VANCOUVER BUDGET 2020

Budget Outlook for 2020–2024

CITY OF VANCOUVER

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PREPARING FOR THE 2020-2024 FINANCIAL PLANNING & BUDGET CYCLE

Each year the City of Vancouver prepares a Budget Outlook as a preview to start the annual City budgeting process. Through the budgeting process the City prepares an annual budget, including an operating and a capital budget, within the context of its five-year financial plan and four-year capital plan.

In the spring and early summer, City staff prepares and presents the Budget Outlook to City Council, including a review of the external and internal factors that can influence the City's financial plans. This includes considerations like the economy, increased costs related to negotiated labour agreements and other pressures and challenges, such as the Employer Health Tax, impacting the cost to run our city.

The vast majority of the City's annual budget goes towards funding of existing, core services — things like libraries, policing, fire and rescue services, utilities including water and sewer, facilities such as recreation centres, and other city infrastructure.

The City engages with the public through the annual Civic Service Satisfaction Survey for their feedback on how we are doing at delivering core services to our residents and businesses. We also use this survey to identify any service issues or other factors that impact the perception of Vancouver as a livable city with good quality of life.

The 2019 survey results tell us that overall satisfaction with City services continues to be positive and that a large majority of both residents and businesses say they are getting good value for their tax dollars. The full report is posted on the City's web site.

There is always room for improvement, especially as our city continues to grow and change. City staff continually looks for innovative ways — including the use of new technology and more efficient ways of working — to improve the quality of services that can be delivered within existing, available funding.

BUDGET 2020 PRIORITIES

The Budget Outlook includes City Council's priorities for alignment of spending for Budget 2020, both in terms of ongoing work, and for new projects and initiatives in response to Council motions and direction. The primary priority is to maintain and improve the core services that meet the needs of residents. Four additional priorities will also guide City staff's development of departmental service plans and budgets. City staff will review current strategies and programs to confirm the alignment of both existing, and new, programs and initiatives to the priorities of this new Council.

Deliver Quality Core Services that Meet Residents' Needs

Address Affordability and the Housing Crisis	**Protect and Build our Economy**	**Increase Focus on Diversity and Critical Social Issues**	**Accelerate Action on Climate Change**

Between now and presentation of the draft budget to Council in late fall, the City will embark on its annual public engagement process for the budget. Starting in mid-August, the public will have multiple opportunities — online, in person, in workshops, etc. — to share with City Council and City staff their thoughts on how we build the budget, as well as their own priorities for the services and programs we should fund more, or less. Check for details at **vancouver.ca/budget** later this summer.

FISCAL CAPACITY

Vancouver, like other Canadian cities, offers a broad range of services but has limited revenue sources. 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. The City's financial planning process is guided by a set of financial sustainability guiding principles and financial health targets.

I. 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 state of good repair
- Optimize operating and capital investments to meet public and economic needs while achieving value for the investment

II. Funding Strategy for Capital Investments

The City takes a comprehensive approach to assessing the short- and long-term economic indicators to inform the development of the Capital Plan. The City funds capital investments from a range of sources (who pays) using a balanced mix of payment methods (when to pay). Throughout the 4 yeas, the Capital Plan is increased as additional funds are identified to undertake additional work.

Funding Sources

- **Property Tax and User Fees** - Operating revenues (e.g. property tax, water and sewer fees, parking revenue) typically fund most capital work.
- **Development Contributions** - Consistent with the City's Financing Growth Policy (2004), new and expanded amenities and infrastructure to support growth are funded in part through development contributions (e.g. DCLs, voluntary CACs, connection charges).

  CACs are voluntary public benefit contributions offered by a rezoning applicant to address the impacts of rezoning. Allocation of CACs by the City is generally guided by Community Plans and Public Benefit Strategies, and applicable Council policies in areas such as housing, childcare, cultural and heritage. CACs typically come in two forms: in-kind onsite amenity and cash contributions.

- **Partner Contributions -** The City receives funding from provincial and federal governments, from TransLink for road work, and from non-profit agencies, foundations and philanthropists particularly in the area of childcare and affordable housing.

Payment Methods

- **Pay In Advance:** Capital reserves are like savings accounts, used to accumulate funds from current revenues or other sources over time to fund future capital investments. This method is typically used when other partners are involved and the City wishes to make clear its own commitment is protected. In other cases, the commitment is made as part of a community planning process and funded through development fees, while the timing of the project may not occur for a significant period of time.

- **Pay-as-you-go:** The City uses current revenues, user fees and other sources to fund capital investments. Pay-as-you-go is also used for some of the City's utility renewal — such as water infrastructure — that all taxpayers benefit from. This method enables residents and businesses to contribute on an ongoing basis to capital investments which are fundamental to the health of the city; and ensures the City's borrowing capacity is preserved for important, one-off capital investments that are not appropriate or are too costly to be funded on a pay-as-you-go basis.

- **Pay Over Time:** Like most major Canadian cities and senior levels of government, the City uses debt in its mix of payment methods to fund capital investments, allowing payment to be made over a longer timeframe to align with the useful life of the underlying capital assets. This ensures that more residents and businesses that benefit from the capital investments participate in paying for them. When used strategically, paid back within 10 years (much shorter than a typical mortgage and the average lifecycle of a capital asset), and within best practices for responsible borrowing, debt financing allows the City to continue to renew its infrastructure on a regular basis and provide new amenities when necessary to accommodate growth, while maintaining its fiscal health.

  The City takes a very careful approach to its use of debt, funding repayment over 10 years while ensuring a balanced operating budget and keeping property tax and fees at an affordable level. The City's consistently strong credit ratings and favorable borrowing rates reflect this careful approach.

III. Long-term Financial Plan

When developing its long-term financial plan, the City has maintained a commitment to strong financial discipline and continued management of debt to ensure that operating and 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.

Keep Debt at a Manageable Level

The City determines its long-term borrowing capacity for regular, non-utility related capital programs by limiting the ratio of annual debt servicing to operating expenditures at a maximum of 10%. This is to ensure that the City does not accumulate debt at unacceptable levels, and that annual debt servicing does not put undue pressure on the annual budget.

As part of our long-term debt management strategy, the water utility has transitioned its infrastructure lifecycle replacement programs from debt financing to pay-as-you-go. This will help lower the City's overall debt and save interest costs over the long term. Looking ahead, we will continue to explore opportunities, where appropriate, to transition our general capital program and the sewer utility to a higher proportion of pay-as-you-go to improve the City's long-term debt profile and maintain our credit ratings.

Maintain Strong Credit Ratings and Access to Low Borrowing Costs
The City's strong credit ratings (Aaa/AAA) are among the best for Canadian cities and are supported by a diverse economy and a strong and stable tax base. Continued management of debt within target levels is critical to maintaining and enhancing the City's credit ratings. A strong credit rating reflects the City's financial management and its capacity to adjust to changes in the financial environment. It is estimated that long-term borrowing costs would increase by 5-10 basis points for each level of downgrade, or approximately $1 million in additional interest over the term of each $100 million debenture issue.

WHEN DEVELOPING ITS LONG-TERM FINANCIAL PLAN, THE CITY HAS MAINTAINED A COMMITMENT TO STRONG FINANCIAL DISCIPLINE AND CONTINUED MANAGEMENT OF DEBT

Keep Property Tax and Fees Affordable and Competitive
Property taxes in recent years have seen a modest increase — ranging from 1.4% to 4.3% — in line with most other Metro Vancouver municipalities. During this period, the City has enhanced our network of public amenities in the areas of housing, community services and public safety, and has invested in core infrastructure, such as sewer separation and renewal and upgrading transportation infrastructure for pedestrians, bicycles, and vehicles. All these were accomplished through continuous innovation, business transformation and productivity enhancement, while absorbing above-inflation wage increases.

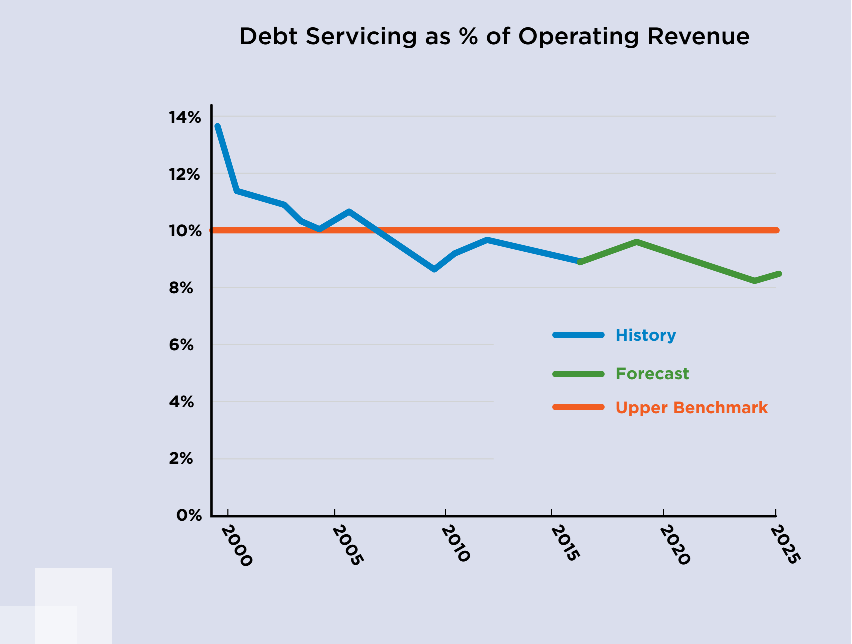
Looking ahead, the growing need for asset renewal and new infrastructure and amenities to support growth will put further pressure on the City's budget. Understanding the long-term impacts on our tax and fee payers arising from both our operating and capital investment decisions, including debt servicing, ongoing operating costs and asset lifecycle costs, was a key consideration in developing the 2019-2022 Capital Plan.

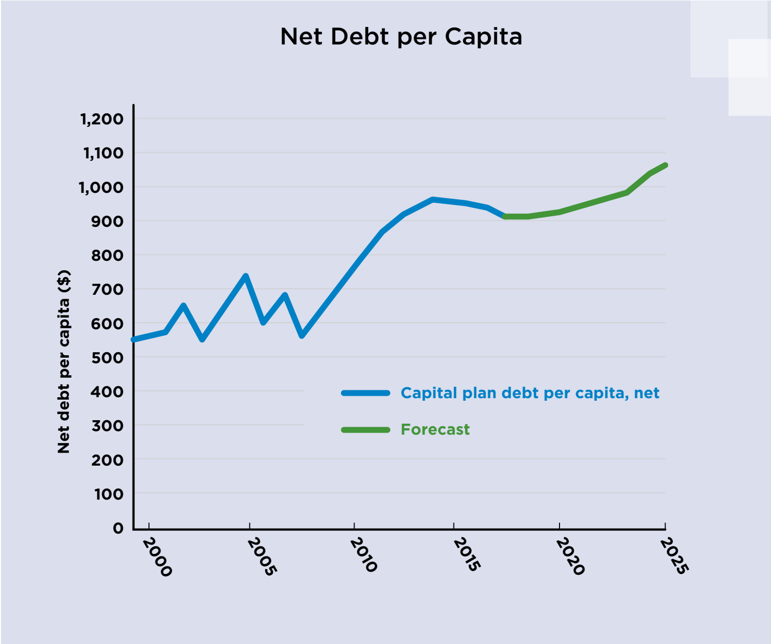
Maintain Assets in State of Good Repair
Maintaining core infrastructure and amenities in a state of good repair is critical to the City's long-term financial health and resilience, and helps ensure asset management obligations are not deferred and infrastructure deficits do not accumulate to unacceptable levels — one of the key factors that credit rating agencies consider as part of rating reviews. The City has developed service-centric facilities asset management, which ensures that the City's core service needs direct and inform long- and short-term decisions for new space and existing spaces, including redevelopment, retrofits, and level of investment in capital maintenance.

Optimize Facilities Investments
Before adding new facilities, the City will consider optimizing partnerships with other levels of government, non-profits and private partners, as well as repurposing and right-sizing existing facilities, and continue to advance on co-location and functional integration of services to enhance operational efficiency. All new facilities will be designed with flexible, adaptable, and expandable spaces to accommodate changing demographics and future growth.

IV. Financial Health Indicators

For long-term financial planning purposes, the City tracks a number of metrics to provide an indication of its financial health and long-term borrowing capacity, which inform both the operating and capital planning process. Below are two key financial health metrics and trends over the next decade:





In developing the Capital Plan, a key constraining factor is the impact on the operating budget and property tax increase arising from debt servicing and pay-as-you-go funding to support the capital program, as well as future operating costs and asset lifecycle costs. Our goal is to stabilize the debt level over the long term and minimize the year-over-year budget impact driven by our capital program, thereby maintaining our property tax and user fees at affordable and competitive levels.

Through our proactive debt management strategy over the last decade, including the transition of the City's water utility from debt financing to pay-as-you-go, we have created room in our debt capacity to accelerate the asset renewal program. It is expected that the Capital Plan will continue to grow over the next decade as our infrastructure ages.

The projected growth in net debt per capita reflects a thoughtful, gradual increase in both operating and capital investments to renew and upgrade our infrastructure and amenities. The trajectory could reverse should future Councils choose to transition more capital work from debt financing to pay-as-you-go sooner. Lowering debt financing would achieve long-term interest savings, but result in higher property tax, utility rates and fee impacts during transition years. The City will continue to monitor and adjust our financial strategy to strike a balance between debt financing and pay-as-you-go.

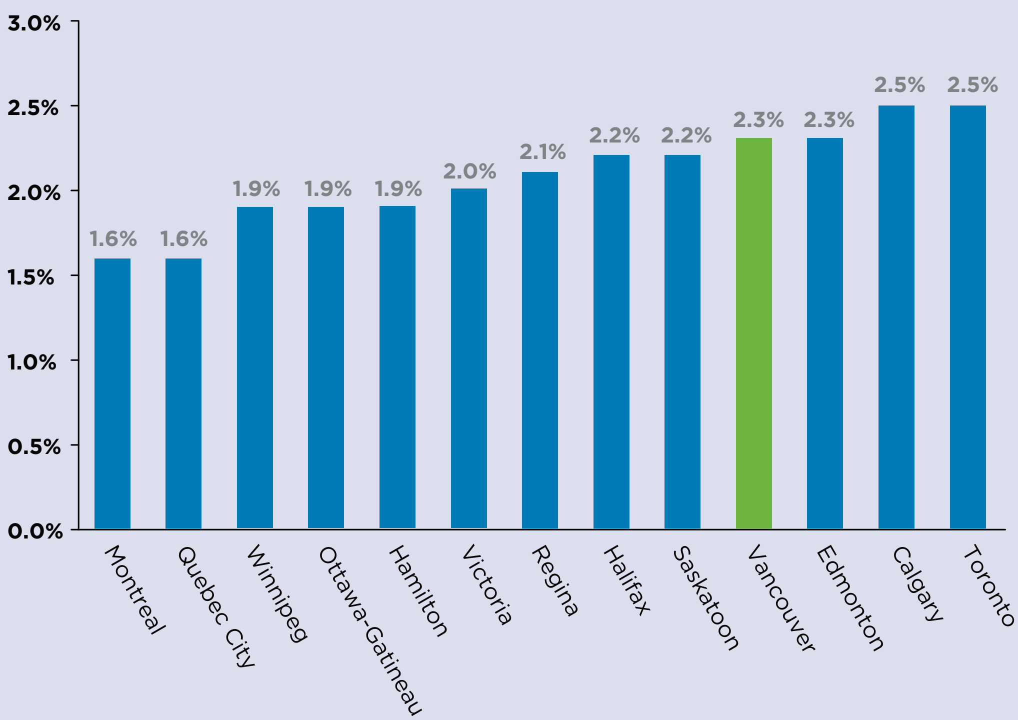
ECONOMIC CONTEXT

When developing our financial plans, 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.

Metro Vancouver's economy is forecast by the Conference Board of Canada to be moderate, from an average growth of 3.8% between 2015 and 2018, to 2.3% in 2019 and 2.4% in 2020. Employment growth is anticipated to pick up to from 1.8% in 2018 to 2.1% for 2019 before slowing in 2020 to 1.0%. The Unemployment rate is forecast to rise from a recent low of 4.3% in 2018 to 4.6% for 2019 before stabilizing to an average of 4.4% through 2023. Inflation for the region is forecast to stabilize at 2.0% through 2023 after higher inflation in recent years including 2.9% for 2018.

Projected Real GDP Growth 2020–2023

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



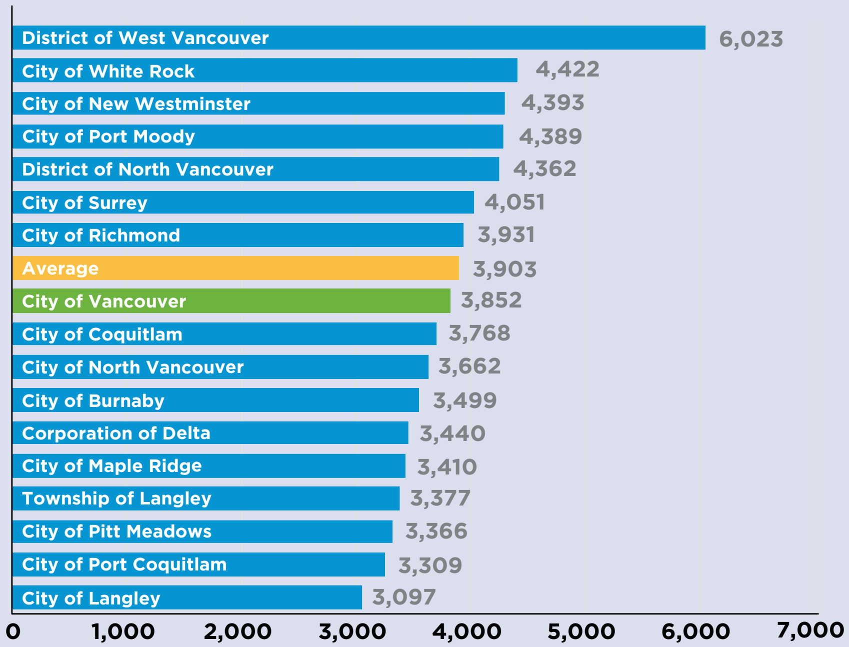
BALANCING AFFORDABILITY – PROPERTY TAX AND SMALL BUSINESS

The City strives to balance the affordability and competitiveness of property taxes, utility fees, and user fees while sustaining the breadth and quality of public amenities, infrastructure, and services available to businesses and residents. While increasing numbers of businesses and residents add to Vancouver's economic and social vitality, there is in turn a growing demand for services. By transforming the way services are delivered, the City has maintained or increased its services, and demonstrated leadership as a sustainable and livable city with budgets defined by modest tax and fee increases relative to other Metro Vancouver municipalities.

When compared to other major Metro Vancouver municipalities, in 2018 Vancouver's business tax rate (un-averaged) was among the lowest ($4.61 per $1,000), its business tax rate ratio (un-averaged) was the most improved (3.82 in 2018 from 4.93 in 2001), its commercial building permit value was the highest ($1.8B), and its commercial assessment base increased the most (407% since 2001).

In April 2019, Council approved a 2% tax shift ($15.8 million) from non-residential properties (Classes 2, 4, 5 and 6) to residential properties (Classes 1, 8 and 9) over three years, at a rate of 1% in 2019, 0.5% in 2020 and 0.5% in 2021. Incorporating the 1% tax shift in 2019 would achieve a tax share of approximately 55.9% residential and 44.1% non-residential. Vancouver's business tax rate (un-averaged) has reduced to $3.99 per $1,000 (2018: $4.61 per $1,000) and its business tax rate ratio (un-averaged) has reduced significantly to 3.05 (2018: 3.82). While the tax shift intends to support the business sector, it does increase the tax burden for residential taxpayers, including rental and social housing.

2019 Preliminary Combined Municipal Property Tax and Utility Fees for Median Single-Family Home ($)



In recent years, the influx of investment capital and speculative real estate demand in Vancouver has continued to drive up land values, resulting in significant volatility year-over-year in property assessments and the resulting taxes, causing hardship for some residents and small businesses. In British Columbia, the majority of real estate properties are assessed at their highest and best use (market value), and taxes are allocated to individual properties based on such values. In the case where a property is under-developed, its assessed value could substantially increase to reflect the value of its development potential.

THE CITY DOES NOT GENERATE HIGHER TAX REVENUE AS A RESULT OF RISING PROPERTY VALUES

The City does not generate higher tax revenue as a result of rising property values. The required tax levy to be collected is determined by Council as part of the annual budget, and tax rates are lowered to offset assessment increases. However, relative assessment increases for individual properties do shift the tax burden from one property to another in any given year.

The challenge is particularly prevalent for small business tenants, as most landlords pass on all property taxes, on both rented space and development potential, to tenants through their triple net lease agreements. As tenants do not benefit from an increase in property values in the same way that an owner does upon redevelopment or sale, the practice could cause significant financial distress for small business and not-for-profit tenants who have very limited ability to absorb and/or finance such an unanticipated surge in expenses during their lease term (typically five years or longer).

While there are a number of Provincial mitigations available for eligible residential properties (e.g. s19(8) of the Assessment Act, Property Tax Deferment and Home Owner Grant), those measures do not apply to commercial properties. Land assessment averaging is an optional tool available to Council under the Vancouver Charter. However, this program alone may not be adequate in addressing assessment volatility arising from development potential.

An Inter-governmental Working Group was established in November 2018 to identify viable policy tools to provide targeted and time-limited tax relief to properties that are impacted by assessment volatility arising from development potential. It is comprised of Provincial staff from the Ministry of Municipal Affairs & Housing, the Ministry of Finance, BC Assessment, City of Vancouver, and other Metro Vancouver municipalities. A key recommendation that is under consideration by the Province is splitting the “development potential” value from the “existing use” value for under-developed properties (“Split Assessment”), and creation of a commercial sub-class to capture the “development potential” value. With the new sub-class, City Council could define eligible properties for Split Assessment, set a lower tax rate (compared to commercial) for the development potential, and limit the duration of such tax relief. With support from the Province, Split Assessment could provide the most targeted and time-limited tax relief to small businesses and not-for-profits currently residing in under-developed properties in neighborhoods that are experiencing a significant pace of change.

BUSINESS TRANSFORMATION AND CONTINUOUS PROCESS IMPROVEMENT

Over the years, the City has continued to look at opportunities to improve processes and evolve our service delivery models to improve the quality and efficiency of our services. For example, in 2009, the City began the 3-1-1 operation which provided a single point-of-access to City information and non-emergency services. Also in 2009, the Vancouver Services Review (VSR) was launched by City Council to implement a comprehensive core services review. The program achieved cost savings and reduced redundancy through shared services consolidation in key support services such as Information Technology, Accounting, Finance, Supply Chain Management, Communications and Facilities Management. Transformational projects such as the Digital Strategy, multi-family organics and integrated recycling, electronic pay notification, the One Card, the capital outlook, bylaw adjudication, online permits, and comprehensive budget and service planning are examples of major transformations and smaller improvement projects that resulted in significant cost savings and improvements to City services.

The City's Continuous Process Improvement program (CPI) was established in 2016. The CPI program is designed to embed a culture of continuous process improvement across the City by assisting departments in applying best practices in process optimization. CPI utilizes Lean and Six Sigma principles to streamline processes and eliminate activities that do not add value to the end user, thus achieving improved value for money for taxpayers. The benefits from these projects increase the City's capacity to better serve our user without adding resources, and decrease the time required to complete key processes.

In 2017 and 2018, the CPI program, which was implemented by teams across City departments, had a cumulative impact of approximately $4M toward operating savings, addressing cost escalations, and revenue and capacity increases. Some of the projects that were implemented included:

- **Finance, Risk and Supply Chain Management -** Increasing investment revenue through Cash Management Optimization
- **Park Board -** Operating savings through operational improvements in Recreation and Parks; improved recognition of Rink Rental revenue through process optimization
- **Real Estate & Facilities Mgmt. -** Operating savings through optimization of Commercial Lease Management
- **Engineering -** $2.6M reduction in Sewer Connection program deficit and increased staff capacity to improve client service delivery levels
- **Capacity & Customer Services Improvements** equivalent to over 6,000 person days/year and reduced the time customers had to wait for City services by 105,000 days. Engineering Services alone saved 99,000 days in client wait time, as a direct result of Engineering improvement projects.

For 2019, the CPI program is looking at a broad range of projects which will improve service levels for users as well as generate operating savings, revenue and capacity increases, address cost escalations, and generate customer service improvements. In 2019, over 35 projects are underway or planned, such as improving procurement processes for affordable housing projects, and projects specific to Engineering Services that will focus on finding improvements in wait times for utility connection permits, improving garbage collections, improving the residential parking permit process, and further improvements to permit review processes to ensure a full cost recovery model.

In development of the 2020-2024 service plans and budget over the next few months, departments will look at these improvements to build capacity to absorb additional volumes, cost pressures and new work aligned to Council priorities.

HIGHLIGHTS OF CITY SERVICES DELIVERED LAST YEAR

1,489 km water mains maintained

2,136 km sewer mains maintained

35,714 tonnes garbage collected*

48,216 tonnes compostables collected*

3,640 cumulative social and supportive housing units committed**

4,502 City-facilitated childcare spaces (cumulative)

5,180 people received homelessness services

1,853 cumulative purpose-built rental units committed**

75% landfill gas collected

3,432 tonnes littercan waste collected

6.4M in-person library visits

6.9M online library visits

2.4M items available

3,000 street use permits issued (e.g. food trucks, patios)

11,200 on-street metered spaces managed

54,447 business licences issued

134,763 building and trades inspections

7,742 development, building and combined permit applications

65 rezoning applications received

1,306 hectares of park space maintained

20,021 trees planted

2.7M swim participants

776,824 attendees at civic theatres

830,633 square feet community arts and culture space

$13.3M grants to cultural organizations

53,024 crimes reported; on average, 1 crime every 9 minutes and 55 seconds

770,753 calls made to 3-1-1

71,660 VanConnect service requests

586 City-owned buildings managed

2,252 fires with damage

22,936 safety inspections

36,901 medical incidents

167 public engagement projects

24% reduction in GHG emissions from City-owned buildings (since 2007)

2,393 residents trained in emergency preparedness

665 Freedom of Information requests received

Aaa/AAA 2018 credit rating

2018 data displayed, unless otherwise indicated.

* City provides services primarily to single and multi-family residential properties (4 or less dwelling units)

** Housing Vancouver Strategy (2018-2027)

OPERATING BUDGET

Operating budget revenues and expenditures for 2019: $1.513 billion

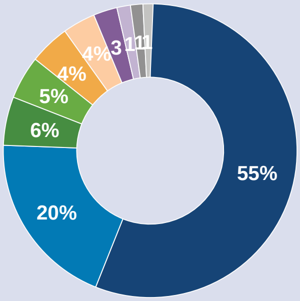
Property tax and utility fees for water, sewer and solid waste make up 75% of the revenue in the 2019 Budget. These revenue sources are highly predictable. The remaining 25% of revenues are more variable, such as revenues from property development-related fees and permits.

In 2019, Vancouver's property tax revenue increased by 5.05% (including the Council-directed tax increase of 4.15% and additional taxes generated from new development of 0.9%). The City of Vancouver's preliminary combined 2019 municipal property tax and utility fees for a median single-family home is in line with the regional average (among the municipalities that comprise Metro Vancouver).

Public safety accounts for 30% of the City's operating expenditures and Engineering public works and utilities expenditures (water, sewer, solid waste, neighbourhood energy) account for another 30%. Together, these services make up more than half of the City's operating expenditures budget. Community-related services, such as parks and recreation, libraries, community services and planning, comprise 22% of the operating budget. Over the past 10 years, the City's expenditures have increased due to an increase in costs downloaded from senior levels of government (including policing DNA costs, the Employer Health Tax, affordable housing, homelessness, etc.), collective agreement wage increases higher than inflation for public safety, and Engineering utility costs primarily due to increases in regional utilities costs and renewal of aging infrastructure.

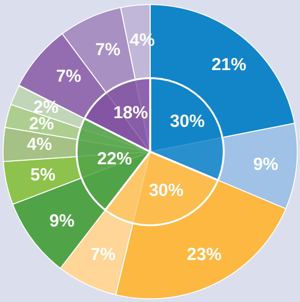
Overall, salary and benefit costs represent the largest component of the City's operating budget, at 58%. While utilities represent 23% of operating budget, approximately 50% of those costs are passed on to the City directly by Metro Vancouver. A further 9% of the operating budget goes to interest and 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.

2019 Operating Revenues ($1,513.5 Milion)



- 55% | Property Taxes
- 20% | Utility Fees
- 6% | 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

2019 Operating Expenditures by Service Area ($1,513.5 Milion)



PUBLIC SAFETY
- 21% | Police
- 9% | Fire

ENGINEERING & UTILITIES
- 23% | Utilities
- 7% | Engineering Public Works

CORPORATE SUPPORT
- 7% | Corporate Support
- 7% | Debt & Capital (Non-Utility)
- 4% | Contingencies & Transfers

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

2020 OPERATING BUDGET OUTLOOK

MUNICIPALITIES ACROSS CANADA ARE FACING THE CHALLENGE OF COSTS RISING FASTER THAN INFLATION

Looking toward 2020, the projected growth in revenues is fairly predictable and consistent with prior years; however, wage cost increases, which are uncertain in 2020 and beyond, will be a key factor in determining the City's rate of expense growth. Keeping wage growth at levels affordable to taxpayers will be an important part of achieving a balanced five-year budget. Also, focus on renewal of our infrastructure (streets, bridges, water and sewer pipes, and community and civic facilities) will require increased investment.

Through the first half of 2019, Council has provided direction to staff to begin work on a number of new initiatives. As staff begin the work building the 2020 budget, the allocation of staff time and budget to further these initiatives will require a combination of prioritization, efficiencies, identification of initiatives to stop or defer, new revenue sources, and/or tax and fee increases.

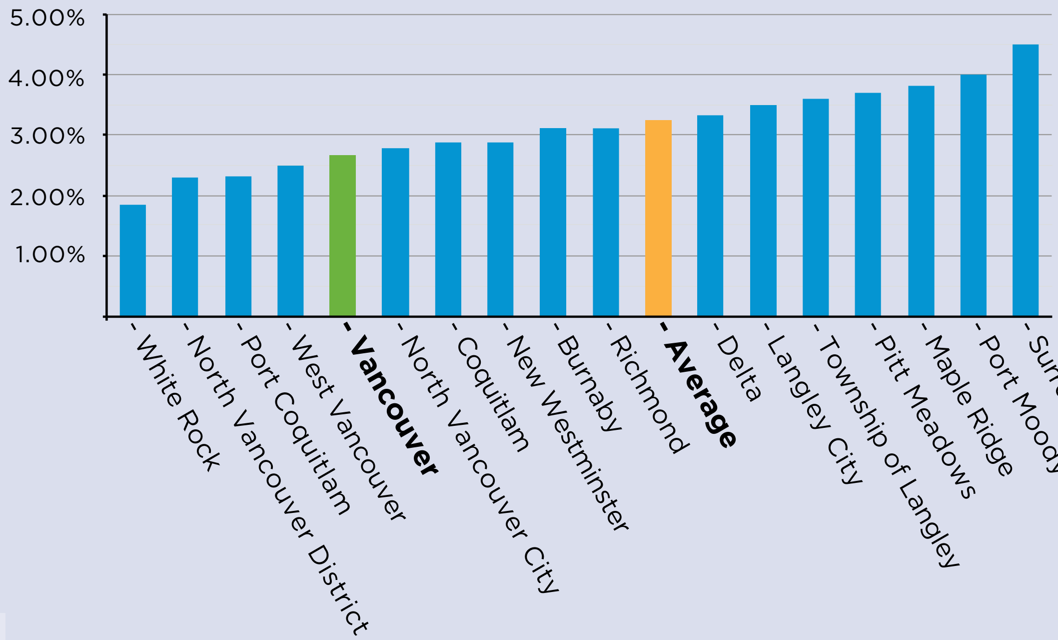
Costs rising faster than inflation

Municipalities across Canada are facing the challenge of costs rising faster than inflation, as outlined in a recent study by the Federation of Canadian Municipalities, experiencing a combination of several pressures and trends:

- The growth of urban centers driven by changes to the economy and migration patterns and the challenges faced by municipalities in relation to that growth, including the ongoing cost of operating and maintaining new and expanded infrastructure and public amenities.
- The need for renewal of infrastructure that was built decades ago and is reaching end of life (as noted in the Capital Plan). Regional utility charges passed on to the City by Metro Vancouver are forecast to increase between 10% and 12% for water and between 2% and 6% for sewer annually from 2020-2024, driven by major infrastructure investments.
- Significant market driven escalation in costs such as construction and technology.
- Downloading of responsibility for services that historically have been the responsibility of other levels of government.
- Impacts of senior level policies on local conditions, such as income assistance rates, health system responses to complex mental health issues, and homelessness response.
- Public safety wage increases higher than inflation. While this factor is dependent on future collective agreement settlements, the national trend has been for growth above inflation.

Over the last 10 years, the City's average tax increase has been below the average of Metro Vancouver municipalities.

Vancouver vs. Metro Vancouver 10-Year Average Property Tax Increase (2010-2019)



The outlook for 2020-2024 shows the potential of a significant gap between the growth in expenses (significantly dependent on the terms of future collective agreement settlements) and growth in revenues (of which property tax has been below the average for Metro Vancouver).

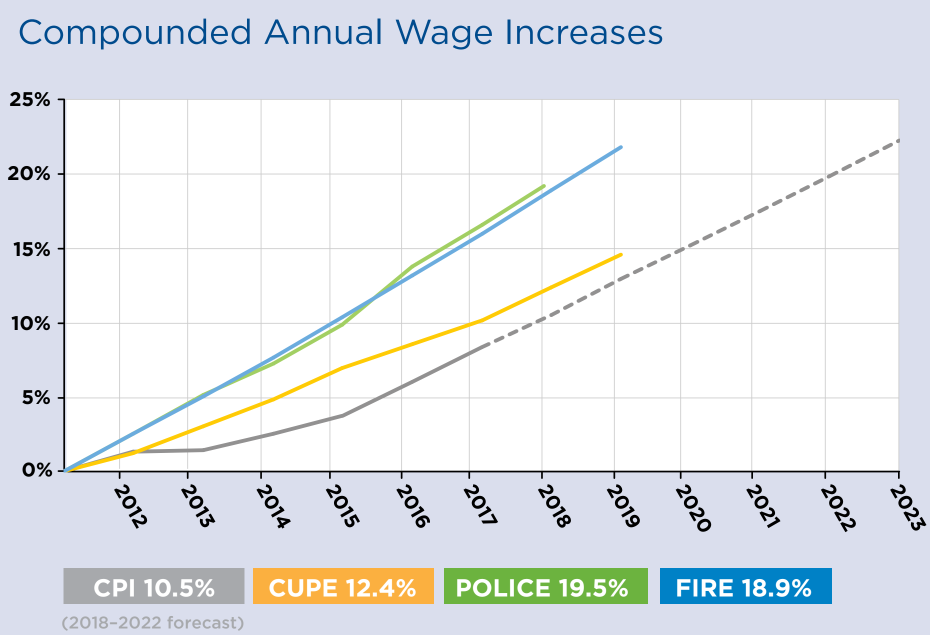
This trend—shared by all municipalities—will require continued improvements in the way services are delivered in all areas of the City, including process improvements, information technology transformation, and modernization of service delivery models to address the higher costs of labour, facilities, and operations.

Collective agreements, other challenges and opportunities

Collective agreements

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

The arbitrated settlement between Vancouver Police Union and Vancouver Police Board expired at the end of 2018, and has not been finalized for 2019. As a result of arbitrated settlements expiring in 2019 for the Vancouver Firefighters Union, the final year of the settlement (2019) includes annual wage increases of 2.5%, higher than the equivalent increase of 2% for civic unions for the same final year. Given the magnitude of public safety wages relative to the rest of the City, the recent trend of public safety wage increases above inflation will continue to put significant pressure on the City's budget and property tax rates.



Other Challenges

Vancouver is a rapidly growing city and the central hub of the Metro Vancouver region, serving as the main financial district and offering a wide array of attractions. Over the past 10 years (2008-2018), inflation-adjusted growth of operating expenditures is 29.1% due to costs downloaded from senior levels of government, mitigating the gaps created by senior level responses to various social issues such as mental health and homelessness crisis, collective agreements wage increases higher than inflation in the public safety sector, costs of renewing aging infrastructure, and maintaining existing service levels to meet the needs of a growing population. 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 2019, the City invested an additional $30 million in capital and $7.7 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 (Statistics Canada Census 2016 updated every five years).

- 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 the Canada Mortgage and Housing Commission) 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. A total of 2,233 individuals were identified as experiencing homeless in the 2019 Homeless Count (a 2% increase since 2018). The number of sheltered individuals increased by 87 people, and the number of unsheltered individuals decreased by 44 people between 2018 and 2019, with seniors and Indigenous people overrepresented among individuals experiencing homeless compared to their share of the overall population. Continued partnership with the Province for expanded investments in provisional homelessness interventions will be important to keep this crisis from expanding.

- Inadequate access to treatment for people with serious mental health challenges and addictions puts pressure on local services. There has been an 88% increase in mental health-related emergency room visits between fiscal year 2009/2010 and fiscal year 2018/2019 with 4,811 Mental Health Act Apprehensions in 2018. 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 increased income assistance rates on October 1, 2017 and then on April 1, 2019. However, the 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.

- 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, including Vancouver.

- 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 Capital Plan for 2019-2022 includes creating 1,000 new spaces for children between 0-12 years 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 to 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. The $2.83 billion project will be funded and delivered by the Provincial government, with financial contributions from the Federal government and in-kind contributions from the City of Vancouver. 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 favorable 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 to support a growing city.
- While affordability is a factor for many residents, programs such as the Leisure Access Program, library services, and availability of parks, open spaces and public plazas provide free and subsidized programs for residents.
- With successes this year for 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 2020-2024 OUTLOOK

Budget decisions will be considered as part of 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 issues. The 2020 budget is the first year of the five-year financial outlook and highlights some of the City's main drivers of the operating budget. These are estimates that help to initiate the budget process by framing the challenges and opportunities which staff will consider over the next few months in developing the proposed 2010 Budget and Five-year Financial Plan. For reference, in 2020, a 1% increase in property tax increase would equate to approximately $8 million of funding for the operating budget.

Operating Budget Preliminary Revenue Changes ($ in millions)	2020	2021	2022	2023	2024
Property Tax					
Increase in property tax revenue: estimated ~ 4.9% (as published in the 2019 - 2023 Financial Plan)	$39	$41	$43	$45	$48
New construction tax revenue	$5	$5	$5	$5	$5
Utilitiy Fees					
Increase in utility fee revenue (average blended rate estimated ~ 9%)	$28	$28	$26	$32	$29
User Fees					
Inflationary increases in program fees, licence and development fees	$3	$3	$3	$3	$3
Total Preliminary Revenue Changes	$75	$77	$77	$85	$85

Note: totals may not add due to rounding

Through a preliminary scan of the financial drivers, it is estimated that operating revenues will increase in the following areas:

- Property tax was initially estimated to grow by approximately 4.9% annually (as indicated in the 2019-2023 financial plan) to cover the fixed cost base increasing at approximately 3.9% peryear and increased funding for asset renewal in the Capital Plan. 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 4.9% assumed in the five-year period if other revenues or cost savings are not identified.

- Utility fees are initially estimated to increase by 9% annually on average for the next five years, based on Metro Vancouver regional utility charge forecasts (estimated at 8% shown in the 2019-2023 financial plan).
- Program fee and development fee revenues are estimated at this time to increase in line with inflation.
- Revenue from the Empty Homes Tax is anticipated to cover the ongoing costs of administering the program, with any additional revenue to be used to fund affordable housing programs.
- Through the budget process over the next several months, staff will review existing revenue sources for potential increased revenues as well as other potential revenue opportunities including revenue sharing from the Province from the legalization of cannabis, and from the expansion of the traffic fine revenue sharing program. Note that staff are analyzing the impact of ride sourcing on revenue and cost however positive or negative impacts are not available at this time.

Operating Budget Preliminary Expense Pressures ($ in millions)	2020	2021	2022	2023	2024
External Agency Costs passed on to the City					
Increased Metro Vancouver charges for Water and Sewer utility	$13	$13	$16	$16	$18
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	$17	$23	$14	$26	$18
Infrastructure renewal strategy in the 2019-2022 Capital Plan	$6	$5	$10	$9	$9
Operating impacts of capital projects	$6	$6	$6	$6	$6
Salary and Benefits Costs					
Salary and benefit projected increases (contractual increments and projected benefit cost increases)	$5	$5	$5	$5	$5
2020 MSP Premiums phased out	($3)				
CPP increase	$2	$2	$2	$3	$3
VFRS Operational Review staffing recommendations	$4	$3	$4	$3	
VPD Operational Review staffing recommendations	$4	$4	$4	$2	
Other Cost Pressures					
Inflationary costs (Hydro, gas rates, IT, rents & leases, insurance, grants)	$10	$6	$6	$7	$6
Workplace	$3	$2	$2	$2	$2
Other costs	$4	$4	$4	$4	$4
Snow contingency	$2	$2	$2	$2	$2
Total Preliminary Expense Pressures (Excluding impact of collective agreements)	$74	$76	$76	$86	$74
	+ impact of wage increases to be determined				

Note: totals may not add due to rounding

Through the preliminary scan of the financial drivers, it is estimated that operating expenses will increase in the following areas:

- An additional $5 million to $10 million will be allocated each year to maintain our infrastructure and public amenities in a state of good repair as outlined in the 2019-2022 Capital Plan. Over the five years this equates to approximately 1% of property taxes and is built into the five -year financial plan. There will be increasing costs related to: higher debt servicing costs; ongoing operating and asset lifecycle costs for new infrastructure and public amenities; increased use of pay-as-you-go for Water and Sewer utilities capital.

- Regional utility charges passed on to the City by Metro Vancouver are forecast to increase between 10% and 12% for Water and between 2% and 6% for Sewer annually from 2020-2024, driven by major infrastructure investments. These are estimates and more information will be available once rates are confirmed by Metro Vancouver.

- The outlook for 2020-2024 shows the risk of potential increases in wage expenses, significantly dependent on the terms of future collective agreement settlements all of which will be expired by the end of 2019.

- The Provincial government announced an Employer Health Tax that came into effect on January 1, 2019 with an incremental impact of $15M in 2019. This was accompanied by the announcement of the elimination of Medical Services Plan (MSP) premiums effective January 1, 2020 which equates to one-time reduction of $3 million for the 2020 budget.

- The Federal government has announced increases to the Canada Pension Plan contribution rate starting in 2019 which will drive an approximate cost increase of $2 million per year for 2020-2022 and $3 million per year for 2023-2024.

- Cost increases passed on from external agencies and senior levels of government are estimated to be $1 million to $2 million per 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.

- Reinstatement of $2 million of the Council Contingency which was reduced in the 2019 budget, and includes a contingency for storm and snow events. Staff are considering setting up a storm/snow stabilization reserve to address the unpredictability of storms and their associated costs.

City staff have identified budget expenditure pressures which exceed revenue estimates including considerations for collective agreements, which if not mitigated would require a tax increase above the 4.9% projected in the financial plan, possibly up to 6-7%, to maintain existing service levels including staffing increases to Fire and Police services.

In addition, Council has put forward a number of motions over the past months, some of which will have budget implications over the next few years.

Major Council Motions (Preliminary Operating Impact estimate) ($ in millions)	2020	2021	2022	2023	2024
Climate change					
Global warming (sea level and storm water)	$5 - $6	$5 - $6	$5 - $6	$5 - $6	$5 - $6
Carbon neutral before 2050	$2 - $3	$2 - $3	TBD		
City-wide Plan	$7	$5	$3		
Other initiatives	$7 - $8		TBD		
Estimated Expense Pressure	$21 - $24	TBD			

Financial impacts of motions related to other boards will be incorporated during the budget process.

A cost increase of $8M for tax funded expenses would require a tax increase of approximately 1% to fund.

Major Council Motions (Preliminary Capital Funded estimate) ($ in millions)	2020	2021	2022	2023	2024
Climate change	$14 - $19	$50 - $100			
Vancouver's Watershed Revival Plan	$2 - $3	TBD			
Canadian Pride in Vancouver's Chinatown Memorial Square	$1	TBD			
Formalize the False Creek to the Fraser River Blueways	$1	TBD			
Estimated Total Cost	$18 - $24	TBD			

Over the next few months, as part of the budget process, staff will work to reprioritize existing resources, adjust service models, and look for additional revenue sources or cost savings in order to accommodate the major Council motions. Where these programs cannot be accommodated within existing resources, staff will bring back to Council options for potential tradeoffs in services or additional tax/fee impacts.

Major capital funding required by numerous Council Motions will be reviewed for the opportunity to: reprioritize within the existing budget, reduction of scope to be able to implement at lower cost, or review of funding sources to determine an appropriate municipal funding source. The tax impact of capital projects is dependent on type of funding source.

The final 2020 Budget will incorporate feedback from public consultation with Vancouver residents and business owners, to be conducted over the late summer and fall of 2019.

CAPITAL PLANNING AND BUDGETING

The City owns approximately $25 billion of infrastructure and public amenities (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. There are two principal goals as the City plans and manages its capital assets over the medium and longer term: (a) renewing aging infrastructure and amenities to maintain them in a state of good repair; and (b) upgrading and expanding infrastructure and amenities to meet the needs of a growing city. The City incorporates these goals into its 10-year Capital Strategic Outlook.

Shorter-term implementation is organized around the four-year Capital Plan and the Annual Capital Budget. The four-year Capital Plan matches City Council's and Park Board's term in office: the current Capital Plan timeline covers the 2019-2022 period. The 2019-2022 Capital Plan was approved by City Council and Park Board in July 2018, and the required borrowing authority components were approved by voters in October 2018.

The 2019-2022 Capital Plan sets outs the objectives to be achieved for one-time projects (e.g. to renew and expand the Marpole Library) and ongoing programs (e.g. to repave approximately 23 km of arterial streets over the four-year period). In total, the Capital Plan for 2019-2022 contemplates $2.8 billion of investment: $2.2 billion worth of City-led capital investments and $0.6 billion worth of in-kind contributions achieved through development. The Capital Plan is intended to be an evolving document, as some adjustments are needed as the City executes on the four-year plan. Since January 2019, City Council has added $16 million to the 2019-2022 Capital Plan, of which $7 million was from additional partnership funding (primarily funding from TransLink, the regional transportation authority).

Service Categories	Original 2019-2022 Capital Plan approved by Council in July 2018 ($ millions)			Changes to 2019-2022 Capital Plan approved by Council in Jan 2019 ($ millions)		
	City-led Capital Investments	In-kind Contributions	Total	City-led Capital Investments	In-kind Contributions	Total
Affordable Housing	$140	$400	$540	$0.8	–	$541
Childcare	$86	$38	$123	$4.7	–	$128
Parks & Open Spaces	$264	–	$264	–	–	$264
Arts & Culture	$142	$43	$185	$0.6	–	$186
Community Facilities	$146	$88	$234	–	–	$234
Public Safety	$48	–	$48	$0.3	–	$48
Civic Facilities & Equipment	$108	–	$108	–	–	$108
Transportation & Street Use	$311	–	$311	$7.6	–	$318
One Water (Water, Sewer & Green Infrastructure)	$616	–	$616	–	–	$616
Solid Waste	$92	–	$92	–	–	$92
Renewable Energy	$41	–	$41	$1.5	–	$43
Technology	$100	–	$100	$0.1	–	$100
Overhead	$20	–	$20	–	–	$20
Emerging Priorities	$88	–	$88	–	–	$88
Total	$2,203	$569	$2,771	$16	–	$2,787

The Annual Capital Budget sets out Council-authorized funding and spending for the year, as well as detailed project information and outcomes. It provides the authority to proceed with specific components for one-time projects (e.g. funding for the planning/scoping phase of the Marpole Library project) and the quantity of work associated with ongoing programs (e.g. funding to repave 6 km of arterial streets). In general, annual capital budget allocations to one-time projects are lower in the first and second years of the Capital Plan (since projects are typically in the planning/scoping phase or the detailed design phase) and higher in the third and fourth years (as projects move to the construction phase). Annual Capital Budget allocations to ongoing programs are generally more stable year over year.

The Annual Capital Budget includes (1) Capital Budget allocations, which covers the funding required to complete the scope of work as approved in the budget and can span over more than one year; and (2) Annual Capital Expenditure Budget, which covers the amount expected to be spent in the budget year and includes projects/programs initiated in the current year and projects/programs initiated in previous years but not yet completed.

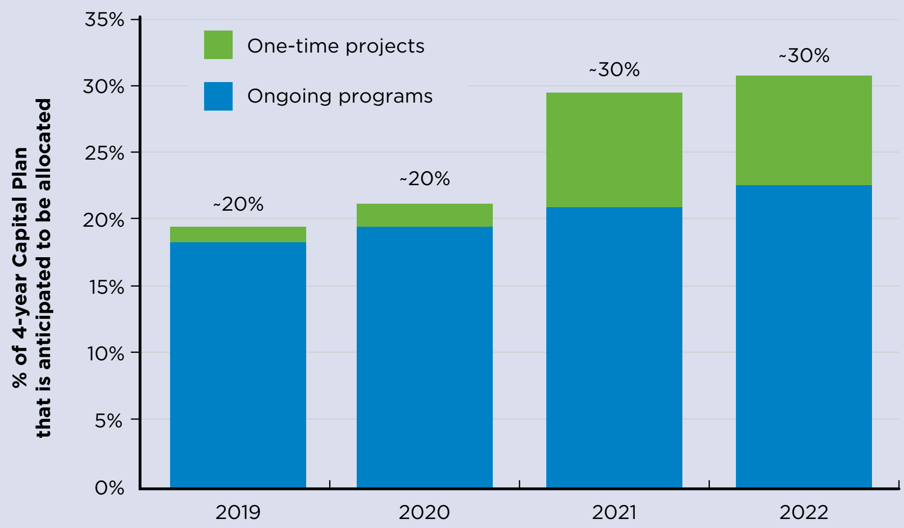
2019 Capital Budget Allocations

2019 is the first year of the 2019-2022 Capital Plan. City Council approved the 2019 Capital Budget allocations of $366 million for capital projects and programs. In the first half of 2019, an additional $57 million was added to the Capital Budget allocations, increasing the total to $423 million, which represents 19% of the City-led capital investments identified in the 2019-2022 Capital Plan ($2.2 billion).

Funding was included to initiate planning/scoping for 20 plus one-time projects identified in the Capital Plan, including park projects (e.g. West End waterfront park master plan, Queen Elizabeth Park master plan), community facility projects (e.g. Marpole-Oakridge Community Centre/childcare renewal and expansion, Marpole Library renewal and expansion combined with new childcare and affordable housing), and transportation projects (e.g. Granville Bridge greenway, Bute greenway).

Funding has also been provided to ongoing programs such as: granting programs to support affordable housing and social/cultural facilities owned by non-profit partners; facility maintenance and renovations programs for City-owned buildings; renewable energy and GHG reduction programs for City-owned buildings; park renewal and upgrade programs (playgrounds, fields, courts); transportation renewal and improvement programs (road paving, sidewalks, traffic signals); and programs to renew and upgrade water, sewer and drainage infrastructure.

Conceptual Diagram Showing Year-by-year Allocation of 2019–2022 Capital Plan



Service Categories	2019-2022 Capital Plan: City-led capital investments (Current total) ($ millions)	2019 Budget Allocations ($ millions)		
		Approved by Council in Dec 2018	Changes approved by Council since Jan 2019	Current Total
Affordable Housing	$141	$30	$1	$31
Childcare	$91	$1	$12	$12
Parks & Open Spaces	$264	$44	–	$44
Arts & Culture	$143	$9	$16	$25
Community Facilities	$146	$12	$1	$13
Public Safety	$48	$12	$1	$13
Civic Facilities & Equipment	$108	$27	$2	$29
Transportation & Street Use	$318	$72	$17	$90
One Water (Water, Sewer & Green Infrastructure)	$616	$86	$6	$93
Solid Waste	$92	$15	–	$15
Renewable Energy	$43	$23	$2	$25
Technology	$100	$27	$0	$27
Overhead	$20	$6	–	$6
Emerging Priorities	$88	–	–	–
Total City-led Capital Investments	$2,218	$366	$57	$423
% of total City-led Capital Investments	100%	16%	3%	19%

2019 Capital Expenditure Budget

Council also approved the 2019 Capital Expenditure Budget of $563 million, consisting of $297 million for new projects/programs to be initiated in 2019 and $266 million for projects/programs initiated in previous years but not yet completed (e.g. the renewal of Fire Hall #17 at Knight and 55th Avenue and the renewal of Roddan Lodge and Evelyne Saller Centre in the Downtown Eastside, both of which were approved as part of the 2015-2018 Capital Plan). The Annual Capital Expenditure Budget is adjusted throughout the year to calibrate it based on the progress made on one-time projects and ongoing programs. As approved by Council to date in 2019, an additional $12 million was added to the 2019 Capital Expenditure Budget, increasing the total to $575 million.

CAPITAL BUDGET 2020-2024 OUTLOOK

2020 Capital Budget Allocations Forecast

2020 will be the second year of the 2019-2022 Capital Plan. Two main assumptions have been used to build an initial estimate of 2020 Capital Budget allocations:

1. Many of the one-time projects that initiated planning/scoping in 2019 will complete this phase of work and move to the detailed design phase in 2020.

2. Funding will be included for ongoing programs, including the City's grant programs.

Based on these assumptions, the estimate for 2020 new Capital Budget allocations will be approximately 20% of the $2.2 billion contemplated in the 2019-2022 Capital Plan total or approximately $450 million.

2019-2022 Capital Plan Budget Allocations ($ millions)	2019-2022 Capital Plan: City-led capital investments (Current total) ($ millions)	2019 Budget Allocations to date	2020 Estimated Budget Allocations
Total City-led Capital Investments	$2,218	$423	$450
% of Total City-led Capital Investments	100%	19%	20%

2020 Capital Expenditure Budget Forecasts

It is estimated that the 2020 Capital Expenditure Budget will be approximately $600 million, slightly higher than 2019 and reflecting expenditures for several major capital projects that have significant construction expenditures in 2020. Over the next few months, staff will review the project and program schedule to refine the proposals for the 2020 Capital Budget based on Council and community priorities, as well as capacity to deliver, and bring to Council for approval.

Future Years Capital Forecasts

The years 2021 and 2022 will be the third and fourth years of the 2019-2022 Capital Plan. Many of the one-time projects will be moving to the construction phase and therefore require increased funding allocations. It is also anticipated that several key ongoing programs (e.g. water and sewer infrastructure) will have increased funding allocations as the City ramps up investments to address aging infrastructure needs. As a result, it is anticipated that approximately 30% of the $2.2 billion contemplated in the 2019-2022 Capital Plan total will be allocated in 2021 and then again in 2022.

Capital funding for 2023 and 2024 will be informed by the City's next round of capital planning, which includes the preparation of a 10-year Capital Strategic Outlook in 2021 and the preparation of the 2023-2026 Capital Plan in 2022. Future year projections assume capital investments will be steady or will increase to address the needs of aging infrastructure and amenities.

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 Vancouver forecasts. These assumptions will be refined and adjusted over the coming months to reflect ongoing productivity improvements and service delivery changes to bring the 2020 Budget into balance.

OPERATING AND CAPITAL BUDGET RISKS 2020–2024

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

Revenue risks

Approximately 75% 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 6% of the City's revenues.

Revenue risks include:

- Building and Development permits, within the revenue category Licence and Development fees (6% of the revenue budget) may be negatively affected by senior government policy direction, such as the new Provincial tax introduced in the 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 4% of City revenue and 4% of the City's 2019-2022 Capital Program funding, and are subject to being reduced or discontinued.
- Development contributions both in terms of cash and in-kind 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 2020 and beyond, potentially including arbitrated agreements for which the City has no control over final settlement costs.
- Risk of higher fuel costs considering the rising gas prices in the province.
- Unforeseen capital expenditures as a result of change in cost estimates due to rising construction costs, construction inflation, and competitive market for contractors.
- 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.
- Additional impacts on the operating budget as a result of increased investments in new capital assets.
- 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 costs associated with priority initiatives as directed by City Council.

SUMMARY

The City of Vancouver offers a broad and expanding range of services to meet the needs of residents and businesses. Overall satisfaction with delivery of service and perceptions of value for taxes paid is high.

Vancouver has limited funding sources, and must continuously balance the need to maintain and improve services, facilities and infrastructure with publicly acceptable levels of taxation and overall concerns about the affordability of our city.

All Canadian municipalities share the challenge of costs that are rising faster than the inflation rate. City of Vancouver staff continues to find ways to work more efficiently, including through continuous process improvement and new technology, to help us deliver faster service and at a lower cost.

The majority of the City's annual budget goes towards providing the quality, core services that support the daily lives of our residents every day. Additional funding is set aside to make advancements in the areas that City Council has identified as priorities.

The financial assumptions included in this Budget Outlook are a preliminary scan of the drivers for the operating and capital budgets and five-year financial plan. Over the next few months, informed by public input and ongoing dialogue with City Council, staff will work to develop service plans that align to the key priorities, look for additional revenue sources or cost savings (which may include re-aligning existing resources), and provide options for potential trade-offs in service or additional tax/user fees to bring Budget 2020 into balance.

The public are encouraged to participate in the budget engagement process to share their views and priorities. City staff and Council are committed to protecting what makes our city great, and to aligning the funding for the budget to the priority work that will make the most difference to enhance the livability of our city.