

MEMORANDUM

March 8, 2016

TO: Mayor and Council

CC: Sadhu Johnston, Acting City Manager
Paul Mochrie, Acting Deputy City Manager
Janice MacKenzie, City Clerk
Lynda Graves, Manager, Administration Services, City Manager's Office
Rena Kendall-Craden, Director, Communications
Mike Magee, Chief of Staff, Mayor's Office
Braeden Caley, Director, Policy and Communications, Mayor's Office
Corporate Management Team
Ben Russell, Director, Financial Planning and Analysis
Colin Knight, Associate Director, Financial Analysis, Budgets and Reporting

FROM: General Manager, Finance, Risk and Business Planning

SUBJECT: 2015 Capital Budget - Year End Review

Dear Mayor and Council,

The purpose of this memo is to provide Council with a review of the 2015 capital expenditures by service category in comparison with the 2015 Annual Capital Expenditure Budget.

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

COUNCIL POLICY

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

A. INTRODUCTION/BACKGROUND

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

On March 3, 2015, Council approved a 2015 Annual Capital Expenditure Budget of \$306.0 million. Council subsequently approved net additions totaling \$5.8 million through the quarterly capital budget adjustment process, for a revised 2015 Annual Capital Expenditure Budget of \$311.8 million. This report reflects performance against this approved total 2015 Annual Capital Expenditure Budget of \$311.8 million.

In 2015, Capital Budget expenditures were \$242.1 million, representing 78% of the total 2015 Annual Capital Expenditure Budget (2014: \$253 million, 85%). This actual expenditure reflects a continuing focus on aligning our budget with our capacity to spend, providing regular quarterly reports on spending and forecast expenditures, and appropriately scheduling projects.

In addition, a separate report to Council which includes 2016 Capital Budget Adjustments and 2015 Q4 Closeouts will be presented for Council deliberation and approval on March 8, 2016 (RTS 11307).

B. 2015 CAPITAL EXPENDITURES vs. 2015 CAPITAL BUDGET by Service Category

Overall 2015 annual capital budget expenditures were less than budget by \$69.7 million, reflecting a combination of contractor/weather-related delays and extended planning/scoping timelines for several projects and programs. Table 1 on the next page shows the 2015 Capital Expenditure Budget variances by service category.

Table 1 - 2015 Annual Capital Budget Results By Service Category (\$000's)

Service Category 1	Service Category 2	2015 Expenditure Budget	2015 Actual Expenditures	Variance
01. Housing	A. Non-Market Rental Housing	61,902	42,753	19,149
01. Housing Total		61,902	42,753	19,149
02. Childcare	A. Daycare & Preschool (0-4 Yrs)	1,855	679	1,177
	B. Before & After School Care (5-12 Yrs)	1,150	332	817
02. Childcare Total		3,005	1,011	1,994
03. Parks, Open Spaces and Recreation	A. Urban Forest and Natural Features	2,005	1,823	181
	B. Activity Features	6,458	4,892	1,566
	C. New Parks and Renewals	8,837	5,662	3,175
	D. Seawall and Waterfront	1,280	614	666
	E. Park Infrastructure	1,171	1,038	133
	F. Park Buildings	1,621	861	760
	G. Public Art	1,380	179	1,201
	H. Recreation Facilities	8,535	5,991	2,544
	I. Entertainment and Exhibition	2,052	1,104	948
03. Parks, Open Spaces and Recreation Total		33,339	22,163	11,176
04. Community Facilities	A. Libraries and Archives	8,536	6,096	2,440
	B. Social Facilities	6,990	3,429	3,561
	C. Cultural Facilities	11,587	6,681	4,905
04. Community Facilities Total		27,113	16,206	10,906
05. Civic Facilities	A. Police	1,385	712	673
	B. Fire	3,076	1,633	1,443
	C. Animal Control	160	5	155
	D. Administrative Facilities	4,145	3,074	1,071
	E. Service Yards	2,709	1,802	908
05. Civic Facilities Total		11,475	7,225	4,251
06. Transportation	A. Walking and Cycling	8,898	8,584	315
	B. Transit	2,448	1,013	1,435
	C. Major Roads	21,595	17,880	3,715
	D. Local Roads	5,060	4,590	470
	E. Parking	950	99	851
06. Transportation Total		38,951	32,166	6,785
07. Utilities and Public Works	A. Waterworks	13,282	14,266	(984)
	B. Sewers	25,223	25,176	48
	C. Solid Waste	6,624	2,674	3,950
	D. Neighbourhood Energy	2,595	2,412	184
	E. Water and Sewer Connections	26,063	26,016	46
07. Utilities and Public Works Total		73,788	70,544	3,244
08. Equipment and Technology	A. Vehicles and Equipment	30,972	24,872	6,100
	B. Information Technology	26,840	20,289	6,551
08. Equipment and Technology Total		57,812	45,161	12,651
09. City-Wide	C. City-Wide Overhead	4,381	4,839	(458)
09. City-Wide Total		4,381	4,839	(458)
Grand Total		311,766	242,068	69,697

Explanations for variances between final 2015 expenditures and the 2015 Annual Capital Expenditure Budget by service category are:

01. Housing	\$19.1 million positive variance
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Housing projects are managed by Real Estate & Facilities Management and Housing Policy & Projects.

Capital expenditures for Housing projects in 2015 were \$19.1 million under budget primarily due to the timing of planned acquisitions of land for housing purposes and the general opportunistic nature of land purchases. Opportunities to acquire suitable properties were fewer than anticipated when the 2015 expenditure budget was established, shifting the expected acquisition expenditures to 2016. The variance also reflects delays in social housing grant disbursements that were planned for 2015 but are now expected in 2016 due to delays in grant recipients completing grant conditions.

02. Child Care	\$2.0 million positive variance
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Child Care projects are managed by Community Services and Real Estate & Facilities Management.

Capital expenditures for Child Care projects in 2015 were \$2.0 million under budget, primarily due to a slower than anticipated uptake by schools in the VSB (Vancouver School Board) Community Partnership grant program, the Little Mountain child care project work being placed on hold pending finalization of the Little Mountain neighbourhood redevelopment plan, and the cancellation of child care work planned for Marpole Place as the location was determined to be unsuitable for a child care facility (building is located on a designated commercial truck route).

03. Parks, Open Spaces and Recreation	\$11.2 million positive variance
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Parks, Open Spaces and Recreation projects are managed by Parks and Recreation, Real Estate & Facilities Management, Community Services, and Engineering Services.

Capital expenditures for Parks, Open Spaces and Recreation projects in 2015 were \$11.2 million under budget, reflecting a number of projects experiencing delays or deferrals in start-up:

- Planned 2015 expenditures for sports field facility improvements were delayed due to a longer than anticipated planning process with sports association stakeholders and retendering of construction contracts to achieve more favourable pricing;
- Planned 2015 expenditures for the New Public Art Installations program were delayed as a result of a longer than anticipated timeline for Park Board approval of sculptural artwork at Hastings Park;
- Cladding materials (materials used in the control of infiltration of weather elements) for the Creekside Paddling Centre project had to be special ordered from Europe and therefore required a longer than usual delivery time;
- Upgrades to a retaining wall at Empire Fields required more time than originally planned for project scoping and procurement;

- Start-up of several park projects planned for 2015 was delayed to later in the year due to an extended timeline required for hiring project planning/management resources.

04. Community Facilities	\$10.9 million positive variance
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Community Facilities projects are managed by various departments within the City including Real Estate & Facilities Management, Community Services, Planning and Development, and Vancouver Public Library.

Capital expenditures for Community Facility projects in 2015 were under budget by \$10.9 million primarily due to a delay in the construction of the n̄c̄a?mat ct Strathcona Branch Library and delays in the planned disbursement of several large cultural capital grants. Soil and encroachment issues were discovered earlier in the year during excavation for the n̄c̄a?mat ct Strathcona Branch Library building foundation, which delayed the construction schedule. The project is now scheduled to be complete in summer 2016. Several grant disbursements planned for 2015 related to Mount Pleasant artist production spaces are now expected in 2016 due to recipient organizations requiring more time than originally anticipated to satisfy grant conditions.

05. Civic Facilities	\$4.3 million positive variance
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Civic Facilities projects are managed by Real Estate & Facilities Management, Vancouver Fire and Rescue Services, Vancouver Police Department, Parks and Recreation, and Engineering Services.

Capital expenditures for Civic Facilities projects in 2015 were under budget by \$4.3 million, primarily due to delays in several projects requiring more extensive planning and scoping than anticipated in the budget, including Manitoba Yard fuel tank replacement, Fire Hall No. 17 Renewal, fire hall bay separation renovations, and Vancouver Police Department headquarters renovations. In addition, progress on garage modifications for CNG vehicle servicing was hampered by unforeseen unfavourable site conditions discovered prior to construction.

06. Transportation	\$6.8 million positive variance
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Transportation projects are managed by Engineering Services.

Capital expenditures for Transportation projects in 2015 were under budget by \$6.8 million, primarily due to:

- rescheduling of the Water Street road rehabilitation project in order to complete a Gastown Transportation Study to identify related potential transportation network improvements and to begin construction after Gastown's 150 year anniversary celebration in 2017;
- an extended timeline required for stakeholder engagement for the Seaside Greenway and York Bikeway project;
- rescheduling of the ferry dock replacement at the Vancouver Aquatic Centre to align with project management resourcing;

- rescheduling of purchases of new parking meter equipment to align with 2016 replacement of parking enforcement platform and review of parking meter locations.

In addition, revenue in 2015 from the planned sale of residual land from the Powell Street Overpass project generated a net positive variance against the 2015 expenditure budget for the project due to the timing of the sale—land was purchased in prior years as part of the project with the understanding that a portion would be sold at the end of the project, offsetting overall project costs.

07. Utilities and Public Works	\$3.2 million positive variance
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Utilities and Public Works projects are managed by Engineering Services.

Capital expenditures for Utilities and Public Works projects in 2015 were under budget by \$3.2 million, primarily due to delays in several Vancouver Landfill projects:

- Transfer Station improvements work planned for 2015 was rescheduled to 2016 due to an extended timeframe required for project design.
- Preliminary work planned for 2015 on the reconstruction of the landfill entrance was rescheduled to allow for input from the Ministry of Transportation and Infrastructure (MOTI). Construction of scales and expansion of the recycling area is now scheduled to start in Q3 2016 with completion mid-2017.
- The award of the construction contract for work relating to the Phase 3 closure of the Landfill was rescheduled to allow for additional time required for scoping and costing.

08. Equipment and Technology	\$12.7 million positive variance
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Equipment and Technology projects are managed by Engineering Services and Information Technology departments.

Capital expenditures for Equipment and Technology projects in 2015 were under budget by \$12.7 million, primarily due to a shift in the timing of planned expenditures from 2015 to 2016, including:

- Some IT projects planned for 2015 were re-prioritized or re-sequenced in order to focus on the more critical IT deliverables first (e.g., technology updates, time sensitive deliverables).
- Some contingency and consultant costs that had been anticipated for 2015 for the Permit & Licence Transformation Program were not required.
- Replacement of three bulldozers at the Vancouver Landfill planned for 2015 was delayed to 2016 as finalization of operational requirements required more time than originally anticipated.
- Purchases of four CNG rear-loading refuse trucks planned for 2015 were put on hold due to vendor design issues with previously delivered units. Vendor is working to resolve issues and anticipates delivery of these vehicles in 2016.
- Light duty, medium duty, and truck body equipment contracts planned for 2015 took 3-4 months longer than anticipated to execute, delaying units being ordered and delivered.

- Deliveries of fire trucks originally planned for 2015 was delayed into 2016 due to an extended timeline that was required for finalizing vehicle specifications and awarding the contract.

C. TOP 10 CAPITAL PROGRAMS/PROJECTS: 2015 Anticipated vs. Actual Outcomes

The following table summarizes actual 2015 outcomes compared to outcomes anticipated for the top 10 projects by 2015 Annual Capital Expenditure Budget. Outcomes for eight of the ten projects were less than the original estimated outcomes for the year, primarily reflecting changes in deliverables timing driven by external factors such as land purchase opportunities, unforeseen unfavourable site conditions, and rescheduling of City work to accommodate community activities.

Table 2 - Outcomes for Top 10 Projects and Programs in 2015 (\$ millions)

Program/Project	2015 Annual Expenditure Budget (REVISED)	Actual Expenditures in 2015	Variance to revised Budget	Anticipated Outcomes in 2015 (based on original 2015 Expenditure Budget)	Actual Outcomes in 2015
Vehicles and equipment replacement <i>(Annual program)</i> <i>(Original 2015 budget \$25.95M)</i>	25.76	19.44	6.32	<i>250 vehicles and pieces of equipment replaced</i>	<i>Outcome less than original estimate.</i> <i>212 vehicles and equipment were received in 2015.</i> <i>The remaining 38 vehicles are all in various stages of the procurement process and are expected to be paid for in 2016. These include 3 bulldozers (\$2.6M), 4 rear loading refuse trucks (\$1.2M), 3 hose reel trailers (\$0.9M), 12 police vehicles (\$0.6M), and various other light duty vehicles.</i>
Sewer separation <i>(Annual program)</i> <i>(Original 2015 budget \$25.8M)</i>	21.63	22.13	-0.51	<i>11.5 km of combined (stormwater and sanitary) sewer mains separated (1.1%)</i>	<i>Outcome less than original estimate.</i> <i>Approximately 7 km delivered by 3 City crews and 1.9 km construction tendered for delivery in 2016.</i> <i>Work on trunk sewers require more work and time resulting in a higher cost per km. Trunks are larger, require more excavation and backfill, and are slower to construct. They are also typically located in areas with poor ground conditions, adding to the cost of the work.</i>
Land acquisition for new non-market housing <i>(Original 2015 budget \$20.0M)</i>	18.22	11.49	6.73	<i>Purchase of land as opportunities arise, as well as site remediation where appropriate, to enable strategic partners (e.g., senior government, non-profit agencies) to deliver 750 units of affordable housing on City-owned land over the next 4 years</i>	<i>Outcome less than original estimate.</i> <i>Variance reflects the opportunistic nature of land purchases. Opportunities to acquire suitable properties were fewer than anticipated when the 2015 budget was developed.</i>
Affordable rental housing on City-owned land	19.87	19.83	0.05	<i>Delivery of 358 units of affordable housing by 2018 on City-owned land through agreements with Community Housing Land Trust Foundation</i>	<i>Outcome achieved.</i> <i>The planned 2015 payment to the Property Endowment Fund (PEF) for the Land Trust Sites has been completed. This will enable the delivery of 358 units of affordable housing by 2018.</i>
Water pipe replacement <i>(Annual program)</i> <i>(Original 2015 budget \$12.5M)</i>	12.25	13.29	-1.04	<ul style="list-style-type: none">• 6.5 km of distribution water pipe replaced (water distribution to homes, businesses, and industry)• 1.5 km of transmission water pipe replaced (transmission of bulk quantities of water throughout the City)	<i>Outcome achieved for distribution pipe replacement; outcome less than original estimate for transmission pipe replacement.</i> <ul style="list-style-type: none">• 6.3 km of distribution water pipe replaced• only 0.66 km of transmission mains were constructed in 2015, due to a planned Pender Street project being deferred to 2016 to accommodate a Coast Mountain Bus Company trolley wire move and a request from the local business association to avoid interfering with a scheduled street celebration.

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Table 2 - Outcomes for Top 10 Projects and Programs in 2015 (\$ millions)

Program/Project	2015 Annual Expenditure Budget (REVISED)	Actual Expenditures in 2015	Variance to revised Budget	Anticipated Outcomes in 2015 (based on original 2015 Expenditure Budget)	Actual Outcomes in 2015
Water/sewer connections replacement (Annual program) (Original 2015 budget \$11.2M)	18.12	17.18	0.94	<ul style="list-style-type: none"> • 1,200 residential water and sewer connections replaced • 100 commercial sewer connections replaced • 200 commercial water connections replaced 	<p><i>Outcome less than original estimate.</i> <i>The number of connections replaced is directly related to development activity and are only completed after a permit fee is paid and the developer is ready. The anticipated outcome was based on an average annual replacement rate.</i></p> <p><i>For 2015:</i></p> <ul style="list-style-type: none"> • 1,024 residential connection were completed • 92 sewer commercial connections were completed • 103 water commercial connections were completed <p><i>(Note: The water commercial connections total has been revised down from the 120 reported in Q3, reflecting a correction in the associated tracking records.)</i></p>
Rehabilitation of major City roads (Annual program) (Original 2015 budget \$8.97M)	8.80	8.81	-0.01	10.2 km of arterial City pavements rehabilitated	<p><i>Outcome less than original estimate.</i> <i>A total of 7.7 km of full-width pavement rehabilitation was completed in 2015 for Major Road rehabilitation (City Arterial and MRN). While the full capital budget was substantially spent, the reduced outcome in total kms delivered (from 10.2 km planned to 7.7 km actual) was directly related to changes in work plan funding and delivery of partial rehabilitation projects which are not included in this metric; e.g., the East Broadway (Glen Drive – Commercial Drive) road rehabilitation project was not a full-width paving project and therefore was not included in this metric.</i></p>
Land acquisition in East Fraser Lands for non-market housing	8.10	0.00	8.10	Purchase of land to enable strategic partners (e.g., senior government, non-profit agencies) to deliver 300 units of affordable housing on City-owned land over the next 4 years	<p><i>Outcome less than original estimate.</i> <i>The payment of the City option price for a 2015 targeted land acquisition is now anticipated for Q3 2016 and will form part of the purchase price for 300 turn-key affordable housing units by 2018. Discussion with the developer is ongoing and the options for the various parcels are now anticipated to be exercised between Q3 2016 and Q1 2017.</i></p>
Permit and Licence Transformation Program (Total project budget \$26.0M, including completed phase for Online Services Implementation) (Original 2015 budget \$7.69M)	7.36	5.56	1.80	<ul style="list-style-type: none"> • Expansion of online permit self-service capabilities • Expansion of mobile online field inspections capability 	<p><i>Outcome achieved.</i></p> <ul style="list-style-type: none"> • Continued expansion of the enterprise workflow platform, online permit self-service and mobile capabilities. Online active business customer accounts for POSSE based services now exceed 1,500. Additional permits implemented during the fourth quarter included sewer, water, tree, and fire. • As of the end of 2015, approximately 55% of the estimated 182,000 permits, licenses, and approvals issued by the City are processed online. The number of active internal users of the POSSE platform now exceeds 650.

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Table 2 - Outcomes for Top 10 Projects and Programs in 2015 (\$ millions)

Program/Project	2015 Annual Expenditure Budget (REVISED)	Actual Expenditures in 2015	Variance to revised Budget	Anticipated Outcomes in 2015 (based on original 2015 Expenditure Budget)	Actual Outcomes in 2015
náča?mat ct Strathcona Branch Library (Total project budget \$18.4M) (Original 2015 budget \$7.07M)	6.57	4.30	2.27	<i>Construction 75%-80% complete</i>	<i>Outcome less than original estimate. Soil conditions and encroachment issue in January delayed the planned construction work for 2015. Project is currently 60% complete, with 100% completion scheduled for summer 2016.</i>
Total	146.67	122.03	24.65		

D. MULTI-YEAR CAPITAL PROJECT EXPENDITURES vs. BUDGET

As of December 31, 2015, the active Multi-Year Capital Projects Budget for current open capital programs/projects totaled \$982.1 million. Subject to approval of the proposed 2016 Capital Budget Adjustments and 2015 Q4 Closeouts scheduled for Council deliberation March 8, 2016, the active Multi-Year Capital Projects Budget for continuing capital programs/projects will be \$820.9 million, reflecting a continuing focus on more closely managing all outstanding capital projects and programs and new investments in capital.

E. 2015-2018 CAPITAL PLAN

Council approved the 2015-2018 Capital Plan in October 2014 (RTS 10507), in the amount of \$1.085 billion. The Capital Plan was subsequently adjusted to reflect a change in cost allocation methodology for corporate shared services implemented with the 2015 Operating and Capital Budget to better reflect the cost of the City's Capital Program (\$10.8 million), and to include user-fee funded utilities connections programs in the Capital Plan (\$20.0 million). With these adjustments, the revised 2015-2018 Capital Plan is currently \$1.116 billion.

F. CONCLUSION

The City of Vancouver incurred \$242.1 million in capital expenditures in 2015 against the 2015 expenditure budget of \$311.8 million (\$69.7 million less than budget), representing 78% of the 2015 Capital Expenditure Budget.

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