

**2009 BUDGET NEXT STEPS - POTENTIAL BUDGET REDUCTIONS****Recommendation**

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

- 1) That an inflation rate target be determined in order to meet the Budget Committee's targeted 2009 tax rate increase of inflation; and
- 2) That the Budget Committee provide direction with respect to the options to be considered to reduce the Draft 2009 Operating Budget tax rate impact of 5.84% (\$64 a year to the average home) to a targeted rate of inflation.

**Economic Impact**

The following report responds to the request from the Budget Committee on January 12<sup>th</sup>, 2009 to reduce the Draft 2008 Operating Budget from a tax rate impact of 5.84% (\$64 a year to the average home) to a targeted rate of inflation. There are different definitions and indexes for rates of inflation and the appropriate definition and index depends on how the index is to be used. Various options are presented to achieve various inflation thresholds.

The Draft 2009 Operating Budget submitted on Nov. 18<sup>th</sup>, 2008 was based on maintaining service levels and the options to reduce the 2009 Budget listed in this report are premised on maintaining service levels. Depending on the inflation rate targeted the reduction required would be in the range of \$3.5m.

**Communications Plan**

Not required at this point in time. However, a statutory public meeting with appropriate notice is required before adopting the 2009 Budget.

In addition to the statutory notice a media release will be developed that articulates the policies, strong management practices and oversight that the City currently has in place to manage revenues and expenses and ultimately provides the residents of Vaughan with value for their property tax dollar.

**Purpose**

This report responds to Budget Committee's request for staff to provide opportunities to reduce the Draft 2009 Operating Budget tax rate increase of 5.84% to a targeted rate of inflation.

**Background**

The 2009 Draft Budget is based on budget guidelines that were adopted by the Budget Committee on May 29<sup>th</sup>, 2008. A founding principle of the budget guidelines was to maintain service levels & support Vaughan's Vision with a minimum impact on taxes. The 2009 Draft Operating Budget, including any recommendations stemming from Budget Committee deliberations, reflects the requirement for a taxation funding increase of \$6.9m. This represents a property tax increase of approximately \$64 a year (or \$5.35 per month) on the average home re-assessed at \$494,000 or a 5.84% tax increase. The tax increase is largely driven by the following:

1. Safety & Security - \$1.6m increase for 20 additional firefighters;
2. Infrastructure Repair - \$1.3m increase for major roads repairs;
3. Significant Increase in Contracted Services - \$1.4m winter control increases;
4. Final Phase-in of 2008 Decisions - \$0.8m;
5. Further Reduction in the use of Reserves to Subsidize the Budget - \$0.5m;
6. Declining Assessment Growth – assessment growth declined from 3.75% to 3.0%

As illustrated above, more than 50% of the increase is directly related to community safety and infrastructure repair. The next significant component is to cover the cost increase for contracted services that were tendered and required to maintain levels of service.

### **Delivering Value For Your Property Tax Dollar**

Vaughan takes the management and stewardship of public funds seriously. Through Council the City delivers the services the residents of Vaughan expect within the legislative framework established by the Province of Ontario. Within that context, increasing property taxes is the last option. In this regard the City of Vaughan has been very successful. We have consistently had the lowest property rate tax in York Region and one of the lowest property tax rates in the GTA while providing high quality services to the residents of Vaughan.

A low tax rate and high quality services do not occur by chance. For several years the City has had a very rigorous budgetary process that is continually reviewed and refined. That rigorous process includes a number of specific actions such as the following:

#### **Containing Costs and Implementing Best Practices**

- ❖ Freezing many expenses at previous years levels;
- ❖ Reviewing organizational efficiency;
- ❖ Requiring City Manager approval prior to filling vacancies;
- ❖ Utilizing performance measures to track performance;
- ❖ Ensuring growth pays for growth;
- ❖ Establishing a formal Continuous Improvement Program.

#### **Demonstrating Leadership in Financial Management**

- ❖ Implementing user pay policies where appropriate;
- ❖ Requiring Business Plans from all departments annually;
- ❖ Fiscal policies guiding management and Council decision making;
- ❖ Aligning resources with strategic priorities;
- ❖ Life cycle infrastructure planning;
- ❖ Long range integrated financial planning.

The City of Vaughan has been very progressive in implementing policies and processes to manage the municipality while providing residents with value for their property tax dollar. As noted above Vaughan had one of the lowest property tax rates in the GTA in 2008. In 2008 the average home in Vaughan paid \$1,093 in property taxes for the services they receive at the local level (the City of Vaughan) and the City ranked 3<sup>rd</sup> in the province in terms of its financial position per capita according to an independent research firm.

As a result of the current economic climate and potential for a deep and lasting recession, it has never been more important to remain vigilant over municipal finances to ensure Vaughan continues to offer residents excellent service and value for their property tax dollar.

## Budget Committee Direction

On January 12<sup>th</sup> 2009 the Budget Committee recommended the following:

“that staff be directed to review opportunities to reduce the 2009 budget to achieve a tax increase equivalent to the inflation rate and that the Chair of the Budget Committee in consultation with the Director of Budget and Financial Planning, review such opportunities, including the consideration of Council’s priorities, and report back at the next Budget Committee meeting”.

As a result, staff undertook a review of the City’s Draft 2009 Operating Budget with the objective of responding to the above noted request.

### What Is An Appropriate Inflation Rate (Index)?

Prior to targeting an inflation rate its important to understand what is typically not included in an inflation index. Inflation rates try to capture cost increases, however they do not incorporate other non-cost related factors associated with a municipality such as the following:

- Additional services to meet growth demands;
- Infrastructure repair and replacement;
- New services or initiatives;
- Costs to meet new legislative requirements; and
- Fluctuations in revenues.

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 is increased, home repairs are required.

### The Consumer Price Index (CPI)

CPI is intended to illustrate cost increases experienced by the typical Canadian household. It includes retail items such as food, clothing, entertainment and other household purchases. Municipalities are service providers and unlike an average Canadian household, municipalities expenses are very labour, material and contract intensive. Therefore, there is not a strong relationship between CPI and municipal budget increases.

### Inflation Indexes Other than CPI

CPI is one index. In addition to CPI, there are other indices available, which are specific and better suited to gauge the price increases associated with municipal spending components. Illustrated below is a sample of inflation indexes that are readily available.

Wages – The Ministry of Labour provides quarterly updates on public sector collective bargaining settlement trends. As of Sept. 2008 the Ministry reported average increases in the range of 3%.

Machinery and Equipment Index – This Statistic Canada Index illustrates purchase price changes of various types of machinery and equipment. In the third quarter of 2008 a 2.3% increase over the previous year was posted.

Non-Residential Construction Index – Provides an indication of the changes in new construction costs for the Toronto area. This information is based on general and special trade surveys for various material, labour, equipment, overhead, etc. An 11.6% increase over the previous year was posted in the third quarter of 2008.

MTO Tender Price Index - Tracks the costs of all major items involved in road and bridge construction. The average annual increase for 2008 is 10.24%

### Various other materials and supplies indices

- ENR Index
- Producer Price Index
- Fuel Cost Index
- Asphalt and Cement Index etc. – Increase in the range of 50%

### **Determining a Municipal Price Index (MPI)**

As indicated above, many of the indices relevant to municipal operations are increasing at a rate much greater than CPI (i.e. Wages, utilities, road and building construction, equipment, asphalt, etc). Therefore an alternative approach would be using a municipal price index. This is becoming more common in the industry and Brampton, Waterloo, and Ottawa are currently using internal municipal price indexes based on applying relevant indices/indicators to the weighting of major expense categories. Although, indicators will vary depending on cost structure and services provided these Cities reported inflation rates in the range of 3.3% to 4.75%.

Using a similar approach, Vaughan's composite municipal price index, assuming the current expenditure structure, could be as follows:

<u>Component</u>	<u>% of Budget</u>	<u>Cost increase</u>	<u>Weighted Avg</u>
Salaries and Benefits	55.1%	3% Ontario Wage Settlements	1.7%
Contracts	12.4%	7% historical based	0.8%
Materials	5.5%	6% historical/index blend	0.3%
Capital Funding	10.0%	10% Construction & MTO tender Index	1.0%
All Other	16.7%	2% CPI – general	0.4%
<b>Base inflationary increase estimate</b>			<b>4.2%</b>
<b>Base inflationary increase estimate <u>excluding Capital</u></b>			<b>3.2%</b>

Although the above figure is a preliminary estimate that may require further refinement, it is consistent with the other municipal indices and clearly illustrates Vaughan is facing price increases beyond the Consumer Price Index (CPI).

### **Other Factors to Consider When Assessing the Budget**

It should be noted that a price index is only one component contributing to budget increases. Other non-price related factors associated with a municipality (i.e. growth, infrastructure repair, new services or initiatives, legislative requirements, revenue fluctuations, etc) can also result in budget increases that differ from an inflationary index. Consideration must be given to all factors when assessing the budget and associated tax increases.

### **Potential Options to Reduce the Budget**

Notwithstanding the previous comments to achieve the Budget Committee's direction, while maintaining levels of service, the options to amend the draft 2009 Operating Budget are provided as Attachment 1 and submitted for direction. It should be noted that meeting this request has been a very difficult and challenging task and although budget reductions can be achieved, some options include estimates and others will have an impact on future tax increases.

### **Relationship to Vaughan Vision 2020**

This report is part of the process of Council setting its priorities for the year.

### **Regional Implications**

None

**Conclusion**

The report is provided in response to the Budget Committee direction on January 12, 2009. It meets the Committee's direction; however depending on the options selected there will be an impact on future tax increases.

**Attachments**

Attachment 1: Options to Reduce the 2009 Draft Operating Budget  
Attachment 2: New Tax Account Fees

**Report prepared by:**

Clayton Harris, CA  
Deputy City Manager/Commissioner of Finance & Corporate Services  
Ext. 8475

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

Respectfully submitted,

---

Michael DeAngelis  
City Manager

---

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

---

John Henry, CMA  
Director of Budgeting & Financial Planning

**City of Vaughan  
2009 Operating Budget  
Options to Reduce the 2009 Draft Operating Budget**

**ATTACHMENT 1**

	<i>Draft Budget Tax Rate Incr.</i>
Nov. 18 <sup>th</sup> 2009 Draft Operating Budget Tax Increase	5.72%
Add: Budget Committee Recommendations	0.12%
2009 Draft Operating Budget Revised Tax Increase	5.84%

Index	Action Items	Budget \$ Reduction	Type	Tax Rate Implication	Adj. Tax Rate Increase	Comments
<b>Non-Residential Construction Index = 11.6% &amp; MTO Tender Price Index = 10.24%</b>						
1.	Assessment growth Increase	\$216,947	Permanent	-0.18%	5.65%	Current information indicates there is an opportunity to increase assessment growth from 3% to 3.19%.
2.	Planning Dept. cost savings	\$80,000	Permanent	-0.07%	5.58%	Refer to confidential memo
3.	Hydro dividend revenue	\$750,000	Permanent	-0.64%	4.94%	There is an opportunity to increase the budgeted revenue amount. Previous discussions were around using this for infrastructure renewal.
4.	Comm. of Adjustment fee adjustments	\$142,000	Permanent	-0.12%	4.82%	Based on the COA fee structure that is recommended, which better aligns fees, services and recovery targets. The application of these fees to anticipated volumes generates an increase in revenues.
5.	Water & waster water recovery	\$300,000	Permanent	-0.26%	4.57%	Preliminary study results indicate the water and waste water recovery can be increased. A estimate is provided which will be updated once the study is finalized.
6.	New tax account fees	\$183,000	Permanent	-0.16%	4.41%	An opportunity exists to charge an administrative fee for new tax accounts and ownership changes. This is consistent with some other municipal practices. - See attachment #3
7.	Resv. & Investment Dept. new admin. fee	\$200,000	Permanent	-0.17%	4.24%	Proposal is to collect a finance administration fee - See attachment #2 .
<b>Other Municipal Price Indexes (Avg.) = 4%</b>						
8.	Debenture reserve withdrawal	\$300,000	Interim Measure	-0.26%	3.99%	Utilizing the debenture reserve to smooth the escalating costs of the roads debenture program.
9.	Tax stabilization funding	\$520,000	Interim Measure	-0.44%	3.55%	Reconsider Council direction to reduce the use of the Tax Rate Stabilization reserve and maintain the annual withdrawal at \$2.7m.
<b>Public Sector Collective Bargaining Settlement Trends= 3%</b>						
10.	Winter control increase phase-in	\$700,000	Interim Measure	-0.60%	2.95%	Significant winter control cost increases are largely due to contract price increases (\$950,000). The impact on the tax rate can be spread over the 3 year contract term, \$350,000 in 2010 and \$350,000 in 2011.
<b>Consumer Price Index (CPI) 2.0%</b>						
<b>Revised Tax Rate Impact (5.84% less action items)</b>		<b>\$3,095,000</b>		<b>-2.88%</b>	<b>2.95%</b>	

February 5, 2009

TO: John Henry  
Director of Budgeting and Financial Planning

Re: **2009 New Property Tax User Fees**

---

Some municipalities have begun charging administrative fees for setting up new tax roll accounts and changes in ownership, these include Ottawa, Markham, Burlington, and Oshawa.

The New Account fee will be charged to a tax account if the property is new to the tax roll for all property classes. The owner will incur a one-time fee of \$55 to cover the costs associated with setting up related taxpayer and roll information. The fee will be charged on their first tax bill.

A property, currently existing on the tax roll that has been recently purchased and/or title has been transferred, an Ownership Change fee of \$25 will be charged to the account to cover the costs associated with making the change to the tax roll. A billing notice will be sent to the new owner advising of the fee, providing a minimum of 21 days from the date of the notice for payment.

The 2009 figures, are based volume estimates and the fee is based on estimated service costs for both the New Account fee and the Ownership Change fee.

New Account Fee \$55	\$130,000 2009 impact
Ownership Change Fee \$25	\$ 53,000 2009 impact
Total	<u>\$183,000</u>

These user fees are recovered under the authority of s.391 of the Municipal Act and if approved, will be included in the City's Fees & Charges by-law 396-2002, as amended.

  
Barry Jackson  
Director of Financial Services

c: Clayton Harris, Deputy City Manager/Commissioner of Finance & Corporate Services  
Maureen Zabiuk, Manager of Property Tax & Assessment

**memorandum**