

CITY OF VAUGHAN

EXTRACT FROM COUNCIL MEETING MINUTES OF NOVEMBER 24, 2009

Item 1, Report No. 7, of the Budget Committee, which was adopted without amendment by the Council of the City of Vaughan on November 24, 2009.

1 CAPITAL PROJECTS QUARTERLY REPORT ENDING JUNE 30, 2009

The Budget Committee recommends approval of the recommendation contained in the following report of the Director of Reserves & Investments, dated November 3, 2009:

Recommendation

The Director of Reserves & Investments in consultation with the City Manager recommends:

That this report be received for information purposes.

Contribution to Sustainability

This is not applicable to this report.

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

On June 5, 2009, the Federal and Provincial Governments announced the listing of successful projects totaling \$30.3 Million that were receiving Federal and Provincial funding under The Infrastructure Stimulus Fund (ISF). Given the stringent program timeliness staff from Engineering, Parks, Building and Facilities and Purchasing are giving top priority to these projects. Previously approved capital projects that are not a RFP, Quote or tendering stage may be delayed to allow the expediting of ISF projects.

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

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Attachment 1 provides the Budget to Actual Status for all currently approved and active capital projects as at June 30, 2009. 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 June 30, 2009 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.

Reserves & Investments has reviewed the Budget to Actual Status report as at June 30, 2009 and provides the following analysis:

- there are 484 open capital projects with a capital budget value of \$469 Million
- to date approximately 50% of this capital budget has been spent (payments processed)
- capital work-in-progress to be completed is valued at approximately \$232 Million

Attachment 2 provides the Reserves Continuity Schedule as at June 30, 2009. 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 June 30, 2009
Attachment 2 – Continuity Reserves & Reserve Fund Schedule as at June 30, 2009

(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.)

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Item 2, Report No. 7, of the Budget Committee, which was adopted without amendment by the Council of the City of Vaughan on November 24, 2009.

2 OPERATING BUDGET QUARTERLY REPORT ENDING JUNE 30, 2009

The Budget Committee recommends approval of the recommendation contained in the following report of the Director of Budgeting and Financial Planning, dated November 3, 2009:

Recommendation

The Director of Budgeting and Financial Planning recommends:

That the 2009 Second Quarter Variance Report be received for information purposes.

Contribution to Sustainability

Not applicable

Economic Impact

Not applicable

Communication Plan

Not applicable

Purpose

To report on the year-to-date actual 2009 Operating Budget results versus the calendarized 2009 Operating Budget, as at June 30, 2009.

Background – Analysis and Options

The attached second quarter variance report compares the current status of actual departmental and corporate operating results for the six-month period ending June 30, 2009, relative to the 2009 year-to-date operating budget. The year-to-date operating budget is calendarized based primarily on the spending patterns and trends of previous years, as per departmental submissions. The variance report is prepared on a partial accrual basis, where only major revenue streams or expenditures not booked, but incurred to date, have been estimated and accrued.

Second Quarter Overview – Ahead of Budget

At the end of the second quarter, the City experienced a \$1.8m favourable variance, representing a 1.9% variance on the City's 2009 second quarter operating budget. This favourable variance is comprised of a \$2.1m favourable expenditure variance, offset by a \$0.3m unfavourable revenue variance. The annual Operating Budget for the City is \$195m, of which 52.59% remain to be realized. A detailed report is attached, which provides specific variance detail by department and corporate categories.

It is important to note, the combined favourable variance is not directly indicative of the City's final year-end position; it simply compares the City's actual financial position to the approved budget at a point in time. The current favourable position may be eroded due to unforeseen events such as winter storms in the latter part of the year, an economic downturn, or a delay in expenses to the last quarter of the year.

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The main areas that contributed to the positive \$1.8m variance are summarized below.

City Revenue Variance

Actual revenues were \$90.3m as of June 30, 2009, and represent a \$0.3m unfavourable variance when compared to the year-to-date expenditure budget of \$90.6m. The variance was created by the following main components. Payments in lieu (PILs) came in \$834k under budget due a planned vs. actual timing difference. This variance will be reduced or eliminated in the following quarters after the final billing is issued and collected. Actual transfers from reserves were \$598k less than anticipated, largely a result of lower than forecasted department expenditures. The above unfavourable variances were offset by a favourable corporate revenue position, mainly a result of higher than expected Hydro dividends, approximately \$1.3m.

City Expenditure Variance Overview

Actual total expenditures were \$92.4m as of June 30, 2009, and represent a \$2.1m favourable variance to the year-to-date expenditure budget of \$94.5m. The largest component driving the City's favourable expenditure was a favourable position in total department expenses, approximately \$4.2m, despite the significant unfavourable variance experienced in winter control as a result of the extreme weather conditions. The majority of the department variance is attributed to salary savings resulting from vacancies and delays in hiring recently approved staff. The above favourable variance was reduced by a \$2.0m unfavourable variance in corporate expenses, of which \$1.5m is related to anticipate salary gapping and unallocated benefits which will be distributed before the end of the year. Unfavourable variances in tax adjustments, election, and OMB hearing costs also contributed to the above \$2.0m variance.

For quick reference purposes, a summary of the variances by major category is provided below followed by explanations for major variances.

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Variance Summary:

| <u>Revenues</u> | Variance in \$M's |
|--|---------------------------|
| Payment in Lieu | (0.8) |
| Reserves | |
| Building Standards | (0.1) |
| Engineering Reserve | (0.4) |
| Other | <u>(0.1)</u> (0.6) |
| Fees & Service Charges | |
| Recreation | 0.6 |
| Building Standards | (0.5) |
| Other | <u>(0.2)</u> (0.1) |
| Corporate Revenues | |
| Hydro Dividends | 1.3 |
| Investment Income | 0.5 |
| Other | <u>(0.6)</u> 1.2 |
| Total | (0.3) |
| <u>Expenses</u> | |
| Departmental Expenses: | |
| Building & Facilities | 0.5 |
| Building Standards | 0.5 |
| Vaughan Public Libraries | 0.5 |
| Parks Operations | 0.4 |
| Information & Technology Management | 0.4 |
| Engineering Services | 0.4 |
| Enforcement Services | 0.3 |
| Development and Transportation Engineering | 0.3 |
| Public Works | (0.8) |
| Other-(various departments) | <u>1.7</u> 4.2 |
| Corporate & Election | |
| Tax Adjustments | (0.3) |
| Salary Savings from turnover | (0.7) |
| Unallocated benefits | (0.8) |
| Other | <u>(0.3)</u> (2.1) |
| Total | <u>2.1</u> |
| Year to Date Revenues Net of Expenses | \$1.8 |

Specific Variance Explanations:

Listed below are explanations for significant revenue and expenditure variances. As per prior practice, department explanations are required for all unfavourable variances and any favourable variances in excess of \$100,000. Explanations for corporate revenue and expenditure variances are also included, following the major department variance explanations.

City Council

Expenditure variance - \$104,145 or 15.4% favourable

Council Expenditures were favourable and largely related to savings in part-time labour, travel/conference, mailings, printing, and the remaining balance was distributed among various Councillor accounts.

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City Manager

Fire and Rescue Services

Revenue variance - \$126,363 or 117.4% favourable

The favourable revenue variance is related to unanticipated increase in activities. The majority of the favourable variance, about \$87k, resides in the operations division and was due to higher than anticipated emergency call outs. The balance of the variance is related to an increase in external mechanical services and requests for fire prevention inspections.

Expenditure variance - \$249,921 or 1.6% favourable

The favourable variance is due to a delay in approved staffing and associated costs required for the 30 m aerial stationed in Kleinburg/Woodbridge, approximately \$500k. This favourable variance was offset by unfavourable variances in vehicle maintenance/repairs as a result of an increasing fleet and unfavourable variances in materials and supplies due to an increase in emergency call volumes for the first half of 2009.

Commissioner of Finance and Corporate Services

Reserves and Investment

Expenditure variance - \$121,408 or 24.4% favourable

The favourable variance was caused by the delayed in hiring the approved grant specialist and investment analyst positions, approximately \$107K. The remainder of the variance was a result of a delayed capital software maintenance payment and other minor variances.

Commissioner of Legal and Administrative Services

Committee of Adjustment

Revenue variance - \$30,799 or 13.4% unfavourable

Application volumes submitted to date have been lower than initially anticipated due to general economic conditions.

City Clerk

Expenditure variance - \$151,981 or 6.5% favourable

The favourable variance consists of \$122k savings in labour costs related to vacant positions, backfilled positions hired at lower experience pay rates, and delays in hiring 2009 approved complement. The remainder of the variance is primarily related to savings in the mailroom/print shop division. However, this favourable variance may not continue as the volume of requests tends to increase during the third and fourth quarters.

Legal Services

Revenue variance - \$5,595 or 18.5% unfavourable

This variance is a result of lower than anticipated registration fees.

Expenditure variance - \$54,813 or 6.7% unfavourable

The unfavourable expenditure variance is a result of greater than forecasted professional fee costs, approximately \$113k, related to the legal fees paid for external legal counsel regarding prosecutions arising from the three compliance audits and the appeal of a court decision upholding various City bylaws. These additional costs were not anticipated and are expected to continue. The above variance was offset by savings in labour costs related to vacancies.

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Enforcement Services

Revenue variance - \$176,841 or 22.2% unfavourable

The unfavourable variance was caused by not all of the 2009 enforcement staff additional resources being approved, which prevented the department from meeting the revenue outlined in the approved requests. In addition, the revenue from administrative monetary penalties initiative was prematurely factored into the 2009 budget. The additional revenue was to be realized "within one year of going live", which started August 2009.

Expenditure variance - \$335,102 or 16.8% favourable

The favourable variance consists of \$200k savings in labour costs related to vacant positions and delays in hiring the 2009 approved sign-enforcement staff. Savings in service contracts and materials/supplies were also experienced due to delays in invoice payments which correct itself in third and fourth quarter.

Commissioner of Community Services

Recreation

Revenue variance - \$606,455 or 9% favourable

The favourable revenue variance is primarily due to revenue posting and calendarization anomalies created by the June 29th program start date vs. a July start date. The revenue variance should correct itself in the 3rd.

Building and Facilities

Expenditure variance - \$515,401 or 6.2% favourable

The overall favourable variance is comprised of salaries and benefits savings related to vacancies (\$307k) and utilities (\$200k). Utility expenses are favourable as a result of a delay in receiving invoices and successful conservation practices. The utility favourable variances were expected to partially correct itself by year-end.

Fleet

Expenditure variance - \$139,582 or 27.9% favourable

\$95k of the variance is due to salary vacancies and related benefits savings. The remainder of the variance consists of many smaller account variances.

Parks Operations

Revenue variance - \$15,902 or 44.3% unfavourable

Although park revenue was favourable overall an unfavourable variance in cemetery revenue was experienced as the sale of plots, foundations, and other services were less than expected.

Expenditure variance - \$373,556 or 7.4% favourable

The favourable expenditure variance is largely a result of salaries and benefits savings related to staff vacancies and savings in utilities, \$548k and \$167k respectively. The above variance was offset by \$156k unfavourable variances in boulevard maintenance contracts and higher machine time due to the increase in winter storm events, \$186k. These initial utility savings will be spent in the budget year.

Commissioner of Planning

Development Planning

Revenue variance - \$233,019 or 20.5% unfavourable

The variance was caused by reduced applications received during this time period e.g. (official plan and zoning by-law amendments, subdivisions, part-lot control, site-plans and condominiums). It is anticipated that budgeted revenues will materialize as forecasted before the end of the year, barring any unforeseen events or market conditions.

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Expenditure variance - \$200,483 or 15.3% favourable

The majority of the variance is related to labour savings due to one senior planner secondment to Policy Planning, two maternity leaves backfilled by lower cost contract staff, and a vacant administrative position. In addition, there was an unplanned transfer from the year-end reserve for professional fees that were funded in a prior year.

Building Standards

Revenue variance - \$500,127 or 12.2% unfavourable

The unfavourable building standards revenue variance is a result of lower than anticipated building permit volumes. Based on the current economic forecasts, the trend of reduced permit volumes is anticipated to continue well into 2009. A reduction in permit volumes may facilitate a higher than expected withdrawal from the Building Standards Continuity Reserve Fund. The Building Standards Department will continue to monitor permit activity and if required, will review the building permit fee structure and make recommendations accordingly.

Expenditure variance - \$451,894 or 14.5% favourable

The majority of the favourable expenditure variance relates to vacancies which have resulted in savings in the salary, benefits, and associated accounts, including office equipment, computer hardware and software, and training and development.

Commissioner of Economic and Technology Development and Corporate Communications

Economic and Business Development

Revenue variance - \$156,500 or 57.4% unfavourable

The unfavourable revenue variance can be attributed to a delay in government funding for Communities in Bloom Symposium project and VBEC revenues. However the funds will be collected and the variance will be corrected in the third quarter. In addition, advertising revenues were not realized, due to current economic pressures and the redirection of resources to help with the Communities in Bloom Symposium.

Expenditure variance - \$211,558 or 25.5% favourable

The department favourable variance can be attributed to the following four items. Outside services were \$105k under budget due to a timing difference and should be corrected by year-end. Travel experienced a \$34k favourable expenditure variance attributed to a reduced level of outbound and inbound delegation activities. Promotion and education also came in \$23k below budget caused by a delay in negotiations with suppliers for CIB. This should be self-correcting by year end. Lastly, a \$30k favourable variance was experienced in advertising and special events related to cost saving in tourism activities.

Information Technology Management

Expenditure variance - \$358,086 or 11.6% favourable

The favourable expenditure variance is largely a result of \$180k in salaries and benefits savings related to staff vacancies. The remaining balance is explained by timing differences in IT maintenance and communications contracts, \$74k and \$71k, due to delays in contract negotiations and renewals.

Commissioner of Engineering and Public Works

Development and Transportation Engineering

Expenditure variance - \$303,539 or 17.4% favourable

The favourable variance is primarily as a result in labour savings (\$318k). During the second quarter of 2009, there were five vacancies. Two of these vacancies have been filled and the recruitment process has started on the other three vacancies.

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Engineering Services

Expenditure variance - \$403,420 or 25.5% favourable

The variance is principally found in the salary and benefit lines due to delays in hiring staff, approximately \$275k. Other expenditures are impacted by these vacancies including training, computer hardware/software and mileage. The remaining balance, approximately \$100k is related to contract timing in pavement markings which should be self correcting in the 3rd quarter when contractor invoicing is received.

Public Works-Operations

Revenue variance - \$48,378 or 26.9% unfavourable

The unfavourable revenue variance is related to the decrease in sales of blue boxes, green bins and garbage tags.

Expenditure variance - \$820,516 or 6.2% unfavourable

The above position was caused by a \$768k unfavourable variance in Winter Control and a \$246k unfavourable variance in Roads Maintenance. These variances were offset by a favourable position in waste management and the administration divisions resulting from savings in salaries, contract materials, and advertising. Further explanation on the unfavourable variances are as follows:

Winter Operation: With the exceptional amount of snow, winter operations required more than the budgeted expenditures to cover the additional ploughing and windrow events. This accounts for almost 67% of the unfavourable variance. The balance of the variance is largely related to additional materials required for winter maintenance.

Roads Maintenance: The unfavourable variance consists of a \$79k unfavourable variance in utilities due to the timing of a street lighting bill payment, higher than budgeted machine time a cost of \$78k, and contract materials that exceed budget by \$80k. A \$193 unfavourable variance was also experienced in labour accounts, but largely offset by \$173k savings in contract expenses.

Vaughan Public Libraries

Revenue variance - \$1,771 or 1.2% unfavourable

Income from service charges includes both program and photocopy/print charges. These costs showed a decline year-over-year largely resulting from changing technology and reduced use of program services offered. However, these declines were offset by an increase in revenue from fines and penalties, fees from lost memberships, room rentals and miscellaneous sales of goods such as data sticks and bags. VPL also received a grant for a special project expected to be completed by the end of the third quarter.

Expenditure variance - \$455,690 or 8% favourable

A \$343k favourable variance in salary and benefits was the result of staff turnover, year-end accrual reversals and position gapping. Periodical cost savings of \$68k were the result of receiving electronic databases free of charge from Knowledge Ontario, which were previously purchased directly from the supplier. These savings were reallocated to cover additional resource material purchases, approximately \$50k. In addition, a \$58k favourable variance in building maintenance was a result of work plan and invoice timing differences. In addition, a \$41k favourable variance was caused by a delay in library card purchases. The above is partially offset by higher than anticipated computer costs resulting from an accelerated purchase program.

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Corporate Revenues

Payment in lieu/other

Revenue variance - \$834,820 or 50.6% unfavourable

These variances are due to the timing of final PIL billings, which is calculated and collected within the third quarter. On a go forward basis, the PIL calendarized budget will be adjusted to the third quarter, which should put the variance back on track for the following year.

Reserves

Revenue variance - \$598,503 or 12.6% unfavourable

Revenues from reserves were \$598k unfavourable, largely due to the engineering and fleet management reserves being under budget by approximately \$384k and \$71k respectively as a result of lower forecasted departmental expenses. The balance of the variance consists of less than expected building standards and insurance reserve withdrawals, due to higher than expected building standards revenues and lower than budgeted Insurance requirements.

General Corporate Revenues

Revenue variance - \$1,215,612 or 12.4% favourable

Corporate revenues are favourable largely as a result of greater than anticipated hydro dividend and investment income earnings, \$1.3m and \$488k respectively. Although, investment income has performed well year to date, there is tremendous economic pressure to reduce bank rates, which will impact on the City's ability to maintain these performance figures. The above figures are offset, a \$219k unfavourable showing in POA revenue as the City has yet to receive any of its revenue share from the Region due to a processing backlog. The funds are anticipated to be forthcoming during the second half of the year.

Tax certificates and document revenue was unfavourable \$140k due to the process of setting up the "New Account Fee" and "New Ownership Fee". The account should see a correction within the fourth quarter. The remaining balance consists of unfavourable variances in fines and penalties, miscellaneous revenues, etc, largely due to timing differences.

Corporate Expenditures

Corporate and Election Expenditures

Expenditure variance - \$2,065,419 or 40% unfavourable

The majority of the unfavourable variance consists of the following four explanations:

1. A \$750,000 unfavourable variance is experienced in salary gapping and was anticipated since salary savings are budgeted corporately, but realized within individual departments. This variance will continue to be presented throughout the year and naturally offset by the actual salary savings realized within departments.
2. A favourable variance of \$651k in unallocated benefits is expected to be reconciled, as process timing differences will be adjusted at year end when future benefit adjustments are made.
3. The \$289k unfavourable variance in tax adjustments is due to the timing of the release of ARB decisions and subsequent adjustments. Also, for second quarter, we experienced an increase in the elderly homeowners' rebates which contributed to the unfavourable variance.

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4. Major OMB hearings was unfavourable \$155k as a result of three lengthy, and significantly complex Ontario Municipal Board matters, where external consultants were retained for legal advice and representation and to provide expert evidence on policy and development planning, traffic and transportation, heritage architecture and market economy matters. The variance is expected to continue to the year end as one matter was scheduled to proceed in September and as matters are finalized. In addition, a \$229k unfavourable variance was experienced in the elections account as a result of ongoing court cases.

Corporate Contingency

Expenditure variance - \$40,960 or 35% unfavourable

An unfavourable variance in contingency was experienced due to unanticipated consulting and professional fees related to the research and positioning of the Vaughan Health Campus of Care.

Relationship to Vaughan Vision 2020 / Strategic Plan

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

Regional Implications

None

Conclusion

Based on the 2009 quarter ending June 30, 2008, the favourable variance was \$1.8m. If trends continue and barring any unforeseen events, our year-end variance should be favourable. Over the past few years, the operating budget has relied on a prior year's surplus of \$2.5m to assist in balancing the budget. At this point in time, we anticipate that 2009 will not be different than previous years.

Attachments

Attachment 1: Second Quarter Varaince Report

Report prepared by:

John Henry, CMA
Director of Budgeting & Financial Planning
Ext. 8348

Ursula D'Angelo, CGA
Manger of Operating Budgets
Ext. 8401

(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.)

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Item 3, Report No. 7, of the Budget Committee, which was adopted without amendment by the Council of the City of Vaughan on November 24, 2009.

3

USER FEE/SERVICE CHARGE REVIEW

The Budget Committee recommends approval of the recommendation contained in the following report of the City Manager, dated November 3, 2009:

Recommendation

The City Manager in consultation with the Senior Management Team and the Director of Budgeting and Financial Planning recommend:

That the user fees and service charges outlined in Attachment 1 be approved subject to the required public notice and meeting requirements.

Contribution to Sustainability

Sustainability seeks to meet the needs and aspirations of the present without compromising the ability to meet those of the future. Therefore, to ensure service are adequately funded it is important to sustain or improve revenue/cost relationships. Otherwise, any reduction in a user fee or service charge cost recovery ratio will have a corresponding direct change on the City's levy and/or service level funding. As part of the City's 2010 Operating Budget Guidelines, departments are required to review user fees and service charges and make adjustments to sustain or improve revenue/cost relationships.

Economic Adjustment

The proposed economic adjustment will be \$44,484. A general contingency has been included in the Draft 2010 Operating Budget to account for anticipated user fee and service charge amendments.

Communications Plan

Before the 2010 Operating Budget receives final approval, the community will be notified of an opportunity for public input on user fee/service charge adjustments to be received.

Purpose

The purpose of this report is to provide Budget Committee with information on proposed changes to user fees and service charges outline in By-law 396-2002 for 2010.

Background - Analysis and Options

Inherent in the 2010 Operating Budget guidelines and process is a continued emphasis on maximizing the cost recovered on services provided. In addition to adjusting revenues for anticipated changes in activity volume, departments were requested to:

- Explore and submit new user fee and service charge opportunities for existing non-revenue generating services.

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- Increase established service charges and user fees by a similar percentage increase in department costs, excluding any volume related adjustments. At minimum departments were expected to increase user fees & service charges by the rate of inflation, unless otherwise specified. Some user fees and service charges may be subject to other regulatory requirements or subject to ongoing studies and may be exempt from this requirement.

The budget adjustment associated with the increases noted above are not included in the Draft 2010 Operating Budget, with exception for Council pre-approved fee increases (i.e. Recreation and Licensing). However, a general contingency is included in the Draft 2010 Operating Budget to account for anticipated user fee and service charge amendments. Once approved, amounts will be transferred from contingency to departmental revenue accounts.

User Fee/Service Charge Review Results

The 2010 annual operating budget adjustments associated with department submitted existing user fee and service charge increases related to by-law 396-2002 are \$44,484. No new fees or charges were proposed by any of the departments. Detailed below is a summary of the proposed increases by Department.

**2010 User Fee/Service Charge Review
Impact Summary**

| Schedule | Department | Changes to Fees/Charges | New Fees/Charges | TOTAL |
|----------|-----------------------------------|-------------------------|------------------|-----------------|
| A & B | Clerk's | \$2,676 | \$0 | \$2,676 |
| C | Finance | \$933 | \$0 | \$933 |
| D | Economic & Technology Development | \$2,000 | \$0 | \$2,000 |
| E | Fire & Rescue Services | \$5,807 | \$0 | \$5,807 |
| F | Building Standards | \$7,800 | \$0 | \$7,800 |
| G | Planning | \$352 | \$0 | \$352 |
| I | Legal | \$13,700 | \$0 | \$13,700 |
| I | Enforcement Services | \$2,350 | \$0 | \$2,350 |
| J | Parks | \$156 | \$0 | \$156 |
| K | Engineering Services | \$1,037 | \$0 | \$1,037 |
| K | Development Engineering | \$2,192 | \$0 | \$2,192 |
| L | Public Works | \$5,416 | \$0 | \$5,416 |
| M | Encroachments | \$65 | \$0 | \$65 |
| | Total | \$44,484 | \$0 | \$44,484 |

Enclosed in Attachment #1 are the department recommended amendments to the City's user fees and service charges for Budget Committee's review. The explanations related to user fee/service charge amendments are provided by the respective Commissioner and Department.

Relationship to Vaughan Vision 2020

This report is consistent with the priorities previously set by Council.

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Regional Implications

There are no Regional implications associated with this report

Conclusion

A user fee and service charge review has taken place and results are provided as Attachment #1.

Attachments

Attachment 1 – Proposed User Fee/Service Charge Amendments

Report prepared by

Ursula D'Angelo
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.)

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Item 4, Report No. 7, of the Budget Committee, which was adopted without amendment by the Council of the City of Vaughan on November 24, 2009.

4 DRAFT 2010 OPERATING BUDGET

The Budget Committee recommends:

- 1) That the recommendation contained in the following report of the City Manager, the Senior Management Team and the Director of Budgeting and Financial Planning, dated November 3, 2009, be approved;
- 2) That the presentation by the City Manager and presentation material entitled, "Draft 2010 Operating Budget", dated November 3, 2009, be received; and
- 3) That the written submission of Mr. Gino Ruffolo, 149 Fieldgate Drive, Vaughan, L6A 1K4, dated November 3, 2009, be received and referred to staff for a report to be provided to Budget Committee.

Recommendation

The City Manager, the Senior Management Team and the Director of Budgeting and Financial Planning recommend:

That the following report on the Draft 2010 Operating Budget, including the additional resource requests be received for information and discussion purposes.

Contribution to Sustainability

Sustainability seeks to meet the needs and aspirations of the present without compromising the ability to meet those of the future. Budgeting is the process of allocating resources based on established priorities. Responsible budgeting allocates resources in a responsible and sustainable way that balances current requirements with those of the future, not at the expense of the future.

The approach to the 2010 operating budget seeks to minimize the current year requirements, while meeting the requirements of sustainability. Specific actions included in the 2010 Operating Budget Guidelines include:

- i) Reducing specific budgets below 2009 levels;
- ii) Freezing the majority of budgets at 2009 levels;
- iii) Introducing voluntary time-off without pay;
- iv) Evaluating vacant staff positions prior to recruitment;
- v) Develop a strategy to increase non-taxation revenues.
- vi) Balancing additional resource requests with funding availability

Collectively these actions have reduced the requirement to increase taxes.

Economic Impact

The attached Draft 2010 Operating Budget reflects the requirement for a taxation funding increase of \$4.3m, an approximate property tax increase of \$38.29 a year (\$3.19 per month) on the average home re-assessed at \$459,367 or a 3.41% tax increase.

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The Draft 2010 Operating Budget is presented in two separate components:

1. The Base Budget, which is derived from Council's approved guidelines. The impact of department submissions based on these guidelines is \$2.99m, equivalent to a 2.39% tax increase.
2. Additional Resource Requests, which are special or unique requirements not accommodated within existing established guidelines. The impact of SMT's additional resource request recommendation is \$1.3m, equivalent to a 1.02% tax increase.

Local Hospital Levy - The City has taken steps to bring a much needed hospital and other health care resources to Vaughan. The Government of Ontario requires local communities to support the development of a hospital through a local financial contribution. It should be noted the financial support for the Campus of Care Hospital Levy is presented separately. The 2010 residential property tax increase approved as part of the 2009 budget process and associated with the separate Hospital Capital Levy is approximately \$7.75 or .69% for the average home assessed at \$459,367.

Communications Plan

Public consultation and input as part of the budget process is integral to building the budget. The public has various opportunities for public consultation and input. These opportunities consist of the following:

- ***Early Public Engagement*** - Through on-line and public forums the City of Vaughan is engaging the community and requesting public participation. Early in the summer, the City's 2010 Guidelines were posted on-line and residents were asked if the City is taking the right approach. In addition, a Public Budget Forum is scheduled for Nov. 16th to educate and inform the public regarding the City's budget and obtain input and feedback. In the interest of obtaining maximum community feedback, the forum content and survey will be placed on the City's website for citizens to review and provide their input, after November 16th.
- ***Continuous Opportunity for Input*** – Throughout the budget process, five scheduled Budget Committee meetings are open to the public. Input on the budget is received throughout the process and considered during budget deliberations. In addition to the above, the City of Vaughan is undertaking a number of strategic initiatives which incorporate significant public engagement. Although separate processes, public feedback obtained at these events will migrate into recommendations and the budget decision making process.
- ***Final Approval*** – In addition to the above, a Special Council meeting will be scheduled before budget approval to provide the public with a final opportunity to comment on the 2010 Budget. This meeting will be advertised in advance. Following approval of the budget, the appropriate media releases will be distributed.

Purpose

The purpose of this report is to inform the Budget Committee as to the budget process followed, the major issues the City is facing, the impact on taxes to an average household in Vaughan, and to obtain input.

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Background - Analysis and Options

Executive Summary

Over the past year, North America has witnessed a significant economic downturn, characterized by stock market meltdowns, bankruptcies, and high unemployment rates. Fortunately, the City of Vaughan is able to weather this economic storm as a result of the City's very strong financial position, resulting from the City's long standing dedication to financial management through progressive best practices and prudent policies. In this regard the City of Vaughan has been very successful. Vaughan has consistently had one of the lowest property tax rates in the Greater Toronto Area while providing high quality services to the community. As a City, we are committed to providing value for the property tax dollar.

However, the economy is still uncertain and just beginning to show signs of recovery. This puts pressure on the City as it continues to be subject to many factors that put significant strain on the property tax rate in order to maintain the level of service offered (e.g. inflation, growth, collective agreements, service escalation costs, fluctuating revenues, emerging legislative requirements, etc.). The impacts of these pressures are permanent and require continuous funding solutions. This situation presents significant challenges to the City in this very difficult economic time. The City has always considered increasing taxes as a last resort and through prudent policies, tight budget guidelines and strong leadership the City will continue to offer residents tremendous value for their property tax dollar.

Budget approach is designed to provide the lowest possible tax increase

For several years, the City's rigorous budgetary process has focused on containing costs and implementing best practices, with the goal of demonstrating leadership in financial management. This year's Budget guidelines continue to build on these core values, prudent processes and successful business practices. Vaughan has always taken the management and stewardship of public funds very seriously and due to the current economic environment the City's approach to the annual operating budget has an even greater focus on financial constraint and tightening the budget. This was accomplished through the following actions:

Cost Containment Actions

1. Freeze most account budgets at 2009 levels
2. Reduce selected budgets below 2009 levels
3. Vacancy evaluation prior to recruitment
4. Voluntary time off without pay
5. Zero impact adjustments
6. Strict process to evaluate funding requests
7. Thorough multi-layered review process

Business Improvement Actions

8. Explore opportunities through service reviews & continuous improvement
9. Reinforce strategic priorities through business planning and measures
10. Increase revenue through user fee reviews
11. Early and continuous public participation

The City's approach to the annual operating budget is to first issue very strict budget guidelines to develop the **Base Budget**. Under the guidelines departments are only permitted to include very specific adjustments in their base budget, typically related to predetermined agreements, contracts or Council approval/reductions. For example, there is no across the board increase for inflation and no increase for new staffing. To the extent that a department requires additional

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resources a separate request form must be completed for each request. These are referred to as **Additional Resource Requests (ARR)** and are individually vetted through the Senior Management Team, the Budget Committee and finally Council. Further details with respect to the budget guidelines are provided in attachment #1.

The approach, guidelines and actions recommended represent prudent management practices and are appropriate given the demand for services are increasing at the same time the community is experiencing a modest economic recovery. The objective of the base budget combined with the additional resource requests is to identify the minimum resources that are required to maintain the City’s service levels and meet other municipal requirements.

Base Budget

Although there are many components to the City’s base budget, the overall increase in the base can be attributed to a few main areas. In the absence of these issues there would virtually be a decrease in the base budget. A summary of these issues and their relative impact is illustrated in the following table.

| <i>Major 2010 Budget Adjustments</i> | Budget Adjustment Amount | Property Tax Effect | |
|--|---------------------------------|----------------------------|----------------|
| | | \$ | Rate % |
| <i>2010 Base Budget Change</i> | 2,985,265 | 26.84 | 2.39% |
| <i>Less: Infrastructure Service Improvements</i> | | | |
| North Thornhill Community Centre - Net Adjustment | 1,246,000 | | |
| Roads Program Long-Term Debt Re-payments | 750,000 | | |
| Civic Centre Operations | 550,000 | | |
| Subtotal | (2,546,000) | (22.91) | (2.04%) |
| <i>Less: Unanticipated Revenue Reductions</i> | | | |
| Supplemental Taxation Process Change Affect | 500,000 | | |
| Third Party Lease Expiry | 425,000 | | |
| Specific User Fee Net Reductions (Parks, Enforcement, COA) | 450,000 | | |
| Subtotal | (1,375,000) | (12.35) | (1.10%) |
| Base Budget Excluding Major Adjustments | (935,735) | (8.42) | (0.75%) |

As noted in the chart above, excluding the six (6) impacts would virtually result in a decrease in property taxes.

Additional Resource Requests (ARR's)

As noted previously, additional resource requests are submitted on an individual basis and assessed on their respective merits. There were 40 requests received amounting to \$1.9m, which by themselves represents a 1.52% tax increase. Senior Management spent a significant amount of time reviewing and discussing each request. The result was a recommendation from senior management to support 26 of the 40 requests totaling \$1.3m, a 1.02% or \$11.45 increase per year to the average residential property in Vaughan.

It is important to note, all funding requests submitted had merit; however, the current economic environment requires a focus on financial constraint and tightening the budget. As a result, some requests were deferred, without guarantee or special consideration, to next year’s process. Executing this type of financial constraint will impact on the City’s ability to maintain some service levels.

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Combined Base Budget and Additional Resource Requests

The combined impact of the base budget and the additional resource requests is approximately \$38.29 per year for the average residential property in Vaughan or a 3.41% tax increase.

Areas of Uncertainty/or Risk

Notwithstanding the due diligence that has been exercised in preparing the budget, there are two (2) areas of uncertainty or risk. These areas are detailed below:

- Harmonized Sales Tax (HST) – The 2009 Ontario budget proposed a Harmonized Sales Tax for Ontario (HST), which, subject to legislative approval would come into effect on July, 2010. Amending the sales tax structure could significantly impact on Ontario municipalities. This proposal is still being debated, and as such figures relating to this transition are unknown, are not included in the 2010 budget.
- Investment income – As a result of the recent recession, investment rates have declined. As the economy begins to recover interest rates are expected to rebound, but the magnitude and speed of there recovery is uncertain. Based on this situation, the 2010 investment income budget remains at 2009 levels.

It is important to note, the above illustrated topics are largely dependant on external circumstances. Based on information available to date, budget assumptions were made. Staff is cautioning the City with respect to these items, and should these assumptions change there will be an impact on the City's year-end position.

Quick Facts

The following information is provided for quick reference to assist in providing the public and Council members with a context within which to assess the Draft 2010 Operating Budget.

| | |
|--|-----------|
| Average 2010 Residential re-assessment | \$459,367 |
| Total 2009 Taxes levied on the average assessed home | \$4,419 |
| 2009 City of Vaughan portion (25%) | \$1,123 |
| 2009 Reduction for qualifying seniors | \$290 |
| A 1% increase in the tax rate generates | \$1.25m |
| Impact of a 1% increase on the average home | \$11 |
| 2010 Assessment Growth (Projected) | 3.00% |

Draft 2010 Operating Budget Review

As mentioned in the executive summary, the City of Vaughan continues to be subject to many factors that place significant pressure on the property tax rate. Inherent in the annual operating budget process are the normal pressures of inflation, growth, staffing resources, external contract costs, collective agreements, fluctuating revenues etc., which are further compounded by expanding service requirements and tax funded infrastructure renewal cost impacts experienced by a high growth municipality. This situation presents significant challenges to achieving a balanced budget and maintaining service levels while minimizing associated tax rate increases and achieving Council's priorities. To assist the Public and Council Members with understanding the challenges facing the City and to assess the Draft 2010 Operating Budget, the remainder of the report is dedicated to reviewing the budget in the following manageable components.

- Base budget under the guidelines
- Base budget revenue review
- Base budget expenditure review

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- Additional resource requests
- Future outlook

2010 Base Budget under the Guidelines

Based only on the budget guidelines, the City's Draft Operating Budget is approximately \$203m and reflects a \$3.0m funding increase over 2009. This equates to a 2.39% tax rate increase **excluding** the budget impact of the Senior Management Team's recommended additional resource requests. The Draft 2010 Operating Budget includes an anticipated \$2.5m surplus carried forward from 2009 and includes \$2.8m from the Tax Rate Stabilization Reserve. This is consistent with prior year recommendations and Council direction.

An integral component of the 2010 Operating Budget Guidelines was the freezing and reducing of account lines outside of the specific areas permitted. In order to check adherence to this guideline, budget submissions were verified to ensure there were no other increases or that any budgetary increases outside the guidelines were offset by corresponding decreases in other line items and approved by SMT. Through budget submission reviews and assurances from Commissioners and Directors, there is a very high level of confidence that approved guidelines were followed.

The Budget Guidelines were designed to limit expenditure increases and this exercise has been successful as demonstrated by a total department expenditures increase of only 3.2%, which represents a \$5.5m increase in departmental expenses over 2009. Roughly one half of the 3.2% increase is attributable to an increase in labour costs, largely a result of the full-year impact associated with the North Thornhill Community Centre. It should be noted, these costs are mostly offset by recreation revenues. Also experienced, were increases related to external service contracts, including increases in Winter Control, Animal Control, Waste Management, utility increases, and insurance premiums. These services are generally contracted, competitively tendered and awarded to the lowest bidder. The remaining balance consists of approved non-salary adjustments for the operation of the New Civic Centre and North Thornhill Community Centre, Joint Operations Centre vacancy, and the conclusion of the Development Planning Department's two year mitigation strategy. The above department increases were offset by reductions in specific accounts, amounting to \$250k.

To assist Council in assessing the Draft 2010 Base Operating Budget and the associated 2.39% tax rate increase resulting from the budget guidelines, the following summary is provided.

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| <u>Base Budget-Major Budget Change Summary</u> | | <u>Budget Change</u> | | <u>Property Tax Effect</u> | |
|--|------------------|-----------------------------|-----------------|-----------------------------------|-----------------|
| <u>Guideline Expenditure Changes</u> | | <u>\$</u> | <u>%</u> | <u>\$</u> | <u>%</u> |
| <i><u>Labour Costs</u></i> | | | | | |
| -2009 Complements Gapping | 200,000 | | | | |
| -Full Year - North Thornhill Community Center | 1,693,765 | | | | |
| -Progression | 244,254 | | | | |
| -Part time Library 4% Vac Pay | 130,000 | | | | |
| -Overtime 10% reduction | (122,090) | | | | |
| -All Other items | <u>332,191</u> | 2,478,120 | 2.3% | \$22.30 | 1.99% |
| <i><u>Contractual Obligations</u></i> | | | | | |
| -Winter Control | 370,210 | | | | |
| -Animal Control | 121,000 | | | | |
| -Waste Mgmt | 111,155 | | | | |
| -Applewood Bridge Mtce | 146,920 | | | | |
| -York Region Blvd Mtce | (200,000) | | | | |
| -Other items | <u>284,707</u> | 833,992 | 2.8% | \$7.50 | 0.67% |
| <i><u>Utilities</u></i> | | 846,648 | 12.4% | \$7.62 | 0.68% |
| <i><u>Insurance</u></i> | | 452,000 | 20.0% | \$4.07 | 0.36% |
| <i><u>Meals, furniture & equipment, travel, sundry 10% reduction</u></i> | | (140,692) | | -\$1.27 | -0.11% |
| <i><u>Other Account Changes</u></i> | | | | | |
| - New Civic Center | 157,565 | | | | |
| - North Thornhill Community Center | 270,125 | | | | |
| - Planning Mitigation Strategy Conclusion | 300,000 | | | | |
| - PowerStream Lease Expiry | 425,000 | | | | |
| - Other Miscellaneous items | <u>(100,765)</u> | 1,051,925 | | \$9.47 | 0.84% |
| Total Departmental Expenditure Increase | | 5,521,993 | 3.2% | \$49.69 | 4.42% |
| <u>Fees / Service Charges/Revenue Changes</u> | | | | | |
| Recreation | | 1,724,035 | 11.3% | \$15.51 | 1.38% |
| Parks Operations | | (350,360) | -75.4% | -\$3.15 | -0.28% |
| Economic Business Development | | (239,595) | -47.3% | -\$2.16 | -0.19% |
| Enforcement Services | | (145,000) | -7.4% | -\$1.30 | -0.12% |
| Other | | (147,929) | -0.5% | -\$1.33 | -0.12% |
| Less: Increase in Fees & Service Charges | | 841,151 | 2.6% | \$7.57 | 0.67% |
| Net Departmental Change (Excluding Reserve Transfers) | | 4,680,842 | 2.3% | \$42.12 | 3.75% |

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| <u>Base Budget-Major Budget Change Summary</u> | <u>Budget Change</u> | | <u>Property Tax Effect</u> | |
|---|-----------------------------|-----------------|-----------------------------------|-----------------|
| | <u>\$</u> | <u>%</u> | <u>\$</u> | <u>%</u> |
| Corporate Expenditures | | | | |
| - Roads Program Long Term Debt | 750,000 | 9.1% | \$6.75 | 0.60% |
| - Contingency | 2,576,932 | 109.3% | \$23.19 | 2.06% |
| - General Corporate & Elections | | | | |
| Infrastructure Policy | 34,000 | | | |
| Joint Services Agreement | 168,845 | | | |
| Corporate Insurance | 124,575 | | | |
| Corporate Salary Gapping | <u>(1,000,000)</u> | (672,580) | -10.9% | -\$6.05 |
| Total Corporate Expenditure Change | 2,654,352 | 11.37% | \$23.88 | 2.13% |
| Corporate Revenues | | | | |
| - Tax Supplemental | (500,000) | -18.5% | -\$4.50 | -0.40% |
| - Other Reserve Withdrawals | 317,945 | 2.0% | \$2.86 | 0.25% |
| - Hydro Dividends | 674,190 | 27.0% | \$6.07 | 0.54% |
| -Tax Fines & Penalties | 200,000 | 4.3% | \$1.80 | 0.16% |
| - Other Corporate revenue | 22,645 | 0.2% | \$0.20 | 0.02% |
| Total Corporate Revenue Change | 714,780 | 2.0% | \$6.43 | 0.57% |
| Net Corporate Budget Change (Rev. & Exp) | 1,939,572 | 3.7% | \$17.45 | 1.55% |
| Net Department & Corporate Change | 6,620,414 | 2.30% | \$59.57 | 5.30% |
| Less: Assessment Growth (Estimate) | 3,635,149 | | \$32.71 | 2.91% |
| Total | 2,985,265 | | \$26.86 | 2.39% |

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Base Budget Revenue Review

Overall revenues increased \$1.6m or 2.2% from 2009 levels, excluding assessment growth. The primary factors contributing to the increase are as follows:

- Corporate Revenues increased by \$895k:
 - PowerStream dividends increased by \$674k based on net income projections. This accounts for the majority of the increase.
 - Property tax fines and penalties increased \$200k to better reflect historical trends and keep inline with the growing tax base.
- User Fees / Service Charges increased by \$841k:
 - Recreation revenues increased by \$1.72m largely due to the full-year impact of the North Thornhill Community Centre. This increase is largely offset by similar expenditure value increases. This favourable position is offset by reductions in other department revenues
 - Parks Operations revenue dropped \$350k as a result of York Region cancelling a boulevard maintenance contract. Overall, the net impact to the City is \$150k and the reductions in revenues are met with a \$200k reduction in expenses.
 - Economic & Business Development revenue decreased \$239k as anticipated due to the removal of the one-time Communities in Bloom Symposium revenues and costs.
 - Committee of Adjustment and Enforcement Services revenues experienced reductions of \$119k and \$145k respectively. The reduction in Committee of Adjustment revenue is related to a recent steep drop in applications. The revenue adjustment in Enforcement Services is necessary to correct revenue expectations.
- Funding from reserves increased by \$318k:
 - The largest component of the increase in reserve funding is related to an increase in insurance premiums. Almost 55% of the increase is related to general price increases. The remaining balance is associated with premiums for shared facilities, Civic Centre construction/demolition overlap premiums, and an increase in deductible payments for anticipated settlements.
 - A preliminary study on the cost sharing of administration activities between the City and Water/Waste Water services indicated there are more costs the City should be recovering. As a result, the existing recovery was conservatively increased by \$200k to account for this.
 - Continuing with the phase-in of 2009 winter control increases, largely due to contract price increases, the initial \$700k winter control withdrawal is reduced to \$350k. The final impact associated with this initiative will occur in 2011.
 - Lastly, adjustments occurred in the Engineering, Fleet, Building Standards, and Parks reserves as a result of activity, departmental costs changes, and anticipated growth trends for these services.

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- Supplemental Taxation decreased by \$500k:
 - The decrease in supplementals is a result of a change in the administration of supplementals. In 2009, MPAC moved up the cut-off period for processing supplementals by 6 weeks. As a result, new properties after this point are deferred to a future assessment roll.

Assessment Growth

For 2010 assessment growth is estimated at approximately 3%, which translates into roughly 3,000-3,500 new homes contributing an additional \$3.64m in property taxes. This is relatively consistent with figures reported in 2009. Although not specifically allocated, these funds help offset the increasing service costs associated with community growth. To illustrate this point, listed below are just a few of the many 2010 growth additions to the City:

- 64 km of roads
- 36 km of sidewalks
- 3,000 new waste/recycling collection stops
- 853 additional streetlights
- 22.8 ha of Parkland + play structures
- 2 ha of trail
- Increase library circulation and much, much more

All the above additions require funds to operate and maintain service levels. Included in the Draft 2010 Operating Budget are the following costs allocated to support growth:

| | |
|--|----------------|
| • Full year impact of North Thornhill | \$1.2m |
| • New Civic Centre | \$550k |
| • 2009 complement gapping | \$200k |
| • Service contract volume increases | \$592k |
| • <u>Utility volume increase</u> | <u>\$683k</u> |
| Base budget growth impact | \$3.23m |
| • <u>Growth related additional resource requests (77%)</u> | <u>\$1.01m</u> |
| Total 2010 growth impact | \$4.24m |
| | |
| <u>Assessment Growth</u> | <u>\$3.64m</u> |
| Funding Shortage | \$600k |

As illustrated above, the costs associated with growth, excluding renewal costs resulting from growth, exceed the amount of additional taxation received through new assessment.

User Fees and Cost Recovery

It is important to recognize there is an ongoing balance between funding through a fee for specific user based services versus funding City services through the general tax rate. To the extent there is a user fee, that fee should be adjusted annually to reflect changes in the cost of delivering the service. Otherwise, by default, there would be a requirement to fund cost increases through the property tax rate.

A concern that revenue might not keep pace was anticipated and as a result the guidelines included a requirement for all User Fees and Service Charges to be increased in relation to department cost increases and at minimum by the rate of inflation. This exercise reduced the 2010 Draft Operating Budget by approximately \$46k, which is provided for in contingency until User Fee / Service Charge increases are approved by Council. A separate report on this topic is provided for Budget Committee consideration.

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Approximately 90% of the City's user fees are generated by the following 5 areas:

- Recreation
- Building Standards
- Planning and Committee of Adjustment (COA)
- Enforcement Services
- Licensing

As a result, the majority of the above departments have conducted various fee studies. Some studies were caused by legislative requirements and staff initiated a number of other in-depth studies, resulting in the development of cost recovery policies, principals, and targets endorsed by Council. Detailed below is a summary of department and estimated full cost recovery ratios for these areas based on 2010 base budget figures.

| 2010 Department Budgeted Recovery (Figures in Thousands) | Recreation | Licensing | Enforcement | Planning | COA | Building Standards (OBC) | Building Standards (Non-OBC) |
|---|--------------------|-------------------|--------------|-------------------|-------------------|-----------------------------|---------------------------------|
| Revenues | \$ 16,920 | \$ 830 | * \$ 2,712 | \$ 2,433 | \$ 372 | ** \$ 8,025 | \$ 329 |
| Expenditures | 17,894 | 535 | \$ 4,220 | 2,510 | 525 | 5,012 | 620 |
| Subsidy/(Surplus) | 974 | (295) | 1,508 | 77 | 153 | (3,013) | 291 |
| Dept Budget Recovery Ratio | 95% | 155% | 64% | 97% | 71% | 160% | 53% |
| Full Cost Estimate (ABC Model) | *** \$ 37,782 | \$ 1,131 | \$ 4,133 | \$ 5,375 | \$ 909 | \$ 8,025 | 1,181 |
| Subsidy/(Surplus) | 20,862 | 301 | 1,421 | 2,942 | 537 | - | 852 |
| Full Cost Recovery Ratio | 45% | 73% | 66% | 45% | 41% | 100% | 28% |
| Policy Recovery Goal | 100% Dept. Cost | 100% Full Cost | | 100% Full Cost | 100% Full Cost | 100% Full Cost | |

* Enforcement revenues include POA revenues of \$890,000

** Building Standards revenues include a \$200,000 draw from Building Standards Continuity Reserve

*** Recreation B & F costs approximately \$12m, OH 20%

Note: Does not include estimated economic adjustment for 2010

As illustrated above, most areas are recovering more than 70% of their budgeted department costs. Building Standards is recovering 100% of their building code related full costs with a small draw from the Building Standards Service Continuity Reserve due to economic uncertainty and the affects of the economic slowdown. Licensing is also achieving their target of recovering business licensing full costs. However, full cost recovery is lower than 100% as a portion of the department is devoted to risk management and some licensing fee restrictions exist related to lottery, livestock, etc. Recreation is recovering 95% of their departmental costs, which is inline with their fee policy targets. This figure will be adjusted down once labour negotiations are settled. Enforcement Services, with the inclusion of Provincial Offenses Act (POA) revenue is recovering approximately 64% of their department cost. Enforcement Services' full cost recovery ratio is the same as their department recovery ratio, as other department overhead allocations are offset by a large portion of their departmental expenditures being allocated to other departments, i.e., Fire, Building Standards, Parks, etc. No policy is in place for recovery of enforcement revenue as the service is driven by compliance rather than service. Planning revenues are recovering 97% of their department costs and falling significantly short of achieving the goal of full cost recovery. This is largely a result of declining application volumes caused by housing capacity allocation restrictions and the economic slowdown, which has decreased their full cost recovery to below 50%.

In areas where the department cost recovery is less than 100%, increasing to 100% of department cost recovery would increase budgeted revenues by slightly more than \$3m. Moving to full cost recovery would generate significantly more. It is important to note that caution should be exercised in considering the provided figures as departments may face limitations in achieving higher ratios due to internal or external factors, including market conditions.

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Base Budget Expenditure Review

Total expenditures increased \$8.2m over 2009 levels. The primary factors contributing to the increase in City expenditures are as follows:

Departmental Expenditures

Approximately \$5.5m of the base budget expenditure increase is related to pressures experienced in departmental expenditures, including the \$160k Library Board increase. This represents an increase of 3.2% over the 2009 departmental budget, largely due to the full-year impact of the North Thornhill Community Centre and New Civic Centre requirements. Increases associated with the Community Centre are largely offset by similar revenue value increases.

- Of the total departmental budget increase, approximately 45% or \$2.5m is associated with labour costs adjustments. The largest component of this increase is related to the full-year impact of the North Thornhill Community Centre, approximately \$1.7m, which is mostly offset by an associated increase in recreation revenue. 2009 gapping accounts for another \$200k. The remaining balance is related to progression, part-time surveys, and inclusion of library vacation pay not previously budgeted. These balances were offset by a \$122k reduction in overtime, as per approved guidelines.
- The second largest component of the department expenditure budget increase is related to pressures from contract services (\$834k) and utilities (\$847k). These increases are typically the result of increasing demands on services due to growth and industry price obligations. Overall contract service lines increased 2.8% and are specifically related to animal control, waste management, winter control, ITM services, parks maintenance, etc. Utilities increased 12.4%, which is largely related to the addition of a new community centre, new civic centre, additional parks and streetlights.
- Department insurance expenses increased by \$452k or 20%. Almost 55% of the increase is related to higher prices. The remaining balance is associated with premiums for shared facilities, Civic Centre construction/demolition overlap premiums, and an increase in deductible payments for anticipated settlements.
- PowerStream provided advance notice of their intention to transfer their operations to another centre as of March 2010. As a result, the Building and Facility department joint service revenue was adjusted down by \$425k.
- Development Planning and Planning Policy department expenses increase by \$300k due to the conclusion of Planning's 2 year mitigation strategy.
- The above department budget increases were offset by specific account reductions in meals, overtime, furniture, sundry, and travel totaling \$250k.

Corporate Expenditures

The remaining \$2.7m increase in City expenditures are related to pressures experienced in corporate expenditures. This represents an increase of 11.4% over the 2009 corporate expenses. Explanations for the budget increase are as follows:

- The repayment of long term debt increased by \$750k or 9.1%. Debt has previously been issued primarily to fund major road projects.

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- A \$2.7m expenditure increase is also experienced in the City's contingency account and relates to ongoing labour negotiations and certain foreseeable events. It should be noted that all but one labour agreement will be in negotiations in 2010.
- Corporate and election expenses decreased by \$672k, mainly as a result of increased corporate gapping to reflect a 2% turnover rate. Increases in joint service payroll expenses and corporate insurance costs offset a portion of the increase in corporate gapping.

Expenditures Review – Degree of Flexibility

To assist Council in assessing the base budget, the following summary illustrates how the City's expenses are allocated to major expense types.

| <u>Operating Expenditures</u> | <u>2010 Draft Budget</u> | <u>2010 Budget %</u> | <u>2010 Cumulative %</u> |
|-------------------------------------|------------------------------|--------------------------|------------------------------|
| Salaries and Benefits | 110,123,786 | 54.24% | 54.24% |
| Service Contracts | 30,657,141 | 15.10% | 69.34% |
| Reserve Contributions | 10,015,845 | 4.93% | 74.27% |
| Long Term Debt | 9,000,000 | 4.43% | 78.71% |
| Maintenance/Materials | 8,208,513 | 4.04% | 82.75% |
| Utilities & Fuel | 7,805,564 | 3.84% | 86.59% |
| Capital from Taxation | 6,585,475 | 3.24% | 89.84% |
| Contingency | 4,935,272 | 2.43% | 92.27% |
| Insurance Expenses | 2,640,000 | 1.30% | 93.57% |
| Professional Fees | 2,291,230 | 1.13% | 94.70% |
| Tax Adjustments | 1,400,000 | 0.69% | 95.39% |
| All Other | 9,366,540 | 4.61% | 100.00% |
| Total Draft 2010 Expenditure | 203,029,366 | 100% | 100.00% |

The summary above illustrates that the City has limited flexibility in any given year to significantly alter the City's cost structure in the short term. More than 75% of the costs are committed through collective agreements, service contracts, and financing arrangements. Other reductions will impact the maintenance and repair of the City's infrastructure.

Considering Factors Other Than CPI When Assessing the Budget

When assessing the Draft 2010 Operating Budget, it is very important to put municipal cost increases into perspective. It is very common for residents to gauge a municipality's performance against the Consumer's Price Index (CPI), but there are 2 inherent pitfalls with this comparison.

1. Inflation rates try to capture cost increases and do not incorporate other non-cost related factors associated with a municipality such as growth, infrastructure repair, new services or initiatives, legislative requirements, revenue fluctuations, etc. These items are in addition to cost increases and would not be included in an inflation rate such as the Consumer Price Index (CPI), much the same way as CPI would not be a reasonable predictor of increasing household expenses if the size of the family increased or home repairs are required.
2. CPI is intended to measure the cost increases experienced by the typical Canadian household and includes retail items such as food, clothing, entertainment and other household purchases. Unlike an average Canadian household, municipal expenses are very labour, contract, and material intensive. **Therefore, there is not a strong relationship between CPI and municipal budget increases.** In addition to CPI, there are other indices available, which are specific and better suited to gauge the price increases associated with

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municipal spending components (i.e. public sector collective bargaining settlement trends, machinery and equipment index, non-residential construction index, MTO tender price index, etc). An alternative approach would be using a municipal price index based on applying relevant indices/indicators to the weighting of major expense categories. Using this approach, Vaughan’s composite municipal price index utilizing the expenditure structure illustrated in the above section, would be more inline with the table below.

| <u>Component</u> | <u>% of Budget</u> | <u>Cost increase</u> | <u>Weighted Avg</u> |
|---|--------------------|--|---------------------|
| Salaries and Benefits | 54.20% | 2.6% - Hewitt survey/ministry fig. | 1.41% |
| Contracts & Materials | 19.14% | 6.5% - Historical based | 1.24% |
| Utilities and Fuel | 3.84% | (13.0%) - Based in CPI energy blend | -0.50% |
| Capital Funding | 8.17% | (1.2%) - Non-residential const. index | -0.10% |
| All Other | 25.55% | 1.6% - CPI core (excludes energy) | 0.41% |
| Base inflationary increase estimate | | | 2.46% |
| Base inflationary increase + 3% Growth | | | 5.46% |

Consideration must be given to all factors when assessing the budget and associated tax increases. It is important to note the City’s total department and overall City expenses include growth impacts and the above municipal price index does not. This clearly demonstrates Vaughan’s solid and effective financial management, as stripping growth components from Vaughan’s expenditure increase would yield cost increases below the above illustrated guide. Adding a growth component to the municipal index would increase the percentage guide to 5+%. Total City expenditure increases are much lower than the adjusted percentage guide; clearly illustrating Vaughan is managing its finances and providing the tax payer with value.

Cautionary note: The Ontario CPI figure released as of June 30th 2009 was 0.3%, substantially below the traditional 2%. The main cause for this decrease is related to decreases in the energy sectors, specifically fuel. Stripping food and energy costs from the Ontario CPI figure adjusts the figure to approximately 1.6%. This is called the Core CPI basket and is a more realistic figure for general municipal expense types. This rate is applied to the “other” category of the municipal index.

Review of Specific Expense Categories

Historically, Budget Committee has inquired about specific accounts and the budgeted amounts. For reference purposes, we have included a summary of specific expense lines to illustrate the budget changes in these accounts.

| <u>Accounts of Interest</u> | <u>2010 Draft Budget</u> | <u>2009 Budget</u> | <u>Variance</u> | <u>% Change</u> |
|-----------------------------|--------------------------|--------------------|-----------------|-----------------|
| Advertising | 405,023 | 502,823 | (97,800) | -19.45% |
| Comp. Hardware/Software | 710,725 | 799,110 | (88,385) | -11.06% |
| Cellular | 236,635 | 232,390 | 4,245 | 1.83% |
| Grouped Expenses | 137,980 | 175,900 | (37,920) | -21.56% |
| Office Equipment | 184,191 | 241,375 | (57,184) | -23.69% |
| Office Supplies | 300,099 | 286,574 | 13,525 | 4.72% |
| Overtime | 933,907 | 1,031,190 | (97,283) | -9.43% |
| Part Time | 13,413,616 | 12,464,900 | 948,716 | 7.61% |
| Professional Fees | 1,891,230 | 1,968,725 | (77,495) | -3.94% |
| Total | 18,213,406 | 17,702,987 | 510,419 | 2.88% |

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Specific Account Increases

Of particular note is the part time variance, which is a result of the full-year operations of North Thornhill Community Centre. In addition, there is a slight increase in part-time to account for Library part-time vacation pay, which was not included in prior year board recommendations. The remaining balance is related to maternity leave adjustments and other smaller department impacts. Excluding the part-time increase from the above list would result in an overall \$438k decrease in these accounts.

The remaining account increases in cellular and office supplies are caused by either budget reclassifications to better reflect the true nature of the expense or reallocations to more accurately align budgets with actual results. It is important to note that adjustments of this type have a neutral impact on the budget, due to offsetting adjustments.

Specific Account Decreases

The reduction in overtime is a direct result of the approved budget guidelines. The total decrease including benefits is approximately \$122k. Meals, furniture, travel, and sundry, were also reduced in a similar fashion, amounting to approximately \$250k.

The reduction in advertising is related to a reallocation of \$63k in Public Works to the promotion and education account. The remaining balance is in Economic Development and related to removing 2009 one-time funding for the Communities in Bloom Symposium Conference.

Reductions in computer hardware/software and office equipment and supplies is mainly attributable to the removal of 2009 one-time funding amounts, minor reclassification of expenses to better reflect actual requirements, and a reduction as result of the approved budget guidelines.

The remaining account reductions in professional fees and grouped expenses are caused by either budget reclassifications to better reflect the true nature of the expense or reallocations to more accurately align budgets with actual results. The reduction in professional fees is related to reallocating funds in the Integrity Commissioner budget from professional fees to casual part-time and other accounts. The reduction in grouped expenses is related to reclassifying recreation and economic development department expenses to better align budgets with actual results.

Additional Information

In addition to the above information, the following analysis and information is provided in the Budget Analysis & Other Information section of the enclosed Attachment 2.

- Full-Time Equivalent (FTE) Schedule
- Base Budget - Major Budget Change Summary
- Base Budget Analysis & Other Information
 - Department Adherence to Guidelines
 - Departmental Expenditure Budget Adjustments in Excess of \$100,000
 - Major Corporate Expenditure Budget Adjustments
 - Listing of 2009 One-Time Funding Items Removed
 - Account Level 2010 Budget Adjustment Detail

The above expenditure analysis is intended to demonstrate that expenditures are closely monitored and have met the strict criteria as set out by Council.

In addition to this information, department financial summaries, business plans, performance measures, and additional resource requests are included in the 2010 Operating Budget Package attachment #2.

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Consideration of Additional Resource Requests

As indicated earlier in this report, the budget guidelines were complimented by a process that allowed departments to formally submit requests for essential resources not permitted by the above guidelines for the Budget Committee and Council consideration. As a result, Departments submitted 40 additional resource requests with a total annual cost of approximately \$1.9m. This figure includes the Library Board's additional resource requests totaling \$109k. Understanding the current economic climate departments have demonstrated financial constraint and have only put forward requests they consider absolutely necessary, despite the tremendous challenges experience to maintain existing service levels. This is clearly demonstrated by a 65% reduction in the additional resource requests from last year's process.

Recognizing the challenge of balancing requests for additional resources with limited funding options, SMT initiated a process in which to prioritize and review additional resource requests. All additional resource requests were evaluated based on their merits and the following criteria:

- Mitigating municipal risk;
- Municipal value;
- Maintaining service levels;
- Achieving the Vaughan Vision initiatives, etc.

The process infuses a high degree of objectivity & transparency and the end result of this process is a significantly reduced recommended list of additional resource requests prioritized based on a blend of associated municipal risk exposure, service levels, and the Vaughan Vision initiatives.

After considerable deliberation and review, SMT has finalized a recommended Additional Resource listing for Budget Committee consideration. SMT reduced the actual requested amount to \$1.3m, a one third reduction. Approximately \$1m or 77% of the requests are growth related. As part of this process and recognizing the current economic environment, SMT endeavored to balance requests with limited funding opportunities. It is important to note that all funding requests addressed legitimate City concerns, but the current economic environment requires a focus on financial constraint and tightening the budget. As a result, some requests were deferred, without guarantee or special consideration, to next year's process. Executing this type of financial constraint may initially reduce the City's ability to consistently maintain service levels.

The table below illustrates a high-level summary of SMT's recommendation. Additional information is provided in the 2010 Operating Budget Package attachment #2.

- A complete list of additional resource requests both submitted and recommended
- Specific additional resource request detail can be found in the department section along with department financial summaries and business plans.

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Senior Management Team – Recommended Additional Resource Requests Summary

| Department | # of Requests | 2010 Net FTE | Net 2010 Budget Change | Tax Rate % Incr. | Cum Tax Rate % Incr. |
|---------------------------------|----------------------|---------------------|-------------------------------|-------------------------|-----------------------------|
| City Manager's Office | 1 | 1.00 | 130,163 | 0.10% | 0.10% |
| Fire & Rescue Services | 2 | 5.00 | 373,128 | 0.30% | 0.40% |
| Building & Facilities | 1 | 0.50 | 23,964 | 0.02% | 0.42% |
| Cultural Services | 1 | 0.31 | 44,084 | 0.04% | 0.46% |
| Parks Operations | 9 | 3.17 | 347,830 | 0.28% | 0.74% |
| Economic & Business Dev. | 1 | 0.00 | 100,000 | 0.08% | 0.82% |
| Information Tech. Management | 2 | 1.50 | 40,049 | 0.03% | 0.85% |
| Accounting Services | 1 | 0.52 | 61,248 | 0.05% | 0.90% |
| Budget & Financial Planning * | 1 | 0.00 | 0 | 0.00% | 0.90% |
| Reserves & Investments * | 1 | 0.00 | 0 | 0.00% | 0.90% |
| City Clerk | 2 | 0.81 | 15,206 | 0.01% | 0.91% |
| Human Resources | 1 | 0.50 | 31,589 | 0.03% | 0.94% |
| Development Planning | 1 | 0.00 | 25,000 | 0.02% | 0.96% |
| Vaughan Public Library | 2 | 1.50 | 85,000 | 0.07% | 1.02% |
| Total SMT Recommendation | 26 | 14.81 | 1,277,260 | 1.02% | |

* - Requests with zero impact are 100% offset, but complement based

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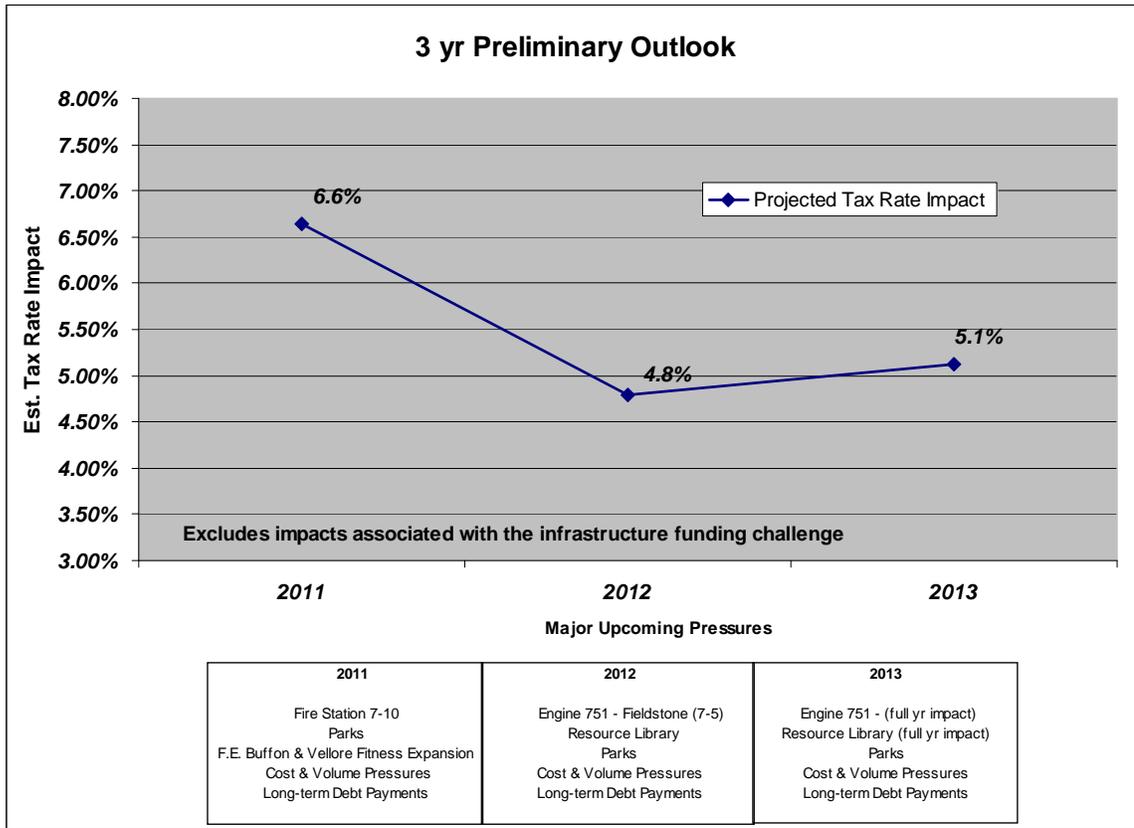
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Future Outlook

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 the full impacts associated with future master plan recommendations or infrastructure funding strategy recommendations. It is also important to consider that deferring costs to the following year will only magnify the anticipated pressures; this is particularly the case for 2011, 2012 and 2013, which will see the addition of a fire hall, library, parkland, and fitness centre expansions. Currently under development is the City's long-range financial plan, which once updated, will provide a more detailed forecast.



Relationship to Vaughan Vision 2020

The 2010 Operating Budget is the process to allocate and approve the resources necessary to continue operations and implement Council's approved plans.

Regional Implications

There are no Regional implications associated with this report.

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Conclusion

The City has followed a very thorough process to minimize any tax increase while maintaining levels of service and meeting regulatory requirements. Very tight budget guidelines, approved by Council were issued to all departments including freezing specific account lines and reducing others.

In addition to the strict base budget guidelines, a number of additional resource requests were put forward by departments to maintain service levels, comply with regulatory requirements, and implement new initiatives. The resulting outcome of the base budget and additional resource request amalgamation is illustrated below in the building the budget diagram.

BUILDING THE BUDGET

| | <i>Residential Tax Rate Change</i> | |
|---|------------------------------------|--------------|
| | \$ | % |
| Additional Resource Request (Including Library) | \$11.45 | 1.02% |
| City Base Budget under the Guidelines (Excluding Library) | \$25.49 | 2.27% |
| Vaughan Public Library Board (Net) | \$ 1.35 | 0.12% |
| City Operations Tax Rate Change | \$38.29 | 3.41% |

Attachments

- Attachment 1 – 2010 Operating Budget Guidelines and Process
- Attachment 2 – Draft 2010 Operating Budget Package

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(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.)

Councillor Di Vona declared an interest with respect to the written submission of Mr. Gino Ruffolo, dated November 3, 2009, as he may be called as a witness to the referenced matter.

Please refer to Item No. 3, Report No. 8, Budget Committee.