

**RESPONDING TO THE ECONOMIC SLOW DOWN
2010 OPERATING BUDGET & BUSINESS PLANNING GUIDELINES****Recommendation**

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

- 1) That the 2010 Operating Budget & Business Planning Guidelines, summarized in this report be approved;
- 2) That Attachment #1 – 2010 Operating Budget Timetable, be approved.

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 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.

Collectively these actions will reduce the requirement to increase taxes.

Economic Impact

The economic impact of the 2010 Operating Budget will be fully determined after receipt of the departmental operating budgets.

Communications Plan

Departments will receive the budget guidelines, instruction package and timetable shortly after the 2010 operating budget guidelines are approved by Council. In addition, working sessions will be offered to assist departments in preparing their departmental budgets. It should be noted, the 2010 timetable is very aggressive and success is highly dependant on departments submitting complete budgets on the dates presented.

As part of the budget process and integral to building the budget, opportunities for public consultation and input will be available and appropriate notice provided. These opportunities consist of the following:

- ❖ A budget forum and online survey early in the process
- ❖ Public Budget Committee meetings held throughout the process
- ❖ A public input meeting prior to final budget approval

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 the budget decision making process.

Purpose

The purpose of this report is to obtain the Budget Committee's approval for the 2010 operating budget & business planning timetable and guidelines. The approach, guidelines and actions recommended represent prudent management practices and are appropriate given the demand for services is increasing, while at the same time there is an economic slow down in the economy.

Background - Analysis and Options

The Economic Challenge

Over the past year, North America has witnessed one of the worst recessions since the 1930's, 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 the lowest property tax rate in York Region and remains one of the most affordable municipalities in the Greater Toronto Area while providing high quality services to the community.

However, the economy is still uncertain and only beginning to slowly show signs of recovering. As a result, many families and businesses are financially burdened by the lingering recession and depending more than ever before on municipal services. This poses a critical dilemma for Vaughan, as the City 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, contract escalation costs, fluctuating revenues, emerging legislative requirements, etc.). The impacts of these pressures are permanent and require continuous funding solutions, typically taxation. 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 the lowest possible tax rate.

Guidelines 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 those 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 will have an even greater focus on financial constraint and tightening the budget. This will be accomplished through the following 10 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

Under the guidelines, departments are only permitted to include very specific increases, typically related to predetermined agreements, contracts or Council approvals. There is no across the board increase for inflation and no automatic increase for new staffing. The objective of the guidelines is to provide the lowest possible tax increase while maintaining the City's service levels. Further details with respect to each of the actions are provided in the following sections.

1. Freezing Budgets at 2009 levels

For the 2010 Budget, all account budgets will be *frozen* to 2009 budget levels with the exception of established commitments and pre-defined external pressures. This action will limit the budget increase to the following items:

- Council approved employment agreements;
- Full year impact of prior year decisions;
- Council authorized recommendations;
- Supported external service contract commitments;
- Established utility & insurance increases, where justified;
- Debenture obligations; and
- Defined corporate contingency items.

Additional flexibility in preparing the Recreation budget is required due to fluctuating enrollment numbers, program selections, and community needs. The Recreation budget will be prepared in accordance with established policies and aim to maintain or improve the Recreation department's overall net position and category thresholds.

To ensure that all financial requests are captured and assessed within the approved operating budget process, all items containing an economic impact during the annual budget process are to be submitted to the Budget Committee for review and recommendation before Council consideration.

2. Specific Budget Reductions Below 2009 Levels

Recognizing that most residents are faced with cutting back on household spending, the guidelines incorporate the reduction of selected expense budgets. This opportunity is fairly limited as most expenses are rigid and cutting too deeply can negatively impact on the services provided to the community. However, given the current economic environment it is necessary to signal that we are taking the economic crisis seriously and reducing budgets. The following accounts will receive an across the board reduction of at least 10%.

- ❖ Meals
- ❖ Overtime
- ❖ Furniture
- ❖ Sundry
- ❖ Travel

3. Vacancy Evaluation

As part of the effort to address the budget challenge, the City has initiated a process to manage staff vacancies as they arise. Through this process, vacancies are evaluated to determine which positions will be filled and which positions will be put on hold. To ensure this evaluation occurs managers must obtain authorization from the City Manager before a staff position can be posted.

4. Voluntary Time-off Without Pay

The City will be providing an opportunity to staff to take voluntary time-off without pay. Granting time-off without pay will be at the discretion of management and dependant on work loads and other business circumstances. Impacts associated with this program will be discussed with departments while reviewing their budget submissions.

5. Zero Impact Adjustments

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

6. Strict Process to Evaluate Funding Requests

Under the above guidelines, departments are only permitted to include very specific predetermined increases in their budget. To the extent a department requires additional resources, a separate business case must be submitted detailing strategic links, costs & benefits, implications & consequences, success indicators, timelines, etc. These are referred to as **Additional Resource Requests (ARR)** and will be individually vetted, based on their respective merits, through the Senior Management Team, Budget Committee, and Council. Council approval is specifically required for new staff resources, a change in service levels, or new initiatives. Requests are limited to items in excess of \$10,000 or having a net neutral or positive impact. Only requests approved by Council will be included in the 2010 budget.

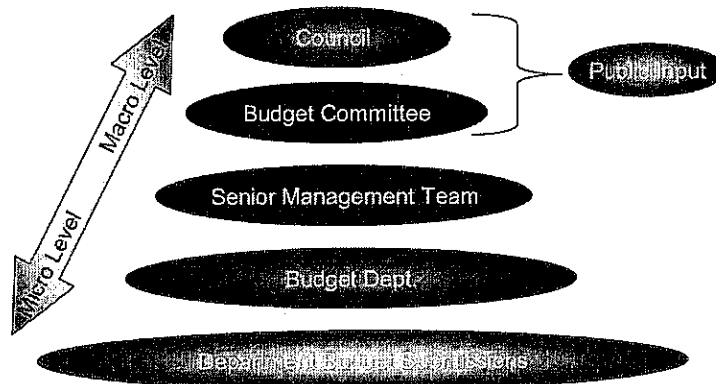
The process will separate the Operating Budget into the following two classifications:

- o Base Budget – Budget based on approved guidelines – Minimal tax increase.
- o Additional Resource Requests – Essential funding requests not permitted through the guidelines requiring Council review and approval.

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.

7. Thorough Multi-layer Review Process

It should also be noted that the Budget Process has a very thorough review process and the proposed 2010 budget will consist of many decisions resulting from a variety of review sessions. Illustrated below are the various layers of review that occur within Vaughan's budget process.



As part of the process, staff will diligently undertake various tasks to analyze the operating budget to ensure conformity with the approved operating budget guidelines. Examples include analyzing submissions for budget & business planning guideline and corporate policy compliance, major department increases, specific expenditure types, historical spending trends, department user fee recovery ratios, tax rate implications, overall budget reasonability, adhoc requests, etc.

8. Explore Opportunities Through Service Reviews & Continuous Improvement

As we continue to navigate through these challenging times, it is important to develop creative ways to reduce costs, improve efficiencies, and explore revenue opportunities. Taking these steps will help to mitigate the budget pressures the City is facing. This corporate action consists of two separate and unique processes:

❖ Department Suggestion Program

Through the annual budgeting and business planning process, departments are requested to submit ideas and suggestions to reduce costs, improve efficiencies, eliminate duplication, generate revenues, etc. A form will be added to the department budget package to capture these ideas to be further explored and considered.

❖ Continuous Improvement & Service Reviews

The Audit and Operational Review Committee's mandate was recently expanded to include:

- Departmental reviews;
- Structural, functionality, and efficiency reviews; and
- Overall management review

As part of this mandate, a Continuous Improvement Program (CIP) was recently initiated, which is a process the City uses to drive process improvement and continuously identify opportunities the City can benefit from.

9. Increase Revenue Through User Fee Reviews

Another opportunity to minimize a tax increase is to maximize revenue generation through user fees and service charges. It is important to emphasize that any reduction in a user fee or service charge cost recovery ratio will have a corresponding direct impact on the City's levy. Therefore, to minimize any impact on the City's tax rate it is important to sustain or improve revenue/cost relationships. In addition to adjusting revenues for anticipated changes in activity, departments will be required to review user fees and service charges and perform the following:

- ❖ Increase user fees and charges in relation to department cost increases
- ❖ Submit new user fee and service charge opportunities

As a default, it is anticipated that department user fees & service charges will increase at minimum, by the rate of inflation, in 10 cent increments, unless justification for no increase is otherwise specified. The Statistics Canada Ontario inflation rate increased 1.8% for the 12 month period ending March 2009. The 5 year historical average is approximately 1.9%.

The above actions will be submitted for Senior Management review and Council approval.

10. Reinforce Strategic Priorities Through Business Planning and Measures

Business Plans will continue to be integrated as part of the 2010 Operating Budget Process to help establish and reinforce connections between strategic priorities, Vaughan Vision 2020, and resource allocation. This information compliments the budget process and plays an important role in evaluating department base budget efficiency, effectiveness and productivity through the use of performance measures. Business Plans will also greatly assist Senior Management and the Budget Committee in their budget deliberations by providing a platform to better understand department objectives, pressures and the basis for additional resource requests. This is an important step towards aligning budgets with Vaughan Vision strategic goals, objectives, and priorities. The Senior Manager of Strategic Planning will be intricately involved with this process and assist with updates and refinements to existing business plans.

New to the 2010 business planning process are the following:

- ❖ Performance measurement data will now include estimates for 2009 & 2010 and a performance level standard or best practice. This will align the measures with the budget year and provide a reference point for stakeholders to better understand the department's situation.
- ❖ In addition, a section on future pressures and opportunities will be included. This information will help provide a context to illustrate initial and future challenges facing the department as well as potential opportunities to improve the business.
- ❖ Slight changes to the template may be required, but the overall content will remain relatively unchanged.

11. Early and Continuous Public Participation

Public involvement throughout the budget process will be a key element of building the budget and consists of the following:

Early Consultation - Public Consultation will be held early in the budget process to gather community input, which will assist in building the budget. The framework & subject matter of the forum will be relatively consistent with what was offered in the past and focus on the following:

- ❖ Educate and inform the public regarding city services, the cost of those services, municipal issues and their relationship with property taxes; and
- ❖ Obtain input and feedback from the public with respect to the local services provided, community priorities, and options to address the challenge.

The event will be held at the Civic Center, which will be recorded and made available on the City's website for viewing. To obtain additional feedback, a questionnaire will be developed and provided at both the forum and on the City's website. The public forum and online content will be heavily promoted in various media sources at least three weeks in advance. The initial setup will require support from ITM and Corporate Communications. Responding to public input will require an involvement and collaboration from all City departments. Forum results will be reported to Budget Committee early in the budget process.

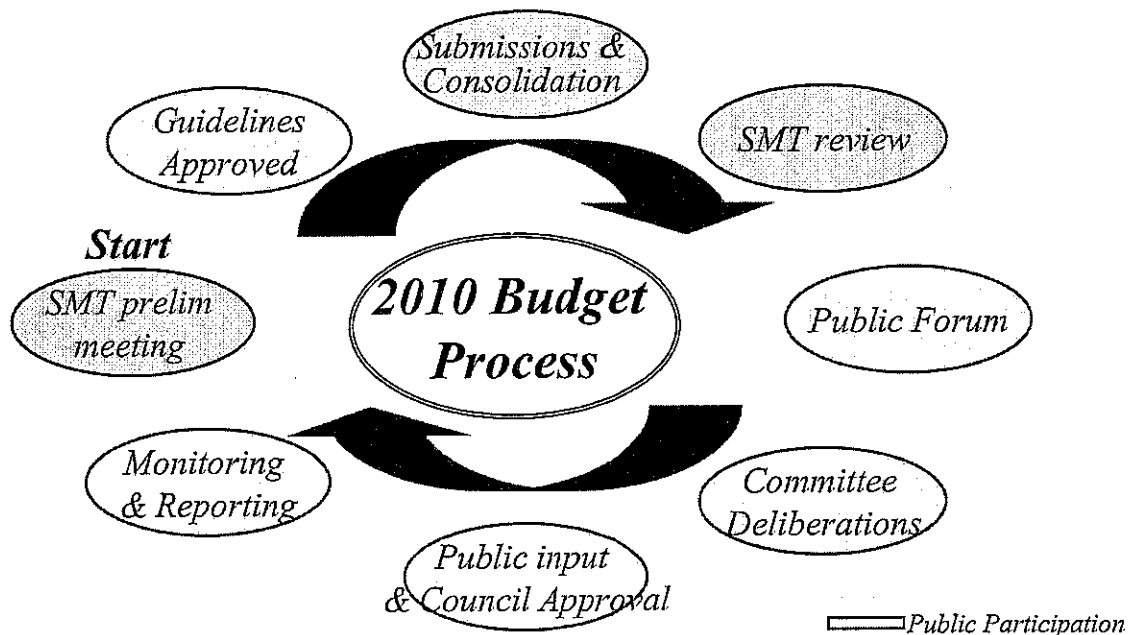
Continuing Opportunity for Input - In addition to the Budget Forum, Budget Committee meetings will begin in November and continue throughout the process. These are public meetings and they offer an opportunity for the community to provide input. All Budget Committee meeting recommendations are forwarded to Council, where the public can also provide input into the decision making process.

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 the budget decision making process.

Final Approval – In addition to these meetings, a Special Council meeting will be held to provide the public a final opportunity to comment on the Proposed 2010 Operating Budget.

Illustrated below are the steps in the budget process that involve the public.

Public Participation in the Budget Process



Operating Budget Timetable

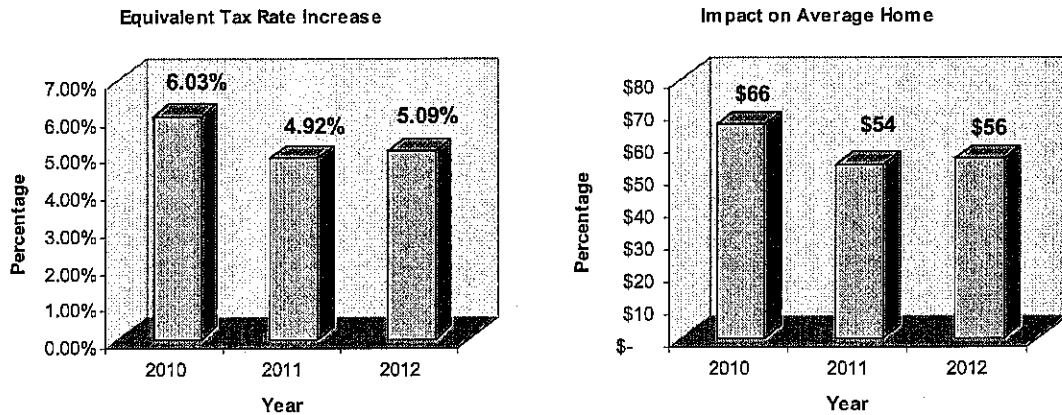
Staff anticipate bringing forward the first draft of the 2010 Operating Budget to the Budget Committee in early November with the intention of a Budget Committee recommendation late December and Council approval in January 2010. Efforts will be made to adhere to the timeline, but any issues raised during the 2010 Operating Budget Process could potentially impact the illustrated timeline. A timetable is enclosed as Attachment #1. Senior Management Team and Budget Committee meeting dates are currently being scheduled to accommodate this timeline.

Future Outlook

As mentioned in the opening paragraph, the City of Vaughan continues to be subject to the many factors that put significant pressure on the property tax rate. The impacts of these pressures are often permanent and therefore require long-term funding solutions to ensure public services are sustainable in the future. To illustrate these pressures, a preliminary basic 3 year outlook is provided below. It is important to note that the preliminary outlook is based on general assumptions and trends and excludes impacts associated with initiatives to reduce the budget, future master plan recommendations, and the recommended infrastructure funding strategy. Again, the information illustrated below is a projection and intended to provide an indication of the accumulating pressures Vaughan is facing and the challenges that lay ahead.

2010 will be particularly challenging as general operation pressures will be magnified by the anticipated new Fire Station 7-10 in the north east quadrant, the annualized impact of the North Thornhill Community Centre, and the opening of the New Civic Centre.

Future Outlook 3 Year Preliminary Forecast



Major Upcoming Pressures

2010	2011	2012
LTD North Thornhill CC Fire Station 7-10 (half year) Civic Centre	LTD Fire Station 7-10 (full year) Civic Centre (full yr impact) Powerstream Lease Expiry	LTD Resource Library 2% Building & Facility Contr.- Block 11

Continued Budget Process Improvements

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

- o Providing departments adequate time to prepare their budget submissions (8 weeks) ;
- o Moving the budget timeline forward to obtain an earlier budget approval
- o Initiating performance measurement estimates and a performance level standard/best practice to align the measures with the budget year and provide a reference point for stakeholders to better understand the department's situation.
- o Developing prioritization models to assist SMT in decision-making
- o Partnering with Purchasing and Departments to pre-calculate & automate contract impacts;
- o Evaluating the budgeting software system to determine if the City's needs are being met.
- o Re-formatting the Budget Book in an effort to improve it as a communications tool.
- o Greater emphasis on future financial planning rather than administering the budget process;

Relationship to Vaughan Vision 2020

This report is consistent with Vaughan Vision 2020's long term goal of financial stability through the design of operating budget guidelines intended to produce a responsible budget. The necessary resources have not yet been approved and will be addressed throughout the 2010 Operating Budget deliberations.

Regional Implications

N/A

Conclusion

The 2010 Operating Budget Timetable and Guidelines requires Budget Committee to provide a recommendation to Council in December of 2009 and a public meeting be held in January 2010, followed by Council approval. The enclosed guidelines are presented to provide the lowest possible tax rate increase while maintaining service levels and supporting Vaughan's vision.

Attachments

Attachment No. 1 – 2010 Operating Budget Timetable

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City of Vaughan 2010 Operating Budget Timetable	
Date	Activity
July 6 th , 2009	Budget instruction packages & workbooks issued to departments
August 28, 2009	Departments submissions due, including Business Plans & Performance Measures
September 2009	Submission review, analysis, & consolidation
Oct. 1st to Oct. 23rd, 2009	Senior Management Deliberations
Mid Oct. to Mid Nov. 2009	Public Information/Consultation Forum
Oct. 26th to Oct. 30th, 2009	Finalizing the Draft Budget for Presentation
November – December 2009	Budget Committee Deliberations <i>(Recommendation before holiday break)</i>
January 2010	Public Input Meeting & Council Approval <i>(Public notice requirement is 14 days)</i>