The City of Vancouver 2019 Annual Report

The City of Vancouver, British Columbia, Canada

For the year ended December 31, 2019

CITY OF VANCOUVER

Vancouver at a Glance

2,463,431
Population

34.6
Median age

1.9%
Population growth

7.1%
Unemployment rate

2,879 km2
City area

402
City-supported events

917 km
City pathways

$867,954
MLS average selling price

3,154
Single family housing starts

$7,402,055,613
Value of building permits issued

Citizen Satisfaction

The annual citizen satisfaction survey provides opinions to what The City is doing well and what needs improvement. This year, 2,500 Calgarians, 18 and older, provided their thoughts

Quality of life in Vancouver

87%
rate their quality of life as good

83%
agree we are on track to becoming a better city

84%
agree Vancouver is a great place to make a life

85%
are proud to live in their neighbourhood

81%
perceive their neighbourhood as safe

Areas Vancouverites think the City should invest in

67%
Road maintenance including pothole repairs

70%
Snow removal

71%
Vancouver Transit including bus and CTrain service

62%
Affordable housing for low-income families

City Programs And Services

96%
are satisfied with the quality of drinking water

94%
are satisfied with Vancouver's parks, playgrounds and open spaces

87%
are satisfied with land use planning

84%
are satisfied with residential garbage collection service

81%
are satisfied with roads and infrastructure

79%
are satisfied with Vancouver Transit

Contents

The City of Vancouver, British Columbia Annual Report for the year ended December 31, 2018. Produced by the Chief Financial Officer's Department of The City of Vancouver, in cooperation with all civic departments, offices and agencies.

Message From The Mayor

Here in Vancouver, we are so lucky to live and work in this beautiful city. We have a lot to be proud of over the last year.

In 2018, The Economist called us the best city to live in within North America, and the fourth best in the entire world.

We opened the doors to a number of facilities including our beautiful new Central Library, Shane Homes YMCA at Rocky Ridge, Tuscany Fire Station No. 42, and Vancouver Composting Facility to name a few. We also did some important work on West Eau Claire Park, where we're building a lively, vibrant destination while protecting the city from flooding at the same time.

We made it easier for homeowners across the city to apply for secondary suites so that tenants can feel assured that their legal suite is safe. And we've worked with non-profits to build more than 165 units of affordable housing across the city, aiming to the goal that everyone has a safe and decent place to live.

We launched MAX — the biggest investment in bus rapid transit in the city's history, connecting people across the city. And we're moving forward on the Green Line. Stage 1 will help you get all the way from Shepard to Crescent Heights.

From Green Line to Green Cart, we celebrated the first anniversary of our composting program in 2018. Already we've diverted more than 111 million kilograms of waste. That's half our household garbage.

As we look to our future we also think of our past. In a spirit of reconciliation and healing, we joined with our Treaty 7, Metis, Inuit and urban indigenous neighbours to celebrate the renaming of the Reconciliation Bridge. We developed the Climate Resilience Strategy to help us cope with extreme weather events and climate change. We're reducing greenhouse gas emissions and finding ways to improve energy efficiency.

We're working hard to grow Vancouver's economy. Within The City, we've identified more than $600 million in savings in our budget to help keep your taxes low and help your government be more effective. And we've managed to invest more than $5 billion into the local economy. We've made it easier for small businesses to start and to grow. In 2018, we became the only municipality in Canada where you can do all of your permits and licensing fully online. And Council has invested $100 million in the Opportunity Vancouver Investment Fund (OCIF) designed to stimulate growth by attracting new business to Vancouver and helping Vancouver businesses expand. In 2018, we also started using Vancouver as a living lab for innovation. For example, we've opened up city land for the testing of drones and autonomous vehicles.

Looking back, we've accomplished so much in 2018. We've got a bold vision and a strong strategy for the future and together, we'll continue to make life better every day.

Josh McCallum
Mayor

Corporate Governance and Accountability

The role of City Council is to govern The City of Vancouver, Vancouver's municipal corporation, to ensure it provides the civic services Vancoverites need. In carrying out its many duties, City Council must anticipate emerging opportunities and plan for the community's long-term development and growth, along with addressing concerns.

In addition to sitting as a Council in Council meetings, City Council members participate in a variety of boards, commissions and committees. Their involvement provides a critical link between Vancouver's communities, agencies and the workings of the municipal government.

City Council is comprised of 14 Councillors and the Mayor. In Council meetings, each member has one vote. They are elected by and accountable to the people of Vancouver. The Mayor and Councillors hold office for four-year terms. After every civic election, the City Clerk and City Solicitor provide an orientation for all Members of Council on their roles, responsibilities and duties under The Municipal Government Act and The City of Vancouver Procedure Bylaw. This orientation includes how meetings are governed, ethical guidelines, and how recommendations flow from Administration, to Council Committees, and then to Council for a decision. Throughout their term in office, Members of Council pursue ongoing training and education. Council holds regular monthly meetings with the exception of August.

Regular and open communication with Administration is central to setting and achieving Vancouver's municipal corporation's mission, vision, goals, strategies and actions.

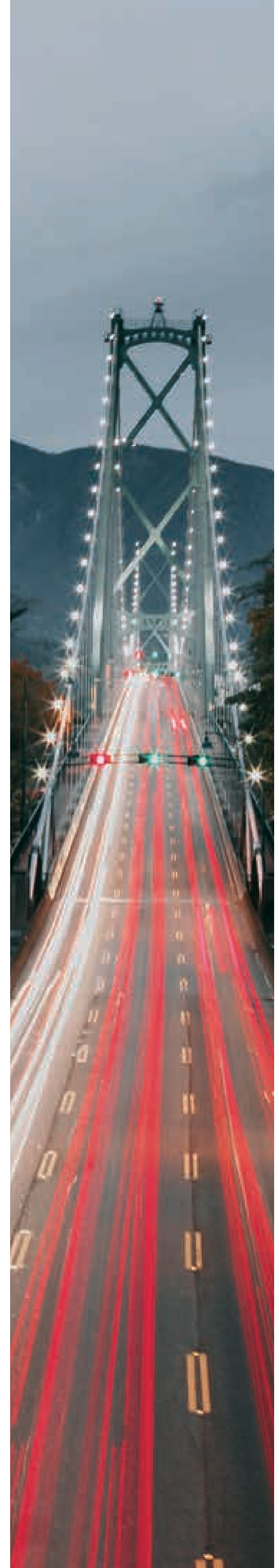
City of Vancouver Committee

In 2018, Council set priorities, established policies and made recommendations through Standing Policy Committees (SPCs), and Standing Specialized Committees (SSCs). The SPCs are as follows: SPC on Community and Protective Services; SPC on Planning and Urban Development; SPC on Transportation and Transit; and SPC on Utilities and Corporate Services. The SSCs are: the Priorities and Finance Committee, the Intergovernmental Affairs Committee, the Gas, Power and Telecommunications Committee and the Audit Committee. The public is welcome to attend committee meetings and may have an opportunity to speak to specific items.

During 2018, Council recommended appointments to various boards, commissions, committees and other bodies when vacancies occurred throughout the year following Council's Organizational Meeting in October 2017. The Audit Committee oversees the activities of the City Auditor's Office, the external auditor, and The City's internal controls and management information systems.

This ensures Administration's accountability to Council and adherence to the Integrated Risk Management Policy.

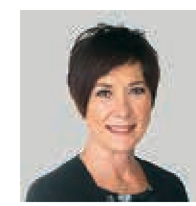
For more information about City Council, the various boards, commissions and committees, and any of the Administration and Council policies referenced here, visit vancouver.ca



City Council

Ward 1 Councillor
Ward Sutherland
vancouver.ca/ward1

Ward 2 Councillor
Joe Magliocca
vancouver.ca/ward2



Ward 3 Councillor
Jyoti Gondek
vancouver.ca/ward3

Ward 4 Councillor
Sean Chuck
vancouver.ca/ward4

Ward 5 Councillor
George Chahal
vancouver.ca/ward5

Ward 6 Councillor
Jeff Davison
vancouver.ca/ward6

Ward 7 Councillor
Druh Farrell
vancouver.ca/ward7

Ward 8 Councillor
Evan Woolley
vancouver.ca/ward8

Ward 9 Councillor
Gian-Carlo Carra
vancouver.ca/ward9

Ward 10 Councillor
Ray Jones
vancouver.ca/ward10

Ward 11 Councillor
Jeromy Farkas
vancouver.ca/ward11

Ward 12 Councillor
Shawna Keating
vancouver.ca/ward12

Ward 13 Councillor
Diane Colley-Urquhart
vancouver.ca/ward13

Ward 14 Councillor
Peter Demong
vancouver.ca/ward14

Message From The City Manager

At The City of Vancouver we work hard to make Vancoverites' lives better every day by delivering the services that Vancoverites want and need.

Throughout 2018 we continued to take action to support economic recovery, keep Vancoverites working and reduce the cost of local government. We continued to focus our attention on:

- Implementing strategies and initiatives to promote economic growth and build a more resilient city.
- Strategically managing our investments in infrastructure to provide job opportunities for Vancoverites while taking advantage of lower construction costs.
- Intentionally managing our costs and making our organization as efficient as possible.
- Ensuring The City of Vancouver continues to be financially stable and fiscally responsible in delivering value for citizens.
- Better serving citizens, communities and customers through anticipating and responding to economic, social and technological change.

Survey results continue to assist us in managing our services and identifying opportunities for improvement. In 2018, the Economist Intelligence Unit ranked Vancouver as the fourth most livable city in the world. Vancoverites' overall satisfaction with the level and quality of City services and programs continues to remain strong. Our 2018 Citizen Satisfaction Survey indicates that 86% of Vancoverites rate their quality of life as good and 84% agree we are on track to becoming a better city.

I am very proud to work every day with City colleagues who consistently demonstrate their commitment to public service and take pride in delivering quality services to Vancoverites. For the third year in a row, The City of Vancouver has been recognized by Forbes as one of Canada's Best Employers. Results from our 2018 Corporate Employee Survey have remained stable with this year's score indicating an increase in the Employee Satisfaction Index. These are great achievements that I believe result from the inclusive and collaborative work environment and diverse career opportunities The City offers.

I encourage you to read our report to find out more about The City's successes in 2018.

Glenda Cole, Q.C.
City Manager

City Of Vancouver Administration

Vancouver's municipal government is responsible for supporting, encouraging and strengthening our community's dynamic development.

It is Administration's responsibility to provide, manage and sustain civic infrastructure, facilities and programs that support the quality of life that is so much a part of Vancouver's appeal.

The Role Of The City Manager

The City Manager leads the Administrative Leadership Team (ALT) and works closely with Council. The City Manager implements the decisions of Council, provides advice and manages City Administration. She is responsible and accountable for ensuring all City work, projects, operations and services comply with Council's policies, priorities and direction.

Administrative Leadership Team

The ALT oversees all City operations and strategic management by leading, managing and co-ordinating The City's programs, projects and initiatives. The ALT also plays a major role in developing and implementing public policy as well as balancing the priorities and best interests of the community with The City's corporate goals and available resources.

Mayor And Council

Chief of Staff

Katharine Palmer
City Auditor

City Auditor's Office

Glenda Cole
City Manager

Jill Floen
City Solicitor

Law and Legislative Services

City Clerk's Office

Corporate Security Law

Carla Male
Chief Financial Officer

Chief Financial Officer's Department

Assessment

Customer Service & Communications

Finance Human Resources

Information Technology

Katie Black
General Manager

Community Services Department

Calgary Community Standards

Calgary Emergency Management Agency

Calgary Fire

Calgary Housing

Calgary Neighbourhoods

Calgary Parks

Calgary Recreation

Brad Stevens
Deputy City Manager

Deputy City Manager's Office

Corporate Analytics & Innovation

Facility Management

Fleet Services

Real Estate & Development Services

Resilience & Infrastructure Calgary

Supply Management

Stuart Dalgleish
General Manager

Planning & Development

Calgary Approvals

Calgary Building Services

Calgary Growth Strategies

Community Planning

Michael Thompson
General Manager

Transportation Department

Green Line Roads Transit Transportation

Infrastructure Transportation Planning

David Duckworth
General Manager

Utilities & Environmental Protection Department

Environmental & Safety Management

Waste & Recycling Services

Water Resources

Water Services

Audit Committee

The Audit Committee plays an integral role in financial and governance matters at The City of Vancouver and oversees risk management, internal controls and the integrity of The City's annual financial statements.

The diverse role of the Audit Committee at the City of Vancouver reflects a wider trend in North America of Audit Committees participating in more than just financial governance matters, playing an increasingly important role in oversight, risk management, and corporate governance.

The Audit Committee is comprised of seven independent members who were appointed by City Council, with the Mayor serving as an ex-officio member. The membership includes four City Councillors and three volunteer citizen members, whom demonstrate extensive financial expertise.

In 2018 the following major autonomous civic entities delivered presentations to the Audit Committee on their risk management, internal controls, financial reporting, governance structure and 2018 key initiatives and strategy:

- Attainable Homes Corporation Vancouver
- Vancouver Arts Development Authority
- Vancouver Convention Center Authority
- Vancouver Economic Development
- Vancouver Housing Company
- Vancouver Municipal Land Corporation
- Vancouver Parking Authority
- Vancouver Police Commission
- Vancouver Public Library
- ENMAX

Deloitte, LLP are the independent external auditors fulfilling The City's legislated audit requirements and providing assurance over The City's annual financial statements and reporting processes. Deloitte, LLP carried out the audit of The City of Vancouver's 2018 financial accounts in accordance with Canadian Generally Accepted Auditing Standards, and had full and unrestricted access to the Audit Committee to discuss the audit and related findings.

The City Auditor's Office is the independent internal auditor for the City of Vancouver, operating autonomously from City Administration and reporting directly to Council through Audit Committee. The City Auditor's authority, mandated in the City Auditor's Bylaw and Charter, provides the City Auditor with unrestricted access to all municipal personnel, records, property, policies, procedures, processes and systems necessary to conduct audits. The risk-based activities of the City Auditor's Office are approved annually by Audit Committee through a rolling two-year audit plan. The results of formal audits by the City Auditor's Office, as well as follow-up on audit recommendations, are presented to Audit Committee and Council for discussion, and made public through The City's website: www.vancouver.ca/auditor.

An equally important role of the City Auditor's Office is the oversight of the Whistle-blower Program. This program ensures reports received from City employees or members of the public regarding waste or wrongdoing are subject to an appropriate investigation and resolution. The City Auditor provides to Council through the Audit Committee, at least on an annual basis, information related to reports received and investigations conducted during the year.

The Audit Committee is comprised of the right professionals working together with the Chief Financial Officer, the City Auditor and the External Auditor, to successfully fulfill their mandate. I am proud of the important work performed by the Audit Committee in support of City Council's priority of "A well-run city".

On behalf of the Audit Committee, it is my pleasure to recommend to City Council approval of The City's Annual Financial Statements as audited and presented in this 2018 Annual Report.

Evan Woolley,
Ward 8 Councillor
Chair, Audit Committee

Year at a Glance

2019 Initiatives in City of Vancouver, British Columbia

Better serving citizens, communities and customers

At The City, we're working together to make citizens' lives better, every day. We're focusing on what's important to you, improving how we do business and ensuring we plan for our future by building a strong, resilient Vancouver.

In 2018, we completed our four-year service plans and budgets which provide clarity on the value of City services you receive for your tax dollars. The 2019-2022 Service Plans and Budgets describe how we'll be addressing ongoing challenges, providing essential services and delivering on Council's vision for Vancouver.

From solar power to secondary suites to sledge hockey, these are some of the ways we improved life for Vancoverites:

- Completed Shepard Solar Park, the City's first ground-mounted solar project which produces enough electricity to power over 185 average Vancouver homes, while generating over 800 tonnes of greenhouse gas emissions reductions a year.
- Approved the Integrated Civic Facility Planning Program which ensures City sites are built with multiple purposes to better serve the community.
- Updated the Vancouver Pathway and Bikeway Implementation Plan to seamlessly connect Vancoverites to the places they want to go.
- Provided clean drinking water with solar power at the Bearspaw Water Treatment Plant.
- Approved the sale of City land to non-profit affordable housing providers.
- Approved amendments to the Land Use Bylaw allowing secondary suites for discretionary use within more areas.
- Improved accessibility at facilities to reduce barriers for Vancoverites including:
  - Assistive Listening Device (ALDs) Hearing Loops which help people in noisy environments.
  - Sledge hockey features for the two arenas at Village Square Leisure Centre, including translucent boards in the player's box so sledge hockey players can see the game.
  - Rest facility accessibility upgrades at Southland Leisure Centre and Vancouver Soccer Centre.

Working hard to grow Vancouver's economy

The City of Vancouver is taking action to support Vancouver's economy, keep Vancoverites working and reduce the cost of local government. Under Council direction, Administration has achieved significant savings through the intentional management of The City's financial position. Between 2015 and 2018, we identified $607 million in operating savings and efficiencies to reduce costs and increase the effectiveness of local government.

In 2018, The City continued to help Vancouver's economy bounce back from the recent downturn with business strategies, digital improvements and investment funding.

- Developed an Economic Resiliency Strategy that engages with local businesses, other levels of government and City partners to create a diverse and strong economy.
- Made it easier for small businesses to start and to grow by becoming the first and only municipality in Canada to allow small business customers begin and manage their business completely online via myBusiness.
- Provided $100 million through the Opportunity Vancouver Investment Fund to stimulate growth by attracting new business to Vancouver and helping Vancouver businesses expand.
- Created a Goods Movement Strategy which recommends actions and investments to support the economic development of Vancouver in the short and long term.
- Used Vancouver as a living lab for innovation by opening up City land for testing drones and autonomous vehicles.

Investing in Infrastructure

Investing in Vancouver's infrastructure is a key driver that supports Council's priority of creating A Prosperous City. Between 2015 and 2018, The City invested over $5 billion in the local economy. These expenditures encourage business development and diversification, bring people together, improve our environment, help us keep safe and enable Vancoverites to keep on the move.

In 2018, we achieved milestones on these projects:

- Opened the spectacular new Central Library.
- Celebrated the on-time and on-budget opening of the City-owned Shane Homes YMCA at Rocky Ridge.
- Joined over 2000 community members to celebrate the grand opening of Tuscany Fire Station 42.
- Marked the first anniversary of the Green Cart composting program which kept 111 million kilograms of food and yard waste out of landfills.
- Worked with non-profit organizations to build over 165 units of affordable housing across the city.
- Moved forward on the Green Line LRT project with the announcement of $1.53 billion in Federal funding for phase one.
- Invested $340 million between 2015 and 2018 in the Bus Rapid Transit Program.
- Launched MAX — the new BRT service that provides more convenience, more comfort and more connections across our city.

Financial Information

The City of Vancouver, British Columbia

2018 Financial Statement Discussion and Analysis

Introduction

The financial statement discussion and analysis (FSD&A) reports to stakeholders on how the financial resources entrusted to The City of Vancouver (The City) are being managed to provide municipal infrastructure and services. It explains the significant differences in the financial statements between the reported year and the previous year as well as between approved budget and actual results. The FSD&A also identifies trends, risks and anticipated events that could have financial implications.

The 2018 year is the last year in the four-year business plan and budget cycle (2015 – 2018). and The City was able to effectively implement its business plans and budgets as approved by Council. These results have been demonstrated in the 2018 year by reducing expenses by $239 million relative to budget and generating $367 million of cash flows from operating activities net of capital asset spending.

The City has been in an economic downturn for the last four years, and during this challenging time The City made significant and intentional progress to reduce costs and become more efficient. The focus was on finding ways to deliver high quality services at a lower cost, evaluating what services are truly needed by citizens and how to deliver these services more efficiently. Over past four years, the City achieved savings relative to budget through cost reductions and efficiencies. These savings were achieved while The City continued to deliver services within its means and provide support such as tax relief, fee relief, offsetting revenue shortfalls to avoid tax increases, and community support.

The following table reflects the actual expenditures (excluding depreciation) compared to budget (excluding depreciation) for the 2015 – 2018 business plan and budget cycle.

Expenses - Budget to Actual Comparison

For the years ended December 31 (in thousands of dollars)		Budget (excluding Depreciation)		Budget (excluding Depreciation)		Budget (excluding Depreciation)
2016	$	3,150,927	$	3,010,681	$	140,246
2017		3,313,369		3,076,444		236,925
2018		3,408,672		3,192,249		216,423
2019		3,433,340		3,194,106		239,234
	$	13,306,308	$	12,473,480	$	832,828

In November 2018, Council approved the Service Plans and Budgets (2019 – 2022), also known as One Vancouver. The One Vancouver Service Plans and Budgets reflects The City's long-term goals, and it continues to monitor its financial performance carefully so that it can address local effects resulting from the recent economic downturn. These issues are discussed further on in The Outlook section of the FSD&A.

The City's 2018 Annual Financial Report contains the audited consolidated financial statements prepared in accordance with principles and standards established by Canadian Public Sector Accounting Standards (PSAS) of Chartered Professional Accountants (CPA) Canada, as required by the *British Columbia Municipal Government Act*.

The financial statements consist of:

- Consolidated statement of financial position (summary of financial assets and liabilities, net financial assets, non-financial assets and accumulated surplus) at year end,
- Consolidated statement of operations and accumulated surplus (summary of the annual surplus for the year, consisting of revenues reflecting what operating and capital funds were raised in the year and expenses reflecting how funds were used during the year, including the annual costs for owning and using capital assets (amortization), plus the change in the net value of the government business enterprise),
- Consolidated statement of cash flows (summary of how The City's cash position changed during the year, highlighting sources and uses of cash, including the use of cash to acquire capital assets), and
- Consolidated statement of changes in net financial assets (a reconciliation between the net revenues earned in the year to the change in net financial assets). This statement shows the annual surplus, with a reversal of the non-cash accruals for amortization and sale of assets, less donated assets and the spending to acquire new capital assets in the year. The change in net financial assets is an indicator of whether revenues raised in the year were sufficient to cover the spending in the year.

The City Administration is responsible for preparing the following FSD&A and the audited consolidated financial statements. The FSD&A and the consolidated financial statements should be read in conjunction with the financial and statistical schedules.

In 2018, The City identified adjustments to capital deposits and reserves that required correction due to the timing of revenue and funding recognition. This correction has been reflected in these financial statements as a prior period adjustment to the 2017 figures, resulting in a decrease to capital deposits, and an increase to other revenue and accumulated surplus of $114.2 million. These restated amounts had no effect on The City's cash balances, property tax revenues or any other balances influencing property tax assessments

Economic Environment

Economic growth in the Vancouver Economic Region was estimated at 2.9 per cent in 2018, while Vancouver's population increased by 1.7 per cent

	2019	2018	2018
Vancouver			
Population (April census)	**1,267,344**	1,246,337	1.7%
Employment	**763,260**	756,240	0.9%
Building permit applications	**16,298**	16,412	(0.7%)
Building permit value ($ billions)	**4.4**	4.6	(4.3%)
Vancouver Census Metro Area			
CPI inflation rate	**2.4%**	1.6%	0.8%
Vancouver Economic Region			
Unemployment rate	**7.6%**	8.6%	(1.0%)

Population growth from April 2017 to April 2018 was 21,007 (1.7 per cent) compared to 11,166 (0.9 per cent) for the year ending April 2017. The annual rate of population growth is estimated at 1.9 per cent per year over the next ten years.

Population growth for the next four years is expected to be faster for the city of Vancouver than the national and provincial average. This relatively higher pace of growth is because the city of Vancouver is expected to remain a more attractive destination relative to other jurisdictions due to affordability and quality of life. Net migration will be the primary driver of population growth, accounting for 61 per cent of the total increase.

Financial Highlights

Revenues and Expenses

The City had consolidated revenues of $3.873 billion in 2018 before external transfers for infrastructure. External transfers for infrastructure includes grants and revenue sharing recognized from other governments plus funds and tangible capital assets from developers totalling $1.038 billion (2017 – $3.756 billion, before ex ternal transfers of $1.026 billion).

The City consolidated expenses were $3.873 billion before net ENMAX Corporation ("ENMAX") adjustments of $0.016 billion (2017 – $3.820 billion, before net ENMAX adjustments of ($0.101) billion). Included in expenses is amortization in the amount of $0.678 billion (2017 – $0.629 billion) as the estimated annual cost of owning and using The City's capital assets.

For 2018, net revenues including external contributions to infrastructure of funds and tangible capital assets totalled $1.038 billion (2017 – $1.026 billion)

Consolidated Financial Position

As at December 31 (in thousands of dollars)		**2019**		2018
				(Restated)
A. Financial Assets	**$**	**7,289,242**	$	7,055,340
B. Liabilities	**$**	**5,370,638**	$	5,361,302
C. Net Financial Assets (A minus B)	**$**	**1,918,604**	$	1,694,038
D. Non-Financial Assets	**$**	**17,776,479**	$	16,980,420
E. Accumulated Surplus (C plus D)	**$**	**19,695,083**	$	18,674,458

The City's net financial assets increased by $225 million (2017 – $322 million) mainly due to increases in cash, investments and receivables. Financial assets are partially offset by liabilities which are governed by agreements with the parties involved, including funds owed for goods and services already received (accounts payable and accrued liabilities), and capital deposits that are restricted to specific types of capital.

The City's accumulated surplus increased by $1,021 million (5.5 per cent) in 2018, primarily from the net increase in tangible capital assets (purchased and donated) of $807 million and a decrease in long-term debt of $177 million.

The City's long-term debt ratings were affirmed at AA+ by Standard and Poor's and AA (high) by Dominion Bond Rating Service (DBRS) in 2018

Cash Flow

The City's cash and cash equivalents increased by $112 million to $246 million and investments increased by $145 million to $4,039 million. The increase in cash and cash equivalents is primarily due to an increase in short term investments.

Cash provided by operating activities

In 2018, cash provided by operating activities was $1,601 million, compared to $1,093 million in 2017. This increase was primarily due to an overall increase in the federal government grants inflow that occurred in 2018 and an increase in accounts payable and accrued liabilities.

Cash used in capital activities

Cash used in capital activities was $(1,235) million, compared to $(1,263) million in 2017, and it includes:

- Additions to capital assets of $(1,271) million; and
- Proceeds from sale of tangible capital assets of $36 million.

Cash provided by investing activities

Cash used by investing activities was $(105) million, compared to $251 million provided in investing activities in 2017, and includes:

- Net purchase of investments of $(145) million; and
- Dividends from ENMAX of $40 million.

Cash used in financing activities

- Cash used in financing activities was $(150) million, compared to $(174) million of cash used in 2017, and includes:
- Proceeds from long-term debt issued of $153 million;
- Long-term debt repayments of $(331) million; and
- Net increase in bank indebtedness of $27 million

Financial Analysis Review

Revenues – Budget to Actual Comparison

For the year ended December 31 (in thousands of dollars)	Budget 2019	Actual 2019	Favourable/ (Unfavourable)	Percent Change
Net taxes available for municipal purposes	$ 2,090,244	$ 2,068,070	$ (22,174)	(1%)
Sales of goods and services	1,346,620	1,278,099	-68,521	(5%)
Government transfers and revenue sharing agreements				
Federal	797	1,736	939	118%
Provincial	147,420	160,387	12,967	9%
Investment income	65,588	101,236	35,648	53%
Fines and penalties	91,194	95,747	4,553	5%
Licences, permits and fees	104,087	117,254	13,167	13%
Miscellaneous revenue	24,074	44,951	20,877	87%
Equity in earnings of ENMAX	132,000	5,094	-126,906	(96%)
Total revenues (before external transfers for infrastructure)	$ 4,002,024	$ 3,872,574	$ (129,450)	(3%)
Developer contributions	$ 269,128	$ 218,988	$ (50,140)	(19%)
Government transfers related to capital	1,125,922	564,652	-561,270	(50%)
Developer contributions-in-kind related to capital	-	254,799	254,799	100%
Total external transfers for infrastructure	$ 1,395,050	$ 1,038,439	$ (356,611)	(26%)

Total City revenues (before external transfers for infrastructure) were approximately 3 per cent lower than budgeted for 2018, mainly as a result of lower than anticipated net municipal taxes, sales of goods and services, and lower equity in earnings of ENMAX partially offset by higher than budgeted investment income, licences, permits and fees, provincial government transfers, and miscellaneous revenue.

Government transfers and revenue sharing agreements were approximately 9 per cent higher than budgeted due to Provincial transfers for programs that are not budgeted and include funding for the Low Income Transit Subsidy program, the Seniors Home Maintenance Program, provincial transfers for the Disaster Recovery program and funding from the British Columbia Emergency Management Agency for flood preparation. The variance in the Federal transfers was primarily for the funding for the Vancouver Local Immigration Partnership.

Investment income was approximately 53 per cent higher than budgeted due to higher principal balances invested and a higher than budgeted blended yield which resulted from realized capital gains on The City's equity holdings upon disposition and receipt of annual dividend payments.

Fines and penalties were approximately 5 per cent higher than budgeted mainly due to increased court fines for traffic violations and an increase in transit fare penalties.

Licences, permits and fees were approximately 13 per cent higher than budgeted as a result of sustained development activities despite the economic conditions. A freeze in permits and license fees have contributed to mitigate the potential impact on applicants from the economic downturn.

Miscellaneous revenue was approximately 87 per cent higher than budgeted mainly due to proceeds from the sale of tangible capital assets, revenues accrued for costs incurred on behalf of Vancouver 2026 Bid Corporation and a higher than budgeted insurance settlements from third parties.

Equity in earnings of ENMAX was 96 per cent lower than budgeted due to an increase in current and deferred income tax expenses recorded in the year relative to the budget.

Developer contributions were approximately 19 per cent below budget due to differences in the estimates of anticipated contributions used during the year.

Government transfers related to capital were approximately 50 per cent lower than budgeted primarily due to unanticipated changes in timing of the use of government grants. These funds will be drawn upon as capital projects progress.

Developer contributions-in-kind related to capital were higher than budgeted as capital acquisitions of this nature are not budgeted due to the timing of completion of developer donated assets which is highly volatile from year to year.

Expenses – Budget to Actual Comparison

For the year ended December 31 (in thousands of dollars)	2019 Budget (excluding Amortiza-tion)	2019 Actual (excluding Amortiza-tion)	Favourable/ (Unfavour-able)	Percent Change	2019 Budget Amortiza-tion Expense	2019 Actual Amortization Expense
Police	$ 509,915	$ 502,510	$ 7,405	1%	$ -	$ 18,714.00
Fire	297,736	297,058	678	0%	-	13,765
Public Transit	451,982	433,687	18,295	4%	-	133,968
Roads, traffic and parking	280,132	258,812	21,320	8%	9,102	166,311
Water services and resources	406,130	391,494	14,636	4%	84,601	126,328
Waste and recycling services	153,891	136,191	17,700	12%	-	15,396
Community and social development	77,758	85,694	(7,936)	(10%)	-	93
Public housing	154,037	117,685	36,352	24%	3,414	12,146
Parks and recreation facilities	219,617	215,931	3,686	2%	-	61,981
Societies and related authorities	83,108	89,163	(6,055)	(7%)	383	14,494
Vancouver Public Library Board	59,839	60,543	(704)	(1%)	6,900	6,847
General government	411,817	354,944	56,873	14%	-	29,900
Public works	244,133	221,647	22,486	9%	29,697	65,947
Real estate services	83,245	28,747	54,498	65%	-	12,648
	$ 3,433,340.00	$ 3,194,106.00	$ 239,234.00	7%	$ 134,097.00	$ 678,538.00

The four year budget cycle 2019-2022 has incorporated amortization charges for information purposes only, similar to the budget cycle 2015-2018. The City has yet to integrate these standards for budget preparation.

In 2018, The City continues to find efficiencies and savings in expenditures which allowed The City to keep taxes and fees as low as possible while still responding to the priorities and needs of citizens.

The following variance explanations exclude the impact of amortization expense.

Public transit expenses were approximately 4 per cent lower than budgeted primarily due to decreased costs for salaries and wages arising from the use of workforce planning strategies.

Roads, traffic and parking expenses were approximately 8 per cent lower than budgeted due to lower activity for street repairs and sidewalk maintenance. This is partially offset by an increase in winter operations, paving and street-lighting programs.

Water services and resources expenses were approximately 4 per cent lower than budgeted due to lower costs for salary and wages and lower consulting fees due to increased cost control efforts. In addition there were lower than estimated biosolids tonnage costs.

Waste and recycling services expenses were approximately 12 per cent lower than budgeted due to lower costs on salary and wages, lower composting facility related costs as a result of less tonnage than expected and lower fleet lease, operation and maintenance costs.

Community and social development expenses were approximately 10 per cent higher than budgeted primarily due to the Low Income Transit program related costs which are not budgeted and higher transfers to agencies for delivery of various programs.

Public housing expenses were approximately 24 per cent lower than budgeted mainly due to reduced cost of sales recognized for lower housing sales due to less favourable market conditions and lower disbursements from the one-time Housing Incentive Program budget.

Societies and related authorities expenses were approximately 7 per cent higher than budgeted primarily due to the permanent impairment loss incurred on the Vancouver Film Centre.

General government expenses include the costs of Council, City Manager, Finance, Supply, Mayor, City Auditor, City Clerk's, Law, Assessment, Customer Service & Communications, Human Resources, Information Technology and Corporate Revenues and Costs. Expenses were approximately 14 per cent lower than budgeted primarily due to lower provisions for corporate contingencies than expected, lower salary and wage costs arising from changes in actuarial and budget assumptions for employee benefit obligations, and lower contingency costs for utilities due to lower natural gas and electricity prices experienced in 2018 compared to rate assumptions in the initial Action Plan.

Public works expenses were approximately 9 per cent lower than budgeted primarily due to cost-reduction initiatives, such as salaries and wages reductions arising from the use of workforce planning strategies and reduction of spending for materials and equipment, which were implemented in response to the economic downturn.

Real estate services expenses were approximately 65 per cent lower than budgeted primarily due to lower than anticipated costs for salaries and wages arising from the use of workforce planning strategies and lower than anticipated land sales which decreased associated cost of sales.

Liquidity And Debt

Financial Position – Net Financial Assets

There was an increase of $225 million in net financial assets in 2018 relative to 2017 with increases in cash, investments and receivables balances driving the change. The increases are partially offset by liabilities which are governed by agreements with the parties involved, including funds owed for goods and services already received (accounts payable and accrued liabilities), and capital deposits that are restricted to specific capital projects. A trend of decreasing long-term debt levels combined with increasing cash and investments have been the primary factors of the net financial asset growth trend through the 2014 to 2018 years. The downward trend in debt levels from 2014-18 is due to higher principal repayments compared to borrowings for tax-supported and self-sufficient tax-supported (especially MSI) debt and the decrease in these debt categories is greater than increases in self-supported debt. Borrowing requirements for MSI related debt have reduced significantly since the province combined MSI funding with the Provincial Fuel Tax and this funding has been sufficient to cover the expenditures. The timing of major capital projects also influences the utilization of capital deposits and accounts payable balances for specific years.

Long-Term Debt

In 2018, DBRS reaffirmed the long-term debt rating of The City at AA (high), and The City's commercial paper rating at R-1 (high), with stable trends. In affirming the rating, DBRS stated that “the ratings are supported by a low DBRS-adjusted tax-supported debt burden, a high level of liquidity and reserves, stability in key revenue sources and disciplined fiscal management amid a still-challenging economic climate in British Columbia”. In addition, Standard & Poor's affirmed The City's long-term debt rating at AA+ and commercial paper rating of A-1+ reflecting healthy operating cash flows, robust liquidity and strong financial management.

The City utilizes debt to finance certain capital projects on the premise that the cost of these projects should be borne by the taxpayers and utility users who will benefit from the projects. Debt financing allows The City to appropriately manage the timing of cash flows.

The City has three categories of debt, including:

- Tax-supported – debt issued for capital expenditures that is funded in whole or in part from tax revenues;
- Self-sufficient tax-supported – debt for non-utility operations or programs that are self-funded by revenues or cash flows from a dedicated funding source; and
- Self-supported – debt mainly for utility services which is not funded by tax revenues but by rates charged directly to users and cash flows generated from operations.

Council's capital financing policy allows for increasing the tax-supported debt outstanding as long as annual debt servicing charges do not exceed 10 per cent of the tax-supported gross expenditure (net of recoveries). The policy would allow The City to provide some additional growth-related capital infrastructure if desired.

In 2018, The City's issued no new tax-supported debt to finance growth-related projects, and repaid $41.4 million in tax-supported debt, resulting in a net reduction in tax-supported debt of $41.4 million to $365.5 million as at December 31, 2018.

The ratio of debt servicing charges to tax-supported gross expenditure (net of recoveries) was 4.8 per cent (including self-sufficient tax-supported) and 1.8 per cent (excluding self-sufficient tax-supported) which is within The City's 10 per cent policy limitation.

Self-sufficient tax-supported debt comprises debt for CMLC's programs and activities whose operating costs, including debt servicing, have historically been funded in whole or in part, directly or indirectly, by revenue from municipal property and business taxes. These costs are currently being partially funded by revenues resulting from their own operations. As at December 31, 2018, CMLC has $217.8 million in outstanding debt. Self-sufficient tax-supported debt also includes short-term debt that will be funded from future grant receipts from the British Columbia Government's MSI. In 2009, Council approved a maximum debt of $1 billion to provide bridge financing for MSI-funded projects. Additional bridge financing for MSI-funded projects was approved in 2011, bringing the total capacity to approximately $1.6 billion. As at December 31, 2018, The City has total outstanding debt of $70.5 million for these projects. Although no new borrowing is identified, there remains the possibility of new MSI debt issue depending on provincial funding and capital cash flow demands.

Also in 2018, $127.5 million in new self-supported debt (primarily related to water services and resources) was obtained and $203.4 million was repaid, resulting in a net reduction in self supported debt of $75.9 million to $2,235 million (excluding $1,185 million in debt attributable to ENMAX).

The Municipal Government Act (MGA) requires The City to comply with two separate debt related limits which are expressed as a percentage of revenue. The MGA Debt Limit stipulates the maximum amount of debt principal that The City can have outstanding, including loan guarantees, and is calculated at two times revenue. Chart A below reports The City's total historical outstanding debt from 2014 to 2018. It indicates that as at December 31, 2018 The City had used 37.32 per cent of its MGA debt limit.

Administration continues to monitor and report on an internal maximum level of 80 per cent, as well as the mandated 100 per cent maximums of the MGA limits, ensuring that The City has a sufficient cushion of debt capacity room available to provide financial flexibility. In 2011, the Provincial government enacted a regulation that exempted The City's MSI related debt issued after December 31, 2011 from the debt service limit calculation. As a result, debt servicing for MSI bridge financing originated in 2012 or beyond is not included in the figures above.

The MGA Debt Service Limit sets out the maximum amount of annual debt servicing (principal and interest) that The City can incur and is calculated at 35 per cent of revenue. For MSI bullet debt, the total principal and interest is recognized as debt servicing in the year the debt matures. Chart B reports The City's Debt Servicing Charges is at 25.77 per cent of the MGA debt service limit at the end of 2018.

Reserves

The reserve balances totalled $2,300 million at the end of 2018 (2017 – $2,033 million). The net increase was primarily the result of increases in the Fiscal Stability Reserve, Reserves for Utilities Sustainment, and the Lifecycle Maintenance and Upgrade Reserves; partially offset by reductions in the Building Services Sustainment Reserve and the Budget Savings Account Reserve.

The City allocates funds to reserves to meet specific future operating and capital expenditure requirements and to provide for emergencies. In 2010, Council approved an updated Financial Reserve Policy that establishes guidelines and criteria for the proper creation and administration of reserve funds. This policy includes a triennial review process requiring that each reserve be reviewed at least once every three years. This review includes ensuring that reserves are being administered as approved by Council and in accordance with The City's policies and procedures, that reserve purpose and requirements are still relevant, and whether reserves are still required or can be closed. During 2018, City staff undertook a review of eighteen reserves totaling $965 million, representing almost half of all reserve balances as at December 31, 2017. Findings and recommendations of the review were approved by Council in November 2018.

Maintaining financial reserves is good management, allowing funds to be collected as available and spent judiciously as needed to ensure service levels to citizens are maintained. The City classifies reserves into three categories to be used for three distinct purposes:

- Operating reserves are used to fund operating expenses for one-time projects/pilot programs; to stabilize operating budgets for unanticipated fluctuations in revenue or expenses; to comply with a contractual agreement; or for contingency funds for operational emergencies.
- Capital reserves are used to fund capital expenses.
- Sustainment reserves are used to fund both operating and capital expenses for activities that are treated as self-sustaining. Surpluses from these activities are retained in these reserves to offset any future deficits.

The largest reserve is the Fiscal Stability Reserve (2018 – $618 million; 2017 – $493 million) which is a contingency reserve for urgent situations with significant financial implications and is also used to fund one-time operating costs as approved by Council. Included in the amounts are commitments of $7 million for 2018 Budget Adjustments related initiatives, major commitments within the reserve include $25 million for Community Action on Mental Health and Addiction, $2 million for Genesis Centre Outdoor Artificial Turf Community Field, $10 million for budgeted one-time expenditures, and $102 million for flood and resiliency related projects. The second largest reserve is the Reserve for Future Capital (2018 – $306 million; 2017 – $305 million) which funds capital projects in accordance with Council approved terms and conditions defined for this reserve.

Risk Management

The City is committed to an integrated approach to risk management, where it is viewed as a key component of sound business practice and due diligence. The City Manager is responsible for ensuring compliance with Council's Integrated Risk Management (IRM) Policy and promoting a proactive, corporate-wide and systematic approach to managing risks that could affect The City's objectives. As an example, risk management has been embedded into multi-year business planning and reporting to enhance the level of accountability, transparency and comparability of operations. Through the IRM framework, risks are identified at all levels across the organization. Some specific risks and mitigation approaches are presented below.

Economic Monitoring

The City was materially impacted by volatile energy prices as it is the head office location for most of the businesses in Canada's oil and gas industry. The local economy remains tightly linked to the energy sector, despite diversification of its economic base in recent years. In keeping with Council's IRM policy, The City continues to monitor economic conditions and The City's financial status so that Council is promptly informed of any changes requiring adjustment to business plans and budgets.

The fiscal situation for the Government of British Columbia is still challenging with significant deficits anticipated for the next few years. The resource revenue for the province has been negatively impacted by lower crude oil prices, and the discounted price for Western Canadian Select (WCS) relative to West Texas Intermediate (WTI) because of the transportation bottleneck. Continued deficits will lead to future increases in the net debt-to-GDP ratio unless there are major spending cuts or significant increases in non-resource revenue. There is a risk that grant funding to The City of Vancouver will be negatively affected. The City continues to monitor the economy and the Provincial fiscal situation and will take action to mitigate any negative impacts.

Economic activity continued to improve in 2018, owing to the positive impact of gradually increasing oil prices and continued economic expansion. The city's unemployment rate remains elevated, as the economy is yet to recover all goods-producing sector jobs lost during the 2015-16 recession. The local real estate market has been impacted by the fall in oil prices that started in 2014 and led to a 2015-16 recession, with the downtown office market experiencing the sharpest decline in value. From 2016 to 2018, there was a redistribution of non-residential property taxes away from the downtown office market to other non-residential property owners. Council approved one-time funding of $45 million for 2017 and $41 million for 2018 for the Municipal Non-Residential Phased Tax Program (PTP) to mitigate impacts of this shift.

Normal Operational Risk

In the usual course of business, The City is exposed to various risks that are mitigated through operational and financial controls under the umbrella of corporate integrated risk management. These risks include the normal operational risks associated with each of The City's businesses as well as social, legal and regulatory issues and changes to the economy that could impact City operations, human resource availability and cost, and investment risk related to volatile financial markets.

All activities undertaken by The City are covered under the Civic Insurance Program. This program is composed of purchased insurance coverage as well as a self-funded component for any losses below the deductible level of a purchased policy. Certain types of risks will be fully self-funded, as the costs to insure these risks are either prohibitive or unnecessary.

A $7 million reserve is set aside and is utilized to offset any large claim against The City either in excess of a purchased policy limit or for a loss that is not covered by an insurance policy. This reserve was not used in 2018.

The City has fully met its current year cash contributions for employee benefit obligations at December 31, 2018. The City sponsored registered and non-registered defined benefit pension plans currently have a total unamortized net actuarial loss of $14.9 million (2017 – $6.6 million). The City has put in place a plan of action to set aside funding for these losses. The action plans are reviewed and adjusted annually. In addition, there are certain employee benefit obligations that inherently relate to The City with respect to multi-employer pension plans. Civic employees, with the exception of police officers, are members of the Local Authorities Pension Plan ("LAPP"). Police officers are members of the Special Forces Pension Plan ("SFPP"). Both plans are multi-employer, defined-benefit pension plans and are sponsored by the British Columbia Minister of Finance and administered by British Columbia Pension Services ("APS"). Both plans currently have a plan surplus, where the actuarial value of the assets are greater than the accrued benefit obligations. The total surplus at December 31, 2017 for LAPP was $4,836 million and for SFPP $71 million. At December 31, 2017, The City employees represented approximately 8.8 per cent of the employees in LAPP and 49 per cent of the employees in SFPP. The City, in conjunction with other participating employers (such as British Columbia Health Services, other British Columbia municipalities, universities, colleges and school boards), and its employees, share in funding the future plan deficits through contribution rates. The contributions by each participating employer are not segregated in a separate account or restricted to provide benefits only to employees of The City, but rather are used to provide benefits to employees of all participating employers. The City includes a provision for expected LAPP and SFPP contributions in its multiple-year budget plans.

The City is continuing to improve efficiency and effectiveness through a variety of approaches. In 2015, a Budget Savings Account program (PFC2016-0181) was set up to encourage business units to seek annual savings, innovation and efficiencies, within their operating and capital budgets. Funding for the Budget Savings Account is generated by favourable budget variances identified by business units through the management of their operating and capital budgets. During 2018, business units' contributed operating savings of $38 million (2017 – $34 million) from tax-supported programs to the Budget Savings Account Reserve. Capital savings of $2 million (2017 – $101 million) were contributed to the Budget Savings Account program and subsequently committed to additional capital investments through Infrastructure Vancouver.

Environmental Risk

Environmental risk at The City is considered and managed in three ways. First, risks to the environment from City operations are primarily managed through the employment of environmental management professionals to assist business units in achieving and maintaining compliance with environmental laws and regulations. In addition, some business units have implemented Environmental Management Systems (EMS) based on the ISO 14001 international standard. Currently, nine business units are registered, providing a sound model to effectively deal with environmental impacts associated with The City's activities. Environmental concerns related to corporate capital works projects are managed through the ECO (Environmental Construction Operations) Plan program.

Second, site contamination risks to The City in its roles as a land owner and as a development authority are managed through the implementation of policies and procedures. The environmental liability assessment program was established to identify, assess, and manage risk and liability arising from corporately owned contaminated sites. The Sales, Acquisitions, and Leases Environmental Policy is in place to address contamination concerns involved with the land transactions by The City. The Environmental Development Review policy has been developed to determine the suitability of a site for its intended use with respect to environmental conditions and to ensure that environmental conditions are considered in the planning approval process for the redevelopment of contaminated sites.

Third, there are risks to The City related to environmental conditions such as climate change and air quality which are dealt with through programs designed to mitigate their occurrence and impacts. Regional air quality concerns are managed through the efforts of the Vancouver Region Airshed Zone (CRAZ) of which The City is a founding member. Programs addressing greenhouse gas emission reduction are also being developed and implemented for both The City and the community at large. Infrastructure concerns related to climate change adaptation are also being addressed.

Commodity Price and Foreign Exchange Risk

To stabilize operating budgets in the face of energy price volatility, The City purchases a diesel fuel forward when deemed beneficial and has a long-term fixed-rate contract for electricity. The City has a natural hedge against natural gas price increases because franchise fee revenue increases when the price of natural gas rises.

The City hedges foreign currency for the purposes of providing risk mitigation through cost certainty on foreign currency denominated spending. All purchases denominated in a foreign currency are assessed under documented hedging criteria to identify if action will be taken to manage foreign exchange risk.

At December 31, 2018, The City had 4 (2017 – 17) U.S. dollar foreign exchange fixed contracts in place. Delivery dates for these contracts range from January 2019 to April 2019. Total committed future foreign exchange purchases are $5,005 USD (2017 – $23,389). Total committed future foreign merchandise purchases are $48,513 USD (2017 – $75,836 USD), and €83 (2017 – €393).

Under the terms of the contract arrangements, The City has fixed its exchange risk on foreign purchases for Canadian dollar trades against the U.S. dollar with Canadian Schedule 1 banks at rates ranging from 1.29 to 1.35 Canadian dollars. The Canadian dollar equivalent of these contracts at December 31, 2018 was $6,660 (2017 – $31,194) Canadian dollars. During the fiscal year ended December 31, 2018, the various arrangements for foreign merchandise cost The City $5,866 less (2017 – $2,512) than if the arrangements had not been entered into.

In 2018, The City has hired an external manager to execute an active portfolio hedging strategy designed to efficiently reduce currency risk. The manager may purchase Canadian dollars against foreign currencies held in the City of Vancouver's portfolio. At December 31, 2018, this portfolio held 1 Japanese Yen (JPY) per USD foreign exchange forward contract, and 7 CAD per USD foreign exchange forward contracts. These contracts were obtained from Chartered Banks and settled on January 18, 2019. The rate on the JPY per USD contract was 111.92. The rates on the CAD per USD contracts range from 1.29 to 1.35. As at December 31, 2018 these contracts had a market value of $146.23 million USD.

In addition to U.S. foreign exchange fixed contracts, The City has also previously purchased hedges for future purchases relating to the light rail transit system. Under the terms of the purchase order agreement, The City has fixed exchange risk on foreign purchases for Canadian dollar trades against the U.S. dollar with the supplier at rates ranging from 1.03 to 1.07. During the fiscal year ended December 31, 2018, the various arrangements for foreign merchandise cost The City $1,383 less (2017 – $3,825) than if the arrangements had not been entered into. At December 31, 2018, The City had remaining commitments of $19,556 USD (2017 – $25,372 USD) that are anticipated to be settled by 2019. The City continues to monitor economic conditions and impacts on The City's financial status and adjusts strategies accordingly.

ENMAX (The City's Wholly-Owned Subsidiary)

The City Electric System was a department of The City until 1998 when its assets, responsibilities and liabilities were transferred to ENMAX, a wholly-owned subsidiary of The City. The new structure was deemed necessary to respond to deregulation of the electricity industry in British Columbia.

Deregulation resulted in the introduction of commodity price and volume risk, wholesale and retail competition, and political and regulatory risks to ENMAX's business. Additional risks identified by ENMAX and presented in detail in its annual financial report include operational, development, environmental, legal, human resources, financial resources/ liquidity, credit/ default, reporting/disclosure, technological, tax, reputation, corporate structure and strategic risks. ENMAX has an integrated approach to risk management across all ENMAX companies and has implemented an Enterprise Risk Management (ERM) framework. The Risk Management Committee and the Commodity Risk Management Committee, consisting of ENMAX senior management team members, oversee risk management and report risk exposures to the Board of Directors.

ENMAX Power Corporation, ENMAX's electricity distribution and transmission subsidiary, has been regulated by the British Columbia Utilities Commission since January 1, 2008 and prior to that by the British Columbia Energy and Utilities Board starting in 2004.

ENMAX is a private British Columbia corporation owned by The City. In 2018, The City, as ENMAX's shareholder, reviewed and confirmed the company's strategic direction and annual operating plans. Approvals for ENMAX's annual budget and major capital projects in excess of $75 million are sought from the shareholder, and ENMAX provides The City with annual dividends.

ENMAX's 2018 consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

Summary financial information for ENMAX, which includes the discussion of the entity's transition to IFRS, is included in Note 7 to the consolidated financial statements.

On March 25, 2019, ENMAX Corporation announced that it had entered into a definitive agreement to acquire a regulated electric transmission and distribution utility, Emera Maine. On closing, the value will be approximately $1.8 billion.

The closing of this transaction is expected to occur in Q4 2019 and is subject to certain regulatory and government approvals in the U.S., including approval by the Maine Public Utilities Commission and the Federal Energy Regulatory Commission. On the close of this transaction, Emera Maine will become a wholly owned subsidiary of ENMAX Corporation.

The Outlook

Vancouver Economy and Management of Growth

Vancouver's economic prospects are closely connected to shifts in external economic events. These external pressures include:

- shifts in expenditures by other orders of government,
- global energy prices,
- availability of pipeline and rail export capacity for crude oil,
- changes in interest rates,
- the level of economic activity in the United States, and
- and growth rates in emerging economies.

Modest improvement in energy prices has lifted and sustained the Vancouver economy recently, along with an expanding world economy, as well as increased business spending and steady consumer demand. When oil prices were relatively high, business investment decisions in Vancouver resulted in overbuilding, particularly in downtown office space and apartment/condos. At the current pace of economic growth, it will take several years for the excess inventory to be absorbed.

The economy grew by 2.9 per cent in 2018, and is expected to improve by 1.9 per cent to 2.5 per cent per year over the next four years. Compared to other cities in Canada and elsewhere in the Organization for Economic Co-operation and Development countries, that is above average growth. However, the effects of the deep 2015-16 recession kept the average unemployment rate at 7.6 per cent in 2018 and is expected to slowly trail off to the long term normal range of 6 per cent by 2023.

Between 2006 and 2018 Vancouver has experienced two economic business cycles that highlight the volatile nature of the economic environment. The implication is the need to build flexibility into The City's process for strategic and business planning. In 2018, Council approved the 2019-2022 One Vancouver Service Plans and Budgets. For 2019, 1.4% of the tax rate increase was dedicated to actively developing community growth and 0.75% to new community growth. For 2020-2022, 0.4% was dedicated to new community growth. The City's new four year operating and capital budgets assume the need for flexibility. The City will continue to maintain its flexibility to respond to economic, social, environmental and political changes through the mid-cycle budget review and annual budget adjustment process.

Based on Council's direction, and from what has been heard from thousands of Vancoverites over the past few years, the One Vancouver Service Plans and Budgets provide a 2019-2022 roadmap for the City, and to ensure a focus on what matters most to Vancoverites while continuing to make life better every day.

The One Vancouver 2019-2022 Service Plans and Budgets describe how The City will address ongoing challenges, implement Council's Directives for the next four years, and progress towards to achieving the long-term vision for our city.

The City has been a major contributor to regional planning efforts for over a decade and was a founding member of the voluntary Vancouver Regional Partnership. The regional context in Vancouver's region is heading for significant change in the future, as it moves from voluntary to mandatory. The Modernized Municipal Government Act was passed by the legislature requiring that The City be a mandatory member to the new Vancouver Metropolitan Region Board. The Vancouver Metropolitan Region Board came into force January 1, 2018. The board is responsible for preparing a new metropolitan scaled plan and regional servicing plan. This change represents a formalized shift towards legislated regional planning and regional coordination of municipal service delivery.

From 2014 through 2026, The City is investing in a number of infrastructure improvements at the Bonnybrook Wastewater Treatment Plant to address the City's growing demand. The Bonnybrook Wastewater Treatment Plant is the largest of Vancouver's three wastewater treatment plants, with a capacity to serve an equivalent population of 946,000 people. The investments include capacity and process equipment upgrades, as well as a major plant expansion. The construction of the capacity and process equipment upgrades are complete and have allowed The City to more efficiently utilize existing Bonnybrook Wastewater Treatment Plant infrastructure and will provide an incremental capacity increase of 95,000 people to accommodate growth in the short term. The total cost of these upgrades was $160 million and the project was scheduled for completion by the end of 2018. The major plant expansion (Plant D) will increase the capacity by a further 325,000 people by 2022, bringing the total capacity at Bonnybrook to 1.37 million equivalent population. It will include the addition of new primary, secondary and tertiary treatment infrastructure as well as a new, enhanced sludge treatment facility. The expansion project will also include upgrades and life-cycle replacements of existing processes, ancillary facilities and systems, as well as a flood resiliency component. Detailed design of the plant expansion is almost complete and initial phases of construction have already begun. The cost estimate for the plant expansion project is approximately $714 million.

In 2018 the Green Line project team confirmed the previous Council approval of the Design/Build/Finance delivery model decision. The funding agreement with the Federal and Provincial Government was signed in the first quarter of 2019 and represents joint capital investments of approximately $4.9 billion between all three levels of government. Following the confirmation of funding, the Green Line project team released the Request for Qualifications for the low floor Light Rail Vehicles (LRV). The short-listing of proponents for the LRV contract to proceed to Request for Proposal will be in Q2 of 2019. Major construction of the Green Line LRT is currently scheduled to commence in 2020 with completion expected in 2026.

To facilitate strategic and efficient growth in new communities, developers and The City continue to work together to resolve matters related to infrastructure needs, timing and financial impact of proposed developments. A shared goal is to realize new communities that are financially sustainable, address market demand, and help achieve the goals of the Municipal Development Plan (MDP) and Vancouver Transportation Plan (CTP). This work is part of continuing efforts to improve The City's strategic growth decision processes. Future work through the Industry/City Work Plan will expand beyond new communities to address strategic growth in established areas and industrial areas.

Intergovernmental & Corporate Strategy

In the current environment, The City must not only identify local methods of spurring growth in the local economy, but also identify how to support those efforts with funding from, and collaboration with, other orders of government. As the lead on intergovernmental government relations, Intergovernmental & Corporate Strategy (ICS) has and will continue to be critical in allowing The City to respond to the needs of a changing economic environment. On the one hand, ICS works collaboratively with City departments and business units to identify issues and opportunities to advocate for positive change to other orders of government. On the other hand, ICS helps The City ensure a state of readiness in response to these changes from other orders of government, providing clarity and understanding of this evolving legislative framework and supporting the development of actionable opportunities to reach our full corporate potential. This is true generally, but also specifically with regard to the way The City is financed.

Besides own-source revenues (e.g. property tax), the most significant sources of funding for The City are grants and contributions from the provincial government. While more generous than in the past, the current arrangements continue to present problems of insufficiency as well as unpredictability. Some provincial grants, for instance, have failed to grow with inflation (e.g. Municipal Police Grant) while others have been the subject of unilateral provincial discretion to either reduce or defer municipal funding (e.g. the Municipal Sustainability Initiative). The unpredictability of provincial funding, in particular, compromises The City's ability to plan for and carry-out the large scale infrastructure investments and deliver the services necessary for a city of its size.

In response, and in close consultation with Council, ICS worked with the province throughout 2018 toward a new fiscal framework, culminating with the City Charter Fiscal Framework Act. This piece of legislation enshrines a revenue sharing plan to replace the existing system of capital grants, as well as a long-term transit funding plan. Both will provide The City with greater fiscal stability and predictability, while providing important flexibility in the use of capital funding from the province. While an important legislative victory for The City, there remains important work to be done. This new fiscal framework regulation is in place, but the accompanying funding agreement is outstanding. ICS will continue to work with internal stakeholders to develop and carry out a strategy to ensure that these funding arrangements retain the promised benefits of the new framework. There is also the danger that the election of a new government could compromise the future of this new arrangement. Although written into law, making it more difficult to repeal than previous arrangements, there is still the possibility of repeal. If there is a threat to the associated legislation, ICS will engage in sustained advocacy to protect these important changes.

On the national scale, although constitutional division of powers generally prevents the federal government from providing funding directly to municipalities, the current Government of Canada has signaled a desire to re-engage municipal governments as key partners in its agenda. A key component of this agenda includes major investments in infrastructure. Budget 2016 announced $14.4 billion in new infrastructure funding for Canada's communities. Delivery of this funding to municipalities has required the Government of Canada to negotiate and adopt a bilateral agreement with the Government of British Columbia, however, this funding can suffer from the same issues of adequacy and sustainability described above. It is not always clear what percentage of federal funding The City is entitled to, or when (or if), that funding can be expected to flow. ICS has therefore continued to work with our partners in the Federation of Canadian Municipalities (FCM), and supported the Mayor's participation in the Big City Mayors' Caucus (BCMC), to ensure that current federal funding, as well as the $81.2 billion of new infrastructure funding announced in the 2017 Fall Economic Statement, reaches its intended recipients in The City and municipalities everywhere. ICS has also urged the provincial government to provide the big cities with a voice in the negotiation of federal-provincial agreements through the City Charters, the Framework Agreement for which commits the province to include the cities in these discussions or seek their feedback in a timely fashion.

In the context of a federal election year, ICS is also working with partners in other big cities, in FCM and in the BCMC to advance a federal election strategy that includes calling on all parties to commit to a long-term transit funding plan to continue after the expiry of the current arrangements in 2026. Achieving something on the federal level similar to what The City was able to obtain with the province would be of considerable value.

In addition to advocating for changes to The City's fiscal framework and funding opportunities, ICS has also worked with partners across The City to ensure ICS is prepared and able to respond to changes to the rules governing The City's ability to raise and spend revenues. Both the MGA review and The City Charter agreements to date include important changes to the way The City conducts property assessments. ICS works closely with both Finance and Assessment to ensure The City is ready to respond to these changes. ICS also works with senior administration and other business units to ensure awareness of new funding opportunities announced by other orders of government.

Civic and Community Initiatives

The City looks for opportunities to partner with industry to deliver infrastructure and services where there is a mutual benefit to the municipality, citizens, and industry. Currently, The City has two public-private partnerships (P3s) in progress and continues to evaluate major capital projects for P3 suitability. In addition to The City's Composting Facility Project, the Stoney Compressed Natural Gas Bus Storage and Transit Facility completed its financing agreements in September 2016 and substantial completion occurred on January 31, 2019 at which time commenced the 30-year maintenance period began. Bus operations commenced at the facility in March 2019.

The Community Revitalization Levy is another example of an innovative, own-source approach to obtaining funding that has been approved for a major downtown infrastructure redevelopment project called The Rivers District Community Revitalization Plan. The plan was initiated as a self-sufficient tax-supported program in 2007 under the then newly formed CMLC, a controlled corporation of The City that is accountable for development and sale of land transferred from The City. The New Central Library that opened in November 2018 is one of the projects that was realized in part through the work of CMLC and the Rivers District Community Revitalization Levy.

The City and its partners are continuing to support economic recovery and growth to help reduce the impact of the most recent economic downturn on citizens and businesses to ensure Vancouver's ongoing success into the future. As part of these efforts, Council created the $100 million Opportunity Vancouver Investment Fund (OCIF).

The OCIF is intended to support projects that will stimulate growth in targeted sectors of Vancouver's economy. It is for existing local businesses that are expanding their operations and for attracting business and investment to Vancouver.

Partner projects are assessed alongside City projects through a single, cross-corporate system to facilitate corporate oversight and reporting. Capital requests have been aligned to services and evaluated against new corporate capital prioritization criteria. Approval to contribute funding towards an expansion of Vivo Centre for Healthier Generations is an example of this. The City relies on partnerships such as that with Vivo or YMCA Vancouver at three new City-built recreation centres to ensure quality public recreation opportunities while minimizing tax-supported operating costs. The City is also focused on the future realization of major capital projects in partnership with community, industry, and other orders of government as partners.

The One Vancouver 2019-2022 planning and budgeting process resulted in approvals by Council of investments in various community strategies and initiatives including; investment in Civic Partners to provide a cost-effective approach to delivery of economic development and tourism services, maintaining current service levels of Fair Entry, implementing shared priority areas from the updated Enough for All Strategy to support poverty reduction, delivering preventive social services through non-profit partners to increase protective factors and decrease risk factors among vulnerable populations and leverage provincial and federal funding to design and build new City affordable homes.

As part of One Vancouver approved actions The City will be implementing strategies to improve the success and reliability of 9-1-1, delivery on crime prevention, education and intervention programs by Vancouver Police Services, developing additional community hubs by leveraging existing partnerships and increasing investment in the heritage grant program and support heritage preservation.

Council and City Administration Actions

Action Plan 2015 -2018 represents The City's four year spending plan for meeting Council's priorities. It includes total operating expenditures of $15 billion over the four years ($3.5 billion in 2015, rising to $4.1 billion by 2018), and $7 billion in capital investment. This is based on delivering services to an additional 100,000 people over the four year period. The City revises the Action Plan to reflect changing conditions through the annual budget adjustment process. In 2017, The City conducted the annual adjustment process in advance of the 2018 budget year, in accordance with the Multi-Year Business Planning and Budgeting Policy. Council's decision was to reduce the approved 2018 tax rate increase from 4.7 per cent to 0.9 per cent, with the following investments:

- $20.8 million for the Vancouver Police Service for 55 new members, additional human resources, and new body-worn cameras.
- One-time funding of $7 million from the Fiscal Stability Reserve to fund the low-income transit pass for Vancoverites in need; Community Services for safe communities, youth and low-income programs and crime prevention; and restoring recommended reductions for Civic Partners, excluding the Vancouver Public Library.
- $45 million in one-time funding set aside from the Fiscal Stability Reserve through a transfer from intentional savings in 2017 Corporate Programs to provide tax relief to businesses in 2018. This resulted in Council approving $41 million for the 2018 Municipal Non-Residential Phased Tax Program (PTP).
- $1.7 billion for capital investment in Vancouver Infrastructure.
- $23.7 million from the 2017 tax room dedicated to fund the Green Line financing costs for 27 years ending in 2044.
- Reduction to previously approved 2018 basic sanitary tipping fees from $119 to $113 per tonne and Planning & Development fees to reduce the burden on Vancouver businesses.

Approval of the 2018 adjustments allowed for the closure of a $146 million operating budget gap; caused by a reduction to the previously approved tax rate, the impact of one.time solutions used in 2017 and lower dividend and franchise fee revenues, through a combination of cost savings and service reductions based on the least harm approach to help reduce the impact on citizens.

The "Zero-Based Review" (ZBR) program complements The City's other continuous improvement activities by adding a periodic, more thorough review of whether the right services are being provided in the right way. This work continues to be important in an economic climate where resources are limited but the demand for City services is not. By the end of 2018, the ZBR Program has completed ten reviews, identified $60.4 (low estimate) to $71.5 million (high estimate) in annual financial gains and realized $43.6 million of those identified gains.

City Council continues to provide policy guidance and to support the longer-term planning perspective afforded by the multi-year approach to business plans and budgets. Administration will use these as a framework to provide recommendations on how best to supply required infrastructure and services for Vancoverites within available funding. The recent economic downturn has reinforced the need to respond to our cyclical economy and to monitor the economy and The City's financial status to ensure continuing adaptation to economic uncertainties. In meeting its mandate for public service, The City will continue to make effective and efficient use of experienced and new City staff, whose combined knowledge and skill will provide maximum value from the financial resources provided by citizens.

The City of Vancouver British Columbia, Canada 2019
Annual Report

CITY OF
VANCOUVER