CITY OF VAUGHAN

EXTRACT FROM COUNCIL MEETING MINUTES OF DECEMBER 8, 2008

Item 1, Report No. 9, of the Budget Committee, which was adopted without amendment by the Council of the City of Vaughan on December 8, 2008.

1 COMMITTEE OF ADJUSTMENT – REVIEW OF HONORARIUMS

The Budget Committee recommends:

1) That this matter be referred to the Budget Committee meeting of January 12, 2009 for a further report including a recommendation that would bring the honorariums paid to Committee of Adjustment members in line with neighbouring municipalities, and that a salary comparative chart of honorariums paid to Committee of Adjustment members of surrounding municipalities be provided; and

2) That the following report of the City Clerk, dated December 4, 2008, be received.

Recommendation

The City Clerk recommends:

1. THAT direction be given with respect to a review of the honorariums paid to the members of the Committee of Adjustment.

Economic Impact

Any new funding associated with this report will be considered in the context of the 2009 Operating Budget deliberations.

Communications Plan

N/A

Purpose

The City Clerk has received a request from the Chair of the Committee of Adjustment to review the honorarium that Committee members receive.

Background - Analysis and Options

By-law 38-2007 established the honorariums paid to the Committee of Adjustment members. Members are paid an honorarium of $2,375.00 per year, while the Chair receives an honorarium of $2,850.00 per year.

The Chair of the Committee of Adjustment has requested the City Clerk review the honorariums paid to the members. She has also provided a comparison with surrounding municipalities (Attachment #1).

Should Committee of the Whole recommend a review of the honorariums paid to the members of the Committee of Adjustment a comprehensive review and comparison will be completed and presented as part of the 2009 budget process.

Relationship to Vaughan Vision 2020/Strategic Plan

This report is consistent with the priorities set forth in Vaughan Vision 2020, particularly "Demonstrate Leadership & Promote Effective Governance".

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Regional Implications

N/A

Conclusion

The City Clerk requests direction with respect to conducting a review of the honorariums paid to the Committee of Adjustment members.

Attachments

1. Committee of Adjustment Chair and Members - Salary Comparison with Surrounding Areas

Report prepared by:

Todd Coles, Manager of Development Services/Secretary-Treasurer to Committee of Adjustment

(A copy of the attachments referred to in the foregoing have been forwarded to each Member of Council and a copy thereof is also on file in the office of the City Clerk.)

CITY OF VAUGHAN

EXTRACT FROM COUNCIL MEETING MINUTES OF DECEMBER 8, 2008

Item 2, Report No. 9, of the Budget Committee, which was adopted without amendment by the Council of the City of Vaughan on December 8, 2008.

2 2009 DRAFT COUNCIL BUDGET AND 2009 DRAFT COUNCIL CORPORATE BUDGET

The Budget Committee recommends:

1) That this matter be referred to the Budget Committee meeting of January 12, 2009;

2) That staff provide specific details regarding the 2009 Draft Council Corporate Budget for approval;

3) That items not identified on the approved budget be submitted on an appropriate form for approval by five (5) Members of Council; and

4) That staff produce appropriate approval forms that may be in an electronic format.

Recommendation

The Commissioner of Legal and Administrative Services, in consultation with the City Clerk, recommends:

1) That the 2009 Draft Council Budget be received; and

2) That the 2009 Draft Council Corporate Budget be received.

Economic Impact

There is a $38,017 impact as a result of the increase in population and the remuneration schedule set out in By-law No. 316-2007.

Communications Plan

N/A

Purpose

To present the 2009 Draft Council Budget and Draft Council Corporate Budget for consideration.

Background - Analysis and Options

At the Council meeting of April 23, 2007 Council approved at a rate of $0.50 per resident for the purpose of calculating discretionary expenditures for the Mayor and Members of Council. Local Councillors' discretionary expenditures are based on estimated current ward populations.

York Region's recently released city-wide population estimate of 268,161 was used for the purpose of calculating ward populations. Additional population was attributed to each ward on the basis of the relative ward sizes determined during the ward boundary exercise. In this regard, Wards 1, 2, 3, 4 and 5 received 27%, 20%, 18%, 20% and 15% of the additional population respectively.

The Mayor's discretionary expenditures are calculated at 75% of the City's total estimated population and the Regional Councillors' discretionary expenditures is calculated at 50% of the total population. The following are rounded estimated ward populations in 2007 and 2008 and the population increase over 2007:

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	2008 Estimated Population*	2007 Estimated Population	Population Increase
Ward 1	66,600	64,500	2,100
Ward 2	58,550	57,000	1,550
Ward 3	49,650	48,250	1,400
Ward 4	52,150	50,600	1,550
Ward 5	41,150	40,000	1,150
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Total	268,100	260,350	7,750

(*Note: Population figures rounded to nearest 50)
The following method has been used for calculating the Council budget:

Non-discretionary Expenditures + Discretionary Expenditures = 2009 Budget

(Remuneration + Benefits + incidental expenditures + Council Shared Photocopier) + (Population x $ 0.50) = 2009 Budget

The population number used for calculating the Mayor's discretionary expenditure is 201,100 (75% of 268,161). The population number used for calculating the Regional Councillors' discretionary expenditure is 134,100 (50% of 268,161).

Attachment 1, Draft 2009 Council Budget, is the detailed calculation for each Member of Council using the above methodology. The following is a summary of the 2009 Council budget, including the budget increase over 2008:

	2009 Draft Budget $	2008 Budget $	Budget Increase $
Mayor Jackson	249,433	242,282	7,151
Regional Councillor Frustaglio	161,281	156,681	4,600
Regional Councillor Ferri	161,281	156,681	4,600
Regional Councillor Rosati	161,281	156,681	4,600
Ward 1 Councillor Meffe	127,531	123,843	3,688
Ward 2 Councillor Carella	123,506	120,093	3,413
Ward 3 Councillor Di Vona	119,056	115,718	3,338
Ward 4 Councillor Yeung Racco	120,306	116,893	3,413
Ward 5 Councillor Shefman	114,806	111,593	3,213
	-------------	--------------	----------
Total	1,338,481	$1,300,465	$38,017

2008 Draft Council Corporate Budget

In accordance with the budget guidelines approved by the Budget Committee, no adjustments have been made to the Council Corporate Budget (Attachment 2). The 2008 Year-To-Date Actual as at October 31, 2008 is $8,318 under budget. For the assistance of members in reviewing the draft Council Corporate Budget, attached (Attachment 3) is the Detailed Council Corporate Transaction Report for the period ending November 30, 2008.

Relationship to Vaughan Vision 2020/Strategic Plan

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

Regional Implications

N/A

Conclusion

That 2008 Draft Council Budget and Draft Council Corporate Budget are presented for Council's consideration and receipt and/or direction.

Attachments

Attachment 1: 2009 Draft Council Budget
Attachment 2: 2009 Draft Council Corporate Budget
Attachment 3: 2008 Detailed Council Corporate Transaction Report

Report prepared by:

Jeffrey A. Abrams, City Clerk

(A copy of the attachments referred to in the foregoing have been forwarded to each Member of Council and a copy thereof is also on file in the office of the City Clerk.)

CITY OF VAUGHAN

EXTRACT FROM COUNCIL MEETING MINUTES OF DECEMBER 8, 2008

Item 3, Report No. 9, of the Budget Committee, which was adopted without amendment by the Council of the City of Vaughan on December 8, 2008.

3 ADDITIONAL INFORMATION RE: DEPLOYMENT OF SIXTEEN (16) FIREFIGHTERS & FOUR (4) ASSISTANT CAPTAINS, FIRE OPERATIONS DIVISION

The Budget Committee recommends:

1) **That the Fire Department address the need for fire services in the north east and provide a report that includes the land and construction of a north east station;**

2) **That the Fire Department provide a report on the deployment of the aerial unit at Station 7-9;**

3) **That staff report on the plan and location for a new fire station in the west;**

4) **That a report be brought forward to the February 2, 2009 Committee of the Whole (Working Session) meeting on the implementation of the Master Fire Plan in context with the deployment of new hires; and**

5) **That the following report of the Fire Chief and the VFRS Senior Command, dated December 4, 2008, be received.**

Recommendation

The Fire Chief and the VFRS Senior Command, in consultation with the City Manager, recommend that additional information related to the deployment of 20 firefighting staff be received.

Economic Impact

The anticipated operating budget impact in 2009 will be about $1,556,384.

Communications Plan

Not applicable

Purpose

To clarify operational deployment of 16 firefighters and 4 assistant captains in the west side of the city, equipped with a 30M Aerial Apparatus in Fire Station 7-3.

Background - Analysis and Options

In late 2007 during Draft 2008 Operating Budget presentation, the Fire Chief submitted a request to the Budget Committee for additional resources consisting of 20 firefighting staff (16 firefighters and 4 assistant captains inclusive) to operationalize a 30M Aerial Apparatus at Station # 73 Woodbridge (attached 2007 additional resource request). Similarly, the November 2007 Master Fire Plan, completed by external consultants MMM Group also identified the same need, "…Station 7-3 Woodbridge is located in an area that is heavily congested with vehicular traffic, affecting response time…the primary need (Station 7-3) is for an aerial truck to serve the developing west end of the city…consideration will need to be given to full complement , 20 recruit firefighters staffing Aerial 736 out of Station 7-3…"

During the process of deliberation and approval of 2008 Operating Budget, other city commitments superseded the Fire Chief's request and the item was not approved for 2008. The identical additional resource request has been brought forward to the Budget Committee for consideration in the 2009 operating budget.

Growth has continued in the south west portion of the city at a steady pace resulting in increased demands for emergency services over the past 4-5 years. The Fire Operation Division responded to over 10,400 alarms in 2007 and are on track to exceed that number for 2008. In 2007, 76.5% of emergency responses on the west side of the city were located south of Rutherford Rd. In 2008 (to Nov. 25) 76% of emergency responses in the west have been south of Rutherford Rd.

Presently, VFRS operate 1 (one) 30M Aerial Apparatus from Station # 71 in the south easterly portion of the city and the strategic assignment of the second large Aerial at Station # 73 will serve to balance VFRS response capabilities city wide. Of particular importance in the southwest is the ability to respond effectively and efficiently with appropriate apparatus to high buildings (3-storey and greater), senior residences, nursing homes, large occupancy buildings, large square footage commercial, industrial structures, malls, plazas, and estate residential dwellings.

Although the primary response area for the 30M Aerial (736) is the heavily built-up area in south Woodbridge, it will also augment the response capability in the north west area of the city. The northwest response area of the city is presently supported by Station # 74 (Klienburg Volunteer) and will be enhanced in the near term with the conversion and replacement of Station # 74 to a full time staffed fire station (projected for 2012-2015) as service demands dictate.

In 2007 and 2008, comprehensive reviews of VFRS operational data indicate that the most critical challenge to the delivery of fire emergency service is the issue of unbalanced emergency response service between the west and east sides of the City, using Highway 400 as the demarcation line for practical purpose and explanation. The west side of the city operates with 30% less staff than the east although the work load (emergency responses) are almost equally split between east and west

The deployment of 20 firefighting staff and 30M Aerial in the south west area of the city is consistent with Council's initiatives - Vaughan Vision 2020, a strategic direction, "looking to our future" in the interest and awareness of how important it is to Enhance and Ensure Community Safety, Health & Wellness as well as Pursue Excellence in Service Delivery.

Relationship to Vaughan Vision 2020/Strategic Plan

This report is consistent with the priorities previously set by Council – Pursue Excellence in Service Delivery and Enhance Community Safety, Health & Wellness – however, the necessary resources have not been allocated and approved.

Regional Implications

Not applicable

Conclusion

The deployment of 20 new firefighting staff and Aerial in Station # 73 will clearly benefit the rationalization of emergency response capability as it relates to the east and west sides of the city, improve response capability in the north west quadrant and enhance VFRS ability to more consistently meet OFM 10-in-10 and NFPA response standard 1710.

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Attachments

2007-2008 additional resource request.

Report prepared by:

Fire Chief G.R. Senay

(A copy of the attachments referred to in the foregoing have been forwarded to each Member of Council and a copy thereof is also on file in the office of the City Clerk.)

CITY OF VAUGHAN

EXTRACT FROM COUNCIL MEETING MINUTES OF DECEMBER 8, 2008

Item 4, Report No. 9, of the Budget Committee, which was adopted without amendment by the Council of the City of Vaughan on December 8, 2008.

4 DRAFT 2009 OPERATING BUDGET

The Budget Committee recommends:

1) That the additional resource requests be received and considered with the final Draft 2009 Operating Budget;

2) That Corporate Communications and ITM provide a joint report to the Budget Committee meeting on January 12, 2009 on the additional resource request for a Communications Specialist – Website Editorial Services;

3) That the Safety & Security Coordinator additional resource request be moved from Enforcement Services to Community Services; and

4) That Economic Technology Development provide a report on the Communities in Bloom additional resource request.

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

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resources a separate request form must be completed for each request. These are referred to as **Additional Resource Requests (ARR)** and are individually vetted through the Senior Management Team 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.

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Combined Base Budget and Additional Resource Requests

The combined impact of the base budget and the additional resource requests is approximately $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:

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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.

Base Budget Impacts	Budget Impact		% Variance	Tax Rate Impact
Allowable Departmental Expenditure Increases:				
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%
Corporate Revenue Base Budget Impacts:				
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%
Corporate Expenditure Base Budget Impacts:				
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
• Utility and material volume increase	$594k
Base budget growth impact	$1.9m
• Growth related additional resource requests	$2.7m
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 Draft Budget	2009 Budget %		2009 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%**

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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.

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Accounts of Interest	2009 Proposed Budget	2008 Budget	Variance	% Change
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

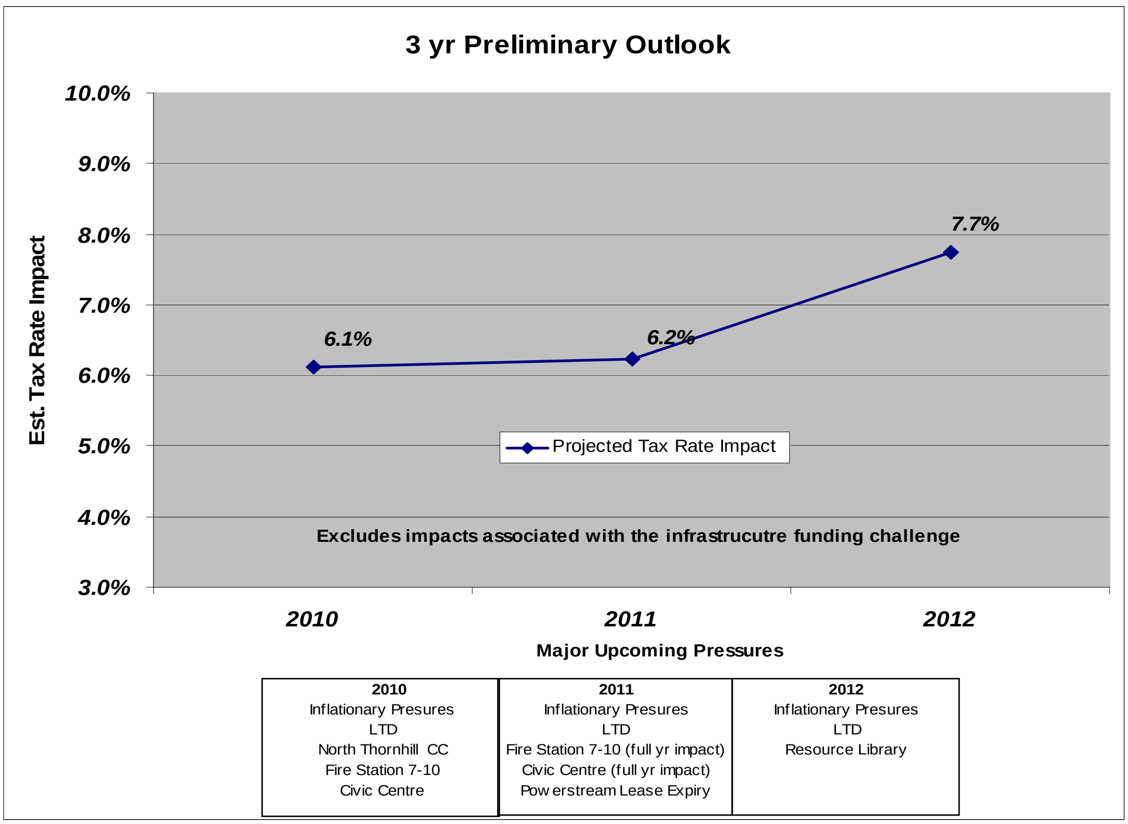
On February 12th 2008, staff presented to Budget Committee a report and presentation on Long-Range Financial Planning and requested direction from Council with respect to an infrastructure funding strategy. The largest part and most financially significant component of the funding strategy lie in increasing 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 particularity 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)

Report prepared by:

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(A copy of the attachments referred to in the foregoing have been forwarded to each Member of Council and a copy thereof is also on file in the office of the City Clerk.)

CITY OF VAUGHAN

EXTRACT FROM COUNCIL MEETING MINUTES OF DECEMBER 8, 2008

Item 5, Report No. 9, of the Budget Committee, which was adopted without amendment by the Council of the City of Vaughan on December 8, 2008.

5 LONG-RANGE FINANCIAL PLANNING – INFRASTRUCTURE FUNDING STRATEGY

(Referred Item)

The Budget Committee recommends:

1) That the Deputy City Manager/Commissioner of Finance & Corporate Services prepare for a future Budget Committee meeting a report on how the potential sale of municipal utility assets might positively impact the long term funding of infrastructure replacement, such report to include different models reflecting variables, including but not limited to:

a) various value assumptions; and
b) various timeframes for disposition; and

2) That the following report of the Deputy City Manager/Commissioner of Finance & Corporate Services, the Director of Budgeting & Financial Planning and the Director of Reserves & Investments, dated February 12, 2008, be received.

Council, at its meeting of November 24, 2008, adopted the following Budget Committee recommendation of November 18, 2008 (Item 5, Budget Committee Report No. 8);

That this matter be referred to the Budget Committee meeting of December 4, 2008.

Council, at its meeting of February 25, 2008, adopted the following Budget Committee recommendation of February 12, 2008 (Item 2, Budget Committee Report No. 4):

1) That Clause 1 of the recommendation contained in the following report of the Deputy City Manager/Commissioner of Finance & Corporate Services, the Director of Budgeting & Financial Planning and the Director of Reserves & Investments, dated February 12, 2008, be approved;

2) That the infrastructure repair and replacement funding strategy be deferred to the 2009 budget process;

3) That staff share with consultants as currently retained or retained in the 2008 calendar year by the City of Vaughan in respect of all future plans (eg. Environmental sustainability, Official Plan, etc.) the presentation entitled, "A Sustainable Community: Infrastructure Funding Strategy – Budget Committee, February 12th, 2008", and that such consultants be directed to address the issue of infrastructure sustainability as part of the terms of their hire; and

4) That the presentation material entitled, "A Sustainable Community: Infrastructure Funding Strategy – Budget Committee, February 12th, 2008", be received.

Report of the Deputy City Manager/Commissioner of Finance & Corporate Services, the Director of Budgeting & Financial Planning and the Director of Reserves & Investments, dated February 12, 2008

Recommendation

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

1. That the following report and presentation on the proposed Infrastructure Funding Strategy be received; and

2. That Council provide direction with respect to an infrastructure repair and replacement funding strategy (option) and incorporate that direction into the 2008 budget.

Economic Impact

The financial impact associated with adopting an infrastructure funding strategy will depend on which strategy Council adopts. There are four (4) options provided in the report.

Communications Plan

NA

Purpose

The purpose of this report is to provide the Budget Committee with information on Vaughan's infrastructure funding gap, funding options and receive direction on the strategies illustrated.

Background

City of Vaughan LRFP History

The need for fiscally prudent long-range financial policies and funding for infrastructure repair and replacement was recognized by Finance in 1994. In 1996, Finance brought forward and obtained Council approval for recommendations to begin partially funding future infrastructure repair and replacement costs in conjunction with the implementation of fiscally prudent long-range financial policies. Although this put the municipality in a stronger financial position and ahead of most municipalities as it relates to reserve balances, recent findings indicate additional critical funding is required to address current and future infrastructure repair and replacement spending requirements.

Since that initial study the City adopted a new strategic vision with specific commitments to revitalize infrastructure and ensure long-term financial stability. In recognition of the City's desire to continue to manage municipal assets in a fiscally prudent manner, Finance staff again acknowledged the challenge and initiated another Long-Range Financial Planning study, which complimented and built upon the financial planning work previously conducted.

On March 20th 2006 & February 20th, 2007, staff presented Council with reports on Long-Range Financial Planning. The purpose of these reports was to provide Council with an overview of the current Long-Range Financial Planning process and outcomes. The prevailing theme throughout the Long-Range Financial Planning process was that infrastructure repair and replacement is significantly under funded and an infrastructure funding strategy is desperately needed to begin addressing the backlog of unfunded projects and future infrastructure requirements.

Current Municipal Environment

The challenge of funding the significant costs of infrastructure repair and replacement is a paramount concern for most municipalities across Canada. This is largely caused from new facility construction having been primarily funded through development charges, leaving the municipality to fund future infrastructure repair and replacement of those rapidly aging assets at a later date from the municipality's tax base. Infrastructure renewal has become a very common topic in the media today and illustrated below are a few key events in the municipal world, which further validate the seriousness and magnitude of the topic.

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- In November of 2007, the Federation of Canadian Municipalities released a report indicating the national municipal infrastructure deficit rose from a $60 billion reported in 2003 to a $123 billion.

- The Infrastructure and Investment Coalition very recently released a study on Ontario's Bridges estimating at least $2 billion will be required over the next 5 years

- The Public Sector Accounting Board (PSAB) introduced a new accounting guideline regarding local government tangible asset reporting. This guideline requires municipalities to report capital assets in their financial statements by 2009.

- In a recent NRU survey, GTA mayors sited infrastructure repair as one of their biggest budget pressures for 2008

  - Mississauga estimates a $1.5 billion infrastructure funding deficit over the next 20 years and is proposing a 5 % infrastructure levy

  - Brampton estimates a $273 million infrastructure funding deficit over the next 10 years and is considering a 2% annual infrastructure tax levy

  - Waterloo estimates a $160 million infrastructure funding deficit over the next 10 years

- In desperate need of additional funding, Municipalities are campaigning for financial assistance from both levels of government. For example:

  - David Miller's "One Cent Now" campaign – requesting 1% of the GST

  - The City of Waterloo's request to exempt Municipalities from paying Provincial sales tax to fund infrastructure

  - Hazel McCallion's "Cities Now' campaign – requesting surplus funds

The Infrastructure Funding Challenge

The above illustration is not unlike the situation in Vaughan, where over the past two decades the City of Vaughan has grown at an unparalleled pace, adding new facilities, parks, and transportation networks on an annual basis. Vaughan is now entering an era where these assets require significant investment to ensure they are maintained in an acceptable state of repair. This is evident by the recent increase in capital funding requests and corresponding unfunded infrastructure repair and replacement backlog. As Vaughan ages and continues to transition from a rapidly growing township to a thriving mature City, infrastructure repair and replacement requirements will begin to accumulate at a pace similar to which they were constructed. Without further infrastructure investment, Vaughan's infrastructure network will deteriorate potentially compromising community health, safety, and service levels. The condition and state of municipal infrastructure is an important factor in assessing a community's overall quality of life and economic health. Consequently, it is critical to understand that there is a great need and benefit for further infrastructure investment in order to protect, sustain, and maximize the use of Vaughan's infrastructure assets.

Recognizing the importance of this issue, staff developed options with respect to an infrastructure funding strategy, which works towards addressing infrastructure repair and replacement spending requirements, while ensuring long-term financial stability. The infrastructure funding strategies are multiple part plans and will be detailed in a later section of this report.

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Long-Range Financial Planning Process

The core foundation of the infrastructure funding strategy is the Long-Range Financial Planning model. The Long-Range-Financial Planning model is a mechanism which articulates Vaughan's long-term (25 year) financial requirements, including infrastructure repair and replacement trends. The model brings together information from multiple sources with appropriate forecasting drivers and assumptions (e.g. inflation, interest, population, lifecycles, etc), which when applied in combination to specific model elements provides realistic projections. Although the model incorporates both operating and capital requirements the focus of this report will be solely on infrastructure funding requirements.

The infrastructure repair and replacement forecast incorporates most major capital asset categories e.g. roads, streetlights, building components, vehicles, parks infrastructure, fire equipment, computer infrastructure, etc. In addition, the model forecasts the tax-supported portion of the capital program, Capital from taxation programs and debt repayment. The focus of the forecast was to identify the gap between the City's infrastructure requirements and available funding sources.

Infrastructure repair and replacement is the largest component of the model and is primarily based on life cycle forecasting, which schedules asset replacement based on the asset's estimated useful life, termed life cycle, and computes the timing and amounts necessary to fund infrastructure repair and replacement requirements. Life cycle forecasting was a significant and major accomplishment and is an on-going annual requirement to update the model. All asset life cycles were provided by departments based on the best information available and their professional experience. This process required extensive input and collaboration with departments on a citywide basis and involved working jointly with key City department staff to:

- Gather infrastructure inventories
- Determine the timing of new infrastructure
- Define infrastructure components, installation dates and estimate life cycles to better predict replacement requirements
- Calculate future replacement timing and values

One exception to the above lifecycle forecasting process is roads repair and replacement, which is based on the Council approved pavement management program, not life cycle costing. These road repair and replacement requirements are included in the Long-Range Financial Planning model and funded from long-term debt, as is the current practice.

Departmental review sessions were conducted to communicate cumulative outcomes and ensure departmental "buy-in" on the forecast, assumptions and drivers. This process resulted in a sensible long-range forecast based on logical and supportable assumptions.

As mentioned above, the Long-Range Financial Planning model captures the majority of Vaughan's infrastructure. However, the model does not include or forecast Water and Wastewater and development charge reserves, as they are funded entirely from utility rates or developer contributions, which do not impact Vaughan's budget or tax rate. In addition, there are a few minor asset category items outstanding due to unavailable information (e.g. walkways, entrance features, etc). Nevertheless, the model captures the majority of Vaughan's assets and is very relevant and useful in forecasting key trends and potential outcomes.

It is also necessary to stress that Long-Range Financial Planning is not an exact science and that projections, extending over any period of time, will likely change. It should be noted, the model was never intended to predict exact tax rate increases, but rather to illustrate financial trends, orders of magnitude, and potential impacts to stimulate insightful and constructive discussion.

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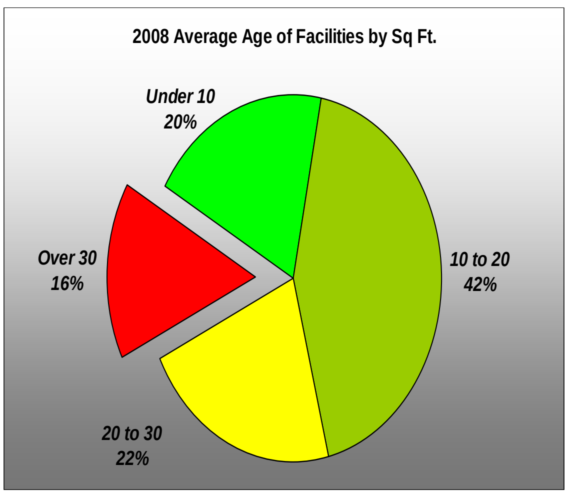
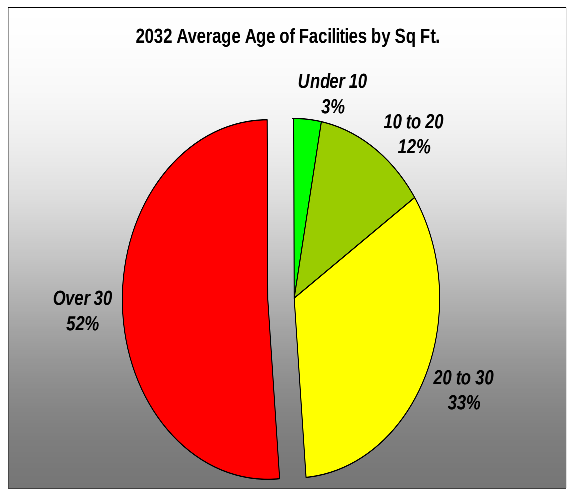
Infrastructure Outcomes and Trends

A primary objective of the Long-Range Financial Planning study was to quantify future infrastructure spending requirements and summarize key financial trends in order to identify long-term implications and their aggregate affects. An analysis of Vaughan's infrastructure and funding position was conducted and key findings presented to Council in February 2007. Since then an update has occurred, but the overall picture remains relatively unchanged. Key findings are summarized below:

1. Infrastructure is rapidly aging

This is a relatively new challenge for Vaughan, as most infrastructure items were recently constructed over the last two decades. There is a relationship between asset age and rehabilitation costs. As Vaughan's new infrastructure ages, significant repair and replacement funding will be required to sustain its condition and functionality. The Facility Age graphs below, clearly illustrate infrastructure is rapidly aging and demonstrates that a significant portion (52%) of facilities will migrate to the 30+ age category over the next 25 years.

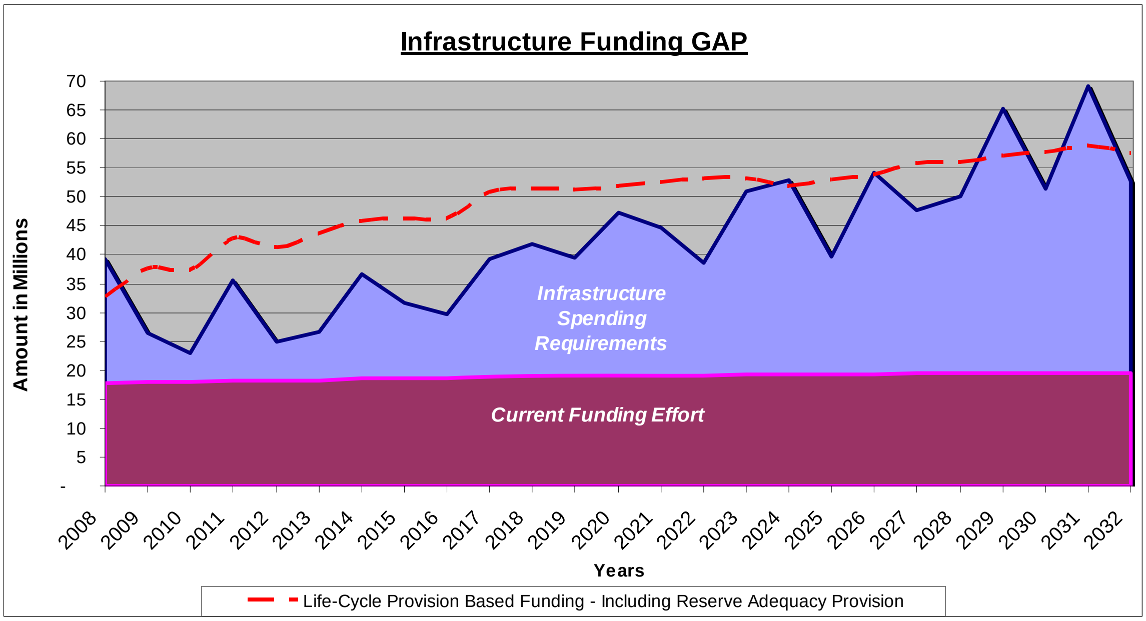




In addition, Finance conducted an analysis, based on department provided information, to assess the value of items exceeding projected lifecycles. The result of the study was alarming, indicating approximately $17.6 million has met or is exceeding anticipated usefulness. This does not imply items are broken but rather indicates a high probability of service failure and an immediate need for preventative measures to guarantee uninterrupted service. Without an appropriate strategy, these figures are expected to rise rapidly. This is evidenced by the recent increase in infrastructure capital requests that have occurred over the last few years.

2. Infrastructure spending requirements are significantly under funded

The prevailing theme throughout the Long-Range Financial Planning model is that infrastructure spending is significantly under funded. This is illustrated below in the Infrastructure Funding Gap graph, which compares the current infrastructure funding effort (e.g. reserve contributions based on existing policy, capital from taxation, LTD, etc) to infrastructure spending requirements based primarily on lifecycles and approved studies. Infrastructure reserve withdrawals are not factored into the below graphical representation as these balances are currently used to sustain the 50% discretionary reserve ratio policy, which will be further discussed in a later section of the report. The following conclusions can be drawn from the infrastructure funding gap graph illustrated below.



- Infrastructure spending requirements are initially more than double the available infrastructure funding effort, which includes a 2% contribution for new facilities as per policy. A significant portion of this balance represents the accumulated infrastructure backlog (Items beyond Life Cycle), based on departments estimated replacement timing, as a result of unavailable funding in prior years.

- Future infrastructure spending requirements steadily climb over the next 25 years. As mentioned above, Vaughan is a high growth community and overtime the aging of existing and future infrastructure will further increase the infrastructure spending burden.

- Existing infrastructure funding effort levels will not keep pace with the spending requirements and necessitate significant incremental investment in order to reduce the existing accumulated infrastructure backlog and sustain the City's infrastructure network.

- Based on the spending requirements illustrated above, and additional $130m is required over 10 years and $394m over a 20 year period, assuming debt used for roads. This is known as the Infrastructure Gap. Using the average annual amount required the initial tax rate increase to fund the infrastructure gap is 11.8% and 17.9% respectively.

- Based on the Life cycle provision based funding illustrated above an additional $210m is required over 10 years and approximately $510m is required over 20 years. Using the average annual amount required the initial tax rate increase to fund the provisions is 19.9% and 23.19% respectively. These amounts do not include any funding to ensure reserves are completely adequate for future requirements, which would require an additional $85m over the 25 year term of the forecast.

3. Infrastructure reserve funding levels and reserve balances will not sustain requirements

As part of the long-range planning work performed in 1996, the Finance department implemented new infrastructure reserves and a policy requiring additional annual reserve contributions for new buildings in the amount of 2% of the new facility value. As a result of the recently approved North Thornhill Block 10 community centre and in line with the above policy, the Post 98 Building & Facility reserve contribution was increased by $550,000 in the 2008 budget. This amount is

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already incorporated into the infrastructure funding gap presented. In addition, there are other operating funded infrastructure reserve contributions (i.e. pre 98 facilities, parks, fire, heritage, roads, etc) amounting to approximately $3.4m per year. However, these reserves do not have a contribution escalation trigger and due to operating pressures and competing priorities they have remained relativity unchanged over the years. As illustrated, there is clearly a need to increase the current infrastructure reserve funding effort.

An infrastructure reserve adequacy study was performed which estimates the infrastructure reserve balance requirements based on forecasted life cycle contribution requirements. The outcome indicates that existing infrastructure reserve balances are short $84 million, and the shortfall will continue to increase over time without additional continuous funding. This analysis is very significant as it illustrates the organization's on hand funding availability to meet both short & long-term infrastructure requirements. The outcomes of this analysis are illustrated in the chart below.

Notes: Reserve & Investment Dept. projected reserve balances as at Dec. 31, 07.

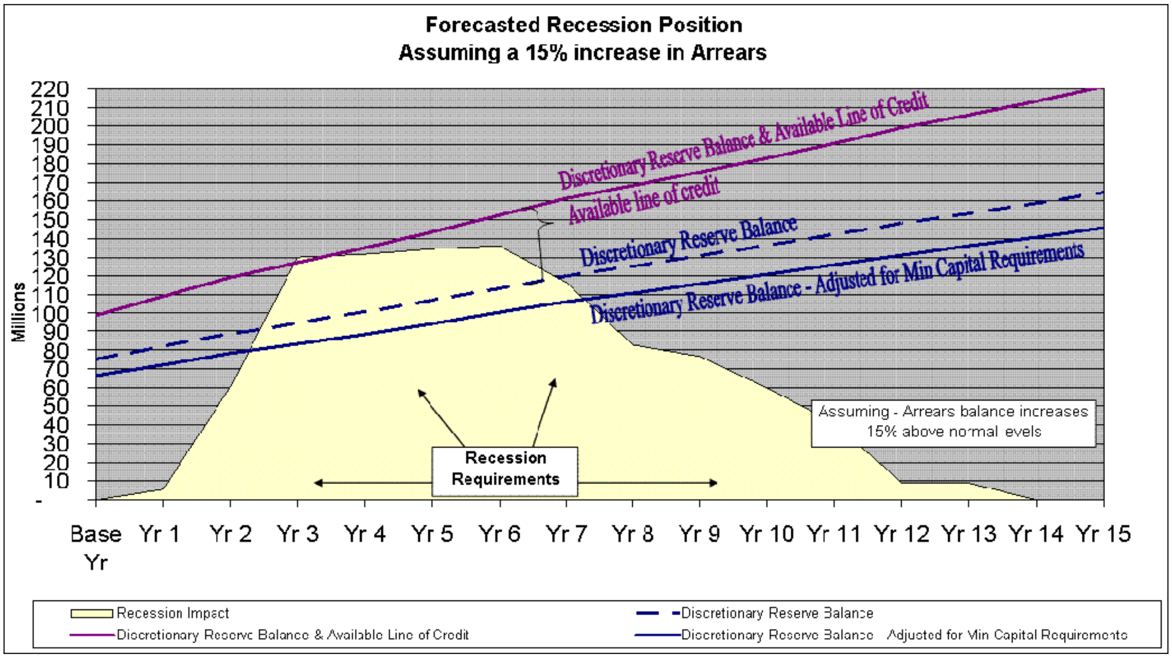
Infrastructure Reserves	*Reserve Balance*	*Reserve Adequacy*	*Surplus (Deficit)*	*Items Past Life Cycle*
Building & Facilities (Post & Pre 98)	11,565,821	59,398,178	(47,832,357)	11,595,068
Vehicle Replacement	6,385,568	8,436,299	(2,050,731)	2,141,745
Parks Infrastructure	2,110,382	22,514,314	(20,403,932)	943,398
Fire Equipment	1,462,085	13,263,302	(11,801,217)	2,583,868
Heritage	96,276	413,370	(317,094)	413,370
Uplands Reserve ***(figures under review)***	205,918	1,638,113	(1,432,195)	-
City Playhouse ***(figures under review)***	19,046	414,744	(395,698)	-
Total	***21,845,096***	***106,078,321***	***(84,233,225)***	***17,677,450***

Of particular interest is that reserve balances cover approximately the value of estimated items past their lifecycle. It is unlikely any improvement in the above measures will transpire without additional investment. To fund the reserve adequacy gap within the 25 year forecasted period an initial 3% tax rate increase or the equivalent would be required.

4. The Need for Discretionary Reserve Balances

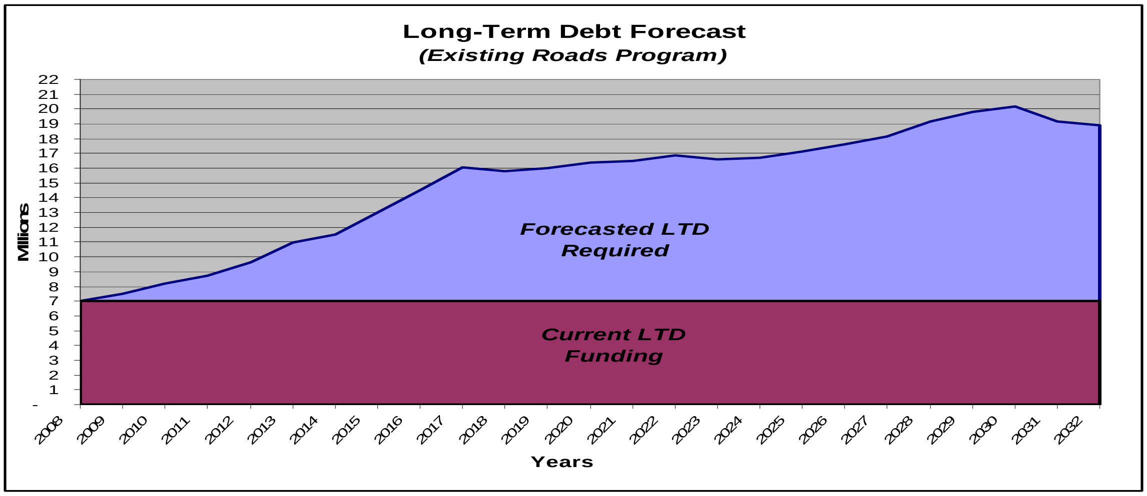
Minimum discretionary reserve balances are required to help stabilize and smooth out a multitude of future spending requirements. In 1995, Council adopted a policy of a 50% discretionary reserve balance as a percent of own source revenues. This ratio is a strong indicator of Vaughan's financial stability; ability to finance operations internally and also has an impact on credit ratings that could affect interest rates used for borrowing debentures. Discretionary reserve balances also include the infrastructure reserve balances that are required to address the future costs of infrastructure repair and replacement as reflected in this report. These are part of the reason why the 50% discretionary reserve balance was recognized in 1995, and continues to be recognized as an important financial policy and performance measurement indicator for the municipality.

Discretionary reserve balances also serve as a safeguard against economic downturns, which place significant pressure on cash flows. This is very relevant today given the United States worsening economic condition and likely recession. To illustrate the importance of reserves on hand and cash flows within the Long-Range Financial Planning study, a model was developed to demonstrate the affects of a recession using data similar to the recession experienced in the early 1990's. The result was that discretionary reserves and Vaughan's available line of credit would be completely exhausted in order to sustain municipal operations. This further signifies the importance of cash management and the need to maintain a discretionary reserve balance at a minimum of 50% own source revenues. The City has achieved this target. However, in the future the implication of maintaining a minimum 50% discretionary reserve ratio may require restricting infrastructure reserve spending until overall discretionary reserve balances exceed set targets.



5. Long-term debt requirements will increase

The approved roads rehabilitation requirement is approximately $10 million per year. Issuing 10 year debentures at 5% yield for annual and outstanding roads program requirements will result in annual LTD payments progressively increasing from $7 million to $17 million within a 10 year period. Likewise, the corresponding long-term debt payment ratio will also rise, but is projected to keep within the City policy of 10% of own source revenue, unless significant debenture requirements are added. These figures incorporate a degree of subsidy from the debenture reserve to smooth the tax impact of rising debt. Overall, even with utilizing the debenture reserve to smooth requirements, more than $37m in incremental debt payments will be required within 10 years creating annual tax rate pressures in the neighborhood of ¾ - 1%. This is just another example of the applied pressure Vaughan's aging infrastructure will have on the City's future tax base.



Infrastructure Funding Strategy

Given the significance and magnitude of the trends and outcomes presented above, it is recommended that Vaughan approve a funding strategy to address existing and future infrastructure spending requirements. However, as a result of the shear size of the investment required it is suggested the Infrastructure funding strategy initially focus on addressing immediate infrastructure spending requirements based on infrastructure which is past its life cycle. Given the magnitude of the issue a 4-part plan is recommended as follows:

1) Advocating for greater assistance from other levels of government
2) Rethink infrastructure placement and replacement
3) Controlled infrastructure reserve spending
4) Increasing infrastructure funding

Advocate Assistance from Other Levels of Government

Over the past few years the Provincial and Federal governments have started to recognize the Infrastructure challenges faced by Municipalities. The Federal and Provincial government's willingness to share a portion of the gas tax demonstrates this fact. Although appreciated by Municipalities, gas tax funding is not enough and will only marginally assist in the formulation of a complete infrastructure funding solution.

Infrastructure renewal has become a very common topic in the media. Many municipalities, agitated by the situation and lack of sustainable funding, have over the past year embarked on a number of public and media campaigns to highlight the infrastructure problem and request desperately needed long-term financial assistance from the Federal and Province governments. A few examples of these campaigns are:

- Mississauga's - Cities NOW!
- Toronto's - One cent now (endorsed by many municipalities)
- Waterloo's – exempting municipalities from PST for the purpose of funding infrastructure
- Various requests to utilize GTA pooling for municipal infrastructure

Unfortunately, the cries for funding illustrated above have fallen on relatively deaf ears. This is clearly demonstrated by the following actions:

- The Federal government's willingness to reduce GST instead of endorsing the "One Cent Now Campaign"

- Jim Flaherty's recent statement that Municipal Government shouldn't look to Ottawa to solve their problems and that they have the responsibility to plan adequate reserves to pay for infrastructure *(Toronto Star – Jan. 31st, 2008)*

Unless additional stable long-term funding is secured and/or appropriate financial tools created, the funding gap will continue to grow and burden the nation's municipalities with large tax increases or deteriorating infrastructure. As part of the plan, it is necessary that other levels of government be lobbied to assist with funding for infrastructure repair and replacement.

Rethink Infrastructure Placement and Replacement

Since it is evident that funding infrastructure repair and replacement is a significant challenge, it is necessary to rethink the way in which new infrastructure is recommended and in the way that existing infrastructure is eventually replaced. This will potentially reduce the forecasted financial burden the Municipality is currently facing. Therefore, the City should undertake a review of infrastructure placement and replacement in an effort to provide the same functionality at a more affordable replacement, repair, and maintenance spending level. This may require a need to reexamine the infrastructure service levels and consider alternative infrastructure choices.

Controlled Reserve Spending

As a result of the Long-Range Financial Planning policies established in 1996, the Municipality is in a stronger financial position and discretionary reserve balances have improved considerably and are now slightly exceeding the discretionary reserve ratio policy target. Achieving this target required fiscal management and a dedicated focus on building reserve balances. Currently, approximately 30% of the discretionary reserve balance consists of infrastructure reserves. Now that the established target has been achieved, infrastructure reserves can begin to fund infrastructure spending requirements to the extent the approved discretionary reserve ratio is maintained and cognizant of other existing and future reserve considerations. This amount will be determined on an annual basis and it is recommended that it be dedicated to reducing the existing infrastructure backlog.

Increasing Infrastructure Funding Options

The key part and most financially significant component of the funding strategy lie in increasing the infrastructure funding effort. This poses a complicated challenge as the initial requirements are overwhelming and will be financially difficult to overcome immediately. Recognizing this situation, Finance staff undertook an evaluation of different options to begin addressing the infrastructure funding shortfall. The following options were presented to Council on February 20th, 2007:

1. Fund now through tax increases based on life cycle costing
2. Fund over time through fixed annual increases
3. Fund all incremental infrastructure spending requirements through long-term debt
4. Hybrid – fixed tax increases, LTD, and reduced infrastructure spending requirements

It is important to reiterate that any tax rate increases associated with the above options are *in addition to normal operating budget requirements* and focus solely on infrastructure spending requirements. In addition, the above options *exclude annual debenture funding associated with the approved roads program* as these requirements are established and the funding policy approved. The impacts associated with the roads program were illustrated previously.

Option 1 - Fund now through tax increases based on life cycle forecasts

This option funds infrastructure requirements going forward based on life cycle costing and identifies adequate funds to be set aside each year for infrastructure replacement. This is achieved through an initial significant tax rate increase followed by the required annual tax rate increases as per the life cycles of assets. The first year tax rate impact of this option is a 12.7% increase with a cumulative 10 year tax rate increase impact of 14.8%. This option meets the spending requirements within 2 years and thereafter begins full reserve contributions, but does not consider any existing reserve adequacy shortfall which would require further financing.

Option 2 – Fund over time through fixed annual increases

This is achieved through a continuous fixed 3% annual tax increase, beginning in 2008. This option meets the spending requirements within 5-6 years and thereafter begins to address and eventually eliminates reserve adequacy issues through reserve contributions. The first year tax rate impact of this option is a 3% increase with a cumulative 10 year tax rate increase impact of 30%. However, infrastructure contributions would not be directly linked to life cycle costing requirements and funding would require frequent review after infrastructure requirements are met to ensure consistency with future infrastructure needs.

Option 3 – Fund all incremental infrastructure spending requirements through LTD

This option addresses incremental funding for infrastructure spending with the issuance of long-term debt. This option addresses infrastructure spending requirements immediately. The first year tax rate impact of this option is a 0% increase as LTD is issued after completion. However, the initial tax increase for 2009 is 2.5% with a cumulative 10 year tax rate increase impact of 11.63%. This excludes roads related debenture requirements. It should be noted that the cost of borrowing can add as much as 20% to 30% to the infrastructure cost over the term and debt payment will increases significantly as the amount of debt issued increases annually. Continually issuing debt simply defers the need to fund infrastructure and adds interest as a further cost in addition to project costs.

Option 4 – Hybrid– fixed tax increases, LTD, and reduced infrastructure spending requirements

This option is very similar to option 2, but blends in long-term debt and infrastructure spending restrictions in order to meet the infrastructure requirements at an accelerated pace. This is achieved through a hybrid combination of a fixed 3% annual tax increase, a one-time $10 million debenture, and a 5% reduction in infrastructure spending requirements. The first year tax rate impact of this option is a 4.2% increase with a cumulative 10 year tax rate increase impact of 31.2%. The above combination results in an immediate reduction of the past lifecycle backlog and meets infrastructure spending requirements within 5 years, a year earlier than option 2 at the expense of a slightly higher initial tax increase and overall higher costs related to long term debt interest paid. Similar to option 2, infrastructure contributions would not be linked to life cycle costing requirements and funding would require frequent review after infrastructure requirements are met to ensure consistency with future infrastructure needs.

Evaluation of Infrastructure Funding Options

Municipalities are faced with considerable funding restraints and constant budgetary pressures, which make selecting the best infrastructure funding option a difficult endeavor requiring the careful balancing of tax rate increases and funding infrastructure requirements.

The first option, Option 1- Fund now through tax increases based on life cycle costing, warranted significant consideration, largely because it meets the funding requirement in a relatively short timeframe and ties the funding requirement directly to asset utilization. In addition, this option

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solves the issue immediately and avoids future ongoing tax increases. However, the downfall of this option is the initial infrastructure investment, equivalent to an initial tax rate increase in excess of 12%, making this option financially impractical. It also does not provide any time to determine if additional financial assistance from other levels of government is forthcoming.

Option 2 – Fund infrastructure requirements over time through fixed annual increases. As illustrated earlier this is achieved through a fixed 3% annual tax increase, beginning in 2007. This option offers the lowest initial tax rate increase, meets infrastructure spending requirements within 5-6 years, and eventually resumes infrastructure reserve contributions, which will ultimately eliminate the reserve adequacy shortfall. The option is financially flexible and exercises prudence and conservatism through gradual incremental funding. It provides an opportunity to leverage government assistance and rethinking infrastructure opportunities in effort to reduce or accelerate achieving the infrastructure spending requirement.

On the other side of the Continuum, Option 3 – Fund all incremental infrastructure spending requirements through LTD appears very attractive, as requirements are met immediately and with initial tax increases that are relatively comparable to options 2 & 3. Although, these are very favourable results this option has 3 significant drawbacks.

- Firstly, the additional interest costs associated with funding infrastructure spending requirements through long-term debt is significant. For example, the cost of borrowing funds over 10 years at a 5% interest rate is equivalent to 30% of the borrowed value over the loan term. In addition, should interest rates climb the cost of borrowing will rise proportionately. Provided incremental infrastructure requirements will likely exceed $202m over the next 10 years, it would be financially prudent to redirect funds assigned to pay interest to infrastructure requirements.

- Secondly, locking into long-term financing arrangements to fund ongoing incremental infrastructure requirements reduces the City's future financial flexibility. This may have an impact during times where additional funding is required or cash flow is a concern and the ability to access funds are committed to loan payments and restricted by financial covenants.

- On a final note, the option breaches the current approved debt policy limit of 10% of own source revenues. In addition, infrastructure reserve contributions will cease, likely impacting the discretionary reserve ratio.

Option 4 – Hybrid, incorporating debt, fixed annual increases, incorporating a reduction in infrastructure spending and includes the added cost as a result of issuing debt.

Relationship to Vaughan Vision 2020

This study addresses three main goals identified in the Vaughan Vision 2020 under management excellence:

1. Maintain Assets and Infrastructure
2. Ensure Financial Stability
3. Plan & Manage Growth and Economic Vitality

Regional Implications

NA

Conclusion

Over the last decade Vaughan has experienced tremendous growth, and as a result of that growth significant investments in infrastructure occurred funded primarily by development charges. As Vaughan's infrastructure ages, continued investment is required to ensure the City's assets are maintained in a state of good repair. Recently a Long-Range Financial Planning study was conducted and it concluded that significant additional investment is required to maintain the infrastructure network, approximately $394m over 20 years assuming the use of debt for roads.

Finance has led this pro-active initiative and in consultation with the City Manager and the Senior Management Team developed options and strategies to overcome the infrastructure funding challenge Vaughan currently faces. Cognizant of the potential tax rate implications, staff developed and evaluated potential options. All the above funding options presented provide a solution to the infrastructure challenge illustrated.

Unless additional stable long-term funding is secured and/or appropriate financial tools created, the funding gap will continue to grow; infrastructure will deteriorate and inevitably compromise overall community quality of life, economic health, and safety. Incorporating a strategy into the 2008 budget process would be a prudent step towards preserving the overall quality of life in Vaughan by protecting, revitalizing and sustaining Vaughan's existing and future infrastructure.

Attachments

None

Report prepared by:

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Director of Budgeting & Financial Planning

CITY OF VAUGHAN

EXTRACT FROM COUNCIL MEETING MINUTES OF DECEMBER 8, 2008

Item 6, Report No. 9, of the Budget Committee, which was adopted without amendment by the Council of the City of Vaughan on December 8, 2008.

6 DEPUTATION – MR. DIRK DRIEBERG WITH RESPECT TO THE 2009 CANADIAN NATIONAL BASEBALL CHAMPIONSHIPS

(Referred from the Committee of the Whole meeting of December 1, 2008 Item 33, Report No. 61)

The Budget Committee recommends:

1) That the request for funding assistance from the Vaughan Baseball Association be approved in principle, subject to satisfactory negotiations, and be included in the final Draft 2009 Operating Budget for consideration; and

2) That the additional report of the Commissioner of Community Services, dated December 4, 2008, be received.

Committee of the Whole, at its meeting of December 1, 2008, approved the following:

1) That the deputation of Mr. Dirk Drieberg, President, Vaughan Baseball, 10190 Keele Street, Maple, L6A 1G3, be received;

2) That this matter be referred to the Budget Committee meeting of December 4, 2008; and

3) That the written submission of Mr. Jim Baba, Director General, Baseball Canada, Canadian Federation of Amateur Baseball, 2212 Gladwin Crescent, Suite A7, Ottawa, K1B 5N1, dated November 25, 2008, be received.

Attachment

1. Written submission of Mr. Jim Baba, Director General, Baseball Canada, dated November 25, 2008.

(A copy of the attachments referred to in the foregoing have been forwarded to each Member of Council and a copy thereof is also on file in the office of the City Clerk.)