

Analyst Briefing Notes

Budget Committee

(January 28, 2008)

2008 OPERATING BUDGET

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January 25, 2008

2008 OPERATING BUDGET**Executive Summary**

- The 2007 projected year-end net expenditure of \$28.950 million is \$3.004 million below the 2007 Approved Budget. This favourable variance is mainly attributable to realized savings in salaries and benefits resulting from cost containment measures and extraordinary gapping.
 - \$0.662 million in 2007 cost containment measures will continue in 2008.
- The 3-Year Operating Budget provides funding for the delivery of effective financial services to Divisions, Agencies, Boards and Commissions through the provisions of timely pension, payroll and benefit services; procurement and materials management services; accounting, banking and accounts payable services; and billing, collection and payment processing services related to property taxation, water and sewage services and parking.
- Major corporate projects are placing a strain on the Program's ability to meet current service levels in the future with existing staffing and technical resources. However, major initiatives continuing in 2008 will be completed during the 2009 and 2010 period as the Program will continue to perform the assigned tasks in an efficient and effective manner with the available funding. The Program faces many challenges to achieve its service mandate:
 - Maintaining skilled staffing resources to meet increased service demands. There is difficulty in finding staff or external consultants with the required skill set to complete the various components of capital initiatives.
 - Implementing and maintaining Council-approved changes to tax existing policies to enhance Toronto's business competitiveness.
 - Planning, implementing and maintaining new revenue programs approved by Council including municipal land transfer tax, personal vehicle registration tax, solid waste billing.
 - Implementing and maintaining Council-approved changes to the water rate structure, including a new water rebate program for low-income seniors and disabled persons.
 - Incorporating new processes and water billing system changes necessary to enable the Automated Meter Reading project.
 - Assisting with the upgrade and improvement to the City's financial information and planning system.
- The 2008 Recommended Operating Budget of \$31.195 million net is \$0.759 million or 2.4% under the 2007 Approved Budget of \$31.954 million net. The Office of the Treasurer conducted a thorough review of the expenditures and revenues and identified achievable options resulting in no major impact on service levels.

Table 1: 2008 Recommended Budget

(In \$000s)	2007		2008 Recommended Operating Budget			Change - 2008 Recommended from 2007 Approved Budget		FY Incremental Outlook	
	2007 Appvd. Budget	2007 Projected Actual	2008 Base	2008 New /Enhanced	2008 Operating Budget			2009	2010
	\$	\$	\$	\$	\$			\$	\$
GROSS EXP.	63,347.2	59,873.0	65,425.4	4,497.8	69,923.2	6,576.0	10.4	1,076.3	1,073.2
REVENUE	31,393.2	30,923.0	34,230.4	4,497.8	38,728.2	7,335.0	23.4	246.5	251.3
NET EXP.	31,954.0	28,950.0	31,195.0	0.0	31,195.0	(759.0)	(2.4)	829.8	821.9
Approved Positions	745.0	745.0	744.0	38.0	782.0	37.0	5.0	0.0	0.0
TARGET			31,954.0	31,954.0					
\$ Over / (Under) Program Target			(759.0)	(759.0)					
% Over / (Under) Program Target			-2.4%	-2.4%					

- The 2008 Recommended Operating Budget of \$65.425 million gross and \$31.195 million net is comprised of base funding of \$31.195 million and funding of \$4.498 million gross and \$0.00 million net for New/Enhanced Service Priorities which includes 38 new positions.
 - The 2009 Outlook net increase of \$0.830 million includes merit and step increases and one less working day in 2009 as well as operating impacts of capital. The 2010 Outlook net increase of \$0.822 million includes merit and step increases and operating impacts of capital.
- The 2008 Recommended Operating Budget is \$0.759 million or 2.4% under the 2008 target and incorporates funding for key cost drivers including COLA, merit and step increases, an additional working day in 2008 as well as other non-discretionary expenditures that total \$2.523 million. These are partially offset by service efficiencies of \$0.198 million, fee revenue increases of \$2.607 million, service reductions of \$0.182 million and additional gapping of \$0.066 million.
- The 2008 Recommended Budget includes funding for New/Enhanced Service Priorities of \$4.498 million gross and \$0 million net, with no net incremental impact on future years to support key strategic directions:
 - An increase of 3 full time procurement positions to support Solid Waste Management's 70% Diversion Program. Funding of \$0.221 million is included in the Solid Waste 2008 Approved Budget;
 - \$0.210 million gross with \$0 million net to undertake the Accounting Services Program Review as approved by Council on June 27, 28 and 29, 2006;
 - Funding in the amount of \$2.626 million gross and \$0 net is required to administer the new Council initiated Municipal Land Transfer Tax measures. New programs and systems to administer this initiative will require 12 new staffing positions. Revenues generated from this initiative will fund this additional cost;

- Additional 8 full time and 11 part time staff positions to design, develop and sustain the Solid Waste Billing System to issue bills for solid waste collection as approved by City Council on June 19, 20 and 22, 2007. Funding of \$1.110 million is fully recoverable from Solid Waste; and
- 4 temporary staff to implement the Document Management Imaging Pilot project at a cost of \$0.331 million which is fully recovered from capital.
- To promote the objectives of the Program, the 2008 Recommended Operating Budget incorporates various new/enhanced services. A number of these initiatives align with Council's priorities:
 - To implement Council approved changes to the Municipal Land Transfer Tax policies for 2008 and beyond.
 - Implement new taxation measures.
 - To implement the new Council directive to bill solid waste collection fees, and to integrate the current water billing process with solid waste in a single utility bill.
 - City Council Program Review Framework of City Programs to be undertaken by Accounting Services.
 - New CICA-Public Sector Reporting Requirement to account for and record tangible capital assets in the City's annual Financial Statements.
- The Office of the Treasurer will continue to provide accurate and timely transaction processing and quality Financial Reporting and Control services and ensure compliance with the accounting regulatory bodies, Federal and Provincial legislation and Council priorities. It will provide efficient materials and warehousing services; produce timely and accurate Payroll and cost effective employee pension and benefits; property tax and water billing and collection and parking tag collection.

Recommendations

The City Manager and Chief Financial Officer recommend that:

1. the 2008 Recommended Operating Budget for the Office of the Treasurer of \$69.923 million gross and \$31.195 million net, comprised of the following services, be approved:

<u>Service:</u>	Gross <u>(\$000s)</u>	Net <u>(\$000s)</u>
Pension, Payroll and Employee Benefits	12,266.9	10,494.5
Purchasing & Materials Management	9,204.8	6,850.0
Accounting Services	12,396.6	8,837.3
Revenue Services	36,054.9	5,013.2
	<hr/>	<hr/>
Total Program Budget	<u>69,923.2</u>	<u>31,195.0</u>

Section A: 2007 Budget Variance Analysis

Table 2: 2007 Budget Variance Review

	2006 Actuals	2007 Approved Budget	2007 Projected Actuals*	2007 Appvd. Budget vs Projected Actuals Variance	
(In \$000s)	\$	\$	\$	\$	%
GROSS EXP.	64,822.9	63,347.2	59,873.0	(3,474.2)	(5.5)
REVENUES	34,410.4	31,393.2	30,923.0	(470.2)	(1.5)
NET EXP.	30,412.5	31,954.0	28,950.0	(3,004.0)	(9.4)
Approved Positions	689.0	745.0	745.0	0.0	0.0

*Projected Actual based on September 30, 2007 Variance Report

2007 Experience

The Office of the Treasurer's 3rd quarter projection to year-end indicates actual expenditures of \$28.950 million net. This represents a favourable variance of \$3.004 million or 9.4% of the Program's 2007 Approved Operating Budget of \$31.954 million net.

Factors contributing to this under-spending include:

- Cost containment savings of \$2.525 million resulting from hiring freeze, discretionary expenditure savings and minor service level adjustments.
- Additional savings of \$0.479 million in net expenditures resulted from extraordinary gapping that occurred in the first half of 2007.

2007 Cost Containment Savings

As reported in the 3rd Quarter Variance Report (see table below), the Office of the Treasurer has achieved cost containment savings of \$2.525 million in 2007 and will have ongoing savings of \$0.662 million in 2008, as some measures are recommended to continue into 2008.

Net Cost Containment Savings	2007 (\$000s) Savings	2008 (\$000s) Continued Savings	Comments
Hiring Freeze Savings:			
Financial reporting to Committee and Council delayed, delay in collection of Accounts Receivable resulting in reduced cash flows and longer wait times at tax and water counters and call centres.	2,094.5	204.3	Recommended as reduction options
Sub-total	2,094.5	204.3	
Service Level Adjustments:			
Reduce Overtime	113.4	161.2	Recommended as reduction options
Increase vendor discounts	100.0	117.0	Full Year
Sub-total	213.4	278.2	
Discretionary Savings:			
Defer/cancel business travel, conferences, advertising and print materials, and some equipment and supplies	216.7	179.4	Recommended as reduction options
Sub-total	216.7	179.4	
TOTAL COST CONTAINMENT	2,524.6	661.9	

Impact of 2007 Operating Variance on 2008 Recommended Budget

The significant savings realized in 2007 as a result of the hiring freeze (\$2.095 million) are not expected to continue in 2008. The hiring freeze is not sustainable at the 2007 level and as such the 2008 Operating Budget includes only a portion of these savings as recommended reduction options. During the hiring freeze in 2007, critical work had been spread out amongst existing staff or deferred.

Cost containment measures implemented in 2007 will continue to result in savings of \$0.662 million in 2008:

- Reclassification and deletion of one vacant staff position, reduction in summer and casual staff and increased gapping for a total of \$0.204 million.
- Reduce overtime by \$0.091 million and rationalization of services hours at Revenue Services Parking Tag Counters for savings of \$0.070 million.
- Align the budgeted revenue with actual experience for early vendor payment discounts for additional savings of \$0.117 million net.
- Efficiency savings of \$0.079 million (gross and net) in non-salary areas.
- Purchasing and Materials Management has reduced printing by \$0.100 million.

Section B: 2008 Operating Budget Overview**3-Year Operating Budget Overview**

- In keeping with its service mandate, the Office of the Treasurer's 3-Year Operating Budget focuses on the following service objectives:
 - Strengthening internal controls, continuous improvements in transaction processing services.
 - Providing quality, timely and accurate Financial Information that adds value and ensures compliance with Generally Accepted Accounting Principles (GAAP), the Public Service Accounting Body (PSAB), Federal and Provincial legislation and Council policies.
 - Improving materials and management and warehousing services in support of public Programs by reducing stock-outs and maintaining low cost of goods and services purchased.
 - Maintaining comprehensive, cost effective employee benefits and pension services to employees, management and retirees in an accurate and timely manner.
 - Improving the processing and collection of parking tickets.
 - Issuing, processing, collecting and maintaining tax and water accounts on a timely and accurate basis.
 - Maintaining the high percentage of property tax accounts paid in full by year-end.
 - Implementing and maintaining cost-effective billing and collection programs for new Council approved revenue programs, including municipal land transfer tax, personal vehicle registration tax, solid waste collection user fees.
- The 2008 Recommended Operating Budget of \$69,923 gross and \$31.195 million is \$0.759 million (2.4%) under the Program's net target of \$31.954 million which incorporates certain base expenditure increases and attempts to minimize their effects by recommending feasible reduction options to ensure service levels can be maintained to deliver service objectives as detailed on page 11.
 - For 2008, salary and wage impacts alone account for an incremental net pressure of \$2.196 million net. This includes a cost of living adjustment of \$1.293 million and merit/step increases of \$0.903 million.
 - To help mitigate the impact of its rising base costs, the 2008 Recommended Operating Budget for the Office of the Treasurer includes a number of efficiency proposals as well as service and revenue adjustments. These recommended changes produce net savings of \$3.052 million.
- The Office of the Treasurer's 2008 Recommended Operating Budget includes additional gross funding to increase the staffing complement by 37 net positions to deliver key strategic priorities. 38 of these positions pertain to the new and enhanced services recommended in 2008 with 1 base position reduction.

Challenges and Issues

The Office of the Treasurer has identified emerging challenges and opportunities over the 3-year period. Each Division within the Treasurer's Office supports the service objectives of all Divisions across the City.

- The main challenge for 2008 and beyond will be obtaining and retaining sufficient capacity (skill set and time) to staff special projects. There is difficulty in finding staff or external consultants with the required skill set to complete the various components of major corporate projects. Examples of these projects are described below:
 - The new CICA –Public Sector Reporting Requirements to account for and record Tangible Capital Assets in the City's Annual Financial statements.
 - The Administration of Municipal Land Transfer Tax and Personal Vehicle Registration Tax requiring new programs and systems for the collection and administration of the tax.
 - Implementation of the new Council directive to bill Solid Waste collection fees, and to integrate the current water billing process with Solid Waste in a single utility bill, beginning July 1, 2008.
 - Introduction of a Graduated Tax Rate for commercial properties; reduction in tax rates (municipal and education) for newly-constructed commercial and industrial building and the Heritage rebate program.
 - Continuing with ongoing, major upgrade to the City's SAP financial system will continue to place significant stress in assigning staff to project teams for system design and implementation, user training, help desk support and technical production.
 - The Automated Meter Reading Fixed Area Network project in partnership with Toronto Water to improve efficiency of water meter reading and reduce the number of billings based on estimated readings.
 - Increased service demands to support divisions using the costing model to develop user fee policy recommendations, recording and tracking of Section 37 and 45 money received and spent on capital programs, additional federal and provincial reporting requirements such as MPMP measures to be included in the annual Financial Information Return and reports related to gas tax and transit funding.
 - Implementation of new technology in the Call Centre Operations in Revenue Services that will allow for improved response times and reduced average wait-times which are well above acceptable service standards.
 - Implementation of upgrades to existing Revenue systems (including the Parking Tag Management System, the Tax Management and Accounting System, and the Water/Solid Waste Management and Accounting System) to new web-based technology and incorporating new provisions to meet new and emerging requirements.
 - Implementation of a new property assessment system announced by the Province in 2006 allowing for a four year phase-in of assessment increases beginning in 2009.

Strategic Priorities

The Office of the Treasurer provides a broad range of internal financial services to the corporation of the City of Toronto and supports the strategic priorities of Council. Selected examples include the implementation of the new Municipal Land Transfer Tax; consolidated billing of solid waste collection and water bills and compliance with CICA and PSAB requirements and the implementation of new taxation measures as directed.

Section C: 2008 Recommended Base Budget

Table 3: 2008 Recommended Base Budget

(In \$000s)	2007 Appvd. Budget	2008 Recommended Base	Change 2008 Recommended Base v. 2007 Appvd. Budget		FY Incremental Outlook	
					2009	2010
	\$	\$	\$	%	\$	\$
GROSS EXP.	63,347.2	65,425.4	2,078.2	3.3	1,076.3	1,073.2
REVENUE	31,393.2	34,230.4	2,837.2	9.0	246.5	251.3
NET EXP.	31,954.0	31,195.0	(759.0)	(2.4)	829.8	821.9
Approved Positions	745.0	744.0	(1.0)	(0.1)	0.0	0.0
NET TARGET		31,954.0				
\$ Over / (Under) Program Target		(759.0)				
% Over / (Under) Program Target		-2.4%				

2008 Recommended Base Budget

The 2008 Recommended Base Budget of \$31.195 million net represents a \$0.759 million (2.4%) decrease from the Office of the Treasurer's 2007 Approved Base Budget while maintaining 2007 service levels.

- Cost-of-living adjustments (COLA) that average 2.44% for 2008 are non-discretionary outlays that accounts for \$1.293 million of the recommended gross expenditure increase of \$2.078 million is needed to fund merit and step increases, union settlements and wage increases for staff, non-salary economic factors, as well as other base changes.
- The additional \$0.785 million expenditures recommended for the Program's Base Budget is needed to fund annualizations, merit and step increases and wage increases for staff, as well as other base changes.
- Revenue increases of \$2.490 million are primarily for new user fees and fee increases for the administration of Property Tax and Water Accounts that were approved by Council on October 22 and 23, 2007, intended to fully recover the costs of providing these services.
- The \$0.347 million additional increase in revenues recommended in the 2008 Base Budget includes \$0.230 million for increased inter-program recoveries of inflationary costs for services provided and \$0.117 million for increased revenues from early vendor payment discount.

- The 2008 Recommended Base Budget results in 744 approved positions which is a reduction of 1 from the staff complement of 745 in 2007.

2008 Key Cost Drivers and Reduction Strategies

- The additional \$2.078 million in expenditures recommended for the Program's Base Budget is needed to fund annualized costs of 2007 approved new services, merit and step increases, union settlements and wage increases for staff, non-salary economic factors, as well as other base changes.
- To alleviate some of the expenditure impact, the 2008 Recommended Base Budget includes the following incremental revenues totaling \$2.607 million effective January 1, 2008:
 - Effective January 1, 2008 the user fee to produce a Statement of Tax Account will be increased by \$11 from the current \$5.00 to \$16.00 for overdue statements issued in March, May, July and September for tax accounts with an outstanding balance of \$100 or more. This will result in incremental revenue of \$1.848 million;
 - Effective January 1, 2008 a new administrative user fee of \$56 will be charged for all Notices of Issuance to Bailiff that are produced and mailed to the property owners. This will result in increased revenue of \$0.243 million;
 - Effective January 1, 2008 a new user fee of \$21 will be charged when the City issues Final Notices for overdue property tax accounts (prior to issuance to Bailiff) that are produced and mailed to the property owners resulting in increased revenues of \$0.279 million;
 - Effective January 1, 2008 a new user fee of \$60 will be charged for all new Water/Utility accounts created, generating additional revenues of \$0.120 million; and
 - Increased revenues of \$0.117 million from early vendor payment discounts.
- In addition to the incremental revenues, various efficiency measures have been undertaken generating savings of \$0.379 million:
 - Reclassification of staff positions, reducing overtime, summer and casual students and elimination of extended hours at Parking Tag counters (\$0.300 million).
 - Reduction in discretionary non-salary expenditures (\$0.079 million).

2009 and 2010 Outlook: Net Incremental Impact

Although some of the efficiencies and revenue adjustments recommended for 2008 are expected to produce additional savings of \$2.607 million for 2009, the initial outlook for 2009 will result in a pressure of \$0.830 million net for salaries and benefits, operating impacts of capital and reversal of one additional day's pay.

The outlook for 2010 does not include a provision for COLA, as the increase is subject to future negotiations, but includes operating budget pressures of \$0.832 million net for merit/step increases and operating impacts on capital.

Section D: 2008 Recommended Service Priorities

Table 4: Summary of 2008 New / Enhanced Service Priorities (In \$000s)

Priority	Description	2008 Recommended		Rec. New Positions	Net Incremental Impact	
		Gross Exp.	Net Exp.		2009	2010
		\$	\$		#	\$
(a) Enhanced Service Priorities - Council Approved: 1 Accounting Services Program Review		210.0	0.0			
(b) Enhanced Service Priorities - Program Initiated: 1 Dedicated PMMD staff for Solid Waste		221.4	0.0	3.0		
Sub-Total Enhanced Service Priorities		431.4	0.0	3.0	0.0	0.0
(a) New Service Priorities - Council Approved: 1 Solid Waste Billing System 2008		1,109.5	0.0	19.0		
1 Administration of Municipal Land Transfer Tax		2,626.2	0.0	12.0		
(b) New Service Priorities - Program Initiated: 1 Transitional requirements under the Document Management Pilot Project		330.7	0.0	4.0		
Sub-Total New Service Priorities		4,066.4	0.0	35.0	0.0	0.0
Total Recommended New / Enhanced Service Priorities		4,497.8	0.0	38.0	0.0	0.0

2008 Recommended Enhanced Service –Council Approved

Accounting Services Program Review

On June 27, 28, 29, 2006, City Council approved the Program Review Framework which recommended that all City programs be reviewed over time to assess their relevance to community needs and how well they achieve their intended results, according to established criteria. Council then established the Innovation Reserve fund for the incremental costs of acquiring external resources and backfilling key staff positions required to undertake this program review. Funding of

\$0.210 million gross and \$0 net (funding from the Innovation Reserve Fund) is recommended for this review to be undertaken during 2008 in Accounting Services.

2008 Recommended Enhanced Service –Program Initiated

Dedicated Purchasing and Materials Management Department staff for Solid Waste

To meet operational needs, Solid Waste Management has identified a requirement for 3 dedicated full time Purchasing staff to support the 70% Diversion Program. Funding of \$0.221 million will be recovered from Solid Waste Services' revenue. The staff will be purchasing capital and operating goods/services and participating in any rush or urgent health and safety requirements, vehicle purchases and other divisional purchasing matters.

2008 Recommended New Service –Council Approved

Solid Waste Billing System 2008

Funding in the amount of \$1.110 million gross and \$0 net for 19 positions is recommended to design, develop and sustain operation of a combined Solid Waste and Water utility billing system. This project fulfills the Council initiative approved in June 2007 to move Solid Waste Management Services off the tax base and on to user rates thereby requiring the issuance of bills for solid waste collection. This billing system will integrate the solid waste billing system with the current water billing system to permit a utility bill to be produced. The system will support the production, mailing and collection of approximately 500,000 combined water/solid waste utility bills on the same frequency as the current water bill mailings.

Costs for system development, maintenance and supporting operations will be recovered annually from Solid Waste Services revenue.

Administration of Municipal Land Transfer Tax

City Council approved the implementation of the new City of Toronto – Land Transfer Tax which requires new programs and systems for collection and administration of the tax. It is anticipated that 11 full time and 1 part-time staff will be required.

Administration includes processing of revenues and adjustments, increased activities in the Call Centre, IT systems design and development and creation of SAP interfaces requires funding of \$2.626 million gross which will be recovered from revenues generated from the new tax.

2008 Recommended New Service –Program Initiated

Transitional requirements under the Document Management Project

To successfully implement the capital Corporate Document Management Imaging Project in Accounts Payable, 4 additional indexing staff at a cost of \$0.331 million are required. Funding for this initiative will be recovered from the capital budget for this project.

The 4 temporary staff are required during the 12 month transitional period to support 2 payable processes (2 way and 3 way). As efficiencies are realized upon implementation of the project, staff resources will be reallocated accordingly to further enhance the payable process.

Section E: Issues for Discussion

2008 Operating Budget Issues

There are no issues for this Program.

Appendix 1

**Table 4: Summary of Recommended Base Budget Changes
from 2007 Approved Budget**

(In \$000s)	Summary of 2008 Base Budget Adjustments				Net Incremental Outlook	
	Approved Positions	Gross Expenditures	Revenues	Net	2009	2010
		\$	\$	\$	\$	\$
2007 Council Approved Operating Budget	745.0	66,694.5	34,735.5	31,959.0	0.0	0.0
In-year approvals and technical adjustments		(3,342.3)	(3,342.3)	0.0		
Corporate adjustments		(5.0)		(5.0)		
2007 Approved Operating Budget	745.0	63,347.2	31,393.2	31,954.0	0.0	0.0
Prior year impacts		(319.0)	(299.0)	(20.0)		
Zero base items						
Economic factors		2,342.1	0.0	2,342.1	972.6	1001.2
Adjusted Base Budget	745.0	65,370.3	31,094.2	34,276.1	972.6	1,001.2
Other base changes		500.2	(4.3)	504.5	103.7	72.0
Base revenue changes			533.2	(533.2)	(246.5)	(251.30)
Recommended Service Level Adjustments:						
Service efficiencies	(1.0)	(197.5)		(197.5)		
Revenue adjustments			2,607.3	(2,607.3)		
Minor service impact		(181.6)		(181.6)		
Major service impact		(66.0)		(66.0)		
Total Recommended Base Adjustments	(1.0)	55.1	3,136.2	(3,081.1)	(142.8)	(179.3)
2008 Recommended Base Budget	744.0	65,425.4	34,230.4	31,195.0	829.8	821.9
2008 Program Operating Target	N/A	N/A	N/A	31,954.0	0.0	0.0
% Over (Under) Program Target				-2.4%		
% Over (Under) 2007 Appvd. Budget				-2.4%		

Appendix 2

**Summary of
Service Level Adjustments**

Appendix 3

Summary of 2008 Recommended New and Enhanced Services

Appendix 4

Inflows / Outflows to / from Reserves & Reserve Funds

Reserve / Reserve Fund Name	Reserve / Reserve Fund Number	Balance as of December 2007	Recommended Withdrawals (-) / Contributions (+)		
			2008	2009	2010
		\$	\$	\$	\$
Insurance Reserve Fund	XR1010	28,136.6	106.0	106.0	106.0
Vehicle Reserve	XQ1600	406.5	97.9	97.9	97.9
Innovation Reserve Fund	XR1713	2,199.1	(210.0)		
Total Reserve / Reserve Fund Draws / Contributions		30,742.2	(6.1)	203.9	203.9