

CITY OF VAUGHAN

EXTRACT FROM COUNCIL MEETING MINUTES OF JANUARY 20, 2015

Item 5, Report No. 2, of the Finance, Administration and Audit Committee, which was adopted without amendment by the Council of the City of Vaughan on January 20, 2015.

5

OTHER MATTERS CONSIDERED BY THE COMMITTEE

5.1 DRAFT 2015 BUDGET AND 2016-2018 PLAN

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

- 1) The report of the Commissioner of Finance & City Treasurer and the Director of Financial Planning and Analytics, dated January 12, 2015, was deferred to the January 23, 2015, Finance, Administration and Audit Committee meeting to continue deliberations;

- 2) In the course of its review of this matter, Committee approved the following:

That recognizing the community's need for fiscal restraint, over the next few months the Finance, Administration and Audit Committee and City staff shall be directed to work toward a set target not to exceed 3% per annum for the period of 4 years;

That for the Commission based presentations scheduled for later this month, senior staff work with the Interim City Manager to provide specific recommendations to achieve the set target for consideration by the Finance, Administration and Audit Committee;

That recommendations consider all options including revenue generation, service level adjustments, new funding request prioritization, etc. In addition, to assist the Committee in making informal decisions, any recommendations incorporate community, service levels and risk implications;

That the annual savings achieved through the Continuous Improvement Program be reflected in the budget;

- 3) The presentation by the Commissioner of Finance & City Treasurer and the Director of Financial Planning and Analytics and Communication C2, presentation material entitled, "*Draft 2015 Budget and 2016-2018 Financial Plan*", dated January 12, 2015, were received; and

- 4) The following deputations were received:

1. Mr. Kevin Hanit, Queensbridge Drive, Concord;
2. Mr. Savino Quatela, Grant Valley Boulevard; and
3. Ms. Tianna De Lorenzo, Woburn Drive, Woodbridge.

Recommendation

The Commissioner of Finance/City Treasurer and the Director of Financial Planning and Analytics, in consultation with the Interim City Manager and the Senior Management Team recommend:

1. That the presentation on the DRAFT 2015 Budget and 2016-18 Plan be received; and
2. That this matter and any comments received be referred to the next Finance, Administration, and Audit Committee to continue deliberations.

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Contribution to Sustainability

The City's multi-year budget and financial plan contribute to sustainability by developing a longer term view of the resources required to achieve the City's strategic 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. Moving forward, a longer-term view will become increasingly important to assist stakeholders in developing sustainable and responsible financial strategies, which could include a suite of options such as increases in taxation, adjustments to fee recovery policies and potentially reconsidering growth timing, premium programs or base service delivery levels.

Communication Plan

A comprehensive public communications plan has been developed to support the budget. An overview of the plan has been provided, as a separate report, to the Finance, Administration, and Audit Committee meeting of January 12, 2015.

Economic Impact

The multi-year budget and financial plan presented in this DRAFT 2015 Budget and 2016-18 Plan is based on Departments' needs-based requests and should be considered as a starting point for the Committee and Council deliberations that will take place over the next three months.

The DRAFT 2015 Budget and 2016-18 Plan attempts to balance the timing and funding of City programs, infrastructure renewal, development projects, and corporate initiatives essential to build and maintain the City. It also takes into account several one-time and extraordinary factors, as well as the cumulative impact of the economic environment that have combined to place increasing pressure on the City's finances.

The December 2013 ice storm resulted in the loss of a significant portion of Vaughan's tree canopy. The cost estimate to replace the trees lost is approximately \$7.2M which the City will have to fund. A special Ice Storm Tree Replacement Levy is being proposed to provide \$1.5M in funding annually. The DRAFT 2015 budget and 2016-18 Plan phases this special levy in over two years at an average annual impact of 0.5%.

If adopted as presented, the current DRAFT 2015 Budget and 2016-18 Plan with the Ice Storm Tree Replacement levy would have the following economic impacts:

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Table1: DRAFT 2015 Budget and 2016-18 Plan with Ice Storm Tree Replacement Levy

\$M	2015	2016	2017	2018
Gross Operating	262.0	271.3	278.9	287.8
Non-Tax Revenue	84.4	82.4	83.0	82.9
Net Operating	177.6	188.8	195.9	204.9
Less: Assessment Growth	3.2	3.4	3.6	3.7
Net Levy Requirement	174.4	185.5	192.3	201.2
Incremental Levy Requirement	10.9	12.7	9.6	11.1
Incremental Tax Rate	6.65%	7.13%	4.93%	5.35%
Ice Storm Tree Replacement Phase-in	0.49%	0.45%	0.00%	0.00%
Total Incremental Tax Rate	7.14%	7.58%	4.93%	5.35%
Tax Bill increase for the Average Home	\$91.29	\$103.42	\$71.98	\$81.97

Total Capital Program	\$87.0	\$110.9	\$109.9	\$63.5
Operating Implications*	\$1.4	\$3.3	\$3.7	\$2.0
Portion of Incremental Tax Rate	0.84%	1.84%	1.89%	0.95%

**Represents the estimated operating implications associated with the capital program. These operating implications are incorporated in the draft operating budget.*

Note: Some numbers may not add due to rounding

Purpose

The purpose of this report is to provide the Finance, Administration, and Audit Committee with an overview of the current DRAFT 2015 Budget and 2016-18 Plan and the corresponding tax adjustments that, if adopted, would occur for the average Vaughan household.

This is the first of a series of budget reports to support Council's deliberations about the City's budget. Developing a financial plan and budget is a complex activity that must consider multiple service lines, programs and supporting financial components. Recognizing this challenge, new this year will be budget presentations from the City Manager, each Commissioner, the Fire Chief, and the CEO of Vaughan Public Libraries. These presentations are intended to provide Council with additional context on the budgets outlined in this report.

Background – Analysis and Options

This DRAFT 2015 Budget and 2016-18 Plan, is a complex multifaceted document. To assist the public and Council Members with understanding the challenges facing the City, and to assess the DRAFT 2015 Budget and 2016-18 Plan, the remainder of this document is organized into the following budget components:

- A. Overview
- B. Operating Budget Overview
- C. Operating Budget Approach
- D. A New Perspective: Conceptual Budget Framework
- E. Exclusions from the Operating Budget
- F. Capital Budget Overview
- G. Capital Budget Approach
- H. Capital Budget and Plan by Funding Source

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A. Overview

Financial Sustainability: Always a Key Priority

The objective of the City's financial planning process is to develop a multi-year budget that balances the need to maintain existing services, accommodate growth requirements, and undertake corporate initiatives against the City's capacity to fund them. The City's financial management policies and practices are based on best practices to maintain the City's strong financial position. Rigorous Council-approved budget submission guidelines and staff review processes help ensure that the City's residents and businesses are provided with value for their property tax dollars. Prudent reserve policies are in place to help the City save to address future infrastructure needs and to provide the flexibility to minimize the impact of one-time or unexpected costs.

As the City of Vaughan continues to grow and adapt to provincially driven intensification, a focus on long-term financial sustainability will be increasingly important. Meeting this objective will require difficult choices to develop financial strategies to address rising operational costs, increasing legislative requirements, infrastructure renewal and replacement costs, and the costs associated with implementing its various master plans.

Over the last three decades, Vaughan has transformed from a rural township to a major urban centre, growing ten-fold between 1981 and 2011.¹ This report presents a plan to support the City of Vaughan's three strategic goals of Service Excellence, Staff Excellence, and Organizational Excellence as outlined in Vaughan Vision 2020 and the City's various master plans. As it seeks to achieve these goals, the City faces challenges to achieving a balanced budget and maintaining service levels.

There are many factors that place pressures on the property tax rate, including:

- Inflation and the impact of escalating labour and external contract costs;
- New development and population growth that while positive for the City overall, also create budget pressures because of the costs of providing additional service volume;
- Timing differences between revenue growth and incremental growth-related costs;
- Increasing requirements to set aside adequate funding to pay for the eventual replacement of all of the new community infrastructure that has been put in place;
- Investments required to transform City administration and service delivery to ensure that they are as efficient and effective as possible; and,
- Unique pressures of the current cycle such as the cost to replace trees lost in the December 2013 Ice Storm and need to transition to more sustainable policies for the planned use of reserves and surpluses.

The DRAFT 2015 Budget and 2016-18 Plan seeks to ensure that funding is allocated to achieving all of Council's priorities while minimizing associated tax rate increases, a few high priority initiatives of note are:

- Vaughan Healthcare Centre Precinct
- Vaughan Metropolitan Centre
- Vaughan Enterprise Zone
- City's Local Transportation Network

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In addition, the City funds more than 200 programs and services that keep people and property safe, promote health and wellness, are environmentally sustainable, preserve our heritage, and support diversity, arts, and culture. Residents of the City of Vaughan receive a wide range of services including fire and rescue, road maintenance, snow plowing, garbage and recycling collection, recreation, parks and play facilities, traffic control, by-law enforcement, streetscape planting and maintenance, planning and engineering, and many others. Below is an illustration of the services magnitude touching residents daily.

Illustration 1: City Services

Engineering/Public Works

Roads - Lane Kms	2,046
Sidewalks - Kms	1,122
Bridges & Structures	181
Streetlights	25,899
Traffic Signals	84
Public Works Yards	3

Fire & Rescue Services

Fire Stations	10
Fire Engines/Aerials	16
Fire Tankers/Rescues/etc.	13

Library Services

Libraries & Resource Libraries	8
Library Collection (Items)	522,754

Parks & Recreation

Community Centres	10
Fitness Centres	7
Theatres	1
Parkland - Hectares	951
Trails - Km	58
Parks	200
Playgrounds	293
Tennis Courts	126
Ball Diamonds (Multi Type)	57
Basketball/Playcourts	85
Bocce Courts	64
Water Play Facilities	19
Indoor pool tanks	9
Indoor Skating Rinks/Arenas	10
Outdoor Soccer Fields	170
Skateboard Parks	8

* Based on 2014 estimates

While the financial planning process for the City seeks to minimize the tax burden on all residents and businesses, a special focus has been placed on the impact to seniors. The City provides a number of benefits and discounts to seniors to reflect the recognition that many seniors live on fixed incomes. The Department of Recreation and Culture provides seniors with significantly discounted rates on memberships to Vaughan's network of fitness centres and programs offered. Low income seniors, receiving the Guaranteed Income Supplement are also eligible to receive the City of Vaughan's Elderly Homeowners' Tax Assistance Program which provides tax credits on the Vaughan portion of the property tax bill. In 2014, the tax credit is \$329, more than 20% of the average property tax bill.

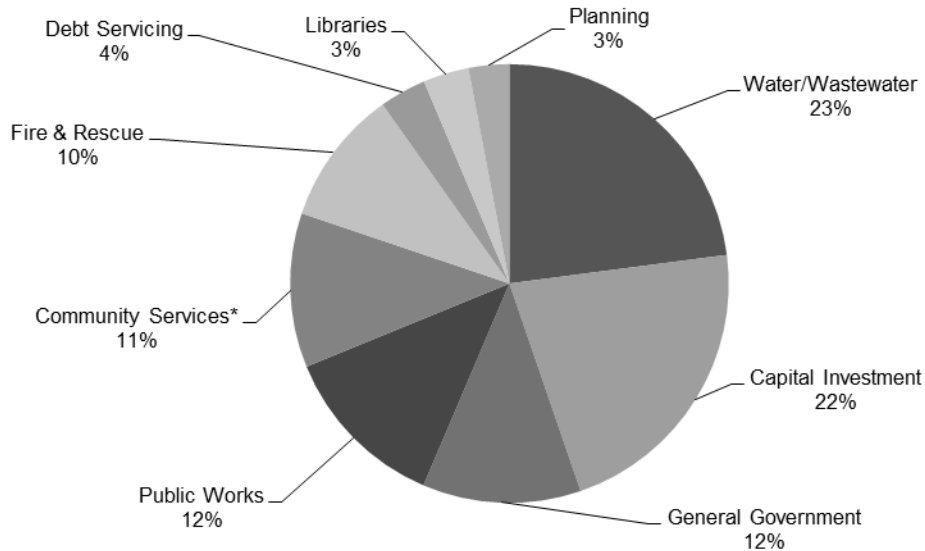
The services provided by the City of Vaughan are primarily funded through taxation, but also water and wastewater rates, development charges, fees, and other non-tax revenue. The City's total expenditures, including capital investment and the costs to provide water and wastewater services are over \$437 million. The first chart below shows the share of these total expenditures attributable to each major service and expenditure category while the following chart shows how these expenditures are funded.

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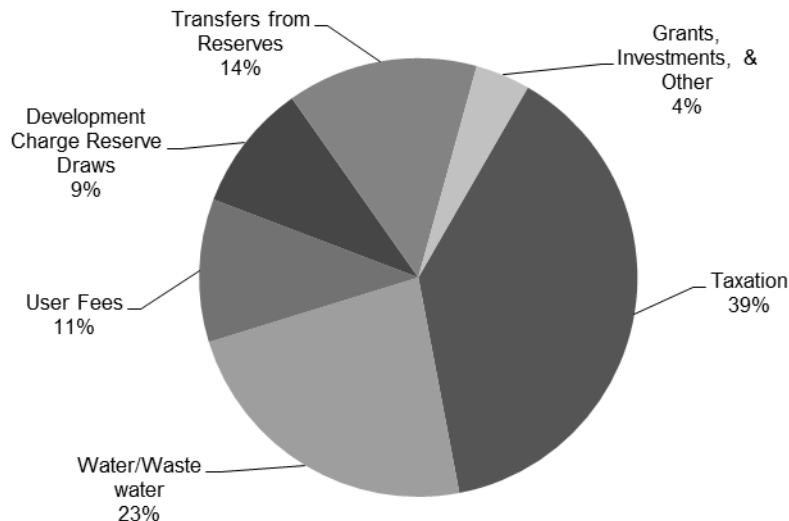
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Chart 1: Breakdown of 2015 All Operating and Capital Expenditures by Major Area:



* An interim structure is in place for the departments in Community Services whereby they have been distributed among other commissions pending a Council decision on the leadership and structure of the Community Services Commission.

Chart 2: 2015 Operating and Capital Expenditures are funded by



The operating budget included in this report excludes Water and Waste Water services and related revenues. Water and Waste Water services and all of the associated operating and capital costs are fully funded through rates that are separately billed. They have been shown in the above charts only to give the public and Council an overall sense of all City activities.

It is important to note that Water and Waste Water services does not only have its own dedicated staff and resources but shares many resources with other City services. The Department of Financial Planning and Analytics, working with the Public Works Commission, has allocated costs of shared resources to either City of Vaughan or to Water and Waste Water services based on work effort. All direct costs reside in the correct budget (i.e. City of Vaughan or Water and Waste

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Water) and do not require a chargeback mechanism in order to properly allocate costs. Revisions to the water and wastewater recovery methodology have resulted in a revised allocation of department costs for water and wastewater related activity. The impact of this change for 2015 is an increase in the recovery of \$0.4M.

The budget for Water and Waste Water Services will be presented to Council in February. It is hoped that in future years, the timing of the development of these budgets can be further aligned so that the Water and Waste Water budget can be consolidated within the overall City budget.

Economic Outlook²

Canada's forecasted economic growth in 2015 is expected to be largely fueled by sustained momentum in the US economic recovery. Overall, Ontario's economy (GDP) is forecasted to grow around 2.7% in 2015 and 2.3% in 2016. These figures optimistically represent a return to pre-recession statistics and a reversal of the recent sub 2% trend. It is important to note that this information is forward-looking based on global speculation and the actual performance of the local economy may differ.

The potential impacts of specific economic factors on the City of Vaughan are outlined below.

Interest rates

Speculation that the Bank of Canada may raise the key interest rate in 2015 has numerous implications for Vaughan. This will signify higher borrowing rates for businesses and residents alike and could place added pressure City on debenture requirements.

Export Sales

With approximately 84% of Vaughan's exports destined for the U.S. market, increased U.S. demand and a weaker Canadian dollar bode well for the city's exporting companies. A rebounding American economy, with the best job growth in eight years and more pent-up consumer demand in the housing sector will resonate with some of Vaughan's key sectors: Manufacturing as well as Transportation, Warehousing and Logistics.

Real Estate Activity

CBRE expects that 2015 will be a great year for the retail, office, and industrial markets in the GTA. Vaughan's industrial market is expected to continue to see positive growth especially with a number of major transportation investments underway including the TTC subway extension, the Highway 427 extension, and the construction of bus rapid transit on Highway 7. New office, industrial, and retail investment is bound to follow. Earlier in 2014, a number of local developers had indicated that they are preparing to launch speculative industrial projects; it remains to be seen if they will take a more cautious approach with a moderate rise in interest rates. CMHC is cautiously optimistic in the housing sector as well. These indicators indicate a positive outlook for growth, which will hopefully mitigate or reverse the City's recent declining trend in assessment growth and other growth related revenues, such as building permits.

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2 Sources:

Monetary Policy Report Summary, Bank of Canada, October 2014

2014 Ontario Fiscal Update, TD Economics, November 17, 2014

2015 Canadian Market Outlook, CBRE

Building Opportunity Securing Our Future, 2014 Budget, Ontario Ministry of Finance

Colliers International, Colliers GTA Industrial Statistics, 2014 Q3

CMHC as quoted in Bryan Tuckey's article in the Toronto Star, "Experts cautiously optimistic for housing sector in 2015", published Friday, November 14, 2014.

Export Register, Statistics Canada International Accounts and Trade Division, 2012

Scotiabank Global Auto Report, September 2014

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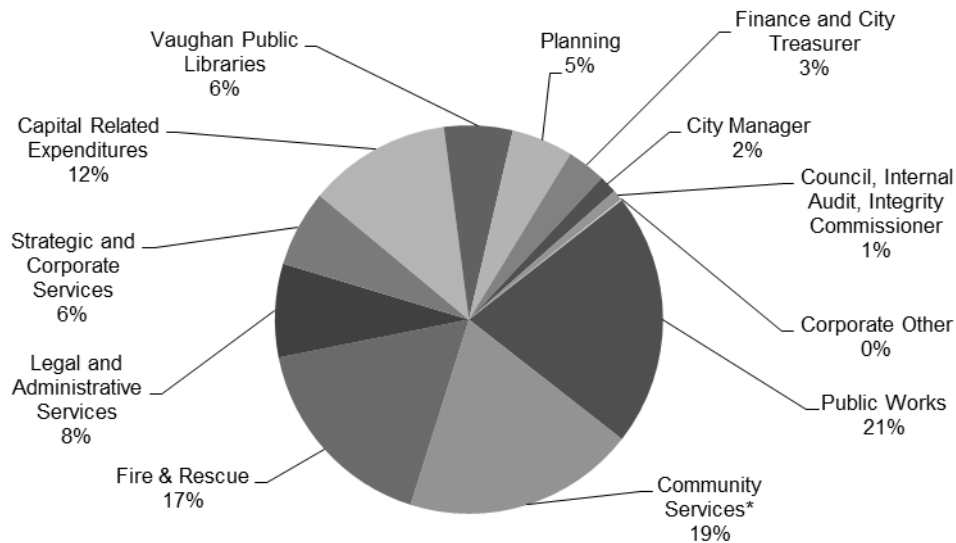
B. Operating Budget Overview

Total operating expenditures included in this DRAFT 2015 Budget are \$262 million. The following chart illustrates the share of these expenditures allocated to each Commission or major expenditure category.

Public Works, excluding Water and Wastewater Services is the single largest commission, representing 21% of operating expenditures each year between 2015 and 2018. This is closely followed by Community Services Commission at 19%, and Fire and Rescue Services at 17%. These three critical service areas make up over 57% of total operating expenditures.

Special Attention: It should be noted that an interim structure is currently in place for the departments of Community Services whereby they have been distributed among other Commissions pending a Council decision on the leadership and structure of the Community Services Commission. The sole exception is the Department of Parks & Forestry Operations that has been permanently aligned with the Commission of Public Works. An explanation and reconciliation of the interim alignment is included in Attachment 3.

Chart 3: 2015 Expenditures by Commission/Category



* An interim structure is in place for the departments in Community Services whereby they have been distributed among other commissions pending a Council decision on the leadership and structure of the Community Services Commissions.

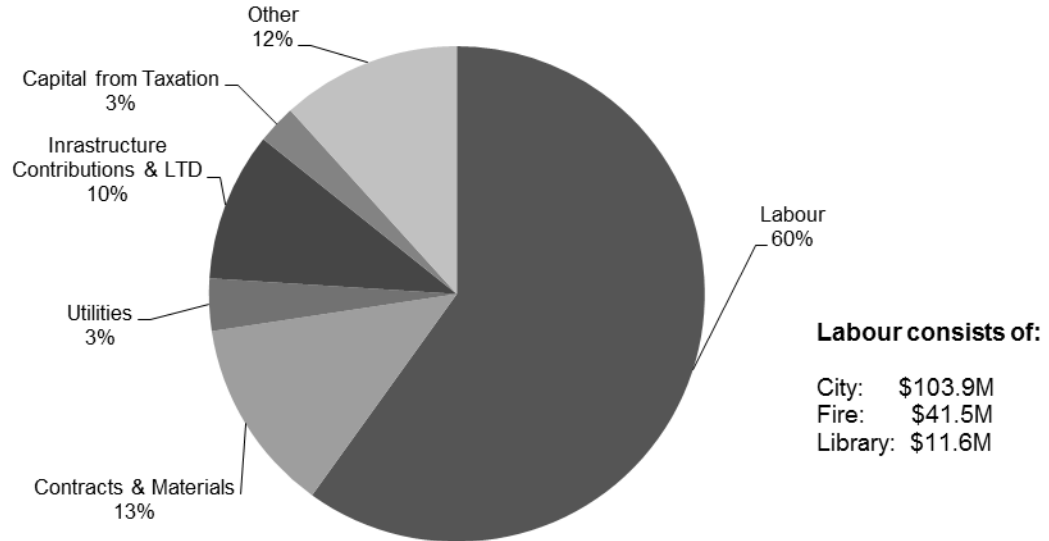
The next chart illustrates how the \$262 million in operating expense can be classified by type. The services provided by the City are primarily provided by people – fire fighters, librarians, lifeguards, recreation staff and instructors, building maintenance workers, enforcement officers, park attendants, roads equipment operators, building inspectors, and others. Consequently, labour costs make up over 58% of city expenditures.

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Chart 4: 2015 Operating Expenditures by Type



C. Operating Budget Approach

Since 2012, the City of Vaughan has been moving towards a multi-year operating budget outlook. In 2014 the multi-year outlook included the 2014 budget and a financial plan for 2015-17 that included both base budgets and recognized additional resource requests. Each year the base budget assumptions are re-evaluated in light of guidelines issued by the Department of Financial Planning and Analytics.

These guidelines were approved by Council on June 16, 2014. Final budget submissions were due to the Department of Financial Planning and Analytics in September 2014 and the Department's review included a validation of all requested base budget changes over the four year term of this plan to ensure that they adhered to the guidelines. Through budget submission reviews and assurances from Commissioners and Directors, there is a very high level of confidence that approved guidelines were followed.

Under these guidelines, departments are only permitted to include very specific adjustments in their base budget requests which are related to pre-determined labour adjustments arising from collective bargaining agreements, contracts, or Council approved increases. The guidelines do not allow "across the board" increases or increases for new staffing as part of the base budget.

The City's budget development process allows departments to formally submit requests for additional resources, above and beyond the permitted base budget adjustments. There are numerous reasons why a department may make a request for additional resources. In some cases, the related service is staffed with internal labour and as population or service usage growth occurs, additional staff is required to maintain the same standard of service. In other cases, the driving force is transformation whereby a department believes that by making a one-time investment, it will be possible to drive efficiencies in service delivery or general government administration. Where possible, submitting departments identified internal offsets to mitigate the impact of additional resource requests and ensure that value for money was maximized.

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Additional resource requests were submitted to two layers of staff review. In the first instance, a Directors' Working Group, with representation from each Commission, Vaughan Fire & Rescue, Vaughan Public Libraries, and the City Manager's office reviewed, evaluated, and prioritized the submitted additional resource requests based on how well the business cases met the following criteria:

- Degree of linkage to Vaughan's Vision and fourteen strategic initiatives
- Value Proposition (e.g. existence of offsets)
- Risk Management (e.g. regulatory requirements or health and safety issues)
- Degree of linkage to new growth-related infrastructure

The process was driven by ensuring a high degree of objectivity, consistency, and transparency among the various additional resource requests. Subsequently, the Senior Management Team vetted the timing of ARRs and categorized them according to their rationale for the Committee's consideration. Additional information about Additional Resource Requests (ARRs) is available in Appendix A.

Summary of Changes

The City faces significant base budget pressures in department expenditures and several corporate items. The impact of these challenges, along with additional resource requests resulted in submissions that were initially significantly higher than 2014's outlook. A large portion (\$6.9M in 2015) was mitigated through the staff review process and actions taken to smooth out the impact of corporate items. The following table summarizes the 2015 incremental impact of changes:

Table 2: Summary of Changes

	2015		2016		2017		2018	
	\$M	Rate Incr.	\$M	Rate Incr.	\$M	Rate Incr.	\$M	Rate Incr.
Recognized in 2014	11.0	6.70%	8.0	4.41%	8.2	4.21%	0.0	0.00%
Base Budget Adjustment Requests	4.8	2.98%	3.2	1.69%	-0.5	-0.27%	6.3	2.92%
Additional Resource Requests	1.9	1.21%	0.9	0.45%	1.1	0.44%	2.6	1.23%
Staff Review Adjustments Made	-6.9	-4.25%	0.6	0.58%	0.8	0.55%	2.3	1.20%
Draft 2015 Financial Plan	10.9	6.65%	12.7	7.13%	9.6	4.94%	11.1	5.35%
Draft Plan Components								
Base Budget Pressures	6.0	3.68%	6.5	3.68%	3.8	1.95%	8.4	4.05%
Additional Resource Requests	4.8	2.96%	6.1	3.45%	5.8	2.98%	2.7	1.29%
	10.9	6.65%	12.7	7.13%	9.6	4.93%	11.1	5.35%
Ice Storm Tree Replacement	0.8	0.49%	0.7	0.45%				
Total Draft 2015 Financial Plan	11.7	7.14%	13.4	7.58%	9.6	4.93%	11.1	5.35%

Note: some numbers may not add due to rounding

The following table takes into account not just departmental expenditures but also non-tax revenues and reserve transfers. When revenues are taken into account, Public Works share of total net expenditures rises to approximately 30%, while Community Services' share drops to reflect the fact that Recreation has a target cost recovery ratio of 95%.

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Table 3: Tax Supported Requirements for City Services and Administration

Commission/Category	2015		2016		2017		2018	
	\$M	% of Total	\$M	% of Total	\$M	% of Total	\$M	% of Total
Public Works	52.4	30%	53.9	29%	54.8	28%	55.4	27%
Fire & Rescue	43.4	24%	44.7	24%	46.0	23%	45.5	22%
Community Services*	30.5	17%	30.5	16%	33.0	17%	32.2	16%
Strategic and Corporate Services	17.3	10%	18.1	10%	17.5	9%	17.4	8%
Legal and Administrative Services	16.5	9%	17.0	9%	17.5	9%	17.6	9%
Vaughan Public Libraries	15.5	9%	17.0	9%	15.5	8%	15.0	7%
Finance and City Treasurer	8.7	5%	8.5	4%	8.8	5%	8.9	4%
Capital Related Expenditures	5.4	3%	9.1	5%	13.3	7%	20.0	10%
City Manager	4.0	2%	3.9	2%	4.0	2%	4.0	2%
Council, Internal Audit, Integrity Commissioner	2.3	1%	2.3	1%	2.3	1%	2.4	1%
Planning	0.8	0%	0.1	0%	-0.1	0%	-0.3	0%
Corporate Other	-19.2	-11%	-16.4	-9%	-16.8	-9%	-13.5	-7%
Total	177.6	100%	188.8	100%	195.9	100%	204.7	100%
Ice Storm Tree Replacement	0.8		1.5		1.5		1.5	
Total including Tree Replacement	178.4		190.3		197.4		206.2	

**An interim structure is in place for the departments in Community Services whereby they have been distributed among other commissions pending a Council decision on the leadership and structure of the Community Services Commission.
Note: some numbers may not add due to rounding.*

Actions to Mitigate the Budget Pressures

The budgeting process continues to evolve to meet the need of increasing complexities and pressures within the operating budget. Specific actions taken to manage the operating pressures include:

- Increasing user fees, at a minimum, in line with inflation and working towards meeting the cost recovery policy targets set by Council
- Phasing out subsidizations of operating costs from the reserves over five years
- Replacing trees lost in ice storm over seven years and phasing in related tax increase over two years
- Aligning budget allocations to cash flow requirements where resources are only required for part of the year
- Identifying offsets for 2015 additional resource requests of over \$1M, which is 20% of the total request

Additionally, Senior Management Team budget deliberations focused on commission by commission analysis of the full cost of services, both the base and additional resource requests. It should be noted that through staff review of the additional resource requests, a number of requests were deferred to future years.

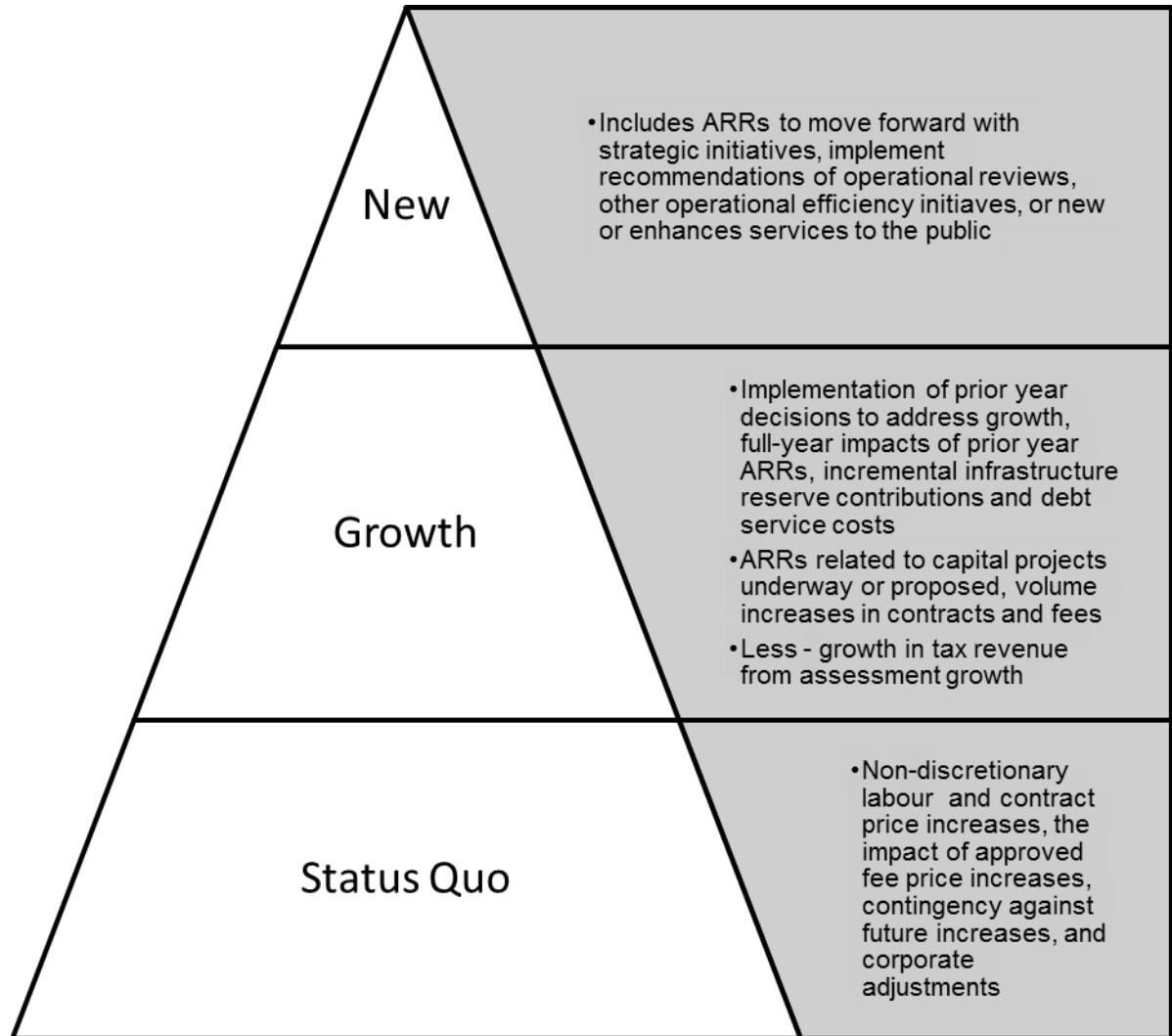
D. A New Perspective: Conceptual Budget Framework

When considering base budget increases and additional resource requests, it is helpful to categorize incremental costs into the following conceptual framework:

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Illustration 2: Conceptual Budget Framework



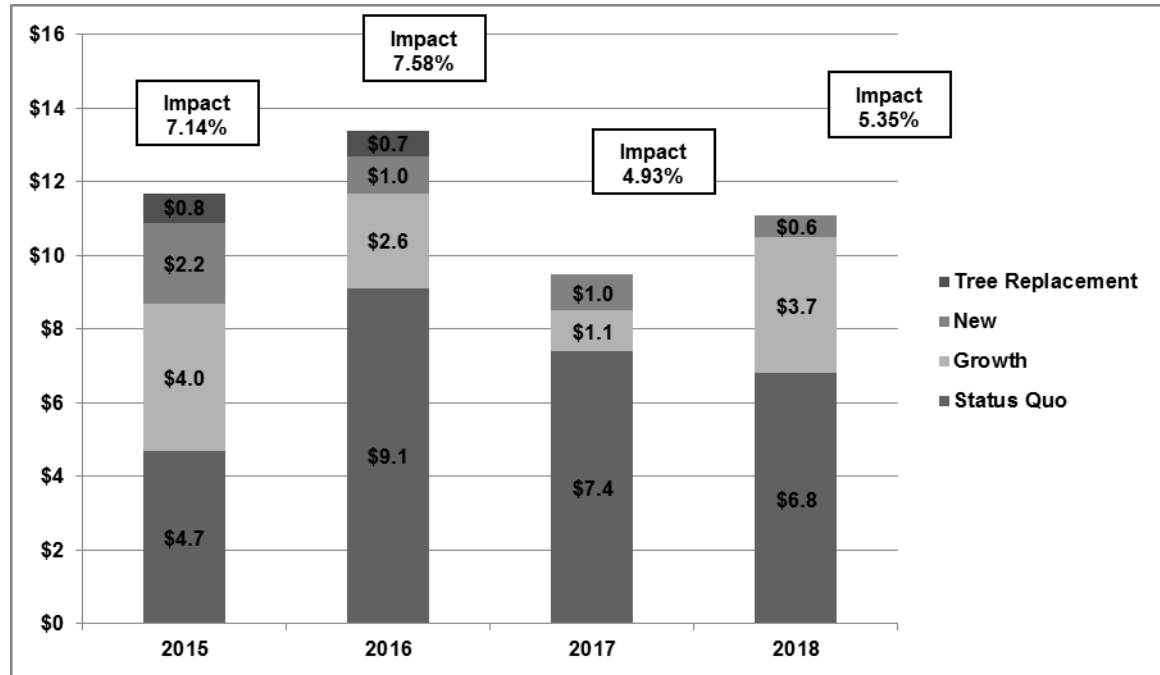
The chart below illustrates the proportion of each year's increase that is attributable to each component in the budget framework.

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Chart 5: Budget Increases per Components of Conceptual Budget Framework



Major pressures in the Status Quo

1. Price Pressures on City Service Delivery

The status quo or normal course of business is based on the particular levels of service that have been established by the City for each of the programs and services provided to residents. Once the type and levels of service are approved by Council, the cost structures required to provide the services are relatively fixed, rising in response to cost increases.

Council confirmed the programs and services offered by the City following a Program Review report to Council on December 13, 2011. The purpose of the review was to benchmark the services and programs provided by the City of Vaughan against other similar municipalities and externally set standards. Services were divided into streams on the basis of the level of Council discretion about the service level. Services were classified as being either mandatory, standard, or premium. Standard Services were further classified as being essential, traditional, or desired.

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Table 4: Program Review

Program Classification	# of Programs	% of Total Budget \$	Example of Service
Mandatory	30	18%	Winter Control, Roads Maintenance, Development Planning, Election, Financial Statements, Financial Planning (Budgets)
Standard Essential	29	35%	Fire and Rescue Operations, Waste Management, Library Collections, Pavement Marking
Standard Traditional	56	26%	Community Centres, Building Construction, Insurance/Risk Management, Tree and Boulevard Maintenance, Roadway Sweeping, Library Research Assistance
Standard Desirable	56	16%	Library Spaces/Places, Horticulture, Trails/Paths/Open Spaces, Sports Fields, Recreational Programs
Premium	33	5%	Path/Sidewalk snow clearing, Windrow Clearing, Crossing Guards, Project Management

Cost increases in the Status Quo are primarily price related and represent changes to the base service delivery model that are wholly non-discretionary. Excluding corporate items, these average in excess of \$5M per year between 2015 and 2018. This is consistent with Vaughan's calculated municipal price index. Like the familiar CPI or Consumer Price Index, the calculated MPI is a way for municipalities to benchmark the cost increases they are experiencing. The components of Vaughan's MPI and how they are calculated are set out in the table below.

Table 5: Municipal Price Index

Component	Inflation Figure	Source	% of Budget	Weighted Average
Salaries and Benefits	2.0%	CoV settlement agreements	58.3%	1.2%
Contracts and Materials	4.0%	5 yr. Average Historical Increase	12.5%	0.5%
Utilities and Fuel	2.7%	Stats Can. Sept 2014 - Energy CPI	3.8%	0.1%
Capital Funding	0.6%	Construction Price Index	2.5%	0.0%
Insurance	17.9%	AMO - 2011 municipal white paper	1.9%	0.3%
All Other	2.1%	Core Inflation - Sept 2014	21.0%	0.4%
Combined Municipal Price Index				2.6%

Note: some numbers may not add due to rounding.

Salaries and benefits are projected to increase by an average of 3% per year. This includes economic adjustments of about 2%, consistent with negotiated labour agreements. It also includes salary progressions for new, growth-related staff complements and increasing benefit costs. A contingency against the impact of future labour negotiations is also included for 2016-2018, after the current agreements expire.

Other department expenditures are trending at annual average increases of 2.8% over the next four years. This includes inflationary adjustments and contract increases for operating expenditures such as utilities, contracts, materials, and insurance premiums.

When growth-related volume changes are excluded, as in the budget framework analysis shown above, both of these are in line with the Municipal Price Index, indicating that these base expenditures are being well managed by the organization.

Corporate adjustments included in the Status Quo are self-offsetting in 2015. Beginning in 2016, corporate adjustments include a contingency of approximately 1% of gross operating costs as a prudence measure against additional unforeseen pressures. Additionally, there is a further impact from decreased investment revenues in 2016, primarily as a result of fluctuating dividend forecasts from PowerStream. Actual dividends received will be dependent on Power Stream's actual net income.

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Additional changes in the Status Quo are a result of revisions to the water and wastewater recovery methodology, \$0.4M, a result of a revised allocation of department costs for water and wastewater related activity and the impact of phasing out the subsidization of current costs from reserves.

2. Phasing-out Subsidization from Reserves

Previous budgets included planned annual draws from the Tax Rate Stabilization Reserve and also anticipated a surplus up to \$2.5 million would be available each year to be carried forward to minimize tax rate increases in the following budget year. The City began phasing out use of these two funding sources over four years. However two events have required the acceleration of the planned phase-out:

- As a result of increased costs to manage the long, severe winter of 2014 the City will not have a surplus to carry forward to 2015.
- To address a one-time charge without requiring additional tax increases, the Tax Rate Stabilization reserve was almost fully depleted in 2013. Consequently, the Tax Rate Stabilization reserve is no longer available to support the DRAFT 2015 Budget and 2016-18 Plan.

If not phased-in, the impact of eliminating these two items would be an incremental tax rate increase of 2.39%. However, since the City has prudently invested in multiple discretionary reserves over the last twenty years, including a Working Capital Reserve, this budget and plan phases-in the impact over 5 years by drawing on the Working Capital Reserve to reduce the impact to 0.5% in 2015, building to 1% in 2018.

Major Growth-related Pressures

The next section, entitled Growth, includes both the remaining items in the base and ARRs that are directly tied to supporting growth, most of which is driven by previous Council decisions.

1. Assessing the growth impact on operating budgets

Assessment growth is indicative of the anticipated new tax revenues resulting from the addition of new households. Although not specifically allocated it is the primary driver of increased revenues that help offset the increasing service requirements associated with community growth. Over the past few years the assessment growth rate has declined from 3% in 2011 to the 2% expected in this DRAFT 2015 Budget and 2016-18 Plan. This is consistent with other growth based revenues, such as building permit fees and development charges.

Initial investments in service delivery capital infrastructure are fixed and primarily funded through development charges. However the related on-going operational and service costs place cumulative, lasting pressures on the operating budget. Consequently, the timing of capital growth, which is primarily discretionary in nature, should align with the timing of the related assessment growth so as to minimize the impact of incremental growth-related operating costs on tax levy requirements.

This concept of 'growth paying for growth' is a theoretical target that is difficult to execute in practice as many factors can affect the outcome. Some infrastructure and associated operating costs are put in place in advance of growth to act as a catalyst for growth such as building new parks or community centres to attract potential residents to a newly developed area. In other cases, community infrastructure is added to a community after significant development has already taken place. Further, the assessment growth related to a particular piece of infrastructure occurs over a number of years. Accurately assessing the growth impact on operating revenues (e.g. impact of increases in volume of fees) is equally important in balancing the timing equation.

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Given these complexities, there generally tends to be a mismatch between assessment growth and increased operating costs associated with growth. Over the course of 2015-2018, the costs of growth are expected to exceed assessment growth by an average of almost \$3 million per year as shown in the table below.

Table 6: Components of Growth

<i>Drivers Of Budget Expenditure Changes:</i>	<i>2015 Budget \$M</i>	<i>2016 Plan \$M</i>	<i>2017 Plan \$M</i>	<i>2018 Plan \$M</i>
Growth-Related Incremental Costs:				
Implementation of Previous Decisions:				
Base budget annualization of previous year fire station 7-5 salary gapping	1.0	0.0	0.0	0.0
ARRs tied to community infrastructure (libraries, parks, fire trucks, community centre)	1.3	3.4	3.6	1.7
Debt service level related to Roads Program	0.5	0.4	-1.9	2.7
Community infrastructure reserve contributions	1.7	1.5	3.6	2.6
Subtotal	4.5	5.4	5.3	7.0
Maintain/Growth:				
Base budget increases in contract and utility volumes	0.6	0.2	0.2	0.3
ARRs to support City services	1.4	1.7	1.2	0.4
User fee and service charge volume	-0.2	-0.5	-0.9	-0.2
Subtotal	1.8	1.4	0.6	0.4
Assessment growth:	-3.2	-3.4	-3.6	-3.7
Total Growth-Related Incremental Costs:	3.0	3.4	2.3	3.7

Note: some numbers may not add due to rounding.

These ARRr include additional staff and operating costs related to newly constructed or planned community infrastructure. Examples include staff for the Civic Centre Resource Library, scheduled to open in November 2015 and staff for the community centre and library planned for Block 11. Council discretion exists primarily on the timing of capital construction to help mitigate any mismatch between incremental operating costs and assessment growth. Growth-related ARRr also include additional staff required to maintain the same standard of service in existing infrastructure as population or service usage growth occurs. The remaining items in the base that are growth related are related to volume increases in contracts and utilities.

It should be noted that through the staff review of the additional resource requests, a number of requests were deferred to future years. While this helps mitigate the tax rate impact in the short-term, it can create a backlog of needs that will need to be addressed in order to ensure that services are maintained. Further deferring incremental growth based operating costs will indirectly compromise service delivery.

2. Community Infrastructure Renewal Requirements

Over the last three decades, Vaughan has transformed from a rural township to a major urban centre³. Assets constructed over this time frame are approaching the end of their useful lives and significant investment in the replacement of these assets is required. In recognition of this, and to spread the cost out over time to minimize tax rate increases, Council adopted an Infrastructure Replacement Reserve Contribution Policy in 2012. This policy approved inflationary adjustments and increased annual contributions based on lifecycle replacement principals for new assets to the infrastructure replacement reserves. Included in this DRAFT 2015 Budget and 2016-18 Plan, are incremental infrastructure reserve contributions and other infrastructure-related expenditures averaging \$2.2M per year, primarily as a result of planned new infrastructure in the City's Block 11 such as the Carrville Community Centre and Library, North Maple Park, and District Parks.

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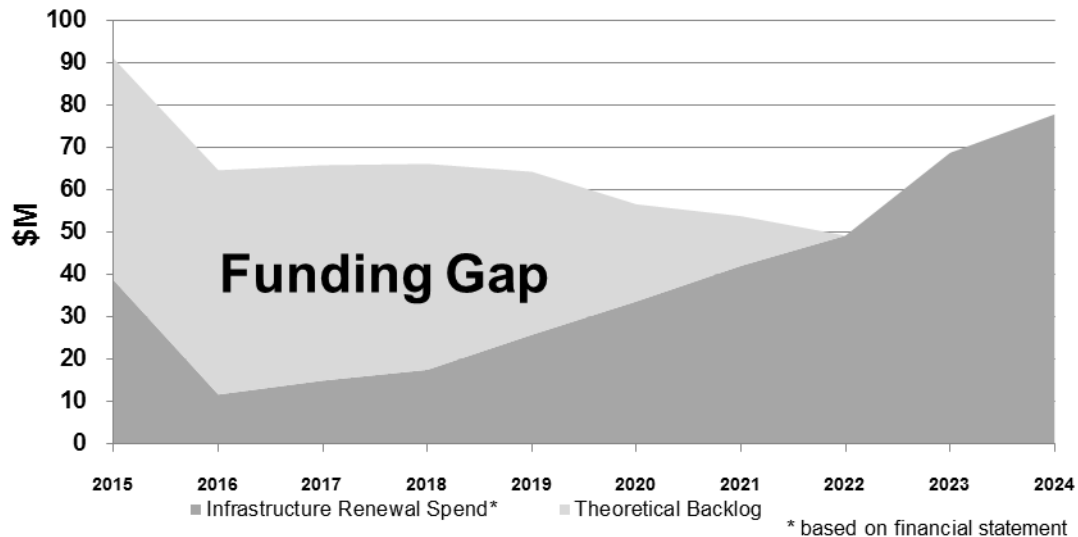
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As illustrated in the chart below, even with contribution levels consistent with the policy, a significant theoretical investment gap exists until at least 2022. Further, contributions made to reserves based on new infrastructure additions are being used to fund the replacement of older assets, until new funding is secured. Finally, this analysis is based on the estimated useful lives of infrastructure assumed in the City's General Purpose Financial Statements. More accurate and relevant estimates will only be possible once the City has completed its implementation of a robust program of asset management and regular condition assessments. The development phase of the Corporate Asset Management Initiative is just about complete with the implementation phase expected to get underway in 2015.

Chart 6: Illustration of Infrastructure Renewal Requirements



To begin to address the forecasted capital asset renewal funding gap, the City has implemented several initiatives, which are positioned to address the infrastructure replacement need on a go forward basis. These initiatives help to prevent the funding gap from increasing but do not address existing infrastructure replacement funding shortfalls. The City is preparing to implement Phase 2 of the Corporate-wide asset management initiative to better understand the condition of the City's assets and timing of maintenance, repair and replacement requirements. This information will provide better information about the financial requirements to sustain the community's infrastructure network.

New Initiatives

1. Transformation-related ARRs

The last component includes all ARRs for new initiatives. These may be to support the transformation of the organization or to provide residents with new or enhanced service levels. Almost all of these ARRs are in support of the transformation of the City's administration and service delivery functions.

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Table 7: Components of New Initiatives

<i>Rationale (\$M)</i>	<i>2015 Budget</i>	<i>2016 Plan</i>	<i>2017 Plan</i>	<i>2019 Plan</i>
Supporting Transformation	2.1	0.9	0.8	0.6
New/Enhanced Services	0.1	0.1	0.2	0.0
Additional Resource Requests	2.2	1.0	1.0	0.6
Levy % increase related to ARRs	1.35%	0.58%	0.51%	0.29%

Note: some numbers may not add due to rounding.

This DRAFT 2015 Budget and 2016-18 Plan includes 45 ARRs that have been identified as being in support of the transformation of the organization. These include requests related to advancing Council approved strategic priority initiatives to implement Vaughan Vision 2020, requests related to implementing Operational Review recommendations, and requests that, while not specifically tied to either one of the above, have identified the achievement of operational efficiencies as a primarily rationale for the request.

One of the fourteen strategic priority initiatives is the implementation of the Corporate IT Strategy. Of the 45 transformation-related additional resource requests, 16 are for this purpose. The additional resource requests represent a staged implementation plan that advances other priority initiatives such as Corporate Asset Management, contributes to excellence in citizen service delivery, enables departments to modernize their business process, and supports implementation of Operational Review recommendations. Where possible, the department has identified resources that can be repurposed to provide partial offsets for these requests.

On September 3rd, 2014, the Department of Innovation and Continuous Improvement reported to the Finance, Administration, and Audit Committee that it had completed five operational reviews and made over 70 recommendations.

- Solid Waste
- Fleet Management
- By-law and Compliance
- Procure to Pay
- Winter Control

Some of the recommendations were for one-time investments in significant process re-design, organizational changes, and technology supports to gain efficiencies and improve citizen or stakeholders experiences. The report noted that implementation of all recommendations could result in a combination of cost savings and future annual cost avoidance. The report also noted significant risk to the organization by not proceeding with the recommendations. Further details were provided in the above noted report. It should be noted that for many of the recommendations, the potential benefits are difficult to quantify until initial resources are applied and work begins.

One of the investments recommended is a transformation of the Procure to Pay cycle. From the 16 recommendations outlined in the review, priorities included strengthening the governance framework, updating policies / procedures and training, more broadly leveraging the capabilities of the City's Enterprise Resource Planning system and implementing performance measurements to support continuous improvement. Future P2P efficiency savings are expected through cost avoidance, reduced transaction costs and improved payment terms. Revised cost estimates to implement changes identified a one-time investment funded by repurposing existing capital projects and two additional resources, one each for the Purchasing and Financial Services departments.

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The remaining transformation-related additional resource requests have been put forward by departments to enable the achievement of better service delivery and operational efficiencies through process redesign and re-alignment of resources.

It should be noted that through the staff review of the additional resource requests, a number of requests were deferred to future years. While this helps mitigate the tax rate impact in the short-term, it can create a backlog of needs that will need to be addressed in order to ensure that services are maintained or efficiencies are achieved. In addition, there are other City initiatives, currently being developed, for which the timing is beyond the plan or financial implications cannot yet be estimated. As these initiatives progress to the implementation stage they will directly compete with the requests that have been deferred. This situation highlights the need to continue to improve the City's ability to plan resource requirements over an extended time horizon. The additional resource requests in each category are included in Attachment 3.

2. Ice storm Recovery – Tree Replacement

The cost to the City due to the December 2013 ice storm is expected to total approximately \$18.1M. The Provincial Ice Storm Assistance program will assist affected municipalities with all eligible disaster related clean up expenses related to the ice storm. However, a large portion of the cost to the City, approximately \$7.2M, will be the replacement of trees lost in the storm which the Province has ruled is ineligible for reimbursement. If no additional funding is allocated, it would take well over 10 years to replace the trees damaged in the ice storm.

One way to speed up the replacement of the tree canopy is to provide dedicated funding to an expanded and temporary tree replacement program. In an item to Council in June of this year, the Public Works Commission detailed a 7 year plan to replace all trees lost in the ice storm (as well as catching up on an existing back log of tree replacements) with the focus being on residential trees, which would all be replaced by 2018. A Special Ice Storm Tree Replacement Levy is being recommended to provide \$1.5M in funding annually. The DRAFT 2015 budget and 2016-18 Plan phases this special levy in over two years at an average annual impact of 0.5%.

Summary

The following table summarizes the net pressures in the operating budget according to the above framework.

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Table 8: Conceptual Budget Framework: Summary of Net Pressures

<i>Drivers Of Budget Expenditure Changes:</i>	2015 Budget \$M	2016 Plan \$M	2017 Plan \$M	2018 Plan \$M
Existing Cost Base and Normal Course of Business:				
Economic salary adjustments & progressions	4.9	2.3	2.1	1.2
Negotiated contract price increases, utilities, other	0.5	1.7	2.3	1.3
New user fees and user fee price increases	-0.1	-0.5	-0.4	-0.4
Net corporate changes	0.4	4.7	2.3	4.8
Total Existing Cost Base and Normal Course of Business:	5.7	8.2	6.3	6.8
	3.46%	4.63%	3.25%	3.29%
Growth-Related Incremental Costs:				
Implementation of Previous Decisions:				
Base budget annualization of previous year fire station 7-5 salary gapping	1.0	0.0	0.0	0.0
ARRs tied to community infrastructure (libraries, parks, fire trucks, community centre)	1.3	3.4	3.6	1.7
Debt service level related to Roads Program	0.5	0.4	-1.9	2.7
Community infrastructure reserve contributions	1.7	1.5	3.6	2.6
Subtotal	4.5	5.4	5.3	7.0
Maintain/Growth:				
Base budget increases in contract and utility volumes	0.6	0.2	0.2	0.3
ARRs to support City services	1.4	1.7	1.2	0.4
User fee and service charge volume	-0.2	-0.5	-0.9	-0.2
Subtotal	1.8	1.4	0.6	0.4
Assessment growth:	-3.2	-3.4	-3.6	-3.7
Total Growth-Related Incremental Costs:	3.0	3.4	2.3	3.7
	1.84%	1.92%	1.16%	1.76%
New Initiatives and Service Level Enhancements:				
Organizational transformation initiatives	2.1	0.9	0.8	0.6
New services or enhanced level of services	0.1	0.1	0.2	0.0
Total New Initiatives and Service Level Enhancements:	2.2	1.0	1.0	0.6
	1.35%	0.58%	0.51%	0.29%
Net Tax Levy	10.9	12.7	9.6	11.1
Tax Rate Impact	6.65%	7.13%	4.93%	5.35%
Ice Storm Tree Replacement Levy	0.49%	0.45%	0.00%	0.00%
Total Levy Impact	7.14%	7.58%	4.93%	5.35%

Note: some numbers may not add due to rounding.

The following table illustrates how the 2015 Incremental Levy requirement is distributed among Commissions and major categories.

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Table 9: Conceptual Budget Framework: Summary of Incremental Levy Requirement

2015 Net Budget Change by Commission/Category	2015 Draft Net Budget Change INC/(DEC) \$M			
	Existing Cost Base and Normal Course of Business	Total Growth-Related Incremental Costs	New Initiatives and Service Level Enhancements	Total 2015 Net Budget Change
Public Works	-1.4	0.8	0.0	-0.6
Community Services*	0.9	0.2	0.0	1.1
Fire & Rescue	1.6	1.1	0.3	3.0
Legal & Administrative Services	0.8	0.2	0.5	1.4
Strategic & Corporate Services	0.5	0.8	0.7	2.0
Vaughan Public Libraries	0.3	1.3	0.0	1.6
Planning	0.1	-0.2	0.2	0.1
Finance & City Treasurer	0.1	0.0	0.4	0.5
City Manager	0.1	0.1	0.0	0.2
Council, Internal Audit & Integrity Commissioner	0.1	0.0	0.1	0.2
Infrastructure-Related Expenditures	0.0	2.1	0.0	2.1
Corporate Other	2.6	-3.2	0.0	-0.6
Total	5.7	3.0	2.2	10.9
Tax Rate Impact	3.46%	1.84%	1.35%	6.65%
Ice Storm Tree Replacement Levy	0.49%	0.00%	0.00%	0.49%
Total Levy Impact	3.95%	1.84%	1.35%	7.14%

Note: some numbers may not add due to rounding.

E. Exclusions from the Operating Budget

The City's DRAFT 2015 Budget and 2016-18 Plan is developed excluding amortization expense and post-employment benefits. The costs and associated tax implications of budgeting for amortization and post-employment benefits would be significant.

The main reasons for the funding differences are:

1. The majority of the City's assets are funded by the development industry, leaving the City to fund renewal costs, primarily through taxation. The City's Infrastructure Replacement Reserve Contribution Policy requires that a portion of the expected replacement cost of assets be raised through taxation each year to help smooth out potential large tax increases when replacements are required.
2. The City funds its post-employment benefit costs as payments are made. There is a large gap between current funding and the liability for post-employment benefits recorded in the annual audited financial statements. It should be noted that there is a surge in future post-employment benefits caused by staffing requirements to service growth, whom are eligible for post-retirement benefits after 5 years of service.

Ontario Regulation 284/09 – "Budget Matters – Expenses" states that municipalities may exclude from annual budgets all or a portion of expenses for amortization, post-employment benefit expenses and solid waste landfill closure and post-closure expenses, but does require Council be informed of the above action including the estimated change in the year-end accumulated surplus and estimated impact of the excluded expenses on the municipal funding requirements. It is important to note these expenses are recognized and reflected in the City's annual financial statements, but they are not fully funded through the City's budget and tax levy since they represent "non-cash" charges.

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Table 10: Impact of Excluded Expenses/Estimated Change in Accumulated Surplus

<i>Funding vs. Amortization \$M</i>	<i>Annual Budget Funding</i>	<i>Prior Year Amortization</i>	<i>Gap</i>
City Asset Renewal*	25.4	46.5	21.0
City Post-Employment Benefits	1.3	14.0	12.7
Combined	26.7	60.5	33.7

**Excludes Water and Waste Water (Separate Process)*

Reporting on solid waste landfill closure and post-closure expenses is not applicable in Vaughan

Note: some numbers may not add due to rounding.

F. Capital Budget Overview

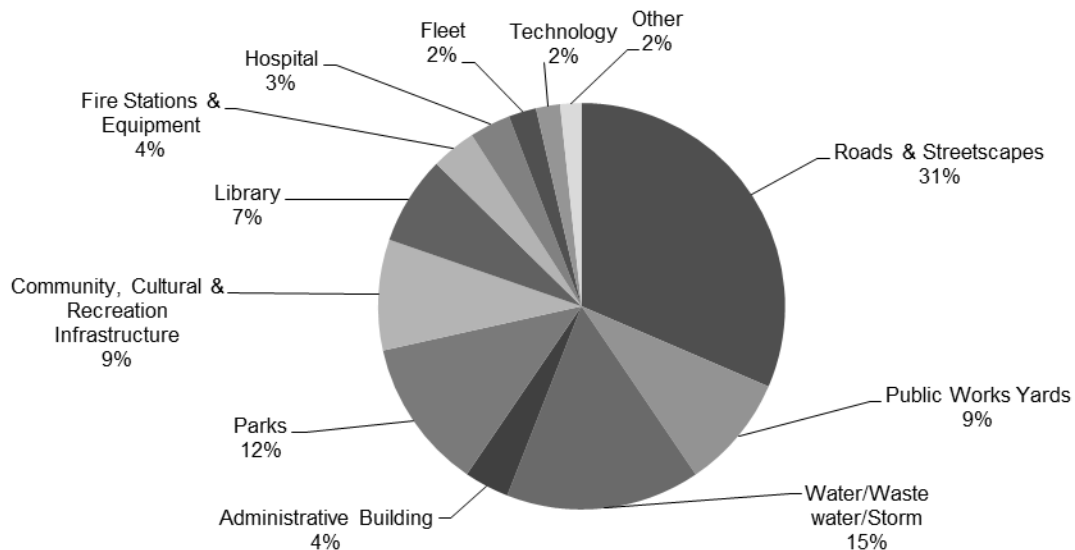
Infrastructure: The foundation of a vibrant City

One of the key functions of a municipal government is to ensure that the necessary infrastructure is in place to support a vibrant, sustainable municipality. New capital is a driver of development to entice new residents and businesses to call Vaughan home. Renewal investments are equally important to maintain existing assets in a state of good repair or replace assets at the end of their useful life.

Vaughan's capital plan of the City includes projects underway, projects recognized in previous capital plans, and new requests. For recognized projects that are planned to take place in future years, and for new requests, a key function of SMTs review is to ensure that there is capacity to deliver, an alignment between capital and operating components.

It should be noted that most new capital will result in incremental operating costs, highlighting the importance of integrated capital and operating planning. The timing of capital investment is discretionary and impacts how well aligned assessment growth is with the incremental operating costs of growth-related infrastructure investment. Incremental operating costs occur as soon as an infrastructure asset goes into service but the taxation revenue growth occurs more slowly as an area is built out and occupied. Included in growth related operating pressures is \$1.4M of incremental operating costs directly tied to the capital plan.

Chart 7: Capital Projects: Open + New Submissions



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G. Capital Budget Approach

There is a need to balance the investment in capital with the resource capacity of the City. Open capital projects are monitored closely through the quarterly reporting process to ensure that projects are being closed in a timely manner. The number and reasons for open capital projects are also considered when evaluating new submission.

New submissions need to be evaluated not only on the financial capacity to fund the works, but also on the capacity of departments to manage the additional capital projects so that the capital plan can be completed in a suitable timeframe.

Guiding Policies

Over time, the City has developed a series of guiding financial policies to assist in developing the Capital Budget. The City is primarily responsible for funding replacement infrastructure and for funding the ten percent co-funding requirements for DC funded growth capital. These projects are primarily funded through taxation. The City has adopted reserve funding and debt financing to smooth out the costs and minimize the need for large infrastructure-related tax rate increases. To ensure the sustainability of these tools, the City has adopted associated targets. As illustrated below, the City is meeting or exceeding these targets.

Table 11: Policy Ratios

Policy Ratio	2014	2015	2016	2017	2018	Target
Discretionary Reserve	69.6%	57.5%	53.6%	53.0%	54.9%	>50% Of Own Source Revenues
Working Capital	9.8%	9.3%	8.3%	6.8%	5.7%	Up To 10% Of Own Source Revenues
Debt Service Costs	6.2%	6.0%	6.6%	6.2%	4.7%	<10% Of Own Source Revenues

**Ratios are affected by contribution and own source revenue forecasts*

Note: some numbers may not add due to rounding.

Discretionary reserves provide the City with financial flexibility in order to safeguard against economic downturns and finance operations internally. This ratio is a strong indicator of Vaughan's financial health. The decrease in the 2015 discretionary reserve ratio is related to a number of capital projects and reserve transfers.

Working capital funds provide in-year cash flow requirements. The decrease in the 2015 ratio is due to phasing out the impacts of the eliminated tax rate stabilization reserve and the carryforward. The reserve is anticipated to recover to 5% by 2018. Contributions to this reserve are surplus based, which are not planned or forecasted, only applied once realized.

The Debt Policy sets limitations on the use of debt in order to retain financial flexibility by avoiding long-term commitments and the high cost of interest. The City's policy limits debt to a maximum of 10% of total City revenue, which is significantly lower than the Province's 25% maximum. This ratio is relatively stable over the capital plan. There is a large debt retirement in 2017. However, there is pressure on debt financing to address a number of significant capital projects i.e. Black Creek, Works Yard, and City Hall Square without other funding sources.

Actions to Manage Capital Budgets

The budgeting process is constantly evolving to the needs and requirements of departments, management, Council and the community. Detailed within this section are brief highlights of actions that help to manage the capital program.

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Actively Closing Projects - Continuing with past practice, staff together with departments review projects to determine if projects can be closed. Any remaining project budget balance is returned to the original funding source. As a result of this action, to date staff have closed 104 projects in 2014 returning \$5.0M to their original funding sources. These efforts are part of the ongoing quarterly review and reporting process.

Leveraging Grant and Subsidy Funding - To support local municipal initiatives, Federal, Provincial, Regional and local agencies deliver grant programs, partnerships, and subsidies which focus primarily on environmental sustainability, infrastructure, economic development, culture, etc. Competition for these resources is high and successful submissions may require strict compliance reporting and conditions. Below are grant programs which are incorporated into the Capital Plan:

- Gas tax funding - \$8.3M annually
- Regional Pedestrian and Bicycle Partnership Program
- Canada Cultural Spaces Fund
- Green Municipal Fund
- Places to Grow
- Invest Canada Community Initiative
- Tree Canada

Capital Submissions

Guided by the Vaughan Vision, the Corporate Planning process and the business planning efforts, departments prepared capital project submissions for a 4 year period. Following the initial submissions, Finance staff met with the individual departments to review projects and clarify available funding. For funding sources with competing department interests, primarily Capital from Taxation, project submissions were also reviewed by the Directors' Working Group and Senior Management Team. As a result some projects were adjusted and redistributed within planned 2016-2018 years, or deferred beyond the plan. The below chart illustrates the transition of submitted capital requests into a more balanced plan.

Table 12: Capital Submissions Vs Draft Capital Budget

Capital Projects	2015 Budget		2016 Plan		2017 Plan		2018 Plan		2019+ Plan	
	#	\$M	#	\$M	#	\$M	#	\$M	#	\$M
Original Submission	180	90.2	133	109.6	108	109.4	128	65.2	149	96.7
Adjustments made during Staff budget review process	-18	-3.2	5	1.3	11	0.4	-33	-1.6	35	2.0
Draft Capital Budget	162	87.0	138	110.9	119	109.9	95	63.5	184	98.7

Note: some numbers may not add due to rounding.

Funding Sources

Based on the above noted financial policies, Finance staff assessed the availability of funding for the DRAFT 2015 Budget and 2016-18 Plan. It should be noted that a long standing City practice is only capital projects with secured available funding sources may proceed without a specific Council approval. Each annual plan is funded from a variety of sources. The chart below illustrates how the DRAFT 2015 Capital Plan is funded:

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Table 13: Funding the Capital Plan

Funding Source (\$M)	2015 Budget	2016 Plan	2017 Plan	2018 Plan	2019+ Plan	Total
Development Charges	41.0	68.6	34.5	23.5	25.7	193.4
Debentures	4.0	6.9	43.2	12.2	50.5	116.8
Reserves	18.7	15.4	14.0	10.7	9.2	68.1
Taxation	7.4	11.0	9.9	9.2	8.4	46.0
Gas Tax	15.3	7.7	7.7	7.1	4.6	42.5
Grants & Other Financing	0.5	1.2	0.6	0.8	0.2	3.3
Grand Total	87.0	110.9	109.9	63.5	98.7	469.9

Note: Due to a few large growth projects and corporate initiatives, the Capital Plan for 2017 to 2019+ includes an unfunded balance, which is further discussed in the report's capital from taxation section. Some numbers may not add due to rounding.

The following chart illustrates how projects within the overall capital plan are distributed among commissions.

Table 14: Capital Plan by Commission/Category

Commission/Category (\$M)	2015 Budget	2016 Plan	2017 Plan	2018 Plan	2019+ Plan	Total
Public Works	50.5	44.4	60.4	44.2	72.0	271.5
Community Services	21.0	48.8	39.4	12.2	18.3	139.7
Libraries	5.8	6.3	3.8	3.1	6.1	25.1
Fire & Rescue	2.1	8.7	3.0	1.4	1.0	16.3
Strategic & Corporate Planning	1.4	1.3	1.4	2.0	1.1	7.2
City Manager	4.2	1.1	1.3	0.3	0.0	6.9
Legal & Administrative Services	1.5	0.0	0.0	0.0	0.0	1.5
Finance	0.4	0.3	0.3	0.3	0.0	1.2
Grand Total	87.0	110.9	109.9	63.5	98.7	469.9

Note: some numbers may not add due to rounding.

Operating Implications of Capital Investment

Many of the above capital programs have associated operating implications. These costs are embedded in the City's growth-related expenditures in the base or additional resource requests as explained in the conceptual budget framework. Operational requirements include staff and associated operating costs of new infrastructure. These will typically be lower in the first year due to the construction timing involved. Debenture financing is primarily leveraged for the City's roads program. Infrastructure contributions are required to begin funding the ultimate replacement of infrastructure funded through the development community. Should the Committee recommend additional capital projects or move projects forward there could be additional tax rate implications associated.

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Table 15: Operating Impacts Associated with Capital

<i>Items</i>	<i>2015 Budget</i>			<i>2016 Plan</i>			<i>2017 Plan</i>			<i>2018 Plan</i>		
	<i>\$M</i>	<i>Tax Rate</i>	<i>\$/ HH</i>	<i>\$M</i>	<i>Tax Rate</i>	<i>\$/ HH</i>	<i>\$M</i>	<i>Tax Rate</i>	<i>\$/ HH</i>	<i>\$M</i>	<i>Tax Rate</i>	<i>\$/ HH</i>
Operational Requirements	1.4	0.84%	11	3.3	1.84%	25	3.7	1.89%	28	2.0	0.95%	15
Debenture							-					
Financing	0.5	0.66%	8	0.4	-0.42%	-6	1.9	-1.77%	-26	2.7	1.06%	16
Infrastructure Contributions												
**	1.7	1.02%	13	1.5	0.86%	12	3.6	1.83%	27	2.6	1.22%	19
Total*	3.5	2.52%	32	5.3	2.28%	31	5.4	1.94%	28	7.3	3.23%	50

* Figures represent the estimated operating implications associated with the capital program. These operating implications are incorporated in the operating budget. /HH indicates the equivalent increase per household.

** Includes incremental increases for Infrastructure reserve contributions, debt servicing costs, and Capital from Taxation.

Note: some numbers may not add due to rounding.

H. Capital Budget and Plan by Funding Source

The Capital Budget and Plan is based on more than 600 projects covering a number of departments. To assist stakeholders in assessing the DRAFT 2015 Capital Budget and 2016-2018 Plan, the overall financial perspective is summarized by funding source. The following section is dedicated to providing capital highlights associated within the following funding sources:

- A. Development Charge (DC) Reserves (Development Industry Funded Projects)
- B. Capital Reserves
- C. Debenture Funding
- D. Capital from Taxation
- E. Municipal Gas Tax Funds (AMO)

Summaries, Schedules and Capital Project Detail

1. Capital Project Listing and Funding Summaries Schedules:

To assist the reader review the Capital Budget, a listing of all projects by year for each department is provided in Attachment 2. Also provided in Attachment 4 are capital project summaries by funding source.

2. Reserve Continuity Schedules:

Attachment 4 provides the ten year reserve continuity schedule for all City reserves.

3. Detailed Capital Project Submissions:

Appendix B includes all capital project detail sheets. At the front of Appendix B is a list of all capital projects by year, department and project number order. The list references an index number that corresponds to the project detail sheet page number in the document.

Please note: Some of the above attachments are very large and are not included with the printed agenda. One hardcopy version is available in the Clerks department. However, these attachments are available electronically on the City's website.

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A. Development Charge (DC) Reserves (Development Industry Funded Projects)

Development Charge Reserves are based on the City's growth and are meant to provide historical service levels to new residents. Stakeholders are cautioned that development charge reserve collections are dependent on the economy and therefore opening balances and capital plans may require adjustment to account for potential upswings or downward trends. For forecasting purposes, collections are conservatively estimated at approximately 80% of development change growth revenue projections. It should be noted that collection projections may have changed impacting reserve balances and project timing. The City's 2013 Development Charges Background Study was approved by Council in April of 2013.

For projects funded from Development Charges, the following guidelines previously approved by Council were taken into consideration:

1. Reserve balances should remain positive and not placed into a pre-financing position
2. Pre-financing should not be increased
3. Commit no more than 50% of annual revenues for reserves in a pre-financed position

Based on the above endorsed guidelines, Finance staff assessed funding availability and established annual funding lines for each Development Charge Reserve. Within each reserve, capital projects were prioritized by the related departments. Highlighted below is the consolidated budget for this funding source and selected examples of associated capital projects:

Table 16: Development Charge Funded Projects (with Examples)

2015 Budget(\$M) 41.0 Major Projects	2016 Plan(\$M) 68.6 Major Projects	2017 Plan(\$M) 34.5 Major Projects	2018 Plan(\$M) 23.5 Major Projects
Carrville Cc, Library & District Park	Carrville Cc, Library & District Park	Huntington Road Watermain	Uv1-N29 - Block 47 Park
North Maple Regional Park	Block 61 CP Railway Pedestrian Crossing	Block 61 CP Railway Pedestrian Crossing	Uv1-N25 - Block 40 Park
Vellore Village South Library	Uv2-D1-Block18 Park	Uv2-D1-Block18 Park	Cc11-N1 Park
Uv1-D4 - Block 40 Park	Fire Stn 7-4 Expansion	Block 59 Sports Field	
	Black Creek Renewal	Fire Stn 7-6 Aerial	Black Creek Renewal

Note: More specific detail can be found in Attachment 4 or Appendix B

Negative Reserve Balances:

As per policy, the City will only approve capital projects if funds are on hand. However, there are the following exceptions:

1. Management Studies - Due to timing of events this reserve is permitted to be in a deficit position. Growth related studies are incurred in advance of growth and recovered through subsequent development charges.
2. Fire DC Reserve - A Council commitment to move forward with Fire Station 7-10 has temporarily placed this reserve into a pre-financing negative reserve position, which through future collections and spending constraints was anticipated to recover to a positive balance. However, this forecast has changed as a result of collections timing and adjustments to the 2015-2018 capital plan to better reflect service level requirements. The unfunded position is planned to continue as a result of the difference in service level measures. The Fire &

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3. Rescue Services department is measured by response time which is greatly impacted by intensification and traffic congestion. The Development Charge document provides new development funding based on a historical service level per capita measure. The two measures provide very different project timing and funding needs, which will require further discussion to address the forecast trend and service requirements.
4. Public Works DC Reserve – This reserve is forecasted to enter into a negative position in 2019 due to the planned Joint Public Works/Parks New West Yard. Construction of this yard is planned ahead of the timing of the DC collections.
5. Special Area Charges – These reserves relate to projects generally built by developers, which will be funded by the City once funds are collected and available. Although the reserves illustrate a negative position after commitments, these reserves will never be in a deficit cash position as payments will only occur when funds are on hand.

B. Capital Reserves

Infrastructure Reserves

Infrastructure Reserves are discretionary reserves that have been set aside by policy to fund infrastructure renewal and replacement. Asset construction, during the height of Vaughan's growth over the last thirty years are beginning to near their useful lives, as such the requirements for renewal will come on-line just as rapidly as they were built. Annual allocations of tax funding to these reserves, based on estimated useful lives of new assets, help to spread the cost of replacement out over time to minimize tax rate increases. The chart below illustrates the reserve funding available over the next several years.

Table 17: Infrastructure Reserve Funding of Capital Plan

<i>Funding Source (\$M)</i>	<i>2015 Budget</i>	<i>2016 Plan</i>	<i>2017 Plan</i>	<i>2018 Plan</i>	<i>2019+ Plan</i>	<i>Total</i>
Water Reserve	7.6	3.4	5.4	4.6	0.0	21.0
Pre-B& F Infra. Reserve	3.7	1.2	0.8	0.5	0.3	6.5
Library Materials Reserve	1.5	1.7	1.8	1.8	2.0	8.8
Information Technology Asset Replacement	1.1	1.1	1.1	1.1	0.0	4.6
Fire Equipment Reserve	1.0	3.0	0.9	0.1	0.0	5.0
Parks Infra. Reserve	1.0	3.4	3.3	1.1	1.1	9.9
Vehicle Reserve	0.9	0.7	0.6	1.4	5.5	9.1
Sewer Reserve	0.8	0.1	0.0	0.0	0.0	0.9
Roads Infra. Reserve	0.6	0.0	0.1	0.0	0.0	0.7
Keele Valley Landfill Reserve	0.2	0.0	0.0	0.0	0.0	0.2
Uplands Revenue Reserve	0.1	0.7	0.1	0.1	0.3	1.2
Heritage Reserve	0.0	0.0	0.0	0.0	0.0	0.0
Grand Total	18.7	15.4	14.0	10.7	9.2	68.1

Note: some numbers may not add due to rounding.

Highlighted below is the consolidated budget for this funding source and selected examples of associated capital projects:

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Table 18: Infrastructure Reserve Funded Projects (with Examples)

2015 Budget(\$M)	2016 Plan(\$M)	2017 Plan(\$M)	2018 Plan(\$M)
18.7	15.4	14.0	10.7
Major Projects	Major Projects	Major Projects	Major Projects
Library Resources	Library Resources	Library Resources	Library Resources
Rd/Watermain Rehab	Rd/Watermain Rehab	Rd/Watermain Rehab	Rd/Watermain Rehab
Kleinburg United Church Renovation	Replace 7972 Pumper	Replace 7955 Aerial	Promenade Green Park-Tennis Court
Replace 7966 Rescue	Replace 7971 Pumper	Vellore Village Cc - Soccer Field	

It should be noted, infrastructure renewal is also funded from other sources discussed within this report, such as capital from taxation, debentures, gas tax, etc. The total annual capital budget allocated to infrastructure renewal averages \$33M/year or approximately 37% of capital plan.

The Uplands Reserve is currently experiencing challenges. The purchase of a chairlift has placed this reserve in a negative position. As well, there continues to be a need to fund capital initiatives which results in this reserves continued negative position. Revenues received from Uplands are insufficient to replenish this reserve over the forecast timing.

Other Reserves

There is one reserve that is in a negative position: Sale of Public Lands. Due to timing of events this reserve is permitted to be in a deficit position. Typically the construction capital project occurs in advance of the land disposal. However, the commitment is recorded and only recovered once the land sale proceeds are received.

Innovation Reserve

The creation of an Innovation Reserve was approved in 2012 to provide seed funding for innovative propositions which require upfront investment. Departments with projects that qualify submit a business case which is reviewed by the Directors' Working Group and the Senior Management Team. The business case includes the requirement for a payback schedule, indicating the efficiencies or revenue generation anticipated to result from the initiative.

There were two applications submitted this budget cycle. Attachment 5 provides the detailed applications and payback calculations. Below is a summary of the requests:

i. Office of Partnerships

The Executive Director has put forward a request for seed funding to create an Office of Partnerships which will be the centralized point of coordination and contact for the Municipal Sponsorship Program. This program is intended to assist the City in generating revenues which will take some pressures off the tax base through opportunities such as naming rights, signage, product placement, advertising on vehicular assets, website, co-branding, exclusivity agreements, supplier agreements, loyalty programs and event sponsorship. This program is supported by a consultant report by The Centre of Excellence for Public Sector Marketing called "Marketing Partnerships: Strategy and Implementation Plan" provided to the City and presented to Council in November 2013. Within the report the estimated costs of running the program are outlined as well as the estimated potential revenue that could be generated by the program. An initial investment of \$1.01M, including a 10% interest component, is requested with an estimated payback period of 4 years.

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ii. Fire Training Tower

Fire and Rescue Services has put forward a request for funding to construct training tower facilities at the JOC. Fire and Rescue Services must have a high degree of competence in order to ensure the health and safety of its firefighters and meet service level standards. The primary function of the facility would be used to train Vaughan's firefighters in the latest techniques of firefighting and control of emergency situations. A training tower would result in approximately \$35K in savings per year for training, as well as provide for the possibility for new revenue generation for the City. There are several different organizations that require fire tower training facilities and there is a great deal of competition for the time slots currently available in the GTA. The addition of a training tower in Vaughan would service college pre-service programs, regional training schools, Municipal Health and Safety Association, private training companies and York Region Fire Services. An initial investment of \$1.32M, including a 10% interest component, is requested with an estimated payback period of 10 years.

C. Debenture Funding

Debenture funding is primarily utilized for the City's road and bridge replacement program. Due to the overall substantial asset value and its lengthy life cycle, utilizing long-term debt is a prudent strategy to spread these costs over time. The project values planned for the DRAFT 2015 Budget and 2016-18 Plan are as follows:

Table 19: Debenture Funded Projects

\$M	2015 Budget	2016 Plan	2017 Plan	2018 Plan
Debenture Projects	4.0	6.9	43.2	12.2

Where funding opportunities exist, available gas tax funding is utilized to reduce required borrowing. Available gas tax funding was leveraged to avoid \$6.0M of borrowing in 2015 and \$10.9M of borrowing in 2016. The closing of past stimulus related projects resulted in funds returned to the Gas Tax reserve, providing the opportunity to fund project from Gas Tax rather than debenture financing. This is a prudent measure which frees up future financial flexibility and reduces the interest component associated with this funding source.

An emerging trend in the capital plan is pressure in the later years for large capital projects with limited or undetermined funding sources i.e. Black Creek Renewal, Joint Public Works/Parks Yard, City Hall Public Square. To balance the budget, debenture financing has been identified as the default funding source. This action results in a significant escalation in debt costs in future years just beyond the forecast. Although debt service costs are well within the 10% policy target, they are forecasted to approach the City's policy threshold within 6 years if alternative funding sources are not identified for some of these large projects. Staff will continue to investigate the availability of alternate funding sources.

D. Capital From Taxation

Each year's operating budget includes an allocation to fund capital projects that are not otherwise funded through Development Charges, reserves, or debentures. These projects are generally of two types:

- Development charge capital project co-funding requirements, as specified in the Act, typically 10% for soft services e.g. libraries, recreational complexes, parks, vehicles, related studies, etc., but could be higher depending on the benefit to the existing population.
- Non-growth related projects which have no other funding source such as new initiatives, technology replacement, new infrastructure beyond development charge service levels, etc.

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The DRAFT 2015 and 2016-18 Plan allocates an average of \$6.8M annually to “Capital From Taxation” funded capital projects. Finance staff along with the Directors’ Working Group reviewed and prioritized capital project submissions, which were then forwarded to the Senior Management Team (SMT) for further review and prioritization. The criteria used to prioritize projects within this funding source, in order of priority, are:

1. Legal or Regulatory requirements (including financial commitments)
2. Co-funding for growth related projects
3. Infrastructure repair projects
4. Equipment replacement projects
5. New service levels

Based on the Directors’ Working Group and SMT reviews some projects were redistributed within the 4 year capital plan and others deferred beyond the plan’s horizon. However, due to large growth co-funding projects and corporate initiatives, there still remains an unfunded portion 2016 through 2018.

The new Carrville Community Centre and Library require a large co-funding requirement, representing almost 60% of the 2016 funding amount. This highlights pressures the City is facing to balance existing services, growth requirements and corporate initiatives against limited available funding. The table below highlights the project types, budgets, the extent of the funding shortfall in the outer years, and value of original submissions.

Table 20: Capital From Taxation Project Type Funding

<i>Project Type (\$M)</i>	<i>2015 Budget</i>	<i>2016 Plan</i>	<i>2017 Plan</i>	<i>2018 Plan</i>
Health & Safety	0.1	0.0	0.2	0.0
Legal/Regulatory	0.1	0.2	0.1	0.0
Growth Co-Funding	2.8	2.1	3.2	2.7
Annual Replacement Program	2.5	1.7	4.4	3.2
Technology Replacement	0.4	0.5	0.3	1.0
New Initiative	0.3	0.4	3.1	4.3
Total	6.7	9.5	8.4	7.7
Available Funding	6.7	6.8	6.9	6.9
Difference	0.0	-2.7	-1.5	-0.8

Note: some numbers may not add due to rounding.

As discussed in the operating section, the 2013 Ice Storm resulted in a large depletion of the City’s tree canopy. As a result, Public Works presented a plan in June 2014 to replace all the trees lost over a seven year time frame at an annual cost of \$1.5M. The DRAFT 2015 Budget and 2016-18 Plan proposes a special levy be introduced for Ice Storm tree replacement. This levy would be phased in over two years. Capital from taxation funding in the amount of \$0.7M is leveraged to assist in the phasing-in of this program, but unfortunately not sustainable beyond 2015.

Below are highlights of the major projects (between \$0.8M to \$4M) that would be funded from the Capital from Taxation envelope over the next four years:

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Table 21: Capital From Taxation Funded Projects (with Examples)

2015 Budget(\$M) 7.4	2016 Plan(\$M) 11.0	2017 Plan(\$M) 9.9	2018 Plan(\$M) 9.2
Major Projects	Major Projects	Major Projects	Major Projects
Tree Replacement	Tree Replacement	Tree Replacement	Tree Replacement
Emerald Ash Borer Program	Emerald Ash Borer Program	Emerald Ash Borer Program	Emerald Ash Borer Program
Ice Storm Tree Replacement	Ice Storm Tree Replacement	Ice Storm Tree Replacement	Ice Storm Tree Replacement
Streetlight Pole Program	Streetlight Pole Program	Streetlight Pole Program	Streetlight Pole Program
Carrville Cc, Library & District Park (10%)	Carrville Cc, Library & District Park (10%)	Maple Library Renovations	Al Palladini Cc Change Rooms

E. Municipal Gas Tax Funds (AMO)

This is a federally supported program, intended to support Ontario municipalities' investment in environmentally sustainable municipal infrastructure projects, such as water, wastewater, solid waste, local roads, bridges, tunnels, etc. It comes with the expectation that the investments will see Ontarians enjoying cleaner air, cleaner water and reduced greenhouse gas (GHG) emissions. Where possible, the City will use any remaining funds for Roads Program, which is primarily funded through debt financing, saving on interest costs. The municipality must clearly demonstrate that funding used for a project is incremental and the funding enabled a project implementation, enhanced its scope or accelerated its timing.

Municipalities entered into a new Municipal Gas Tax Fund agreement in 2014. This program is administered by the Association of Municipalities of Ontario. The 2014 Federal budget extends funding to 2024 and institutes changes to better meet the needs of municipalities. Changes include:

- Indexing of the fund by an estimated 2% per annum commencing in 2016
- Increasing the number of eligible project categories
- Extending the banking of unspent funds limit to 5 years
- Requiring the development and implementation of an Asset Management Plan prior to December 31, 2016

Staff reviewed the list of capital projects submitted and with concurrence of AMO staff have identified a number of capital projects eligible under the Municipal Gas Tax Funding Agreement. Total gas tax funded projects submitted in the Capital Plan are shown below:

Table 22: Gas Tax Funded Projects

\$M	2015 Budget	2016 Plan	2017 Plan	2018 Plan
Gas Tax Funded	15.3	7.7	7.7	7.1

Relationship to Vaughan Vision 2020

The DRAFT 2015 Budget and 2016-18 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 priority initiatives and strategic themes.

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Regional Implications

There are no Regional implications associated with this report.

Conclusion

The management and operation of the City of Vaughan is becoming increasingly more complex as the City grows and the regulatory environment increases. Consequently there is a need to broaden the budget horizon and better understand the future implications of today's decisions. The implementation of multi-year budgets provides decision makers with added foresight and ability to proactively grasp future opportunities and prepare for future challenges. This is a very strategic approach and is intended to plan where the City's future resources should be focused to best support the City, its Vision and generate public value.

The City has followed a very thorough process to minimize any tax increase, while maintaining levels of service and meeting regulatory/City policy requirements. Very tight budget guidelines approved by Council were issued to all departments limiting increases. Capital budgets were developed with policy requirements and based on anticipated reserve balances. However, there are many factors that are placing significant pressures on the property tax rate, including:

- Inflation and the impact of escalating labour and external contract costs;
- New development and population growth that while positive for the City overall, also create budget pressures because of the costs of providing additional service volume;
- Timing differences between revenue growth and incremental growth-related costs;
- Increasing requirements to set aside adequate funding to pay for the eventual replacement of all of the new community infrastructure that has been put in place;
- Investments required to transform City administration and service delivery to ensure that they are as efficient and effective as possible; and,
- Unique pressures of the current cycle such as the cost to replace trees lost in the December 2013 Ice Storm and need to transition to more sustainable policies for the planned use of reserves and surpluses.

The Directors' Working Group and Senior Management spent a considerable amount of time reviewing budgets and prioritizing operating and capital requests in order to develop a realistic and responsible financial plan. Although it is possible to further reduce the DRAFT 2015 Budget and 2016-18 Plan, it would be difficult to accomplish without considering the following actions:

- Further increasing existing user fees, or introducing new fees
- Reducing or eliminating premium programs or services
- Reconsidering the timing or scale of strategic or transformational initiatives
- Reconsidering the timing of growth-related investments
- Reducing infrastructure renewal contributions
- Rethinking base service delivery levels

Illustrated below is the estimated 2015 total property tax bill for the average home in Vaughan, valued at \$587,000. At this time, it is unknown what, if any, the property tax increase will be for the Region of York, although it is important to note that almost half of the property tax collected is allocated to the Region. Vaughan's increase amounts to \$85 or 1.79% of the total property tax bill; layering in the Ice Storm Tree Replacement Levy would see the increase at \$91 or 1.92% of the total property tax bill.

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Table 23: 2015 Estimated Property Tax Bill

<i>Property Tax Bill</i>	<i>2014 Property Tax</i>	<i>Est. Increase</i>		<i>Est. 2015* Property Tax</i>	
		<i>%</i>	<i>\$/HH</i>		
City of Vaughan	1,279	6.65%	85	1,364	28%
Hospital Levy	57	0.00%	-	57	1%
Region of York	2,296	TBD*	-	2,296	47%
Provincial (Education)	1,119	TBD*	-	1,119	23%
Total Tax Bill	4,750	1.79%	85	4,835	100%
Ice Storm Tree Replacement	0	0.45%	6	6	0%
New Total Tax Bill	4,750	1.92%	91	4,842	100%

**Decisions not available at time of this report. Information will be updated as the budget process proceeds.
Note: some numbers may not add due to rounding.*

Attachments

Attachment 1: Draft Operating Revenue and Expenditure Summary
Attachment 2: Draft Commission Information
Attachment 3: Draft Commission/Category Information
Attachment 4: Draft 4 Year Reserve Continuity Schedule
Attachment 5: Innovation Reserve Applications
 Appendix A: Additional Resource Request Submissions
 Appendix B: Capital Project Detail Sheet

Note: A hard copy of Attachment 2 and Appendix A & B are on file in the City Clerk's Department.

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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.)