

MEMORANDUM

June 15, 2023

TO: Mayor and Council

CC: Paul Mochrie, City Manager
Armin Amrolia, Deputy City Manager
Karen Levitt, Deputy City Manager
Maria Pontikis, Chief Communications Officer, CEC
Rosemary Hagiwara, Acting City Clerk
Teresa Jong, Administration Services Manager, City Manager's Office
Mellisa Morphy, Acting Chief of Staff, Mayor's Office
Trevor Ford, Director of Operations, Mayor's Office

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

SUBJECT: 2023 First Quarter Review – Operating and Capital Budgets

Executive Summary

The purpose of this report is to provide Council with an overview of City's financial performance for the first quarter of 2023. The report includes details on the annual forecast of the City's Operating Revenue and Expenditure, and Capital Expenditures and the corresponding variances with the annual Operating and Capital Budget. This report also lists the key factors (high inflation environment, tight labor market, and supply chain challenges) impacting the City's financial Outlook for 2023 and how the focus continues to be capital and service delivery.

Council Policy regarding the Operating Budget, as per the Vancouver Charter, is to ensure a balanced operating budget. For 2023, the City is forecasting a balanced budget at year-end after all reserve transfers and adjustments. However, for the period till quarter one of 2023, the City recorded an Operating Budget surplus of \$28.1 million, primarily driven by the surplus in investment income, the timing difference in the first quarter between actual and budgeted revenues and expenditures, as well as savings in salary and other non-salary expenses.

Total capital expenditures to the end of the first quarter of 2023 were \$91.3 million, which is 13% of the total 2023 Capital Expenditure Budget of \$730 million. Total expenditures for the year is forecasted to be \$665.4 million, which is 91% of 2023 Capital Expenditure Budget. The forecasted variance of \$64.6 million is mainly due resource constraints and staffing challenges.

Operating Budget

The City is forecasting on budget at year-end. The City reported a \$28.1 million surplus in the first quarter of 2023, primarily driven by investment income, timing differences between actual and budget, and higher than budgeted salary savings. The surplus reported in the first quarter is expected to be offset in the remaining portion of the year as a result of higher expenditures that will occur later in the year than planned. The year-end forecasted variance for revenues

includes a surplus in investment income, parks parking and street occupancy fees, partially offset by a deficit in program fee revenue. Expenditures and reserve transfers for 2023 are forecasted to be higher than the budget mainly due to higher non-salary expenditures due to cost escalation, more training, equipment replacements, and higher transfer to General revenue stabilization reserve partially offset by higher than budgeted salary savings due to ongoing vacancies. Appendix A & B shows the 2023 Operating Budget revenues and expenditures, year-to-date variances and full-year forecasts. However, below are the major revenue and expenditure drivers for Q1 Year-to-Date and the full year forecast:

A. Revenue highlights:

- **Investment income** was approx. \$10 million above budget for both year-to-date (YTD) and for 2023 year-end, due to interest rate hikes, higher fund volume and enhanced investment portfolio optimization strategies.
- **Occupancy Fees** are \$0.6 million above budget for quarter 1 YTD and forecasted to be \$1.4 million above 2023 budget. Occupancy fees is a new stream of revenue implemented in 2022. City charges the developers the occupancy fees for sidewalk, road, and bike-lane closures during construction projects.
- **Street Parking revenue** was \$1.3 million below budget for quarter 1 YTD driven by continuing behavior changes as a result of COVID-19 pandemic and forecasted to be below budget by \$3.6 million at year-end. The forecasted deficit would be partially offset by surplus in other types of parking revenue.
- **Recreation Program revenue** was \$0.8M below budget and forecasted to be \$0.4 million below budget primarily driven by recreation volume shortfall due to staffing challenge and changes in the public's recreation habits since 2019. The Vancouver Park Board began a marketing plan in quarter 4 2022, which has ramped up with additional revenue promotions planned throughout 2023.

Surplus and deficit in **Cost recoveries, Utility fees, and other revenues** will be offset by related expenditures and transfers.

B. Expenditures and Transfers highlights:

- **Police Services** Q1 YTD expenses were \$0.6 million below budget due to higher salary savings due to staffing vacancies, offset by costs related to overtime. Year-end forecasted expenditures and transfers are 3.4 million above budget due to higher legal fees, JIBC recruit cost increases, firearm & equipment replacement, etc. Higher recoveries are expected to keep the net forecast on budget by year-end.
- **Fire & Rescue Services** Q1 YTD expenditures were \$0.7 million above budget, primarily due to higher overtime, higher costs for uniforms and supplies for additional council approved staff. Year end forecasted costs are \$1.1 million below budget driven by higher vacancy savings. The year-end net forecast is \$1.0M below budget.
- **Engineering** expenditures are forecasted to be \$1.2 million above budget primarily due to extreme weather readiness and response expenses (offset by snow storm reserve), higher than budgeted street cut costs & material prices, offset by higher salary savings. Year end net forecast is \$0.2M above budget due to higher street occupancy revenue.
- **General Government** expenditures are forecasted to be above budget by \$16.0 million, primarily due to unbudgeted transfers to general stabilization reserves. The year-end forecast of the reserve balance is 6.9% of non-utility revenue (compared to Government Finance Officers Association recommended balance of 8-16% of non-utility revenue).

Capital Budget

Annual Capital Expenditure Budget reflects one year's expenditures for projects that may span multiple years. On December 6, 2022, Council approved the 2023 Capital Budget, which included a Capital Expenditure Budget of \$730 million. Expenditures up until first quarter were

\$91.3 million, or 13% of the budget. The expenditure forecast for 2023 is \$665.4 million or 91% of the budget. Although Appendix B includes details on budget variances by service category, following lists down the major Service Categories with its corresponding variance explanation:

- **Parks and Public Open Spaces** expenditures are forecasted to be \$11.8 million below budget, due to delays in various programs as a result of resource & staffing constraints.
- **Community Facilities** expenditures are forecasted to be \$4.7 million above budget mainly due to a project progressing ahead of schedule.
- **Streets** expenditures are forecasted to be \$31.7 million below budget, primarily due to slower than planned third party work on Granville Connector and loops, and delays in other projects like West End and Cambie structures due to revised project schedules.
- **Solid Waste** expenditures are forecasted to be \$8.3 million below budget mainly due to contractor and procurement delays in various projects.

Risks/Landscape

Although the World Health Organization (WHO) declared the end of COVID-19 pandemic in May 2023, the lasting economic impacts are still prevalent. The various global factors that are contributing to the challenging landscape are the ongoing war in Ukraine, continual of high interest rates environment, and increasing risk of recession in North America. Within Canada, the current inflation rate still remains higher than the target range of 1 to 3%. Although City staff follow leading practices to ensure financial sustenance, the City is not immune to the challenging financial landscape, including:

- Significant price escalations in construction materials & supplies, impacting City's capital delivery resulting in higher cost estimates for notable capital projects such as renewal & expansion of Marpole Oakridge Community Centre, Sunset Service Yard, etc.
- Employment in British Columbia continues to reflect a tight labour market impacting capital and service delivery. Inflationary pressures are beginning to have an impact on compensation trends, thus further impacting the capital & service delivery.
- Spends related to construction work and products/supplies are experiencing significant increases due to the tight labor market and supply constraints. Uncertainties will create not only financial pressures but also impact timely service and capital delivery.
- Over the past year, the Vancouver region continues to experience a number of severe weather events, including extreme heat, cold and flooding. This trend will continue to result in increased pressure on infrastructure upgrade and maintenance.

The combination of these factors means financial prudence, optimization of key City processes, and reprioritization of financial capacity will need to be considered when delivering capital projects and existing services in 2023.

Conclusion

The City recorded an Operating Budget surplus of \$28.1 million in YTD Q1 and a balanced budget at year-end. Significant variances in the revenue and expenditure categories include higher than budgeted investment income, higher salary-related savings partially offset by higher overtime mainly in Public Safety, and higher non-salary expenses. The City also incurred \$91.3 million in capital expenditures for the first quarter of 2023, or 13% of the 2023 budget of \$730 million. The City is forecasting to spend \$665 million by the end of 2023 representing a forecasted variance of \$65 million mainly due to resource constraints and staffing challenges.

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APPENDIX A
2023 Operating Budget – Year-to-date and Full year Forecast

2023 Operating Budget - Year-to-Date and Full year Forecast								
\$ millions	Year-to-date			2023 Full Year Forecast				
	Budget	Actuals	Variance	Variance %	Annual Budget	Year end forecast	Year-end Variance \$	Variance %
REVENUES								
Property tax revenue	\$270.4	\$271.5	\$1.1	0.4%	\$1166.0	\$1166.0	(\$0.0)	(0.0%)
Utility revenue	\$76.6	\$75.8	(\$0.8)	(1.1%)	\$391.1	\$391.6	\$0.5	0.1%
Program revenue	\$13.0	\$13.4	\$0.3	2.7%	\$68.9	\$68.5	(\$0.4)	(0.5%)
Licence & Development fees	\$41.3	\$43.0	\$1.7	4.1%	\$100.6	\$102.0	\$1.4	1.4%
Parking revenue	\$16.6	\$15.5	(\$1.1)	(6.8%)	\$69.0	\$69.5	\$0.5	0.8%
Cost recoveries, grants & donations	\$14.4	\$20.4	\$6.0	41.5%	\$68.7	\$78.7	\$10.1	14.7%
Provincial revenue sharing	\$2.1	\$2.1	\$0.0	0.0%	\$21.7	\$21.7	\$0.0	0.0%
Investment income	\$7.1	\$17.2	\$10.1	143.0%	\$28.8	\$38.8	\$10.0	34.5%
Other revenue	\$8.4	\$8.8	\$0.4	4.9%	\$35.6	\$36.9	\$1.3	3.7%
Bylaw fines	\$5.4	\$6.7	\$1.4	25.3%	\$21.4	\$23.3	\$1.9	8.9%
TOTAL REVENUES	\$455.2	\$474.2	\$19.0	4.2%	\$1,971.9	\$1,997.2	\$25.3	1.3%

APPENDIX A (contd.)
2023 Operating Budget – Year-to-date and Full year Forecast

\$ millions	2023 Operating Budget - Year-to-Date and Full year Forecast							
	Year-to-date				2023 Full Year Forecast			
Budget	Actuals	Variance	Variance %	Annual Budget	Year end forecast	Year-end Variance \$	Variance %	
EXPENDITURES & TRANSFERS								
Utilities	49.8	44.9	4.9	9.8%	442.6	442.8	(0.3)	(0.1%)
Engineering	30.7	30.8	(0.1)	(0.2%)	116.9	118.1	(1.2)	(1.0%)
Police Services	100.6	100.0	0.6	0.6%	401.8	405.2	(3.4)	(0.8%)
Fire & Rescue Services	41.5	42.2	(0.7)	(1.6%)	164.4	163.3	1.1	0.7%
Parks & Recreation	34.4	33.4	1.0	3.0%	154.8	155.6	(0.7)	(0.5%)
Library	15.0	15.1	(0.1)	(0.6%)	58.9	58.8	0.1	0.1%
Britannia Community Services Centre	1.5	1.4	0.2	10.3%	6.1	5.9	0.2	2.7%
Civic Theatres	3.8	3.9	(0.1)	(3.7%)	15.2	15.3	(0.1)	(0.9%)
Community Services	10.8	11.1	(0.3)	(3.1%)	45.3	50.8	(5.5)	(12.1%)
Grants	7.1	5.4	1.8	24.9%	31.8	31.8	0.0	0.0%
Planning, Urban Design & Sustainability	8.0	7.6	0.4	4.6%	33.2	34.8	(1.6)	(4.8%)
Development, Buildings & Licensing	11.1	10.2	0.8	7.4%	45.0	44.2	0.8	1.7%
Mayor & Council	0.9	0.8	0.1	9.7%	3.8	3.8	(0.0)	(0.0%)
Office of the Auditor General	0.5	0.4	0.1	19.8%	2.0	2.0	0.0	2.2%
Corporate Services	34.2	31.4	2.8	8.2%	138.0	136.7	1.3	1.0%
REFM	8.6	8.5	0.2	2.0%	34.7	35.5	(0.8)	(2.3%)
Finance, Risk & Business Planning	5.2	4.5	0.7	14.1%	21.0	19.9	1.2	5.6%
IT, Digital Strategy & 311	10.9	10.1	0.7	6.5%	43.0	42.4	0.6	1.4%
Human Resources	1.9	1.7	0.2	11.2%	8.0	7.8	0.2	2.5%
Legal	1.5	1.4	0.1	9.4%	6.2	6.4	(0.2)	(3.1%)
City Clerk	1.5	1.4	0.1	9.3%	6.2	6.1	0.1	1.0%
City Manager's Office	2.0	1.7	0.4	17.6%	8.5	8.1	0.4	4.9%
Office of the CSO	2.6	2.2	0.3	13.0%	10.3	10.4	(0.1)	(1.2%)
General Government	3.2	5.5	(2.3)	(73.7%)	158.4	174.4	(16.0)	(10.1%)
General debt & Transfers to Capital Fund	90.8	90.7	(0.5)	(0.6%)	153.8	153.8	0.0	0.0%
TOTAL EXPENDITURES & TRANSFERS	\$444.0	\$434.9	9.1	2.1%	\$1,971.9	\$1,997.2	(25.3)	(1.3%)
SURPLUS (DEFICIT)	\$11.2	\$39.4	\$28.1	250.3%	\$0.0	\$0.0	\$0.0	-

APPENDIX B
2023 Capital Expenditure Budget variances by Service Category

2023 Annual Capital Expenditure Budget: Budget vs YTD Actual Expenditure vs Forecast vs Variance (in \$ millions)					
Service Category	2023 Expenditure Budget	2023 YTD Actual Expenditure (as of Q1 2023)	2023 Expenditure Forecast	Variance	Variance %
HOUSING	\$132.9	\$17.3	\$133.6	(\$.7)	-0.5%
CHILDCARE	\$23.7	\$6.3	\$23.7	(\$.1)	-0.4%
PARKS & PUBLIC OPEN SPACES	\$47.2	\$4.6	\$35.4	\$11.8	25.1%
ARTS, CULTURE & HERITAGE	\$21.6	\$1.2	\$18.3	\$3.3	15.3%
COMMUNITY FACILITIES	\$34.6	\$2.2	\$39.4	(\$4.7)	-13.6%
PUBLIC SAFETY	\$24.9	\$2.6	\$23.0	\$1.9	7.6%
CIVIC FACILITIES & EQUIPMENT	\$18.7	\$3.1	\$18.2	\$.5	2.7%
STREETS	\$156.1	\$13.9	\$124.4	\$31.7	20.3%
WATER, SEWERS & DRAINAGE	\$172.4	\$28.6	\$161.6	\$10.8	6.3%
WASTE COLLECTION, DIVERSION & DISPOSAL	\$31.7	\$4.1	\$23.5	\$8.3	26.1%
RENEWABLE ENERGY	\$22.8	\$1.8	\$22.1	\$.6	2.8%
TECHNOLOGY	\$34.8	\$3.6	\$33.6	\$1.2	3.5%
EMERGING PRIORITIES, CONTINGENCY & PROJECT DELIVERY	\$8.6	\$1.9	\$8.6	(\$.0)	-0.2%
TOTAL	\$730.0	\$91.3	\$665.4	\$64.7	