

Analyst Briefing Notes

Budget Committee

(March 26, 2007)

2007 OPERATING BUDGET

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2007 OPERATING BUDGET**Executive Summary**

- The 2006 preliminary year-end actual net expenditure of \$3.235 million is \$0.800 million or 33% above the 2006 Approved Operating Budget of \$2.435 million net.
 - Technical Services' preliminary year-end actual gross expenditures are \$53.122 million, which is \$5.341 million or 9.1% below the 2006 Approved Operating Budget of \$58.463 million. The favourable variance is primarily from \$3.261 million in salary savings for vacant positions. Additional factors contributing to the favourable variance include underspending of \$0.175 million for miscellaneous materials; \$0.648 million for computer hardware/software; \$1.129 million in services/rents; and, \$0.087 million in hydro and natural gas.
 - The preliminary year-end actual revenue is \$49.887 million. This represents a decline of approximately \$6.141 million or 11% in revenue compared to the 2006 Approved Operating Budget of \$56.027 million. The decrease primarily results from the under-recovery of \$4.475 million from client programs.
 - Technical Services' preliminary year-end actual approved complement is indicating a vacancy of 39.7 positions, largely due to the competitive labour market and other factors. The 2006 favourable variance in gross expenditures will not be maintained in 2007. A majority of the vacancies are projected to be filled by mid-spring 2007, subject to the availability of suitable candidates.
- Over the next 3 years, funding for the operating plan will advance the strategic direction of Technical Services which includes:
 - Providing professional design; planning; and, project management services in the delivery of the City's capital works program.
 - Establishing a financing mechanism for Development Engineering for full cost recovery of the development review process.
 - Improving overall co-ordination of the City's capital works program to increase completion rates.
 - Improving management oversight of construction contracts including improved internal control and quality assurance.
 - Strengthening emergency management co-ordination across all City Programs.
- The Technical Services' 2007 Recommended Operating Budget includes the following challenges:
 - Meeting the target of \$0 million net given that approximately 90% of the 2007 Recommended Operating Budget is for salaries and benefits.
 - Ensuring that the Program continues to work with the Human Resources Division to develop an aggressive plan to hire the vacant positions in 2007.
- The 2007 Recommended Operating Budget of \$3.106 million net is \$0.671 million or 28% above the \$0 target for 2007.

Table 1: 2007 Recommended Budget

(In \$000s)	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.	58,462.5	53,122.0	62,078.1	418.0	62,496.1	4,033.6	6.9	137.3	0.0
REVENUE	56,027.4	49,886.9	59,320.0	70.0	59,390.0	3,362.6	6.0	0.0	0.0
NET EXP.	2,435.1	3,235.1	2,758.1	348.0	3,106.1	671.0	27.6	137.3	0.0
Approved Positions	619.8	580.1	620.8	2.0	622.8	3.0	0.5		
TARGET			2,435.1		2,435.1				
\$ Over / (Under) Program Target			323.0		671.0				
% Over / (Under) Program Target			13.3%		27.6%				

Source: *Projected Actuals Based on the Preliminary Year-End Actual Expenditures.

- The 2007 Recommended Operating Base Budget is \$62.078 million gross and \$2.758 million net. Recommended Council-approved new service priorities of \$0.418 million gross and \$0.348 million net results in a total increase of \$4.034 million gross and \$0.671 million net from the 2006 Approved Operating Budget.
 - The Outlook for 2008 and 2009 maintains the 2007 recommended levels of service while managing the cost-of-living adjustments (COLA) and merit/step increases. The outlook for 2009 does not include a provision for COLA, as the increase is subject to future negotiations.

- The 2007 Recommended Operating Budget includes the following key costs drivers:
 - Cost-of-living (COLA) and merit/step adjustments for labour in 2007 will result in additional costs of \$3.232 million gross and ensure that existing service levels are maintained, these additional costs will be partially offset by recoveries from client programs.
 - Change in funding source for Toronto's Joint Chemical, Biological, Radiological and Nuclear (CBRN) Response Team from reserve funding to Base funding of \$0.348 million gross and net, as the Emergency Planning Reserve Fund is now depleted.
 - Increase of \$0.311 million gross and net resulting from the change in recovery from rate (Toronto Water) to levy budget. This represents Technical Services' portion of the \$1.500 million repayment to Toronto Water in 2007.
 - Additional \$0.481 million gross and \$0 million net for the Toronto Transit Commission Track Reconstruction Program. The program includes the addition of 5 new temporary positions to the Toronto and East York District Engineering Services for a period of 3 years to support the Toronto Transit Commission's track reconstruction plans.
 - District Engineering Office renovations results in additional costs of \$0.250 million gross and \$0 million net. Office renovations at Metro Hall are required for the reallocation of the Standards Policy and Quality Assurance staff.

- Sole source municipal license subscription for the Bentley Systems Software accounts for \$0.303 million gross and \$0 million net of the increase. Bentley Systems has introduced a new municipal subscription program that will provide the City unlimited access to Bentley's suite of products for a fixed annual fee.
- The 2007 Recommended Operating Budget includes Council-approved new service priorities of \$0.418 million gross and \$0.348 million net to address:
 - New source funding of \$0.348 million net and gross for Toronto's Joint Chemical, Biological, Radiological and Nuclear (CBRN) Response Team. The Response Team was fully funded from the Emergency Planning Reserve Fund during the last 4 years. The reserve fund was depleted at the end of 2006.
 - Two new positions for utility mapping, with \$0.070 million gross and \$0 million net in 2007. This Council-approved new service priority provides funding to maintain City utility records in good order and to build the utility inventory that will improve management of the diminishing subsurface space in the road allowance.
- Technical Services provides support to Transportation Services; Solid Waste Management Services; and, Toronto Water for capital works that directly align with the Mayor's Mandate.
- The 2007 Recommended Operating Budget of \$3.106 million net will provide funding to enable the Program to provide professional design; planning; and, project management services in the delivery of the City's capital works program and strengthen co-ordination of emergency management across all City Programs.

Recommendations

The City Manager and Chief Financial Officer recommend that:

1. the 2007 Recommended Operating Budget for Technical Services of \$62.496 million gross and \$3.106 million net, comprised of the following services, be approved:

<u>Service:</u>	<u>Gross (\$000s)</u>	<u>Net (\$000s)</u>
Facilities & Structures	9,147.8	1,454.7
Survey & Mapping	19,508.0	4,522.6
Development Engineering	5,670.9	3,438.4
District Engineering	19,869.3	3,554.5
Office of Emergency Management	2,096.8	1,866.6
Program Administration	1,060.7	530.4
Finance & Administration	5,142.6	2,960.7
Interdivisional Charges		(15,221.7)
	<hr/>	<hr/>
Total Program Budget	<u>62,496.1</u>	<u>3,106.1</u>

2. any adjustments to the Technical Services' 2007 Recommended Operating Budget made through the political review process be made in Technical Services' clients' operating budgets after Council approval of the 2007 Operating Budget;
3. the implementation of the utility mapping program be subject to Technical Services obtaining Council's approval of the proposed new fee charge for road utility cut inclusive of administration fees by June 2007;
4. City Council confirm funding for Toronto's Joint CBRN Response Team of \$0.348 million gross and net from the municipal property tax base for 2007; and,
5. the Executive Director of Technical Services seek Federal government funding for the Joint CBRN Response Team as part of emergency preparedness and report back to the Public Works and Infrastructure Committee in September of 2007 with a progress report.

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.	49,476.9	58,462.5	53,122.0	(5,340.5)	(9.1)
REVENUES	46,413.6	56,027.4	49,886.9	(6,140.5)	(11.0)
NET EXP.	3,063.3	2,435.1	3,235.1	800.0	32.9
Approved Positions	568.7	619.8	580.1	(39.7)	(6.4)

Source: *Projected Actuals Based on the Preliminary Year-End Actual Expenditures.

2006 Experience

The 2006 preliminary year-end actual gross expenditures of \$53.122 million are under budget by \$5.341 million or 9.1% compared to the 2006 Approved Operating Budget of \$58.463 million. The favourable variance is primarily due to salary savings for vacant positions, which amount to \$3.261 million. Additional factors contributing to the favourable variance include underspending of \$0.175 million for miscellaneous materials; \$0.648 million for computer hardware/software; \$1.129 million in services/rent; and, \$0.087 million in hydro and natural gas.

The preliminary year-end actual revenue of \$49.887 million is \$6.141 million or 11% below the budgeted amount of \$56.027 million. Revenues were under-recovered by \$4.475 million from client programs. External recoveries in development engineering were under-recovered by \$1.150 million and Toronto Transit Commission recoveries for district engineering were under-recovered by \$0.391 million.

The 2006 preliminary year-end actual net expenditures of \$3.235 million is \$0.800 million or 33% above the year-end budgeted amount of \$2.435 million. This unfavourable variance is due to lower than forecasted revenue recoveries from client programs and external sources which were partially off-set by lower gross expenditures, as noted above.

Technical Services' preliminary year-end actual approved complement is indicating a vacancy of 39.7 positions, largely due to the competitive labour market. A majority of the vacancies are projected to be filled by mid-spring 2007, subject to the availability of suitable candidates.

Impact of 2006 Operating Variance on 2007 Recommended Budget

Technical Services' favourable variance in 2006 gross expenditures of \$5.341 million or 9.1% will not be maintained in 2007. A large proportion of the favourable variance, as noted above, was attributed to higher than planned salary gapping of 11.50% or \$5.490 million for vacant positions. The 2007 Recommended Operating Budget has included a gapping rate of 4% or \$2.252 million. In 2007, plans are to develop a recruitment strategy that will accelerate the hiring process and allow Technical Services to maintain service levels.

Section B: 2007 Operating Budget Overview**3-Year Operating Budget Overview**

Technical Services operates as a central-service provider of technical support to Cluster “B” Programs, which primarily include: Toronto Water; Solid Waste Management Services; and, Transportation Services. In addition, the Program provides support to other City Divisions and a limited number of outside organizations. The core business of the Program provides engineering; surveying; and, inspection services to its client base.

The Program is structured according to the 6 services provided, as outlined below. The costs associated with providing the services are recovered at the program level. Recoveries consist of interdivisional charges, as well as service charges to outside organizations.

- Survey and Mapping: Provides relevant; timely; and, cost-effective professional surveying and mapping products and support. Mapping products; street naming; and, municipal numbering services are available to the public on a cost recovery basis.
- Development Engineering: Delivers engineering expertise for the planning; servicing; and, construction of new developments across the City.
- Toronto Office of Emergency Management: Coordinates emergency and disaster activities as part of the City's Emergency Management Program. The Office is responsible for developing programs and plans to prevent disasters and reducing the vulnerability of residents to any disaster that cannot be prevented.
- Facilities and Structures: Provides engineering design and construction management.
- Finance and Administration: Provides payroll; purchasing; and, payment support functions.
- District Engineering Services: Provides design for local infrastructure, such as roads; sewers; and, watermains.

Over the next 3 years, funding for the operating plan will advance the strategic direction of Technical Services which includes:

- Providing professional design; planning; and, project management services in the delivery of the City's capital works program.
- Establishment of a financing mechanism for Development Engineering to ensure full cost recovery of the development review process.
- Improving overall co-ordination of the City's capital works program to increase completion rates of client programs.
- Improving management oversight of construction contracts including improved internal control and quality assurance.
- Strengthening emergency management co-ordination across all City Programs.

The 2008 and 2009 Outlook provides funding which will advance the strategic initiatives outlined above at the 2006 service levels. The forecasted increase in gross expenditures for 2008 and 2009 is estimated at 2% compared to 2007.

Service Delivery - Challenges and Issues

Technical Services' is reporting a preliminary year-end actual approved complement that reflects a vacancy level of 39.7 positions. These vacancies are in District Engineering; Works Facilities and Structures; and, Survey and Mapping. A majority of the vacancies are projected to be filled by mid-spring 2007, subject to the availability of suitable candidates. Technical Services reported that the external recruitment of qualified technical/engineering staff has been difficult as a result of overall market demand and other factors. The increased gapping and the deferred hiring of new staff may impact capital works program completion rates and streamlining the application review process.

Mayor's Mandate

Technical Services provides support to Transportation Services; Solid Waste Management Services; and, Toronto Water for capital works that directly align with the Mayor's Mandate.

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.	58,462.5	62,078.1	3,615.6	6.2	137.3	0.0
REVENUE	56,027.4	59,320.0	3,292.6	5.9	0.0	0.0
NET EXP.	2,435.1	2,758.1	323.0	13.3	137.3	0.0
Approved Positions	619.8	620.8	1.0	0.2	0.0	0.0
NET TARGET		2,435.1			0.0	0.0
\$ Over / (Under) Program Target		323.0			137.3	0.0
% Over / (Under) Program Target		13.3%			5.6%	0.0%

2007 Recommended Base Budget

The 2007 Recommended Base Budget of \$2.758 million net represents an increase of 13.3% or \$0.323 million over Technical Services' 2006 Approved Base Budget.

- The additional \$2.758 million gross expenditures recommended for the Program's Base Budget is needed to fund annualized costs for 2006; merit and step increases; union settlements; wage increases for exempt staff; non-salary inflationary increases; and, other base budget adjustments. The increase in expenditures is partially offset by an increase in the corresponding recoveries from clients' operating and capital budgets.
- The 2007 Recommended Operating Budget funding will, at a minimum, maintain 2006 service levels. It is anticipated that the plan to hire the 39.7 vacant positions may result in increased capital completion rates for client programs.

2007 Key Cost Drivers

The 2007 Recommended Operating Budget includes the following key costs drivers:

- Cost-of-living (COLA) and merit/step adjustments for labour in 2007 will result in additional costs of \$3.232 million gross and ensure that existing service levels are maintained, these additional costs will be partially offset by recoveries.
- Change in funding source for Toronto's Joint Chemical, Biological, Radiological and Nuclear (CBRN) Response Team from reserve funding to Base funding of \$0.348 million gross and net, as the Emergency Planning Reserve Fund is now depleted.

- Change in recovery from rate (Toronto Water) to levy budget, representing an increase of \$0.311 million gross and net. This represents Technical Services' portion of the \$1.500 million repayment to Toronto Water in 2007.
- Additional \$0.481 million gross and \$0 million net for the Toronto Transit Commission Track Reconstruction Program. The program includes the addition of 5 new temporary positions to the Toronto and East York District Engineering Services for a period of 3 years to support the Toronto Transit Commission's track reconstruction plans.
- District Engineering Office renovations results in additional costs of \$0.250 million gross and \$0 million net. Office renovations at Metro Hall are required for the reallocation of Standards Policy and Quality Assurance staff.
- Sole source municipal license subscription for the Bentley Systems Software accounts for \$0.303 million gross and \$0 million net of the increase. Bentley Systems has introduced a new municipal subscription program that will provide the City unlimited access to Bentley's suite of products for a fixed annual fee.

2008 and 2009 Outlook: Net Incremental Impact

The 2008 and 2009 Outlook maintains the 2007 level of service while managing the cost of living allowance (COLA) and merit/step increments for union and non-union staff. The 2008 net incremental Outlook is \$0.137 million. The outlook for 2009 does not include a provision for COLA, as the increase is subject to future negotiations.

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 Service Priorities - Program Initiated						
Sub-Total Enhanced Services		0.0	0.0	0.0	0.0	0.0
(a) New Service Priorities - Council Approved						
1 Joint CBRN Response Team		348.0	348.0	0.0	0.0	0.0
2 Utility Mapping Staff		70.0	0.0	2.0	0.0	0.0
(b) New Service Priorities - Program Initiated						
Sub-Total New Service Priorities		418.0	348.0	2.0	0.0	0.0
Total Recommended New / Enhanced Service Priorities		418.0	348.0	2.0	0.0	0.0

2007 Recommended Service Profiles**New Service Priorities - Council Approved:**

The Technical Services' 2007 Recommended Operating Budget includes 2 new service priorities approved by Council, as outlined below.

Utility Mapping Staff

In May 2004, Council approved the long-term initiative to improve the management of the subsurface space in the road allowance. Staff has created utility standards that are now being used by City divisions and utility companies and contractors. This Council approved new service priority provides funding for 2 staff to maintain City utility records in good order and to build the utility inventory that will improve management of the diminishing subsurface space in the road allowance.

This new service priority includes the increase of 2 positions to the permanent complement at a cost of \$0.070 million gross and \$0 million net for 6 months, effective July 1, 2007. The annualized cost in 2008 will be \$0.070 million gross and \$0 million net.

The cost will be fully recovered from utility companies by implementing new service charges and administrative fees. Final implementation of the utility mapping staff is subject to Council approval of the proposed new service charges which will provide for full recovery of the program.

Toronto's Joint Chemical, Biological, Radiological and Nuclear (CBRN) Response Team

This new service priority includes funding to continue development and implementation of Toronto's Joint Chemical, Biological, Radiological and Nuclear (CBRN) Response Team. The creation of a Joint CBRN Team was approved by Council following 9/11 and is comprised of specialists from Toronto Police; Toronto Emergency Management Services; and, Toronto Fire. The team members require specialized equipment and training to continue a well-established path of preparedness and response for public safety.

Over the last 4 years, funding was provided for the Joint CBRN Response Team through the Emergency Management Planning Reserve. The Joint CBRN Response Team was included in the Technical Services' 2006 Base Budget at \$0.643 million gross and \$0 million net. The Emergency Management Planning Reserve was depleted by the end of 2006. The costs for this service will be fully funded from the municipal property tax base, creating a net pressure of \$0.348 million gross and net.

Issues for Discussion

Utility Mapping Staff

The Technical Services' 2007 Recommended Operating Budget includes \$0.070 million gross \$0 million net for the Council approved new service priority for utility mapping. This priority requires funding for 2 staff to maintain City utility records in good order and to build the utility inventory to manage the diminishing subsurface space in the road allowance.

Given that third party funding is the intended mechanism to support this Council approved new priority and that any funding shortfalls will result in an added pressure to the Technical Services' 2007 Recommended Operating Budget, it is therefore recommended that the implementation of the utility mapping program be subject to Technical Services obtaining Council's approval of the proposed new fee charge for road utility cut inclusive of administration fees by June 2007.

2006 Unfilled Vacancies

Technical Services' preliminary year-end actual approved complement indicates the Program has 39.7 vacancies. That results in an achieved gapping rate of 11.50% as compared to the budgeted gapping rate of 4%. These vacancies are in District Engineering; Works Facilities and Structures; and, Survey and Mapping. Increased gapping and the deferred hiring of new staff may negatively impact the capital works program and streamlining the application review process time, as outlined below.

Capital Works Program:

Approximately 21 of the vacant positions are directly related to the delivery of the capital works program. The vacancies are primarily for designers; inspectors; project engineers; and, senior engineers that provide the skills to deliver an effective capital works program. With the capital works program projected to increase by approximately 28% or \$191.140 million over the next 5-years, filling vacant positions is of critical importance. Maintaining the current vacancy rate may result in the following:

- Impairing the ability to maintain capital works program completion rate of 72%.
- Reduction in the level of contract supervision; inspections; and, quality control.
- Reduction in the level of project management oversight and co-ordination of the capital works program.

Streamlining the Application Review Process (STAR):

Streamlining the application review process (STAR) timeframes established by Council set a standard of 95% for staff to complete the review process and comment on developers' applications within an average of 30 days. In 2006, Technical Services met the standard 57% of the time, compared to 65% in 2005. The decline in response time has been linked to a lack of staff, as noted above. In addition to reviewing and providing comment on developers' applications, existing staff are also responsible for case management of the development throughout engineering design; plan approval; construction; and, compliance checks.

In 2007, plans are to develop a recruitment strategy that will accelerate the hiring process and allow Technical Services to maintain service levels.

Toronto's Joint Chemical, Biological, Radiological and Nuclear (CBRN) Response Team

Over the last 4 years, funding was provided for the Joint CBRN Response Team through the Emergency Management Planning Reserve. The Joint CBRN Response Team was included in the Technical Services' 2006 Base Budget at \$0.643 million gross and \$0 million net. The Emergency Management Planning Reserve was depleted by the end of 2006. The costs for this service will be fully funded from the municipal property tax base, creating a net pressure of \$0.348 million gross and net.

Given that the Joint CBRN Response Team will no longer be funded from the Emergency Management Planning Reserve, it is therefore recommended that City Council confirm funding for Toronto's Joint CBRN Response Team of \$0.348 million gross and net from the municipal property tax base for 2007.

The Federal government has funded, in the past, a major portion of emergency preparedness through the Joint Emergency Preparedness Program (JEPP) Grants. Given that the Emergency Management Planning Reserve was depleted by the end of 2006, it is therefore recommended that the Executive Director of Technical Services seek Federal government funding for the Joint CBRN Response Team as part of emergency preparedness and report back to the Public Works and Infrastructure Committee in September of 2007 with a progress report.

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	639.2	61,162.2	55,470.6	5,691.6	0.0	0.0
In-year approvals and technical adjustments	(0.8)	(149.5)	576.8	(726.3)		
Transfer - Toronto Environment Office to PPF&A	(18.6)	(2,550.2)	(20.0)	(2,530.2)		
2006 Approved Operating Budget	619.8	58,462.5	56,027.4	2,435.1	0.0	0.0
Prior year impacts		16.7	16.7	0.0		
Zero base items		(17.9)		(17.9)		
Economic factors	(4.0)	3,127.4	2,636.4	491.0	137.3	
Adjusted Base Budget	615.8	61,588.7	58,680.5	2,908.2	137.3	0.0
Other base changes	5.0	545.3	545.3	0.0		
Base revenue changes			94.2	(94.2)		
Recommended Service Level Adjustments:						
Service efficiencies		(55.9)		(55.9)		
Revenue adjustments						
Minor service impact						
Major service impact						
Total Recommended Base Adjustments	5.0	489.4	639.5	(150.1)	0.0	0.0
2007 Recommended Base Budget	620.8	62,078.1	59,320.0	2,758.1	137.3	0.0
2007 Program Operating Target	N/A	N/A	N/A	2,435.1	NA	NA
% Over (Under) Program Target				13.3%	5.6%	0.0%
% Over (Under) 2006 Appvd. Budget				13.3%	5.6%	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 \$
Vehicle Reserve - Technical Services	XQ1016	347.7	258.0		
Insurance Reserve Fund	XR1010	29,193.6	576.9		
Total Reserve / Reserve Fund Draws / Contributions		29,541.3	834.9	0.0	0.0