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2010 BUDGET DIRECTIONS

The Finance and Administration Committee recommends:

1. **Adoption of recommendations 1 and 2 contained in the following report dated May 7, 2009, from the Commissioner of Finance; and**

2. **Adoption of recommendation 3 subject to the timeline for Budget Tabling in Attachment 2 being amended to read "October 22, 2009 (at Council)."**

1. RECOMMENDATIONS

It is recommended that:

1. Council endorse a tax levy target for the purpose of preparing the draft 2010 budget submission to Council of no higher than the rate of inflation.

2. Council approve the basis for 2010 budget development outlined in this report.

3. Council approve the 2010 budget timelines as noted in Attachment 2.

2. PURPOSE

The purpose of this report is to seek Committee and Council's direction and input on the proposed direction for the 2010 operating and capital budgets. This report includes a preliminary overview of anticipated 2010 budget pressures, proposed timelines and general guidelines for budget development.

3. BACKGROUND

Uncertain economic conditions will constrain the Region's 2010 budget

The current climate of economic slowdown and uncertainty is affecting local, Canadian and international economies to varying degrees. In preparation of the annual budget, the Region strives to balance the need for increased services for a growing region with an acceptable level of tax levy increase. It is anticipated that there will be even greater financial constraints facing the Region in development of the 2010 budget, given the economic conditions affecting many of our residents and businesses.

4. ANALYSIS AND OPTIONS

The Region faces significant budget pressures in 2010

As part of the 2009 budget deliberations, a preliminary 2010 forecast was provided to Council. Attachment 1 summarizes the forecast 2010 budget pressures as they were included in the 2009 Budget tabled with Council in December 2008 and prepared by staff in early fall 2008. The economy has changed drastically since the forecasts were put in place and therefore this preliminary forecast is outdated. However, a number of elements of the forecast will continue to impact the 2010 budget.

Based on the information at that time, the preliminary outlook for 2010 indicated a tax levy increase of 4.6% (details provided in Attachment 1). While this estimate was preliminary and will undoubtedly change as information becomes more certain, it serves as a starting point for detailed budget development.

This estimate of 4.6% incorporated all anticipated pressures, including base inflationary pressures, mandatory requirements, annualizations from decisions made in previous years, growth and enhancements. Service enhancements by their nature are discretionary. Growth pressures are driven by the need to maintain service levels in the face of population and employment growth. Base pressures largely reflect inflation and are required to provide the services at the same level as 2009. Similarly, the Region has little or no discretion over mandatory pressures or annualization pressures related to previous decisions (such as debt repayment to fund previously approved capital projects).

Actual debt repayment requirements will be refined as more precise information becomes available on project timing, and as such, will likely be reduced from the original estimates. Conversely, because of the lack of information at the time this preliminary forecast was prepared, it did not include potential tax levy pressures which could result from increased social assistance caseloads. The Region has some protection against significant case load growth through the Social Assistance Reserve Fund which was established to provide an alternate source of funding for increased social assistance costs in economic downturns.

2009 Forecast indicated a tax levy increase of approximately 3.4% for base, mandatory/legislated and annualization pressures

As detailed in Attachment 1, non-discretionary base, mandatory and annualization pressures could account for a preliminary 3.4% tax levy increase. Reductions in expenditures for GTA Pooling and uploading of ODSP were already included in this figure. This does not include assessment growth which had been estimated at 2.1% but will likely be somewhat lower.

Growth and Enhancements will require constraint in 2010

Growth and enhancement pressures that were forecast are detailed on Attachment 1. Enhancement pressures were estimated to potentially require a 1.7% increase in taxes. As noted above, the decision to enhance service levels is discretionary. While service enhancements are contemplated because they offer many benefits to our residents and businesses, it is anticipated that the desire to minimize tax levy increase will mean that there will be minimal capability to include service enhancements in the 2010 budget.

Growth pressures as forecast in 2009 would also potentially require a tax levy increase of 1.7%. Generally speaking, growth pressures reflect the additional financial resources that are required to maintain existing service levels for a growing population. They can also be related to another specific growth driver, such as new lane kilometres in the case of roadways. This category of pressures will need further review in light of slowdowns in economic and population growth to determine the potential for reduction from the estimated 1.7% increase noted above.

Committee's direction on the 2010 tax levy target is sought

Direction from the Finance and Administration Committee to establish a 2010 tax levy target is sought. In establishing a tax levy target, it is important to consider the known pressures facing the Region.

The major drivers of the Region's 2010 operating budget will likely include:

- Annualizations resulting from previously approved capital budgets
- Annualization of new Police and Transit service introduced part way through 2009
- Collective agreements, inflationary base pressures
- Mandatory funding requirements and impact of the economy on social service costs
- Asset replacement funding programs
- Additional service required for population growth
- Possible implications of AODA regulations and compliance
- Reductions for ODSP and Pooling reductions.

One target that could be established is a tax levy increase at the rate of inflation. This would provide additional financial resources required to assist in covering inflationary pressures. However, because the Region's budget contains other non-discretionary pressures in addition to inflationary costs, increases at the rate of inflation alone may not be sufficient to cover all non-discretionary costs. Therefore, a target tax levy increase at the rate of inflation may not be achievable without service level reductions to accommodate non-discretionary pressures over and above inflation.

Inflation forecasts for 2010 vary, with Consumer Price Index (CPI) forecasts from Canadian chartered banks and the Bank of Canada ranging from 0.5% to 1.8%. The following table summarizes the historical annual Inflation rate and Construction Price Index.

Table 1

	2006	**2007**	**2008**	**2009**	**2010**
CPI (Ontario)	1.8	1.8	2.3	-0.8 to 0.6 [1]	0.5 to 1.8 [1]
Construction Price Index (Toronto)	6.7	6.8	9.6	4.5 [2]	n/a

[1] Forecast
[2] Actual for Q1/09 vs Q1/08

Inflation as measured by the consumer price index (CPI) has declined as a result of the economic slowdown (change of 0.6% April 2008 to April 2009; down from 1.8% change March 2008 to March 2009). The Region is also affected by the construction price index which has been significantly higher than the CPI.

A zero percent tax levy increase would typically represent a decrease in service, since inflationary pressures would need to be absorbed within the existing budget envelope. There will be opportunity to offset inflationary pressures as a result of decreased GTA Pooling and ODSP costs.

Establishing a tax levy target will help facilitate the budget preparation process.

Basis for 2010 Budget Development

It is recommended that the 2010 budget be developed as follows:

- Base, mandatory and annualization pressures will form the core of the budget submission.
- While there will likely be little room for new initiatives in the 2010 budget, it is recognized that some initiatives may be required to maintain service levels for a growing population. A limited number of growth requests may come forward for Committee/Council consideration. These will be kept distinct from the base budget and will be added once approved.
- Potential growth initiatives will require a business case that clearly demonstrates the outcome and benefits from the initiative.
- Funding for the capital program will be flatlined, with tax levy contributions to capital limited to 2009 levels and no additional debt requirements for 2010 beyond what was indicated in the 2009 budget for 2010. Flatlining funding may have the potential to result in delays to specific committed projects; these implications will be taken into consideration prior to finalizing the capital budget.

- Options to arrive at a zero percent tax levy increase be prepared and tabled along with the 2010 budget submission.

Approval of the 2010 Budget in December 2009 is proposed

It is proposed that the 2010 budget for both operating and capital be approved in December of 2009. Attachment 2 outlines a proposed timeline that would achieve a December approval of both the capital and operating budgets.

The proposed timeline provides greater opportunity for Council members to collectively consider the budget. To achieve the tight timeline for December budget approval, it is proposed that a Council education session be held on October 15 and that the operating and capital budgets be tabled at a Council workshop on October 29. Standing Committee reviews of individual budgets would occur in November, with an optional Council workshop at the end of November. Recommendations from Standing Committees would be forwarded to Finance and Administration Committee in December, facilitating Council approval on December 17.

5. FINANCIAL IMPLICATIONS

While there are no direct financial implications associated with this report, the budget will establish expenditures and funding for the provision of Regional services in 2010.

6. LOCAL MUNICIPAL IMPACT

There are no direct local municipal impacts associated with this report.

7. CONCLUSION

In light of economic conditions, it is anticipated that the Region's ability to fund program expenditures through increased taxes will be constrained. Finance and Administration Committee's direction in establishing a target for the 2010 tax levy increase is sought. It is proposed that the 2010 budget be approved in December of 2009 and that a Council Education Session and potentially two Council workshops be held on the 2010 budget.

For more information on this report, please contact Kelly Strueby, Director of Business Planning and Budgets at Ext. 1611.

The Senior Management Group has reviewed this report.

(The two attachments referred to in this clause are attached to this report.)

Attachment 1

2010 Net Tax Levy Pressures - As Forecast for 2009 Budget in Fall 2008

	2010 $ millions	% Change *
Base		
Total Base: Salaries, Benefits, Purchase of Service, Other	**$17.7**	**2.4%**
Mandatory/Legislated		
GTA Pooling	(13.3)	(1.8)%
ODSP Support Costs- uploaded by Province	(11.4)	(1.5)%
Payments to Social/Non Profit Housing Providers	2.2	0.3%
MPAC	0.9	0.1%
EMS Increased Provincial Funding	(0.8)	(0.1)%
Public Health & Long Term Care	0.2	0.0%
Employment & Financial Services - rate and client demand increases	0.2	0.0%
Total Mandatory	**($22.1)**	**(3.0)%**
Annualization		
Transit - Debt Charges	9.5	1.3%
Transit - contractor payments	1.8	0.2%
York Regional Police - New hires salary gapping	2.0	0.3%
Others - Debt Charges	5.7	0.8%
EMS - South Support Centre Facility Lease Cost	0.3	0.0%
Reinstate Tax Levy temporarily funded through Best Start	2.5	0.3%
One Time Social Assistance Reserve Funding	0.2	0.0%
Capital Asset Replacement	7.2	1.0%
Total Annualization	**$29.2**	**4.0%**
Growth		
Police - 38 officers, 14 civilians	2.3	0.3%
Transit - Service & Support staff	3.4	0.5%
Road maintenance - system growth	0.9	0.1%
Solid Waste Management - increase tonnage	1.7	0.2%
Community & Health Services - Staffing	0.3	0.0%
EMS - additional ambulance hours etc	1.5	0.2%
Corporate support - Normal growth related	2.4	0.3%
Total Growth	**$12.5**	**1.7%**
Enhancement		
Salaries & Benefits related to new service levels - Transit	2.0	0.3%
Contribution to capital	3.0	0.4%
Contribution to reserve for NP housing provider capital repairs	1.0	0.1%
CDIF Funding for Community Agencies	0.5	0.1%
Solid Waste Management - various waste diversion initiatives	2.8	0.4%
Road maintenance	0.3	0.0%
Community & Health Services - Staffing & Call recording software	0.1	0.0%
Corporate Support	2.7	0.4%
Total Enhancement	**$12.4**	**1.7%**
Total Annual Budget Pressures	**$49.7**	**6.8%**
Assessment Growth	**($15.5)**	**(2.1)%**
Tax Levy increase after assessment growth		**4.6%**

* Calculated based on 2009 total Regional net expenditures of $736.2 million

2010 Business Planning & Budget
Proposed DRAFT Timelines

Requirements	Capital	Operating
Distribution of Resource Toolkit	Jun 1, 2009	Jun 15, 2009
Funding Review/Departmental Meetings	June/July 2009	
Budget Submission from Departments	Aug 4, 2009	Aug 10, 2009
Treasurer Reviews	Aug 24 - 28, 2009	Aug 31 – Sep 4, 2009
CAO Briefing	Sep 14, 2009	
Chair Briefing	Sep 17, 2009	
CAO Reviews	Sep 21 & 28, 2009	Sep 30 & Oct 1, 2009
Police Service Board Tabling	Sep 23, 2009	
Chair Reviews	Oct 5, 2009	
Finalize Submission for Council Education Session	Oct 7, 2009	
Council Education Session	Oct 15, 2009	
Final Printing	Oct 21, 2009	
Police Service Board Approval	Oct 28, 2009	
Budget Tabling & Council Workshop	Oct 29, 2009 (scheduled)	
Standing Committee Reviews	Nov 4 – 12, 2009	
Council Workshop (optional)	Nov 26, 2009	
Finance & Administration Committee	Dec 3, 2009	
Council Approval	Dec 17, 2009	