

CITY OF VAUGHAN

EXTRACT FROM COUNCIL MEETING MINUTES OF JUNE 11, 2008

Item 1, Environ Report No. 5 – Page 2

- 6) That the appropriate notification be provided in accordance with the notice By-Law 394-2002.

Economic Impact

The proposed budgets will provide funds for the operation of the Water and Wastewater system and its renewal by generating \$6.5 million to the water reserve and \$2.8 million to the wastewater reserve thereby providing the necessary funds to maintain a financially sustainable Water & Wastewater system.

The combined increase in the Water & Wastewater rate is 6.4% with an annual residential impact of \$37 based on a typical average household consumption rate of 340 cubic meters of water per year.

Communications Plan

The approved Water & Wastewater rates will be advertised per City policy in the local newspapers and the City's web site.

Purpose

To adopt the water and wastewater operating budgets and the corresponding consumption rates. The recommended annual water rate increase is 4.4% and wastewater rate increase is 8.4% both rates incorporating Regional and City component increases.

Background Analysis and Options

2008 WATER AND WASTEWATER PROPOSED CONSUMPTION RATES

The major source of revenue for water and wastewater operations are consumption rates, totalling \$68.7 million for 2008. The consumption rate revenues net of operating costs are transferred to the respective Water and Wastewater reserves. These funds provide for the delivery of clean potable water and wastewater services and includes administration, financing, maintenance of the water and wastewater infrastructure and a contribution to the reserves.

The proposed 2008 Water and Wastewater budgets are attached including the unaudited 2007 actuals for information purposes. Water and wastewater operations, capital expenditures and reserves form part of the City's consolidated Financial Statements.

The following is a synopsis of the proposed 2008 water and wastewater budgets including the unaudited 2007 Actuals, Attachment No. 1, the Municipal Rate Comparison, Attachment No. 2, and Full Time Employee Complement Request, Attachment 3.

Annual Residential Impact

The 2008 budget includes an annual rate increase of 4.4% for water and a 8.4% increase for wastewater for a combined increase of 6.4%.

The overall rationale for the rate increases are outlined below:

- To reflect the Regional increase in the cost to purchase potable water 2.5% and increase in the treatment of wastewater, 10.0%. This increase is due to Regional water and wastewater reserve adequacy.
- Increase in funding for the City's future Capital infrastructure requirements.
- To offset the impact of inflationary pressures.
- Increase in expenditures overall.

CITY OF VAUGHAN

EXTRACT FROM COUNCIL MEETING MINUTES OF JUNE 11, 2008

Item 1, Environ Report No. 5 – Page 3

2008 COMBINED RATE INCREASE 6.4%

Potable Water & Wastewater Purchased Services	3.9%
Unmetered Water	0.8%
Maintenance	(0.8%)
Administration & Finance	0.1%
Joint Services	0.3%
Infrastructure Contribution	2.1%
2008 Increase	6.4%

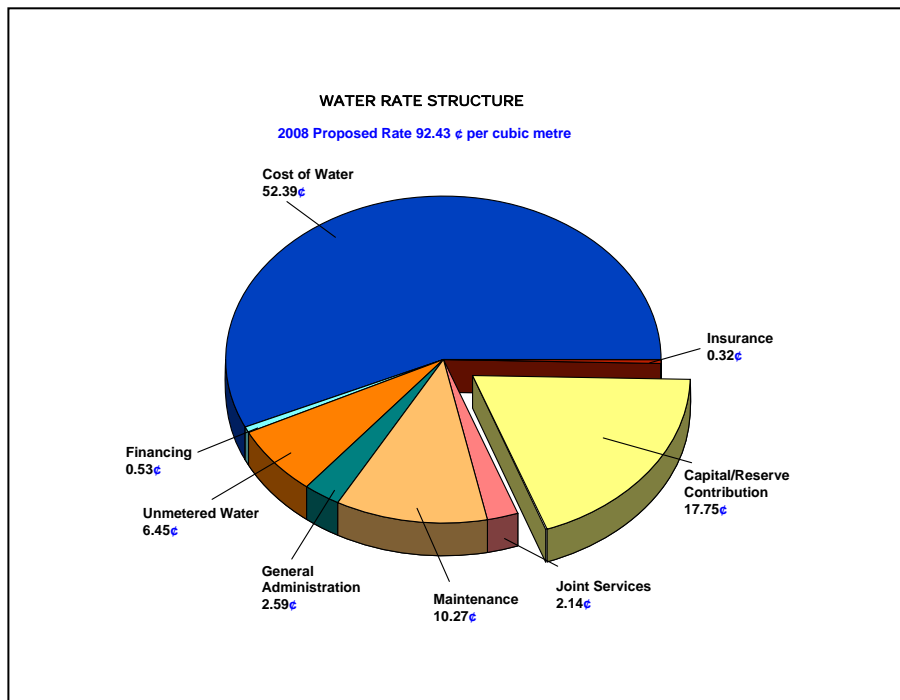
The impact on a residential customer with a consumption of 340 cubic meters of water per annum will see an impact of \$37 or 6.4% per year. The combined increase for Water & Wastewater represents a \$3.11 per month increase.

For further details on the proposed rate increases, see the following 2008 Budget highlights.

Consumption Rate Component

The proposed water rate for 2008 is 92.4¢ per cubic metre and wastewater 91.1¢ per cubic metre. To assist in understanding the make up of the proposed consumption rates the following chart for water is provided. There are three basic components of the City's rate structure:

- 1) Cost of potable water & wastewater service
- 2) Operational, Administration and Financing costs
- 3) Contribution for Future Capital works



The largest component of the consumption rate is the purchase of potable water and wastewater services from the Region and is directly related to consumption of water by the consumer. The most important component of the Water and Wastewater consumption rate is transferred to the reserves each year. This key component of the rate structure pays for the future water &

CITY OF VAUGHAN

EXTRACT FROM COUNCIL MEETING MINUTES OF JUNE 11, 2008

Item 1, Environ Report No. 5 – Page 4

wastewater infrastructure cost. This reserve component of the rate will be substantiated as part of the RFP consumption rate study that has been recently issued and will also address the requirement of the Safe Drinking Water Act referred to in the next paragraph. This study will provide the appropriate consumption rates so as to provide sufficient funds for the City's future Water and Wastewater Capital works.

The proposed wastewater rate is 91.1¢ per cubic meter and the components are as follows:

Wastewater Services	59.4¢
Maintenance	12.2
Other	3.4
Capital/Contribution to Reserves	<u>16.1</u>
	91.1¢

SDWA – Licensing Requirements

The Safe Drinking Water Act (SDWA) is comprehensive in its legislative requirements and was enacted to place all legislation and regulations relating to the treatment and distribution of drinking water into one Act. The SDWA expands on existing policy and practices and introduces new regulations to protect drinking water. It includes certification of drinking water system operators and analysts and puts in place certain financial reporting requirements and the need for municipalities to develop financially sustainable water treatment and distribution systems.

As previously indicated the City has recently issued an RFP for consulting services to undertake a consumption rate study that will first determine future annual operating costs and Capital infrastructure costs for a period of 25 years and then develop the appropriate consumption rates for the future. This study will develop an appropriate reserve contribution component that will maintain a financially sustainable system.

Bank Interest

The Water & Wastewater funds currently earn bank interest, however these funds are apportioned to the operating fund. With the enactment of the SDWA and the requirement to transition to full cost recovery, the bank interest should be re-allocated to the Water & Wastewater reserves. However, to minimize the impact on the operating budget, the bank interest should be phased in over a three year period beginning in 2009.

Conservation Efforts

The Water for Tomorrow program undertaken by the Region of York continues to provide programs and initiatives to reduce the consumption and loss of drinking water. As part of the Region's Water Efficiency Master Plan Update, there are three major initiatives that have been adopted. These initiatives include a rebate program to encourage replacement towards more efficient water fixtures, continued use of industrial and commercial water audits and a distribution base detection program on the Region's distribution system. The above initiatives represent a number of ways that will assist in saving drinking water.

Public Works is continuing with the development of the large water meter calibration program to examine and adjust the City's 2500 Industrial/Commercial water meters to ensure that the large volume users of water continue to be accurately billed for their water consumption.

An anode protection program was initiated in 2005 to reduce the corrosion of iron water mains. This program seems to have played a significant role in decreasing the number of water main breaks to the system. Since 2003, there has been a 50% decrease in the number of water main breaks per 100 kilometers of water distribution pipe. Public Works also continues to investigate the system for leaks, unmetered by-passes and water meter malfunctions.

CITY OF VAUGHAN

EXTRACT FROM COUNCIL MEETING MINUTES OF JUNE 11, 2008

Item 1, Environ Report No. 5 – Page 5

2008 Proposed Water and Wastewater Budget – Highlights

Proposed Increase in Staff Complement

Significant legislation governing the delivery of Water & Wastewater services over the past number of years in Ontario has increased the complexity of the delivery of safe potable water. Since the Walkerton Enquiry, the Ontario government has introduced numerous pieces of legislation, including: the Safe Drinking Water Act, 2002 (SDWA); the Sustainable Water and Sewage Systems Act, 2002; the Nutrient Management Act 2002; and, the Clean Water Act. Numerous Regulations have also been passed under each Act, resulting in sweeping changes in the management and operation of drinking water systems across the province, including the operation and maintenance of Vaughan's drinking water systems. Regulations concerning the maintenance, testing, sampling, flushing and reporting have increased, and as a result of the impacts of this legislation, the requirements for additional staff to operate and manage the drinking water systems continues to increase.

In addition to the increasing regulatory requirements concerning the maintenance and operation of the City's drinking water systems, the City's systems have increased by almost 120 km of water main since 2003. In that same period the sanitary sewer system has increased by approximately 115 kilometers, and the storm sewer system by 100 kilometers. In addition, 20 storm water management ponds have been assumed and 52 ponds in development areas will be added to the system over the next few years. Not included in the total length of pipe and the number of ponds, are the thousands of individual water, sanitary and storm services and appurtenances such as valves, curb boxes, hydrants, water meters, maintenance holes, catch basins, inlet and outlet grates and channels etc. associated with this infrastructure which require regular maintenance and repair. With the growth and the additional users of the water and sewage systems comes hundreds of additional phone inquiries and concerns regarding water quality, water metering, sewer odours, sewer backups, storm flooding, grate cleaning etc., and work orders must be created to investigate and address these concerns.

The current staffing levels in the Water, Wastewater, and Drainage sections needs to be increased in order to ensure that the City meets its regulatory standard of care, and to ensure the residents continue to receive a high quality standard of care. Staff are being requested for 2008 as shown below.

To assist both Public Works and Finance meet the growing demands, it is recommended that the following additional complement be approved, and filled as soon as possible:

½ Administration Supervisor (50% funding previously approved in the 2008 Operating Budget),
1 Clerk "C"
1 Water Account Analyst
1 Environmental & Technical Assistant
2 Water Servicepersons
2 Wastewater Servicepersons
2 Drainage Servicepersons

The details of the 9.5 FTE's staffing request for Water Wastewater and Drainage is shown in Attachment 3. The 2008 cost for salaries, benefits and equipment is \$220,024 including office equipment. The full year cost, including wages and benefits is \$553,572.

Unmetered Water Consumption

Unmetered water usage takes place through: fire suppression and fire training, irrigating sports fields, main flushing and maintenance, street sweeping, water main breaks and service leaks, testing and flushing water mains in new developments due to Provincial water regulations, water used by builders in the construction of new homes, etc.

CITY OF VAUGHAN

EXTRACT FROM COUNCIL MEETING MINUTES OF JUNE 11, 2008

Item 1, Environ Report No. 5 – Page 6

In some instances unmetered water is recovered through the City's development agreements and is also billed and recovered internally for City purposes; such as recreation's swimming pools, and consumption in the many building's and facilities throughout the City.

2008 Proposed Budget – Unmetered Water

The 2008 unmetered water is budgeted at 11% up 2% from last years 9%. This increase is the result of the flushing program in areas where there are new sub-divisions. Flushing maintains the City's ability to provide potable water thereby meeting Ministry of Environment requirements. Some of the cost is recovered from fees in the sub-division agreements. The actual unmetered water over the past number of years, ranges from 9.3% to 13.4% reflecting the growth of the City. The National Drinking Water Clearinghouse in the USA has indicated that unaccounted for water in the 10-20% range is normal, while the National Research Council of Canada reported in 1998, that the range is anywhere from 25-30%.

Update 2000 – Unmetered Water

As reported previously to Council, the 2000 actual unmetered water was significantly higher than normal coming in at an adjusted 16.0%. City Engineering and Finance staff have met on several occasions with Regional Engineering staff, and in addition, have had a number of discussions and meetings with staff of the City of Toronto on potential metering issues. The water infrastructure system is large and the metering system is complex. In 2002 the Region hired a consultant with the cost being shared with the City however the resulting report was inclusive in its determination of the cause.

We understand that Regional staff will be reporting to their committee on a proposed settlement shortly. We can expect to receive details following ratification by Regional Council.

Jane Street & Highway 7 – Watermain, Road & Sewer Repairs

At its meeting of February 13, 2006, Council was advised of the emergency situation at the intersection of Jane Street and Highway 7 and the status of the repairs to the watermain, road and sewers. Subsequently Council approved the recommendation to retain the contractors and consultants necessary to stabilize the area impacted by the emergency situation associated with the major settlement of the roadway and underground services. To carryout repairs, deep wells were placed to lower the water table and pumps were installed to by pass the sewer. The site was excavated to a depth of 30 feet to allow the subgrade to be stabilized with pressure grout; the unstable and unsuitable soil to be removed and replaced with unshrinkable fill and other suitable material; the watermain, sanitary sewer and storm sewer replaced and the road base, curbs, islands, pavement and traffic signals affected by the repairs were reconstructed.

The total cost of this project including both City and Regional costs as at December 31, 2007 is \$10.8 million. The Region paid \$0.4 million directly and the City paid \$10.4 million. The \$10.4 million was funded from the Water and Wastewater reserves. A report has been approved by Council whereby the Region of York is requested to pay \$3.2 million as their share of these costs.

Water-Revenue & Expenditures Highlights

The budgeted water billings in 2008 are expected to be \$35.2 million with expected water purchases from the Region of \$22.6 million resulting in a gross margin of \$12.6 million. The budgeted 2008 water billing revenue includes a 3.25% residential, 2% commercial growth factor. The volumes are based on an estimated average season in terms of weather.

Actual 2007 total Water billings of \$31.8 million over budget by \$0.6 million as a result of higher than expected demand by Residential users due to a dryer than expected summer period. Residential billing totalled \$19.4 million, up by 4.8%. Commercial and Industrial actual billings totalled \$12.2 million down slightly by 1.6% compared to a budget of \$12.3 million.

CITY OF VAUGHAN

EXTRACT FROM COUNCIL MEETING MINUTES OF JUNE 11, 2008

Item 1, Environ Report No. 5 – Page 7

2008 Budgeted expenditures total \$7.3 million covering general annual maintenance, administration, financing and other costs. The largest component maintenance is budgeted at \$5.1 million. Actual maintenance expenditures come in \$4.2 million and is under budget significantly, this is due to the budgeted amount each year being based on providing extra funds in case of emergency work. The balance of the administration and other costs are coming in at approximately last year budget level.

Reserve Contribution

In 2007 through water operations, \$5.6 million or 17.8% was transferred to the water reserve fund. The 2008-budgeted transfer from water operations to the water reserve is expected to be at \$6.5 million or 18.5%.

Budgeted transfers to the Capital Fund in 2008 for water related budgeted infrastructure needs are expected to be \$0.3 million, \$6.4 million has been committed from previous years. The total budgeted and committed cost for water reserve fund projects may not be spent at the end of year 2008. A water recovery of \$1.6 million was booked in 2007 based on a proposed cost sharing arrangement with the Region of York for the Jane/Hwy 7 major repair.

The water reserve fund including commitments has been decreasing over the past few years due to the increasing need to renew the water infrastructure, however, the rate study project related to the SDWA will develop the appropriate rates necessary to provide sustainability. The budgeted reserve balance at the end of 2008 is projected to be \$16.5 million after all committed capital projects and operating costs.

Wastewater-Revenue & Expenditures Highlights

Wastewater billings are based on the cubic meters of water used for each property. The wastewater rate is then applied to the amount of water consumed. The volume of wastewater is not metered.

The current wastewater rate is discounted by approximately 2.0% when compared to water so as to reflect that not all water is returned to the wastewater system. The differential between the water rate and wastewater rate has been diminishing over the past few years. This is due to the Regional wastewater rate component, increasing over 5 years by 10%, the City has no choice but to flow that cost to the consumer. As a result the current differential between rates at 2.0 % will disappear altogether next year.

The sanitary wastewater billings in 2008 are expected to reach \$33.5 million. The wastewater increase is a reflection of the increase in water consumption as a result of an estimated 3.25% residential and 2% commercial growth factor and a normal season of weather. The cost of wastewater disposal service from the Region includes a 10.0% increase and the total 2008 treatment cost is estimated at \$24.7 million. The Region's treatment cost for wastewater is based on potable water purchased by the City. The 2008 local improvement revenue is budgeted at \$213,200 and is offset by the cost of debentures of \$213,200. Installation and service fees are budgeted at \$137,000, the same level as 2007 budget.

Budgeted expenditures for 2008 are at \$6.2 million, an increase over the 2007 budget. This is due to increased costs associated with lateral repairs, sanitary lateral installations, flushing/cleaning and other general repairs, maintenance, servicing and joint service costs. Storm sewer expenditures are budgeted at \$2.0 million similar to last years budget. Balance of the expenditures are budgeted approximately at last years levels.

CITY OF VAUGHAN

EXTRACT FROM COUNCIL MEETING MINUTES OF JUNE 11, 2008

Item 1, Environ Report No. 5 – Page 8

Reserve Contribution

In 2008, through the operation of the sanitary wastewater operations, \$2.8 million or 8.6% is expected to be transferred to the reserve. For 2007, the budgeted transfer to reserve totaled of \$2.0 million or 7.2%. The 2007 actual transfer to reserve was \$3.6 million or 12.7%.

Budgeted transfers to the 2008 Capital Fund for wastewater infrastructure is proposed to be \$68,750. In addition a transfer to the operating fund for overhead cost is \$0.4 million. The total committed cost for wastewater reserve fund capital projects may not be spent at the end of year 2008. A recovery of \$1.6 million wastewater share was booked in 2007 based on a proposed cost sharing arrangement with the Region of York for the Jane/Hwy 7 major repair.

The sanitary wastewater reserve ending balance for 2008 is forecasted to be \$10.1 million, and reflects all current and previous committed projects.

Relationship to Vaughan Vision 2020

This report is consistent with the priorities previously set by Council under Safeguarding our Environment and the necessary resources are being requested.

Regional Implications

No Implications

Conclusion

Both the Water and Wastewater reserves have been declining, however, Public Works, Engineering and Finance staff have jointly issued an RFP for a rate study to ensure that the future water/wastewater rate recommendations include an appropriate strategy to fund future operations and infrastructure renewals. This study will provide the consumption rates necessary to meet the requirements of SDWA including full cost recovery.

The combined annual impact of the proposed rate increases is 6.4% on residential users which consumes 340 cubic meters per year will be \$37.40 or \$3.11 per month.

It is therefore recommended that the City's water rate be increased to 92.4 cents per cubic meter and that the wastewater rate be increased to 91.1 cents per cubic meter both effective June 2008 as outlined below.

Attachments

- Attachment No. 1: The 2008 Water and Wastewater Budgets including 2007 unaudited Water and Wastewater Actuals
- Attachment No. 2: 2008 Water and Wastewater Municipal Rate Comparison
- Attachment No. 3: New Complement Request Summary and Supporting Schedules
- Attachment No. 4: Water, Wastewater & Drainage 2008 Business Plan

Report prepared by:

Barry E. Jackson, CGA
Director of Financial Services
Ext. 8272

(A copy of the attachments referred to in the foregoing have been forwarded to each Member of Council and a copy thereof is also on file in the office of the City Clerk.)

CITY OF VAUGHAN

EXTRACT FROM COUNCIL MEETING MINUTES OF JUNE 11, 2008

Item 2, Report No. 7, of the Budget Committee, which was adopted without amendment by the Council of the City of Vaughan on June 11 2008.

2

**CAPITAL PROJECTS QUARTERLY REPORT
ENDING DECEMBER 31, 2007**

The Budget Committee recommends approval of the recommendation contained in the following report of the Deputy City Manager/Commissioner of Finance & Corporate Services and the Director of Reserves & Investments, dated May 29, 2008:

Recommendation

The Deputy City Manager/Commissioner of Finance & Corporate Services and the Director of Reserves & Investments recommend:

That this report be received for information purposes.

Economic Impact

There is no economic impact as all capital projects have been previously approved by Council and the reserve continuity schedule is for information purposes only.

Communications Plan

Not Applicable.

Purpose

The purpose of this report is to provide Budget Committee with a quarterly update on the financial status of all approved capital projects and reserve balances.

Background - Analysis and Options

The Reserves and Investments department is responsible for:

- managing capital processes on an ongoing basis to provide departmental management with the information to ensure that their projects are completed within their approved budgets
- ensuring the appropriate approvals are obtained if circumstances determine additional funding is necessary
- maintaining reserve and reserve fund balances to ensure required funding is available to finance all approved capital projects
- providing financial updates to Budget Committee and Council

The attached quarterly reports provide an update on the financial status of all approved and active capital projects and reserve balances.

Attachment 1 provides the Budget to Actual Status for all currently approved and active capital projects as at December 31, 2007. It is important to note that while a capital work plan may be complete (the road done or the park built) the project is still considered active until all invoices are paid and all funding completed. It should also be noted that this report is a financial representation of payments made to December 31, 2007 and is not an indication of the percentage completion of capital work-in-progress. This information is compiled at a point in time and as capital work plan information is continuously changing current information may vary from this report.

CITY OF VAUGHAN

EXTRACT FROM COUNCIL MEETING MINUTES OF JUNE 11, 2008

Item 2, Budget Report No. 7 – Page 2

Reserves & Investments has reviewed the Budget to Actual Status report as at December 31, 2007 and provides the following analysis:

- there are 434 open capital projects with a capital budget value of \$422 Million
- to date approximately 48.8% of this capital budget has been spent (payments processed)
- capital work-in-progress to be completed is valued at approximately \$243 Million
- 41 projects were closed (Attachment 2) during the fourth quarter of 2007 releasing funding of \$261,927 for future projects (funding is returned to the original funding source)

Attachment 3 provides the Reserves and Reserve Funds Continuity Schedule as at December 31, 2007. This schedule provides information on the individual and aggregate reserve balances and the outstanding financial commitments required to fund approved projects. These commitments also include any payments required in future years where approved multi-year payment agreements exist. The balance available after commitments is compiled at a point in time and as reserve activity is ongoing the current available balances may vary from this report.

Relationship to Vaughan Vision 2020

This report is consistent with the priorities previously set by Council and the necessary resources have been allocated and approved.

Regional Implications

Not Applicable.

Conclusion

The capital and reserves quarterly reports provide Budget Committee with the financial status of all approved capital projects and reserve balances. The Budget to Actual Status Report and Reserves Continuity Schedule provide point in time information to provide assurance of ongoing management of approved capital projects and the reserves required to fund them.

Attachments

Attachment 1 – Budget to Actual Status Report by Department as at December 31, 2007

Attachment 2 - Closed Projects

Attachment 3 – Reserves and Reserve Funds Continuity Schedule as at December 31, 2007

(A copy of the attachments referred to in the foregoing have been forwarded to each Member of Council and a copy thereof is also on file in the office of the City Clerk.)

CITY OF VAUGHAN

EXTRACT FROM COUNCIL MEETING MINUTES OF JUNE 11, 2008

Item 3, Report No. 7, of the Budget Committee, which was adopted without amendment by the Council of the City of Vaughan on June 11 2008.

3

2009 CAPITAL BUDGET TIMETABLE

The Budget Committee recommends approval of the recommendation contained in the following report of the Deputy City Manager/Commissioner of Finance & Corporate Services and the Director of Reserves & Investments, dated May 29, 2008:

Recommendation

The Deputy City Manager/Commissioner of Finance & Corporate Services and the Director of Reserves & Investments in consultation with the City Manager and the Senior Management Team recommends:

That the attached 2009 Capital Budget Guidelines & Procedures and the 2009 Capital Budget Timetable be approved.

Economic Impact

There is no economic impact as this is an information item.

Communications Plan

Public Notice of Community Input Meetings will be required in October to inform the public of the dates, times and locations. The Region of York and School Boards will also need to be notified in advance of these dates in order to participate in the presentations.

Purpose

The purpose of this report is to inform the Budget Committee of the 2009 Capital Budget Timetable.

Background - Analysis and Options

The City of Vaughan Capital Budget process provides a forum for long-term planning and establishing construction and service priorities for the future. The proposed guidelines provide stability and balances the need for service with affordability and the requirement to meet the changing economic conditions.

In preparing the 2009 Capital Budget, departments should focus on projects that maintain a standard of repair and maintenance, general efficiency, generate cost savings and the availability of staff resources to complete their capital plan. The objective is to receive public input through Community Budget Forums in October and November followed by a report to the Budget Committee in December for Council approval early in the New Year. The purpose of the Community Budget Forums is two-fold: to educate and inform the public and to solicit input from the public into the budgets by engaging them in the community. The benefit of this timeline is to allow the tendering and construction process to commence early in 2009 to obtain lower bid prices.

The 2009 Capital Budget Guidelines & Procedures (Attachment 1) and the 2009 Proposed Capital Budget Timetable (Attachment 2) have been prepared with the objective of an early 2009 approval. All capital projects will be reviewed within the applicable funding source(s) based on the criteria outlined in the 2009 Capital Budget Guidelines & Procedures, corresponding reserve by-laws where applicable and all City of Vaughan financial policies.

CITY OF VAUGHAN

EXTRACT FROM COUNCIL MEETING MINUTES OF JUNE 11, 2008

Item 3, Budget Report No. 7 – Page 2

Relationship to Vaughan Vision 2020

This report is consistent with the priorities previously set by Council in Vaughan Vision 2020; particularly Ensure Financial Sustainability.

Regional Implications

See Communications Plan.

Conclusion

Budget Committee review and approve the proposed 2009 Capital Budget Timetable.

Attachments

Attachment 1 – 2009 Capital Budget Guidelines & Procedures
Attachment 2 – 2009 Capital Budget Timetable

Report prepared by:

Ferruccio Castellarin, CGA
Director of Reserves & Investments
Ext. 8271

(A copy of the attachments referred to in the foregoing have been forwarded to each Member of Council and a copy thereof is also on file in the office of the City Clerk.)

CITY OF VAUGHAN

EXTRACT FROM COUNCIL MEETING MINUTES OF JUNE 11, 2008

Item 4, Budget Report No. 7 – Page 2

Guidelines Designed to Maintain Service Levels & Support Vaughan's Vision with a Minimum Impact on Taxes

As illustrated, the 2009 Operating Budget will present a significant challenge in achieving a balanced budget while minimizing any tax increase. Accordingly, the 2009 Operating Budget Process will address this challenge by building on the processes and successes experienced during previous operating budget processes. The Operating Budget Guidelines are further refined to incorporate a more comprehensive budget review through a combination of the following actions:

1. Strict base budget guidelines to limit the size of the budgetary increases;
2. Separate review process to assess additional resource requests;
3. User fee reviews with increases in relation to department costs & cost increases;
4. Business planning and performance measures/benchmarks;
5. Public information/consultation;
6. Continued budget/tax rate analysis.

Further details with respect to each of the actions are provided in the following sections:

1. Strict 2009 Base Budget Guidelines to Limit Cost Increases

Continued strict Operating Budget Guidelines are recommended to minimize the budgetary impact on the tax rate for 2009. These guidelines focus on external pressures and established commitments, limiting base budget increases to the following areas only:

- Salary and benefits relating to previously approved employment agreements;
- Budget impacts associated with previously approved capital projects;
- Budget impacts as per Council approved recommendations;
- Supported external contract price and volume increases, where justified;
- Supported utility increases (Hydro, Water, Natural Gas, & Fuel), where justified;
- Insurance adjustments; and
- Required long term debt principal and interest payments.

Reclassifications and reallocations in non-labour related accounts are permitted, but limited to better reflecting the true nature of the expense or more accurately aligning account budgets. There are no impacts associated with these adjustments and the intent is to refine departmental budgets. As part of the budget process, reallocations/reclassification will be highlighted and illustrate a neutral impact.

In addition, all items containing an economic impact during the Annual Budget Process are to be submitted to the Budget Committee for review & recommendation before Council consideration. This will ensure that all financial requests are captured and assessed within the approved Operating Budget Process.

On a final note, due to program offerings and specific programming requirements, the Recreation Department requires additional flexibility in their operating budget. User fees are governed by the existing User Fee Policy and overall revenues and expenditures fluctuate year over year, depending on various enrollment numbers, program selections, and Community demands and requirements. With some exceptions, overall budget compliance will be monitored based on net budget impact and cost recovery.

2. Separate Review Process to Assess Additional Resource Requests

Recognizing the guidelines are very restrictive and understanding that Departments may require funding in excess of base budget guidelines to perform the following:

CITY OF VAUGHAN

EXTRACT FROM COUNCIL MEETING MINUTES OF JUNE 11, 2008

Item 4, Budget Report No. 7 – Page 3

- Meet strategic priorities;
- Maintain service levels;
- Adhere to regulatory requirements; and
- Implement new initiatives, etc.

The guidelines continue to be complimented by a process that provides departments with an opportunity to formally submit requests for essential resources not permitted within the base budget guidelines, in excess of \$5,000. Council approval is specifically required when, new staff resources, a change in service levels, or new initiatives are brought forward. These requests will not be included in the base operating budget, but identified and presented separately to Senior Management, Budget Committee, and/or Council for consideration and approval. The process will separate the Operating Budget into the following two classifications:

- Base Budget - Budget submissions based on approved guidelines – Minimal tax increase.
- Additional Resource Requests – Special or unique requirements not accommodated within existing guidelines requiring SMT and/or Council review and approval.

The intent is to aid key decision makers assess the Operating Budget by pinpointing key operating budget pressures and separating the budget into more manageable components.

A revised single standardized Additional Resource Request Template, enclosed as Attachment 2, will be provided to departments to communicate their requests and business case. The template includes sections to illustrate Vaughan Vision strategic links, costs & benefits, implications & consequences, success indicators, and timelines. This process will provide a consistent step by step approach to assist Senior Management and the Budget Committee in evaluating requests and aligning available resources.

3. User Fee reviews with increases in relation to department costs & cost increases

Inherent in the 2009 Budget Process is a continued emphasis on maximizing the cost recovered on services provided. In addition to adjusting revenues for anticipated changes in activity, departments will be required to review user fees and service charges and report any increase in relation to department cost increases and further demonstrate and submit new user fee and service charge opportunities for Senior Management review and Council approval. It is important to emphasize that any reduction in a user fee or service charge cost recovery ratio will have a corresponding direct impact on the City's levy. Therefore, to minimize any impact on the City's tax rate it is important to sustain or improve revenue/cost relationships.

As a default, it is anticipated that department user fees & service charges will increase at minimum, by the rate to inflation, in 10 cent increments, unless justification for no increase is otherwise specified (i.e. Fully recovered, legislated, etc.). The Statistics Canada Ontario inflation rate increased 1.9% for the 12 month period ending December 2007. The 5 year historical average is approximately 2.1%.

4. Business Plans, Service Reviews, and Performance Measures

Business Plans will continue to be integrated as part of the 2009 Operating Budget Process to help establish and reinforce connections between strategic priorities, Vaughan Vision 2020, and resource allocation. This information compliments the budget process and plays an important role in evaluating department base budget efficiency, effectiveness and productivity through the use of performance measures.

CITY OF VAUGHAN

EXTRACT FROM COUNCIL MEETING MINUTES OF JUNE 11, 2008

Item 4, Budget Report No. 7 – Page 4

Business Plans will greatly assist Senior Management and the Budget Committee in their budget deliberations by providing a platform to better understand department objectives, pressures and the basis for additional resource requests. This is an important step towards aligning budgets with Vaughan Vision strategic goals, objectives, and priorities.

The Senior Manager of Strategic Planning will be intricately involved with this process and assist with updates and refinements to existing plans.

5. Public Consultation & Input

Public Consultation will be held early in the budget process to gather community input, which will assist in building the budget. In the interest of obtaining maximum feedback and following discussions during last year's Budget Committee sessions, one live public information/consultation forum will be held at the Civic Center, which will be recorded and made available for all citizens to review and provide feedback via the City's Website. The initial setup will require support from ITM and Corporate Communications. Responding to public input will require an involvement and collaboration from all City departments. Forum results will be reported to Budget Committee early in the budget process.

The framework & subject matter of the forum will be relatively consistent with what was offered in the past and focus on the following:

1. Educate and inform the public regarding city services, the cost of those services, municipal issues and their relationship with property taxes; and
2. Obtain input and feedback from the public with respect to the local services provided.

The York Region Separate and Catholic Schools Boards, and the Region of York will be invited to participate.

6. Continued Budget/Tax Rate Analysis

As part of the standard process, staff will undertake various tasks to analyze the Operating Budget to assess efficiency and ensure conformity with approved Operating Budget Guidelines. Examples include analyzing major department increases, guideline compliance, specific expenditure types, historical trends, department user fee recovery ratios, SMT/Council ad hoc requests, tax rate implications, and overall budget reasonability.

Continued Budget Process Improvements

The Budget Department has strived to continuously improve the operating budget process. A strong emphasis is placed on reviewing processes and creating refinements that add value by making the process easier and more informational. Many of these improvements lead to greater efficiencies thereby allowing management and front line staff to focus more on core operations, planning, budget review and decision making. To that end, some of the more significant recent process improvements for the operating budget process include:

- Providing significantly more time to prepare department operating budget submissions by issuing instructions earlier each year;
- Partnering with Human Resources to pre-calculate department salary, benefits, and FTE budgets;

CITY OF VAUGHAN

EXTRACT FROM COUNCIL MEETING MINUTES OF JUNE 11, 2008

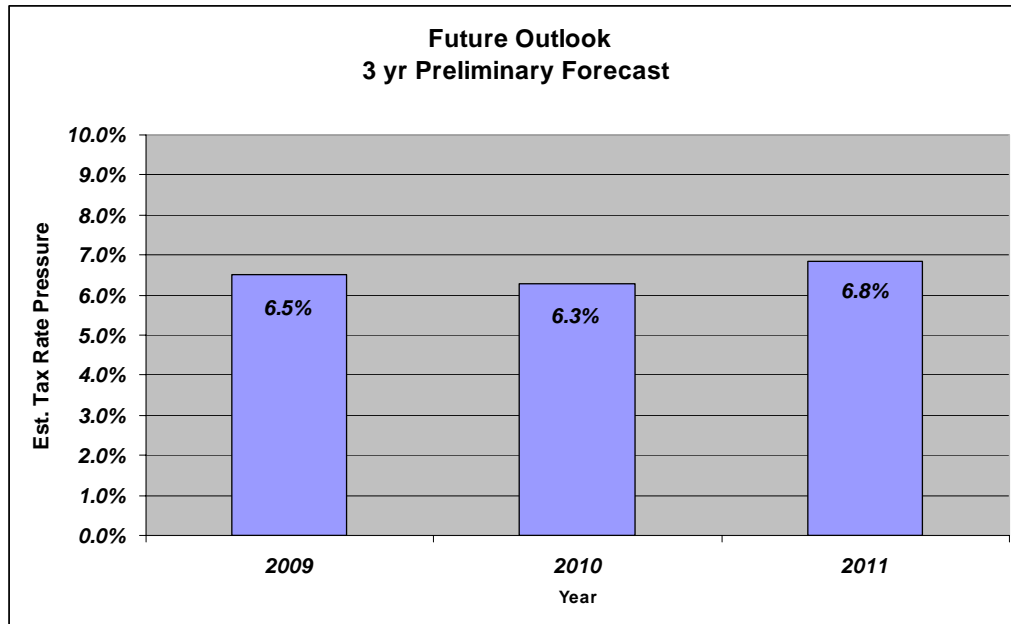
Item 4, Budget Report No. 7 – Page 5

- Developing electronic workbooks for Departments, with pre-populated information and automatic links to summary tables;
- Leveraging the VIBE as a communications tool – immediate department access to budget documents, reduced duplication, decreased e-mail volume, and lower costs associated with hard copy printing;
- Greater emphasis on future financial planning and decision making rather than administering the budget process;
- Frequent meetings & workshops – Increased interaction with Departments to review requirements, answer questions, provide guidance and support; and
- Providing additional reporting and analysis.

Future Outlook

As mentioned in the opening paragraph, the City of Vaughan continues to be subject to the many factors that put significant pressure on the property tax rate. The impacts of these pressures are often permanent and therefore require long-term funding solutions to ensure public services are sustainable in the future.

To illustrate these pressures, a preliminary basic 3 year outlook is provided below. It is important to note that the preliminary outlook is based on general assumptions and trends and excludes impacts associated with future master plan recommendations or the recommended infrastructure funding strategy. Currently under development is the City’s long-range financial plan, which once updated, will provide a more meaningful and accurate forecast.



Operating Budget Timetable

Staff anticipate bringing forward the first draft of the 2009 Operating Budget to the Budget Committee in late November with the intention of a Budget Committee recommendation in early February and Council approval in late February 2009. Efforts will be made to adhere to the

CITY OF VAUGHAN

EXTRACT FROM COUNCIL MEETING MINUTES OF JUNE 11, 2008

Item 4, Budget Report No. 7 – Page 6

timeline, but any issues raised during the 2009 Operating Budget Process could potentially impact the illustrated timing. A timetable is enclosed as Attachment #1. Senior Management Team and Budget Committee meeting dates are currently being scheduled to accommodate this timeline.

Relationship to Vaughan Vision 2020

This report is consistent with Vaughan Vision 2020's long term goal of financial stability through the design of operating budget guidelines intended to produce a responsible budget. The necessary resources have not yet been approved and will be addressed throughout the 2009 Operating Budget deliberations.

Regional Implications

N/A

Conclusion

The 2009 Operating Budget Timetable and Guidelines requires Budget Committee to provide a recommendation to Council by early February 2009 and a public meeting be held in late February 2009, followed by Council approval. The enclosed guidelines are presented to maintain service levels and support Vaughan's vision with a minimum impact on taxes.

Attachments

Attachment No. 1 – 2008 Operating Budget Timetable
Attachment No. 2 – Additional Resource Request Template

Report prepared by:

Clayton Harris, CA
Deputy City Manager/Commissioner of Finance & Corporate Services

John Henry, CMA
Director of Budgeting and Financial Planning

Al Meneses, MBA
Manager of Operating Budget

(A copy of the attachments referred to in the foregoing have been forwarded to each Member of Council and a copy thereof is also on file in the office of the City Clerk.)