

CITY OF VAUGHAN

EXTRACT FROM COUNCIL MEETING MINUTES OF JUNE 25, 2013

Item 10, Report No. 8, of the Finance and Administration Committee, which was adopted without amendment by the Council of the City of Vaughan on June 25, 2013.

10

PLANNING FOR THE FUTURE 2014-2017 BUDGET & BUSINESS PLANNING GUIDELINES

The Finance and Administration Committee recommends approval of the recommendation contained in the following report of the Acting Commissioner of Finance & City Treasurer, dated June 10, 2013:

Recommendation

The Acting Commissioner of Finance & City Treasurer in consultation with the Manager of Operating Budgets, and the Manager of Capital and Reserve Planning recommend:

- 1) That the Budget & Business Planning Guidelines, summarized in this report be approved; and
- 2) That the Budget Timetable be approved.

Contribution to Sustainability

Sustainability by definition focuses on the ability to maintain an activity over an extended time horizon. Budgeting is the process of allocating limited resources to achieve the City's objectives and established priorities. Responsible budgeting allocates resources in a way that balances needs and aspirations of the present without compromising the ability to meet those of the future. The proposed budget approach seeks to minimize the current year funding pressures, while meeting the requirements of sustainability.

Economic Impact

The economic impact of the 2014-2017 Budget will be fully determined after receipt of the City's budget submissions and once the draft budget is developed and presented to the Finance and Administration Committee.

Detailed below are the recognized levy forecasts presented as part of the 2013 budget, which are expected to change as estimates are refined based on more current information.

2015			2016			2017		
Rate Incr.	\$ (m)	Bill Incr.	Rate Incr.	\$ (m)	Bill Incr.	Rate Incr.	\$ (m)	Bill Incr.
4.59%	7.25	\$56	5.70%	9.54	\$73	5.16%	9.32	\$70

Communications Plan

Departments will receive the Budget Guidelines, instruction packages and timetable in June; shortly after the City's Budget Guidelines are approved by Council. In addition, department working/training sessions will be offered to departments to assist in preparing their budgets.

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

- ❖ Information posted on the City website
- ❖ Interactive budget simulation tool designed to educate residents on pressures
- ❖ Public Finance & Administration Committee/Council meetings held throughout the process
- ❖ A public input meeting prior to final budget approval

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In addition to the above, the City of Vaughan is undertaking a number of strategic initiatives which incorporate significant public engagement. Although separate processes, public feedback obtained at these events migrate into the budget decision making process.

Purpose

The purpose of this report is to obtain the Finance & Administration Committee's approval for the City's budget & business planning guidelines and timetable. The approach, guidelines and actions recommended represent prudent management practices and are appropriate given the demand for services is increasing, while at the same time the City has limited resources.

Background - Analysis and Options

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 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 increasing 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 Update – Optimistic About Future Growth

According to the TD Economics April 8th report, the Canadian economy is forecasted to improve. Below is a brief summary from that report.

"The report is clearly indicative of the struggles faced by the Canadian economy in the latter half of 2012. The increasingly positive outlook speaks volumes about where the Canadian economy is headed this year. Indeed, TD Economics anticipates an acceleration of growth this year. While there have been some bumps along the road, we expect the US economic recovery to gain momentum in the months ahead which, in turn, should drive a stronger export profile here in Canada. Combined with continued resilience in the domestic economy, real GDP growth in Canada should accelerate to the 2-3% range on a quarterly annualized basis by the second half of 2013. For the Bank of Canada, the moderate growth profile and well-anchored inflation expectations imply little reason to move off the sidelines in the near term. We continue to expect interest rates to remain on hold until the end of next year."

The above information is relatively global and is intended to provide a general economic context, which may change over time and may not reflect Vaughan's micro economic situation.

Planning for the Future

The Budget Guidelines continue to incorporate a future focus to provide citizens with more certainty about the direction of City services, finances, and tax levels at the same time

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recognizing the challenges that lay ahead and building on the financial planning efforts. The City's rigorous budgetary process has focused on containing costs and implementing best practices, with the goal of developing realistic and responsible financial plans. The budget guidelines consist of the following principles:

The Budget objective

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

Managing our future

1. Resourcing our Vision "Corporate Planning Process"
2. Looking to the future with multi-year budgets
3. Managing operations through business planning

Managing tax increases

4. Exploring opportunities through public service renewal and operational reviews
5. Budget control through specific guidelines
6. A thorough multi-layer review process

In addition to the above, sections are provided regarding the following:

- Budget process highlights
- Continued process improvements
- Budget Timetable

Further details with respect to each of the actions are provided in the following sections.

1. RESOURCING OUR VISION "The Corporate Planning Process"

Building on last year's efforts, the Corporate Planning Process continues to integrate strategic planning and financial planning processes. The primary benefits of this step are numerous:

- ✓ To ensure an achievable and resourced strategic plan
- ✓ To ensure resource allocation is guided by the City's vision and strategic themes
- ✓ To better communicate the City's direction and focus

On April 23rd, 2013, Council reviewed the priority themes and initiatives and agreed the direction which had been set in 2012 is still valid. The rationale was that a number of priority strategic initiatives were not fully implemented and it was important to maintain a focus before adding new priority initiatives to the list. The priority strategic items for this year's budget process are:

- Develop a plan to build a dynamic Vaughan Metropolitan Centre (VMC)
Sponsor: City Manager
Owner: Commissioner of Planning
- Further evolve performance indicators
Sponsor: Commissioner of Corporate and Strategic Services
Owner: Senior Manager of Strategic Planning
- Develop and implement a corporate-wide asset management system
Sponsor: Commissioner of Engineering and Public Works
Owner: Director of Engineering Services
- Additional operational/business reviews
Sponsor: Commissioner of Corporate and Strategic Services
Owner: Director of Innovation & Continuous Improvement

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In addition to the above items, there are 10 other initiatives with varying degrees of priority that will be incorporated into the budget resource prioritization process.

2. LOOKING TO THE FUTURE WITH MULTI-YEAR BUDGETS

The City will continue with its 4 year budget process. This action provides decision makers with added foresight and the ability to proactively grasp future opportunities, address future challenges, and reduce blind spots by understanding the longer-term financial implications of present and past decisions. This is a very strategic approach intended to generate discussion on where the City's future resources should be focused to best support the City's vision, operationalize strategies, generate public value and address pertinent challenges. It is also a critical component of the Corporate Planning Process discussed in the prior section.

Departments are well positioned for this task as a result of internal developments in business planning, master planning, long-range forecasting, budget automation etc. Multi-year budgeting should now become easier, as the initial forecast years have been substantially developed requiring a review and adjustment focus. It is recognized that assumptions, estimates and uncertainties are commonplace when predicting future budgets and these factors may change as new information becomes available. For this reason, it is suggested that Council continue to only approve the current year budget and recognize future budget forecasts. With an established four year budget process, budget decisions should become easier and flow naturally as future requirements are discussed and adjusted over multiple processes before current year approval. Detailed below are the recognized levy forecasts presented as part of the 2013 budget.

Components	2014			2015			2016		
	Rate Incr.	\$ (m)	Bill Incr.	Rate Incr.	\$ (m)	Bill Incr.	Rate Incr.	\$ (m)	Bill Incr.
Base Budget	2.15%	3.39	\$26	1.92%	3.26	\$25	3.15%	5.82	\$43
ARR	2.44%	3.83	\$30	3.77%	6.28	\$48	2.01%	3.50	\$27
Subtotal	4.59%	7.22	\$56	5.69%	9.54	\$73	5.16%	9.32	\$70
Capital Budget		66.56			69.29			105.20	

These figures are expected to change as estimates are refined based on new information. The 2017 levy forecasts will be determined during the 2014-2017 budget process.

3. MANAGING OPERATIONS THROUGH BUSINESS PLANNING

Business Plans will continue as part of the corporate planning process to help establish and reinforce connections between corporate priorities, operational plans and resources. Business plans will continue to align with the multi-year budgeting timeframe in order to align department objectives, measures and pressures. This information is vital to the budget process as it sets the stage to assess the departments' requirements and associated resource adequacy. For example, resource gaps might exist to maintain service levels, achieve operational objectives or deliver on corporate initiatives. This information also plays a critical role during budget deliberations by providing a platform to better understand department pressures and an objective basis for allocating funding.

The Senior Manager of Strategic Planning is leading the business planning process and assisting departments with business plan updates and refinements. The budget department portfolio analysts are providing a supporting role in this activity. Business Plan reviews were initiated earlier in the year to develop a more comprehensive planning process, including brainstorming of key business issues and aligning key business outcomes, objectives and initiatives.

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4. EXPLORING OPPORTUNITIES THROUGH PUBLIC SERVICE RENEWAL AND OPERATIONAL REVIEWS

As previously mentioned in this report, the City of Vaughan is undergoing a tremendous transformation fueled by sustained high growth rates, increasing requirements, fiscal pressures, and citizens' rising expectations for better and faster services delivered at a lower cost. The City must anticipate and prepare for the evolving future needs of the City. To accomplish this, and continue with City's progress, opportunities must be explored to enhance capacity and deliver effective services. To assist in this regard two corporate initiatives, Public Service Renewal and Operational Reviews, have been implemented. The results of these initiatives will be incorporated with the budget process.

Public Service Renewal

Senior Management Team has been asked by the Mayor to review City operations focusing on excellence in the administration of the City. External consultants were hired by the City to coordinate and frame opportunities being developed by staff in pursuit of efficiencies, effectiveness and resource capacity in City Operations. In September, a report will be provided to Council and every effort will be made for the recommendations from this report to be included in the compilation of the 2014 Budget and 2015-2017 Plan.

Operational Reviews

The newly developed Innovation and Continuous Improvement Department will be the primary lead in conducting Operational Reviews. Although a formal plan is being developed, a few operational reviews are currently underway and any costs or associated benefits anticipated from implementing recommendations associated with these reviews will be reflected to the extent possible in the upcoming budget preparation.

Operational Reviews help ensure that program and service expectation (of all stakeholders, including residents, businesses, Council and regulators) are being addressed by programs that are effective (i.e., focused on delivering the right level of services) and efficient (i.e., supported by processes that do things right) and economic (i.e., utilize resources appropriately). Reviews provide opportunities to identify any gaps, issues or challenges in these areas and to develop realistic options for addressing them by considering changes to processes, organization (e.g., skills, capabilities, accountabilities) and technology utilizing a consistent approach in developing a case for change.

Operational reviews of programs are expected to provide recommendations relating to service delivery models, levels of service, impacts on residents, key processes, organizational structure, enabling technologies and identify program costs together with implementation approaches, risks and mitigation.

Innovation Reserve

To assist in this regard, a new funding tool was recently developed to provide upfront seed funding for value propositions with a longer-term financial savings. Projects savings will be leveraged to recover the initial investment, benefit the department, and potentially fund future projects. A business case including payback and recovery metrics will be required for requests of this nature. A process has been developed, but is expected to be refined overtime as this new tool evolves.

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5. BUDGET CONTROL THROUGH SPECIFIC GUIDELINES

The preparation of the operating budget will require a number of issues to be taken into consideration. Pressures associated to price increases, new initiatives, and growth requirements will need to be balanced against available funding. The objective of the City is to provide the lowest possible tax increase while maintaining the City's service levels and safeguarding assets. Below are actions in place to achieve this outcome.

Specific Operating Budget Guidelines

- A. Controlling budget pressures
- B. Strict process to evaluate funding requests
- C. User fee reviews to reduce the tax burden
- D. Zero impact adjustments
- E. Exploring opportunities through operational reviews and public service renewal

There is no across the board cost increase for inflation and no automatic increase for new staffing. All new funding requests require business cases and thorough review.

A) Controlling budget pressures

- i. For the 2014-2017 budget process, all account budgets will remain at prior year budget levels with the exception of established commitments and pre-defined external pressures. This action will limit the base budget increase to the following items:
 - Council approved employment agreements;
 - Full year impact of prior year decisions;
 - Council authorized recommendations;
 - Supported external service contract commitments;
 - Established utility & insurance increases, where justified;
 - Debenture obligations;
 - Defined corporate contingency items;
 - Reserve contributions in accordance with approved policy.

Under these actions, departments are only permitted to include very specific increases, typically related to predetermined agreements, contracts or Council approvals.

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

B) Strict process to evaluate funding requests

Under the above guidelines, departments are only permitted to include very specific predetermined increases in their budget. To the extent a department requires additional resources, a separate business case must be submitted detailing strategic links, costs & benefits, implications & consequences, success indicators, timelines, capital implications and project references, etc. These are referred to as **Additional Resource Requests (ARR)**. This action separates the Operating Budget into the following two classifications:

- Base Budget – Budget based on approved guidelines – Minimal tax increase.
- Additional Resource Requests – Essential funding requests not permitted through the base budget guidelines requiring Council review and approval. Council approval is specifically required for new staff resources, a change in service level, or new initiatives.

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Requests are limited to items with a gross cost in excess of \$10,000, which can have a net neutral or positive overall impact.

The objective of the above action is to separate basic operating obligations from items that may require further discussion and decisions.

Determining which resource requests move forward is a very difficult and challenging task as all departments are experiencing challenges associated with maintaining service levels, meeting legislative requirements, and implementing initiatives to move the City forward. Recognizing the value of requests greatly exceeds the amount of available limited resources; requests are evaluated and prioritized based on a blend of associated municipal value and risk criteria. The initial prioritization action is performed by a Director's Working Group (DWG) and further vetted by the Senior Management Team (SMT). This action integrates staff's experience and involvement, shares the challenges associated with prioritization and enhances corporate knowledge. A recommendation is provided to Committee and Council for consideration and only Council approved requests are included in the annual budget.

As a result of implementing multi-year budgets many requests are currently included in future year budgets or "recognized". To avoid confusion, these requests are to remain at the rating and year previously assigned by Senior Management, unless authorized by the Commissioner of Finance & City Treasurer and the City Manager.

C) User fee reviews to reduce the tax burden

Another opportunity to minimize tax pressures is to maximize revenue generation through user fees and service charges. Most of the City's fees/charges are based on existing studies and multi-year by-laws; therefore prior year budget guidelines focused only on the General User Fee By-law, which captures a variety of minor/miscellaneous items. However with the emergence of multi-year planning and varying by-law intervals/expiry dates, it is of great benefit to coordinate and consolidate the planning of these by-laws for review, update and budget approval under one common process and 4 year term (i.e. Planning, Engineering, Building standards, Licensing, Recreation, etc.). *NEW:* Every effort will be taken to incorporate Recreation Department fees into the General User Fee By-law.

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

- ❖ Increase fees and charges in relation to related annual cost increases
- ❖ Incorporate a net full cost benefit in fees set for external inter-municipal services
- ❖ Submit new user fees and service charges opportunities

As a default, it is anticipated that department user fees & service charges will increase at minimum, by the rate of inflation, in scheduled increments, unless justification for no increase is otherwise specified. The Statistics Canada Ontario core inflation rate increased 1% for the 12 month period ending March 2013. However, Bank of Canada predicts that there will be inflationary pressures in 2014. We recommend an increase of 1.5% to user fees and service charges. The above actions will be submitted for Senior Management review and Council approval.

D) Zero impact adjustments

Reclassifications and reallocations in *non-labour* related accounts are only permitted if they result in a zero impact on the budget. Furthermore, these adjustments are limited to better reflecting the

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true nature of the expense or more accurately aligning account budgets. There are no impacts associated with these adjustments and the intent is to refine departmental budgets. As part of the budget process, reallocations/reclassifications will be reported, demonstrating a neutral impact.

Specific Capital Budget Guidelines

The preparation of the Capital Budget will require a number of issues to be taken into consideration. The pressures of new initiatives, maintaining existing infrastructure, and growth requirements will need to be balanced against available funding, the impact on future operating budgets and the staff resources to undertake and manage the capital projects.

A prevailing theme throughout the years has repeatedly been the need to address the funding component for infrastructure renewal. 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. Recently a number of corporate initiatives have been initiated to address the concern:

- Undertaking the development of an Asset Management Strategy
- Implemented Life Cycle asset contributions
- Realigned reserves to ensure asset funding equity

In November of 2012 Council adopted staff's recommendation to realign Infrastructure Reserve balances based on their associated proportion of future requirements. Future requirements were based on lifecycle replacement timing and estimate funding needs over the next 5 years. In so doing, the Parks and Vehicle Replacement Reserves received additional funding for other Infrastructure Reserves, helping to alleviate some of the funding challenges these reserves were facing in the short term. The funding shortfall still exists and will still continue to build.

A recent emerging theme is the mounting pressure associated with a number of value added corporate initiatives i.e. Vaughan Metropolitan Centre, Corporate Asset Management, City Hall Public Square, Enterprise Data Management System and a variety of master plan initiatives. All of these initiatives, although valid and warranted, compete for limited capital funding, not only with each other but also with existing requirements to maintain the City's services and assets.

Recognizing the above illustrated challenges, the objective of the guidelines is to build a responsible Capital Budget that allocates resources in a way that balances needs and aspirations of the present while meeting the requirements of longer term sustainability. The Capital Budget Guideline components are:

- A. Capital project definition
- B. Identifying funding sources
- C. Guiding decisions through policies
- D. Specific actions to manage Capital Budgets

A) Capital Project Definition:

- A gross cost exceeding \$20,000; and
- For the purpose of constructing, acquiring or improving lands, buildings, engineering services, machinery and equipment or furniture and fixtures. The project must be undertaken for the purpose of providing municipal services, have a lasting benefit beyond one year and/or extend the life of the asset. Projects should incorporate all costs

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associated with getting the project ready for its intended use (i.e. license costs, survey costs, etc). Expenditures for regular repair or maintenance designed to maintain an asset in its original state are not a capital expenditure; or

- A non-capital expenditure that is related to planning for growth (i.e. planning studies, master plans, etc); or
- In special circumstances, an item of operating nature intended to avoid or smooth significant short-term spikes in the general levy. These items are typically classified as transfers, but can be projects, and authorized by the Commissioner of Finance & City Treasurer.

B) Identifying Funding Sources

Capital projects are funded from the following five main sources:

Development/Special Area Charges Reserves: This funding source is based on legislation which imposes charges on new development in the City to pay for growth related net capital costs of servicing new development. The intent of the legislation is to maintain existing capital service levels and fund hard service growth requirements. On May 14th Council adopted the 2013 Development Charge Background Study. This study outlines capital initiatives to support future growth within the City and should therefore be used to assist departments with their Capital Project Planning. Development Charge Reserve collections are dependent on the economy and therefore future capital plans may require adjustments and could be different from the initial development charge document forecast.

Discretionary Reserves: This funding source is derived from dedicated operating budget contributions or allocations of accumulated net revenue for a particular purpose. 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 shortfalls or unexpected expenditure increases. These reserves are broken into the following categories:

- Sustainability - to protect against risk and uncertainty (i.e. winter, tax rate stabilization, etc.)
- Infrastructure Renewal - to fund the future costs of infrastructure renewal
- Corporate Reserves - to administer future liabilities and operational requirements (i.e. election)
- Special Purpose – to administer funds for which there is a specific purpose (i.e. cemetery)

In November of 2012, Council adopted the *Consolidated Reserve Policy* (Policy#05.4.01). This policy provides reserve fund guidance and supports financial sustainability. As a result, new reserves were added, some definitions expanded, and other reserve merged.

Grants and Other Financing: This source of funding is provided by Federal/Provincial/Regional levels, specific contributions and bequests. Typically these funding sources have very prescribed requirements and criteria.

Debenture Financing: Debenture Funding is primarily utilized for the City's road and bridge replacement program, due to the overall substantial asset value and lengthy life cycles. Budgets are based on the "Pavement & Bridge Management Program Study".

Capital from Taxation: Projects identified from taxation funding are primarily non-growth related projects that have no other source of financing, such as technology replacement, new initiatives etc. In addition, the Development Charges Act 10% co-funding requirement for growth related soft services is also funded from this source.

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C) Guiding Decisions through Policies

Over time, the City has developed a series of guiding financial policies and targets to assist in developing the Capital Budget, which have a positive impact on the financial stability of the City. They are listed as follows:

- A. A long standing City practice is “only capital projects with secured available funding sources are accepted”, otherwise specific Council approval is required.
- B. Discretionary reserve ratio > 50% own source revenue. 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.
- C. Working capital ratio > 10% own source revenue. Working capital funds provide in-year cash flow requirements.
- D. Debt level ratio < 10% own source revenue. 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. Limited to a maximum of 10% of total own source revenue, which is significantly lower than the Province’s 25% maximum.
- E. A 3% administration recovery charge will be applied to capital projects, with the exception of most grant funded projects. These funds are transferred to the Operating Budget and intended to generally offset internal project administration costs.
- F. The inclusion of the 1.76% HST component that is not recoverable should be included as part of the cost of the capital project. Some exceptions may exist, such as for permit-able parks for which no HST is included in the cost, and these will be dealt with on an as-need basis.
- G. NEW – A Contingency Matrix was recently developed to assist departments determine general project risk and a contingency budget amount. This will be shown as a separate cost for the capital project.
- H. The following guidelines relate to Development Charge projects:
 - 1) Positive reserve balances should not be placed into a pre-financing position, with exception for management studies incurred in advance of growth;
 - 2) Pre-financing should not be increased;
 - 3) Commit no more than 50% of revenues in the program year for any development charge service area that is pre-financed; and
 - 4) Development charges will be applied to the full extent permitted by legislation.

D) Specific Actions to Manage Capital Budgets

Actively Closing Projects

Continuing with past practice, staff together with departments will review all active projects to determine if projects can be closed. Any remaining project budget balance will be returned to the original funding source and made available during the 2014-2017 budget process.

Increased Project Information

Each Capital Budget request includes project justification based on appropriate detail and referenced source information. Building on this effort, Capital Budget Project submissions will now incorporate the following additions:

- Project activity timelines (*to better communicate the timing of main project events & high-level est. cash flows*)
- Multi-year Capital and Operating detail (*to provide better full cost financial visibility*)

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- Life-cycle detail *(to assist with asset reporting and the development of asset renewal plans)*
- Implications on other departments *(to generate resource capacity awareness)*
- Connections to related projects *(to highlight capital relationships and dependencies)*
- Illustrating contingency and standardizing the process *(to illustrate project risk)*

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 the following categories:

- Environmental Sustainability
- Infrastructure
- Economic Development
- Culture

Competition for these resources is high and as such applicants are required to prepare detailed submissions consisting of project plans, budgets, timelines, justification, etc. Successful submissions may also be required to meet strict compliance reporting and conditions. To assist the City in developing external funding opportunities, the City's Grant Specialist will participate in the budget planning process and review capital submissions to uncover opportunities and assist departments through the application process. Since implementing the External Grant Procurement Policy and Procedures in June 2009 the City has been very successful in receiving over \$56M, which have assisted in reducing costs associated with projects that may have otherwise been cancelled, delayed or placed increased pressure on the budget.

Forecasting Reserve Balances

In line with multi-year budgeting, reserve balances will also be forecasted to provide future visibility regarding funding availability and potential challenges. To accomplish this action assumptions will be required regarding reserve revenue streams, especially those that are dependent on external factors i.e. development charges, etc. Therefore, forecasted capital revenue assumptions will be conservatively estimated and future capital plans may require adjustments to account for potential changes in information i.e. upswings or downward trends.

Capital Project Prioritization

The value of projects approved will not only depend on the amount of funds available in a particular funding source, but also the impact on the City's overall resources i.e. available capital and operating funding, available resourcing capacity, established financial policies, etc.

The criteria used to prioritize projects within a funding source include, but are not limited to consideration of the following:

- 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

Based on the above endorsed guidelines, each department will prioritize the capital projects within their dedicated funding sources. For funding sources with multiple department stakeholders (i.e. capital from taxation) prioritization will be conducted through the Directors' Working Group

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(DWG). Concurrently, capital budgeting staff will assess funding availability within policy guidelines and establish multi-year funding availability lines for each funding source. As mentioned above, consideration will also be given to operating budget and staff capacity implications, which could result in prioritization adjustments. *New:* As a result of implementing multi-year budgets many requests are currently recognized. To avoid confusion, these requests are to remain in the year previously assigned by Senior Management, unless authorized by the Commissioner of Finance & City Treasurer and the City Manager.

6. THOROUGH MULTI- LAYER REVIEW PROCESS

The budget process has a very thorough review process and the final budget will consist of many decisions resulting from a variety of review sessions and open public sessions. Illustrated below are the various layers of review that occur and areas involved within Vaughan's budget process

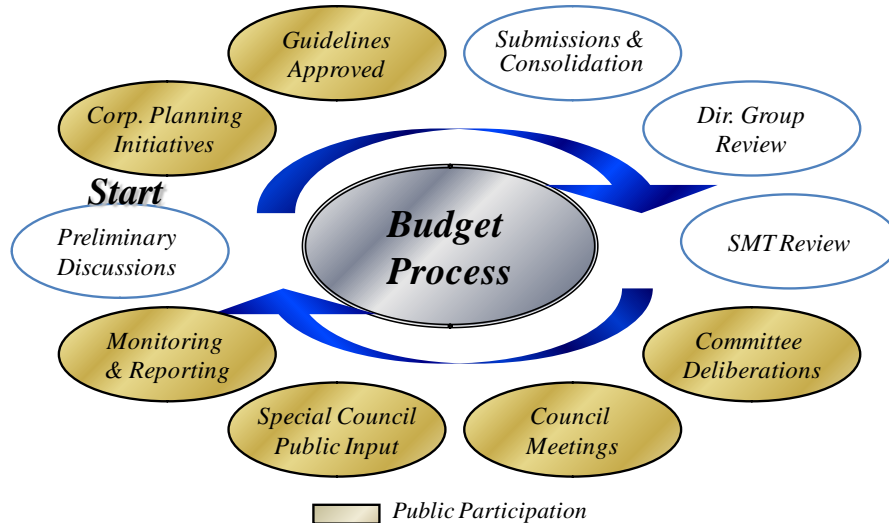


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The opportunity for public involvement throughout the budget process is a key process element. Illustrated below are the touch point opportunities for public participation in the budget process.



CONTINUED PROCESS IMPROVEMENTS

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

- In the fall of 2012, Vaughan presented its first Financial Master Plan; this document discussed the long-term financial pressures facing the City and provided a number of progressive recommendations.
- Integrated strategy & budgeting through the development of the Corporate Planning Process.
- Recently underwent a Reserve Policy Update, which resulted in a consolidated framework, improved guidance, development of new reserves to meet emerging needs and a realignment of balances to ensure equitable funding.
- In an effort to address the City's growing infrastructure gap, the City recently implemented a *Reserve Contribution Policy* for tangible capital assets intended to ensure the community's infrastructure remains sustainable, supporting the numerous programs and services offered.
- Developing prioritization models to assist in decision-making & initiating a Directors' Working Group in order to enhance staff involvement and leverage staff knowledge.
- Consolidated City's quarterly reporting process into a single simplified report (Operating, Capital, and Water Waste Water). This action was intended for stakeholders to have a more fulsome and complete view of the City's financial results.

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BUDGET TIMETABLE

Staff anticipate bringing forward the first draft of the 2014-2017 Budget to the Finance and Administration Committee in early November with the intent of a Finance and Administration Committee recommendation early January 2014 and Council approval in late January 2014. Every effort will be made to adhere to the timeline, but issues raised during the budget process could potentially impact the presented timeline.

Change - The submission process will occur in three steps. The overall intent is to layer the submission process and allocate time for departments to focus on specific process components. This in turn will allow adequate time for submission review and feedback. The submission process stages are as follows

1. Later June - Submit business plans to the Strategic Planning Area
2. Early August – Validate and submit base budgets
3. End of Aug – submit ARRs and capital requests

Developing a Business Plan is the initial step in the process and will help identify resourcing pressures, opportunities and objective alignment. The final submission stage requires departments to articulate Additional Resource and Capital Requests, which should be aligned with dept. business plans. This process is designed to build department budget in a systematic and logical manner. Assigned budget portfolio groups will be actively involved with departments to provide assistance with budget development.

CITY OF VAUGHAN

EXTRACT FROM COUNCIL MEETING MINUTES OF JUNE 25, 2013

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City of Vaughan 2014 - 2017 Budget Process Timetable	
Dates	Activity
June 10, 2013	Budget Guidelines
June 25th, 2013	Budget Instructions Issued To Depts.
June 28th, 2013	Business Plan Submissions to Strategic Planning Dept.
Aug. 2nd, 2013	Base Operating Budget Submissions
July – Aug. 2013	SMT Preliminary 2014-16 Budget Review
Aug. 12th-16th, 2013	Commissioner Review of Proposed ARR's
Aug. 23rd , 2013	Capital Project Submissions and Operating ARR's
Sept. 2013	- <i>Director Working Group (DWG) Prioritization</i> - <i>Submission Review, Analysis, & Consolidation</i>
Oct. 2013	SMT Deliberations
Early Nov. 2013	Draft Budget and Presentation Finalization
Nov. & Dec. 2013	Finance and Administration Committee Deliberations
Jan. 2014	Public Input Meeting/Council Approval (14 day notice req.)

Directors' Working Group (DWG), Senior Management Team (SMT), and Finance and Administration Committee meeting dates will be scheduled shortly to accommodate this timeline.

CITY OF VAUGHAN

EXTRACT FROM COUNCIL MEETING MINUTES OF JUNE 25, 2013

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Relationship to Vaughan Vision 2020

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

Regional Implications

N/A

Conclusion

The 2014-2017 Budget Timetable and Guidelines requires the Finance & Administration Committee to provide a recommendation to Council in early January 2014 and a public meeting be held late January 2014, followed by Council approval. The enclosed Guidelines are presented to provide the lowest possible tax rate increase while maintaining service levels and supporting Vaughan's vision.

Attachments

NA

Report prepared by:

Ursula D'Angelo, CGA
Manager of Operating Budget

Jackie Macchiusi, CGA
Manager of Capital & Reserve Planning

**PLANNING FOR THE FUTURE
2014-2017 BUDGET & BUSINESS PLANNING GUIDELINES****Recommendation**

The Acting Commissioner of Finance & City Treasurer in consultation with the Manager of Operating Budgets, and the Manager of Capital and Reserve Planning recommend:

- 1) That the Budget & Business Planning Guidelines, summarized in this report be approved; and
- 2) That the Budget Timetable be approved.

Contribution to Sustainability

Sustainability by definition focuses on the ability to maintain an activity over an extended time horizon. Budgeting is the process of allocating limited resources to achieve the City's objectives and established priorities. Responsible budgeting allocates resources in a way that balances needs and aspirations of the present without compromising the ability to meet those of the future. The proposed budget approach seeks to minimize the current year funding pressures, while meeting the requirements of sustainability.

Economic Impact

The economic impact of the 2014-2017 Budget will be fully determined after receipt of the City's budget submissions and once the draft budget is developed and presented to the Finance and Administration Committee.

Detailed below are the recognized levy forecasts presented as part of the 2013 budget, which are expected to change as estimates are refined based on more current information.

2015			2016			2017		
Rate Incr.	\$ (m)	Bill Incr.	Rate Incr.	\$ (m)	Bill Incr.	Rate Incr.	\$ (m)	Bill Incr.
4.59%	7.25	\$56	5.70%	9.54	\$73	5.16%	9.32	\$70

Communications Plan

Departments will receive the Budget Guidelines, instruction packages and timetable in June; shortly after the City's Budget Guidelines are approved by Council. In addition, department working/training sessions will be offered to departments to assist in preparing their budgets.

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

- ❖ Information posted on the City website
- ❖ Interactive budget simulation tool designed to educate residents on pressures
- ❖ Public Finance & Administration Committee/Council meetings held throughout the process
- ❖ A public input meeting prior to final budget approval

In addition to the above, the City of Vaughan is undertaking a number of strategic initiatives which incorporate significant public engagement. Although separate processes, public feedback obtained at these events migrate into the budget decision making process.

Purpose

The purpose of this report is to obtain the Finance & Administration Committee's approval for the City's budget & business planning guidelines and timetable. The approach, guidelines and actions recommended represent prudent management practices and are appropriate given the demand for services is increasing, while at the same time the City has limited resources.

Background - Analysis and Options

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 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 increasing 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 Update – Optimistic About Future Growth

According to the TD Economics April 8th report, the Canadian economy is forecasted to improve. Below is a brief summary from that report.

"The report is clearly indicative of the struggles faced by the Canadian economy in the latter half of 2012. The increasingly positive outlook speaks volumes about where the Canadian economy is headed this year. Indeed, TD Economics anticipates an acceleration of growth this year. While there have been some bumps along the road, we expect the US economic recovery to gain momentum in the months ahead which, in turn, should drive a stronger export profile here in Canada. Combined with continued resilience in the domestic economy, real GDP growth in Canada should accelerate to the 2-3% range on a quarterly annualized basis by the second half of 2013. For the Bank of Canada, the moderate growth profile and well-anchored inflation expectations imply little reason to move off the sidelines in the near term. We continue to expect interest rates to remain on hold until the end of next year."

The above information is relatively global and is intended to provide a general economic context, which may change over time and may not reflect Vaughan's micro economic situation.

Planning for the Future

The Budget Guidelines continue to incorporate a future focus to provide citizens with more certainty about the direction of City services, finances, and tax levels at the same time recognizing the challenges that lay ahead and building on the financial planning efforts. The City's rigorous budgetary process has focused on containing costs and implementing best practices, with the goal of developing realistic and responsible financial plans. The budget guidelines consist of the following principles:

The Budget objective

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

Managing our future

1. Resourcing our Vision "Corporate Planning Process"
2. Looking to the future with multi-year budgets
3. Managing operations through business planning

Managing tax increases

4. Exploring opportunities through public service renewal and operational reviews
5. Budget control through specific guidelines
6. A thorough multi-layer review process

In addition to the above, sections are provided regarding the following:

- Budget process highlights
- Continued process improvements
- Budget Timetable

Further details with respect to each of the actions are provided in the following sections.

1. RESOURCING OUR VISION "The Corporate Planning Process"

Building on last year's efforts, the Corporate Planning Process continues to integrate strategic planning and financial planning processes. The primary benefits of this step are numerous:

- ✓ To ensure an achievable and resourced strategic plan
- ✓ To ensure resource allocation is guided by the City's vision and strategic themes
- ✓ To better communicate the City's direction and focus

On April 23rd, 2013, Council reviewed the priority themes and initiatives and agreed the direction which had been set in 2012 is still valid. The rationale was that a number of priority strategic initiatives were not fully implemented and it was important to maintain a focus before adding new priority initiatives to the list. The priority strategic items for this year's budget process are:

- Develop a plan to build a dynamic Vaughan Metropolitan Centre (VMC)
Sponsor: City Manager
Owner: Commissioner of Planning
- Further evolve performance indicators
Sponsor: Commissioner of Corporate and Strategic Services
Owner: Senior Manager of Strategic Planning
- Develop and implement a corporate-wide asset management system
Sponsor: Commissioner of Engineering and Public Works
Owner: Director of Engineering Services
- Additional operational/business reviews
Sponsor: Commissioner of Corporate and Strategic Services
Owner: Director of Innovation & Continuous Improvement

In addition to the above items, there are *10 other initiatives with varying degrees of priority that will be incorporated into the budget resource prioritization process.*

2. LOOKING TO THE FUTURE WITH MULTI-YEAR BUDGETS

The City will continue with its 4 year budget process. This action provides decision makers with added foresight and the ability to proactively grasp future opportunities, address future challenges, and reduce blind spots by understanding the longer-term financial implications of present and past decisions. This is a very strategic approach intended to generate discussion on where the City's future resources should be focused to best support the City's vision, operationalize strategies, generate public value and address pertinent challenges. It is also a critical component of the Corporate Planning Process discussed in the prior section.

Departments are well positioned for this task as a result of internal developments in business planning, master planning, long-range forecasting, budget automation etc. Multi-year budgeting should now become easier, as the initial forecast years have been substantially developed requiring a review and adjustment focus. It is recognized that assumptions, estimates and uncertainties are commonplace when predicting future budgets and these factors may change as new information becomes available. For this reason, it is suggested that Council continue to only approve the current year budget and recognize future budget forecasts. With an established four year budget process, budget decisions should become easier and flow naturally as future requirements are discussed and adjusted over multiple processes before current year approval. Detailed below are the recognized levy forecasts presented as part of the 2013 budget.

Components	2014			2015			2016		
	Rate Incr.	\$ (m)	Bill Incr.	Rate Incr.	\$ (m)	Bill Incr.	Rate Incr.	\$ (m)	Bill Incr.
Base Budget	2.15%	3.39	\$26	1.92%	3.26	\$25	3.15%	5.82	\$43
ARR	2.44%	3.83	\$30	3.77%	6.28	\$48	2.01%	3.50	\$27
Subtotal	4.59%	7.22	\$56	5.69%	9.54	\$73	5.16%	9.32	\$70
Capital Budget		66.56			69.29			105.20	

These figures are expected to change as estimates are refined based on new information. The 2017 levy forecasts will be determined during the 2014-2017 budget process.

3. MANAGING OPERATIONS THROUGH BUSINESS PLANNING

Business Plans will continue as part of the corporate planning process to help establish and reinforce connections between corporate priorities, operational plans and resources. Business plans will continue to align with the multi-year budgeting timeframe in order to align department objectives, measures and pressures. This information is vital to the budget process as it sets the stage to assess the departments' requirements and associated resource adequacy. For example, resource gaps might exist to maintain service levels, achieve operational objectives or deliver on corporate initiatives. This information also plays a critical role during budget deliberations by providing a platform to better understand department pressures and an objective basis for allocating funding.

The Senior Manager of Strategic Planning is leading the business planning process and assisting departments with business plan updates and refinements. The budget department portfolio analysts are providing a supporting role in this activity. Business Plan reviews were initiated earlier in the year to develop a more comprehensive planning process, including brainstorming of key business issues and aligning key business outcomes, objectives and initiatives.

4. EXPLORING OPPORTUNITIES THROUGH PUBLIC SERVICE RENEWAL AND OPERATIONAL REVIEWS

As previously mentioned in this report, the City of Vaughan is undergoing a tremendous transformation fueled by sustained high growth rates, increasing requirements, fiscal pressures, and citizens' rising expectations for better and faster services delivered at a lower cost. The City must anticipate and prepare for the evolving future needs of the City. To accomplish this, and continue with City's progress, opportunities must be explored to enhance capacity and deliver effective services. To assist in this regard two corporate initiatives, Public Service Renewal and Operational Reviews, have been implemented. The results of these initiatives will be incorporated with the budget process.

Public Service Renewal

Senior Management Team has been asked by the Mayor to review City operations focusing on excellence in the administration of the City. External consultants were hired by the City to coordinate and frame opportunities being developed by staff in pursuit of efficiencies, effectiveness and resource capacity in City Operations. In September, a report will be provided to Council and every effort will be made for the recommendations from this report to be included in the compilation of the 2014 Budget and 2015-2017 Plan.

Operational Reviews

The newly developed Innovation and Continuous Improvement Department will be the primary lead in conducting Operational Reviews. Although a formal plan is being developed, a few operational reviews are currently underway and any costs or associated benefits anticipated from implementing recommendations associated with these reviews will be reflected to the extent possible in the upcoming budget preparation.

Operational Reviews help ensure that program and service expectation (of all stakeholders, including residents, businesses, Council and regulators) are being addressed by programs that are effective (i.e., focused on delivering the right level of services) and efficient (i.e., supported by processes that do things right) and economic (i.e., utilize resources appropriately). Reviews provide opportunities to identify any gaps, issues or challenges in these areas and to develop realistic options for addressing them by considering changes to processes, organization (e.g., skills, capabilities, accountabilities) and technology utilizing a consistent approach in developing a case for change.

Operational reviews of programs are expected to provide recommendations relating to service delivery models, levels of service, impacts on residents, key processes, organizational structure, enabling technologies and identify program costs together with implementation approaches, risks and mitigation.

Innovation Reserve

To assist in this regard, a new funding tool was recently developed to provide upfront seed funding for value propositions with a longer-term financial savings. Projects savings will be leveraged to recover the initial investment, benefit the department, and potentially fund future projects. A business case including payback and recovery metrics will be required for requests of this nature. A process has been developed, but is expected to be refined overtime as this new tool evolves.

5. BUDGET CONTROL THROUGH SPECIFIC GUIDELINES

The preparation of the operating budget will require a number of issues to be taken into consideration. Pressures associated to price increases, new initiatives, and growth requirements will need to be balanced against available funding. The objective of the City is to provide the lowest possible tax increase while maintaining the City's service levels and safeguarding assets. Below are actions in place to achieve this outcome.

Specific Operating Budget Guidelines

- A. Controlling budget pressures
- B. Strict process to evaluate funding requests
- C. User fee reviews to reduce the tax burden
- D. Zero impact adjustments
- E. Exploring opportunities through operational reviews and public service renewal

There is no across the board cost increase for inflation and no automatic increase for new staffing. All new funding requests require business cases and thorough review.

A) Controlling budget pressures

- i. For the 2014-2017 budget process, all account budgets will remain at prior year budget levels with the exception of established commitments and pre-defined external pressures. This action will limit the base budget increase to the following items:

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

Under these actions, departments are only permitted to include very specific increases, typically related to predetermined agreements, contracts or Council approvals.

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

B) Strict process to evaluate funding requests

Under the above guidelines, departments are only permitted to include very specific predetermined increases in their budget. To the extent a department requires additional resources, a separate business case must be submitted detailing strategic links, costs & benefits, implications & consequences, success indicators, timelines, capital implications and project references, etc. These are referred to as **Additional Resource Requests (ARR)**. This action separates the Operating Budget into the following two classifications:

- Base Budget – Budget based on approved guidelines – Minimal tax increase.
- Additional Resource Requests – Essential funding requests not permitted through the base budget guidelines requiring Council review and approval. Council approval is specifically required for new staff resources, a change in service level, or new initiatives. Requests are limited to items with a gross cost in excess of \$10,000, which can have a net neutral or positive overall impact.

The objective of the above action is to separate basic operating obligations from items that may require further discussion and decisions.

Determining which resource requests move forward is a very difficult and challenging task as all departments are experiencing challenges associated with maintaining service levels, meeting legislative requirements, and implementing initiatives to move the City forward. Recognizing the value of requests greatly exceeds the amount of available limited resources; requests are evaluated and prioritized based on a blend of associated municipal value and risk criteria. The initial prioritization action is performed by a Director's Working Group (DWG) and further vetted by the Senior Management Team (SMT). This action integrates staff's experience and involvement, shares the challenges associated with prioritization and enhances corporate knowledge. A recommendation is provided to Committee and Council for consideration and only Council approved requests are included in the annual budget.

As a result of implementing multi-year budgets many requests are currently included in future year budgets or "recognized". To avoid confusion, these requests are to remain at the rating and year previously assigned by Senior Management, unless authorized by the Commissioner of Finance & City Treasurer and the City Manager.

C) User fee reviews to reduce the tax burden

Another opportunity to minimize tax pressures is to maximize revenue generation through user fees and service charges. Most of the City's fees/charges are based on existing studies and multi-year by-laws; therefore prior year budget guidelines focused only on the General User Fee By-law, which captures a variety of minor/miscellaneous items. However with the emergence of multi-year planning and varying by-law intervals/expiry dates, it is of great benefit to coordinate and consolidate the planning of these by-laws for review, update and budget approval under one common process and 4 year term (i.e. Planning, Engineering, Building standards, Licensing, Recreation, etc.). *NEW:* Every effort will be taken to incorporate Recreation Department fees into the General User Fee By-law.

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

- ❖ Increase fees and charges in relation to related annual cost increases
- ❖ Incorporate a net full cost benefit in fees set for external inter-municipal services
- ❖ Submit new user fees and service charges opportunities

As a default, it is anticipated that department user fees & service charges will increase at minimum, by the rate of inflation, in scheduled increments, unless justification for no increase is otherwise specified. The Statistics Canada Ontario core inflation rate increased 1% for the 12 month period ending March 2013. However, Bank of Canada predicts that there will be inflationary pressures in 2014. We recommend an increase of 1.5% to user fees and service charges. The above actions will be submitted for Senior Management review and Council approval.

D) Zero impact adjustments

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

Specific Capital Budget Guidelines

The preparation of the Capital Budget will require a number of issues to be taken into consideration. The pressures of new initiatives, maintaining existing infrastructure, and growth requirements will need to be balanced against available funding, the impact on future operating budgets and the staff resources to undertake and manage the capital projects.

A prevailing theme throughout the years has repeatedly been the need to address the funding component for infrastructure renewal. 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. Recently a number of corporate initiatives have been initiated to address the concern:

- Undertaking the development of an Asset Management Strategy
- Implemented Life Cycle asset contributions
- Realigned reserves to ensure asset funding equity

In November of 2012 Council adopted staff's recommendation to realign Infrastructure Reserve balances based on their associated proportion of future requirements. Future requirements were based on lifecycle replacement timing and estimate funding needs over the next 5 years. In so doing, the Parks and Vehicle Replacement Reserves received additional funding for other Infrastructure Reserves, helping to alleviate some of the funding challenges these reserves were facing in the short term. The funding shortfall still exists and will still continue to build.

A recent emerging theme is the mounting pressure associated with a number of value added corporate initiatives i.e. Vaughan Metropolitan Centre, Corporate Asset Management, City Hall Public Square, Enterprise Data Management System and a variety of master plan initiatives. All of these initiatives, although valid and warranted, compete for limited capital funding, not only with each other but also with existing requirements to maintain the City's services and assets.

Recognizing the above illustrated challenges, the objective of the guidelines is to build a responsible Capital Budget that allocates resources in a way that balances needs and aspirations of the present while meeting the requirements of longer term sustainability. The Capital Budget Guideline components are:

- A. Capital project definition
- B. Identifying funding sources
- C. Guiding decisions through policies
- D. Specific actions to manage Capital Budgets

A) Capital Project Definition:

- A gross cost exceeding \$20,000; and
- For the purpose of constructing, acquiring or improving lands, buildings, engineering services, machinery and equipment or furniture and fixtures. The project must be undertaken for the purpose of providing municipal services, have a lasting benefit beyond one year and/or extend the life of the asset. Projects should incorporate all costs associated with getting the project ready for its intended use (i.e. license costs, survey costs, etc). Expenditures for regular repair or maintenance designed to maintain an asset in its original state are not a capital expenditure; or
- A non-capital expenditure that is related to planning for growth (i.e. planning studies, master plans, etc); or

- In special circumstances, an item of operating nature intended to avoid or smooth significant short-term spikes in the general levy. These items are typically classified as transfers, but can be projects, and authorized by the Commissioner of Finance & City Treasurer.

B) Identifying Funding Sources

Capital projects are funded from the following five main sources:

Development/Special Area Charges Reserves: This funding source is based on legislation which imposes charges on new development in the City to pay for growth related net capital costs of servicing new development. The intent of the legislation is to maintain existing capital service levels and fund hard service growth requirements. On May 14th Council adopted the 2013 Development Charge Background Study. This study outlines capital initiatives to support future growth within the City and should therefore be used to assist departments with their Capital Project Planning. Development Charge Reserve collections are dependent on the economy and therefore future capital plans may require adjustments and could be different from the initial development charge document forecast.

Discretionary Reserves: This funding source is derived from dedicated operating budget contributions or allocations of accumulated net revenue for a particular purpose. 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 shortfalls or unexpected expenditure increases. These reserves are broken into the following categories:

- Sustainability - to protect against risk and uncertainty (i.e. winter, tax rate stabilization, etc.)
- Infrastructure Renewal - to fund the future costs of infrastructure renewal
- Corporate Reserves - to administer future liabilities and operational requirements (i.e. election)
- Special Purpose – to administer funds for which there is a specific purpose (i.e. cemetery)

In November of 2012, Council adopted the *Consolidated Reserve Policy* (Policy#05.4.01). This policy provides reserve fund guidance and supports financial sustainability. As a result, new reserves were added, some definitions expanded, and other reserve merged.

Grants and Other Financing: This source of funding is provided by Federal/Provincial/Regional levels, specific contributions and bequests. Typically these funding sources have very prescribed requirements and criteria.

Debenture Financing: Debenture Funding is primarily utilized for the City's road and bridge replacement program, due to the overall substantial asset value and lengthy life cycles. Budgets are based on the "Pavement & Bridge Management Program Study".

Capital from Taxation: Projects identified from taxation funding are primarily non-growth related projects that have no other source of financing, such as technology replacement, new initiatives etc. In addition, the Development Charges Act 10% co-funding requirement for growth related soft services is also funded from this source.

C) Guiding Decisions through Policies

Over time, the City has developed a series of guiding financial policies and targets to assist in developing the Capital Budget, which have a positive impact on the financial stability of the City. They are listed as follows:

- A. A long standing City practice is “only capital projects with secured available funding sources are accepted”, otherwise specific Council approval is required.
- B. Discretionary reserve ratio > 50% own source revenue. 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.
- C. Working capital ratio > 10% own source revenue. Working capital funds provide in-year cash flow requirements.
- D. Debt level ratio < 10% own source revenue. 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. Limited to a maximum of 10% of total own source revenue, which is significantly lower than the Province’s 25% maximum.
- E. A 3% administration recovery charge will be applied to capital projects, with the exception of most grant funded projects. These funds are transferred to the Operating Budget and intended to generally offset internal project administration costs.
- F. The inclusion of the 1.76% HST component that is not recoverable should be included as part of the cost of the capital project. Some exceptions may exist, such as for permit-able parks for which no HST is included in the cost, and these will be dealt with on an as-need basis.
- G. NEW – A Contingency Matrix was recently developed to assist departments determine general project risk and a contingency budget amount. This will be shown as a separate cost for the capital project.
- H. The following guidelines relate to Development Charge projects:
 - 1) Positive reserve balances should not be placed into a pre-financing position, with exception for management studies incurred in advance of growth;
 - 2) Pre-financing should not be increased;
 - 3) Commit no more than 50% of revenues in the program year for any development charge service area that is pre-financed; and
 - 4) Development charges will be applied to the full extent permitted by legislation.

D) Specific Actions to Manage Capital Budgets

Actively Closing Projects

Continuing with past practice, staff together with departments will review all active projects to determine if projects can be closed. Any remaining project budget balance will be returned to the original funding source and made available during the 2014-2017 budget process.

Increased Project Information

Each Capital Budget request includes project justification based on appropriate detail and referenced source information. Building on this effort, Capital Budget Project submissions will now incorporate the following additions:

- Project activity timelines (*to better communicate the timing of main project events & high-level est. cash flows*)
- Multi-year Capital and Operating detail (*to provide better full cost financial visibility*)
- Life-cycle detail (*to assist with asset reporting and the development of asset renewal plans*)
- Implications on other departments (*to generate resource capacity awareness*)

- Connections to related projects (*to highlight capital relationships and dependencies*)
- Illustrating contingency and standardizing the process (*to illustrate project risk*)

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 the following categories:

- Environmental Sustainability
- Infrastructure
- Economic Development
- Culture

Competition for these resources is high and as such applicants are required to prepare detailed submissions consisting of project plans, budgets, timelines, justification, etc. Successful submissions may also be required to meet strict compliance reporting and conditions. To assist the City in developing external funding opportunities, the City's Grant Specialist will participate in the budget planning process and review capital submissions to uncover opportunities and assist departments through the application process. Since implementing the External Grant Procurement Policy and Procedures in June 2009 the City has been very successful in receiving over \$56M, which have assisted in reducing costs associated with projects that may have otherwise been cancelled, delayed or placed increased pressure on the budget.

Forecasting Reserve Balances

In line with multi-year budgeting, reserve balances will also be forecasted to provide future visibility regarding funding availability and potential challenges. To accomplish this action assumptions will be required regarding reserve revenue streams, especially those that are dependent on external factors i.e. development charges, etc. Therefore, forecasted capital revenue assumptions will be conservatively estimated and future capital plans may require adjustments to account for potential changes in information i.e. upswings or downward trends.

Capital Project Prioritization

The value of projects approved will not only depend on the amount of funds available in a particular funding source, but also the impact on the City's overall resources i.e. available capital and operating funding, available resourcing capacity, established financial policies, etc.

The criteria used to prioritize projects within a funding source include, but are not limited to consideration of the following:

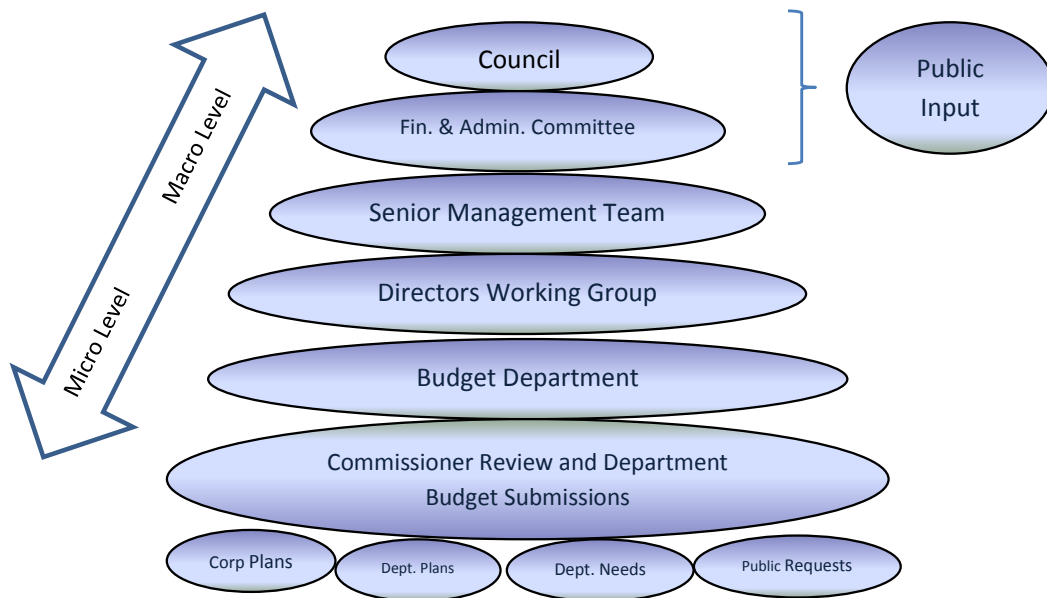
- Pre-Budget approval obtained
- Funds required to complete previously approved projects
- Legal or Regulatory requirements (including financial commitments)
- Net revenue generating, cost savings or efficiency improvement projects
- Growth related projects
- Infrastructure repair projects
- Equipment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

Based on the above endorsed guidelines, each department will prioritize the capital projects within their dedicated funding sources. For funding sources with multiple department stakeholders (i.e. capital from taxation) prioritization will be conducted through the Directors' Working Group (DWG). Concurrently, capital budgeting staff will assess funding availability within policy guidelines and establish multi-year funding availability lines for each funding source. As mentioned above, consideration will also be given to operating budget and staff capacity implications, which could result in prioritization adjustments. New: As a result of implementing multi-year budgets many requests are currently recognized. To avoid confusion, these requests

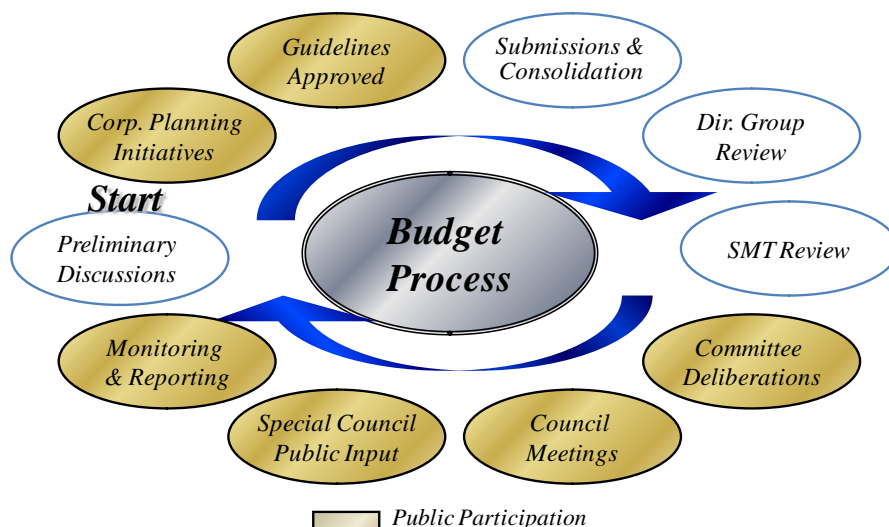
are to remain in the year previously assigned by Senior Management, unless authorized by the Commissioner of Finance & City Treasurer and the City Manager.

6. THOROUGH MULTI- LAYER REVIEW PROCESS

The budget process has a very thorough review process and the final budget will consist of many decisions resulting from a variety of review sessions and open public sessions. Illustrated below are the various layers of review that occur and areas involved within Vaughan's budget process.



The opportunity for public involvement throughout the budget process is a key process element. Illustrated below are the touch point opportunities for public participation in the budget process.



CONTINUED PROCESS IMPROVEMENTS

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

- In the fall of 2012, Vaughan presented its first Financial Master Plan; this document discussed the long-term financial pressures facing the City and provided a number of progressive recommendations.
- Integrated strategy & budgeting through the development of the Corporate Planning Process.
- Recently underwent a Reserve Policy Update, which resulted in a consolidated framework, improved guidance, development of new reserves to meet emerging needs and a realignment of balances to ensure equitable funding.
- In an effort to address the City's growing infrastructure gap, the City recently implemented a *Reserve Contribution Policy* for tangible capital assets intended to ensure the community's infrastructure remains sustainable, supporting the numerous programs and services offered.
- Developing prioritization models to assist in decision-making & initiating a Directors' Working Group in order to enhance staff involvement and leverage staff knowledge.
- Consolidated City's quarterly reporting process into a single simplified report (Operating, Capital, and Water Waste Water). This action was intended for stakeholders to have a more fulsome and complete view of the City's financial results.

BUDGET TIMETABLE

Staff anticipate bringing forward the first draft of the 2014-2017 Budget to the Finance and Administration Committee in early November with the intent of a Finance and Administration Committee recommendation early January 2014 and Council approval in late January 2014. Every effort will be made to adhere to the timeline, but issues raised during the budget process could potentially impact the presented timeline.

Change - The submission process will occur in three steps. The overall intent is to layer the submission process and allocate time for departments to focus on specific process components. This in turn will allow adequate time for submission review and feedback. The submission process stages are as follows

1. Later June - Submit business plans to the Strategic Planning Area
2. Early August – Validate and submit base budgets
3. End of Aug – submit ARRs and capital requests

Developing a Business Plan is the initial step in the process and will help identify resourcing pressures, opportunities and objective alignment. The final submission stage requires departments to articulate Additional Resource and Capital Requests, which should be aligned with dept. business plans. This process is designed to build department budget in a systematic and logical manner. Assigned budget portfolio groups will be actively involved with departments to provide assistance with budget development.

City of Vaughan

2014 - 2017 Budget Process Timetable

Dates	Activity
June 10, 2013	Budget Guidelines
June 25th, 2013	Budget Instructions Issued To Depts.
June 28th, 2013	Business Plan Submissions to Strategic Planning Dept.
Aug. 2nd, 2013	Base Operating Budget Submissions
July – Aug. 2013	SMT Preliminary 2014-16 Budget Review
Aug. 12th-16th, 2013	Commissioner Review of Proposed ARR's
Aug. 23rd , 2013	Capital Project Submissions and Operating ARR's
Sept. 2013	<ul style="list-style-type: none"> - <i>Director Working Group (DWG) Prioritization</i> - <i>Submission Review, Analysis, & Consolidation</i>
Oct. 2013	SMT Deliberations
Early Nov. 2013	Draft Budget and Presentation Finalization
Nov. & Dec. 2013	Finance and Administration Committee Deliberations
Jan. 2014	Public Input Meeting/Council Approval (14 day notice req.)

Directors' Working Group (DWG), Senior Management Team (SMT), and Finance and Administration Committee meeting dates will be scheduled shortly to accommodate this timeline.

Relationship to Vaughan Vision 2020

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

Regional Implications

N/A

Conclusion

The 2014-2017 Budget Timetable and Guidelines requires the Finance & Administration Committee to provide a recommendation to Council in early January 2014 and a public meeting be held late January 2014, followed by Council approval. The enclosed Guidelines are presented to provide the lowest possible tax rate increase while maintaining service levels and supporting Vaughan's vision.

Attachments

NA

Report prepared by:

Ursula D'Angelo, CGA
Manager of Operating Budget

Jackie Macchiusi, CGA
Manager of Capital & Reserve Planning

Respectfully submitted,

John Henry, CMA
Acting Commissioner of Finance & City Treasurer
Ext. 8348