

DRAFT 2009 OPERATING BUDGET

Council, at its meeting of November 24, 2008, adopted the following Budget Committee recommendation of November 18, 2008 (Item 4, Budget Committee Report No. 8):

- 1) That the recommendation contained in the following report of the City Manager, the Deputy City Manager/Commissioner of Finance & Corporate Services, the Senior Management Team and the Director of Budgeting and Financial Planning, dated November 18, 2008, be approved;
- 2) That the Fire Chief be directed to bring forward a report to the Budget Committee meeting of December 4, 2008, addressing the concerns raised by Members of Council; and
- 3) That the presentation by the Deputy City Manager/Commissioner of Finance & Corporate Services and presentation material entitled, "2009 Draft Operating Budget", dated November 18, 2008, be received.

Report of the City Manager, the Deputy City Manager/Commissioner of Finance & Corporate Services, the Senior Management Team and the Director of Budgeting and Financial Planning, dated November 18, 2008

Recommendation

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

- 1) That the following report on the 2009 Draft Operating Budget be received for information and discussion purposes; and
- 2) That the Budget Committee receive the Draft 2009 Operating Budget, including the recommended additional resource requests.

Economic Impact

The attached Draft 2009 Operating Budget reflects the requirement for a taxation funding increase of \$6.7m, an approximate property tax increase of \$63 a year (\$5.25 per month) on the average home re-assessed at \$494,000 or a 5.72% tax increase.

The 2009 operating budget increase above 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 \$3.66m, equivalent to a 3.11% 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 \$3.07m, equivalent to a 2.61% tax increase.

It should be noted that any decision with respect to the infrastructure funding strategy is not included in this report and will be presented as a separate report.

Communications Plan

The communication plan for the City's 2009 Budget has three (3) components.

1. Early Consultation – through an information/consultation forum. The November 10th forum was promoted throughout the City.

- 1) City Page Notice – Vaughan Citizen/Liberal (Oct. 23); Vaughan Today (Oct 31); Vaughan Citizen/Liberal (Nov. 6)
 - 2) ½ page ad in Lo Specchio – (Nov. 7)
 - 3) Posters sent to all libraries and community centres (Oct. 30)
 - 4) Issued e-Bulletin to 3,000 subscribers – (Nov. 4)
 - 5) Mobile signs – 1 in each Ward – starting (Oct. 27)
 - 6) Access Vaughan – Promoted to callers and registered attendees
 - 7) Budget “Tile” on front page of website under “Featured Project” (Oct. 29)
 - 8) Meeting posted on website under Public Meetings (Oct. 27) also featured under What’s Happening
 - 9) Notice posted on The VIBE and sent to all City employees (Nov. 3)
 - 10) Issued News Release (Nov. 5) – published in Vaughan Citizen/Liberal (Nov. 6); Vaughan Today (Nov. 7); and Lo Specchio (Nov. 7)
2. Continuing Opportunity for Input – The public has an opportunity to complete an online questionnaire until November 23rd. The results which will be summarized for the Budget Committee. In addition, there are a number of Budget Committee meetings scheduled and they are open to the public.
 3. Final Approval – the meeting to provide final budget approval will be advertised and advance notice will be provided to the public.

Purpose

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 obtain input.

Background - Analysis and Options

Executive Summary

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 increases in their base budget. 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 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 and the Budget Committee.

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.

Base Budget

Although there are many components to the to the City’s base budget, the increase in the base can be attributed to four (4) main issues. In the absence of these issues there would virtually be no increase in the base budget. A summary of these issues and their relative impact is illustrated in the following table.

Summary	Budget Impact	Tax Rate Impact
Base Budget Increase	\$3.7 m	3.1%
Less the following four issues:		
Long Term Debt Repayment	\$1.3 m	1.1%
Winter Control Increase	\$1.1 m	0.9%
Full Year Impact of 2008 Decisions	\$0.8 m	0.7%
Tax Rate Stabilization (reduction)	\$0.5 m	0.4%
Subtotal	\$3.7 m	3.1%
Base Budget Increase Excluding the 4 issues	\$0.0 m	0.0%

NOTE: Amounts rounded for illustration purposes.

The impact of the base budget is a tax increase of 3.11% or \$34 per year to the average residential property in Vaughan.

The following report provides more detail and analysis with respect to the base budget. The analysis includes a comparison of 2008 and 2009 budgets by major expense category such as computer hardware, overtime, etc. It also includes a review of user fees and cost recovery rates.

Additional Resource Requests

As noted previously the additional resource requests are submitted on an individual basis, and assessed on their respective merits. There were 52 requests received amounting to \$6.1m which by themselves represents a 5.23% 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 32 of the 54 requests totalling \$3.1m. Not all requests involve staffing, in some instances there are offsets to the cost and approximately 50% of the \$3.1m relates to additional firefighters in the west part of the City.

The recommended additional resource requests represent a tax increase of 2.61% or \$29 per year to the average residential property in Vaughan.

Combined Base Budget and Additional Resource Requests

The combined impact of the base budget and the additional resource requests is approximately \$63 per year for the average residential property in Vaughan or a 5.72% tax increase.

Other Issues yet to be Addressed

In addition to the information above there are two (2) significant issues that have not yet been factored in to the budget. These are as follows:

1. Additional Funding for Aging Infrastructure;
2. Local Contribution for a Hospital in Vaughan.

Additional funding for the City's aging infrastructure was brought forward to the Budget Committee as part of the 2008 budget. At that time the Budget Committee referred the item to the 2009 budget process. The previous report is on the November 18, 2008 Budget Committee agenda.

The province has approved moving forward with the planning for a new hospital in the City of Vaughan. The Province has a requirement for a local contribution. The Vaughan Healthcare Foundation is working on various components of the local contribution, which will include funding from the City. To-date Council has only committed to a significant contribution. The specific funding amount will be the subject of a separate report at a future meeting.

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 budget.

Average 2009 Residential re-assessment	\$494,000
Total 2008 Taxes levied on the average assessed home	\$4,305
2008 City of Vaughan portion (25%)	\$1,093
Reduction for qualifying seniors	\$280
A 1% increase in the tax rate generates	\$1.17M
Impact of a 1% increase on the average home	\$11
2009 Assessment Growth (Projected)	3.00%

2009 Re-Assessment Year

The Municipal Property Assessment Corporation (MPAC), a not-for-profit corporation funded by all Ontario municipalities, has completed a re-assessment program for Ontario properties, effectively starting the 2009 tax year. It is important to note that this process is revenue neutral for the City of Vaughan and legislatively can not provide the City with any additional revenue. Increases in assessment values will be phased in over 4 years and the properties that increase in line with the municipal average will not experience any tax increase. Should homeowners disagree with the new assessment value provided, MPAC offers a process for assessment reconsideration and failing that, residents can appeal MPAC decisions to the Assessment Review Board. More information on this process can be found at www.mpac.ca.

Maintaining Services Levels with a Minimum Impact on Taxes was a Priority

Recognizing that many of the budgetary challenges are ongoing, the budget process and guidelines continue to incorporate a very comprehensive base budget review. This was accomplished through a combination of the following:

1. Strict budget guidelines to limit cost increases
2. Separate review process to assess additional resource requests
3. Business plans, service reviews, & performance measures
4. Public consultation forums

Specifics with respect to each of these actions are provided in Attachment 1.

2009 Base Budget under the Guidelines

Based only on the budget guidelines, the City's Draft Operating Budget is approximately \$190.7m and reflects a \$3.6m funding increase over 2008. This equates to a 3.11% tax rate increase **excluding** the budget impact of Senior Management Team's recommended additional resource requests. The Draft 2009 Operating Budget includes an anticipated \$2.5m surplus carried forward from 2008 and includes \$2.2m from the Tax Rate Stabilization Reserve (a reduction of \$500,000 from 2008). This is consistent with prior year recommendations and Council direction. Further details can be found in Attachment #2. To assist Council in assessing the Base Operating Budget and the associated 3.11% tax rate increase resulting from the budget guidelines, the following summary is provided.

<u>Base Budget Impacts</u>	Budget Impact	% Variance	Tax Rate Impact
<u>Allowable Departmental Expenditure Increases:</u>			
Salary and benefit increase	\$3.3 m	3.2%	2.8%
Service contract price and volume increase	\$2.3 m	9.8%	2.0%
Utilities price and volume increase	\$0.6 m	9.6%	0.5%
Recoveries and other expenditures	\$0.6 m	2.5%	0.5%
Total Departmental Expenditures Increase	\$6.7 m	4.2%	5.7%
Less: Increase in fees and service charges	\$0.5 m	1.7%	0.5%
Net Department Impact	\$6.2 m	4.8%	5.3%
<u>Corporate Revenue Base Budget Impacts:</u>			
Supplemental taxation	\$0.1 m	3.8%	0.1%
Reserves	\$0.9 m	9.6%	0.7%
Tax rate stabilization reduction	(\$0.5) m	-19.0%	-0.4%
Corporate revenues	\$0.8 m	5.2%	0.7%
Total Corporate Revenue Base Budget Impact	\$1.2 m	4.5%	1.0%
<u>Corporate Expenditure Base Budget Impacts:</u>			
Contingency	\$0.5 m	25.8%	0.4%
Long term debt	\$1.3 m	17.9%	1.1%
Corporate expenditures	\$0.4 m	3.0%	0.3%
Total Corporate Expenditure Base Budget Impact	\$2.1 m	10.0%	1.8%
Net Corporate Impact	\$0.9 m	2.7%	0.8%
Less: Assessment growth estimate (3.0%)	\$3.4 m	-----	2.9%
Total	\$3.7 m	-----	3.1%
Increase for 2009 Re-assessment Year (\$494,000)	\$34/year		

An integral component of the 2009 Operating Budget Guidelines was the freezing of most account lines outside of the specific areas permitted as outlined previously in this report. 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 staff review of submissions 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 \$6.7m, which represents a 4.2% increase in departmental expenses over 2008. Roughly half of the 4.2% increase is attributable to salary and benefit increases, including the full year impact of 2008 approved additions. The balance of the increase is related to external contracts, including significant increases in Winter Control, Animal Control, and Waste Management, utility increases, and insurance premiums. These services are generally contracted, competitively tendered and awarded to the lowest bidder.

Base Budget Revenue Review

Overall revenues increased \$1.8m or 1.0% from 2008 levels, excluding assessment growth. The primary factors contributing to the increase are as follows.

- Corporate & Supplemental Revenues increased by \$889k:
 - Property tax fines and penalties increased \$300k and supplemental taxation increased \$100k. These adjustments were necessary to better reflect historical trends and keep inline with the growing tax base.
 - PowerStream investment income increased 487K, accounting for unpaid interest owing to the City.

- User Fees / Service Charges increased by \$541k:
 - Recreation revenues increased by \$512k, which is largely offset by similar expenditure value increases. Increases in other departments also occurred, the largest being a 131k increase in Public Works as a result of budgeted increases in general revenues and additional grant monies anticipated for 2009. However, these increases were largely offset by a \$119k reduction in Fire & Rescue Services resulting from reduced discretionary billings and poor collections and a \$125k reduction in ETD as a result of postponing the 2009 Vaughan Bash, which is offset by reductions in expense to host the event, resulting in a net budget impact of \$50k.

- Funding from Reserves increased by \$343k:
 - Increase in reserve withdraws as a result of increased activity and departmental costs are necessary in the Engineering, Fleet and Insurance areas.
 - As a result of housing allocation constraints and an industry slowdown it is anticipated that building permit revenue will remain static or decline. As a result, the Building Standards department will draw on established reserve funds in 2009 to offset any shortfall in full cost revenue recovery, avoiding a budgetary impact.
 - Another large reduction in revenue is related to the rolling back of the tax rate stabilization funding. On February 26, 2008, Council adopted a two year phase in plan to reduce the dependence on tax rate stabilization funding to prior year recommended levels, reducing the tax rate stabilization funding from \$2.7m to \$2.2m. This reduction remains necessary to prevent a reliance on unsustainable funding and retain the reserve balance for extraordinary circumstances.

Assessment Growth

For 2009 assessment growth is estimated at approximately 3%, which translates into roughly 3,000-3,500 new homes contributing an additional \$3.65m in property taxes. This is slightly lower than the 3.75% figure reported in 2008 (\$4.1M), due to housing allocation constraints and the slowing economy. Although not specifically allocated, these funds help offset the increased servicing costs associated with community growth. To illustrate this point, listed below are just a few of the many 2009 growth additions to the City:

- 230 Km of roads
- 65 - 70 km of sidewalks
- 3,000 -3500 new waste/recycling collection stops
- 3,066 additional streetlights
- 17.43 ha of Parkland + play structures
- 5 Km 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 2009 budget are the following costs allocated to support growth:

• Full year impact of 2008 approvals	\$800k
• Service contract volume increases	\$520k
• <u>Utility and material volume increase</u>	<u>\$594k</u>
Base budget growth impact	\$1.9m
• <u>Growth related additional resource requests</u>	<u>\$2.7m</u>
Total 2009 growth impact	\$4.6m

As illustrated above, the costs associated with growth, excluding the cost of infrastructure repair and replacement, significantly exceed amount of additional taxation received through new assessment.

User Fees & 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 is a requirement to raise 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 2009 Draft Budget by approximately \$79k, which is provided for in contingency until User Fee / Service Charge increases are Council approved. A separate report on this topic is provided for Budget Committee consideration.

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

- Recreation
- Building Standards
- Planning & Committee of Adjustment
- Enforcement Services
- Licensing

As a result the majority of the above departments, with exception for enforcement services, have conducted various fee studies. Some studies were as a result of legislative requirements and staff initiated a number of other in-depth studies, but all resulted in the development of cost recovery policies, principals, or targets endorsed by Council. Detailed below is a summary of department and estimated full cost recovery ratios for these areas based on 2009 base budget figures.

2009 Department Budgeted Recovery (Figures in Thousands)	Recreation	Licensing	Enforcement	Planning	COA	Building Standards (OBC)	Building Standards (Non-OBC)
Revenues	\$ 15,167	\$ 802	* \$ 2,557	\$ 2,378	\$ 350	** \$ 8,072	\$ 356
Expenditures	16,262	505	3,842	2,685	511	5,177	983
Subsidy/(Surplus)	\$ 1,095	\$ (297)	\$ 1,285	\$ 307	\$ 161	\$ (2,895)	\$ 627
Dept Budget Recovery Ratio	93%	159%	67%	89%	68%	156%	36%
Full Cost Estimate (ABC Model)	*** \$ 33,707	\$ 1,079	\$ 3,851	\$ 4,823	\$ 882	\$ 8,072	1,179
Subsidy/(Surplus)	\$ 18,540	\$ 277	\$ 1,294	\$ 2,445	\$ 532	\$ -	\$ 823
Full Cost Recovery Ratio	45%	74%	66%	49%	40%	100%	30%
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 \$230,000 draw from Building Standards Continuity Reserve

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

As illustrated above, most areas are recovering more than 80% 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 the anticipated 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 93% of their departmental costs, which is just shy of their department cost neutrality goal. Enforcement Services, with the inclusion of POA revenue is recovering approximately 67% 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 89% of their department costs and falling short of achieving the goal of full cost recovery. This is largely a result of declining application volumes caused by house capacity allocation restrictions and the highly anticipated economic slowdown, which has decreased their full cost recovery to below 50%.

In areas where the department budgeted recovery is less than 100%, increasing to 100% of department cost recovery would increase budgeted revenues by slightly more than \$3m. Moving to a full cost recovery model 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.

Base Budget Expenditure Review

Total expenditures increased \$8.9m over 2008 levels. The primary factors contributing to the increase in City expenditures are as follows:

- Approximately \$6.7m of the base budget expenditure increase is related to pressures experienced in departmental expenditures, including the \$122k Library Board increase. This represents an increase of 4.2% over the 2008 departmental budget.
 - Of the total departmental budget increase, approximately 49% or \$3.3M is associated with labour costs, as per recognized agreements (i.e. economic adjustments, progressions for new hires, job evaluation, and benefits impacts) and the \$800k full year impacts of 2008 approved hires.
 - The second largest component of the department expenditure budget increase is related to pressures from contract services (\$2.3M) and utilities (\$0.6M). These increases are typically the result of increasing demands provided services due to volume growth and contractual or industry price increases. Of particular note are increases related to winter control \$1.1M, animal control \$300k, waste management \$241k, and street light maintenance \$219k. Utility increases in gas, hydro and water increased by \$594k.
- The repayment of long term debt increased \$1.25M. Debt has previously been issued primarily to fund major roads projects.
- A \$0.5M expenditure increase is also experienced in the City's contingency account and relates to ongoing labour negotiations and certain foreseeable events.
- Corporate and election expenses increased by \$0.46M, mainly as a result of increased professional fees for corporate and major OMB hearings and additional expenses related to tax adjustments and bank charges.

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.

Operating Expenditures	2009			2009
	Draft Budget	Budget %		Cumulative %
Salaries and Benefits	105,331,834	55.2%	*	55.2%
Contracts	25,668,286	13.5%	*	68.7%
Maintenance / Materials	10,343,663	5.4%		74.1%
Reserve Contributions	9,181,735	4.8%		78.9%
Long Term Debt	8,250,000	4.3%	*	83.2%
Utilities	6,785,995	3.6%	*	86.8%
Capital from Taxation	6,565,775	3.4%		90.2%
Contingency	2,500,230	1.3%		91.5%
Professional Fees	2,345,755	1.2%		92.8%
Insurance	2,188,000	1.1%	*	93.9%
Tax Adjustments	1,400,000	0.7%		94.7%
All Other	10,205,727	5.3%		100.0%
Total Draft 2009 Expenditures	190,767,000	100.0%		100.0%

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.

Cost Increases

When assessing the 2009 operating budget it's important to put municipal cost increases into perspective. It is very common for residents to gage a municipality's expenditure performance against the Consumer's Price Index (CPI), but there is an inherent flaw with this comparison. Mainly that 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, & material intensive. Detailed below are expenditure components of the average municipality and associated cost increases.

- Ontario Wage Settlements – 3% historical increase
- Service Contracts – historical increase range (5-10%)
- Construction index - historical increase range (6-7%)
- Utility increases – Natural Gas & Water (7-9%)

Assuming Vaughan's expenditure structure, the City's basic cost increases would be as follows:

Component	% of Budget	Cost increase	Weighted Avg
Salaries and Benefits	55.1%	3% Ontario Wage Settlements	1.7%
Contracts	12.4%	7%	0.8%
Materials	5.5%	6% construction Index.	0.3%
Capital funding	10.0%	6% construction Index	0.6%
All other	16.7%	2% CPI.	0.4%
Base inflationary increase			3.8%

The figures noted above represent the City's basic increases as they relate to price and does not include pressures stemming from growth, new services, or increased infrastructure funding.

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 that some discretionary expense lines in total are remaining relatively constant. If part-time re-classifications are excluded, actual 2009 variances would have resulted in a reduction to base.

<u>Accounts of Interest</u>	<u>2009 Proposed Budget</u>	<u>2008 Budget</u>	<u>Variance</u>	<u>% Change</u>
Advertising	439,080	426,330	12,750	2.99%
Comp. Hardware/Software	736,458	812,858	(76,400)	-9.40%
Cellular	232,486	229,691	2,795	1.22%
Grouped Expenses	175,900	162,950	12,950	7.95%
Office Equipment	211,444	228,164	(16,720)	-7.33%
Office Supplies	285,160	280,370	4,790	1.71%
Overtime	1,031,190	987,585	43,605	4.42%
Part Time	12,140,849	11,463,609	677,240	5.91%
Professional Fees	1,945,755	1,999,415	(53,660)	-2.68%
Total	17,198,322	16,590,972	607,350	3.66%

The majority of the variances illustrated above 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. The majority of the variances illustrated in advertising and grouped expenses, professional fees, cellular are reclassifications to ensure budgets better reflect actual costs.

Of particular note is the part time variance, which is a result of a reclassification. Traditionally, PT vacation pay was budgeted in the benefit account but actuals were allocated to the PT account. To more accurately align the budget with actual expenses, the 4% vacation pay budget was reclassified to the PT account. The net impact of this budget reclassification is zero, as the benefit account experienced an offsetting reduction. It should be noted that excluding PT variances, the total of the accounts noted above will result in a \$70K budget reduction.

Reductions in computer hardware / software and office equipment and supplies is mainly attributable to the removal of 2008 one-time funding and some minor reclassification of expenses to better reflect actual requirements.

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.

- FTE schedule
- Major Impact Summary
- Departmental Expenditure Variances in Excess of \$100,000
- Major Corporate Expenditure Increases/Decreases
- Summary of Pre-Approved Items & 2008 One-time Funding Costs

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

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 52 additional resource requests with a total annual cost of approximately \$6.1m. This figure includes the Library Board's additional resource requests totalling \$439k. Departments are experiencing tremendous challenges in maintaining existing service levels. A total of 82 FTE positions were originally requested spread across fourteen departments. In addition, the total of 52 requests amounted to \$6.1M or a 5.23% tax increase requirement. It should be noted that Fire and Rescue requests totalled approximately 50% of total dollar requirements and 48% of FTE requests. Of similar interest, Building and Facilities, Parks Operations and Recreation requests were partially in response to previously approved capital projects, including the new Block 10 Recreation Centre and additional parks scheduled to open in 2009.

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 the following criteria:

- Mitigating municipal risk;
- Municipal value;
- Maintaining service levels;
- Achieving the Vaughan Vision initiatives; and
- 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 by 50%. As part of this process and recognizing the current economic environment, SMT endeavoured to balance requests with limited funding opportunities. As a result, some requests were not supported which may reduce the City's ability to consistently maintain service levels. The table below illustrates a summary of the recommendation and further summary information and details on each request are provided in the Additional Resource Request section of the Attachment 2.

Summary of Recommended Additional Resource Requests

Department	# of Requests	FTE	% of Total FTE Ask	Annual Operating Impact
Fire	1	20.00	48.1%	1,556,384
Reserves & Investments	1	1.00	2.4%	(158,666)
City Clerk	1	1.00	2.4%	102,090
Enforcement Services	4	4.00	9.6%	102,907
Human Resources	2	1.00	2.4%	74,992
Building Standards	1	0.30	0.7%	(0)
Recreation	2	1.00	2.4%	93,083
Building & Facilities	3	2.25	5.4%	328,376
Parks Operations	4	4.00	9.6%	354,701
Information Technology	2	2.00	4.8%	222,800
Information Technology / Building Standards	1	1.00	2.4%	12,894
Economic Technology Development	1	0.00	0.0%	0
Corporate Communications	2	2.00	4.8%	174,232
Engineering Services	1	0.00	0.0%	10,000
Development & Transportation Engineering	3	2.00	4.8%	48,078
Public Works	2	0.00	0.0%	64,220
Vaughan Public Library	1	0.00	0.0%	85,000
TOTAL	32	41.55	100%	3,071,091

Long-Range Financial Planning

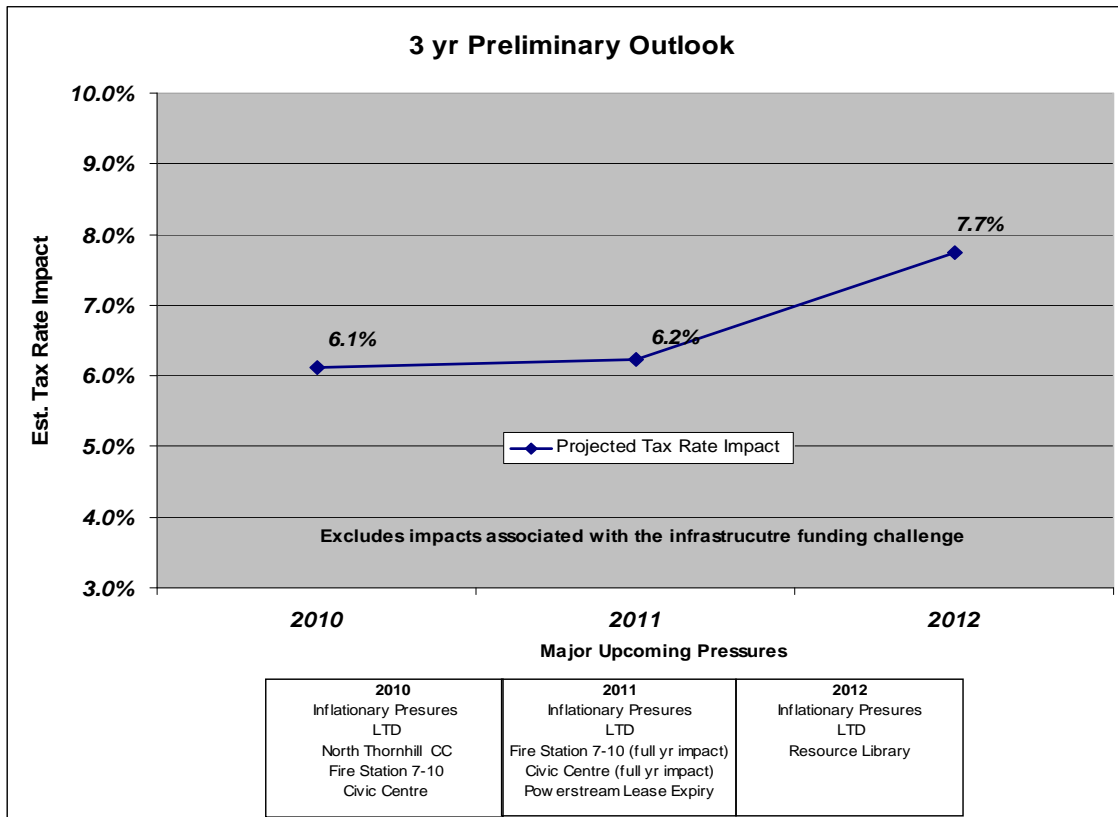
On February 12th 2008, staff presented to Budget Committee a report and presentation on Long-Range Financial Planning and requested direction from Council with respect to an infrastructure funding strategy. The largest part and most financially significant component of the funding strategy lie in increasing the City's infrastructure funding effort. This poses a complicated challenge as the initial requirements are overwhelming and will prove challenging to overcome immediately. Recognizing this situation, Finance staff proposed different funding options to begin addressing the infrastructure funding shortfall. The funding options associated annual incremental tax rate increases vary drastically and Budget Committee recommended for these options to be considered during 2009 budget deliberations. This important and complex topic was further detailed in a separate report provided to the Budget Committee on February 12th and received by Council on February 25th. As per Council direction the February 12th item will be referred back to Budget Committee on November 18th for consideration.

Staff are discussing the possibility of additional dividend income from Vaughan Holdings Inc. as a result of increased dividends from PowerStream. If additional funds are received, it would be appropriate to utilize those funds for infrastructure renewal.

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 the recommended infrastructure funding strategy. 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 2010, 2011 and 2012, which will see the addition of a new community centre, fire hall, civic centre and library. 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 2008 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.

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.

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

Local Hospital Contribution	?
Infrastructure Funding Strategy	?
Additional Resource Request (Including Library)	2.61%
City Base Budget under the Guidelines (Excluding Library)	3.01%
Vaughan Public Library Board (Net)	0.10%
Tax Rate Impact	5.72%

NOTE: Amounts rounded for illustration purposes.

Attachments

Attachment 1 – Comprehensive Budget Review Process
 Attachment 2 – 2009 Draft Operating Budget Summary (Available in the Clerk’s Department)
 (Note: attachments previously provided with the November 18, 2008 Budget Committee agenda)

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COMPREHENSIVE BUDGET REVIEW PROCESS

1. Strict 2008 Budget Guidelines to Limit Cost Increases

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

Allowable Budget Increases

- Salary and benefits relating to approved employment agreements
- Full year impacts (Council approved facilities & initiatives)
- Supported external contract price and volume increases
- Supported utility increases
- Insurance adjustments
- Required long term debt principal and interest payments

As a result, departments are expected to absorb any other increases in their respective departmental budgets. This is necessary in order to limit the aggregate 2009 budget increase to the known and approved budget impacts.

As part of the 2009 Budget Process, staff undertook an analysis of the operating budget to assess efficiency and ensure conformity with approved operating guidelines. Staff approached this task by analyzing major departmental increases, specific expenditure types, department user fee recovery ratios, and overall budget reasonability. The results of this analysis are included in the attachment for reference purposes.

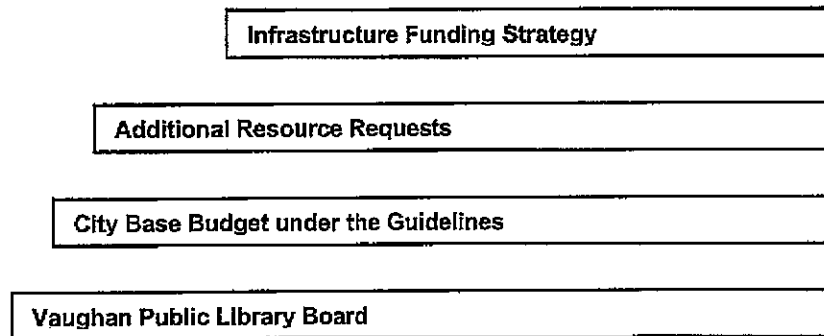
Inherent in the 2009 Budget Process is a continued emphasis on maximizing the cost recovered on services provided. In addition to adjusting revenues for anticipated changes in activity, departments were instructed to increase user fees and service charges in relation to department cost increases and at minimum, by the rate of inflation, unless otherwise specified. Departments were also encouraged to explore and submit new user fee and service charge opportunities. Changes to user fees and service charges require public notice and Council approval and therefore these requests will be provided in a separate report to Budget Committee. A provision for increased user fee revenue was put in the base budget contingency account was made to account for these adjustments and will be redistributed to the department level once Council approves these requests.

2. Additional Resource Requests Individually Scrutinized

Recognizing that the Budget Guidelines are very restrictive and understanding that Departments may require funding in excess of base budget guidelines to meet strategic priorities, maintain service levels, adhere to regulatory requirements, or implement initiatives, the base budget guidelines continue to be complemented by a process that provides departments with an opportunity to formally submit requests for essential resources not permitted within the base budget guidelines. The process summarized above essentially separates the Operating Budget into the following two classifications:

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

The intent of this process is to dissect the budget into manageable components and pinpoint key operating budget pressures to better understand the budget and assess department needs. As such the Draft 2009 Operating Budget is presented as a series of building blocks:



3. **Business Plans, Service Reviews, & Performance Measures Used to Manage Resources**

To help establish and reinforce connections between strategic priorities and resource allocation, Business Plans were further incorporated into the Operating Budget Process. This information complements the existing budget process by providing comprehensive department information on work plans, goals and key performance metrics. This information is a valuable component of the budget process because it provides additional evidence based information supporting department base budget efficiency, effectiveness, and productivity through goal & performance measures. This information also serves as a platform to better understand department budget pressures and can assist in evaluating departmental additional resource requests. The Senior Manager of Strategic Planning was intricately involved with this process and assisted with updates and refinement of all business plans. For reference purposes department business plans are included in the enclosed Attachment 2.

4. **Public Consultation Is Important to the Process**

Continuing with the established process, a Public Budget Consultation/Information Forum was held early in the budget process to:

- Educate and inform the public regarding City services, their cost, municipal issues and their relationship with property taxes; and
- Obtain input and feedback from the public with respect to the local services provided, the City's challenges, and available options to manage cost increases.

This forum was held at the Civic Centre on November 10th and was well attended.

In the interest of obtaining maximum community feedback, a video of the forum content and a survey was placed on the City's website on November 11th, 2008 for citizens to review and provide their input. This site will be available until November 23rd, after which the results of the public forum and internet questionnaire will be compiled and reported to the Budget Committee.