CITY OF VANCOUVER

2019-2023 BUDGET OUTLOOK

Priorities and actions for a growing city

Vancouver is growing and we continue to manage the challenges and opportunities of a major city. A growing population means more people are using City services, which puts pressure on existing infrastructure and public amenities and also drives the need for new and improved services. Having a network of well-maintained infrastructure and public amenities is essential to quality of life in our city and helps to drive the economy, increase prosperity and create jobs. Major initiatives, such as the Housing Vancouver strategy and implementation of community plans, will continue to change the landscape of our city.

Each year, we refresh our five-year financial plan and set our annual budget, taking into consideration any new developments or challenges that have emerged as a result of changes in our environment, whether they are economic, physical or social.

Over the next five years we plan to make significant investments in updating existing infrastructure and public amenities, while continuing to make strategic, long-term investments to enhance the livability and resilience of our city. The Budget Outlook highlights those major investment areas, the financial impact of these investments, and details the ongoing financial pressures related to our existing services.

2019 priorities

- Continue to focus on affordable housing and support for the homeless and other vulnerable citizens.
- Review and improve service levels to ensure we are meeting the needs and expectations of those who live and work in, and visit, our city.
- Manage the challenges and address the opportunities of a diverse and growing city.

Contents

Influence how your tax dollars are spent

The Draft 2019 Budget will be presented to City Council in December. Visit **vancouver.ca/budget** in late October for details about opportunities to provide your input—both online and face-to-face options will be available.

Our priorities

Continue to focus on affordable housing and support for the homeless and other vulnerable citizens

Lower income and homeless individuals in Vancouver are the hardest hit by the housing crisis and we continue to prioritize actions that address the urgency of this crisis. With our 10-year Housing Vancouver strategy guiding us, we continue to work toward our goal of 72,000 new homes across Vancouver in the next 10 years. We are working to increase supportive housing in neighbourhoods with significant homeless populations, including focusing on more vulnerable groups such as youth, women, and Urban Indigenous. The strategy also focuses on increasing the supply of housing targeted to middle income households to ensure housing options for those who live and work in the city.

Review and improve service levels to ensure we are meeting the needs and expectations of those who live and work in, and visit, our city

It's costing more to keep our growing city running, and we need to work to ensure that our service levels are meeting our residents' needs. We will look for new and more efficient ways to leverage technology to deliver service, including more online and self-service options. We will be renewing and upgrading our infrastructure and public amenities to ensure they remain in a state of good repair, and adding to public amenities to support the city's growing population. We are also exploring ways to collect more information about our residents' needs, concerns and preferences, including enhancing our engagement and feedback tools.

Manage the challenges and address the opportunities of a diverse and growing city

We are committed to safe, livable and sustainable communities that, in the spirit of reconciliation, include and welcome everyone. We continue to foster a thriving economy, provide arts, culture and recreation amenities, and maintain effective, resilient infrastructure, both for today and for future generations. Over the course of the next three decades Vancouver will transform significantly, adapting to challenges and shaped by opportunities and innovations. We are committed to comprehensive, city-wide planning for the future, while balancing local and community perspectives and more immediate needs.

Fiscal responsibility

Vancouver, like other Canadian cities, offers a broad range of services but has a limited revenue stream. The City adheres to prudent fiscal stewardship with careful financial planning that balances short-term operating needs with long-term public amenity and infrastructure requirements. To ensure that strategic investments in services, infrastructure and public amenities needed to support a growing city are made in a fiscally prudent and financially sustainable manner, while considering external economic conditions that could have an impact on residents and businesses, the City's financial planning process is guided by a set of financial sustainability guiding principles and financial health targets.

Financial sustainability guiding principles

Fiscal prudence

- Live within our means
- Consider long-term implications in all decisions
- Maintain a stable and predictable revenue stream
- Keep debt at a manageable level
- Build in flexibility and contingencies for emerging priorities and opportunities

Affordability and cost effectiveness

- Deliver services that are relevant and result in desired public outcomes
- Ensure value for money through productivity and innovation
- Keep property tax and user fees affordable and competitive

Asset management

- Maintain assets in an appropriate state of repair
- Optimize capital investments to meet public and economic needs while achieving value for the investment

By legislation, the City cannot run a deficit or borrow to fund its operating budget. When developing its long-term financial plan, the City maintains a commitment to strong financial discipline and continued management of debt to ensure that capital investments will not unduly burden the operating budget through debt servicing, operating costs and asset lifecycle costs. Both Moody's and Standard & Poor's credit rating agencies have acknowledged the City's efforts by awarding it with the highest credit rating of AAA.

Regional and provincial governments are responsible for delivering schools, health care, and transit. Senior governments also hold mandates to deliver social housing and childcare. Significant funding has been committed by the Federal and Provincial governments to advance the Millennium Line Broadway Extension to realize the economic potential of the second largest employment centre in British Columbia and to enable efficient movement of people and access to jobs. The City continues to encourage senior governments to uphold their responsibilities for social housing and childcare; in the meantime, the City has used its regulatory tools, strategic partnerships and capital investment to create these essential public amenities that support those who live and work in Vancouver.

Economic context

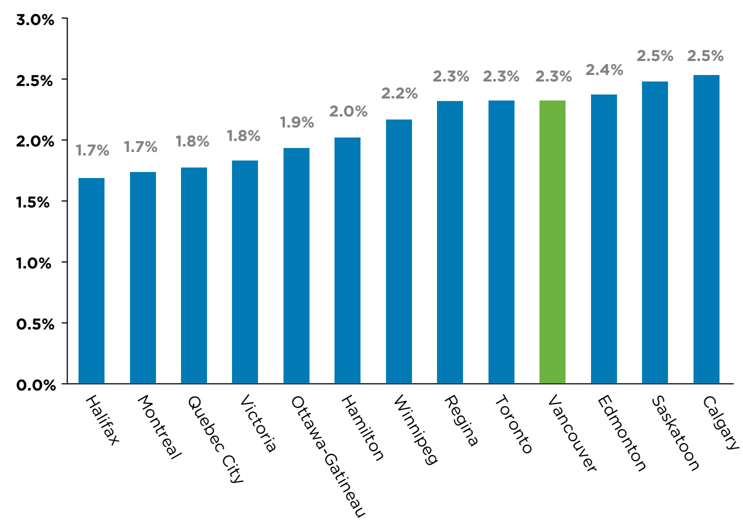
A resilient economy fosters dynamic businesses and sustainable employment, and helps to attract and retain professionals, families and individuals to our city. When developing our long-term financial plan, the City considers global, regional and local economic factors. Understanding these constantly changing factors allows the City to manage near-term risks and uncertainties, while also planning for long-term financial resilience and sustainability.

The global economy continues to build momentum in 2018, with world GDP growth forecasted to be 3.9%. The US economy is anticipated to grow at 2.9%. The Euro area economy continues to grow at 2.4%, while the pending withdrawal from the EU continues to cast uncertainty on the UK economy, limiting its growth to 1.6%. China's economic growth is forecasted to grow at 6.6%.

The Canadian economy is forecasted to decelerate from 3% in 2017 to 2.1% in 2018 and further to 1.8% on average between 2019 and 2022. The uncertainty of the North American Free Trade Agreement (NAFTA) as well as stretched household finances and the potential of a disorderly correction of housing markets remain the key risks to the outlook and could have far-reaching implications. The BC economy is anticipated to grow from 2.8% in 2017 to 3.1% in 2018 before moderating to 1.8% in 2019. This shift is due to downward pressure on the housing market in light of the new Provincial government taxation policies as part of the 30-point Housing Plan, as well as the unresolved softwood lumber trade conflict with the US, and the uncertainty around the future of LNG. Inflation is anticipated to be around 1.7% for 2018 and 2.2% for 2019.

Metro Vancouver's economy is forecast by the Conference Board of Canada to moderate from an average growth of 4% between 2014 and 2017, to 2.9% in 2018 and 2.3% in 2019. Similarly, employment is also anticipated to moderate from an average growth of 3.9% in 2016 and 2017 to 1.6% in 2018 and 0.8% in 2019. The real estate sector has been a key driving force in GDP growth in recent years, but the implementation of housing cooling measures by the Provincial and Federal governments and rising interest rates are expected to dampen the housing market. While resource-based economies continue to struggle, the green and clean technology sector as well as the transportation and warehousing industry continue to grow. Most recently, Amazon announced 3,500 new jobs coming to Vancouver, an indication of the strength of that sector and of the attractiveness of our city for employment.

Projected Real GDP Growth 2019–2022



GDP growth in Vancouver is forecast to be among the fastest growing of the metropolitan areas in the country

Source: Conference Board of Canada Metropolitan Outlook, Spring 2018 (released June 2018)

Highlights of City services delivered last year

1,484 km water mains maintained

2,117 km sewer mains maintained

34,750 tonnes garbage collected*

48,960 tonnes compostables collected*

7,402 cumulative secured market rental units committed

4,286 City-facilitated childcare spaces (cumulative)

4,000 people received homelessness services***

3,560 cumulative social housing units committed

76.3% landfill gas collected

2,012 tonnes collected (litter cans)

6.4M in-person library visits

6.4M online library visits

2.4M items available

4,065 street use permits issued (e.g. food trucks, patios)**

10,200 on-street metered spaces managed

49,770 business licences issued

121,669 building and trades inspections

7,675 development, building and combined permit applications

74 rezoning applications received

1,306 hectares park space

20,011 trees planted

2.8M swim participants

755,052 attendees at civic theatres

830,633 square feet community arts and culture space

$12.7M grants to cultural organizations

50,821 crimes reported; on average, 1 crime every 10 minutes and 21 seconds

776,931 calls made to 3-1-1

56,532 VanConnect service requests

572 City-owned buildings

1,983 fires with damage

22,675 safety inspections

48,028 medical incidents

158 public engagement projects

19% reduction in GHG emissions from City-owned buildings (since 2007)

3,485 residents trained in emergency preparedness

536 Freedom of Information requests received

Aaa/AAA 2017 credit rating

2017 data displayed, unless otherwise indicated.

* City provides service to single-family residential only

** Note that we have removed film permits from this metric, hence the difference from last year. Please also note naming changed.

*** The number of clients was not available for the last two weeks of December due to the implementation of a new computer system. However, we are confident that this number closely reflects the total number of clients served in 2017.

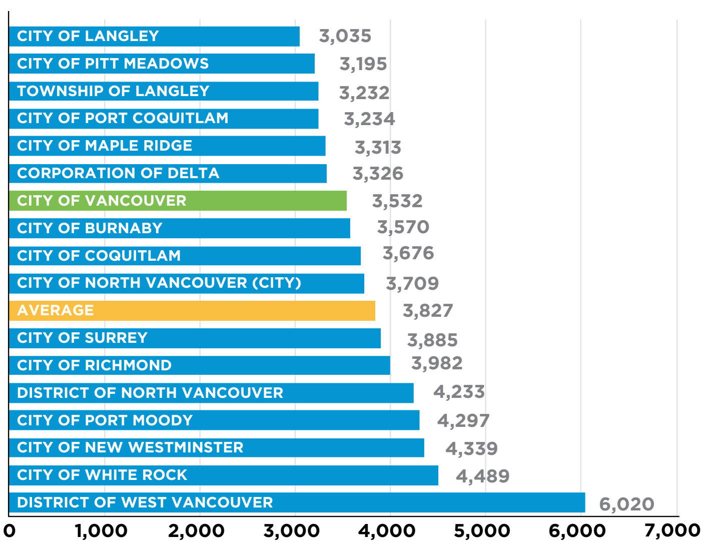
Balancing affordability with quality of services and programs

How property assessments and property tax work

The City plays a leading role in enabling a thriving business environment and building a world class, sustainable community. Vancouver is consistently ranked one of the most livable cities in the world and, in 2016, the global accounting firm KPMG ranked the City as the second-most tax competitive in the world.

The City has always strived to ensure property tax and user fees in Vancouver remain competitive and affordable while sustaining the breadth and quality of services for businesses and residents. Through continuous business transformation and innovation, the City has consistently had one of the lowest average tax increases in Metro Vancouver in recent years while achieving Council, Board and community priorities. Even when combining municipal taxes with utility fees, Vancouver is in the mid-range among the municipalities in Metro Vancouver.

2018 Combined Municipal Property Tax and Utility Fees for Median Single-Family Home ($)



2018 combined municipal property tax and utility fees for a median single-family home in Vancouver sit below the average of Metro Vancouver municipalities

Approximately half of the property tax paid by Vancouver taxpayers goes towards funding City services and programs while the other half goes to provincial and regional taxing authorities to fund schools, transit, and property assessment services. Vancouver City Council has no control over how much the other taxing authorities charge or how they distribute those levies across the region. As property values in Vancouver are generally higher than those in other Metro Vancouver municipalities, the amount of provincial and regional property taxes paid by a household in Vancouver are typically higher than the rest of the region.

Rampant real estate speculation in Vancouver in recent years continues to drive up land values, resulting in significant volatility in property assessment and taxes year-over-year and causing hardship for some residents and small businesses.

> The City does not generate higher property tax revenues as a result of rising property values.

In British Columbia, real estate properties are assessed at their highest and best use, and taxes are allocated to individual properties based on that value. In the case where a property is under-developed, its assessed value could substantially increase to reflect additional development potential.

It is important to note that the City does not generate higher tax revenue as a result of rising property values. BC Assessment determines property values. Vancouver City Council determines the total property tax levy that is required to support the annual budget, and then divides the property tax levy by the assessment base provided by BC Assessment to derive the tax rates. To achieve "revenue neutrality", tax rates are lowered to reflect assessment increases.

Under this approach, property tax increases are driven by the City's budget requirement, and tax rates are adjusted annually to reflect changing property values. While the Council-directed property tax increase applies to the overall tax levy, the extent of change in an individual property's tax year over year is determined primarily by how that property's assessed value has changed relative to the average change within its property class. Properties with a lower increase in value relative to the average change in its property class could experience no change or a reduction in property tax, while properties with a higher increase in value could experience a much higher increase in property tax beyond the Council-directed increase.

The challenge is more prevalent for small business tenants as most landlords pass on all property taxes, on both rented space and development potential, to tenants through leases. As tenants do not benefit from an increase in property value upon redevelopment or sale as an owner would, this practice can cause significant financial distress for small business tenants who have very limited ability to absorb or finance such an unanticipated surge in expenses during their lease term (typically five years or longer).

It is important to note that the affordability challenge arising from real estate speculation on both residential and commercial properties is a regional issue impacting most Metro Vancouver municipalities, not just Vancouver. Given the very limited authority and policy tools available for municipalities to address property assessment and taxation issues, Council submitted a written request to the Province in February 2018 to initiate an inter-governmental work group that involves BC Assessment, City of Vancouver and other interested Metro Vancouver municipalities to i) clarify and address assessment and classification issues relating to development potential, and ii) identify viable policy options (e.g. split tax bill, tax deferral) to support small businesses in time for the 2019 tax year.

2018 Budget overview

Operating budget revenues and expenditures for 2018: $1.407 billion

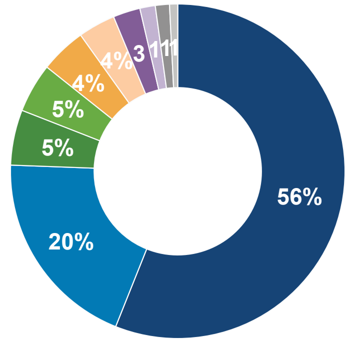
Property tax and utility fees for water, sewer and solid waste make up 76% of the revenue in the 2018 Budget. These revenue sources are highly predictable. Revenues from property development-related fees and permits are cyclical, but account for only 5% of the City's revenue base.

In 2018, Vancouver's property tax revenue increased by 4.9% (including the Council-directed tax increase of 4.27% and additional taxes generated from new development of 0.6%). The City of Vancouver's combined 2018 property tax and utility fees for a median single-family home was below the regional average (among the municipalities that comprise Metro Vancouver).

Public safety accounts for 31% of the City's operating expenditures while Engineering public works and utilities expenditures (water, sewer, solid waste, neighbourhood energy) total 29%. Together, these services account for more than half of the City's operating expenditures budget. These costs have grown at a higher rate than other areas, reflecting the operating cost impact of substantial capital investments in recent years to replace aging regional infrastructure, as well as above-inflation wage growth in the public safety sector. Community-related services, such as parks and recreation, library, community services and planning, comprise 23% of the operating budget.

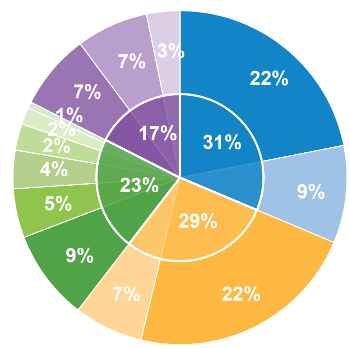
Overall, salary and benefit costs represent the largest component of the City's operating budget, at 59%. While utilities represent 22% of operating budget, more than 50% of those costs are passed on to the City directly by Metro Vancouver. A further 8% of the operating budget goes to interest and debt payments for capital investments, as well as transfers to other funds and allocations. This includes transfers to the Capital Fund which, along with development revenues and other external contributions, funds the City's capital investment. The remaining 22% of the operating budget goes to other non-salary costs, including facilities costs, grant payments and equipment.

2018 Operating Revenues $1,407.3 Million



56% | Property Taxes
20% | Utility Fees
5% | Licence and Development Fees
5% | Parking
4% | Program Fees
4% | Cost Recoveries, Grants and Donations
3% | Rental, Lease and Other
1% | Bylaw Fines
1% | Revenue Sharing
1% | Investment Income

2018 Operating Expenditures by Service Area $1,407.3 Million



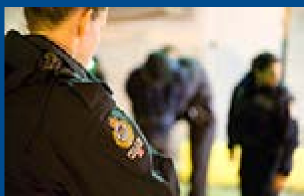
PUBLIC SAFETY
22% | Police
9% | Fire

ENGINEERING & UTILITIES
22% | Utilities
7% | Engineering Public Works

COMMUNITY-RELATED SERVICES
9% | Parks & Recreation
5% | Community Services
4% | Library
2% | Development, Buildings & Licensing
2% | Planning, Urban Design & Sustainability
1% | Other

CORPORATE SUPPORT
7% | Corporate Support
7% | Debt & Capital (Non-Utility)
3% | Contingencies & Transfers

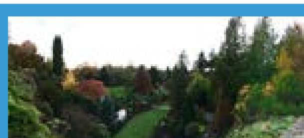
Cost to deliver services



$1.08M
to hire and train 10 new police officers

$1.7M
annual cost for additional medic staffing to support opioid crisis

$6.3M
to grow and maintain Vancouver's urban forest



$1.3M
to operate a swimming pool for one year

$1.5M
to purchase one fire truck

$7.5M
to fuel city vehicles for one year

$350,000
to install pedestrian and cycling traffic signal

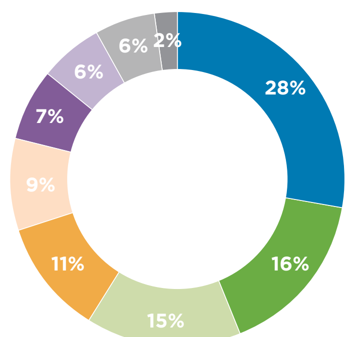
Capital Budget

The City owns approximately $25 billion of infrastructure and public amenities (excluding land), encompassing underground water and sewer infrastructure; roadways, walkways and bikeways; affordable housing; community facilities, parks and open spaces; public safety facilities; and service yards. The need to renew, upgrade and expand our infrastructure and public amenities to support residents and businesses is significant and growing. Asset renewal is an investment in the future of our city and an important factor in achieving good value for money by maintaining and, where possible, extending the operational lifespan of the City's assets.

Annual capital expenditure budget for 2018

The City's 2018 annual capital expenditure budget approved as part of the 2018 Operating and Capital Budget was $426 million. Utilities represent the largest share of planned capital investments at 28%, followed by transportation at 16% and parks, open spaces and recreation at 15%. Housing capital investments represent the next largest proportion at 11%, followed by equipment and technology at 9%, civic facilities at 7%, community facilities at 6%, childcare at 6%, and city-wide capital program support costs at 2%.

2018 Capital Budget Expenditures $426.4 Million



- 28% | Utilities ($120M)
- 16% | Transportation ($68M)
- 15% | Parks, Open Spaces & Recreation ($65M)
- 11% | Housing ($46M)
- 9% | Equipment & Technology ($39M)
- 7% | Civic Facilities ($32M)
- 6% | Community Facilities ($27M)
- 6% | Childcare ($24M)
- 2% | Citywide ($6M)

Looking ahead: 2019-2023 operating and capital financial plan

2019 Operating Budget

Looking toward 2019, the City's expenditures are increasing due to a number of additional costs. Salary and benefits cost increases are a key factor in determining the City's rate of budget growth. The recently announced Provincial government changes to Medical Services Plan (MSP) premiums and the introduction of the new Employer Health Tax will have a significant impact on the City's costs, representing an approximate 1.7% increase in property tax. A focus on renewal of our infrastructure (roads, bridges, water and sewer pipes, and community and civic facilities) will require increased investment.

Costs rising faster than inflation

Costs for maintaining existing staff levels, and existing services scope and service quality are rising faster than inflation in a number of areas:

- In 2018, public safety wage increases have increased at 2.5%, a rate higher than inflation. At the end of 2018, the arbitrated settlement between the Vancouver Police Union and the Vancouver Police Board will expire, adding uncertainty and additional cost pressures for future years.
- Regional utility charges passed on to the City by Metro Vancouver are forecast to increase between 4% and 8% for water and between 2% and 8% for sewer annually from 2019-2023, driven by major infrastructure investments.
- Increases in ongoing operating and asset life cycle costs arising from new and expanded infrastructure and public amenities.

The outlook for 2019 shows a significant gap between expenditure growth and revenue growth. This trend—common to all municipalities—will need to be addressed. We will approach this through continued review of City service levels and innovation in how programs are delivered, including: strategic partnerships (including with other levels of government); process improvements; business and technology transformation, and; new revenue sources to help alleviate the pressure on property tax and fee revenues.

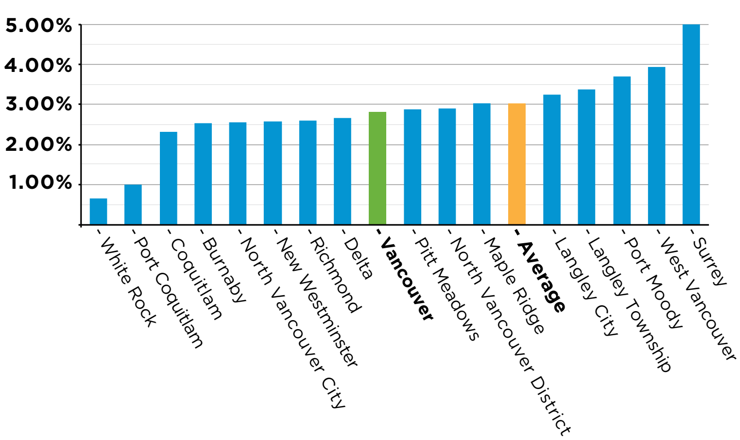
Collective agreements and other challenges

Collective agreements

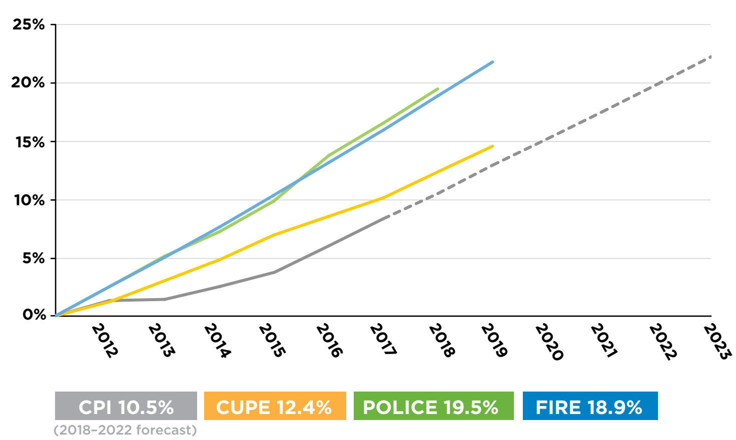
The City and related boards have negotiated collective agreements for all unions as represented by Fire Fighters Union, CUPE Local 15, CUPE Local 1004, IATSE, CUPE Local 391, International Brotherhood of Electrical Workers Local 213, Teamsters Local 31 and Vancouver Police Officers' Association, which will expire at the end of 2019, adding uncertainty to the five-year financial plan.

At the end of 2018, the arbitrated settlement between Vancouver Police Union and Vancouver Police Board will expire. The final year of this settlement included an annual wage increase of 2.5%. For 2019, the Fire Fighters Union wage increase will be 2.5%. These increases are higher than the equivalent increase of 2.0% for other civic unions. With the magnitude of public safety wages as a proportion of the operating budget, these increases will continue to put pressure on the City's budget and property tax rates in future years.

Vancouver vs Metro Vancouver Five-Year Average Property Tax Increase (2014-2018)



Compounded Annual Wage Increases



Compounded Annual Increase from 2012 to 2018

Other challenges

The increasing pressure for local governments to take on more and more services and responsibilities from senior levels of governments has increasingly hindered the City's ability to keep operating expenditure growth at the rate of inflation. Examples of some of the challenges the City faces include:

- The opioid crisis – in 2017, Council approved $3.5 million to respond to this urgent crisis. In 2018, additional investments of $0.3 million for opioid crisis response as well as $0.2 million for ongoing micro cleaning grants were included. The 2018 budget also included an investment of $0.7 million in a VPD Drug Containment Facility for safe and proper handling and processing of drug exhibits that may be contaminated by fentanyl and/or other suspicious substances.

- Insufficient new affordable housing for low- to moderate-income individuals and families. In 2017, the City invested $80.1 million in capital and $4.5 million in operating costs to support housing needs and affordability.

- There is also evidence of change in the income distribution in Vancouver that may suggest loss of renter households at the lower end of the income spectrum. The share of renter households earning below $30,000/year fell from 34% in 2005 to 28% in 2015, while the share of renter households earning over $80,000/year increased from 13% to 28% in the same period. While rising median incomes may account for some of this change, these trends indicate a risk to the long-term diversity and resilience of our City—reinforcing the need to meet the Housing Vancouver objective to ensure the "right supply" of housing that meets the needs of all incomes.

- Deterioration of Single Room Occupancy (SRO) hotels and the aging social-housing stock is having a cumulative impact on homelessness, street disorder and related crisis-response costs at the municipal level. The City will pursue a multi-year partnership plan with the Province of BC (primarily through BC Housing) and the Government of Canada (primarily through CMHC) in order to clarify roles and responsibilities and mitigate the risk of uncertain financing for social housing projects.

- Affordability is contributing to severe challenges for vulnerable residents. The city's population of unsheltered homeless residents increased by 22% (122 people) and the population of sheltered homeless residents decreased by 5% (79 people) between 2017 and 2018, with seniors, Indigenous people, and youth overrepresented among homeless residents compared to their share of the overall population.

- Inadequate access to treatment for people with serious mental health challenges and addictions puts pressure on local services. There has been a 95% increase in mental health-related emergency room visits between fiscal year 2009/2010 and fiscal year 2017/2018 with 4,791 Mental Health Act Apprehensions in 2017. The Vancouver Police Department provides significant resources to respond to these emergencies, and there is a need to ensure that appropriate treatments are available to those in need before an emergency occurs.

- The Provincial government's income assistance rates have not increased significantly in 20 years, despite substantial increases in rents over this period, increasing the risk of homelessness and requiring investment in support services to provide housing options for people with mental illnesses, drug addiction and other issues. The provincial government increased the income assistance rates starting October 1, 2017, the first increase since 2007.

- Existing rental stock is aging, requiring upgrades and refurbishment with potential displacement of long-term tenants who are not able to afford new, market housing.

- The decision by the RCMP and Provincial government to limit the financial contribution for the cost of DNA analysis services resulted in costs downloaded to municipalities.

- In 2018, the target of adding 1,000 new childcare spaces from the Capital Plan for 2015-2018 has been surpassed. However, the availability of childcare spaces continues to be well below the number needed to meet current demand. The City's draft Capital Plan for 2019-2022, expected to be considered by City Council by the end of July, proposes renewing the 1,000 childcare space target to ensure more children have access to quality childcare, a key goal under Vancouver's Healthy City Strategy. Continued partnerships with senior levels of government are important for creating additional future childcare spaces.

Opportunities

While there are a number of challenges in our current environment, there are also many opportunities ahead for the City in the near future:

- We are fortunate that both the Federal and Provincial governments have announced funding programs for major infrastructure over the next several years, many of which are directly aligned to the City's strategies and needs. The Federal government's "Investing in Canada Infrastructure Program" includes a focus on Green infrastructure, social infrastructure, trade and transportation infrastructure and public transit infrastructure.
- Commitments for financial support for housing through CMHC is also a key opportunity for the City's housing program. Provincially, support for housing and childcare are key issues for the City. Over the next few years, we will focus on engaging with senior government through these programs.
- Final approval of funding for the Broadway Millennium line extension has been announced and the project is proceeding. Bringing rapid transit to this core employment area of the city will be a major support to the city's economic growth. Planning for the Broadway Corridor is underway.
- As a city with one of the most favourable economic forecasts in Canada, Vancouver will continue to see benefits in job growth and population growth over the next few years.
- The City continues to be a leader in service delivery including using technology to increase our online services and public engagement activities, and will continue to look for opportunities to improve our service delivery models through innovation, technology, and continuous improvement.
- While affordability is a factor for many residents, the City's programs such as the leisure access card (Leisure Access Program), library services, availability of parks, open spaces and public plazas provide free and subsidized programs for residents.
- With significant successes this year including implementation of the Empty Homes Tax and the regulations for short-term rentals to support the city's rental market, Vancouver has led the way on many critical issues. We will continue to advance new and innovative programs to address the challenges and opportunities of a growing city.

Operating Budget 2019-2023 Outlook

Budget decisions will be based on a five-year financial plan to ensure Council priorities are addressed, and to enable proactive planning for revenues and business transformation opportunities, while also responding to emerging risks. The five-year outlook identifies a significant gap between expenditure growth and revenue growth, ranging from $12 million to $30 million. In order to close this gap and to help alleviate the pressure on property taxes and fees, we will continue to review City service levels and look for innovation in how programs are delivered, including: strategic partnerships; process improvements; business and technology transformation, and; new revenue sources. The 2019 budget is the first year of the five-year financial outlook and identifies the City's main drivers of operating budget. In 2019, a 1% increase in property tax increase would equate to approximately $7.6 million.

Operating Budget Preliminary Expense Pressures ($ in millions)	2019	2020	2021	2022	2023
External Agency Costs passed on to the City					
Increased Metro Vancouver charges for Water and Sewer utility	$8	$8	$11	$14	$15
Anticipated external party cost increases (including EComm)	$1	$1	$1	$1	$1
Debt, Transfers and Capital Program Costs					
Pay-as-you-go Sewer & Water, Transfers and Debt Financing	$16	$14	$13	$11	$12
Infrastructure renewal strategy in the 2019 - 2022 Capital Plan	$8	$8	$9	$9	$10
Operating impacts of capital projects	$4	$4	$6	$7	$7
Salary and Benefits Costs					
Salary and benefit projected increases (contractual increments and projected benefit cost increases)	$22	$23	$23	$24	$24
2019 Employer Health Tax & 2020 MSP Premiums	$15	($3)			
Permits/Licensing staff related to the fee review	$7				
VPD Operational Review	$3	$4	$4	$4	$2
Other Cost Pressures					
Inflationary costs (Hydro, gas rates, IT, rents & leases, insurance, grants)	$7	$7	$6	$7	$6
Workplace	$5	$4	$2	$2	$2
Other costs	$3	$3	$3	$3	$3
Total Preliminary Expense Pressures	**$99**	**$73**	**$78**	**$82**	**$83**
Impact of Cannabis - net expenses	**plus impact of cannabis legislation to be determined**				

Note: totals may not add due to rounding

Expenses are projected to increase primarily due to:

- Fixed costs related to maintaining City services and service levels (e.g. wages, energy, rent, maintenance, and other third-party costs) make up a large proportion of the increase in expenses.
- The Provincial government has announced an Employer Health Tax coming into effect on January 1, 2019. This was accompanied by the announcement of the elimination of Medical Services Plan (MSP) premiums effective January 1, 2020. The financial impact on the City of Vancouver from these two Provincial program decisions is estimated to be at ~ 1.7% property tax increase, 1.95% utility rate increase and 2% municipal fees increase.
- An additional $7 million to $9 million will be allocated each year to maintain our infrastructure and public amenities in an appropriate state of repair as outlined in the 2019-2022 Capital Plan. There will be increasing costs related to: higher debt servicing costs; ongoing operating and asset life cycle costs for new infrastructure and public amenities; and increased use of pay-as-you-go for water and sewer utilities capital.
- Increases in regional utility charges passed on to the City by Metro Vancouver, forecast to increase between 4% and 8% for water and between 2% and 8% for sewer annually from 2019-2023, driven by major infrastructure investments. There is early indication that Metro rates will increase; detailed budgeting will be done once rates are confirmed.
- Increases related to permit/licence staff as part of the fee review.
- Impacts from the legalization of cannabis, still to be determined. Revenue transfers from senior government are expected to offset any incremental expenses.
- Estimated $1 million to $2 million per year in cost increases passed on from external agencies and senior levels of government. In addition, indirect cost pressures in the areas of housing, mental health and addiction, childcare, and emergency medical response, which is primarily the responsibility of the Provincial and Federal governments, continue to add to the City's budget pressure.

Operating Budget Projected Revenue Changes ($ in millions)	2019	2020	2021	2022	2023
Property Tax					
Increase in property tax revenue: estimated ~ 3.9% (as published in the 2018 - 2022 Financial Plan)	$30	$32	$34	$36	$38
New construction tax revenue	$5	$5	$5	$5	$5
Utilitiy Fees					
Increase in utility fee revenue (average blended rate estimated ~ 8%)	$20	$21	$21	$22	$24
User Fees					
Inflationary increases in program fees, licence and development fees	$3	$3	$3	$3	$3
Development, building and related permits revenue review (fees and volume)	$12				
Total Projected Revenue Changes	**$70**	**$61**	**$63**	**$66**	**$70**
Empty Homes Taxes (EHT)	**plus EHT impact to be determined**				

Note: totals may not add due to rounding

Operating revenues are projected to increase primarily due to:

- Property tax initially estimated to grow by approximately 3.9% annually (as shown in the 2018-2022 financial plan) to cover the fixed cost base increasing at ~ 3% per year. Taxes from new development are estimated at $5 million annually. The five-year outlook reflects an unbalanced budget which could possibly lead to higher taxes than the 3.9% assumed in the five-year period. In 2019, a 1% increase in property tax increase would equate to approximately $7.6 million.
- Utility fees estimated to increase by 8% annually on average for the next five years, based on Metro Vancouver regional utility charge forecasts (estimated at 7% shown in the 2018-2022 financial plan)
- Higher trade and development fees in 2019 are in line with the review of fees for rezoning, development, building and other related permits conducted in late 2017. These fees are increased to offset costs that were added in 2018 and to be added in 2019. Regular fee reviews will continue to be undertaken over the five-year period which may have a revenue impact.
- Revenue from the Empty Homes Tax is anticipated to cover the implementation and ongoing costs of the program, with any additional revenue to be used to fund affordable housing programs.

The five-year expenditure outlook exceeds the revenue growth over the same period. The City will need to continue to explore areas of opportunity for business transformation to help alleviate the pressure on property tax revenues and close the gap, while continuing to deliver on public priorities.

The final 2019 Budget will incorporate feedback from public consultation with Vancouver residents and business owners, to be conducted in fall 2018.

Note: The estimates contained in this report are preliminary and are based on assumptions related to future events and rate changes that have been estimated based on the current economic outlook, recent expenditure growth trends, and available Metro forecasts. These assumptions will be refined and adjusted over the coming months to reflect ongoing productivity improvements and service delivery changes to bring the 2019 Budget into balance.

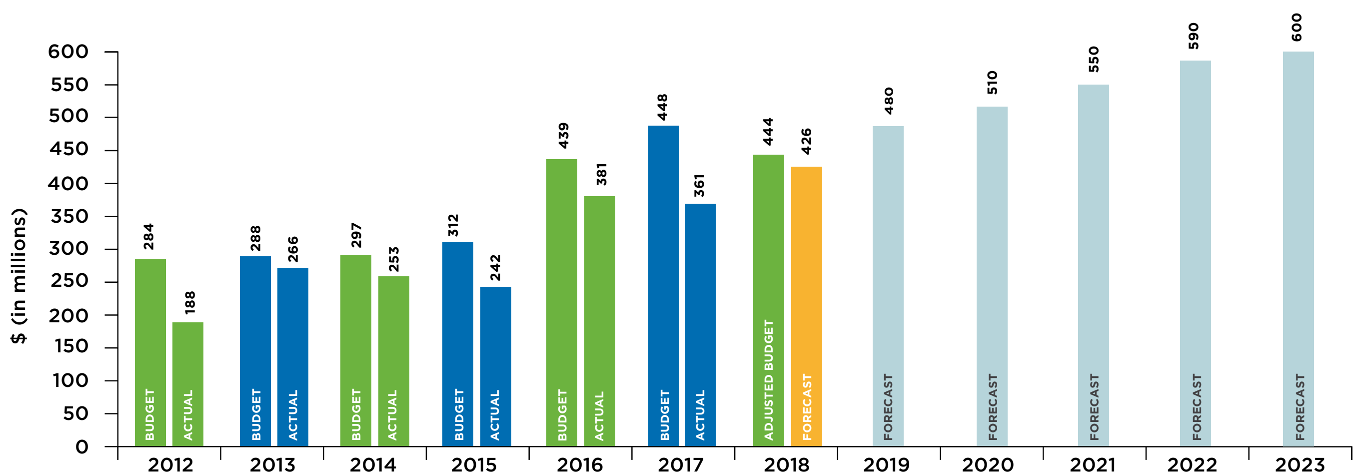
Capital Budget 2019-2023 Outlook

The City's capital program consists of a 10-year strategic outlook, a four-year plan, and an annual budget plus four-year forecast ("Five-Year Financial Plan") with quarterly capital program status reports.

The proposed 2019-2022 Capital Plan is scheduled to be presented to City Council in July 2018 for final approval. As factors impacting capital priorities change, the capital plan will be adjusted as needed to align with current priorities and budget challenges. Funding from the capital plan is allocated to specific capital programs and projects through the annual capital budget process. The 2019-2022 Capital Plan provides the framework for the 2019 Capital Budget, the first capital budget in the four-year plan.

Including budget adjustments approved by Council to date in 2018 through the quarterly budget adjustment process, the current 2018 capital expenditure budget is $444 million, continuing a trend of increased investments in recent years of the largest annual capital investments by the City. A number of major capital projects have progressed from the planning and design phases to construction or implementation phases, including the expansion of public space at the Central Library and the replacement of Fire Hall #5 co-located with new social housing. Other major capital investments in 2018 include land acquisitions for the development of affordable housing and new parks, and continued investments in utility infrastructure renewal.

Capital Expenditure Trend Comparison 2012–2023 (in millions)



Capital investments for 2019 through 2023 are expected to increase each year, at levels comparatively higher than 2018. These investments reflect expenditures for several major multi-year capital projects, as well as investments in heritage conservation to retain and enhance historic places and features that are significant to the community. In addition, investments to support a multi-decade infrastructure renewal strategy will address the City's growing portfolio of aging infrastructure and public amenities in a financially sustainable and resilient manner. Over the next few months, staff will review the projects schedule across the five-year outlook to further refine the 2019 Budget based on Council and community priorities, as well as capacity to deliver.

New capital investments in the 2019 Capital Budget will be based on the 2019-2022 Capital Plan scheduled to be approved by Council in July 2018. These new investments will be prioritized based on need, opportunities to leverage senior government and partner funding, initiatives that help to drive business transformation, and other factors. Investments in affordable housing, childcare, and active transportation remain high priorities, as well as a continued focus on utility maintenance, renewal and upgrades.

Highlights of key capital investments – 2019

Affordable housing, including renewal and expansion of Roddan Lodge in the Downtown Eastside and development of new affordable housing owned by the City or located on City land (e.g. 3510 Fraser Street).	**One Water**, including commencing the long-term green infrastructure implementation as a part of the Rain City Strategy, continued investment in sewer and waterworks renewal, and construction of shoreline protection at East Fraser Lands.
Childcare, including construction of new childcare facilities at a City parkade in Gastown, and several City/Vancouver School Board partnership childcare facility projects.	**Solid waste**, including the multi-year closure and gas collection infrastructure projects for the west 40-hectare and Phase 4 sections of the Vancouver Landfill.
Community facilities, including development of the master plan for Oak Park and the recreational facilities at the site; planning and design for the renewal of the Britannia Community Services Centre and for the relocation of the Vancouver Archives the Central Library downtown.	**Renewable energy**, including expansion of sewage heat recovery capacity at the False Creek Energy Centre, expansion of the City's neighbourhood energy utility to South Main and the Innovation Hub.
Public safety, civic facilities and equipment investments, including construction on the replacement of Fire Hall #17 and replacement of end-of-service-life fire trucks, as well as life-cycle replacements of City fleet with a continued focus on replacing combustion-engine vehicles with electric vehicles, reducing greenhouse gas impacts and improved operational efficiencies.	**Transportation**, including the first phase of rehabilitation and seismic upgrades for the Granville Bridge, public realm improvements at 800 Robson Street Plaza, planning for Millennium Line Broadway Extension implementation, planning and public consultation for Gastown Complete Streets, detailed design for selected character zones along the Arbutus Greenway, and continued investments in bikeways and greenways.
Parks and open spaces, including a new park in Downtown South at Richards and Smithe streets, new parks in East Fraser Lands, completion of maintenance work on the Stanley Park Seawall, and the renewal of aging playgrounds.	**Technology**, including the first year of a multi-year volume licensing program for a broad suite of software applications used throughout the City's operations, supporting a common IT platform across the organization and providing automatic access to the latest software and technologies.

Operating and Capital Budget risks 2019–2023

There are a number of internal and external risks that can affect the City's five-year financial outlook and are considered in developing the City's budget.

Revenue risks

Approximately 76% of the City's operating revenue comes from property taxes and utility fees, which form a stable and predictable revenue base for the City. Some revenues come from cyclical activities such as development and permit fees which make up 5% of the City's revenues.

Revenue risks include:

- Development permits and licence fees, which represent 5% of the revenue budget, may be negatively affected by senior government policy direction towards housing, such as the new Provincial tax introduced in their 2018 budget, increases in mortgage rates and economic slowdown.
- Program fee revenue, parking, rental and lease income combined generate 12% of the City's revenue and are also sensitive to general economic conditions, seasonal weather factors and increased market competition.
- Cost recoveries, grants and donations from external parties and provincial revenue sharing provide 5% of City revenue and 6% of the City's 2015-2018 Capital Program funding and are subject to being reduced or discontinued.
- Development contributions are a significant source of funding for growth-related capital investment. An economic downturn could lead to less real estate development and therefore less development-related sources of capital funding, resulting in some capital projects being delayed or cancelled.
- Investment income could decline should interest rates decrease.

Expenditure risks

A significant portion of non-salary expenses are contractually fixed and predictable in the short term. For expenses that are less predictable during the year, the City's annual budget includes a contingency to cover unanticipated expenses, subject to approval by Council before the funding is accessed.

Expenditure risks include:

- Costs associated with collective agreements for 2019 and beyond, potentially including arbitrated agreements for which the City has no control over final settlement costs.
- Unforeseen increases in employee benefit and payroll costs, including costs associated with employer pension contributions, WorkSafe premiums, employee extended health and dental benefits, and long-term disability insurance claims.
- Unanticipated costs passed on to the City from other levels of government.
- Costs for unforeseen events, such as public emergencies and issues related to climate change or unusual weather events. These could include costs for higher water consumption during periods of low rainfall, costs for flooding and wind damage, or higher costs for snow and ice removal in periods of high winter storm activity.
- Delays in benefit realization and payback from business and technology transformations.
- Any significant increase in interest rates, which will increase the City's debt servicing on new debt and limit future borrowing capacity.
- Future needs for rapid transit and affordable housing could be a potential pressure in the five-year plan.

Summary

As a growing city, Vancouver continues to face the challenges of meeting the need to update existing, and invest in new, infrastructure and public amenities while balancing day-to-day operating needs.

Looking ahead for the next five years, the 2019-2023 revenue/expenditure gap will need to be addressed in order to reduce the potential impact on property taxes and user fees. We will approach this through continued review of City service levels and innovation in how programs are delivered, including: strategic partnerships; process improvements; business and technology transformation, and; new revenue sources.

One of our challenges in managing the city's growth is continuing to deliver needed services that meet the expectations of our residents and businesses, while working within the constraints of our current revenue streams and business model. Over the next year, we will be working with external consultants to chart a course for the next 10 years to grow our city in a financially sustainable way, including developing new and enhanced revenue opportunities and updating our service delivery models to increase capacity to deliver services to the public.

One of our major opportunities is to partner with the Federal and Provincial governments, which have made significant commitments to rapid transit, affordable housing and childcare. The City's budget processes will reflect those working partnerships.

The assumptions included in this report will be refined and adjusted over the coming months to reflect ongoing productivity improvements, service delivery changes, and tax and other fee changes, to bring the 2019 Budget into balance. We plan, with fiscal prudence, to maximize value for money and continue to strive to achieve our long-term priorities and strategic goals in the areas of people, prosperity and environment to ensure the quality of life enjoyed by Vancouver residents and businesses is sustained and improved.