

2005 Draft Operating Budget

Recommendation

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

- 1) That the following report updating the status of the 2005 Draft Operating Budget be received; and
- 2) That staff be provided with direction relating to the continued utilization of one-time subsidies to assist in the balancing of the 2005 Draft Operating Budget; and
- 3) That the impact of the Budget Committee's direction on the use of one-time subsidies be incorporated into the Draft Operating Budget; and
- 4) That the 2005 Draft Operating Budget, including recommended revenue increases and cost reductions contained in this report to reduce the average tax rate percentage increase be approved; and
- 5) That the 2005 Draft Operating and Capital Budgets, including any Budget Committee recommendations from today's meeting, be brought forward to the Special Committee of the Whole meeting of Tuesday, January 18, 2005.

Purpose

The purpose of this report is to provide the Budget Committee with an update of the 2005 Draft Operating Budget complying with the Budget Committee direction of identifying opportunities to reduce the tax rate percentage increase in the 2005 Draft Operating Budget.

Background - Analysis and Options

Background

At the December 14, 2004 Budget Committee meeting, staff were directed to identify revenue increases and cost reduction opportunities in an effort to reduce the average tax rate percentage increase as presented in the 2005 Draft Operating Budget. In late December, Senior Management met to identify such opportunities under the framework of a responsible approach to increasing revenues and cost reductions with minimal impacts on any existing service levels. Provided below for the Budget Committee's consideration is Senior Management's list of the opportunities for revenue increases and cost reductions to lower the 2005 Draft Operating Budget average tax rate percentage increase.

Senior Management Identification of Revenue Increases and Cost Reduction Opportunities

The Senior Management team explored all areas of revenue increases and cost reductions. The list provided below for the Budget Committee's consideration is the result of that exercise. Prior to the December 14, 2004 Budget Committee direction to lower the tax rate, Senior Management had already incorporated reductions in the average tax rate percentage increase as part of the 2005 Draft Operating Budget. Accordingly, the list below includes all Senior Management identified opportunities to lower the average tax rate increase reconciled from the November 23, 2004 Budget Committee agenda to today's Budget Committee agenda. Senior Management recommends the inclusion of all of the new revenue increases and cost reductions listed below in the 2005 Draft Operating Budget. Each Commissioner is prepared to speak to the recommended opportunities and their associated implications.

	Increase \$(000's)	Tax rate %incr.	\$ Impact Per Avg. Household
Nov. 23, 2004 Budget Committee 2005 Draft Operating Budget increase	\$12,700	18.0%	\$126
Initial Senior Management Recommendations:			
Investment Income Increase	(400)		
Assessment Growth revenue increase	(501)		
Vehicle Reserve Contribution Reduction	(1,200)		
Pesticide Free Parks for all wards – cost increase	140		
Engineering reserve contribution revenue increase	(78)		
Contingency adjustment for collective agreements/by-laws	177		
Other misc. adjustments	<u>(18)</u>		
Dec. 14, 2004 Budget Committee 2005 Draft Operating Budget	\$10,820	15.3% (*)	\$107
December 2004 Budget Committee Recommendations:			
Planning Applications Fee Increase move to 100% cost recovery	(3,369)		
Capital Projects funded from taxation increase	93		
Communities in Bloom international competition expenditure increase	<u>25</u>		
December 31, 2004 2005 Draft Operating Budget	\$7,569	10.7% (*)	\$75
Additional Senior Management Recommendations for Revenue Increases And Cost Reductions for the Budget Committee's consideration: (Recommendation 2)			
Transfer of dedicated Water & Sewer staff to W&S Budget	(139)	0.17%	
Extension of Winter Control Contract at existing prices	(180)	0.23%	
Not Renew Windrow Snow Clearing contract in the spring of 2005, (2006 savings of \$1.2m)	(300)	0.38%	
Vaughan Public Libraries overall expenditure reduction	(350)	0.44%	
Assessment Growth revenue increase	(68)	0.08%	
Increased Recreation User Fees to move closer to direct Recreation department full cost recovery – (does not include mtce, utilities, etc)	(450)	0.56%	
Waste Management Fee of \$1per bag in excess of 3 bags (2 bag limit would generate \$266K)	(136)	0.17%	
Increased By-Law enforcement revenue as planned	(351)	0.44%	
Engineering reserve contribution recalculation	(169)	0.21%	
Council Budget adjustment for equalization, etc – separate report	77	0.10%	
Engineering – Fee increase for sub-division/site plan inspections in excess of 2	(30)	0.04%	
Other misc. adjustments	<u>7</u>	<u>0.01%</u>	
January 11, 2005 Draft Operating Budget	\$5,480	6.9% (*)	\$48

(*) These average tax rate percentage increases assume the continued utilization of \$11.8 million in one-time subsidies. Without the one-time subsidies, the average tax rate percentage increases would be approximately 15% higher than the number presented.

Utilization of One-Time Subsidies

The 6.9% average tax rate percentage increase, which includes the revenue increases and cost reductions provided previously, represents the net taxation requirement to address the current 2005 operating budget issues. It does not eliminate the need for the subsidy.

The 6.9% average tax rate percentage increase assumes the continued utilization of \$11.8 million in one-time subsidies; the same level as the 2004 Operating Budget. This \$11.8 million in one-time subsidies is presented separately because this requirement stems from operating budget issues that have yet to be permanently funded.

It is important to note that the utilization of one-time subsidies is not sustainable and not a permanent source of funding.

A list of the one-time subsidies utilized in the Operating Budget is provided below for the Budget Committee's information. As mentioned above, one-time subsidies of \$11.8 million would still be required in order to achieve the 6.9% average tax rate increase as presented in this report.

	<u>2004</u>	<u>2005</u>
Prior Year Surplus Carryforward	\$2.5m	\$2.5m
Tax Rate Stabilization Reserve Transfer	\$2.7m	\$8.8m
Building Permit Reserve Transfer	\$0.9m	-
Hydro Vaughan Holdings Transfer/Loan	\$5.7m	-
Planning Fee Reserve	-	<u>\$0.5m</u>
Total One-time Subsidies	\$11.8m	\$11.8m

Assuming that the City continues to have an annual surplus of approximately \$2.5M a further \$8.8M is required annually to balance the operating budget. This level of subsidy is not sustainable. As at December 31, 2004 the Tax Rate Stabilization Reserve had a balance of approximately \$12.0M. This balance would be reduced by \$8.8M in 2005 leaving a balance of \$3.2M for future years. The reliance on subsidies in 2005 could be reduced by increasing taxes in 2005 beyond 6.9% referred to previously.

Staff are requesting direction as to the continued utilization of one-time subsidies in the 2005 Draft Operating Budget.

Relationship to Vaughan Vision

This report is consistent with the priorities set out in Vaughan Vision 2007.

Conclusion

This report complies with the Budget Committee's direction to identify revenue increases and cost reductions to reduce the average tax rate percentage increase. The list of opportunities, if accepted as presented, reduces the average tax rate percentage increase required to balance the 2005 operating budget, excluding the utilization of one-time subsidies.

Report prepared by:

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