

Analyst Briefing Notes

Budget Committee

(March 26, 2007)

2007 OPERATING BUDGET

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March 21, 2007

2007 OPERATING BUDGET

Executive Summary

- Exhibition Place’s 2006 preliminary year-end net expenditure of \$2.020 million exceeds its 2006 Approved Budget by \$1.966 million driven mainly by a revenue shortfall due to lower attendance at the 2006 Canadian National Exhibition (CNE) as a result of unfavourable weather.
 - Although Exhibition Place has no means to control the weather during the CNE, the Program has put steps in place to mitigate the financial impact of any recurrence in 2007 of the CNE revenue shortfall experienced in 2006. Specifically, other service units at Exhibition Place have been requested to defer \$1.0 million in discretionary expenditure until the fourth quarter of 2007.

- The Program’s strategic direction for 2007-2009 includes a range of priorities aimed at providing opportunities for business stimulation and economic development, preserving the architecturally and historically significant structures on the grounds and providing a preferred venue for trade and consumer shows and major public events and celebrations.
 - There are no significant service delivery challenges or issues at this time.

- As summarized in Table 1 below, the 2007 Recommended Operating Budget of \$0.054 million net represents 0% increase over the 2006 Approved Operating Budget of \$0.054 million net. Hence, Exhibition Place has achieved the budget target.

Table 1: 2007 Recommended Budget

	2006		2007 Recommended Operating Budget			Change - 2007 Recommended from 2006 Approved Budget		FY Incremental Outlook	
	2006 Appvd. Budget	2006 Projected Actual	2007 Base	2007 New /Enhanced	2007 Operating Budget			2008	2009
	\$	\$	\$	\$	\$	\$	%	\$	\$
GROSS EXP.	47,230.6	47,900.0	49,739.3	3,642.4	53,381.7	6,151.1	13.0	344.0	
REVENUE	47,176.7	45,880.0	49,099.5	4,228.3	53,327.8	6,151.1	13.0	344.0	
NET EXP.	53.9	2,020.0	639.9	(585.9)	54.0	0.0	0.0	0.0	0.0
Approved Positions	452.0	452.0	504.0	13.5	517.5	65.5	14.5		
TARGET			53.9		53.9				
\$ Over / (Under) Program Target			585.9		0.0				
% Over / (Under) Program Target			1086.1%		0.0%				

- The 2007 Recommended Budget is comprised of base funding of \$0.640 million net offset by new/enhanced services with net revenue of \$0.586 million net.
 - Exhibition Place anticipates that it will maintain its level of net expenditure over the 3-year period. Therefore, there will be no incremental changes in net expenditure in 2008 and 2009. The Program will offset 2.7% increase in salaries and wages in 2008 with revenue. Similarly, it will offset the operating impacts of capital in 2008 and with revenue.
- The Recommended Base Budget of \$0.640 million net is significantly in excess of the 2006 Approved Operating Budget of \$0.054 million net.
 - The key cost drivers are salary and wage increases prescribed by collective agreements; increased utility costs; the loss of 4 tenants; City direction to increase the contribution to the vehicle replacement reserve; and, reductions in 2007 budgeted volumes for parking and Canadian National Exhibition (CNE) adult admissions, resulting in lower base revenue.
 - To achieve efficiency, Exhibition Place has adopted a reorganized administrative structure in 2007 that combines the operations of Exhibition Place and the Direct Energy Centre (formerly the National Trade Centre) and yields savings of \$0.820 million. In addition, the Program has increased budgeted volumes for child, senior and family CNE admissions.
- Although the Recommended Base Budget of \$0.640 million net exceeds the 0% budget target, Exhibition Place achieves the target by generating \$0.586 million in additional revenue through increases in CNE admission prices in the range of 3-6% and a 10% increase in parking rates.
- Exhibition Place's 2007 Recommended Budget of \$0.054 million net includes the commencement of operations of the new National Soccer Stadium (BMO Field), with its revenue supporting the cost of the 13.5 new positions required for its operation.
- The Recommended 2007 Operating Budget allows Exhibition Place to pursue the following range of strategic directions:
 - The development of community use of the grounds through more diverse shows and events, including religious and cultural events and private functions;
 - The maintenance of outstanding customer service delivery through improvements to processes such as admission at the CNE gates;
 - The launch and operation of the new National Soccer Stadium (BMO Field), including the hosting of the FIFA Under-20 World Cup in 2007;
 - The attainment of financial efficiency through a reorganized administrative structure;
 - The achievement of energy self-sufficiency by 2010 through several environmental initiatives;

- The promotion of workplace safety; and
- The enhancement of the site including the establishment of a new conference centre in 2007 and plans to work with the private sector to construct a hotel in future years.

Recommendations

The City Manager and Chief Financial Officer recommend that:

- (1) the 2007 Recommended Operating Budget for Exhibition Place of \$53.382 million gross and \$0.054 million net, comprised of the following services, be approved:

<u>Service:</u>	<u>Gross</u> <u>(\$000s)</u>	<u>Net</u> <u>(\$000s)</u>
Canadian National Exhibition	21,593.1	(797.9)
Exhibition Place Operations	14,843.8	2,562.4
Direct Energy Centre	13,302.4	(1,710.5)
National Soccer Stadium	3,642.4	0.0
	<hr/>	<hr/>
Total Program Budget	<u>53,381.7</u>	<u>54.0</u>

- (2) Exhibition Place report on its 2007 experience with the new National Soccer Stadium and the financial implications of the activities and programming at the stadium as part of its 2008 Operating Budget submission.

Section A: 2006 Budget Variance Analysis

Table 2: 2006 Budget Variance Review

(In \$000s)	2005 Actuals	2006 Approved Budget	2006 Projected Actuals*	2006 Appvd. Budget vs Projected Actuals Variance	
	\$	\$	\$	\$	%
GROSS EXP.	46,540.8	47,230.6	47,900.0	669.4	1.4
REVENUES	45,842.4	47,176.7	45,880.0	(1,296.7)	(2.7)
NET EXP.	698.4	53.9	2,020.0	1,966.1	3,644.3
Approved Positions	427.0	452.0	452.0	0.0	0.0

Source: *Projected Actuals Based on the Preliminary Year-End Operating Variance Report.

2006 Experience

Exhibition Place has reported an unfavourable year-end variance of \$1.966 million over its 2006 Approved Budget of \$0.054 million.

The primary reason for the unfavourable variance is a revenue shortfall due to lower attendance at the 2006 Canadian National Exhibition (CNE) as a result of unfavourable weather, especially on the Labour Day weekend when the Air Show was scheduled. The budgeted volume for paid attendance was 1.41 million patrons and the actual paid attendance was 1.40 million patrons. Although 0.01 million patrons may seem like a small number, it is important to recognize that a significant portion of CNE revenue is generated through non-paid attendance. In addition, promotions such as \$5 after 5 whereby, instead of the standard \$12.00 admission fee, patrons paid \$5.00 after 5:00 p.m., kept attendance numbers near budgeted levels but brought in lower than budgeted admission revenue.

Impact of 2006 Operating Variance on 2007 Recommended Budget

Although Exhibition Place has no means to control the weather during the CNE, the Program has put steps in place to mitigate the financial impact of any recurrence in 2007 of the CNE revenue shortfall experienced in 2006. Specifically, other service units at Exhibition Place have been requested to defer \$1.0 million in discretionary expenditure until the fourth quarter of 2007.

If the weather during the CNE is favourable, the planned discretionary spending will proceed. If the weather is unfavourable, the other service units will forgo expenditure and the \$1.0 million will be used to offset the CNE revenue shortfall so that Exhibition Place could minimize the variance from its 2007 Approved Budget. The details of the deferred expenditure and potential impact on the other service units if they must forgo this expenditure are still under review by Exhibition Place.

Section B: 2007 Operating Budget Overview

3-Year Operating Budget Overview

- The 2007 Recommended Operating Budget allows Exhibition Place to pursue the following 3-year strategic directions:
 - To develop community use of the grounds by diversifying its target customer group for future shows and events to include more film shoots, religious and cultural events and private functions;
 - To maintain outstanding customer service delivery through initiatives such as improvements to the admission process at the CNE gates including the exploration of cashless transaction options, and to stabilize CNE admissions at approximately 1.5 million patrons each year;
 - To successfully open and operate the new National Soccer Stadium (BMO Field), including hosting the FIFA Under-20 World Cup in July 2007.
 - To achieve financial efficiency and thereby meet or exceed budget projections through a reorganized administrative structure by combining the operations of Exhibition Place and the Direct Energy Centre (formerly the National Trade Centre) in 2007 and to ensure a smooth transition from the external management that had been in place at the Direct Energy Centre to internal management;
 - To promote environmental initiatives and finalize the 2010 energy self-sufficiency plan including a public launch the tri-generation project within the Direct Energy Centre and continued implementation of the strategy for energy-efficiency upgrades for buildings on the site;
 - To promote workplace safety at all levels;
 - To develop the facilities on the grounds through initiatives such as the establishment of a new conference centre on the grounds by finalizing the design and beginning renovations of the historic Automotive Building in 2007 and the construction of a hotel on the grounds by, as a first step, issuance of a RFP and negotiating a Letter of Intent with a private sector partner.

The 2007 increase in gross expenditure of \$6.151 million over the 2006 Approved Operating Budget is required to continue delivering the 2006 level of services and includes \$3.642 million gross to commence the operations of the new National Soccer Stadium in April 2007.

Exhibition Place anticipates that it will maintain its level of net expenditure over the 3-year period. In other words, there will be no incremental changes in net expenditure in 2008 and 2009. (See pages 9-10 for a detailed discussion.)

Service Delivery - Challenges and Issues

Exhibition Place's 2007 Recommended Budget includes the resources for the following 4 services:

- *Exhibition Place Operations* include activities that provide an opportunity for business stimulation and economic growth. This service provides a focus for public celebrations and

events, such as the Toronto Grand Prix, CHIN picnic, and Toronto Caribbean Festival, while preserving the 22 architecturally and historically significant structures on the grounds.

- The *Direct Energy Centre* (DEC) is the largest trade and consumer show facility in Canada and the sixth largest in North America with over 1.1 million square feet of contiguous space. DEC management is responsible for maintaining a state-of-the-art trade and consumer show facility. DEC has been host to events and shows such as the Royal Agricultural Winter Fair (RAWF), the Boat Show, the National Home Show, the One of a Kind Craft Show and the Interior Design Show. It is also a world class site for advanced “green” energy technology.
- The *Canadian National Exhibition* (CNE) is the largest annual fair in Canada and the fifth largest in North America. It takes place each summer during the 18 days leading up to Labour Day and offers a wide variety of programming designed for all ages and cultural backgrounds. The CNE directly employs 1,250 young people for the duration of the fair and an economic impact study has stated that the CNE attracts more than \$48.0 million to the Toronto area and more than \$66.0 million to Ontario annually.
- The *National Soccer Stadium* (BMO Field) will be home to the new major league soccer franchise team, Toronto FC, and the Canadian men’s and women’s national teams. BMO Field will host the 2007 FIFA Under-20 World Cup and will provide a venue for matches with other soccer leagues. The facility will also provide a venue for concerts and corporate events. In addition, the stadium will be made available for community use: 50% of all operable days are earmarked for community use purposes at competitive market rates and “no cost” days will be provided to the City’s Parks, Forestry and Recreation Division to provide programming for the City’s 13 priority neighbourhoods. It is recommended that Exhibition Place report on the financial implications of these activities and programming as part of its 2008 Operating Budget submission.

The 2007 Recommended Operating Budget allows Exhibition Place to provide the 2006 level of service as well as an added service in the form of the National Soccer Stadium (BMO Field) which will open in April 2007.

In the past, the operating results of Exhibition Place have been significantly affected by the results of the CNE, particularly because the success of the CNE is highly susceptible to the effects of bad weather during the fair. Although Exhibition Place has no means to control the weather during the CNE, the Program has put steps in place to mitigate the financial impact of any recurrence in 2007 of the CNE revenue shortfall experienced in 2006. Specifically, other service units at Exhibition Place have been requested to defer \$1.0 million in discretionary expenditure until the fourth quarter of 2007.

Otherwise, there are no significant service delivery challenges or issues at this time.

Section C: 2007 Recommended Base Budget

Table 3: 2007 Recommended Base Budget

(In \$000s)	2006 Appvd. Budget	2007 Recommended Base	Change		FY Incremental Outlook	
			2007 Recommended Base v. 2006 Appvd. Budget		2008	2009
	\$	\$	\$	%	\$	\$
GROSS EXP.	47,230.6	49,739.3	2,508.7	5.3	344.0	
REVENUE	47,176.7	49,099.5	1,922.8	4.1	344.0	
NET EXP.	53.9	639.9	585.9	1,086.1	0.0	0.0
Approved Positions	452.0	504.0	52.0	11.5		
NET TARGET		53.9			0.0	0.0
\$ Over / (Under) Program Target		585.9			0.0	0.0
% Over / (Under) Program Target		1086.1%			0.0%	0.0%

2007 Recommended Base Budget

The 2007 Recommended Base Budget of \$0.640 million net supports Exhibition Place’s 2006 service level and represents a significant increase over the 2006 Approved Budget of \$0.054 million net.

- The additional \$2.509 million in gross expenditure recommended for the Program’s base budget is needed to fund non-discretionary salary and wage increases, increased utility costs and increased contributions to the vehicle replacement reserve.
- To alleviate some of this expenditure impact, the 2007 Recommended Base Budget incorporates \$0.820 million in savings to be realized from an administrative reorganization and higher revenue from user fee volume increases for child, senior and family CNE admissions. In total, budgeted base revenue for 2007 is \$1.922 million greater than in 2006. Exhibition Place achieved the 0% budget target through increased user fees. (See detailed discussion on pages 12-14.)
- The base budget changes include an increase of 52 approved positions, all casual, temporary positions required to provide services by skilled trades to the Exhibition Place’s tenants on an as-needed basis. These have traditionally been treated as base changes since they do not represent a change to the permanent complement of the Program; rather, they support an increased volume and value of activity on the site.

2007 Key Cost Drivers

- Salary and wage increases prescribed by collective agreements and Board policy create a \$0.467 million net pressure. Exhibition Place has limited its 2007 salary and wage increases to a maximum of 3.25% for both step and merit combined.
- Increased utility costs result in a net pressure of \$0.232 million.
- The loss of 4 tenants – Aerophile, Immersion Studios, Snack Bar and Motorsports Hall of Fame – creates a \$0.172 million net pressure.
- City direction to increase the contribution to the vehicle replacement reserve results in additional expenditure of \$0.082 million.
- A reduction in the 2007 budgeted volume for Canadian National Exhibition (CNE) adult admissions lowers base revenue by \$0.146 million. This is offset in the base budget by increases in the 2007 budgeted volumes for child/senior and family admissions and in the 2007 Recommended Budget by proposed admission fee increases ranging from \$0.50 to \$1.00, bringing the overall increase in revenue from these changes to \$0.246 million. Adult admission will increase by 4% or \$0.50 from \$12.00 to \$12.50. Child/senior admission will increase by 6% or \$0.50 from \$8.00 to \$8.50. Family passes will increase by 3% or \$1.00 from \$35.00 to \$36.00.
- Reductions in 2007 budgeted parking volumes lower base revenue by \$0.220 million. This is offset in the Recommended Budget by a proposed rate increase of \$1.00 or 10% from \$10.00 to \$11.00, effective July 1, 2007, bringing the overall increase in parking revenue from these changes to \$0.063 million.
- Savings from administrative reorganization further offset pressures by \$0.820 million. Exhibition Place estimates that it could achieve savings in salaries and wages and insurance expenses by combining the administration of Exhibition Place and the Direct Energy Centre (formerly the National Trade Centre). The latter had previously been operated by a third party, Arcturus SMG, but when that contract expired on January 1, 2007, Exhibition Place opted not to renew. Instead, the administration of these 2 units will be managed internally.
- Income from new tenants such as Gossip Restaurant and Muzik Club is also expected to offset pressures by \$0.097 million.

2008 and 2009 Outlook: Net Incremental Impact

Exhibition Place projects no net incremental increases in its 2008 and 2009 operating budgets.

- The operating outlook for 2008 contains average contractual increases in salaries and wages of 2.7% with offsetting increases in revenue from user fees. Although Exhibition Place has a contractual agreement with its unionized staff to increase salaries and wages by an additional 2.7% in 2009, for consistency, this impact has been omitted here because the COLA increase for City programs is subject to future negotiations.

- In addition, the outlook for 2008 and 2009 includes annual energy savings of \$0.900 million offset by loan repayments, so there will be no net impact.
- Finally, the 2008 and 2009 outlook includes operating impact of capital projects offset by revenue. For example, the impact of the new conference centre, which was approved by Council on March 5, 2007, will be negative cash flows after debt servicing of (\$386,630) in 2008 and (\$855,475) in 2009. These negative cash flows would be neutralized by the application of revenue from the Direct Energy Centre Naming Fees. Therefore, there will be no net impact on the 2008 and 2009 operating budgets.

As a result, Exhibition Place anticipates that it will maintain its level of net expenditure over the 3-year period. In other words, there will be no incremental changes in net expenditure in 2008 and 2009.

Section D: 2007 Recommended Service Priorities

Table 4: Summary of 2007 New / Enhanced Service Priorities (In \$000s)

Priority	Description	2007 Recommended		Rec. New Positions	Net Incremental Impact	
		Gross Exp.	Net Exp.		2008	2009
		\$	\$	#	\$	\$
(a) Enhanced Service Priorities - Council Approved						
(b) Enhanced Services Priorities - Program Initiated:						
Sub-Total Enhanced Services		0.0	0.0	0.0	0.0	0.0
(a) New Service Priorities - Council Approved:						
	Start of National Soccer Stadium Operations	3,642.4	0.0	13.5		
(b) New Service Priorities - Program Initiated:						
	CNE admission rate increases	0.0	(303.4)			
	Parking rate increases	0.0	(282.5)			
Sub-Total New Service Priorities		3,642.4	(585.9)	13.5	0.0	0.0
Total Recommended New / Enhanced Service Priorities		3,642.4	(585.9)	13.5	0.0	0.0

2007 Recommended Service Priorities

Recommended New Service Priorities

New Service Priorities – Council Approved:

- *National Soccer Stadium*

Exhibition Place’s 2007 Recommended Operating Budget includes \$3.642 million in gross expenditure to provide services pertaining to the new National Soccer Stadium (BMO Field). The budget also includes an equivalent increase in revenue since the cost of these services will be recoverable from the National Soccer Stadium (BMO Field) tenant. This new service will require 13.5 new approved positions. This new service requiring \$3.642 million gross and zero net to

operate the new National Soccer Stadium is recommended since it is self-supporting. It is also recommended that Exhibition Place report on the 2007 soccer stadium experience as part of its 2008 Operating Budget submission.

New Service Priorities - Program Initiated:**• *User Fee Increases: CNE Admission and Parking***

The following user fee increases proposed by Exhibition Place for CNE admission and parking are recommended for approval since they are in line with the Council directive which prescribes that “where direct users can be identified, City user fees be established to recover the full cost of the relevant service and be increased by the rate of inflation, while ensuring that the most vulnerable are protected.” They are expected to generate incremental revenue of \$0.781 million in 2007.

- CNE adult admission will increase by 4% or \$0.50 from \$12.00 to \$12.50. Child/senior admission will increase by 6% or \$0.50 from \$8.00 to \$8.50. The cost of family passes will increase by 3% or \$1.00 from \$35.00 to \$36.00. The budgeted volume for child/senior admissions increases by 3% or 3,480 from 121,520 to 125,000. The budgeted volume of family passes also increases by 32% or 1,714 from 5,286 to 7,000. The user fee increases will yield an additional \$0.304 million in budgeted revenue.
- A parking rate increase of 10% or \$1.00, effective July 1, 2007, will raise the daytime and indoor parking rates from \$10.00 to \$11.00. The base budget includes a 4% or 25,740 decrease in budgeted volumes for parking, from 632,170 to 606,430. These user fee increases will yield an additional \$0.283 million in budgeted revenue.

Issues for Discussion

2007 Operating Budget Issues

User Fee Increases – CNE Admission

The increases in the 2007 admission fees to the Canadian National Exhibition (CNE) will yield an additional \$0.304 million in budgeted revenue. Adult admission will increase by 4% or \$0.50 from \$12.00 to \$12.50. Child/senior admission will increase by 6% or \$0.50 from \$8.00 to \$8.50. The cost of family passes will increase by 3% or \$1.00 from \$35.00 to \$36.00. The base budget includes a decrease of 3% or 12,427 in the budgeted volume of adult admissions, from 401,540 to 389,113. The budgeted volume for child/senior admissions increases by 3% or 3,480 from 121,520 to 125,000. The budgeted volume of family passes also increases by 32% or 1,714 from 5,286 to 7,000.

The last time CNE admission fees were increased was in 2005 when adult admission increased by 20% or \$2.00 from \$10.00 to \$12.00 and child and senior admission increased by 14% or \$1.00 from \$7.00 to \$8.00. The family pass had only just been introduced in 2005.

Prior to that, CNE admission fees were increased in 2003. Adult admission increased by 11% or \$1.00 from \$9.00 to \$10.00. Child/senior admission increased by 17% or \$1.00 from \$6.00 to \$7.00. The family pass was not in place at that time.

As Figure 1 below illustrates, the 2007 increases are in line with the previous increases and, as such, are reasonable.

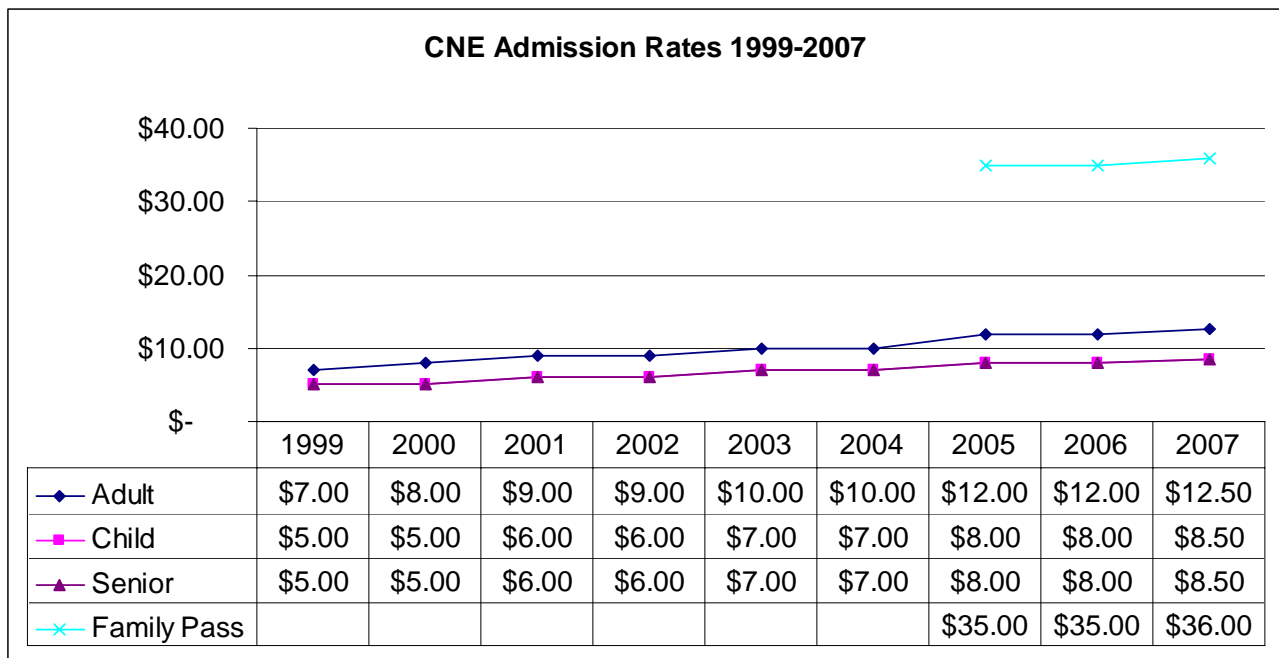


Figure 1 CNE Admission Rates 1999-2007

User Fee Increases – Parking

The increases in the 2007 parking fees at Exhibition Place will yield an additional \$0.283 million in budgeted revenue. The day rate and indoor rate will each increase by 10% or \$1.00 from \$10.00 to \$11.00. The base budget includes a 4% or 25,740 decrease in budgeted volumes for parking, from 632,170 to 606,430.

The last time parking rates were increased was in 2006 when the evening rate was increased by 13% or \$1.00 from \$7.00 to \$8.00. The day and indoor rates remained unchanged at that time.

Prior to that, parking rates had been changed in 2004 when the day rate was increased by 11% or \$1.00 from \$9.00 to \$10.00 and the indoor rate was lowered by 9% or \$1.00 from \$11.00 to \$10.00. The evening rate remained unchanged at that time.

As Figure 2 below illustrates, the 2007 increases restore the day and indoor rates to the 1999-2003 levels for indoor parking at Exhibition Place and, as such, are reasonable.

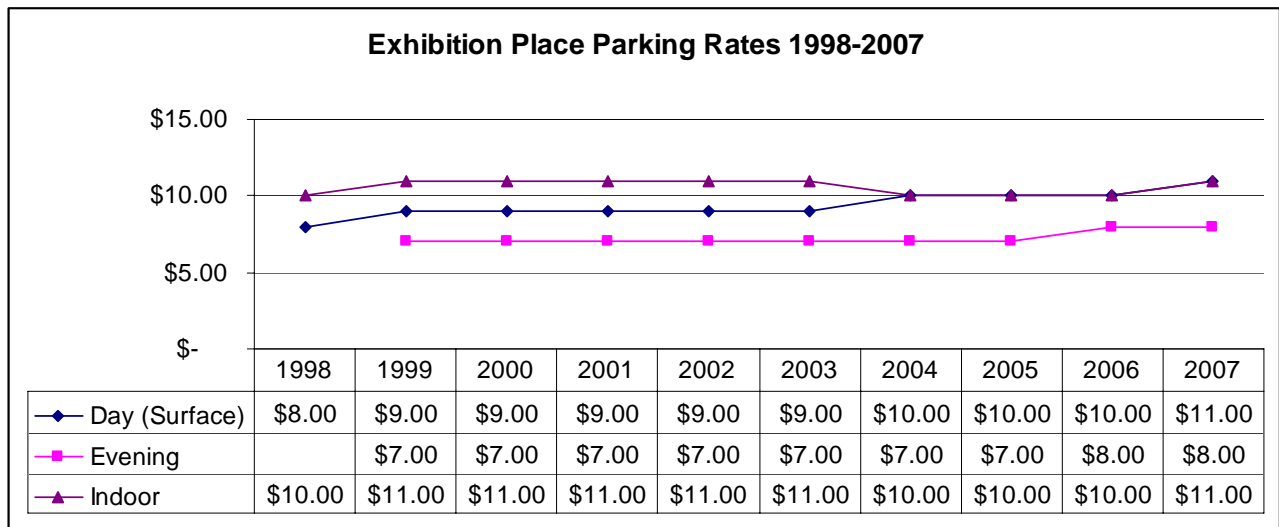


Figure 2 Exhibition Place Parking Rates 1998-2007

Appendix 1

**Summary of Recommended Base Budget Changes
From 2006 Approved Budget**

(In \$000s)	Summary of 2007 Base Budget Adjustments				Net Incremental Outlook	
	Approved Positions	Gross Expenditures	Revenues	Net	2008	2009
		\$	\$	\$	\$	\$
2006 Council Approved Operating Budget	452.0	47,511.9	47,176.7	335.2	0.0	0.0
In-year approvals and technical adjustments						
Corporate adjustments		(281.2)		(281.2)		
2006 Approved Operating Budget	452.0	47,230.6	47,176.7	53.9	0.0	0.0
Prior year impacts						
Zero base items						
Economic factors		1,074.6		1,074.6		
Adjusted Base Budget	452.0	48,305.2	47,176.7	1,128.5	0.0	0.0
Other base changes	52.0	1,794.1	1,922.8	(128.7)		
Base revenue changes						
Recommended Service Level Adjustments:						
Service efficiencies		(360.0)		(360.0)		
Revenue adjustments						
Minor service impact						
Major service impact						
Total Recommended Base Adjustments	52.0	1,434.1	1,922.8	(488.7)	0.0	0.0
2007 Recommended Base Budget	504.0	49,739.3	49,099.5	639.9	0.0	0.0
2007 Program Operating Target	N/A	N/A	N/A	53.9	0.0	0.0
% Over (Under) Program Target				1,086.1%	0.0%	0.0%
% Over (Under) 2006 Appvd. Budget				1,086.1%	0.0%	0.0%

Appendix 2
Summary of Service Level Adjustments

Appendix 3

Summary of 2007 Recommended New / Enhanced Service Priorities

Appendix 4

Inflows / Outflows to / from Reserves & Reserve Funds

Reserve / Reserve Fund Name	Reserve / Reserve Fund Number	Balance as of December 2006	Proposed Withdrawals (-) / Contributions (+)		
			2007	2008	2009
		\$	\$	\$	\$
Sick Bank Reserve	XR1007	67,265.9	(40.0) 53.0		
Insurance Reserve	XR1010	17,456.0	(250.0) 515.0		
Vehicle Reserve - Ex Place	XQ1702	530.0	(350.0) 350.0		
Total Reserve / Reserve Fund Draws / Contributions			278.0	0.0	0.0