

CITY OF VAUGHAN

EXTRACT FROM COUNCIL MEETING MINUTES OF JANUARY 28, 2014

Item 2, Report No. 1, of the Finance, Administration and Audit Committee, which was adopted without amendment by the Council of the City of Vaughan on January 28, 2014.

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OTHER MATTERS CONSIDERED BY THE COMMITTEE

2.1 DRAFT 2014 BUDGET AND 2015-2017 PLAN UPDATE

The following action was taken by the Finance, Administration and Audit Committee:

- 1) The report of the Interim City Manager and the Acting Commissioner of Finance & City Treasurer dated January 15, 2014, was deferred to the January 20, 2014, Finance, Administration and Audit Committee meeting to continue deliberations;
- 2) The following motions were referred to the Interim City Manager and the Acting Commissioner of Finance & City Treasurer for consolidation into the draft budget and/or such response as requested:
 - a) That for 2014, a 2.50% tax increase be approved;
 - b) That staff be directed to initiate the design for watermain and sanitary sewer servicing for the Millwood Estates Community as a local improvement; and
 - c) That staff report further on the proposed pilot project PW-2067-14 (Recycling at Designated Canada Post Super Mailboxes) by referencing additional options to control littering;
- 3) The presentation by the Acting Commissioner of Finance & City Treasurer and Communication C2, presentation material entitled, "*Draft 2014 Budget and 2015-2017 Plan UPDATE*", dated January 15, 2014, were received;
- 4) The following deputations were received:
 1. Mr. Guido Masutti, Riverview Avenue, Woodbridge;
 2. Mr. Sam Maltese, Royal Ridge, Maple, representing Vaughan World Series Slo-pitch League; and
 3. Mr. Richard Lorello, Treelawn Boulevard, Kleinburg; and
- 5) Communication C1, memorandum from the Commissioner of Community Services, dated January 14, 2014, was received.

Recommendation

The Interim City Manager and the Acting Commissioner of Finance & City Treasurer recommend:

1. That the update on the Draft 2014 Budget and 2015-2017 Plan be received, and;
2. That the Draft 2014 Budget and 2015-2017 Plan be adjusted to reflect the budget adjustments described in this report, and;
3. That final direction regarding the Draft 2014 Budget and 2015-2017 plan and associated Additional Resource Requests be provided, and;
4. That the City Clerk be directed to schedule a Special Council evening meeting, advertised in advance and consistent with the City's public notification by-law, to consider approval of the Proposed 2014 Budget and 2015-2017 Plan and related matters, and;

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5. That a consolidated item on the 2014 Proposed Budget and 2015-2017 plan be submitted to a Special Council Meeting, incorporating any further adjustments and/or direction provided by the Finance, Administration and Audit Committee.

Contribution to Sustainability

Sustainability by definition focuses on the ability to maintain an activity over an extended time horizon. Financial planning is the process of allocating limited resources to achieve the City's objectives and established priorities. Responsible planning allocates resources in a way that balances needs and aspirations of the present without compromising the ability to meet those of the future. The City's budget and plan contributes to sustainability by developing a longer term view of the City's requirements and attempts to balance the timing and funding of programs, infrastructure renewal, development projects and corporate initiatives, which are essential to build and maintain the City. Moving forward, future planning will become increasingly important to assist stakeholders in developing sustainable and responsible funding strategies.

The Budget Objective

"To balance the pressures of maintaining existing services and growth requirements against available future City funding/resources necessary to undertake and manage operations and corporate initiatives"

This is a key component of the Council approved Budget Guidelines, along with two core principles: Managing our future & Managing tax increases. Collectively, these principles have aided in developing realistic and responsible financial plans.

Economic Impact

The Draft 2014 Budget and 2015-2017 Plan was presented and received at the Finance and Administration Committee meeting of November 12, 2013. Since that time, new information has come forward and decisions have occurred, which resulted in adjustments to the Draft Budget. Overall the combined adjustments have a positive impact on the City's Draft Budget. Below is a high level summary illustrating the revised budget requirements and the associated tax rate increase for the average home. More specific details related to specific adjustments are provided within the report.

Draft Budget Adjustments	2014	2015	2016	2017
Draft Tax Rate (Base + ARRs)	4.80%	5.49%	3.97%	4.76%
Draft Budget Requirement	\$ 7,542,377	\$ 9,286,358	\$ 7,243,217	\$ 9,383,968
Draft Budget Adjustments	\$ (2,112,889)	\$ 180,199	\$ 1,347,615	\$ (606,761)
Revised Budget Requirement	\$ 5,429,488	\$ 9,466,557	\$ 8,590,832	\$ 8,777,207
Revised Tax Rate Increase	3.47%	5.69%	4.64%	4.39%
Increase on Avg. Tax Bill	\$43	\$73	\$63	\$62

Communication Plan

In addition to today's Finance Administration and Audit Committee meeting, four meetings were held in November and December, two evening and two day meetings. Two additional meetings are scheduled on January 20 and January 29 to provide further opportunity for public input and Finance and Administration Committee discussion. All meetings are advertised on the City's website, at community centres and libraries, on TV monitors within City Hall and on social media.

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A Special Council Meeting will be held before budget approval to provide the public with a final opportunity to comment on the Proposed 2014 Budget and 2015-2017 Plan. This meeting is anticipated in late January or early February and will be advertised in advance and consistent with the City's public notification by-law once a date has been set.

Following approval of the budget, the City will communicate budget highlights by employing a variety of tactics, including a media release, website content, social media messages, a blog, an eNewsletter post, and an internal message to staff. The media releases will articulate the strong management practices and oversight the City has in place to provide residents with value for their property tax dollar.

Purpose

The purpose of this report is to provide an update on recent budget adjustments, receive direction regarding the Draft 2014 Budget and 2014-2017 plan, and schedule a Special Council evening meeting for Budget Approval. A consolidated report will be submitted to the Special Council meeting incorporating any further adjustments or direction resulting from continuing budget deliberations.

Background – Analysis and Options

Preparation of the Budget begins early in the year. As a result of this early timeline, budget estimates and assumptions are required. The Draft 2014 Budget and 2015-2017 Plan was presented on November 12th, 2013. However adjustments are necessary to update the Draft Budget and Plan to reflect evolving events, more current information, and Committee direction. Detailed below is a summary of budget adjustments to date and each adjustment is separately and briefly discussed.

Summary of Adjustments	2014	2015	2016	2017
Favourable/(Unfavourable)				
<u>Budget Adjustments</u>				
PowerStream Dividend	1,000,000	(175,000)	(600,000)	1,050,000
VHI Staff Support Recovery	100,000	-	-	-
Debenture Payment Reserve	580,000	-	-	355,000
Long Term Debt	-	155,993	(140,213)	(344,997)
Employee Benefits	547,423	(17,166)	(138,849)	(31,864)
Contingency	378,204	(71,880)	17,519	91,364
ARR Adjustments	(135,228)	(42,043)	(201,023)	(245,719)
Anticipated Labour Savings	300,000	-	-	-
Fleet Department Adjustment	55,723	196	196	197
Council Budget Adjustments	(293)	(15,527)	4,707	25,303
Additional Regional Councillor	24,003	268,539	4,611	4,684
Election Reserve Contribution	(50,000)	-	-	-
Electricity Rate Increase	(85,465)	(204,947)	(222,121)	(247,200)
Assessment Growth	(601,478)	(78,364)	(72,442)	(50,007)
Total Budget Adjustments	\$ 2,112,889	\$ (180,199)	\$(1,347,615)	\$ 606,761

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PowerStream Dividends

Year-Over-Year Change			
2014	2015	2016	2017
\$ 1,000,000	\$ (175,000)	\$ (600,000)	\$ 1,050,000

PowerStream dividends were initially based on a forecasted dividend distribution provided in June 2013. Recently, PowerStream has revised its core dividend distribution forecast as part of the annual budget process, which was officially approved by their Board of Directors on December 18, 2013. Due to improved performance, efficient tax management practices, and regulatory changes, the dividends in 2014-2017 are expected to be higher in each year than originally forecasted. The revised forecast is showing a decrease for the dividends paid in 2016 until a full rebasing occurs. PowerStream expects to take advantage of a new regulatory framework issued by the Ontario Energy Board and rebase in 2016 resulting in a forecasted increase of 2017 dividends.

Vaughan Holdings Inc. (VHI) Staff Support Recovery

Year-Over-Year Change			
2014	2015	2016	2017
\$ 100,000	\$ -	\$ -	\$ -

In the fall of 2013, VHI Board Members approved a cost recovery for the use of City of Vaughan staff to support Vaughan Holdings Inc. activities. The estimated amount is \$100,000 and will help to offset administrative, secretarial, financial and management requirements. This figure is currently applied corporately, but will be allocated evenly to departments in the following update.

Debenture Reserve Transfer

Year-Over-Year Change			
2014	2015	2016	2017
\$ 580,000	\$ -	\$ -	\$ 355,000

To minimize the impact on the tax base, the reserve transfer was revisited and as a result it was determined that an increased reserve transfer to further smooth and offset debenture payments is sustainable.

Long Term Debt

Year-Over-Year Change			
2014	2015	2016	2017
\$ -	\$ 155,993	\$ (140,213)	\$ (344,997)

A re-evaluation of debt requirements has resulted in a change in the anticipated timing of debt. This resulted in slight adjustments to the payments planned in the forecasted years. Debentures are issued post project completion and dependant on project progress, estimated issue timing, and regional interest rates.

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Employee Benefits

Year-Over-Year Change			
2014	2015	2016	2017
\$ 547,423	\$ (17,166)	\$ (138,849)	\$ (31,864)

Employee benefit rates incorporate a number of factors including Canada Pension Plan (CPP), Employment Insurance (EI), Great West Life (GWL) and OMERS. More current information regarding thresholds for CPP, EI and OMERS were lower than the estimates used in the November 12th Draft Budget and Plan. In addition, the Draft Budget & Plan incorporated an estimate for OMERS rate increases based on historical trends which did not materialize. These adjustments resulted in an overall favorable change of \$547K.

Contingency

Year-Over-Year Change			
2014	2015	2016	2017
\$ 378,204	\$ (71,880)	\$ 17,519	\$ 91,364

In 2013 a number of labour agreements had expired such as Fire & Rescue Services, CUPE Clerical Technical and Non-union. In the fall of 2013 new agreements were finalized and as a result of negotiations contingency funds can be reduced. In addition, Contingency includes funds for other unplanned events which were adjusted.

ARR Adjustments

Year-Over-Year Change			
2014	2015	2016	2017
\$ (135,228)	\$ (42,043)	\$ (201,023)	\$ (245,719)

As a result of the above labour agreement negotiations, approved cost of living adjustments have been included within the ARR requests. These costs were estimated corporately and offset by the above contingency adjustment.

Anticipated Labour Savings

Year-Over-Year Change			
2014	2015	2016	2017
\$ 300,000	\$ -	\$ -	\$ -

Current practice is to budget for anticipated employee turnover or “churn”. This figure is planned for corporately and is used to offset department gapping and vacancy savings that occur throughout the year. Third quarter results illustrated slightly better performance and as a result to more align with actuals the City’s anticipated labour savings is being adjusted by \$300k. The total anticipated labour savings represents a 3% churn and is reflective of market trends. It should be noted there are various unpredictable factors driving anticipated labour savings and future results may vary from plan.

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Fleet Department Adjustment

Year-Over-Year Change			
2014	2015	2016	2017
\$ 55,723	\$ 196	\$ 196	\$ 197

An administrative correction was required to properly restate mechanical staff budget in relation to the breakdown between productive and non-productive time, which was initially recorded in both areas.

Council Budget Adjustments

Year-Over-Year Change			
2014	2015	2016	2017
\$ (293)	\$ (15,527)	\$ 4,707	\$ 25,303

On November 25th, 2013 a report on the Council Office Expenditure Budget was presented. The majority of this increase was included within the November 12th, 2013 Draft Budget and Plan. However, due to updates in population and business figures minor adjustments were required.

Additional Regional Councillor

Year-Over-Year Change			
2014	2015	2016	2017
\$ 24,003	\$ 268,539	\$ 4,611	\$ 4,684

The draft budget included provisional funding in anticipation of York Region changing the size of its Council by increasing the number of members from Vaughan from four to five. However, the change was contingent on receiving a triple majority support by January 1st, 2014, which did not occur. As a result, the draft budget have been adjusted accordingly. The impact on the budget was for 1 month in 2014 and a full year impact in 2015. The net effect on the Draft Budget is shown in the table above.

Election Reserve Contribution

Year-Over-Year Change			
2014	2015	2016	2017
\$ (50,000)	\$ -	\$ -	\$ -

A report regarding the Election Reserve was tabled on December 2nd with Council endorsement occurring on December 10th to include the recommend changes in the Draft Budget & Plan. Based on the report an additional annual contribution in the amount of \$50,000 is required to meet election requirements. In addition, the report recommended that the Election Coordinator be converted to a full time complement within the City Clerk's Office. This request was submitted as an ARR and has a zero net operating impact and does not affect the reserve position as this increase will be accommodated by adjusting the election reserve contribution and associated expenses. The adjustment to the reserve contribution is included in the updated Draft Budget and Plan. No adjustment is required for the staffing change as it was initially submitted as an ARR.

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Electricity Rate Increase

Year-Over-Year Change			
2014	2015	2016	2017
\$ (85,465)	\$ (204,947)	\$ (222,121)	\$ (247,200)

In early December the Ontario Provincial Government announced substantial increases to the electricity rates over the next three years. The Draft Budget & Plan guidelines allowed for a estimated 4.9% price increase based on historical trends, which will not cover the announced increase and therefore an additional adjustment is required.

Assessment Growth

Year-Over-Year Change			
2014	2015	2016	2017
\$ (601,478)	\$ (78,364)	\$ (72,442)	\$ (50,007)

Assessment growth represents the year over year increase as a result of new residential and business construction activity in the City. The Municipal Property Assessment Corporation (MPAC) is responsible for all property assessment related valuation in the Province of Ontario and is mandated to provide the City with a final assessment report in December.

To prepare the Draft Budget and Plan, staff conservatively estimated the assessment growth figure based on preliminary reports, historical trends, and recognizing general MPAC processing concerns. The 2014 assessment growth was budgeted at 2.25% or \$3,455,005. This figure is much lower than traditional growth figures, typically over \$4m for years 2009- 2012 and as high as \$4.8M. 2013 was slightly below historical trends, but thought to be a result of a general focus on GTA reassessment activities, as most GTA municipalities experienced a similar trend. However, this trend continued into 2014 for most GTA municipalities. In response, the City provided a letter to MPAC illustrating its concerns.

The final MPAC report was received on December 10th, which illustrates a 1.85% assessment growth figure or \$2.8M, which is far below the City's conservative estimate and the lowest assessment growth percentage experienced since before 2002. Although a moderate tempering of growth is possible the most recent figure is extremely low and was not expected. A number of other GTA municipalities have experienced a similar situation indicating this is not a Vaughan specific challenge.

Budget Communications to date

Since November 12th, 2013, staff provided a number of budget related communications to the Finance and Administration Committee on a variety of topics. Many of these communications were intended to satisfy additional information requests. For reference purposes a list of these communications are provided as Attachment #6.

Relationship to Vaughan Vision 2020 / Strategic Plan

Developing the 2014 Budget and 2015-2017 Plan is the process of allocating and approving the resources necessary to continue operations and implement Council's approved plans. Embedded within the City's Budget and Plan are resources to move Vaughan's Vision forward. Furthermore, there are specific additional resource requests and capital funds earmarked to support the City's preferred initiatives and strategic themes.

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Regional Implications

There are no Regional implications associated with this report.

Conclusion

As a result of the early budget timeline, estimates and assumptions are required. As more current information becomes available and additional review is undertaken, adjustments are needed. Within the report are adjustments based on current information applied to the Draft 2014 Budget and 2015-2017 Plan. Below is a summary of the revised budget requirement and associated tax rate increase for the average home.

Revised Draft Budget	2014	2015	2016	2017
Revised Tax Rate Increase	3.47%	5.69%	4.64%	4.39%
Increase on Avg. Tax Bill	\$43	\$73	\$63	\$62

Illustrated below is the estimated 2014 total property tax bill for the average home in Vaughan, valued at \$551,000. It is important to note, that although York Region's preliminary property tax rate increase is only 1.54% its contribution to the overall increase represents 44% or \$34. This is largely because half of the Property Tax bill is allocated to the Region of York. Overall, the average total property tax bill in Vaughan will increase by \$77 or 1.68%. Vaughan's local portion amounts to a \$43 increase or 0.94% of the total property tax bill.

Property Tax Bill	2013 Property Tax	Est. Increase		Est. 2014 Property Tax	
		%	\$		
City of Vaughan	1,228	3.47%	43	1,271	27%
Hospital Levy	60	0.00%	-	60	1%
Region of York	2,238	1.54%	34	2,272	49%
Provincial (Education)	1,071	0.00%	-	1,071	23%
Total Tax Bill	4,597	1.68%	77	4,674	100%

* 2014 Estimated Property Taxes are based on the avg. home value of \$551K

Attachments

- Attachment 1: Draft Operating Budget Revenue and Expenditure Summary
- Attachment 2: 2014-2017 Additional Resource Request Summary
- Attachment 3: Capital Project Listing by Department
- Attachment 4: Capital Project Summarised by Funding Source
- Attachment 5: Capital Reserve Continuity Schedule
- Attachment 6: List of Staff Communications

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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.)