

**2005 OPERATING BUDGET****Recommendation**

The City Manager, the Commissioner of Finance & Corporate Services and the Senior Management Team and the Director of Budgeting and Financial Planning, recommends:

- 1) That the following report on the 2004 Operating Budget be received for information purposes;  
and
- 2) That the meeting schedule included in the report be approved.

**Purpose**

To inform the Budget Committee on the current status of the 2005 Operating Budget, highlight issues and obtain input.

**Background - Analysis and Options****2005 Operating Budget Process – Revised Guidelines**

Across the GTA, municipalities continue to be faced with pressure to increase property taxes. The normal pressures of inflation, resources, contract increases in excess of inflation, etc., are compounded with the significant cost impacts of high growth in municipalities like the City of Vaughan. These significant budget issues coming out of the 2004 budget process continue in 2005 and present major challenges in achieving a balanced budget.

As a result of the budget challenges, staff have taken a more aggressive approach regarding information requirements and the analysis of budget submissions. A list of additional information included in this report is provided below to assist the Budget Committee in their deliberations.

Further breakdown of departmental expenditures in the budget package.

Analysis of specific expense lines previously identified by the Budget Committee for scrutiny.

Commissioners required to submit written rationale explaining why the base budget could not be maintained.

- Full-Time Equivalent (FTE) report including incremental analysis.
  - Itemization of major new impact increases by specific Expense Category and by Commissioner/Department.
  - Detailed Analysis of 90% of User Fees.
  - Summary of Expenses by Major Expense Line.
- Revised Budget Process with an approach similar to zero based budgeting.

This additional analysis and scrutiny of budget submissions is described in more detail throughout this report.

Recognizing the continuation of challenges, the budget process and guidelines were revised to incorporate a more comprehensive base budget review similar to a zero-based budgeting approach wherein departments are expected to maintain their 2004 base budget while absorbing any of the previously determined 2005 major new impact increases. Departments that were unable to maintain their 2004 base budget while absorbing any of the major new impacts were required to provide rationale in the form of a memo. This information will be part of a future Budget Committee agenda.

Commissioners have submitted their 2005 Operating Budgets. Their submissions represent the minimum funds required to maintain their base existing service levels approved by Council. Some Commissioners indicated they are unable to maintain their 2004 base budget and absorb all of the major new impact increases. In addition, the revised budget process delineated the departmental budget submissions into two major categories as follows:

1) Base Budget Submission

Departments were instructed to provide a base budget submission that included any of the previously identified major new impact increases they were unable to absorb within their zero based budget review. According to departments, this is the base budget required to maintain the existing service levels. This base budget increase is summarized by Commissioner on the Summary by Commissioner page in the attached document.

The base budget has been increased to include only the new complement requests required for Vellore and Chancellor Community Centre, new parks, and Fire Station 7-9. Any other new complement and other controllable requests described below would be a further addition to the base budget.

2) Controllable Increase Requests

- i) New Complement Requests
- ii) Strategic Planning Initiative Requests (VV 2007)
- iii) New Initiative Requests
- iv) Other Controllable Requests

Listings of the additional controllable increases referred to above is included in the attached document and are not included in the base budget. These requests require separate approval.

**2005 Draft Operating Budget Major New Impact Increases & Summary**

The major new impact increases identified in the 2005 budget process are summarized below for the Budget Committee's information. It is evident from the list, that \$3.1m in assessment growth (4.57%) is insufficient to cover the cost of these increases.

Fixed Contract Obligations – Waste, winter, etc.	\$1.7m
Vellore CC and expanded CC's – excludes new staff requests	\$1.2m
Long Term Debt Repayment	\$1.7m
Collective Agreements/By-Laws/Full Year Impact/Progression/etc.	\$4.3m
Library Board Approved Budget Increase	\$1.2m
Bldg & Fac/Parks Maintenance	\$1.9m
Insurance Increase/Great West Life Benefit Increase	\$1.0m
Hydro Joint Services Provision	\$0.4m
Bill 124-Bldg Permit Budget Impact	\$0.2m
Other various major new impacts	<u>\$0.4m</u>
Sub-total major new impacts excludg. Controllable requests	\$14.0m
Less estimated assessment growth of 4.57%	<u>(\$3.4m)</u>
Base Budget Increase excluding new full-time complement and other Controllable increase requests	\$10.6m
New/Expanded Facilities/Parks/Stn 7-9 new complement	<u>\$1.8m</u>
Adjusted Base Budget Including only new complement Requests for New/Expanded Facilities/Parks/Stn7-9	\$12.4m

Adjusted Base Budget Tax Rate Increase including only new  
Complement Requests for New/Expanded Facilities/Parks/Str7-9

17.5% or \$123/avg  
Household

This impact can be broken down as follows:

Fire & Rescue Services	4.7%	\$33.00
New/Expanded Facilities	2.8%	\$20.00
Library	1.7%	\$12.00
Long Term Debt	2.4%	\$17.00
Other City Services	<u>5.9%</u>	<u>\$41.00</u>
	<u>17.5%</u>	<u>\$123.00</u>

The adjusted base budget increase does not include any of the other new full-time complement requests, and none of the strategic and other initiatives, or any other controllable requests. In addition, the adjusted base budget does not address the continued utilization of one-time funding subsidies from reserves and other sources.

All of these major new impact increases are permanent in nature and require permanent funding sources. The magnitude of the base budget increases and the reasons for their occurrence make clear that assessment growth is insufficient to cover these increases.

The impact above of \$123/avg household excludes addressing the issue of utilizing one-time subsidies from reserves and other sources. A total of approximately \$12m was used in 2004 to reduce the tax rate impact. It was comprised as follows:

Surplus Carry Forward	\$2.5m
Building Permit Reserve	\$0.9m
Tax Rate Stabilization Reserve	\$2.7m
Hydro Vaughan Excess Working Capital	<u>\$5.7m</u>
Total	<u>\$11.8m</u>

This level of subsidy is not sustainable.

#### Factors Impacting the Tax Rate

The City's operating budget is funded from two main sources, user fees and taxation, with taxation making up approximately 55% of the funding. The level of taxation funding is more stable whereas user fees are more susceptible to fluctuations as a result of factors as general economic conditions.

The City's budget can be impacted each year by any combination of the following factors:

1. Inflation and other cost increases (e.g. contracts)
2. Costs to maintain aging infrastructure
3. The impact of servicing new growth
4. Economic slowdown
5. New or enhanced services offered by the City
6. User Fee Revenue not keeping pace with cost increase

In any year, these factors can have a significant impact on operating budget expenditures. To the extent that user fees do not keep pace with cost increases, the legislative requirement to have a balanced budget must be met with property taxes.

## Why Assessment Growth Isn't Enough

### Historical Analysis

Although the City is experiencing high growth, the cost impacts of servicing that growth exceed the new assessment growth revenue. Over the last few years, the Municipality has experienced assessment growth increases of approximately 5%. In 2004, the assessment growth was 4.56%, the Draft 2005 Operating Budget includes an estimate of 4.57% or approximately \$3.5m in additional assessment revenue. This amount is insufficient to cover all of the known major new impact increases summarized later in this report.

In addition, historical analysis indicates that taxation, including assessment growth, accounts for only approximately 55% of the funding source, with the remaining 45% funded from user fees. Therefore, assessment growth, on average, only covers approximately 50% of the cost of servicing that growth.

### Development Charges Legislation

The province changed the development charges legislation to require municipalities to cover 10% of the growth related capital costs and for the costs of administrative space and technology. The result is the City must now fund these components from other sources and in a high growth municipality, like Vaughan, these costs are significant when adding facilities at a faster pace.

### Facilities Required in Advance of the Full Population to be Serviced

In some instances, it may be prudent to place growth related facilities in advance of the full population to be served. The result is that the operating costs of the new facility are initially collected over a smaller base and therefore the cost to an individual homeowner is greater. This impact is more pronounced in a high growth municipality like Vaughan where the need to put facilities in place in advance is greater.

### Facilities With No Significant User Fee Generation

There are facilities built and services provided and incorporated into the operating budget with significant growth related cost increases incurred with little or no additional revenue. Over the past few years, there have been two new fire stations and a new resource library built into the base budget. In the case of fire halls and libraries, with virtually no significant revenue generation, almost all of the funding must then come from taxation.

### Assessment Growth Does Not Account for Inflation

Without a tax rate increase, the additional tax dollars generated by additional assessment is determined using last years tax rate. The existing tax rate from last year only reflects last years cost to provide services. It does not take into account inflation and other cost increases or the cost of any new services or changes in existing service levels. Finally, if last years tax rate was not sufficient to fully fund operations on an on-going basis, the shortfall in funding will only increase as the assessment base increases.

### Major Infrastructure Repair And Replacement Not In The Tax Rate

The development industry, through development charges, has funded the initial cost of growth infrastructure. This is true for much of the infrastructure in Vaughan. Since the initial funding did not come from property taxes, the funding provision for major repairs and replacement is not reflected in the existing tax rate. The result is that there will be additional pressure on the tax rate to fund these future infrastructure repair and replacements requirements.

### 2005 Draft Operating Budget Expenditure Overview

To assist the Budget Committee in assessing the impact of reducing expenditures, staff have provided a high level summary of the City's operating expenditures by major expense line. The 2005 Draft Operating Budget high level overview illustrates the difficulty and dilemma in reducing expenditures of any significance without any service level reduction. In addition, in the 2004 Operating Budget staff was directed to reduce expenditures by \$10m and many of these reductions were permanent in nature and permanently reduced the base budget. Highlighted below for the Budget Committee's information is the high level overview of expenditures in the 2005 Operating Budget.

Salaries & Benefits(inclgd new/exp fac/parks/stn7-9)	\$ 85.4m	54.4%
Contracted Services	\$ 19.7m	12.6%
Reserves Contributions	\$ 8.1m	5.2%
Long Term Debt	\$ 4.4m	2.8%
Mtce/Utilities/Mtls	\$ 13.6m	8.7%
Capital Projects funded from taxation	\$ 6.5m	4.1%
Insurance	<u>\$ 2.1m</u>	<u>1.3%</u>
 Sub-Total	 <u>\$139.8m</u>	 <u>89.1%</u>
 Tax Adjustments	 \$1.3m	 0.8%
Vaughan Hockey Assoc Subsidy	\$1.0m	0.6%
Professional Fees	\$2.0m	1.3%
Computer Hardware/Software	\$1.1m	0.7%
Office Supplies and equipment	\$0.5m	0.3%
Other(inclgd Library increase of \$1.2m)	<u>\$11.2m</u>	<u>7.2%</u>
 Sub-Total	 <u>\$17.1m</u>	 <u>10.9%</u>
 Total Draft 2005 Expenditures (inclgd new/exp fac/parks/stn7-9)	 <u>\$156.9m</u>	 <u>100.0%</u>

The above overview illustrates that approximately 89% of the expenditures in the 2005 Draft Operating Budget are committed or cannot be readily reduced without impacting service levels.

Included in Attachment 1 is a preliminary Full-Time Equivalent report comparing the 2005 Budgeted FTE's to the 2004 Budget. An analysis of the increase in FTE's is also provided in Attachment 1. It indicates an increase of 25.9 FTE's primarily due to the full year impact of prior approvals, part-time staff increase for new Parks and Recreation program staff offset by revenue. The FTE report is not yet finalized with some further position details and verification required.

In addition, staff have provided a summary of the specific expense items identified by the Budget Committee in the past for scrutiny. Provided below for the Budget Committee's information is a summary of the specific expense lines excluding the Library.

	2005 Draft Budget	2004 Budget	Variance
Advertising	\$362,800	\$388,745	\$(25,945)
Computer hdw/soft	931,385	940,380	(8,995)
Cellular	164,984	227,694	(62,710)
Office Equipment	155,250	207,490	(52,240)
Office Supplies	241,141	253,126	(10,985)
Overtime	991,460	725,510	265,950
Part time	8,198,368	7,769,698	428,670
Professional fees	<u>1,741,800</u>	<u>1,929,420</u>	<u>(187,620)</u>
Total Exclgd. Library	\$12,788,188	\$12,442,063	\$346,125

With the exception of overtime and part-time costs the other expenses lines analyzed are below the 2004 budget. The increase in overtime is primarily attributable to a \$185k increase in building standards to assist in addressing the anticipated 30% increase in permit activity and \$80k in Fire to address the full staffing per shift due to absences. The increase in part time is primarily attributable to a \$450k increase in Recreation programs which is offset by revenue.

Therefore, excluding the overtime for building permits and fire and part time recreational program staff offset by revenue, staff have reduced the overall amount of these specifically identified expense items in the Draft 2005 Operating Budget.

#### **2005 Draft Operating Budget User Fees/Service Charges Revenue Overview**

As mentioned earlier in this report, to the extent that user fees and service charges do not keep pace with increased costs, the burden to balance the budget must be met through taxation. To assist the Budget Committee in their deliberations, staff provide below an overview of the areas that represent the great majority of the total user fees and service charges revenue incorporated into the 2005 Draft Operating Budget. 90% of the user fees and service charges revenues in the 2005 Draft Operating Budget reside within the following areas:

Planning	\$1.1m
Building Permits	\$10.0m
Licensing	\$0.7m
By-Law	\$2.0m
Recreation	<u>\$11.9m</u>
	\$25.7m

#### **Building Permits/Planning (Development Application Approval Process, DAAP) Revenue**

The impact of Bill 124, the Building Code Statute Law Amendment Act, 2002, comes into effect July 1, 2005. Bill 124 imposes requirements on municipalities in establishing fees under the Act, in that the "fee... must not exceed the anticipated reasonable cost..." of providing the service, i.e. building permit issuance. Since the Act does not specify direct costs, it is reasonable to include all indirect costs including costs related to future compliance requirements and reserve fund contributions. Similar to Bill 124, the Planning Act requires regard for the anticipated costs of providing the service. This suggests that indirect costs can also be included when substantiating planning fees.

Finance initiated an activity costing study early in 2004 to respond to Bill 124. The recommendations are being finalized and a complete detailing of the user fee justification study of the DAAP relating to Building Permits and Planning Fees will be the subject of a future report. The report will include options relating to an approved cost recovery percentage for Planning and Building Permit fees. The initial results indicate that Building Permit fees will be reduced to meet

the cost recovery mandate, however there is an opportunity to increase planning fees which may more than affect the reduction in Building Permit revenue.

Included in the Draft 2005 Operating Budget and based on the 2004 study is the impact of Bill 124 in building permit revenue:

	2005 Draft Budget
Bldg Permit Revenue Before Bill 124	\$12.9m
Bldg Permit Total Cost	<u>\$ 7.4m(est)</u>
Revenue in Excess of Costs	\$ 5.5m
50% 2005 Impact (Bill 124 effective July 1, 2005)	\$2.75m (difference between revenue and cost in 2 <sup>nd</sup> half of 2005)

The estimated impact on the 2005 operating budget as a result of Bill 124 is \$2.75m

In relation to Planning, total planning costs actually exceed revenue by approximately \$4m, thereby providing an opportunity to increase Planning fees to offset the impact of Bill 124, with the possibility of raising further revenue and still be in compliance with the Act. Again, the discussion surrounding the appropriate percentage of recovery in the development application approval process (DAAP) will be the subject of a further report.

#### Licensing

Section 150 of the New Municipal Act imposes limitations on the fees that can be charged such that "The total amount of the fees...shall not exceed the costs directly related...". This implies certain indirect costs are not allowed to be included in substantiating the licensing fee. The user fee justification and activity costing on the licensing fees is almost complete and full reporting of the new fees is the subject of an upcoming working session. It is anticipated that the outcome of the licensing fee justification analysis will result in almost the same amount of overall revenue. The 2005 Draft Operating Budget reflects this anticipated revenue neutral impact.

#### By-Law Revenue

The Draft 2005 Operating Budget reflects a \$107k reduction in By-Law revenue compared to the 2004 Operating Budget. The rationale behind the revenue projection is included in the previously mentioned requirement of departments substantiating in a memo why they could not maintain the 2004 base budget. These memos will form part of a future Budget Committee agenda.

#### Recreation

The Recreation program represents the greatest amount of user fees due to the volume of programs and activities that charge a fee and amounts to approximately 43% of the total user fee revenue in the 2005 Draft Operating Budget. To assist the Budget Committee in their deliberations and in understanding the Recreation revenue, Finance staff worked with Recreation staff to provide an overview of the direct recovery ratio for the main areas of the Recreation department.

Recreation Direct Revenue/Cost Recovery Analysis (% Direct Recovery)

	2005 Draft Budget (*)	2004 Budget (*)	Variance
Aquatics	67.9%	69.9%	(2.0%)
Fitness Centres	88.9%	82.2%	6.7%
General Programs	58.6%	63.0%	(4.4%)
Camps	96.5%	99.2%	(2.7%)
Permitting	187.1%	185.5%	1.6%
City Playhouse	85.8%	83.4%	2.4%
Other	<u>98.5%</u>	<u>89.0%</u>	<u>9.5%</u>
<b>Total Recreation</b>	<b>87.7%</b>	<b>88.6%</b>	<b>(0.9%)</b>

(\*) Administration costs are allocated based on estimates provided by Recreation

The overall net increase to the department's budget is approximately \$104,000. Facing the department in the 2005 operating budget are such issues as Vellore and Chancellor, PT union and insurance increases and a portion of the cost of the reorganization.

Staff have been conducting a review on the numbers noted in the direct recovery chart as well as the overall dollar increase with a goal of reducing the variance through a review of user fees and operating efficiencies. Further refinement to the budget will result in favorable adjustments to the recovery ratios and this will be the subject of a future Budget Committee report.

As a result of the reorganization staff resources will be realigned to deliver additional revenue generating programs. This coupled with the addition of a Business Analyst position, along with the completion of the user fee and master plan projects will enable staff to further refine current business practices.

#### **Budget Committee Tentative Meeting Schedule**

November 9, 2004 @ 2:00 pm  
November 16, 2004 @ 2:00 pm  
November 23, 2004 @ 2:00 pm  
No meeting has been scheduled on November 30 due to Council/SMT Retreat  
December 7, 2004 @ 2:00 pm  
December 14, 2004 @ 2:00 pm

#### **Next Steps in the Budget Process**

- Further Budget Committee deliberations
- Review of new complement and other controllable requests to be incorporated
- Report on Building Permit and Planning fees
- Report on Licensing Fees
- Public Consultation

#### **Relationship to Vaughan Vision 2007**

The objective of the operating budget report is to allocate the necessary resources and obtain Council approval.



**Conclusion**

The purpose of this meeting of the Budget Committee is to provide Members of the Budget Committee with an overview and analysis of the 2005 operating budget. Additional analysis has been provided to assist the Committee in addressing the 2005 challenges.

**Attachments** *(Available in the Clerk's Dept.)*

Attachment 1 – 2005 Draft Operating Budget, Revenue and Expenditure Summary

**Report prepared by:**

John Hrajnik, CMA, ext. 8401  
Director of Budgeting and Financial Planning

Respectfully submitted,

---

Michael DeAngelis, City Manager

---

Clayton D. Harris, CA  
Commissioner of Finance & Corporate Services

---

Marlon H. Kallideen  
Commissioner of Community Services

---

Frank Miele  
Commissioner of Economic/Technology Development  
and Communications

---

Bill Robinson  
Commissioner of Engineering and Public Works

---

Robert Swayze  
Commissioner of Legal and Administrative Services

---

John Zipay  
Commissioner of Planning

---

**John Hrajnik, CMA**  
**Director of Budgeting and Financial Planning**



**CITY OF VAUGHAN**

**2005 DRAFT**

**OPERATING BUDGET**

***Revenue and Expenditure  
Summary***

**Budget Committee**

**November 2, 2004**

# **CITY OF VAUGHAN**

## **2005 Draft Operating Budget**

### **TABLE OF CONTENTS**

	<u>Page #</u>
<b>Summary By Commissioner</b>	<b>1</b>
<b>Major New Impact Increases - Summary by Specific City Category</b>	
<b>Major New Impact Increases - Summary by Commissioner by Department</b>	
<b>Revenue By Major Source</b>	<b>7</b>
<b>Revenue By Major Source - Corporate Revenue Detail</b>	<b>8</b>
<b>Expenditure By Major Category</b>	<b>9</b>
<b>Expenditure Details by Department</b>	<b>10 - 13</b>
<b>Corporate and Election Expenditure - Details</b>	<b>14</b>
<b>New / Expanded Facilities / Station 7-9 New Comp. Requests Requiring Council Approval and New Part Time Comp. Requests Requiring Senior Management Approval</b>	<b>15</b>
<b>Other New Full Time Complement Requests Requiring Council Approval</b>	<b>16</b>
<b>Other Part Time and Contract Complement Requests Requiring Senior Management Approval</b>	<b>17</b>
<b>Full Time Complements Approved in 2004 outside the Operating Budget Process</b>	<b>18</b>
<b>Strategic Planning Initiative Requests</b>	<b>19</b>
<b>New Initiative Requests</b>	<b>20</b>
<b>Other Controllable Requests</b>	<b>21</b>
<b>New User Fees and Existing User Fee Increases Requiring Council Approval</b>	<b>22</b>
<b>Preliminary Full Time Equivalents - 2005 Increase Over 2004 Analysis</b>	<b>23</b>
<b>Preliminary Full Time Equivalents - Summary by Department</b>	<b>24 - 26</b>