget Process considers the impacts of an election year and will focus on presenting a current state budget to the newly elect Council in December 2022. The current state budget represents only existing resources with no new investments. Council will be engaged in early 2023 to determine priorities with an opportunity to make further adjustments to the current state budget, including reprioritizing service plans through the year, and adjustments to the final tax rate increase by April 2023. Council priorities will be implemented with a service driven multiyear view through a sustainable financial plan that includes service optimization and long term efficiencies.

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