

MEMORANDUM

March 3, 2015

TO: Mayor and Council

CC: Penny Ballem, City Manager
Sadhu Johnston, Deputy City Manager
Janice MacKenzie, City Clerk
Lynda Graves, Manager, Administration Services, City Manager's Office
Rena Kendall-Craden, Director, Communications
Mike Magee, Chief of Staff, Mayor's Office
Kevin Quinlan, Director, Policy and Communications, Mayor's Office
Corporate Management Team
Neal Stratton, Director, Financial Planning and Analysis
Sarah Kapoor, Manager, Capital Budgets

FROM: Patrice Impey, General Manager, Financial Services Group/CFO/Director of Finance

SUBJECT: 2014 Capital Budget - Year End Review

Dear Mayor and Council,

The purpose of this memo is to provide Council with a review of the 2014 Capital expenditures by service category in comparison with the 2014 Capital Budget.

As the quarter financial report is for information only, it is provided quarterly to Council as a memo and is placed on the City of Vancouver external website at <http://vancouver.ca/your-government/financial-reports-and-information.aspx>.

COUNCIL POLICY

Since 2011, the Director of Finance has committed to report quarterly on the Capital Budget status.

A. INTRODUCTION/BACKGROUND

While the Operating Budget is built to reflect operating costs for one year only, the annual Capital Budget reflects one year of what can be multi-year capital projects. Therefore, capital projects are viewed on both an annual budget basis (annual expenditure vs. annual budget), and a total project basis (multi-year project expenditures vs. total multi-year project budget).

On December 17, 2013, Council approved a 2014 Annual Capital Expenditure Budget of \$285 million. Council subsequently approved a net increase of \$12 million in capital expenditures for a revised 2014 Annual Capital Expenditure Budget of \$297 million. This report reflects performance against an approved total 2014 Annual Capital Budget of \$297 million.

In 2014, Capital Budget expenditures were \$253 million, representing 85% of the total 2014 Annual Capital Budget. This actual expenditure reflects a continuing focus on aligning our budget with our capacity to spend, providing regular quarterly reports on spending and forecast expenditures, and appropriately scheduling projects.

In addition, a separate report to Council which includes 2014 Q4 Closeouts and Capital Budget Adjustments will be presented for approval on March 3, 2015 (RTS 10822).

B. TOP 10 CAPITAL PROGRAMS/PROJECTS: 2014 Anticipated vs. Actual Outcomes

The following table shows actual outcomes compared to expected outcomes for the top 10 2014 annual capital expenditure budgets.

| Program/Project | 2014 Annual Expenditure Budget (ORIGINAL) | 2014 Annual Expenditure Budget (REVISED) | Actual Expenditures in 2014 | Variance to Revised Budget | Anticipated Outcomes in 2014 (based on original 2014 Expenditure Budget) | Actual Outcomes in 2014 |
|--|---|---|-----------------------------|----------------------------|---|---|
| Sewer separation (Annual program) | \$25.6 | \$21.4 <small>(revised Q2 by \$2.5 and Q3 by \$1.75, 2014)</small> | \$20.4 | \$1.0 | 12 km of combined (stormwater and sanitary) sewer mains separated (0.84%) | 9.6 km of combined (stormwater and sanitary) sewer mains separated. Actual expenditures were 20% lower than the original budget to offset being over budget on major sewer upgrades to accommodate development on Main Street near Terminal Avenue. This resulted in 2.4 km or 20% less sewer mains being separated than expected. |
| Powell Street Overpass construction (Total project budget \$50.0M) | 23.1 | 20.9 <small>(revised Q1, 2014)</small> | 22.5 | -1.6 | Construction 100% complete | Done. The gross expenditures for this multi-year capital project are on budget as are the gross expenditures for the 2014 annual expenditure budget. The negative variance compared to the revised budget is due to the delayed sale of surplus land until 2015, which was expected to offset the 2014 expenditures. In Quarter 1, the expenditure budget was reduced by \$2.15 million as more work than originally planned in 2013 was completed. This therefore reduced the amount of planned expenditures in 2014. Overall, the project has completed on schedule and will complete on budget once the surplus land has been sold. |

(Table 1 continued on next page)

| Table 1 - Top 10 Capital Programs/Projects for 2014: Anticipated vs. Actual Outcomes | | | | | | |
|--|---|--|-----------------------------|----------------------------|---|---|
| Program/Project | 2014 Annual Expenditure Budget (ORIGINAL) | 2014 Annual Expenditure Budget (REVISED) | Actual Expenditures in 2014 | Variance to Revised Budget | Anticipated Outcomes in 2014 (based on original 2014 Expenditure Budget) | Actual Outcomes in 2014 |
| Water / Sewer connections replaced (Annual program) | 16.4 | | 13.9 | 2.5 | 1,000 residential water and sewer connections replaced 100 commercial sewer connections replaced | <ul style="list-style-type: none"> 978 residential water and sewer connections replaced 128 commercial sewer connections replaced In total more connections were replaced than anticipated for less than budgeted. |
| Vehicles and equipment replacement (Annual program) | 15.4 | | 12.1 | 3.3 | 225 vehicles and pieces of equipment replaced | 217 vehicles and pieces of equipment replaced. 2014 vehicle and equipment purchases and related expenditures were lower than budget due to procurement delays for some high value equipment purchases, such as Compressed Natural Gas (CNG) rear loader refuse trucks, dump trucks and bulldozers. |
| Taylor Manor reconstruction (Total project budget \$14.5M) | 10.0 | 10.5 (revised Q2, 2014) | 9.8 | 0.7 | Construction 100% complete: 56 self-contained supportive housing units Common area amenities, outdoor courtyard, and landscaping | Partial Occupancy permit received in 2014. 56 self-contained supportive housing units, common area amenities, outdoor courtyard, landscaping and additional groundworks/front driveway nearly completed at the end of 2014, with final full Occupancy Permit anticipated by the end of February 2015. Overall, the project is expected to complete on budget but behind schedule. |
| Permit and Licence Transformation Program (Total project budget \$26.0M, including completed phase for Online Services Implementation) | 9.8 | | 6.4 | 3.4 | New online permit self-service capabilities Mobile online field inspections capability | Done. 2014 expenditures were lower than budgeted as some project contingency budgets were not fully required and some 2014 expenditures for equipment and related purchases were deferred to 2015 as a result of a change in project schedule. The full multi-year capital project is expected to complete on budget and on schedule. |
| Hastings Park Greening (Total project budget \$10.5M) | 9.1 | | 8.7 | 0.4 | 6.8 ha new and renewed parklands 3.25 km new bike and pedestrian paths 2 synthetic turf playfields 580 linear metre recreational running track new playground, parkour court, and bike skills area 4 sand volleyball courts 2 hard surface sport courts | Done with the following exceptions: 580 linear metre recreational running track - 80% complete (full completion delayed due to weather issues) Parkour court 50% complete and bike skills area 20% complete Overall, the project is expected to complete on budget but behind schedule. The outstanding items will be substantially completed in Q1 2015. |
| Water pipe replacement 2014 Budget revision Q2: increased by \$1.7M | 7.9 | 9.6 (revised Q2, 2014) | 8.2 | 1.4 | 6.3 km of water pipe replaced | Done. In Quarter 2, the expenditure budget was increased by \$1.7 million due to increase scope for the program as a result of delays in the transmission main program. The revised scope was not all completed in 2014 and as a result a benchmarking contract and trial installation of earthquake pipe will be completed in Q1 2015 and once complete, the anticipated outcome for the program will be 7.5km. |
| Strathcona/Downtown Eastside Library (Total project budget \$18.4M) 2014 Budget revision Q3: decreased by \$2.4M | 7.0 | 4.6 (revised Q3, 2014) | 0.7 | 3.9 | Construction 50% complete | Anticipated outcome not achieved in 2014. Construction did not start until late December 2014. Project was significantly delayed due to delays in value engineering to ensure the financial feasibility of the project. Overall, the project is expected to complete on budget but behind schedule with an anticipated completion in 2016. The development is managed by the YWCA. |

(Table 1 continued on next page)

Table 1 - Top 10 Capital Programs/Projects for 2014: Anticipated vs. Actual Outcomes

| Program/Project | 2014 Annual Expenditure Budget (ORIGINAL) | 2014 Annual Expenditure Budget (REVISED) | Actual Expenditures in 2014 | Variance to Revised Budget | Anticipated Outcomes in 2014 (based on original 2014 Expenditure Budget) | Actual Outcomes in 2014 |
|--|---|--|-----------------------------|----------------------------|---|--|
| Burrard Bridge rehabilitation and bearing replacement (Total project budget \$9.6M) 2014 Budget revision Q1: increased by \$0.6M | 6.8 | 7.4 <small>(revised Q1, 2014)</small> | 6.6 | 0.8 | 27 bearings replaced 19 expansion joints replaced (9 expansion joints originally reported was an error) Minimum 50 m ² of concrete repaired 100% completion of PCB decontamination and bridge deck inspection | 18 bearings replaced 19 expansion joints replaced 100m ² of concrete repairs completed 100% completion of PCB decontamination and bridge deck inspection Bearing replacements were delayed due to technical demolition difficulties, and actual work taking more time than estimated. This delayed the project by 2-3 months. 9 bearings to be completed in 2015. In Quarter 1, the expenditure budget was increased by \$0.6 million in order to maintain a larger expenditure contingency resulting from uncertainty related to the work on the bearings and PCB decontamination which did not materialize. Overall, this multi-year capital project will be completed under budget but behind schedule. |
| Total Expenditures (2014) | \$131.1 | \$74.4 | \$109.3 | \$15.8 | | |

C. 2014 CAPITAL EXPENDITURES vs. 2014 CAPITAL BUDGET by Service Category

2014 annual capital budget expenditures were under budget by \$43.8 million. Table 2 below shows the 2014 Capital expenditure budget variances by service category.

Table 2 - Q4 2014 Annual Capital Budget Results By Service Category (\$000's)

| Service Category 1 | Service Category 2 | 2014 Budget | 2014 Actuals | 2014 Variance |
|---|--------------------------------------|----------------|----------------|---------------|
| 01. Community Facilities | A. Childcare | 711 | 573 | 139 |
| | B. Social Facilities | 6,144 | 3,634 | 2,510 |
| | C. Cultural Facilities | 12,754 | 10,093 | 2,661 |
| | D. Entertainment and Exhibition | 1,170 | 179 | 990 |
| | E. Libraries and Archives | 5,914 | 1,277 | 4,637 |
| | F. Recreation Facilities | 5,625 | 4,057 | 1,567 |
| 01. Community Facilities Total | | 32,318 | 19,813 | 12,505 |
| 02. Parks and Open Spaces | A. Urban Forest and Natural Features | 2,070 | 2,064 | 6 |
| | B. Activity Features | 3,231 | 1,932 | 1,299 |
| | C. New Parks and Renewals | 17,981 | 16,639 | 1,342 |
| | D. Seawall and Waterfront | 875 | 715 | 159 |
| | E. Park Infrastructure | 1,769 | 1,083 | 687 |
| | F. Park Buildings | 1,612 | 1,425 | 187 |
| | G. Public Art | 770 | 561 | 209 |
| 02. Parks and Open Spaces Total | | 28,307 | 24,420 | 3,888 |
| 03. Housing | A. Non-Market Rental Housing | 16,287 | 16,915 | -628 |
| 03. Housing Total | | 16,287 | 16,915 | -628 |
| 04. Public Safety | A. Police | 988 | 626 | 362 |
| | B. Fire | 4,372 | 1,522 | 2,851 |
| | C. Animal Control | 0 | 42 | -42 |
| 04. Public Safety Total | | 5,360 | 2,190 | 3,170 |
| 05. Transportation | A. Walking and Cycling | 11,775 | 9,991 | 1,783 |
| | B. Transit | 916 | 911 | 5 |
| | C. Major Roads | 50,782 | 47,570 | 3,212 |
| | D. Local Roads | 4,462 | 3,851 | 611 |
| | E. Parking | 475 | 162 | 313 |
| 05. Transportation Total | | 68,410 | 62,485 | 5,925 |
| 06. Utilities and Public Works | A. Waterworks | 14,445 | 12,990 | 1,455 |
| | B. Sewers | 33,052 | 31,059 | 1,992 |
| | C. Solid Waste | 8,179 | 6,301 | 1,878 |
| | D. Neighbourhood Energy | 2,600 | 969 | 1,631 |
| | E. Water and Sewer Connections | 22,443 | 24,418 | -1,975 |
| 06. Utilities and Public Works Total | | 80,718 | 75,738 | 4,981 |
| 07. Civic Infrastructure | A. Administrative Facilities | 8,585 | 9,143 | -557 |
| | B. Service Yards | 2,243 | 1,371 | 872 |
| | C. Vehicles and Equipment | 19,908 | 14,386 | 5,521 |
| | D. Information Technology | 26,223 | 18,181 | 8,042 |
| 07. Civic Infrastructure Total | | 56,959 | 43,080 | 13,878 |
| 08. City-Wide | A. Emerging Priorities | 4,800 | 4,800 | 0 |
| | C. City-Wide Overhead | 3,399 | 3,273 | 126 |
| 08. City-Wide Total | | 8,199 | 8,073 | 126 |
| Grand Total | | 296,559 | 252,714 | 43,845 |

01. Community Facilities**\$12.5 million positive variance**

Community Facilities projects are managed by various departments within the City including Real Estate and Facilities Management, Parks and Recreation, Community Services, Planning and Development, and Vancouver Public Library.

Total 2014 annual capital expenditures were under budget by \$12.5 million primarily due to a delay in the Strathcona library construction as additional time was required to re-work the design drawings with the project partner (YWCA) to make the project more financially feasible. In addition, tenant improvements for the fit-out of the Bard on the Beach and Arts Club tenancy at 162 West 1st Avenue were under budget due to delays in the signing of the lease agreement.

Other factors include delays in capital grant recipients raising their required share of project funding or meeting other grant conditions, and extended public consultation timelines for several community-based projects. These factors are partially offset by higher 2014 expenditures for Kitsilano Neighbourhood House Renewal in 2014 arising from an opportunity to advance work ahead of schedule, and Cultural Infrastructure Program grants, reflecting an earlier disbursement of grants that were originally expected in 2015.

02. Parks and Open Spaces**\$3.9 million positive variance**

Parks and Open Spaces projects are managed by Parks and Recreation, Real Estate and Facilities Management, Community Services, and Engineering Services.

Total 2014 expenditures on Parks and Open Spaces capital projects are under budget by approximately \$3.9 million. This is primarily due to delays in the Riley Park renewal project, Stanley Park cycling pathway project, and sports field facility improvement and upgrades while additional stakeholder engagement is sought. Some expenditures planned for 2014 for the Hastings Park Greening project were delayed into 2015. The price of the bids received for this project exceeded the project budget and as such a thorough review was completed to identify cost savings in order to proceed with full scope of work. This review caused a delay in initiating the construction of the project.

03. Housing**\$0.6 million negative variance**

Housing projects are managed by Real Estate and Facilities Management, and Community Services departments.

Total 2014 annual capital expenditures on Housing projects were \$0.6 million over budget primarily due to timing. A City payment to the Property Endowment Fund (PEF) for the use of a PEF property for non-market housing purposes, originally budgeted for Q4 2013, did not occur until Q1 2014. This resulted in greater than budgeted Housing capital expenditures in 2014, which were largely offset by some housing projects for which expenditures planned for 2014 have been delayed into 2015. Those projects include several housing grant disbursements that were budgeted for 2014 but are now expected to be disbursed in 2015, pending the grant recipient organizations satisfying conditions attached to the grants.

04. Public Safety**\$3.2 million positive variance**

Public Safety projects are managed by Real Estate and Facilities Management, Vancouver Fire and Rescue Services, and the Vancouver Police Department.

Total expenditures on Public Safety capital projects were \$3.2 million under budget in 2014 primarily due to a manufacturer delay in delivering one of two fire boat replacements originally planned for 2014 but now expected in 2015, as well as delays in starting two fire hall projects (fire hall bay separation and fire hall building capital maintenance of burn tower wall/panel system) which required additional refinement of project scopes.

05. Transportation**\$5.9 million positive variance**

Transportation projects are managed by Engineering Services.

Total expenditures on Transportation capital projects were \$5.9 million under budget in 2014 primarily due to delays in the Georgia Dunsmuir Viaducts Study (arising from an extended timeline for public consultation and negotiations with affected land owners), the Seaside Greenway/York Bikeway project (trees, sidewalks, transportation monitoring components rescheduled to spring 2015), and major road rehabilitation projects along Southwest Marine Drive and East Broadway (delayed due to an extended public consultation process and traffic planning coordination).

These delays in planned 2014 expenditures are partially offset by expenditures relating to the addition of a major underground fibre optic installation project approved in October (not planned at the time the 2014 Capital Budget was developed), as well as the Powell Street Overpass project due to the delayed sale of surplus land which was expected to offset the 2014 expenditures. Overall, the Powell Street Overpass project is expected to be completed on schedule and on budget once the surplus land has been sold.

06. Utilities and Public Works**\$5.0 million positive variance**

Utilities and Public Works projects are managed by Engineering Services.

Total expenditures on Utilities and Public Works capital projects were \$5.0 million under budget in 2014, primarily due to the deferral of some planned Water and Sewer capital programs from 2014 to 2015, partially offset by higher-than-budget expenditures in the Water and Sewer Connections program.

Permit revenues for the Water and Sewer Connections program are received in advance of installation work and related expenditures are typically incurred during the year the fees are received and into the year following. The 2014 expenditure budget for the Water and Sewer Connections program did not fully reflect this timing lag, resulting in a higher-than-budget spend in 2014 (i.e., a portion of 2013-funded work was completed in 2014 in addition to what was budgeted for 2014-funded connections work).

Other significant factors contributing to the 2014 Utilities and Public Works expenditures being below budget include the deferral of the Pender Street water transmission main

replacement from 2014 to 2015 (deferred in view of the overall construction disruption occurring around the downtown core with currently ongoing construction), a reduction in the scope of originally planned sewer main reconstruction/separation work (to accommodate higher priority work on sewer pipe upgrades at Western Street and Terminal Avenue to minimize disruptions to area developments and traffic), the deferral of a Neighbourhood Energy Utility pipeline extension to Great Northern Way (delayed to spring 2015 due to construction delays encountered by one of the major NEU customers), and a delay in the completion of the Skeena pump station (additional time was required to evaluate design options before awarding construction contract).

07. Civic Infrastructure

\$13.9 million positive variance

Civic Infrastructure projects are managed by Real Estate and Facilities Management, Engineering Services, and Financial Services (Information Technology).

Total expenditures on Civic Infrastructure capital projects were \$13.9 million below budget in 2014, primarily due to a shift of planned 2014 expenditures to 2015 for the replacement of several large operational vehicles and apparatus (including four rear-loading refuse trucks delayed to accommodate higher priority procurement of Compressed Natural Gas (CNG) rear loader refuse trucks and 12 dump truck boxes delayed by vendor's delivery schedule). Procurement for the planned replacement of Fire trucks was delayed in 2014 due to the complexity of the purchase of these custom-made vehicles.

In addition, a portion of the positive 2014 budget variance was related to delays with the deconstruction of City Hall East Wing (due to delays in relocating staff to other City Hall precinct facilities), and the Permit & Licence Transformation Program (anticipated draws from project contingencies provided for in the 2014 expenditure budget were not required as well as some 2014 expenditures for equipment and related purchases were deferred to 2015).

These projects that were under budget in 2014 are partially offset by several projects that were over budget in 2014, most notably expenditures relating to the Office Accommodation program that were originally planned for 2013 but were delayed into 2014 (delays in relocating staff to other City Hall precinct facilities and additional priority capital maintenance work identified during the renovation of the Vancity building).

08. City-Wide

\$0.1 million positive variance

City-Wide Overhead projects are managed by Financial Services.

Total expenditures on City-Wide Overhead Capital projects, including City-Wide overhead capital costs and emerging capital priority allocations, were effectively on budget for 2014.

D. MULTI-YEAR CAPITAL PROJECT EXPENDITURES vs. BUDGET

The review of the multi-year capital programs/projects identifies specific continuing programs/projects that have budget risks and also indicates whether programs/projects are projected to complete on, over, or under budget.

As of December 31, 2014, continuing Capital programs/projects have budgets totaling \$1.026 billion, excluding a small number programs which did not receive a 2014 budget. When the Capital Budget process was redesigned to be inclusive of all projects, some projects received funding outside of the capital budget and were not included in the 2014 budget. Overall, \$11.4 million of costs which relate to Combined Sewer and Water Connection programs were not captured in the 2014 budget.

E. 2012-2014 CAPITAL PLAN

The adjusted 2012-2014 Capital Plan, reflecting Council-approved additions to the Plan and residual funding remaining in the Plan after capital budget allocations in 2012, 2013, and 2014, was \$818 million.

F. CONCLUSION

The City of Vancouver incurred \$253 million in capital expenditures in 2014 against the 2014 expenditure budget of \$297 million, (\$44 million less than budget) which is 85% of the 2014 Capital Expenditure Budget.

If you have any questions in regards to the above please don't hesitate to contact me.

Patrice Impey
General Manager, Financial Services Group/CFO

(T) 604.873.7610

(E) patrice.impey@vancouver.ca