

MEMORANDUM

November 27, 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 Third 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 third 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 periods till quarter three of 2023, the City recorded an Operating Budget surplus of \$68.8 million, primarily driven by the surplus in investment income, timing difference in the third quarter between actual and budgeted revenues and expenditures, parks revenue surplus as well as savings in salary partially offset by shortfall in recreation revenues, higher overtime expenses in public safety and other non-salary expenses.

Total capital expenditures to the end of the third quarter of 2023 were \$351 million, which is 48% of the total 2023 Capital Expenditure Budget of \$730 million. Total expenditures for the year are forecasted to be \$577 million, which is 79% of the 2023 Capital Expenditure Budget. The forecasted underspend of \$153 million is mainly due to delays in construction projects, supply chain issues and staffing challenges.

Operating Budget

The City is forecasting to be on budget at year-end. The City reported a \$68.8 million surplus in the third 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 third quarter is

expected to be offset in the remaining portion of the year because of higher expenditures that will occur later in the year than planned as well as higher year end transfers. The year-end forecasted variance for revenues includes a surplus in investment income as well as parks parking and revenues surplus from Van Dusen, Bloedel, etc. partially offset by a deficit in recreational revenues and street parking revenue. Expenditures and reserve transfers for 2023 are forecasted to be higher than the budget mainly due to some of the below items:

- a) higher overtime costs in public safety partially offset by salary savings due to ongoing vacancies;
- b) Non salary related cost escalations, tree planting strategy including Stanley Park hemlock looper moth mitigation work, more training, and equipment replacements;
- c) higher transfer to the General revenue stabilization reserve.

Appendix A 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 Q3 Year-to-Date and the full year forecast:

A. Revenue highlights:

- **Investment income** was approx. \$40 million above budget for year-to-date (YTD) and \$53 million for 2023 year-end, due to interest rate hikes, larger portfolio size, and enhanced investment portfolio optimization strategies.
- **Property tax revenue** was \$8.4 million above budget for year-to-date (YTD) driven by timing delays for supplementary rolls and reversal of inactive folios. The year-end surplus forecast is \$53 million due to higher than budgeted Empty Home Tax (EHT).
- **Occupancy Fees** are \$1 million above budget for year-to-date (YTD) and forecasted to be \$0.9 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 \$1.5 million below budget for quarter 3 YTD and forecasted to be \$4.1 million below for 2023 driven by continuing behavior changes as a result of COVID-19 pandemic. The forecasted deficit would be offset by Covid Revenue Risk Allowance.
- **Parks Program revenue** was \$1.8M above budget for YTD and forecasted to be \$1.4 million above budget primarily driven by strong golf, Vandusen/Bloedel, and special event revenues from higher activity partially offset by weaker recreation revenues (aquatics). 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 **Property tax revenues, Cost recoveries, Utility fees, and other revenues** will be offset by related expenditures and transfers.

B. Expenditures and Transfers highlights:

- **Police Services** Q3 YTD expenses were \$8.4 million above budget whereas year-end forecasted amount is \$7.2 million above budget. Vancouver Police Department (VPD) is experiencing significant overtime costs relating to global political tension causing increased frequency of protests as well as deployment for encampment/decampment and other non salary cost pressures partially offset by salary savings due to staffing vacancies. VPD is forecasting a year-end budget deficit of \$3.6 million which is proposed to be covered with a one-time transfer from the General Stabilization Reserve.
- **Fire & Rescue Services** Q3 YTD expenditures were \$6.8 million above budget and the Year-End costs are forecasted to be \$5.7 million above budget, primarily due to higher than budgeted overtime in order to meet operational staffing requirements as staffing levels have been impacted by staff absences related to injury claims and sick leaves. As a result of recent provincial changes to the Employment Standards Act, VFRS cost recoveries related to staff absences have reduced and overtime costs have increased causing adverse impact to year end forecast. The year-end net forecast is \$3.3M above

budget proposed to be covered with a one-time transfer from the General Stabilization reserve.

- **Board of Parks and Recreation** year-end forecasted expenditures are \$3.9 million above budget due to higher direct costs associated with tree planting strategy including Stanley Park Looper moth work, inflationary pressures, higher fleet lease expenditure offset by vacancy savings across Parks operations.
- **General Government** is forecasted to be above budget by \$21.5 million, primarily due to transfer of higher than budgeted revenues to reserves. The year-end forecasted stabilization reserve balance is 5.1% of non-utility revenue (the target is 16% of non-utility revenue, as recommended by the Government Finance Officers Association).

Capital Budget

The Annual Capital Expenditure Budget reflects one year's expenditures for projects that may span multiple years. On December 6, 2022, the Council approved the 2023 Capital Budget, which included a Capital Expenditure Budget of \$730 million. Expenditures up until the third quarter were \$351 million, or 48% of the budget. The expenditure forecast for 2023 is \$577 million or 79% of the budget. Although Appendix B includes details on budget variances by service category, the following lists the major Service Categories with their corresponding variance explanations:

- **Housing** expenditures are forecasted to be \$52 million below budget mainly due to delays in the construction schedule of various projects and delays in disbursement of grant programs.
- **Streets** expenditures are forecasted to be \$50 million below budget, due to a combination of both external factors and internal factors such as staffing constraints in various projects like Granville connector and loops, West End active transportation improvements and Cambie bridge rehabilitation.
- **Water, sewers & drainage** expenditures are forecasted to be \$20 million below budget mainly due to external factors such supply chain issues in Development water resources management and Green infrastructure programs
- **Waste Collection, Diversion and Disposal** expenditures are forecasted to be \$11 million below budget mainly due to delays in Maintenance and renewal of transfer station, and Landfill stormwater management program

Risks/Landscape

Although the World Health Organization (WHO) declared the end of the COVID-19 pandemic in May 2023, and there has been an increase in economic activity post-pandemic, the City continues to be impacted by challenging financial landscape characterised by:

- **High inflationary environment** – Although the Consumer Price Index (CPI) for Metro Vancouver has been eased from the peak of 6.8% in 2022 to 3.8% in 2023; however, the full impact of easing inflationary pressures is yet to be seen. There is an increasing risk of economic recession and the real GDP growth for Metro Vancouver for 2023 is projected to decrease to 0.5%.
- **Price Escalations** – The City continues to see price escalations in construction materials and supplies costs which is significantly impacting the City's capital delivery. This has resulted in higher revised cost estimates on notable capital projects such as the renewal and expansion of Marpole-Oakridge Community Centre, Sunset Service Yard, and Sewer utility growth projects. Products used heavily by the City in Capital projects are anticipated to continue to increase in prices above CPI as they are related to international metal prices.
- **Tight Labour Market** - Employment in British Columbia continues to reflect a tight labour market impacting city-wide capital and service delivery. Inflationary pressures are also

beginning to have an impact on compensation trends across public and private sectors in Canada.

- **Severe Weather Events** - 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 \$68.8 million in YTD Q3 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 \$351 million in capital expenditures up until the end of the third quarter of 2023, or 48% of the 2023 budget of \$730 million. The City is forecasting to spend \$577 million by the end of 2023 representing a forecasted variance of \$153 million mainly due to delays in construction projects, supply chain issues 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	\$898.5	\$906.9	\$8.4	0.9%	\$1166.0	\$1219.4	\$53.4	4.6%
Utility revenue	\$311.2	\$310.5	(\$0.7)	(0.2%)	\$391.2	\$385.8	(\$5.4)	(1.4%)
Program revenue	\$52.6	\$57.0	\$4.4	8.4%	\$68.6	\$74.0	\$5.4	7.8%
Licence & Development fees	\$83.9	\$92.9	\$9.0	10.7%	\$101.2	\$110.3	\$9.0	8.9%
Parking revenue	\$56.5	\$55.1	(\$1.5)	(2.6%)	\$69.0	\$69.0	(\$0.0)	(0.0%)
Cost recoveries, grants & donations	\$52.0	\$84.6	\$32.5	62.5%	\$69.5	\$108.9	\$39.5	56.8%
Provincial revenue sharing	\$19.7	\$19.1	(\$0.6)	(3.2%)	\$21.7	\$21.4	(\$0.4)	(1.8%)
Investment income	\$21.6	\$61.6	\$40.0	185.5%	\$28.8	\$81.7	\$52.9	183.2%
Other revenue	\$27.1	\$32.4	\$5.3	19.4%	\$35.9	\$41.8	\$5.9	16.4%
Bylaw fines	\$16.0	\$17.6	\$1.6	9.9%	\$21.4	\$22.7	\$1.3	6.1%
TOTAL REVENUES	\$1,539.2	\$1,637.5	\$98.4	6.4%	\$1,973.5	\$2,135.0	\$161.5	8.2%
EXPENDITURES & TRANSFERS								
Utilities	340.1	325.8	14.3	4.2%	442.7	437.5	5.1	1.2%
Engineering	89.9	92.5	(2.6)	(2.9%)	117.1	120.3	(3.3)	(2.8%)
Police Services	294.1	302.5	(8.4)	(2.8%)	401.8	409.1	(7.2)	(1.8%)
Fire & Rescue Services	130.3	137.1	(6.8)	(5.2%)	172.0	177.8	(5.7)	(3.3%)
Parks & Recreation	112.5	114.5	(2.0)	(1.8%)	155.4	159.3	(3.9)	(2.5%)
Library	43.8	45.7	(1.9)	(4.3%)	58.9	60.6	(1.7)	(2.9%)
Britannia Community Services Centre	4.5	4.4	0.2	3.8%	6.1	6.1	(0.0)	(0.0%)
Civic Theatres	11.0	12.3	(1.3)	(11.8%)	15.2	16.8	(1.6)	(10.6%)
Community Services	33.1	36.4	(3.4)	(10.1%)	45.2	54.2	(9.0)	(19.8%)
Grants	21.4	20.5	0.9	4.2%	31.8	31.8	(0.0)	(0.0%)
Planning, Urban Design & Sustainability	24.0	23.5	0.5	2.0%	32.9	33.1	(0.2)	(0.6%)
Development, Buildings & Licensing	33.3	32.9	0.4	1.2%	45.5	44.5	1.0	2.1%
Mayor & Council	2.8	2.5	0.3	10.9%	3.8	3.5	0.2	6.6%
Office of the Auditor General	1.5	1.2	0.3	18.7%	2.0	1.8	0.2	8.7%
Corporate Services	103.7	101.2	2.5	2.4%	138.5	138.5	0.0	0.0%
REFM	25.6	25.6	0.0	0.1%	34.6	35.6	(1.0)	(2.9%)
Finance, Risk & Business Planning	15.8	14.5	1.4	8.5%	21.1	20.1	1.0	4.9%
IT, Digital Strategy & 311	32.8	32.4	0.3	1.0%	42.9	42.9	(0.0)	(0.0%)
Human Resources	5.9	5.9	0.0	0.3%	8.2	8.3	(0.1)	(1.5%)
Legal	4.7	4.5	0.3	5.4%	6.4	6.3	0.0	0.7%
City Clerk	4.5	4.1	0.3	6.9%	6.2	5.9	0.2	3.3%
City Manager's Office	6.6	6.3	0.3	4.3%	8.7	8.5	0.3	3.0%
Office of the CSO	7.8	7.9	(0.1)	(1.3%)	10.4	10.8	(0.4)	(3.5%)
General Government	67.2	89.7	(22.5)	(33.4%)	150.9	286.3	(135.4)	(89.8%)
General debt & Transfers to Capital Fund	105.2	105.3	(19.0)	(18.1%)	153.8	153.8	(0.0)	(0.0%)
TOTAL EXPENDITURES & TRANSFERS	\$1,418.4	\$1,448.0	(\$29.6)	(2.1%)	\$1,973.5	\$2,135.0	(\$161.5)	(8.2%)
SURPLUS (DEFICIT)	\$120.8	\$189.6	\$68.8	57.0%	\$0.0	(\$0.0)	(\$0.0)	-

NOTE: Totals may not add due to rounding.

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 Actual Expenditure (as of Q3 2023)	2023 Expenditure Forecast	Variance	Variance %
HOUSING	\$132.8	\$54.2	\$81.3	\$51.5	38.8%
CHILDCARE	\$27.9	\$13.0	\$29.4	(\$1.5)	-5.5%
PARKS & PUBLIC OPEN SPACES	\$47.8	\$21.3	\$39.4	\$8.4	17.6%
ARTS, CULTURE & HERITAGE	\$18.7	\$5.9	\$9.4	\$9.2	49.5%
COMMUNITY FACILITIES	\$45.1	\$13.8	\$41.4	\$3.7	8.1%
PUBLIC SAFETY	\$18.8	\$14.5	\$22.8	(\$4.1)	-21.6%
CIVIC FACILITIES & EQUIPMENT	\$16.7	\$11.1	\$15.5	\$1.2	7.3%
STREETS	\$147.0	\$64.2	\$97.2	\$49.8	33.9%
WATER, SEWERS & DRAINAGE	\$171.4	\$102.4	\$151.4	\$20.0	11.7%
WASTE COLLECTION, DIVERSION & DISPOSAL	\$31.0	\$15.0	\$19.7	\$11.3	36.6%
RENEWABLE ENERGY	\$22.8	\$7.7	\$19.5	\$3.3	14.6%
TECHNOLOGY	\$34.8	\$22.1	\$35.3	(\$.5)	-1.5%
EMERGING PRIORITIES, CONTINGENCY & PROJECT DELIVERY	\$15.4	\$5.8	\$14.7	\$.7	4.5%
TOTAL	\$730.0	\$351.0	\$577.0	\$153.1	