

## **SPECIAL COMMITTEE OF THE WHOLE – MARCH 4, 2002**

### **DRAFT 2002 CAPITAL AND OPERATING BUDGETS** **(BUDGET SUB-COMMITTEE MEETING OF JANUARY 28, 2002)**

#### **Recommendation**

The Budget Sub-Committee recommends:

- 1) That \$437,000 for the Garnet Williams Fitness Centre Expansion be funded from development charges and the remaining \$763,000 also be funded from development charges as the expansion is growth related, recognizing that \$120,000 taxation co-funding is required, and that this be included in the development charges background study; and  
  
That the project be completed by the end of 2002;
- 2) That the Maple Community Centre Expansion be funded from the Keele Valley Reserve Fund as identified in the staff report (dated January 28, 2002), and monies reallocated as identified in the staff report (dated January 28, 2002), and the balance be included from the updated development charges background study;
- 3) That the CMHC be funded from development charges and included in the capital budget;
- 4) That Project 7965 – Dufferin Clark Centre – Outdoor Rink and Project 7830 – Chancellor Community Centre, be included in the development charges background study and be given priority in 2003;
- 5) That the draft 2002 Budget avoid any further long term debt;
- 6) That the following complement positions be included in the 2002 Operating Budget:
  - Communications Admin. Assistant (from part-time to full-time)
  - 5 By-Law Officers (as discussed and identified previously to be revenue neutral)
  - Director of Budgetting and Long Range Planning
  - Facility Operator
  - Mechanic
  - Parks Supervisor (Evenings)
  - GIS Manager
  - Fire Training Officer
- 7) That the 2002 Operating Budget be a 4% average tax increase and that any available funds go into next year's stabilization account;
- 8) That the reconstruction of the Thornhill Pool be reduced to \$1.6M and the source of funding be taxation;
- 9) That the Commissioner of Corporate Services prepare a budget guideline procedure that will include all capital and operation items that affect the 2003 budget and that this be brought to the Budget Sub-Committee for consideration throughout the year;
- 10) That the following report of the Commissioner of Corporate Services, dated January 28, 2002, be received; and

- 11) That the memorandum from the City Manager, entitled "Additional Information – Current Operating Budget, Senior Management Recommendations on 2002 New Complement Positions", dated January 28, 2002, be received.

### **Report of the Commissioner of Corporate Services**

The Commissioner of Corporate Services in consultation with the City Manager recommends:

1. That the following report be received for information purposes;
2. That the Budget Sub-Committee review the implications of the last changes to the budgets;
3. That direction be provided to staff as to whether or not the Budget Sub-Committee will adopt one of the options contained in this report and if so which option; and
4. That the recommendations of the Budget Sub-Committee be forwarded to the Public meeting on February 18, 2002 at 8:00 PM.

### **Purpose**

To report the impact of the changes to the budgets as a result of the January 17, 2002 Budget Sub-Committee meeting and to provide funding options for the consideration of the Sub-Committee.

### **Background - Analysis and Options**

During the review of the Draft 2002 Capital Budget, the Budget Sub-Committee made a number of changes to the budget. These changes total \$11,975,000 in capital funding and are summarized on Attachment A. Comments are provided in the following areas:

1. Availability of Capital Funding;
2. Uncertainty of Development Charge Funding; and
3. Other Cost Related Issues.

The report will focus on projects funded from taxation and development charges.

### **Availability of Capital Funding**

The changes require an additional \$3,875,000 in taxation funding. Previously \$4.1M had been identified as being required in order to cap the 2002 tax rate at an average increase of 3%. Senior management is committed to addressing the \$4.1M by identifying ways to achieve the savings.

The additions to the capital funded from taxation of \$3,875,000 and other related costs represent a further increase in the tax rate of approximately 6.9%. Therefore without further adjustments a total tax rate increase of 9.9% is required. Options to reduce this are discussed later in the report.

### **Uncertainty of Development Charge Funding**

The current development charge (DC) background study identifies various capital projects to service growth over a 10-year period ending in 2007. The list of capital projects does not include the expansion of the Maple Community Centre or the outdoor rink at Dufferin Clark. The Budget Sub-Committee directed staff to include these projects in the update of the DC background study that is currently being undertaken. At this time it is not certain how much could be included, how the timing of construction might impact service levels for development charge purposes and finally if there will be sufficient cash flows to fund the projects.

## Other Cost Related Issues

Operating Costs - In addition to the issues related to including these projects in the update of the DC study there are operating cost impacts on the City's operating budget when the projects are completed. When the timing of projects is advanced the advancing of operating costs must also be taken into account.

Financing Costs – By financing projects with long term debt the immediate requirement for taxation funds is reduced, however there are annual financing costs that must be paid. To phase-in these costs Council has a policy whereby ½ of the costs are added in the year of approval and the remainder the following year. Provision must be made for these costs, which are in addition to the capital funding referred to earlier.

Repair and Replacement Reserve Contribution – Council recognized that the City had built much of its infrastructure with the use of DC funds. This meant that the tax rate did not reflect the cost to construct the infrastructure. Not only is the amount of infrastructure increasing, but it is also aging. There was no mechanism in place to fund their repair and eventual replacement.

To address this issue a policy was put in place for all new facilities. The policy requires an annual contribution to an infrastructure reserve beginning in the year the project is approved. The purpose of the reserve is to collect funds that earn interest so that funds are on hand when that facility requires major repairs or replacement. Some amounts are therefore required in 2002 to fund the reserve contribution for the new facilities that have just been added.

The costs in 2002 relating to each of the three areas referred to above are listed below.

### Other Related Costs in 2002

Operating Costs	NIL
Financing Costs	
Garnet A. Williams C.C.	\$50,000
Thornhill Pool	<u>\$106,000</u>
Sub-total	<u>\$156,000</u>
Repair & Replacement Reserve Contribution	
Fire Hall -- Dufferin & 407	\$45,000
Dufferin Clark Rink	\$50,000
Garnet A. Williams C.C. Expansion	\$35,000
Maple C.C. Expansion	<u>\$165,000</u>
Sub-total	<u>\$295,000</u>
Total Other Related Costs	<u>\$451,000</u>

Provided as Attachment C is the estimated 2003 operating budget impact for the new facilities approved by the Budget Sub-Committee. This amount is \$2,096,000. The majority relates to the new fire hall \$750,000 and the new resource library \$800,000.

### Options for Consideration

As mentioned above the changes to the capital budget require an additional \$3,875,000 from taxation for capital works and \$295,000 for other related costs, totalling \$4,170,000. This total is

approximately a 6.9% increase in taxes in addition to the 3% already built into the budget. The following options are for the consideration of the Subcommittee. The main objective of the options is to reduce the impact on taxation in 2002 and provide some greater certainty with respect to development charge funding. The impact of each of these Options on the 2002 Operating Budget is provided in Attachment D.

#### OPTION 1

Defer at least the following 3 projects:

	DC's (\$000's)	Taxation (\$000's)
1. Maple Community Centre Expansion	\$4,950	\$550
2. Dufferin Clark Centre, Outdoor Rink	\$1,575	\$175
3. Thornhill Pool Reconstruction	\$2,100	\$2,100
Total	\$8,625	\$2,825

With these changes the taxation requirement reduces to approximately \$1.3M. This can be addressed with a 2% tax increase. Since the funding of these specific capital projects will not be required next year this 2% is available to offset budgetary pressures in 2003. This would include such issues as the closure of Keele Valley, changes in the economy and inflation.

The advantage of this option is that the projects would be deferred until the development charge (DC) background study is complete and there would then be certainty with respect to the inclusion of projects 1 and 2 in the DC study and the impact on service levels. The delay in construction would delay the impact of the operating costs and the reserve contribution. This provides the City with certainty of funding and an opportunity to partially address the depletion of the Mill Rate Stabilization Reserve, the closure of the Keele Valley Landfill and other issues currently facing the City.

#### OPTION 2

This option looks to fund the taxation component of the major capital projects from sources other than taxation. The following identifies alternative funding sources by major capital project.

Maple Community Centre Expansion

- Replace taxation co-funding portion with funds from the Keele Valley Reserve, \$550,000
- Fund the \$165,000 in 2002 for the Repair & Replacement Reserve from Keele Valley Reserve
- Transfer \$1.5M from the Vellore Community Centre project to Maple Community Centre expansion

Thornhill Pool Reconstruction

- A review of the design and cost estimates has decreased the budget from \$2.1M to \$1.6M
- Fund with long term debt, \$1.6M

This option reduces the impact on taxation in 2002 by \$2,650,000 to \$1,225,000. This can be achieved with a 2% tax increase. This option allows the facilities to be constructed, but does not defer costs. Although there is a reduction of the tax impact in 2002 the operating costs are not deferred and the repayment of the long-term debt will be funded from taxation. There is some certainty of DC funding with the adjustment to the Vellore Village project which is currently in the DC background study.

## **Conclusion**

Staff have provided the status of the Draft 2002 Operating and Capital Budgets based on the recommendations of the Budget Sub-Committee to-date. Without implementing Option 1 or Option 2 an average 10% tax increase is required. Adopting either Option 1 or Option 2 would still require a 5% tax increase. A 5% tax increase equals approximately \$35.00 for a home assessed at \$250,000. With a 5% tax increase the City of Vaughan's tax rate would continue to be the lowest in the GTA (outside of Toronto) even when compared to the 2001 tax rates for other municipalities.

Attachments (Not Attached – a copy is available in the office of the City Clerk)

Attachment A – Summary of Budget Sub-Committee Changes

Attachment B – 2002 Proposed Capital Funding from Taxation

Attachment C – New Major Facility Projects, Estimated Additional Operating Costs in 2003

Attachment D – Operating Budget Status with Options

Attachment E - Memorandum from the City Manager dated January 28, 2002

Respectfully submitted,

Councillor Bernie Di Vona, Chair