

CITY OF VAUGHAN

EXTRACT FROM COUNCIL MEETING MINUTES OF DECEMBER 10, 2013

Item 11, Report No. 17, of the Finance and Administration Committee, which was adopted without amendment by the Council of the City of Vaughan on December 10, 2013.

Councillor lafrate declared an interest with respect to Item 11.1 insofar as it relates to the contingency budget, as she has a non-arm's length financial familial interest, and did not take part in the discussion or vote on the matter.

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OTHER MATTERS CONSIDERED BY THE COMMITTEE

11.1 DRAFT 2014 BUDGET AND 2015-2017 PLAN

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

- 1) This item was deferred to the January 15, 2014, Finance, Administration and Audit Committee meeting to continue deliberations;
- 2) The following motion was referred to the Interim City Manager and Acting Commissioner of Finance/City Treasurer for a response and/or consolidation into the draft budget as may be appropriate:
 - a) That staff review the opportunity and the cost to erect a sidewalk on the north side of Teston Road between Quail Run Boulevard and Bathurst Street and report back to the January 15, 2014, Finance, Administration and Audit Committee meeting;
- 3) The following deputations and communication were received:
 1. Mr. Martin Segal, Quail Run Boulevard, Vaughan; and
 2. Mr. Dirk Driberg, City of Vaughan Baseball & Softball Association, Keele Street, Maple, and Communication C2, dated December 2, 2013; and
- 4) Communication C1, memorandum from the Acting Commissioner of Finance & City Treasurer and the Manager of Capital and Reserves, dated December 2, 2013, was received.

Councillor lafrate declared an interest with respect to the foregoing matter insofar as it relates to the contingency budget, as she has a non-arm's length financial familial interest, and did not take part in the discussion or vote on the matter.

The Finance and Administration Committee, at its meeting of November 25, 2013 recommended (Item 5, Finance and Administration Committee Report No. 16):

- 1) That this item be deferred to the next Finance and Administration Committee meeting to continue deliberations;
- 2) That the following motions be referred to the Interim City Manager and Acting Commissioner of Finance/City Treasurer for a response and/or consolidation into the draft budget as may be appropriate:
 - b) That staff review the funding request and information submitted by the Woodbridge Soccer Club and report back to Council on the feasibility of the request, including the identification of potential funding sources; and

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- c) That Members of Council interested in specific capital projects from previous years identify these to the Acting Commissioner of Finance/City Treasurer at the conclusion of the meeting, and that staff report back on these projects to the December 2, 2013, Finance and Administration Committee meeting;
- 3) That the deputation by Mr. Mike Rietta, Woodbridge Soccer Club, Martin Grove Road, be received; and
- 4) That the following communications be received:
 - C1. Memorandum from the Commissioner of Community Services, dated November 21, 2013;
 - C2. Memorandum from the Acting Commissioner of Finance & City Treasurer and the Manager of Capital and Reserves, dated November 22, 2013;
 - C3. Memorandum from the Commissioner of Strategic and Corporate Services, dated November 19, 2013;
 - C4. Memorandum from the Acting Commissioner of Finance & City Treasurer and the Acting Manager of Operating Budgets, dated November 19, 2013;
 - C5. Memorandum from the Commissioner of Engineering and Public Works and the Director of Engineering Services, dated November 22, 2013;
 - C6. Memorandum from the Commissioner of Engineering and Public Works, dated November 19, 2013;
 - C7. Memorandum from the Commissioner of Engineering and Public Works and the Director of Engineering Services, dated November 19, 2013; and
 - C8. Memorandum from the Commissioner of Engineering and Public Works and the Director of Engineering Services, dated November 19, 2013.

Councillor lafrate declared an interest with respect to the foregoing matter insofar as it relates to the contingency budget, as she has a non-arm's length financial familial interest, and did not take part in the discussion or vote on the matter.

The Finance and Administration Committee, at its meeting of November 18, 2013 recommended (Item 4, Finance and Administration Committee Report No.15):

- 1) That this item be deferred to the next Finance and Administration Committee meeting to continue deliberations; and
- 2) That the deputation of Mr. Egidio Longo, Keele Street, Vaughan, be received;

Councillor lafrate declared an interest with respect to the foregoing matter insofar as it relates to the contingency budget, as she has a non-arm's length financial familial interest, and did not take part in the discussion or vote on the matter.

Recommendation of the Finance and Administration Committee of November 12, 2013

The Finance and Administration Committee, at its meeting of November 12, 2013 recommended (Item 1, Finance and Administration Committee Report No.14):

- 1) That this item be deferred to the next Finance and Administration Committee meeting to continue deliberations;
- 2) That the following motions be referred to the Interim City Manager and the Acting Commissioner of Finance/City Treasurer for a response and/or consolidation into the draft budget as may be appropriate:

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That staff provide additional information on the following:

- a) An explanation of the hierarchy of positions requested as part of the Asset Management project;
 - b) The number of new positions requested in ARRs categorized by management and union classifications;
 - c) A summary of ARR requests using the following categories:
 - i) Type of request: one-time or annual/base;
 - ii) Service level: maintains service level, increases service level, or provides new service level;
 - d) The number of positions within the City's staff complement that have been vacant 12 months or longer;
 - e) Identification of positions approved in the 2013 budget that have not yet been filled;
 - f) Approved capital projects that have not been initiated;
 - g) Recycling pickup at Super Mall Boxes, including additional information on the cost of providing the service city wide;
 - h) An explanation of why additional resources are requested for extending call taking hours in Access Vaughan and By-law & Compliance, noting the existing dispatch function in Public Works;
 - i) An assessment of the financial and other implications of addressing the requests for municipal servicing in the Millwood Estates community; and
 - j) The potential to separate into two projects the Feasibility Study for the CP pedestrian underpasses at both Highway 27 and Woodbridge Avenue to provide for the possibility of moving one project ahead of the other;
- 3) That Communication C1, memorandum from the Executive Director, Office of the City Manager, dated November 12, 2013, be received;
 - 4) That the presentation by the Acting Commissioner of Finance/City Treasurer, and C2, presentation material entitled, "Draft 2014 Budget and 2015-2017 Plan", dated November 12, 2013, be received; and
 - 5) That the following deputations and communication, be received:
 1. Mr. Tim Sorochinsky, Millwood-Woodend Ratepayers Association, Millwood Parkway, Woodbridge and Communication C3, dated November 12, 2013; and
 2. Ms. Yvette Pritchard, Troyer Court, Thornhill.

Councillor Iafrate declared an interest with respect to the foregoing matter insofar as it relates to the contingency budget, as she has a non-arm's length financial familial interest, and did not take part in the discussion or vote on the matter.

Report of the Acting Commissioner of Finance/City Treasurer, dated November 12, 2013

Recommendation

The Interim City Manager and the Acting Commissioner of Finance/City Treasurer in consultation with the Senior Management Team recommend:

1. That the presentation on the Draft 2014 Budget and 2015-2017 Plan be received; and
2. That this matter and any comments received be referred to the next Finance and Administration Committee to continue deliberations.

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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.

Communication Plan

Public consultation is integral to building the budget

As part of the budget process, there will be a number of opportunities for the public to be informed and engaged. In the interest of increasing the community's awareness, the following tactics will be employed:

- ❖ Dedicated Finance and Administration Committee meetings
- ❖ Enhanced website content on Vaughan.ca
- ❖ An online input application to provide feedback on where tax dollars are spent
- ❖ Social media posts/outreach on the corporate Facebook and Twitter accounts
- ❖ "Ask the Expert" feature on Facebook that will give the public the opportunity to have their budget questions answered by City staff
- ❖ Blog posts and newsletter updates throughout the process
- ❖ Vaughan TV ads and Media advisory/releases
- ❖ Posters in City facilities and print advertising

There are currently seven (7) Finance and Administration Committee meetings scheduled for budget deliberations, three evening and four daytime dates. Finance and Administration Committee meetings, which are hosted at the City Hall, are opportunities for the public to learn more about the budget. Community comments and input regarding the budget are encouraged and considered by Members of Council to inform their choices. Meeting dates are available on the City's Budget website.

Final Opportunity for Community Input / Budget Approval Communication

In addition to the above, a Special Council Meeting will also 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.

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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 release will articulate the strong management practices and oversight the City has in place to provide residents with value for their property tax dollar.

Economic Impact

Illustrated below are the economic impacts associated with the City's Draft 2014 Budget and 2015-2017 Plan.

| Components | 2014 | | | 2015 | | | 2016 | | | 2017 | | |
|-------------------------------------|--------------|-------------|-------------|--------------|-------------|-------------|--------------|--------------|-------------|--------------|--------------|-------------|
| | Rate Incr. | \$ (m) | Bill Incr. | Rate Incr. | \$ (m) | Bill Incr. | Rate Incr. | \$ (m) | Bill Incr. | Rate Incr. | \$ (m) | Bill Incr. |
| Base Budget | 1.88% | 2.95 | \$23 | 2.89% | 4.76 | \$36 | 1.65% | 2.88 | \$21 | 2.38% | 4.34 | \$31 |
| ARR | 2.92% | 4.59 | \$36 | 2.60% | 4.53 | \$34 | 2.32% | 4.36 | \$32 | 2.38% | 5.05 | \$36 |
| Operating total | 4.80% | 7.54 | \$58 | 5.49% | 9.29 | \$70 | 3.97% | 7.24 | \$53 | 4.76% | 9.39 | \$67 |
| Total Capital Budget | | 51.4 | | | 75.0 | | | 129.7 | | | 153.9 | |
| <i>*Incl. Est. Operating Impact</i> | 1.27% | 2.00 | \$15 | 3.03% | 4.98 | \$38 | 3.16% | 5.49 | \$40 | 3.64% | 6.64 | \$47 |

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

The City's Budget and Plan consist of many financial elements. To assist readers navigate through the material the report is layered with escalating levels of detail. The report begins with a high-level executive summary followed by overview sections and related attachments. Department Business Plans & Financial Summaries are provided as Attachment 6 and individual additional resource requests and capital project submissions are located in the appendix. It should be noted, some attachments are large and therefore only available on-line.

Purpose

The purpose of this report is to provide the Finance & Administration Committee with information and details regarding the Draft Budget and 2015-2017 Plan and corresponding tax adjustments on an average Vaughan household. This is the first of a series of budget reports that build the City's budget. The budget report sets the tone of the process and is complimented by subsequent reports and a variety of Committee/Council requested communications.

Background – Analysis and Options

Executive Summary

Financial Sustainability: Always a Key Priority

As a result of the City's long standing dedication to financial management through progressive best practices and prudent policies, the City is in a strong financial position. The City has always considered increasing taxes as a last resort. Through prudent policies, tight budget guidelines and strong leadership, the City has provided residents tremendous value by offering some of the lowest property tax rates in York Region and the Greater Toronto Area, while providing high quality services to the community.

As the City moves forward, financial sustainability must continue as one of Vaughan's key priorities. Over the next decade, the City of Vaughan is expected to undergo a tremendous transformation fueled by sustained high growth rates, provincially driven intensification, increasing legislative

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requirements, mounting infrastructure renewal costs, and a number of vision based master plans reflecting important community needs. As the City becomes increasingly more sophisticated, it will also face rising financial pressure beyond the many factors currently placing significant strain on the property tax rate and reserve balances to maintain existing service levels. These pressures are permanent and often require continuous funding solutions, typically taxation.

Economic Outlook – Growth not derailed, just delayed

Based on TD Economics - Sept. 25th Quarterly Economic Forecast, “Economists in Canada are guilty of sounding like broken records, repeating the need for Canada’s growth to shift from relying on heavily indebted consumers to stronger exports and business investment. While the process has started, U.S. economic growth looks slightly softer in the near term making the transition uneven. In the meantime, the consumer and the housing market have shown more momentum, helping to keep the economy puffing along until next year when exports drive growth fast enough to start absorbing more of the excess capacity that persists in Canada’s economy”.

Operating Budget Approach

The City’s approach to the operating budget was to first develop the Base Budget through the issuance of very strict budget guidelines. Under these guidelines, departments were only permitted to include very specific adjustments in their Base Budget, which were related to predetermined agreements, contracts or Council approved increases. It is important to note, the guidelines do not allow “across the board” increases or increases for new staffing.

To the extent that a department required additional resources, a separate business case was submitted for consideration. These are referred to as Additional Resource Requests (ARR) and were individually vetted through the Directors Working Group, Senior Management Team, and a prioritized list is recommended to Finance and Administration Committee for consideration. The objective of separating the process into two paths was to identify the minimum resources based on financial commitments and review all other requests on their individual merits. Further details with respect to the guidelines, principles or the actions are provided in the “Planning for the Future” report presented to the Finance and Administration Committee on June 10th, 2013, which is included in Attachment #5.

Base Budget and Additional Resource Request Highlights are provided below:

Base Budget

The impact of the Base Operating Plan, derived from Council’s approved guidelines is as follows:

| | 2014 | 2015 | 2016 | 2017 |
|----------------------------------|---------|---------|---------|---------|
| Net Taxation Change | \$2.95m | \$4.76m | \$2.88m | \$4.34m |
| Avg. Residential Tax Rate Change | 1.88% | 2.89% | 1.65% | 2.38% |
| Avg. Residential Tax Bill Change | \$23 | \$36 | \$21 | \$31 |

The above changes are largely driven by staff agreements, contractual obligations, utility needs, and capital funding requirements. Although there are many components to the City’s base budget, there are highlighted items that impact the base budget. Technically, in the absence of these adjustments, the base would be much lower. These items and their affect on the base budget are illustrated in the following table.

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| Highlights & Major Budget Elements | 2014 | | 2015 | | 2016 | | 2017 | |
|---|----------------|--------------|------------------|--------------|------------------|---------------|--------------------|---------------|
| | \$ | Rate Incr. | \$ | Rate Incr. | \$ | Rate Incr. | \$ | Rate Incr. |
| Base Budget Change | 2,951,189 | 1.88% | 4,758,185 | 2.89% | 2,880,944 | 1.65% | 4,399,336 | 2.38% |
| Less: Major Budget Elements | | | | | | | | |
| MPAC Assessment - net impact | 738,365 | 0.47% | - | 0.00% | - | 0.00% | - | 0.00% |
| Station 7-5 cohort full yr impact | 697,000 | 0.44% | 300,000 | 0.18% | - | 0.00% | - | 0.00% |
| Fire OT Adjustment | 211,167 | 0.13% | 150,000 | 0.09% | 100,000 | 0.05% | 100,000 | 0.05% |
| Net Debenture (Roads) | 578,967 | 0.37% | 654,634 | 0.39% | 422,421 | 0.23% | - | 0.00% |
| Infrastructure renewal policy funding | 569,709 | 0.36% | 1,227,723 | 0.73% | 1,230,473 | 0.67% | 3,129,775 | 1.59% |
| Capital from Taxation funding | 127,785 | 0.08% | 130,342 | 0.08% | 132,948 | 0.07% | 135,607 | 0.07% |
| Investment adjustment | 225,000 | 0.14% | 250,000 | 0.15% | 250,000 | 0.14% | (40,000) | -0.02% |
| Hydro Investments | (621,550) | -0.40% | (300,000) | -0.18% | 225,000 | 0.12% | 1,050,000 | 0.53% |
| Tax adjustments | 125,000 | 0.08% | 125,000 | 0.07% | - | 0.00% | 25,000 | 0.01% |
| Insurance premiums | - | 0.00% | 0 | 0.00% | 410,263 | 0.22% | 130,744 | 0.07% |
| Carrville CC (contracts, utilities, etc.) | - | 0.00% | - | 0.00% | - | 0.00% | 1,032,018 | 0.52% |
| Corp. phasing | 182,524 | 0.12% | 783,000 | 0.46% | 600,000 | 0.33% | 600,000 | 0.30% |
| Subtotal | 2,833,967 | 1.80% | 3,320,699 | 1.96% | 3,371,105 | 1.83% | 6,163,144 | 3.13% |
| Total Budget Change | 117,222 | 0.07% | 1,437,486 | 0.85% | (490,161) | -0.27% | (1,763,808) | -0.90% |

It should also be noted, assessment growth (2.25%) is forecasted lower than historical levels, due to processing issues experienced at the Province's Municipal Property Assessment Corporation (MPAC). This situation continues from last year and is impacting most municipalities across the GTA. Municipalities are collectively working with MPAC to resolve the issue. It should be noted assessment growth estimates are based on MPAC reporting, which will fluctuate until their final report is released in December. If required, an update will be provided.

Additional Resource Requests (ARR's)

As previously noted Additional Resource Requests are not permitted under the base operating budget guidelines and are submitted and assessed on their respective merits. Developing the recommended list was very difficult for decision makers, who were frequently faced with the dilemma of choosing between "Maintaining Services", "City Building Initiatives" and "keeping tax rates low". The Senior Management Team's funding recommendation is a blend of all three ideals with a weighted focus on maintaining service levels:

- Community Safety - Fire operations & prevention
- Community and Library Services - Civic Centre Resource Library, Avondale (North Maple) Park, ongoing forestry, parks, facility maintenance, etc.
- Operational Requirements - Planning, Engineering, corporate support for city services, and other requests, etc.
- City Building Initiatives - asset management, public service renewal, business development, communications strategy, public engagement, Vaughan Metropolitan Centre, strategic planning initiatives, etc.

Senior Management and the Directors Working Group spent a significant amount of time reviewing, prioritizing and optimizing the requests, which resulted in a number of requests being partially funded internally (over \$2.1m), some redistributed or reprioritized within the plan. In some situations the result is not optimal, potentially compromising service levels, but necessary to minimize tax pressures on the community. In addition, there are City initiatives currently being developed for which financial implications are not certain. As these projects come on-line they will directly compete with the above resources e.g. streetscaping, office incentives, MacMillan Farm, works yards, master plan requests, etc.

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The above situation further supports the need to continue planning resources over an extended horizon in order to address future opportunities and challenges. More specific details are provided in the Attachment #2. The result of the Senior Management Team's ARR funding recommendation is as follows:

| | 2014 | 2015 | 2016 | 2017 |
|----------------------------------|---------|---------|---------|---------|
| Net Taxation Change | \$4.59m | \$4.53m | \$4.36m | \$5.05m |
| Avg. Residential Tax Rate Change | 2.92% | 2.60% | 2.32% | 2.38% |
| Avg. Residential Tax Bill Change | \$36 | \$34 | \$32 | \$36 |

Combined Base Budget and Additional Resource Requests

The combined impact of the base budget and the additional resource requests is illustrated below:

| | 2014 | 2015 | 2016 | 2017 |
|----------------------------------|---------|---------|---------|---------|
| Net Taxation Change | \$7.54m | \$9.29m | \$7.24m | \$9.38m |
| Avg. Residential Tax Rate Change | 4.80% | 5.49% | 3.97% | 4.76% |
| Avg. Residential Tax Bill Change | \$58 | \$70 | \$53 | \$67 |

Note: 2015 to 2017 ARR figures incorporate cumulative levy adjustments resulting from a growing tax base.

Capital Budget and Plan Approach

In the preparation of the Capital Budget and Plan a number of issues were taken into consideration. The pressures of maintaining existing infrastructure and growth requirements were balanced against available funding, the impact on future operating budgets, policies and the staff resources to undertake and manage capital projects.

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. Departments then prioritized capital projects within each funding source. For funding sources with competing department interests, primarily Capital from Taxation, the Directors Working Group and Senior Management Team were leveraged. As a result some projects were adjusted, redistributed within planned 2015-2017 years, or deferred beyond the plan. The below chart illustrates the transition of submitted capital requests into a more balanced plan.

| Capital Projects | 2014 | | 2015 | | 2016 | | 2017 | |
|----------------------|------|------|------|------|------|-------|------|-------|
| | # | \$ | # | \$ | # | \$ | # | \$ |
| Original Submission | 244 | 53.5 | 154 | 83.0 | 130 | 113.8 | 130 | 144.0 |
| Draft Capital Budget | 224 | 51.4 | 148 | 75.0 | 106 | 129.7 | 129 | 153.9 |

Guiding Policies

Over time, the City has developed a series of guiding financial policies and targets to assist in developing the Capital Budget, which generated a positive impact on the financial stability of the City of Vaughan. As illustrated below, the City is meeting or exceeding these targets.

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| Estimated @ December 31st | | | | | | Target |
|---------------------------|-------|-------|-------|-------|-------|-----------------------------|
| Policy Ratio | 2013 | 2014 | 2015 | 2016 | 2017 | |
| Discretionary Reserve | 72.6% | 67.0% | 62.7% | 58.7% | 64.7% | >50% of own source revenues |
| Working Capital | 9.8% | 9.6% | 9.4% | 9.2% | 9.1% | >10% of own source revenues |
| Debt Level * | 6.2% | 6.2% | 6.4% | 6.2% | 5.3% | <10% of own source revenues |

Note

*Includes commitments for OSA and Vaughan Sports Complex.

*Ratios are affected by contribution and own source revenue forecasts

- 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 2014 discretionary reserve ratio is related to a number of capital projects and reserve transfers.
- Working capital funds provide in-year cash flow requirements. This ratio is relatively stable over the 4 year term, but does illustrate a slight decline. This is a result of contributions being 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, but drops significantly in 2017 due to a large debt retirement. However, based on the plan there is pressure on debt financing to address a number of significant capital projects i.e. Black Creek, Works Yard, and City Hall Square.

Based on the above noted financial policies, Finance staff have assessed the availability of funding and established funding lines within each funding source. It should be noted, that a long standing City practice is only capital projects with secured available funding sources are recommended, otherwise specific Council approval is required. Each annual plan is funded from a variety of sources. Illustrated below are the Capital Budget and Plan funding sources and Capital Expenses by department.

| Category | 2014 | | 2015 | | 2016 | | 2017 | |
|--------------------------|------|------|------|------|-------|------|-------|------|
| Reserves | 15.6 | 30% | 14.5 | 19% | 18.3 | 14% | 12.9 | 8% |
| Gas Tax Funding | 10.9 | 21% | 8.3 | 11% | 7.9 | 6% | 6.9 | 5% |
| Development Charges | 10.3 | 20% | 33.2 | 44% | 64.8 | 50% | 66.8 | 43% |
| Taxation | 6.5 | 13% | 6.3 | 8% | 8.0 | 6% | 7.0 | 5% |
| Debentures | 6.4 | 13% | 12.3 | 16% | 30.1 | 23% | 60.1 | 39% |
| Grants & Other Financing | 1.6 | 3% | 0.4 | 1% | 0.6 | 0% | 0.0 | 0% |
| Grand Total | 51.4 | 100% | 75.0 | 100% | 129.7 | 100% | 153.9 | 100% |

Note: Due to a few large growth projects and corporate initiatives, the Capital Plan for 2016 to 2017 includes an unfunded balance, which is further discussed in the report's capital from taxation section

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| Department | 2014 | 2015 | 2016 | 2017 |
|--|-------------------|-------------------|--------------------|--------------------|
| Engineering Services | 21,051,632 | 18,846,562 | 21,819,891 | 21,412,524 |
| Park Development | 7,955,498 | 17,347,476 | 8,853,534 | 26,937,573 |
| Libraries | 4,962,520 | 2,812,750 | 6,598,360 | 7,977,070 |
| Public Works | 3,456,650 | 3,753,625 | 20,024,557 | 47,770,859 |
| Bulding & Facilities | 3,396,108 | 5,123,997 | 34,284,634 | 20,970,800 |
| Fleet | 2,584,700 | 1,348,900 | 799,600 | 1,324,050 |
| Development Transportation Engineering | 2,450,345 | 16,716,539 | 25,626,100 | 22,488,777 |
| Park & Forestry Operations | 2,098,454 | 2,227,421 | 1,542,891 | 1,509,861 |
| Information Technology Management | 1,205,200 | 1,939,200 | 1,655,200 | 1,595,200 |
| Building Standards | 540,750 | | | |
| Development Planning | 380,000 | 250,600 | | 130,000 |
| Fire & Rescue Services | 369,100 | 3,929,950 | 8,115,100 | 901,700 |
| Real Estate | 267,800 | 267,800 | 267,800 | 267,800 |
| ByLaw & Compliance | 243,150 | 114,400 | | |
| Recreation | 203,901 | 269,400 | 125,100 | 125,100 |
| Human Resources | 113,300 | | | 103,000 |
| Economic & Business Development | 103,000 | | | |
| Access Vaughan | 50,500 | 50,500 | | |
| Environmental Sustainability | | 48,925 | | |
| Emergency Planning | | | | 197,110 |
| Finance | | | | 154,500 |
| Total Capital Budget Plan Expense | 51,432,608 | 75,048,045 | 129,712,767 | 153,865,924 |

Capital Program Operating Implications

Many of the above capital programs have associated operating implications. These costs are imbedded in City's base operating budget or recommended additional resource requests. The balances in the below table illustrate these implications. Operational requirements 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.

| Capital Program | 2014 | | | 2015 | | | 2016 | | | 2017 | | |
|------------------------------|--------------|-------------|-------------|--------------|-------------|-------------|--------------|-------------|-------------|--------------|-------------|-------------|
| Est. Operating Implications | Rate Incr. | \$ (m) | Bill Incr. | Rate Incr. | \$ (m) | Bill Incr. | Rate Incr. | \$ (m) | Bill Incr. | Rate Incr. | \$ (m) | Bill Incr. |
| Operational Requirements | 0.54% | 0.85 | \$7 | 1.98% | 3.26 | \$25 | 2.13% | 3.70 | \$27 | 1.92% | 3.51 | \$25 |
| Debenture Financing | 0.37% | 0.58 | \$4 | 0.30% | 0.50 | \$4 | 0.32% | 0.56 | \$4 | 0.00% | - | \$0 |
| Infrastructure Contributions | 0.36% | 0.57 | \$4 | 0.75% | 1.23 | \$9 | 0.71% | 1.23 | \$9 | 1.71% | 3.13 | \$22 |
| *Total | 1.27% | 2.00 | \$15 | 3.03% | 4.98 | \$38 | 3.16% | 5.49 | \$40 | 3.64% | 6.64 | \$47 |

** Figures represent the estimated operating implications associated with the capital program. These operating implications are incorporated in the operating budget.*

BUDGET UPDATES

The budgeting process is constantly evolving to the needs and requirements of departments, management, Council and residents. Detailed within this section are brief highlights to be aware of:

New Information

The Draft 2014 Budget and 2015-2017 Plan is based on information at a point in time and as the budget process unfolds new information may become available through deputations, staff items

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or Committee/Council decisions. Adjustments will be consolidated into a final proposed budget and presented to the Community and Council at a public input session at the end of the process.

Public Service Renewal (PSR)

Early in 2013, the Mayor requested for the Senior Management Team (SMT) to engage in a process of reform, with the view of focusing on public service excellence. Beginning in April staff endeavoured to review and develop initiatives and on October 7th an update report was presented to Council identifying 23 initiatives that were well underway. Ten of those initiatives are managed internally with little financial impact, but potential for future cost avoidance. Three initiatives require investment for which ARRs have been identified and submitted. These requests are clearly identified on the recommended ARR list e.g. contract management, economic development realignment and audit coordinator. The remaining ten initiatives cannot be clearly defined at this time and will be the subject of future individual reports and financial assessments e.g. Marketing Partnership strategy, Engineering and Planning Commission realignments, Procurement to Pay Review, Corporate IT strategy, etc. In addition to the above, a culture of continuous improvement throughout the City has caught on. This is evident by the number of additional resource requests either fully or partially offset by repurposing vacant positions or budgets. This is another example of the City providing community value.

Amortization vs. Budget Contributions

The City's Draft 2014 Budget and 2015-2017 Plan is developed excluding full amortization and post-employment benefits. The costs and associated tax implications of budgeting for full amortization are 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 at a much later date, primarily through taxation.
2. There is a surge in future post-employment benefits caused by staffing requirements to service growth, who 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. A committee report is scheduled for November 18th, 2013.

Impact of Excluded Expenses/Estimated Change in Accumulated Surplus

| Funding vs. Amortization (In Millions) | Annual Budget Funding | Prior Year Amortization | Gap |
|---|----------------------------------|------------------------------------|-------------|
| City Asset Renewal | 23.1 | 44.1 | 21.1 |
| City Post Employment Benefits | 1.3 | 12.5 | 11.3 |
| Combined | 24.3 | 56.7 | 32.3 |

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

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

As reported in many journals and articles, the above situation is consistent for most Canadian municipalities. Due to sound financial planning, Vaughan is in a strong financial position and ahead of most municipalities. To begin to address the forecasted capital asset renewal funding

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gap, the City has implemented several initiatives. For example, reserve policies which limit the use of funds, policies regarding the transfer of annual operating surpluses to reserves, and the adoption of life cycle based contributions for new assets. These initiatives are positioned to address the need on a go forward basis. However, future funding will be required to address the backlog and/or prior contribution deficiencies. Recently, the City has undertaken a 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 paint a clearer picture of the financial requirements and timing to sustain the community's infrastructure network.

Quick Facts

The following information is provided for quick reference to assist in providing the public and Council members with a context within which to assess the Draft 2014 Operating Budget and 2015-2017 Operating Plan.

Draft Budget (Base + ARRs)

| | | (Projected) | | | |
|--|------------|-------------|------------|------------|------------|
| | 2013 | 2014 | 2015 | 2016 | 2017 |
| Average residential assessment | \$ 517,000 | \$ 551,000 | \$ 587,000 | \$ 626,000 | \$ 667,000 |
| Total taxes levied on the average assessed home *** | 4,597 | 4,695 | 4,804 | 4,896 | 5,002 |
| City of Vaughan portion (27%) | 1,228 | 1,286 | 1,357 | 1,410 | 1,477 |
| City of Vaughan tax adjustment % on total taxes | | 1.3% | 1.5% | 1.1% | 1.4% |
| Vaughan Hospital Precinct Development Levy (avg. home) | 60 | 60 | 60 | 60 | 60 |
| Reduction for qualifying seniors | 321 | 336 | 355 | 369 | 386 |
| A 1% increase in the tax rate generates | \$1.495m | \$1.57m | \$1.69m | \$1.84m | \$1.97m |
| Impact of a 1% increase on the average home | \$ 11.96 | \$ 12.17 | \$ 12.76 | \$ 13.46 | \$ 13.99 |
| Assessment growth (projected) | 2.26% | 2.25% | 2.75% | 3.00% | 3.20% |
| Draft Tax Rate Increase | | 4.80% | 5.49% | 3.97% | 4.76% |

***Increase based only on Vaughan increase

Draft 2014 Operating Budget and 2015-2017 Operating Plan Review

The City of Vaughan continues to be subjected to many factors that place pressures on the property tax rate. Inherent in the annual operating budget process are the normal pressures of inflation, growth, staffing resources, external contract costs, collective agreements, fluctuating revenues etc. which are further compounded by expanding service requirements and tax funded infrastructure renewal cost impacts experienced by a high growth municipality. This situation presents challenges to achieving a balanced budget and maintaining service levels while minimizing associated tax rate increases and achieving Council's priorities. To assist the public and Council Members with understanding the challenges facing the City, and to assess the Draft 2014 Operating Budget and 2015-2017 Operating Plan, the remainder of this section is dedicated to reviewing the following budget components:

- A. *Base budget under the guidelines*
- B. *Base budget revenue review*
- C. *Base budget expenditure review*
- D. *Additional resource requests*

Associated Attachments:

- 1: *Draft Operating Revenue and Expenditure Summary*
- 2: *Draft Additional Resource Request Summary*

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5: Financial Information and Analysis

6: Draft Department Information

Appendix A: ARR Submissions

Following the above sections is a Capital Budget & Plan Overview by Funding Source

A. Base Budget Under the Guidelines

Based on the budget guidelines, the City's Draft 2014 Operating Budget and 2015-2017 Operating Plan and associated increases are reflected below:

| | 2014 | 2015 | 2016 | 2017 |
|----------------------------------|---------|---------|---------|---------|
| City's Expense Budget | \$246m | \$255m | \$263m | \$270m |
| Net Taxation Change | \$2.95m | \$4.76m | \$2.88m | \$4.34m |
| Avg. Residential Tax Rate Change | 1.88% | 2.89% | 1.65% | 2.38% |

The budget guidelines were designed to restrict expenditure increases and this process has been successful as demonstrated by the 1.85% average departmental annual expense increase over the four year plan. Incorporating corporate pressures raises the total average expense increase over the plan to 3.15%. Specific annual increases are illustrated in *Attachment 1- Draft Operating Revenue & Expenditure Summary*.

In general, account budgets remained at prior year budget levels with the exception of established commitments and pre-defined external pressures as defined by the approved budget guidelines. In order to check adherence to the guidelines, budget submissions were verified to ensure increases were consistent with budgetary guidelines. Through budget submission reviews and assurances from Commissioners and Directors, there is a very high level of confidence that approved guidelines were followed.

The Draft 2014 Operating Budget includes \$3.1m subsidization from the Tax Rate Stabilization Reserve and anticipates a \$2.5m surplus carried forward from 2013. The 2015-2017 Operating Plan continues with this trend, but to a slightly lesser degree. This is necessary to slowly transition to a more predictable and sustainable funding source. The above budget also includes approved user fee increases up to 2016. A report will be provided at a later date regarding any fee updates and will include fee increases for 2017. The above base budget figures **exclude all** budget changes associated with the recommended additional resource requests (ARRs). These are discussed separately in the report and will require Council approval.

Considering Factors Other Than CPI When Assessing the Budget

When assessing the Operating Budget, it is very important to put municipal cost increases into perspective. It is very common for stakeholders to gauge a municipality's performance against the Consumer's Price Index (CPI), but there are 2 inherent pitfalls with this comparison:

1. Inflation rates capture cost increases and do not incorporate non-cost related factors associated with a municipality such as growth, infrastructure repair, new services or initiatives, legislative requirements, revenue fluctuations, etc. These are in addition to CPI.
2. CPI is intended to measure the cost increases experienced by the typical Canadian household and includes retail items such as food, clothing, entertainment and other household purchases. Unlike an average Canadian household, municipal expenses are very

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labour, contract, and material intensive. An alternative approach would be to use a **Municipal Price Index (MPI)** based on applying relevant indices/indicators to the weighting of major expense categories.

| Component | Inflation Figure | Source | % of Budget | Weighted Average |
|---------------------------------------|------------------|--|-------------|------------------|
| Salaries and Benefits | 1.9% | Ministry of Labour (COV traditionally higher) | 57.1% | 1.1% |
| Labour Sub total | | | | 1.1% |
| Contracts and Materials | 5.0% | 5 yr Average Historical Increase | 14.8% | 0.7% |
| Utilities and Fuel | 1.5% | Stat's Can. Aug./13 - Energy CPI | 3.8% | 0.1% |
| All Other | 1.1% | Core Inflation - Sept. 2013 | 20.0% | 0.2% |
| Other Sub total | | | | 1.0% |
| Capital Funding | 0.8% | Construction Price Index | 2.6% | 0.0% |
| Insurance | 11.0% | AMO - 2011 white paper | 1.7% | 0.2% |
| Corporate Sub total | | | | 0.2% |
| Combined Municipal Price Index | | | | 2.3% |

The City's base budget expenditures are increasing over the 4 year period on average by 3.15%. Although comparable to the MPI, embedded in these figures are non-price related increases associated with contract/utility growth, increases in infrastructure funding, and full-year implication of prior budgets. Removing these items from the presented overall expenditure would yield an estimated average increase over the four year plan of 2.06%. The base budget average City expenditure increases over the plan are below the municipal price index range signalling Vaughan is managing within industry trends.

Major Base Budget & Tax Rate Change

On average approximately 60% of the City's expense increase is attributable to changes to support the City's workforce, including estimates for collective agreement negotiations and management by-laws. An additional 10% to 30% of the increase is related to external service contracts, insurance and utilities (e.g. increases in snow removal, waste management, electricity, insurance premiums, etc.). These services are generally contracted, competitively tendered and awarded to the lowest bidder. It should be noted that contracts can span multiple years resulting in price increase spikes when renewed. The remaining portion is largely a result of the City's growing capital program, infrastructure requirements, and corporate accounts.

To assist the Committee in assessing the Draft Operating Budget and Plan resulting from the budget guidelines, the following summary is provided below:

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| Budget & Tax Rate Change | | | | | | | |
|-------------------------------------|------------------|--------------|------------------|--------------|------------------|--------------|------------------------|
| | 2014 | | 2015 | | 2016 | | 2017 |
| General Operational Impacts | | | | | | | |
| Benefits & Other adj | 876,056 | 0.56% | 830,839 | 0.49% | 758,528 | 0.41% | 661,489 0.34% |
| Progression/Job Eval/Adj | 817,468 | 0.52% | 871,852 | 0.52% | 808,163 | 0.44% | 308,140 0.16% |
| Eco adj (Union/Mgmt/Fire) | 2,153,423 | 1.37% | 2,400,145 | 1.42% | 70,069 | 0.04% | 26,462 0.01% |
| Station 7-5 FY Impact | 671,519 | 0.43% | - | 0.00% | - | 0.00% | - 0.00% |
| FT Contract reductions | (554,633) | -0.35% | (75,232) | -0.04% | 9,445 | 0.01% | (216,401) -0.11% |
| Fire Overtime | 211,167 | 0.13% | 150,000 | 0.09% | 100,000 | 0.05% | 100,000 0.05% |
| Workforce subtotal | 4,175,000 | 2.66% | 4,177,604 | 2.47% | 1,746,205 | 0.95% | 879,690 0.45% |
| Contingency | 1,235,157 | 0.79% | 1,724,435 | 1.02% | 2,974,862 | 1.62% | 3,086,240 1.57% |
| Subtotal | 5,410,157 | 3.45% | 5,902,039 | 3.49% | 4,721,067 | 2.57% | 3,965,930 2.01% |
| Contracts | 450,506 | 0.29% | 744,495 | 0.44% | 982,008 | 0.53% | 1,009,514 0.51% |
| Insurance | - | 0.00% | - | 0.00% | 410,263 | 0.22% | 130,744 0.07% |
| Utilities | 301,868 | 0.19% | 309,140 | 0.18% | 328,356 | 0.18% | 347,727 0.18% |
| Carrville Community Centre | - | 0.00% | - | 0.00% | - | 0.00% | 1,032,018 0.52% |
| Subtotal | 752,374 | 0.48% | 1,053,635 | 0.62% | 1,720,627 | 0.94% | 2,520,003 1.28% |
| LTD net | (121,033) | -0.08% | 1,254,634 | 0.74% | (177,579) | -0.10% | (2,500,000) -1.27% |
| Reserve Contributions | 569,709 | 0.36% | 1,227,723 | 0.73% | 1,230,473 | 0.67% | 3,129,775 1.59% |
| Capital from Taxation | 127,785 | 0.08% | 130,342 | 0.08% | 132,948 | 0.07% | 135,607 0.07% |
| Subtotal | 576,461 | 0.37% | 2,612,699 | 1.55% | 1,185,842 | 0.65% | 765,382 0.39% |
| Tax Adjustments | 125,000 | 0.08% | 125,000 | 0.07% | - | 0.00% | - 0.00% |
| Election (reserve offset) | 755,160 | 0.48% | (754,396) | -0.45% | 478 | 0.00% | 478 0.00% |
| York Region Transit | 147,000 | 0.09% | 32,458 | 0.02% | 33,414 | 0.02% | 34,402 0.02% |
| Other | 62,648 | 0.04% | (736) | 0.00% | (55,255) | -0.03% | (61,726) -0.03% |
| Expense Change | 7,828,800 | 4.99% | 8,970,699 | 5.31% | 7,606,173 | 4.14% | 7,224,469 3.67% |

The above changes in the City's expenditures are partially offset by limited revenue streams, primarily user fees, reserve funding, assessment growth and other sources. Any shortfall between City revenues and expenses are funded through taxation increases. Summarized below are the major changes in revenue streams and associated net change on taxation.

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Budget & Tax Rate Change

| | 2014 | | 2015 | | 2016 | | 2017 | |
|--|--------------------|---------------|------------------|---------------|------------------|---------------|--------------------|---------------|
| <i>Decrease in Revenues</i> | | | | | | | | |
| Supplemental | (1,782,683) | -1.14% | (300,000) | -0.18% | - | 0.00% | - | 0.00% |
| Debtenture Payment Reserve | (700,000) | -0.45% | 600,000 | 0.35% | (600,000) | -0.33% | (2,500,000) | -1.27% |
| Building Standards User Fees | (265,072) | -0.17% | 281,500 | 0.17% | 350,530 | 0.19% | 153,624 | 0.08% |
| Investment Income | (225,000) | -0.14% | (250,000) | -0.15% | (250,000) | -0.14% | 40,000 | 0.02% |
| DC Growth Projects | (195,850) | -0.12% | - | 0.00% | - | 0.00% | - | 0.00% |
| Hydro Investment Income | (153,450) | -0.10% | - | 0.00% | - | 0.00% | - | 0.00% |
| Fleet Management Reserve | (121,374) | -0.08% | - | 0.00% | - | 0.00% | - | 0.00% |
| <i>Sub total</i> | (3,443,429) | -2.19% | 331,500 | 0.20% | (499,470) | -0.27% | (2,306,376) | -1.17% |
| <i>Increases in Revenues</i> | | | | | | | | |
| Hydro Dividends | 775,000 | 0.49% | 300,000 | 0.18% | (225,000) | -0.12% | (1,050,000) | -0.53% |
| Election Reserve | 755,160 | 0.48% | (754,396) | -0.45% | 478 | 0.00% | 478 | 0.00% |
| Recreation (excl YRT) | 571,267 | 0.36% | 314,088 | 0.19% | 323,220 | 0.18% | 959,936 | 0.49% |
| BS Continuity reserve | 666,087 | 0.42% | (123,000) | -0.07% | (69,000) | -0.04% | (12,000) | -0.01% |
| Development Planning User Fees | 639,144 | 0.41% | 129,181 | 0.08% | 173,038 | 0.09% | 140,625 | 0.07% |
| Engineering Reserve | 547,606 | 0.35% | 52,000 | 0.03% | 197,000 | 0.11% | (31,000) | -0.02% |
| User Fees & Service Charges | 439,236 | 0.28% | 56,681 | 0.03% | 216,448 | 0.12% | 55,628 | 0.03% |
| Fines & Penalties | 200,000 | 0.13% | - | 0.00% | - | 0.00% | - | 0.00% |
| York Region Transit | 150,000 | 0.10% | 33,120 | 0.02% | 34,096 | 0.02% | 35,104 | 0.02% |
| Tax Rate Stabilization Reserve | 150,000 | 0.10% | (400,000) | -0.24% | (400,000) | -0.22% | (400,000) | -0.20% |
| <i>Sub total</i> | 4,893,500 | 3.12% | (392,326) | -0.23% | 250,280 | 0.14% | (301,229) | -0.15% |
| <i>Sub-total Revenue Change</i> | 1,450,071 | 0.92% | (60,826) | -0.04% | (249,190) | -0.14% | (2,607,605) | -1.32% |
| Assessment growth | 3,455,005 | 2.20% | 4,399,001 | 2.60% | 5,063,573 | 2.76% | 5,659,709 | 2.87% |
| Other | (27,465) | -0.02% | (125,660) | -0.07% | (89,153) | -0.05% | (166,972) | -0.08% |
| <i>Total Revenue Change</i> | 4,877,611 | 3.11% | 4,212,515 | 2.49% | 4,725,230 | 2.57% | 2,885,132 | 1.46% |
| Net Funding Requirement | 2,951,189 | 1.88% | 4,758,184 | 2.81% | 2,880,943 | 1.57% | 4,339,337 | 2.20% |
| 1% tax increase | 1,570,108 | | 1,690,784 | | 1,837,157 | | 1,970,696 | |

B. Base Budget Revenue Review

| | 2014 | | 2015 | | 2016 | | 2017 | |
|----------------------|---------------|--------------|---------------|-----------|---------------|--------------|---------------|----------------|
| | Budget | Change | Budget | Change | Budget | Change | Budget | Change |
| Base Budget Revenues | \$ 83,737,995 | \$ 1,422,606 | \$ 83,751,555 | \$ 13,560 | \$ 83,603,211 | \$ (148,344) | \$ 81,021,987 | \$ (2,581,224) |

The above figures exclude any impact associated with assessment growth. Further information regarding specific revenue adjustments are provided below:

Supplemental Taxation

| | 2014 | | 2015 | | 2016 | | 2017 | |
|---------------|--------------|----------------|--------------|--------------|--------------|--------|--------------|--------|
| | Budget | Change | Budget | Change | Budget | Change | Budget | Change |
| Supplementals | \$ 3,500,000 | \$ (1,782,683) | \$ 3,200,000 | \$ (300,000) | \$ 3,200,000 | \$ - | \$ 3,200,000 | \$ - |

Supplemental taxation is generated from additional assessment forwarded to the City from Municipal Property Assessment Corporation (MPAC) over the course of the year and is primarily a result of new construction recorded after the final role. Last year, MPAC's focus on reassessment activities resulted in lower assessment growth figures across the GTA. The City mitigated this impact by adjusting supplemental taxation in anticipation of MPAC catching up with the true assessment figure through supplemental taxation and future increased assessment growth. As reflected in 2014, this approach is phased down. Unfortunately, assessment growth estimates continue to be low and are not fully offsetting this reduction. Supplemental taxation is typically received in November/December and depending on those results it may be possible to

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further extend the phase down. Committee/Council is cautioned of the risk associated with this action as the City is dependant on MPAC's processing performance.

Funding from Reserves:

| | 2014 | | 2015 | | 2016 | | 2017 | |
|-----------------------|---------------|--------------|---------------|--------------|---------------|--------------|---------------|----------------|
| | Budget | Change | Budget | Change | Budget | Change | Budget | Change |
| Funding from Reserves | \$ 20,482,791 | \$ 1,105,629 | \$ 19,905,395 | \$ (577,396) | \$ 19,131,873 | \$ (773,522) | \$ 16,211,351 | \$ (2,920,522) |

2014 increase of \$1.1M:

Increases

- The Election reserve draw increased by \$755K to cover the additional costs of the 2014 election plus the additional tabulator costs. There is no impact on the budget as there is an associated increase in expenses.
- There is also a \$666K increase in the Building Standards reserve, to neutralize the Building Standards full costing gap, as per policy.
- Engineering reserve increased by \$548K to reflect associated expense increases.

Decreases

- Debenture payment reserve withdrawals decreased by \$700K, these transfers are tied to debenture payments and are intended to smooth out timing spikes. The net increase in debenture requirements in approximately \$578K.
- Fleet management reserve funding final year phase out, \$121K.
- The Water & Wastewater recovery decreased by \$107K to reflect activities between the City and Water/Waste Water services. This was due to some expense items being moved permanently to the Water & Wastewater budget.

Changes from 2015 to 2017:

- The largest component of future budget decreases are related to additional funding from the debenture reserve to smooth increases in debenture payments. Budget withdrawals are planned to peak in 2015 then decline as debentures stabilize. The overall net impact on the budget is an increase of \$498K in 2015 followed by decreases of \$562K in 2016, and \$0M in 2017.
- An election is scheduled for 2014; as a result associated expenses are planned which are neutralized by corresponding reserve withdrawal increase of \$755K in 2014. In 2015, the withdrawal is removed. It is anticipated, that a report on the election process will be coming forward later in the budget process.
- From 2015-17, there is a planned annual decrease of \$400K in funding from Tax Rate Stabilization reserve. This is necessary to slowly transition to a more predictable and sustainable funding source.
- Budget changes in Engineering, Building Standards and Water/WasteWater recoveries services are a result of activity, departmental cost changes and anticipated growth trends. The total adjustments amounted to a decrease of \$47K in 2015, increase of \$205K in 2016 and decrease of \$40K in 2017.

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User Fees / Service Charges

| | 2014 | | 2015 | | 2016 | | 2017 | |
|-------------------------|---------------|--------------|---------------|------------|---------------|--------------|---------------|--------------|
| | Budget | Change | Budget | Change | Budget | Change | Budget | Change |
| Fees/Charges/Recoveries | \$ 38,884,541 | \$ 1,534,575 | \$ 39,699,111 | \$ 814,570 | \$ 40,796,443 | \$ 1,097,332 | \$ 42,141,360 | \$ 1,344,917 |

Major Budget Adjustments

- The largest component of the budget increases are in the Recreation Department due to the climbing demand for services, general price increases and York Region transit ticket sales. It should be noted that these increases are largely offset by similar expenditure value increases. Revenue increases related to recreation are \$721K for 2014, \$347K in 2015, \$357K in 2016 and \$995K in 2017. The 2017 increase is larger due to the planned addition of the planned Carrville Community Centre.
- The second largest component of the budget increases are related to an anticipated increase in planning activity. The majority of the 2014 increase is related to site plan agreements, which have been adjusted to better reflect past performance. In addition, development activity is anticipated within the Vaughan Metropolitan Centre, Carrville, Concord and Thornhill development areas. Based on the above, planning revenues are anticipated to increase \$639K for 2014, \$129K in 2015, \$173K in 2016 and \$140K in 2017.
- The remainder of the increases were in Clerks - Licensing, Committee of Adjustment, Public Works, Parks and Forestry Operations etc.
- Building Standards had a decrease in budgeted revenues due to fewer applications received in 2012 and 2013. The revenues are expected to trend upwards in the later years as building standards permits catch up with development planning applications that have already been processed.

User fee Increases Included in the Above

The guidelines include a requirement for all user fees and service charges to be increased in relation to department cost increases and, at minimum, by the rate of inflation. As part of last year's process, a change was made to coordinate and consolidate the planning of these by-laws for review, update and budget approval under one common process. Benefits of this action resulted in improved transparency, updating by-laws that were missed in prior processes, and business continuity through a multi-year fee structure. Although the impacts are incorporated into the draft budget, a later report on user fee adjustments and any new fees will be presented annually for Council review, deliberation and approval.

The combined impact associated with approved fee by-law price increases, adjustments, any new fees and associated volume increases are as follows:

| By-Law | Dept/Desc | 2013 | | | | 2014 | | | | 2015 | | | | 2016 | | | | 2017 | | | |
|----------|--|------------------|------------------|----------------|-------------|------------------|----------------|-------------|------------------|----------------|-------------|------------------|----------------|-------------|----|----------|---|--------|----|----------|---|
| | | Budget | | Variance | | Budget | | Variance | | Budget | | Variance | | Budget | | Variance | | Budget | | Variance | |
| | | | \$ | | % | | \$ | | % | | \$ | | % | | \$ | | % | | \$ | | % |
| 13-2012 | Multiple Departments | 3,243,642 | 3,413,377 | 169,735 | 5.2% | 3,555,671 | 142,294 | 4.0% | 3,682,765 | 127,094 | 3.5% | 3,743,670 | 60,905 | 1.6% | | | | | | | |
| 48-2011 | Development Planning | 3,413,025 | 4,052,170 | 639,145 | 18.7% | 4,181,351 | 129,181 | 3.1% | 4,354,389 | 173,038 | 4.0% | 4,495,014 | 140,625 | 3.1% | | | | | | | |
| | Enforcement/Animal Licens.(Consolidated) | | | | | | | | | | | | | | | | | | | | |
| 2-2010 | with By-Law 13-2012) | 45,600 | - | (45,600) | -100.0% | - | - | 0.0% | - | - | 0.0% | - | - | 0.0% | | | | | | | |
| 177-2011 | Clerks/Licensing | 981,868 | 1,039,116 | 57,248 | 5.8% | 1,096,292 | 57,176 | 5.2% | 1,157,028 | 60,736 | 5.2% | 1,173,199 | 16,171 | 1.4% | | | | | | | |
| 370-2004 | Clerks/Perm. Spec. Events | 15,715 | 9,443 | (6,272) | -39.9% | 9,652 | 209 | 2.2% | 9,867 | 215 | 2.2% | 10,013 | 146 | 1.5% | | | | | | | |
| 371-2004 | Clerks/Perm. Filming Events | 5,120 | 8,646 | 3,526 | 68.9% | 8,844 | 198 | 2.2% | 9,042 | 198 | 2.2% | 9,174 | 132 | 1.4% | | | | | | | |
| 372-2004 | Clerks/Perm. Newspaper boxes | 5,355 | 3,796 | (1,559) | -29.1% | 3,869 | 73 | 1.9% | 3,942 | 73 | 1.9% | 4,015 | 73 | 1.8% | | | | | | | |
| | | 7,710,325 | 8,526,548 | 816,223 | 9.6% | 8,855,679 | 329,131 | 3.7% | 9,217,033 | 361,354 | 3.9% | 9,435,085 | 218,052 | 2.3% | | | | | | | |

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User Fee Cost Recovery Philosophy and Targets

It is important to recognize that there is an ongoing balance between funding through a fee for specific user based services versus funding City services through the general tax rate. To the extent that there is a user fee, that fee should be adjusted annually to reflect changes in the cost of delivering the service; otherwise, by default, there would be a requirement to fund cost increases through the property tax rate.

Approximately 90% of the City's user fees are generated by the following 5 areas:

- Recreation
- Building Standards
- Planning and Committee of Adjustment (COA)
- By-law & Compliance
- Licensing

As a result, the majority of the above departments have conducted various fee studies. Some studies resulted from legislative requirements and others were staff-initiated in-depth studies, resulting in the development of cost recovery policies, principals and targets endorsed by Council. In addition, various benchmarking comparisons have been performed by departments and external consultants indicating Vaughan's recovery targets are on-par or better than neighbouring municipalities. Detailed below is a summary of department and estimated full cost recovery ratios for these areas:

2014-17 Final Budget - Department Recovery Analysis

| 2014 Department Budgeted Recovery (Figures in Thousands) | Recreation | Licensing | By-Law & Compliance | Animal Services | Planning | COA | Building Standards (OBC) | Building Standards (Non-OBC) |
|---|-------------------|-------------------|------------------------|--------------------|-------------------|-------------------|--------------------------------|------------------------------------|
| Revenues | \$ 18,870 | \$ 1,236 | \$ 1,901 | \$ 493 | \$ 4,169 | \$ 507 | ** \$ 9,862 | \$ 450 |
| Expenditures | 19,851 | 572 | 4,211 | 1,145 | 3,176 | 580 | 5,757 | 542 |
| Subsidy/(Surplus) | 981 | (664) | 2,310 | 652 | (993) | 72 | (4,105) | 93 |
| 2014 Dept Budget Recovery Ratio | 95% | 216% | 45% | 43% | 131% | 88% | 171% | 83% |
| 2015 Dept Budget Recovery Ratio | 96% | 226% | 45% | 44% | 135% | 93% | 172% | 89% |
| 2016 Dept Budget Recovery Ratio | 98% | 239% | 45% | 44% | 139% | 99% | 174% | 97% |
| 2017 Dept Budget Recovery Ratio | 99% | 241% | 44% | 45% | 149% | 98% | 176% | 97% |
| Memo: 2013 Dept. Budget Recovery Ratio | 94% | 176% | 44% | | 113% | 82% | 169% | 76% |
| Full Cost Estimate (ABC Model) | ** \$ 41,448 | \$ 1,477 | \$ 4,209 | \$ 1,733 | \$ 5,547 | \$ 1,190 | \$ 9,862 | 1,369 |
| Subsidy/(Surplus) | 22,578 | 242 | 2,308 | 1,239 | 1,378 | 683 | (0) | 919 |
| 2014 Full Cost Recovery Ratio | 46% | 84% | 45% | 28% | 75% | 43% | 100% | 33% |
| 2015 Full Cost Budget Recovery Ratio | 45% | 87% | 44% | 31% | 75% | 45% | 100% | 35% |
| 2016 Full Cost Budget Recovery Ratio | 46% | 91% | 43% | 31% | 75% | 47% | 100% | 38% |
| 2017 Full Cost Budget Recovery Ratio | 45% | 91% | 42% | 31% | 75% | 47% | 100% | 38% |
| Memo: 2013 Full Cost Budget Recovery Ratio | 44% | 70% | 45% | | 60% | 40% | 100% | 27% |
| Policy Recovery Goal | 95% Dept. Cost | 100% Full Cost | | | 100% Full Cost | 100% Full Cost | 100% Full Cost | |

* Building Standards revenues include a draws from Building Standards Continuity Reserve of \$2.6M in 2014, \$2.5M in 2015&16, and \$2.4M in 2017.

** Recreation Building & Facility costs approximately \$17.0M in 2014, \$17.2 in 2015, \$17.3 in 2016 and \$16.2M in 2017.

*** Licensing full cost recovery illustrated is lower than 100% due a portion of the department being devoted to risk management and fee restrictions applied to certain licensing activities (e.g. lottery, livestock).

Overall most areas are recovering more than 80% of their department budgets and projected recovery targets remain stable. It should be noted that most labour agreements expired in 2013 and costs associated with agreement renewals are not incorporated in the above department expenses making planned recovery targets mildly overstated. As illustrated above, a few areas

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are “below policy recovery goals”, but moving towards their target. Achieving these goals would increase revenue by approximately \$4.2M. Resetting all fees to full cost recovery could potentially generate \$29M in additional revenues. Although moving in this direction appears attractive, caution is advised when setting fees and recovery targets as there is a need to balance price increases with service demand, process compliance and local competition.

Illustrated below are brief comments related to each of the above sections.

- Building Standards continues to maintain a 100% building code full cost recovery target for OBC revenues, with a draw from the Building Standards Service Continuity Reserve in anticipation of lower volumes created by the delayed economic recovery.
- Licensing also continues to achieve their target of full cost recovery for business licensing. The department’s full cost recovery is lower than 100% due to a portion of the department being devoted to risk management and some licensing fee restrictions.
- Recreation is planning to recover 95% of their departmental costs. Presented targets are mildly optimistic as labour agreement renewals are not included and could reduce the planned recovery to a figure slightly below their policy target of 95%.
- By-Law & Compliance is planning to recover 44% of their departmental costs. It should be noted that a recovery policy is not in place for By-Law & Compliance, as this service is driven by compliance. Animal Services is planning to recover 43% of their departmental costs and 28% of their full cost in 2014. There currently is no recovery policy in place for Animal Services.
- Planning full cost recovery has increased from 60% to 75% recovery, moving closer to target.
- COA recovery targets are increasing slightly from 43% in 2014 to 47% in 2017.

Corporate Revenues

| | 2014 | | 2015 | | 2016 | | 2017 | |
|--------------------|---------------|------------|---------------|-----------|---------------|--------------|---------------|----------------|
| | Budget | Change | Budget | Change | Budget | Change | Budget | Change |
| Corporate Revenues | \$ 18,225,463 | \$ 565,085 | \$ 18,301,849 | \$ 76,386 | \$ 17,829,695 | \$ (472,154) | \$ 16,824,076 | \$ (1,005,619) |

Major Budget Adjustments

- PowerStream Dividends – A revised forecast was recently provided indicating anticipated dividend increases in 2014 of \$775K, 2015 of \$300K. However, there is a forecasted decrease in dividend revenue of \$225K in 2016 and a further decrease of \$1.05M in 2017. This reduction is largely a result of PowerStream’s regulatory environment and methodology for calculating their return on capital. The 2016-2017 projections are anticipated to improve with future updates. It should be noted that these figures are subject to change and do not incorporate future dividends resulting from additional equity investment.
- PowerStream Investment Income – The PowerStream Promissory Note interest deferral was renewed in October 2013 at the rate prescribed by the Ontario Energy Board. This action reduced annual interest by \$153k.
- Investment Income – As discussed in previous budget submissions, there is a need to change the methodology used to allocate investment income between the operating budget and reserve accounts. As a result, investment income allocated to the operating budget is phased down by \$225K in 2014 and \$250K in both 2015 and 2016. There is a slight increase of \$40K in 2017. Investment income is also challenged by low interest rates, which are replacing maturing higher yield investments.

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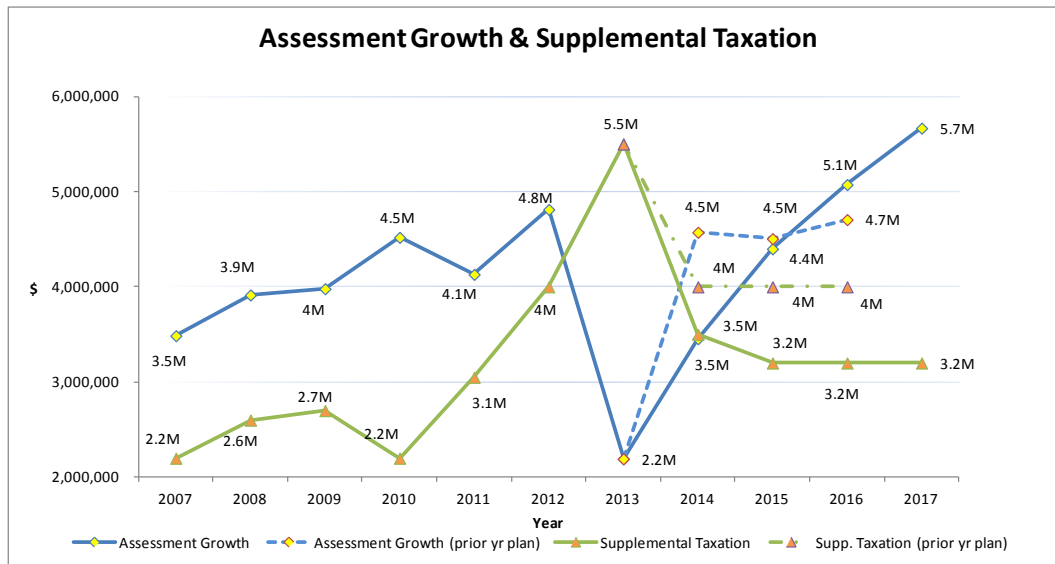
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- Fines and Penalties – The corporate fines and penalty budget increased by \$200K in 2014 to better reflect actual historical trends. This budget is expected to stabilize through 2017.
- The remaining budget differences consist of relatively minor budgets and changes.

| | 2014 | % | Tax Rate | 2015 | % | Tax Rate | 2016 | % | Tax Rate | 2017 | % | Tax Rate |
|-----------------------------|-----------|--------|----------|-----------|--------|----------|-----------|--------|----------|-------------|--------|----------|
| | Variance | Change | Impact | Variance | Change | Impact | Variance | Change | Impact | Variance | Change | Impact |
| Fines And Penalties | 200,000 | 4.1% | 0.1% | 0 | 0.0% | 0.0% | 0 | 0.0% | 0.0% | 0 | 0.0% | 0.0% |
| Tax Certificates And Docume | 5,035 | 1.0% | 0.0% | 24,841 | 4.9% | 0.0% | 1,256 | 0.2% | 0.0% | 4,381 | 0.8% | 0.0% |
| Investment Income | (225,000) | -8.2% | -0.1% | (250,000) | -9.9% | -0.1% | (250,000) | -11.0% | -0.1% | 40,000 | 2.0% | 0.0% |
| Hydro Investment Income | (153,450) | -3.2% | -0.1% | 0 | 0.0% | 0.0% | 0 | 0.0% | 0.0% | 0 | 0.0% | 0.0% |
| Hydro Dividends | 775,000 | 17.5% | 0.5% | 300,000 | -5.8% | 0.2% | (225,000) | -4.1% | -0.1% | (1,050,000) | -19.9% | -0.5% |
| Miscellaneous Revenue | 0 | 0.0% | 0.0% | 0 | 0.0% | 0.0% | 0 | 0.0% | 0.0% | 0 | 0.0% | 0.0% |
| Purchasing | 0 | 0.0% | 0.0% | 0 | 0.0% | 0.0% | 0 | 0.0% | 0.0% | 0 | 0.0% | 0.0% |
| Cashiering Services | 1,500 | 3.0% | 0.0% | 1,545 | 3.0% | 0.0% | 1,590 | 3.0% | 0.0% | 0 | 0.0% | 0.0% |
| Capital Admin. Revenue | (38,000) | -76.0% | 0.0% | 0 | 0.0% | 0.0% | 0 | 0.0% | 0.0% | 0 | 0.0% | 0.0% |
| TOTAL CORPORATE REVENUE | 565,085 | 3.2% | 0.4% | 76,386 | 0.4% | 0.0% | (472,154) | -2.6% | -0.3% | (1,005,619) | -5.6% | -0.5% |

Assessment Growth

2014 assessment growth is lower than anticipated, due to the Municipal Property Assessment Corporation's (MPAC) processing issues. This is a trend that started in 2013 and impacted assessment growth figures across the GTA. Staff are working with MPAC and other municipalities to resolve the issue. Last year the City mitigated the situation by adjusting supplemental taxation, assuming traditional MPAC assessment growth figures would return in following years. However, last year's plan has changed bringing lower than planned assessment growth and supplemental taxation. Below is an illustration of the above situation.



Supplemental and assessment taxation revenue, although not specifically allocated, help offset the increasing service costs associated with community growth. To illustrate this point, each year City additions are made to:

- Roads
- Sidewalks
- Waste/recycling stops
- Streetlights
- Parkland
- Trails
- Libraries
- Fire operations, etc.

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All the above additions require funds to operate and maintain service levels. Included in the Draft 2014-2017 Plan are estimates for staffing, contracts, utilities and associated renewal costs supporting growth. Below are a few items that are indirectly funded through assessment growth.

- Contract and utility volume increases - Ranges between \$750k - \$2.5M, averaging \$1.5M per year over the next 4 years
- Infrastructure renewal - As a City grows infrastructure is added, which is initially funded by the development industry, with replacement costs borne by the City at a later date. Additional funding associated with these costs fluctuates based on new asset timing, but averages \$2.1M per year over the next 4 years.
- Additional Resource Requests - typically \$2M are approved each year for staffing and other costs to service growth i.e. Fire, Community Centers, Parks, etc.
- As illustrated above, the average costs associated with growth, approximately \$5.6M/year, total of above three points, are higher than the forecasted average assessment growth, averaging \$4.5M per year over the plan.

C. Base Budget Expenditure Review

As illustrated in the Revenue and Expense Summary in Attachment #1, the City's expense budget changed as follows:

| | 2014 | | 2015 | | 2016 | | 2017 | |
|--------------------------|----------------|--------------|----------------|--------------|----------------|--------------|----------------|--------------|
| | Budget | Change | Budget | Change | Budget | Change | Budget | Change |
| Base Budget Expenditures | \$ 246,199,978 | \$ 7,828,800 | \$ 255,170,677 | \$ 8,970,699 | \$ 262,776,850 | \$ 7,606,173 | \$ 270,001,319 | \$ 7,224,469 |

Departmental Expenditures

| | 2014 | | 2015 | | 2016 | | 2017 | |
|-------------------------|----------------|--------------|----------------|--------------|----------------|--------------|----------------|--------------|
| | Budget | Change | Budget | Change | Budget | Change | Budget | Change |
| Department Expenditures | \$ 213,760,513 | \$ 4,515,163 | \$ 218,997,239 | \$ 5,236,726 | \$ 222,394,048 | \$ 3,396,809 | \$ 225,606,987 | \$ 3,212,939 |

2014 increase of \$4.5M including the \$262K Library Board increase:

This represents an increase of 2.2% over the 2013 departmental budget, and is largely due to the following items:

- Of the total departmental budget increase, \$4.1M is related to changes in support of the City's workforce consisting of the following:
 - \$2.6M relates to experience progressions, economic adjustments per established agreements, job-evaluations, staff and market adjustments etc.
 - There is a \$876K increase in benefits due to additional complement, economic adjustments, and benefit rate increases caused by increasing OMERS contributions and EI/ CPP thresholds.
 - The full year impact of the Station 7-5 engine first cohort, which started in October of 2013. This increase amounted to \$675K. The second cohort is requested in this year's budget. The full cost associated with staffing an engine is approximately \$2M.
 - It should be noted, one collective labour agreement is under negotiation and the management/non-union by-law is under review. Financial impacts are undetermined and not incorporated in this section. A provision is budgeted for corporately.
- \$451K relates to pressures from contracted services and materials and supplies. These increases are the result of growth demands and industry price obligations. Overall,

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contract service lines increased by 1.5% and relate to winter control, ITM services, waste management etc.

- A \$411K increase in utilities is due to rising prices as permitted in the approved budget guidelines. This balance includes volume related increase for fuel.
- A \$147K increase in YRT ticket purchases to match historical trends. There is an associated revenue increase to incorporate the City's commissions.
- The remaining increases are minor and in various other accounts.

Changes from 2015 to 2017

The City's Workforce: The increases in the department budgets continue to be related to the City's workforce. Pressures associated with benefits, progressions, job-evaluations, etc. continue into 2017, but at reduced amount due to the achievement of maximum level experience progressions and the exclusion labour agreement implications (e.g. two collective agreements expire in 2016). Post agreement labour estimates are planned for corporately along with other uncertain events.

Contracts: The second largest component of the 2015-2017 department expenditure increases is related to contract services, \$744K in 2015 and \$982K in 2016. For 2017, there is an increase of \$1.3M including \$279K in maintenance contracts for Carrville Community Centre. These increases are typically the result of increasing demands for services due to growth and industry price obligations. Overall contract service lines increased by 2.3% in 2015, 2.6% in 2016 and 2.3% in 2017 mainly relating to waste management, winter control, maintenance contracts, ITM services, etc.

Utilities: The third largest component of the 2015-2017 department expenditure increases is related to utilities, \$309K in 2015 and \$328K in 2016. For 2017, there is an increase of \$719K including \$371K for Carrville Community Centre. Overall utility increased by 3.7% in 2015, 3.8% in 2016 and 8% in 2017. These increases are typically the result of increasing volumes and industry price expectations as permitted in the guidelines.

The remaining balance consists of relatively minor increases in multiple accounts.

Explanations for Department Budget Changes in excess of \$100K are provided in Attachment 5 – Budget Analysis & Other Information.

Reserve Contributions and Corporate Expenditures

Reserve contributions and corporate expenditures contributed to the remaining City expenditures, which required the following adjustments:

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| | 2014 | % | Tax Rate | 2015 | % | Tax Rate | 2016 | % | Tax Rate | 2017 | % | Tax Rate |
|---|------------------|---------|-------------|------------------|---------|-------------|------------------|--------|-------------|------------------|--------|-------------|
| | Variance | Change | Impact | Variance | Change | Impact | Variance | Change | Impact | Variance | Change | Impact |
| Contingency | 1,770,627 | 76.2% | 1.1% | 1,716,724 | 41.9% | 1.0% | 2,974,862 | 51.2% | 1.6% | 3,236,240 | 36.8% | 1.6% |
| Long Term Debt | (121,033) | -0.9% | -0.1% | 1,254,634 | 8.9% | 0.7% | (177,579) | -1.2% | -0.1% | (2,500,000) | -16.5% | -1.3% |
| Reserve Contributions | 569,709 | 8.2% | 0.4% | 1,286,668 | 17.2% | 0.8% | 1,230,473 | 14.0% | 0.7% | 3,129,775 | 31.1% | 1.6% |
| -Parks Infrastructure | (152,070) | -25.3% | -0.1% | 1,002,300 | 222.9% | 0.6% | 344,706 | 23.7% | 0.2% | 1,179,069 | 65.6% | 0.6% |
| -Bldg & Facilities | 335,165 | 14.6% | 0.2% | 152,597 | 5.8% | 0.1% | 711,852 | 25.6% | 0.4% | 1,706,457 | 48.8% | 0.9% |
| -Fire & Rescue | (35,384) | -2.7% | 0.0% | 56,458 | 4.4% | 0.0% | 157,217 | 11.7% | 0.1% | 37,059 | 2.5% | 0.0% |
| -Additional Vehicle | 205,195 | 112.6% | 0.1% | 3,718 | 1.0% | 0.0% | 3,793 | 1.0% | 0.0% | 3,869 | 1.0% | 0.0% |
| -Other Reserve Contrib. | 216,803 | | | 71,595 | | | 12,905 | | | 203,321 | | |
| Capital from Taxation | 127,785 | 2.0% | 0.1% | 130,342 | 2.0% | 0.1% | 132,948 | 2.0% | 0.1% | 135,607 | 2.0% | 0.1% |
| Corporate Expenditures | 966,549 | -147.7% | 0.6% | (654,395) | -209.7% | -0.4% | (10,293) | 3.0% | 0.0% | (49,045) | 13.9% | 0.0% |
| -Tax Adjustments | 125,000 | 6.2% | 0.1% | 125,000 | 5.8% | 0.1% | 0 | 0.0% | 0.0% | 25,000 | 1.1% | 0.0% |
| -Election | 755,160 | 280.1% | 0.5% | (754,396) | -73.6% | -0.4% | 478 | 0.2% | 0.0% | 478 | 0.2% | 0.0% |
| -Joint Service Agreement | 23,090 | 5.1% | 0.0% | 14,200 | 3.0% | 0.0% | 14,629 | 3.0% | 0.0% | 15,078 | 3.0% | 0.0% |
| -Anticipated Labour Saving | (1) | 0.0% | 0.0% | (49,099) | 1.2% | 0.0% | (33,400) | 0.8% | 0.0% | (37,801) | 0.9% | 0.0% |
| -Other Corporate Exp. | 63,300 | | 0.0% | 9,900 | | | 8,000 | | | (51,800) | | |
| Total Reserve Contributions & Corporate Expenditures | 3,313,637 | | 2.1% | 3,733,973 | | 2.2% | 4,150,411 | | 2.3% | 3,952,577 | | 2.0% |

Explanations for the budget changes are as follows:

2014 Increase of \$6.2M:

- The City's contingency budget increased by \$1.7M and relates to future labour agreement negotiations and certain foreseeable events. Once the outcomes of these events are determined, balances will be reallocated to the appropriate department budgets.
- Long term debt payments decreased by \$0.1M as the anticipated 2013 debt issuance was smaller than expected and rolled into the following year. This can occur if capital project completions are less than expected. Debenture reserve funding is used to smooth debenture costs and when combined the net impact is \$0.6M for the year.
- Infrastructure Reserve contributions increase by \$570K, as per policy to support the replacement of community buildings, vehicles, parks, etc. Contributions are based on new asset life cycle replacement principles and indexed to keep pace with market replacement costs.
- Capital from taxation increased by \$128K to support the non-reserve funded capital program items and associated initiatives. This increase is also intended to keep pace with market rates.
- Corporate Expenditures increased by \$966K and are attributable to the following:
 - Tax adjustments increased by \$125K due to economic conditions.
 - Election costs increase by \$755K to reflect tabulator leases and complement and to fund the 2014 election. The net impact is zero as there is an associated funding from the election reserve.

2015 to 2017 Changes

City Contingency - The City's contingency account relates to future labour agreement negotiations and certain foreseeable events. Once the outcomes of these events are determined, balances will be reallocated to the appropriate department budgets. Planned budget increases are \$1.7M, \$3.0M and \$3.2M respectively.

Long-term Debt - The repayment of long term debt is estimated to increase by \$1.3M in 2015, decrease by \$0.2M in 2015 and decrease by \$2.5M in 2017. Debenture reserve funding is leveraged to smooth these fluctuations. When combined the net impact is \$0.7M in 2015, \$0.4M in 2016 and \$0.0M in 2017.

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Corporate Expenditures –It is anticipated that a report on the election process will be coming forward later in the budget process. In 2015, election costs are removed with minor changes in 2016. It should be noted that this cost is fully offset by matched withdrawals from the Election Reserve.

Reserve Contributions - Infrastructure Reserve contributions increased by \$1.3M, \$1.2M and \$3.1M, respectively to support community infrastructure replacement.

Expenditure Review – Degree of Flexibility

To assist Council in assessing the base budget, the following summary illustrates how the City's expenses are allocated to major expense types:

| | 2014 | | | 2015 | | | 2016 | | | 2017 | | |
|---------------------------------|--------------------|-------------------|----------------|--------------------|-------------------|----------------|--------------------|-------------------|----------------|--------------------|-------------------|----------------|
| | Base Budget (\$) | % of Total Budget | Cumulative (%) | Base Budget (\$) | % of Total Budget | Cumulative (%) | Base Budget (\$) | % of Total Budget | Cumulative (%) | Base Budget (\$) | % of Total Budget | Cumulative (%) |
| Operating Expenditures | | | | | | | | | | | | |
| Salaries and Benefits | 140,371,275 | 57.0% | 57.02% | 143,693,166 | 56.3% | 56.31% | 145,284,485 | 55.3% | 55.29% | 146,405,204 | 54.2% | 54.22% |
| Service Contracts | 33,413,625 | 13.6% | 70.6% | 34,175,510 | 13.4% | 69.7% | 35,055,768 | 13.3% | 68.6% | 35,863,634 | 13.3% | 67.5% |
| Long Term Debt | 12,562,419 | 5.1% | 75.7% | 14,711,871 | 5.8% | 75.5% | 14,448,455 | 5.5% | 74.1% | 11,106,995 | 4.1% | 71.6% |
| Reserve Contributions | 10,523,678 | 4.3% | 80.0% | 11,346,234 | 4.4% | 79.9% | 12,649,905 | 4.8% | 78.9% | 16,779,293 | 6.2% | 77.8% |
| Utilities & Fuel | 9,510,925 | 3.9% | 83.8% | 9,855,208 | 3.9% | 83.8% | 10,220,911 | 3.9% | 82.8% | 10,979,677 | 4.1% | 81.9% |
| Maint./Materials | 8,462,866 | 3.4% | 87.3% | 8,589,889 | 3.4% | 87.1% | 8,595,118 | 3.3% | 86.1% | 8,812,679 | 3.3% | 85.2% |
| Capital from Taxation | 6,517,059 | 2.6% | 89.9% | 6,647,401 | 2.6% | 89.8% | 6,780,349 | 2.6% | 88.7% | 6,915,956 | 2.6% | 87.7% |
| Insurance Expenses | 4,316,318 | 1.8% | 91.7% | 4,532,616 | 1.8% | 91.5% | 5,014,113 | 1.9% | 90.6% | 5,144,495 | 1.9% | 89.6% |
| Contingency | 4,094,486 | 1.7% | 93.3% | 5,811,210 | 2.3% | 93.8% | 8,786,073 | 3.3% | 93.9% | 12,022,312 | 4.5% | 94.1% |
| Prof. Fees | 2,550,881 | 1.0% | 94.4% | 2,551,615 | 1.0% | 94.8% | 2,562,258 | 1.0% | 94.9% | 2,502,863 | 0.9% | 95.0% |
| Tax Adjustments | 2,150,000 | 0.9% | 95.2% | 2,275,000 | 0.9% | 95.7% | 2,275,000 | 0.9% | 95.8% | 2,300,000 | 0.9% | 95.9% |
| All Other | 11,726,446 | 4.8% | 100.0% | 10,980,957 | 4.3% | 100.0% | 11,104,416 | 4.2% | 100.0% | 11,168,211 | 4.1% | 100.0% |
| Total Draft Expenditures | 246,199,978 | 100.0% | -- | 255,170,677 | 100.0% | -- | 262,776,851 | 100.0% | -- | 270,001,319 | 100.0% | -- |

The above summary illustrates that the City has limited flexibility in any given year to significantly alter the City's cost structure in the short term. More than 75% of the costs are committed through collective agreements, service contracts and financing arrangements. Other reductions will impact the maintenance and repair of the City's infrastructure.

Detail on the "All Other Expenditures" is provided in Attachment #5 – Budget Analysis & Other Information

D. Consideration of Additional Resource Requests

As indicated earlier in this report, the budget guidelines were complimented by a process that allowed departments to formally submit requests for essential resources not permitted by the budget guidelines for Finance and Administration Committee and Council consideration. As a result, departments submitted over 136 additional resource requests with a total cost of over \$18.4m, all of which are valued by the submitting departments. It should be noted \$2.1m in requests are fully or partially self-funded, which demonstrates staff's willingness to redirect existing resources and manage their finances in a prudent manner.

Consistent with prior years and demonstrating respect for the tax payer's dollar, the Senior Management Team and the Director's Working Group reviewed, evaluated, and prioritized all additional resource requests based on their merits and the following criteria:

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- Vaughan's Vision and the Corporate Planning process linkages
- Value Proposition
- Regulatory Requirements
- Risk Management
- Internal Operational Requirements
- Capital Timing and Funding Availability

The process infuses a high degree of objectivity and transparency, of which the end result is a more realistic and responsible list of additional resource requests. Developing the recommended list was very difficult for decision makers, who were frequently faced with the dilemma of choosing between "Maintaining Services", "City Building Initiatives" and "keeping tax rates low". The Senior Management Team's funding recommendation is a blend of all three ideals with a weighted focus on maintaining service levels. In many situations the result is not optimal, but necessary to minimize perceived tax pressures on the community. Below are highlights regarding SMT's recommended additional resource requests.

- Community Safety - Fire operations & prevention
- Community and Library Services - Civic Centre Resource Library, Avondale (North Maple) Park, ongoing forestry, parks, facility maintenance, etc.
- Operational Requirements - Planning, Engineering, corporate support for city services, and other requests, etc.
- City Building Initiatives - asset management, public sector renewal, business development, communications strategy, public engagement, Vaughan Metropolitan Centre, strategic planning initiatives, etc.

| Additional Resource Requests | 2014 | | 2015 | | 2016 | | 2017 | |
|------------------------------|------------------|--------------|------------------|--------------|------------------|--------------|------------------|--------------|
| | \$ | Rate Incr. | \$ | Rate Incr. | \$ | Rate Incr. | \$ | Rate Incr. |
| Community Safety (Fire) | 742,238 | 0.47% | 147,968 | 0.09% | 1,061,496 | 0.61% | 700,560 | 0.36% |
| Community & Library Services | 1,037,791 | 0.66% | 2,779,775 | 1.64% | 2,182,103 | 1.19% | 2,471,097 | 1.25% |
| Operational Requirements | 1,888,204 | 1.20% | 72,286 | 0.04% | 873,628 | 0.48% | 664,383 | 0.34% |
| City Building Initiatives | 922,955 | 0.59% | 582,289 | 0.34% | 75,000 | 0.04% | 90,822 | 0.05% |
| Total Budget Change | 4,591,188 | 2.92% | 3,582,318 | 2.12% | 4,192,227 | 2.31% | 3,926,862 | 1.99% |

Reducing the recommended additional resource requests will potentially compromise service levels or impact City building initiatives. In addition, there are City initiatives currently being developed for which the timing is beyond the plan or financial implications are not certain. As these projects come on-line in the future they will directly compete with the above resources (e.g. streetscaping, office incentives, MacMillan Farm, works yards, master plan, Black Creek renewal and storm water management ponds, civic square, parking strategy, etc.). The above situation further supports the need to continue planning resources over an extended horizon, which helps to address and communicate future requirements and changing priorities.

Senior Management Team's recommendation list is provided in Attachment #2 and all additional resource request submissions are provided in Appendix A. Below are highlights.

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High Value ARR's by Year

| Year | ARR | Net \$ (M) | % of year |
|------|--------------------------------------|------------|-----------|
| 2014 | STN 75 Firefighters/Captains | \$ 0.35 | 7.6% |
| | District Chiefs | \$ 0.32 | 6.9% |
| | Asset Management (4 Positions) | \$ 0.26 | 5.7% |
| | B&F City-Wide Maintenance/Repairs | \$ 0.25 | 5.4% |
| | ITM Technology Specialist | \$ 0.23 | 5.1% |
| | Legal Counsel - Procurement | \$ 0.16 | 3.4% |
| | New Park Operating Expenses | \$ 0.15 | 3.4% |
| | Property Standards Officers | \$ 0.15 | 3.2% |
| | Legal Counsel - Development | \$ 0.15 | 3.2% |
| | Sub total | \$ 2.01 | 43.9% |
| 2015 | Civic Centre Resource Library | \$ 2.73 | 76.1% |
| | EDMS Analyst and SME | \$ 0.36 | 10.0% |
| | Sub total | \$ 3.09 | 86.1% |
| 2016 | Avondale (North Maple) Park | \$ 0.61 | 14.5% |
| | Vellore Village South Library | \$ 0.56 | 13.4% |
| | STN 76 Firefighters/Captains | \$ 0.52 | 12.3% |
| | Facility Operators – Block 11 CC | \$ 0.52 | 12.3% |
| | District Chiefs | \$ 0.32 | 7.6% |
| | Sub total | \$ 2.20 | 52.5% |
| 2017 | B&F Staff for Block 40/41/42 CC | \$ 0.82 | 20.8% |
| | Block 11 Community Centre | \$ 0.72 | 18.4% |
| | STN 76 Firefighters (2nd Contingent) | \$ 0.66 | 16.7% |
| | Increase in Grass Cutting Frequency | \$ 0.39 | 9.9% |
| | Sub total | \$ 2.58 | 65.8% |

ARR Totals by Commission

| Service Area | 2014 | | | 2015 | | | 2016 | | | 2017 | | |
|-------------------------|-----------|-------|----|-----------|-------|---|-----------|-------|----|-----------|-------|----|
| | Net \$ | Net % | # | Net \$ | Net % | # | Net \$ | Net % | # | Net \$ | Net % | # |
| City Manager | 803,303 | 17% | 4 | 147,968 | 4% | 1 | 1,061,496 | 25% | 5 | 700,560 | 18% | 2 |
| Executive Director | 426,017 | 9% | 5 | - | 0% | - | 89,917 | 2% | 1 | - | 0% | - |
| City Auditor | 71,902 | 2% | 1 | - | 0% | - | - | 0% | - | - | 0% | - |
| Community Services | 1,240,436 | 27% | 21 | 58,925 | 2% | 2 | 1,651,402 | 39% | 13 | 2,561,919 | 65% | 17 |
| Finance | 131,989 | 3% | 3 | - | 0% | - | 52,023 | 1% | 1 | 257,584 | 7% | 3 |
| Legal and Admin | 1,162,725 | 25% | 14 | - | 0% | - | 68,123 | 2% | 2 | 113,244 | 3% | 2 |
| Planning | 159,437 | 3% | 2 | - | 0% | - | - | 0% | - | - | 0% | - |
| Engineering & PW | (91,172) | -2% | 12 | - | 0% | - | 148,269 | 4% | 1 | 94,880 | 2% | 1 |
| Strategic & Corp. Serv. | 686,551 | 15% | 8 | 649,325 | 18% | 5 | 560,296 | 13% | 5 | 198,675 | 5% | 3 |
| Library | - | 0% | - | 2,726,100 | 76% | 1 | 560,701 | 13% | 1 | - | 0% | - |
| | 4,591,188 | 100% | 70 | 3,582,318 | 100% | 9 | 4,192,227 | 100% | 29 | 3,926,862 | 100% | 28 |

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Capital Budget & Plan Overview 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 2014 Capital Budget and 2015-2017 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

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 as Attachment 3. Also provided in Attachment 5, are capital project summaries by funding source by year.

Reserve Continuity Schedules

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

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 in project number order. The list references an index number that corresponds to the project detail sheet page number.

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.

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

Development Charge Reserves are based on the City's growth and are in place to maintain historical service levels. 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,

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capital projects were prioritized by the related departments. Highlighted below is the consolidated budget for this funding source and major associated capital projects, \$2M to \$37M:

| 2014 Budget | 2015 Plan | 2016 Plan | 2017 Plan |
|------------------------------|------------------------------|------------------------------|------------------------------|
| 10,298,740 | 33,193,729 | 63,851,762 | 52,099,969 |
| <u>Major Projects</u> | <u>Major Projects</u> | <u>Major Projects</u> | <u>Major Projects</u> |
| Civic Centre Library | Vellore Village Library | Vellore Village Library | |
| Vellore Village Library | Black Creek Renewal | Black Creek Renewal | Black Creek Renewal |
| Major Mac. Streetlight | CP Railway Ped Cross | CP Railway Ped Cross | CP Railway Ped Cross |
| Kirby Road EA | Carville CC & Library | Carville CC & Library | Carville CC & Library |
| | North Maple Park | North Maple Park | North Maple Park |
| | Concord West Strtscape | Concord West Strtscape | Concord West Strtscape |
| | Fire Stn 7-4 Expansion | Fire Stn 7-4 Expansion | |

Note: More specific detail can be found in Attachment #3 or #5

Negative Reserve Balances

As per policy, the City will only approve capital projects if funds are on hand. However, there are the following two 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 -2017 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 & 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.
- 3) Public Works DC Reserve – This reserve is forecasted to enter into a negative position in 2016 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.
- 4) 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.

Capital Reserves

Infrastructure Reserves

A prevailing theme throughout the years has repeatedly been the need to address the funding component for infrastructure renewal. Included in the 2014 Capital Budget and 2015-2017 Capital Plans are infrastructure reserve funds for this purpose. These are illustrated below.

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| Funding Source | 2014 | 2015 | 2016 | 2017 |
|--|-------------------|-------------------|-------------------|-------------------|
| City Playhouse Reserve | 22,151 | | | |
| Fire Equipment Reserve | 189,400 | 1,038,150 | 2,977,100 | 901,700 |
| Heritage Reserve | 153,470 | 25,750 | | |
| Information Technology Asset Replacement | 1,050,700 | 1,129,700 | 1,140,700 | 1,140,700 |
| Library Materials Reserve | 1,495,900 | 1,777,500 | 1,910,960 | 1,949,170 |
| Parks Infra. Reserve | 3,100,912 | 2,763,423 | 1,980,388 | 2,627,861 |
| Pre-B& F Infra. Reserve | 3,053,940 | 1,319,065 | 786,146 | 193,300 |
| Recreation Land Reserve | 267,800 | 267,800 | 267,800 | 267,800 |
| Roads Infra. Reserve | 669,500 | 123,600 | | 124,630 |
| Uplands Revenue Reserve | 67,000 | 730,732 | 67,000 | |
| Vehicle Reserve | 1,495,300 | 997,500 | 799,600 | 796,450 |
| Water Reserve | 4,008,050 | 4,299,594 | 8,357,162 | 4,889,381 |
| Tree Replace Reserve | 48,882 | 48,882 | 48,882 | 48,882 |
| Grand Total | 15,623,005 | 14,521,696 | 18,335,738 | 12,939,874 |

| 2014 Budget | 2015 Plan | 2016 Plan | 2017 Plan |
|-------------------------------------|-------------------------------|------------------------------|---------------------------------|
| 15,623,004 | 14,521,696 | 18,335,738 | 12,939,874 |
| <u>Major Projects</u> | <u>Major Projects</u> | <u>Major Projects</u> | <u>Major Projects</u> |
| Library Resources | Library Resources | Library Resources | Library Resources |
| Al Palladini CC Road | Uplands - Water Systems | Replace Aerial 7968 - Smeal | Replace 7955 Aerial 55 FT |
| Road/Watermain Rehab | Road/Watermain Rehab | Road/Watermain Rehab | Road/Watermain Rehab |
| Culvert - Merino Road | Replace 7966 Rescue Truck | Replace 7972 Pumper | VelloreVillageCC - Soccer Field |
| Yorkhill District Park - Playground | York Hill Park - Tennis Court | Replace 7971 Pumper | LeParc Park - Tennis Court |
| Torii Park - Tennis Court | Al Pal CC Refrig.PlantEquip. | Replace HAZ MAT 7942 | RosedaleParkNorth-TennisCourt |

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 \$30M/year or approximately 40% of capital plan.

There are three infrastructure replacement reserves that are currently experiencing challenges.

Parks Reserve: This reserve is used to fund the replacement of play structures, play fields, courts, water parks, paths, etc. For the most part, the funding for park infrastructure renewal, excluding land, has been very low. Recently contribution policies and reserve realignments were adopted to improve the reserve position. However, these actions will not fully address the issue and this reserve is anticipated to be in a negative position within eight years. Further analysis and funding strategies will be required.

Uplands Reserve: 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.

Vehicle Reserve: This reserve is used to fund the replacement of City's vehicles and equipment. Renewal funding for this purpose was discontinued in 2005. Recently contribution policies and reserve realignments were adopted to improve the reserve position. However, these actions will not fully address the issue and this reserve is anticipated to be in a negative position within four years. Further analysis and funding strategies will be required.

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The Infrastructure Challenge

The challenge of funding the significantly growing costs of infrastructure renewal is a paramount concern for most municipalities across Canada and stems from new construction being primarily funded by the development industry, leaving the municipalities across Ontario to fund future replacement costs from the municipality's limited tax base. The danger of not doing so could create a situation where the funding shortfall will continue to slowly build until a point in the future where a wave of facility, park, fire and other replacement projects come on board without available funding. This picture threatens the community's overall quality of life and the economic health for future generations. As a result, a number of reports and initiatives have come forward to support this challenge, including:

1. Multi-Year Budgeting – To provide visibility regarding future financial requirements.
2. Asset Management – The City is in the process of completing Phase I of the asset management initiative. At the September 16th Priorities and Key Initiatives Committee, staff presented the *Corporate Asset Management Strategy* report. Phase I is anticipated to be complete by year end 2013, and the current draft capital and operating budgets contain proposed projects and ARRs to continue into Phase II of this initiative.
3. Infrastructure Renewal Policy – To ensure annual replacement contributions are in place for new capital projects based on lifecycle principles.
4. Reserve Policy Update – In addition to policy updates, this action incorporated a realignment of reserve balances and expansion of surplus allocation to support infrastructure.
5. Financial Master Plan – The City's Financial Master Plan earmarked infrastructure funding as a top priority along with funding approaches.

The above actions are designed to guide the municipality towards financial sustainability and are required to ensure the City is able to safeguard the community's infrastructure network. Staff will continue to educate and communicate the issue and future reports are planned for 2014.

Other Reserves

In addition to infrastructure reserves, the City has established a number of reserves to help manage municipal finances and protect against the potential need to reduce service levels or raise taxes due to temporary revenue shortfalls or unexpected expenditure increases e.g. Tax rate stabilization, Working Capital, Debenture reserves, etc. Generally, these reserves provide transfer funding to the operating budget when required and typically have very few capital related project submissions. It should be noted, these reserve balances substantially contribute to achieving the City's Discretionary Reserve Ratio Policy.

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.

There are two reserves that are trending towards a negative reserve balance by 2017:

- 1) Tax Rate Stabilization – This reserve does not have a dedicated funding source, but is funded from surpluses; therefore, this forecast's balance is dependent on the

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City's performance and difficult to predict. A large payment in 2013 was required to assist with a capital project, significantly reducing available funds. As well, there is a planned annual draw from the reserve to mitigate past budget decisions. As indicated by the reserve forecast, this draw is slowly being transitioned down to provide a more predictable and sustainable funding source.

- 2) Engineering Reserve – This is due to the transition towards intensification development which the current fee structure does not accommodate. Therefore, there is a need to undertake a fee review for which there is an approved 2013 capital project. The findings from this review will be incorporated into future forecasts.

B) 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 appropriate as it aids in spreading these costs over time. The project values planned for the 2014 Capital Budget and 2015-2017 capital plan are as follows:

| | 2014 | 2015 | 2016 | 2017 |
|---------------------------|-----------|------------|------------|------------|
| Debenture Projects | 6,429,490 | 12,329,544 | 31,050,705 | 74,884,151 |

Where funding opportunities exist, available gas tax funding is utilized. This is a primary reason why forecasted figures are different from prior year budgets. 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 are pressures 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 is utilized as the default funding source, until a funding strategy is determined. This action results in a significant escalation in debt costs in future years just beyond the forecast. As illustrated above, this is based on the debenture funded capital project balance growing tenfold over 4 years. As illustrated in a previous section, debenture funding is well within the 10% policy target, but is forecasted to approach the City's policy threshold within 6 years. Staff will continue to investigate alternate funding sources where possible.

C) Capital From Taxation

Projects identified for capital from taxation funding consist of two types:

- Non-growth related projects which have no other funding source such as new initiatives, technology replacement, new infrastructure beyond development charge service levels, etc.
- 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.

The Draft Operating Plan allocates an average of \$6.7m annually to "Capital From Taxation" funded capital projects. Finance staff along with the Director's 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 a funding source include, but are not limited to consideration of the following:

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- Pre-Budget approval obtained
- Funds required to complete previously approved projects
- Legal or Regulatory requirements (including financial commitments)
- Net revenue generating, cost savings or efficiency improvement projects
- Growth related projects
- Infrastructure repair projects
- Equipment replacement projects
- New service levels

As a result, some projects were redistributed within the 4 year capital plan and others deferred beyond the plan's horizon. However, due to a number of large growth projects and corporate initiatives, there still remains an unfunded portion in the 2016 and 2017 years. The new Carrville Community Centre and Library require a large co-funding requirement, representing almost 60% of the 2016 funding amount. Due to the amount, it may be necessary to adjust the timing or investigate other funding sources. 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.

| Project Type | 2014 | 2015 | 2016 | 2017 |
|----------------------------|------------------|------------------|--------------------|------------------|
| Legal and Regulatory | 360,925 | 233,725 | | 98,717 |
| Health & Safety | 126,275 | | | 206,000 |
| Growth Co-Funding | 748,535 | 1,908,796 | 5,900,301 | 2,977,419 |
| Technology Initiatives | 731,300 | 1,260,220 | 811,720 | 749,000 |
| Annual Replacement Program | 1,314,839 | 1,293,979 | 1,289,089 | 2,059,089 |
| New Initiative | 3,226,920 | 1,617,734 | | 860,180 |
| Total | 6,508,794 | 6,314,454 | 8,001,110 | 6,950,405 |
| Available Funding | 6,508,794 | 6,634,572 | 6,767,520 | 6,903,127 |
| Difference | 0 | 320,118 | (1,233,590) | (47,278) |

| | | | | |
|-----------------------------|------------------|------------------|-------------------|-------------------|
| Original Submissions | 8,136,895 | 9,824,085 | 10,098,279 | 10,358,421 |
|-----------------------------|------------------|------------------|-------------------|-------------------|

Below is a brief summary of the major projects (between \$200K to \$4M):

| 2014 Budget | 2015 Plan | 2016 Plan | 2017 Plan |
|---------------------------------------|------------------------------|------------------------------|------------------------------|
| 6,508,794 | 6,314,454 | 8,001,110 | 6,950,405 |
| <u>Major Projects</u> | <u>Major Projects</u> | <u>Major Projects</u> | <u>Major Projects</u> |
| Tree Replacement | Tree Replacement | Tree Replacement | Tree Replacement |
| Emerals Ash Borer Program | Emerals Ash Borer Program | Emerals Ash Borer Program | Emerals Ash Borer Program |
| Street Light Pole Program | Street Light Pole Program | Street Light Pole Program | Street Light Pole Program |
| Maple Reservoir Park - | North Maple Regional Park | North Maple Regional Park | North Maple Regional Park |
| Senior Soccer Field Lighting | Electronic Doc. Mgnt Sys. | Electronic Doc. Mgnt Sys. | Electronic Doc. Mgnt Sys. |
| Traffic Data Collection | Carrville Community Centre | Carrville Community Centre | Carrville Community Centre |
| Calvary Church -Soccer Field | Reposition Fire Stn 7-4 | Reposition Fire Stn 7-4 | Maple Library Renovations |
| SonomaHeightsPark- DiamondLighting | | | |

D) 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)

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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.

The Federal government announced new measures to aid municipalities in meeting their infrastructure needs. Specifically, the Gas Tax program will now be indexed per year and the number of eligible project categories will be expanded to include highways, disaster mitigation, broadband connectivity, brownfield redevelopment, culture, tourism, sport and recreation. Staff continues to monitor for updated information regarding these expanded categories and their associated criteria.

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.

Below is a brief summary of the major projects:

- Pavement Management Program and Bridge replacement
- Asset Management Initiative – Phase Two
- Sidewalk Upgrades
- Pedestrian and Bicycle Master Plan Design and Construction
- Pedestrian Bridge Repairs
- LED Streetlight Conversion
- Walkway Lighting

Total gas tax funded projects submitted in the Capital Plan are shown below:

| | 2014 | 2015 | 2016 | 2017 |
|-----------------|------------|-----------|-----------|-----------|
| Gas Tax Reserve | 10,945,316 | 8,294,940 | 7,901,852 | 6,947,525 |

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.

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, staff have closed 63 projects in 2013 returning \$1.4M to their original funding sources. These efforts are part of the ongoing quarterly review process.

Draft Capital Project Financial Control Policy – In June of 2013 staff presented to Committee the Draft Capital Project Financial Control Policy. This document is intended to:

- Provide a consistent approach to capital project control
- Ensure approved capital projects are implemented as intended
- Provide an element of flexibility to manage operational circumstances
- Report on the status of capital projects
- Develop consistency regarding authorization and resolution of common issues

An update to Committee is scheduled for Q4 of 2013.

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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 - \$7.3M annually
- Regional Pedestrian and Bicycle Partnership Program
- Canada Cultural Spaces Fund
- Green Municipal Fund
- Places to Grow
- Invest Canada Community Initiative
- Tree Canada

Relationship to Vaughan Vision 2020

The Draft 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.

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 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 to established commitments and pre-defined external pressures. In addition to the strict base budget guidelines, a number of additional resource requests were put forward by departments to maintain service levels, comply with regulatory requirements and implement operational and strategic initiatives. Capital budgets were developed with policy requirements and based on anticipated reserve balances. 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 reduce the draft budget, it will be difficult to accomplish without impacting service delivery or city building initiatives. The resulting outcome of above efforts is illustrated below in the *Building the Budget* table.

BUILDING THE BUDGET

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

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rate increase is only 1.75% its contribution to the overall increase represents 40% or \$39. 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 \$98 or 2.13%. Vaughan's local portion amounts to \$58 or 1.26% of the total property tax bill.

| <i>Property Tax Bill</i> | <i>2013 Property Tax</i> | <i>Est. % \$</i> | <i>Est. 2014 Property Tax</i> | |
|--------------------------|------------------------------|-------------------------|-------------------------------|-------------|
| City of Vaughan | 1,228 | 4.80% 58 | 1,286 | 27% |
| Hospital Levy | 60 | 0.00% - | 60 | 1% |
| Region of York | 2,239 | 1.75% 39 | 2,278 | 49% |
| Provincial (Education) | 1,071 | 0.00% - | 1,071 | 23% |
| Total Tax Bill | 4,597 | 2.13% 98 | 4,695 | 100% |

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

Attachments

Attachment 1: Draft Operating Revenue and Expenditure Summary

Attachment 2: Draft Additional Resource Request Summary

Attachment 3: Draft Capital Project Listing by Department

Attachment 4: Draft 4 Year Reserve Continuity Schedule

Attachment 5: Financial Information and Analysis

Attachment 6: Draft Department Information

Appendix A: Additional Resource Request Submissions

Appendix B: Capital Project Detail Sheet

Note: A hard copy of Attachment 5, 6 and Appendix A & B are on file in the City Clerk's Department.

Report prepared by:

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

Councillor Iafrate declared an interest with respect to the foregoing matter insofar as it relates to the contingency budget, as she has a non-arm's length financial familial interest, and did not take part in the discussion or vote on the matter.