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2008 BUSINESS PLAN & BUDGET MID-YEAR REPORT

The Finance and Administration Committee recommends the adoption of the recommendation contained in the following report, August 25, 2008, from the Commissioner of Finance:

1. RECOMMENDATION

It is recommended that:
This report outlining mid-year program highlights and financial results be received for information.

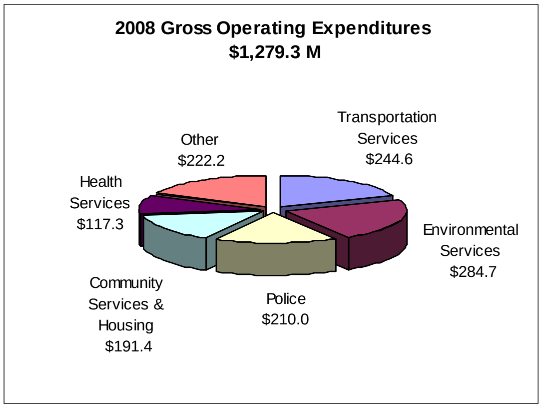
2. PURPOSE

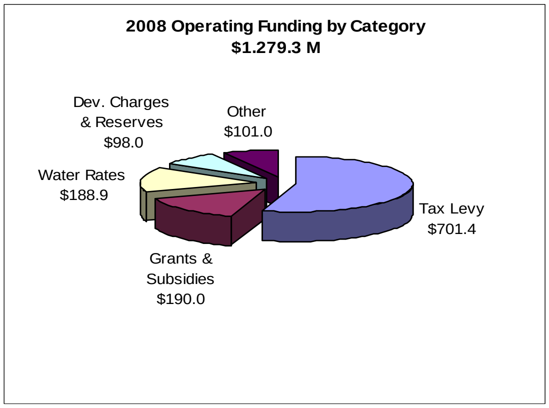
The purpose of this report is to provide a mid-year status update on progress towards the objectives outlined in the 2008 Business Plan and Budget. Regular performance and service monitoring ensures that York Region’s $2.0 billion service mandate (includes operating and capital) will be delivered to taxpayers in a cost efficient and effective manner.

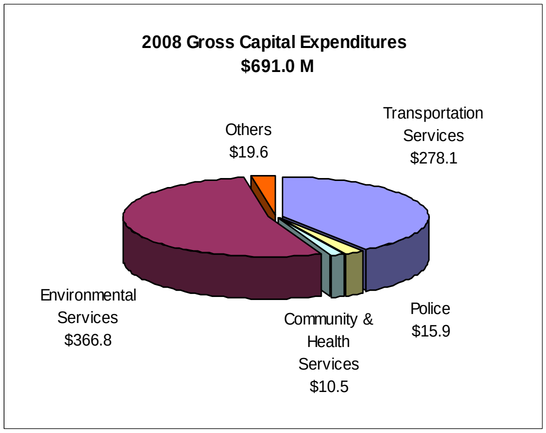
3. BACKGROUND

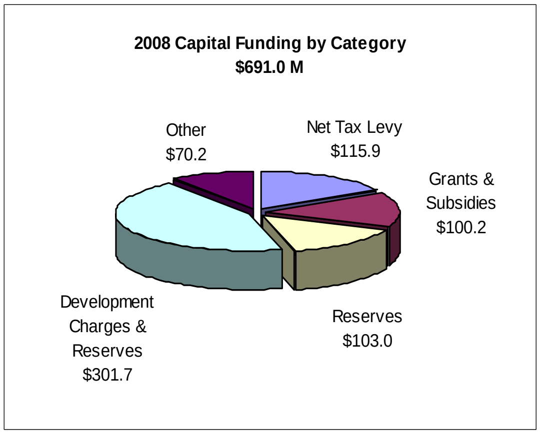
On December 13, 2007, Regional Council approved the 2008 Capital Business Plan and Budget and on April 24, 2008, Regional Council approved the 2008 Operating Business Plan and Budget. The detailed business plan identifies work initiatives within the framework of a total gross budget of $2.0 billion. In addition, $427.4 million was approved in 2007 and prior years for capital projects not completed and carried over into the 2008 capital work plan.

The graphs below identify the 2008 Regional operating and capital budgets and the various funding sources.





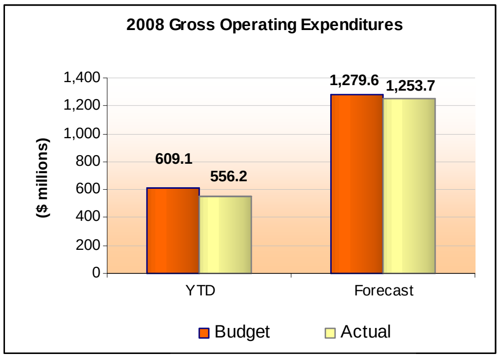


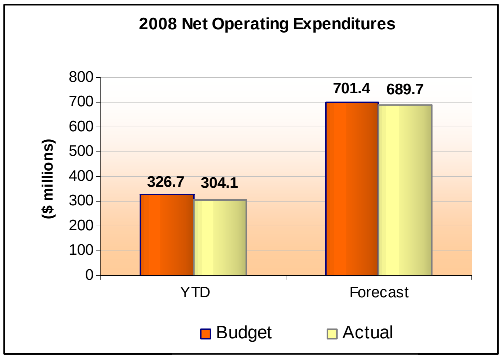


4. ANALYSIS AND OPTIONS

4.1 Operating Results

York Region's 2008 gross operating budget is $1.279 billion of which 98% is forecast to be spent by year-end.





Net expenditures at year-end are currently forecast to be 98% of budget.

It should be noted that year-end forecasts prepared at mid-year are often higher than actual year-end results. For example, in 2007, the mid-year forecast for year-end expenditures was 101% of budget, compared to actual year-end expenditures of 97%.

At June 30, 2008, Regional net operating expenditures are 93% of the mid-year budget of $326.5 million.

Mid-year results are influenced by a number of issues, some of which are common among all departments and others that are more isolated to specific departments. Table 1 is a summary of key net operating variances that contribute a favourable variance of $22.5 million for Regional programs at mid-year. Further details of departmental financial results as of June 30 and forecasted for full year 2008 are included in Attachments 1 and 2. Major factors affecting the mid-year variance are outlined in the following paragraphs.

Table 1
Notable Key Net Operating Variances
as at June 30, 2008 ($ Millions)

	January to June 2008	
Department/Service	**Under/(Over) Net Expenditures $ Millions**	**Expended %**
Transit Services	$3.3	92%
Solid Waste Management	$3.8	73%
Emergency Medical Services	$1.6	85%
Employment & Financial Support	$1.9	85%
Family & Children’s Services	$1.0	85%
Planning	$1.4	66%
Administrative Support	$3.0	42%
Financial/Administrative Items	$2.7	23%
Boards, Authorities and GTA Pooling	(4.6)	112%
Police Services	$3.7	96%

Salaries and benefits account for $401.8 million or 31% of York Region’s 2008 gross operating expenditure budget of $1.3 billion.

As a result of delays in filling new or vacated positions, salary gapping (the under-expenditure of salary and benefit dollars) for Regional programs (excluding Police Services, rates supported and subsidies) at mid-year is $4.6 million, exceeding budgeted full year gapping of $3.4 million. Salary gapping savings are realized in departmental budgets while the salary gapping reduction is budgeted at the corporate level.

Fuel prices volatile throughout the first half of 2008 - 1 cent change in the price per litre equivalent to $0.2 million for the Region.

The 2008 budget contains fuel at a cost of $1.00 per litre. The average retail price of unleaded and diesel for the month of June was $1.41 and $1.33 per litre respectively while bulk fuel purchases at the Roads yards averaged $0.99 and $1.21 per litre for unleaded and diesel respectively. The largest impact on the current unfavourable year-end forecast arises in Transit Services with a forecast average diesel price per litre of $1.45; however, depending on the final Ministry of Energy Southern Ontario Pump price-per-litre average at December 31st, compared to the contractual rates agreed on by the various contracting parties, there could be a further requirement for budgetary support. At this point, any additional cost for fuel over the annual budget can be mitigated within the overall Regional budget without exceeding the current year's tax levy.

Timing of program expenditures and revenues influence mid-year results.

Actual timing of transactions such as debt repayment and interest charges may vary from the budget and often correct by year-end. Boards, Authorities and GTA Pooling year to date variances are due to timing and calendarization of expenditures and are expected to be on budget by year-end. As well, timing of receipt of Provincial and Federal funding may not align with year to date program budget and expenditures but will be on budget by year-end. Furthermore, the late approval of the 2008 Operating budget has resulted in the delay of program related expenditures for those new initiatives budgeted at full year cost.

Impact of Revenues and Funding Sources on mid-year results.

- Transit revenues are trending unfavourably at mid-year by $1.1 million because actual ridership (approximately 100,000 passengers) is lower than budgeted and actual average fare revenue is trending lower than budget. The fare differential has been the result of a shift from cash fares to tickets and passes. This trend is anticipated to continue and fare revenues are currently forecast to be under budget $1.6 million by year-end.
- Solid Waste Management revenues are trending favourably by $1.3 million at mid-year due to higher than anticipated blue box marketing revenues. Commodity prices for aluminum iron and high density plastics have been unusually high for the first half of 2008. This trend may reverse in the second half of 2008 as prices are very volatile.
- Provincial funding for Long Term Care and Public Health is currently unfavourable at mid-year by $2.1 million, however, programs are on schedule and all approved Provincial funding is expected to be received by year-end.

Other key program variances with a favourable impact on the net operating budget

- Monthly average social assistance caseload has been approximately 10% lower budgeted to date. Caseload will continue to be monitored closely in light of potential softening in the local economy.

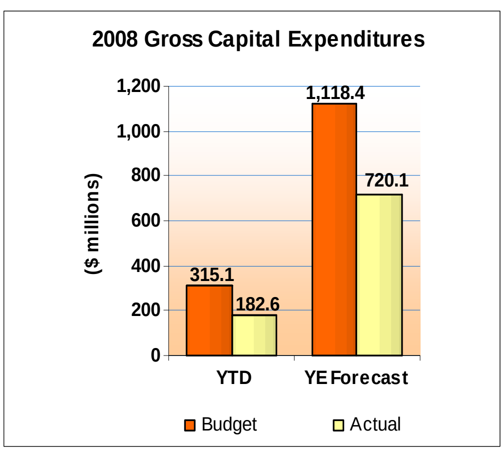
- Favourable variance in Information Technology due to lower pricing for equipment replacement and the deferral of ERP Financial Systems and the HR Management System software maintenance charges.
- Child Care Fee Assistance, Domiciliary Hostels and the Community Development and Investment Fund program are all contributing to the $1.0 million year to date surplus in Family & Children's Services.
- Planning and Economic Development has a favourable year to date variance as a result of delays in hiring new and vacant positions. As well, timing of expenditures and the receipt of $0.4 million in sponsorship and provincial revenues have contributed to the year to date variance.
- York Regional Police have a year to date favourable variance of $3.6 million largely a result of lower than budget debt charges, salary gapping, and various program related expenditures. Further, above budget revenue for Fees & Charges, an increase in the Firearms Grant and receipt of a one-time unbudgeted Child Exploitation Grant contribute to the favourable variance.

Other key program variances with an unfavourable impact on the net operating budget

- Contractor operating costs in Transit are unfavourable due to fuel prices which have been mitigated by service rationalization and deferred implementation of several service improvements due to vehicle availability.
- A 5% shift of tonnage from landfill to Source Separated Organics and Blue Box program beyond what was forecast in the budget; is currently mitigated by a lower than expected cost per tonne.

4.2 Capital Results

York Region's 2008 gross capital budget is $1.1 billion and year-end forecast is currently projected to be 64% of the gross capital budget.



- 58% of the mid-year gross expenditures have been delivered.
- 43% capital projects are on schedule.53 projects are at milestone 0 (i.e. not started or deferred).Delays in capital projects can occur for various reasons, including longer than expected environmental assessment approval procedure, property acquisition process, etc. Because of the multi-year nature of most capital projects, delays will result in deferral of spending to future years.
- As noted in Table 2, 85% of the projects

included in the 2008 capital program are moving forward through the design and construction phases.

Table 2 summarizes the progress of York Region's 425 capital projects currently approved.

Table 2
Progress Status Summary of Capital Projects as June 30, 2008

Progress Status	Number of Projects	% of Total Capital Projects
Project Complete	41	10%
Tender / Construction	103	24%
Pre-Construction Phase	217	51%
Not Started/Deferred *	53	12%
Other	11	3%
Total	**425**	**100%**

* Projects are listed in Attachment 5

The following summarizes the major projects that cause the projected variance of $398.3 million at year-end for each service area. Further details of departmental financial results as of June 30 and year-end forecast are included in Attachments 3 and 4.

York Region Transit - Two Vehicle Garage projects for York Region Transit (YRT) account for 70% of the projected year-end variance of $50.9 million.

- YRT gross capital budget is $94.5 million and the year-end forecast is 47% of the gross budget.
- Construction of the Transit Vehicle Garage #1 has been delayed due to longer than expected process in hiring architectural firm. Major construction will begin in 4th quarter of 2008.
- Transit Vehicle Garage #2 will be deferred as a site has not been identified.
- 5 hybrid buses will be deferred to 2009 due to joint procurement program taking longer than anticipated.
- Smart Card will be deferred to 2010 as a revised roll-out plan has rescheduled project implementation.

Rapid Transit - Yonge Street (Y1) rapidways and Operation & Maintenance Facility account for 85% of the projected year-end variance of $104.5 million for Rapid Transit.

- Rapid Transit gross capital budget is $215.8 million and the year-end forecast is 52% of the gross budget.
- The pre-construction phase of Yonge Street rapidways from Steeles to Richmond Hill Centre is on hold pending decision on Yonge Street Subway extension.
- A new site for operation and maintenance facility is required to be explored as the Langstaff location is no longer available for purchase.

- A portion of the Spadina Subway Extension buy-in cost is expected to be invoiced by TTC by year-end. Other activities associated with the project have been held back awaiting Treasury Board approval and execution of the Federal Provincial Framework Agreement. (Note: Subsequent approval has been received in July and an update will be provided at year-end.)

Roads - Projected year-end variance of $34.1 million for Roads is mostly caused by the delay in property acquisition, coordination with YDSS sewer main construction, and broader analysis and consultation requested by local municipalities.

- Roads gross capital budget is $193.1 million and the year-end forecast is 82% of the gross budget.
- Approximately 40% of the projected year-end variance is caused by delay in property acquisition.
- Construction of 19th Avenue from Yonge Street to Bayview Avenue has been deferred due to coordination with the YDSS sewer main construction, which accounts for 26% of the projected year-end variance.
- The request from Town of Markham to conduct additional environmental assessment accounts for 16% of the year-end variance.

Water Services - Toronto and Peel Water Supply cost share projects account for 66% of the projected year-end variance of $66.3 million for Water Services.

- Water Services gross capital budget is $162.8 million and the year-end forecast is 59% of the gross budget.
- Toronto Cost Share project has been deferred mainly due to City of Toronto's decision on scope change of the Horgan Water Treatment Plant expansion. Construction has been deferred to 2009 which accounts for 46% of the projected year-end variance.
- Peel Water Supply Cost Share project is behind schedule due to delay in property acquisition, which accounts for 20% of the projected year-end variance.
- Approximately 9% of the projected year-end variance is caused by outstanding financing from developers.

Wastewater Services - 51% of the projected year-end variance of $82.7 million for Wastewater is due to delay in environmental assessment, tender and approval process

- Wastewater Services gross capital budget is $338.7 million and the year-end forecast is 76% of the gross budget.
- The delay in construction of Nobleton Sewage is due to longer than anticipated tendering process. It is expected to be completed in 2009.
- YDSS Duffin Creek WPCP Expansion construction was delayed due to longer than expected Ministry approval. The project will be completed on schedule by 2010.
- Approximately 51% of the projected year-end variance is caused by delay in environmental assessment, tender and approval process.

Solid Waste Management - The construction of two Community Environmental Centres (CEC) and Energy from Waste Facility is deferred which accounts for 62% of the projected year-end variance of $19.1 million for Solid Waste Management.

- Solid Waste Management gross capital budget is $28.5 million and the year-end forecast is 33% of the gross budget.

Community and Health Services - gross budget is $27.8 million and year-end forecast is 45% of the gross budget.

The projected year-end variance of $15.1 million is mostly caused by delays in the following projects:

- Construction of 84 affordable rental units at Vaughan Civic Centre
- Construction of four Paramedic Response Stations at Keswick, Maple, Queensville and Pefferlaw

Administrative Support - gross budget is $32.1 million and year-end forecast is 55% of the gross budget.

The projected year-end variance of $14.3 million is mostly caused by delays in the following projects:

- e-Portal (i.e. e-Government based services to citizens)
- One York Broadband network
- Construction of Central Service Centre

York Regional Police - The delay in construction of Investigative and Support Services Facility accounts for 91% of the projected year-end variance of $11.2 million for York Regional Police.

- York Regional Police gross capital budget is $25.0 million and the year-end forecast is 55% of the gross budget.

5. FINANCIAL IMPLICATIONS

As of June 30, 2008, 93% of the year to date operating budget has been expended, representing 43% of the total annual gross operating budget. The current forecast indicates that net expenditures will be 98% of budget at year-end.

York Region's 2008 gross capital budget is $1.1 billion which includes prior year carry forwards of $427.4 million. At mid-year, 34% of total capital projects are tendered, under construction or complete and approximately 43% of total capital projects are deemed to be on schedule. The year-end forecast is 64% of the gross capital budget.

Impact on 2009 Business Plan and Budget

The 2008 Business Plan and Budget provides a starting point for 2009 budget development. Factors affecting the 2009 budget will include:

- Continued population growth in 2008 of approximately 29,900 new residents, requiring additional operating and capital resources to keep pace with growth;
- Continued construction growth, particularly in the residential sector;
- Continued increase in construction costs;
- Deferral of some capital projects in 2008;
- Annualization of operating costs and debt financing costs for other capital initiatives;
- Annualization of the 12 Paramedics approved in the 2008 Budget to help address a shortfall in staffing levels relative to current service demand and growth in the Markham and Vaughan areas;
- Annualization of the additional 18,970 revenue hours of transit service planned to be implemented in 2008. The initiative is anticipated to increase service levels by approximately 2% and ridership by 140,000;
- Annualization of the Long Term Care Convalescent Care Program at the Maple Health Centre;
- Continued increased investment in Roads resurfacing and acceleration of the Road surface expansion to address congestion;
- Infrastructure rehabilitation and replacement to ensure a state of good repair for Regional assets;
- Implementation of funding strategy to close the infrastructure gap and build reserve fund for asset replacement;
- Continued capital reserve fund contribution to reduce the reliance on new debt for capital projects.

6. LOCAL MUNICIPAL IMPACT

The 2008 Business Plan and Budget Mid-Year Report summarizes the status of York Region's key service areas and communicates to the local municipalities the anticipated year-end service delivery and resource utilization results.

7. CONCLUSION

The 2008 Mid-Year Report provides a summarized review of the resources utilized to complete service objectives identified in the 2008 Business Plan and Budget.

As of June 30, total net expenditures for Regional operations are 93% of target resulting in a $22.5 million favourable variance. Year-end projections indicate that total net expenditures will be 98% of budget resulting in a $10.5 million favourable variance on total expenditures of $1.3 billion.

As of June 30, gross capital expenditures were $182.6 million or 58% of the year to date capital budget of $315.1 million. The year-end forecast for the gross capital expenditures will be $720.1 million or 64% of the annual gross capital budget.

Summaries of the operating and capital financial results have been appended to this report.

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

The Senior Management Group has reviewed this report.

(The attachments referred to in this clause were included with the September 4, 2008 Committee agenda.)