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INTRODUCTION

The Mississauga 2006 Budget process began with pressures of \$28 million equating to a potential tax rate increase of 12%. The following chart shows the break down of the tax increase by service.

Service (\$000's)	Tax Rate Increase
Fire & Emergency Services	4.6%
Transit	2.3%
Roads and Watercourses	2.0%
Library	0.8%
Recreation and Parks	0.7%
Land Development	0.5%
Municipal Buildings	0.2%
Regulatory	0.4%
Departmental Support	0.3%
Corporate Support	0.8%
Other (including assmt growth)	-0.5%
Total	12.1%

Fire and Emergency, Transit and Roads and Watercourses services combine to make up almost 75% of the initial increase. Labour costs account for almost 70% of the 2006 Operating Program, and produce significant pressures on the budget. Even small labour increases can cause large tax rate increases. This is the single largest cost driver across the city.

Over a series of public Budget Committee meetings held in the spring, summer and fall, Council, with the assistance of staff, worked very hard to reduce the tax rate increase.

Mississauga's 2006 budget is comprised of the operating and capital programs. The combined budget totals \$652.4 million in gross and \$421.0 million in net expenditures and results in an increase in the net operating program or tax levy of 7.4% or \$16.4 million over the 2005 budget. After assessment growth, estimated at 1.5%, the net tax increase is 5.9% for the City's portion of the property tax bill.

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A 5.9% increase in City taxes will cost a homeowner who owns a single, detached dwelling with average assessment of \$324,000 an additional \$53.11 in taxes. For a condominium with average assessment of \$189,000 it will be \$30.98. The following chart shows the incremental taxes at various residential assessed values:

Increase in City Taxes: 5.9%

2003 Assessment Values	\$250,000	\$300,000	\$350,000	\$400,000	\$450,000
Additional Taxes	\$40.98	\$49.18	\$57.37	\$65.57	\$73.76

As commercial properties can vary greatly in their assessed value, a small retail store, a small office building (such as a medical building) and a larger office building have been selected to demonstrate the impact of a 5.9% tax increase.

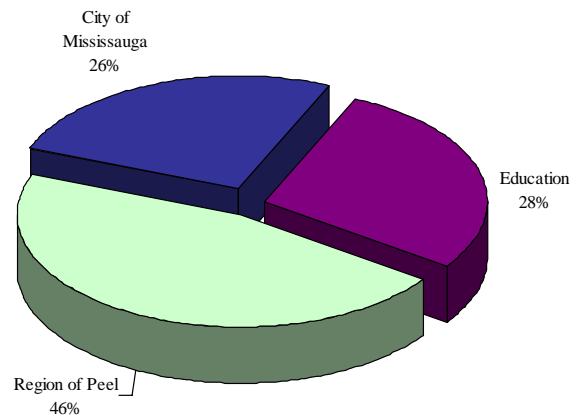
Increase in City Taxes: 5.9%

	Retail Store	Small Office Building	Large Office Building
2003 Assessment Values	\$500,000	\$1,200,000	\$9,500,000
Additional Taxes	\$115.44	\$277.06	\$2,193.39

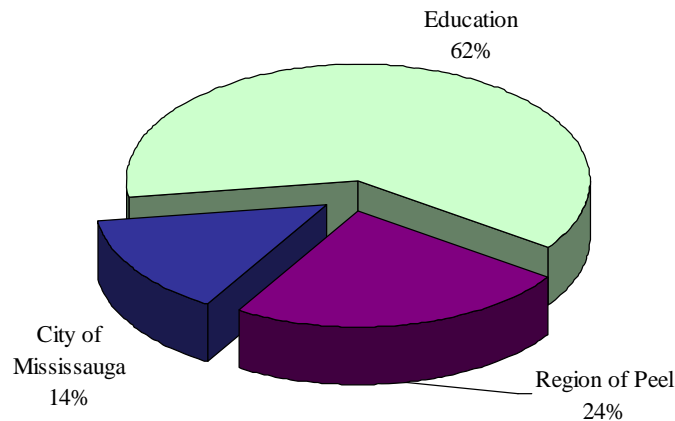
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The total property tax bill is made up of three different components: the City of Mississauga, the Region of Peel and the Province of Ontario - Education taxes. The increases reflected in this budget document relate to the City of Mississauga's portion only. Tax rates approved by the Region of Peel and Education rates, set by the Province of Ontario, must also be considered in order to determine the final amount paid by each taxpayer. Based on 2005, the following chart shows the proportion of the total tax bill that applies to each component: for residential, commercial and industrial properties:

Residential



Commercial/Industrial



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Preliminary 2006 Budgetary Property Tax Impacts

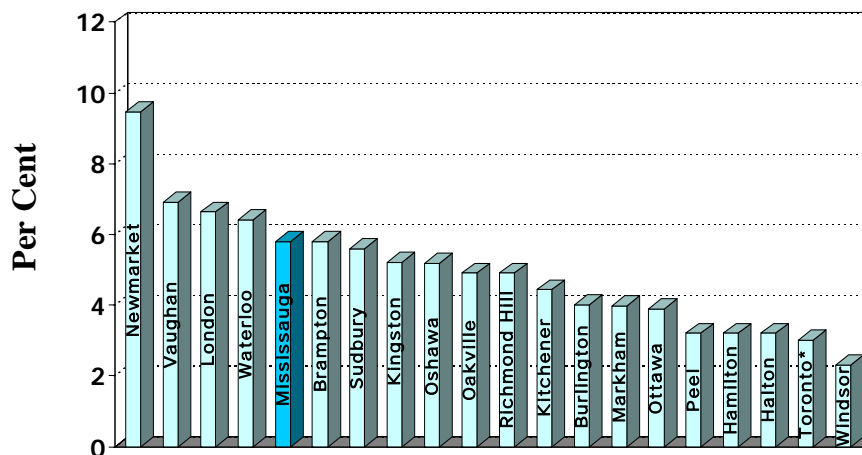
Combining the estimated tax increases of 5.9% from the City of Mississauga, 5.6% from the Region of Peel and assuming no increase related to the Education portion of the tax bill, the average total residential tax bill would increase by 4.1%. When this is applied to the average home assessed at \$324,000 (based on 2003 Current Value Assessment), the total tax impact would translate into an approximate increase of \$140 for 2006.

Assessed value of \$324,000	2005 Bill	Estimated 2006 Bill	\$ Change	% Change
Region of Peel	\$1,554	\$1,641	\$87	5.6
Education	\$959	\$959	-	0.0
City Of Mississauga	\$900	\$953	\$53	5.9
Total	\$3,413	\$3,553	\$140	4.1

Municipal Budget Pressures

Municipalities across Ontario have been facing significant budget pressures in recent years. The cumulative impacts of higher fuel/commodity costs, labour pressures, dwindling support from Federal and Provincial governments and rising infrastructure needs are contributing factors. Since 2001, municipal property tax increases in Southern Ontario have generally ranged between 5% and 10% annually, well above inflation. Despite having successfully managed with a zero tax increase between 1990 and 2001 (12 years), the City of Mississauga is now facing budgetary pressures which are forcing tax increases above inflation.

2005 Municipal Tax Increases



* Provincial Assistance received

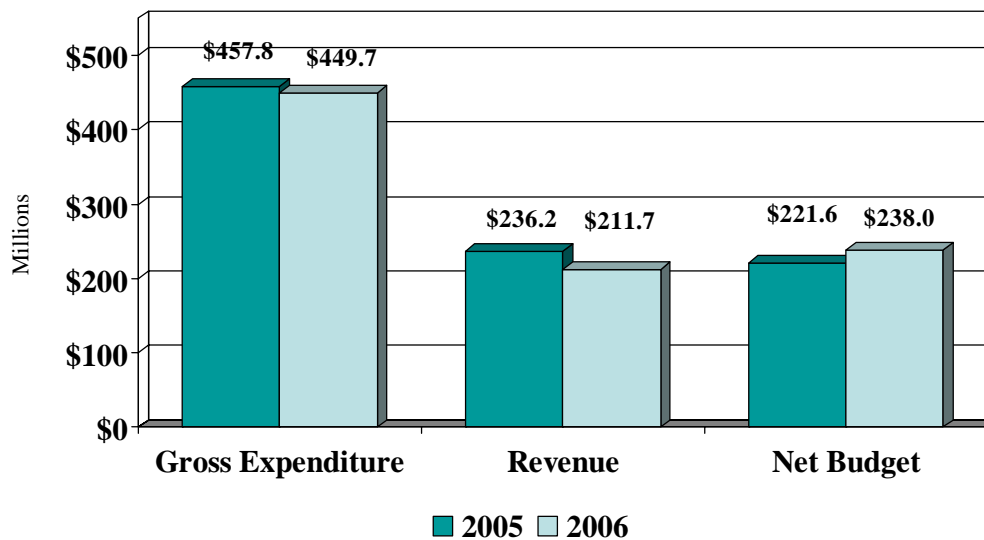
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Many municipalities are facing severe budget pressures. The cumulative affects of service and cost downloading from senior levels of government are forcing municipalities to call on the Federal and Provincial governments for a “New Deal” for Ontario's cities and towns. In Mississauga, we are not immune from these trends. The City entered the 2006 budget planning process facing almost \$28 million in net cost pressures or an initial 12% tax increase. The 2006 Budget tries to balance fiscal responsibility with the demand for services resulting in a net cost increase of \$16 million which translates into a 5.9% tax rate increase. Wrestling the 2006 tax increase impact from a potential high of over 12% down to 5.9% has been achieved through a balanced mix of new revenues, operational efficiencies and reserve fund transfers. All this has been accomplished without any service level reductions.

2006 Recommended Operating Program Highlights

The chart below compares Mississauga’s gross and net operating programs for 2005 and 2006.

2006 Operating Program vs. 2005 Operating Program



Changes to the 2006 Operating Program have been split into distinct categories. Brief descriptions of each one are as follows:

2006 Base Changes – These are changes in both costs and revenues that relate to a normal ongoing part of the city’s business. Examples of initiatives included in this category are additional staff to ensure that existing service levels are maintained, the operating impact of opening new facilities, hydro rate increases or economic adjustments awarded in union

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agreements. Increased revenues which are a result of increased usage or rate increases, in line with normal expectations, are also included in this category.

New Service/Initiatives – These are services which are new or being increased or expanded beyond the level that the city currently provides.

New Revenues – These are revenue increases which are new, represent a change from the existing city policy or the rate increase is higher than normally expected (eg. above inflation).

Service Level Reductions – These are reductions in service levels which have resulted in cost savings.

Efficiencies – These are savings which have been realized by the city improving the way in which we conduct our operations and deliver our services.

Reserve Transfers – This category represents increased use of reserves which reduces the tax rate increase.

Included in the 2006 Operating Program are base budget pressures of approximately \$28 million. These pressures would have caused a city tax increase of about 12%, if no mitigating measures were undertaken by Mississauga. Some major budget pressures are highlighted as follows:

- \$16,895,800 Economic increases, performance pays and step increases;
- \$5,118,700 Pension costs are made up of 2 different components: OMERS ramp up of \$2,787,000 and a contribution rate increase of \$2,331,000;
- \$ 1,846,100 Increase in fringe benefit costs;
- \$ 3,973,600 Increase in contractor costs mainly related to winter maintenance and road repair and cleaning;
- \$ 3,480,000 Reduction in revenues due to declining tax penalty and interest revenue, reduction in payments-in-lieu of taxes (PILT's) from Pearson International Airport due to declining passenger count, declining supplementary tax revenue and reduced court fines due to fewer court days;
- \$ 2,812,900 Higher utility and diesel fuel prices;
- \$ 2,301,400 Growth related costs such as annualization of fire crew for Aerial 103, other fire staffing increases, opening of Churchill Meadows Branch Library and growth in parkland acreage;

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- (\$2,092,100) In addition to transit fare increases (reflected in the New Revenue section), Transit has been experiencing increased ridership in 2005 which has been reflected in the 2006 Budget transit revenue budget;
- (\$1,679,800) Increased revenues primarily due to increased capital chargebacks associated with a larger capital program;
- (\$ 885,700) Net increase in recreation and parks revenues. Revenues related to recreation rate and increased program attendance are offset by decreased participation in hockey and certain aquatics programs as well as reduced revenue from ice, aquatics and room rentals; and
- (\$ 926,000) Increased investment income.

In addition to the base budget changes, new services and initiatives of \$1.7 million are recommended. Highlights are as follows:

- \$1,188,100 Increased operating costs of 8 new transit buses;
- \$ 220,000 Billboards at Pearson International Airport to promote Mississauga; and
- \$ 125,000 Increased Streetlighting patrol; and
- \$ 74,000 Special lane marking.

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Corporate Operating Summary

The following table summarizes the 2006 Operating Budget by expenditure category. Details of the programs and their associated budget impacts are included in the respective departmental/service sections.

CITY OF MISSISSAUGA CORPORATE OPERATING SUMMARY

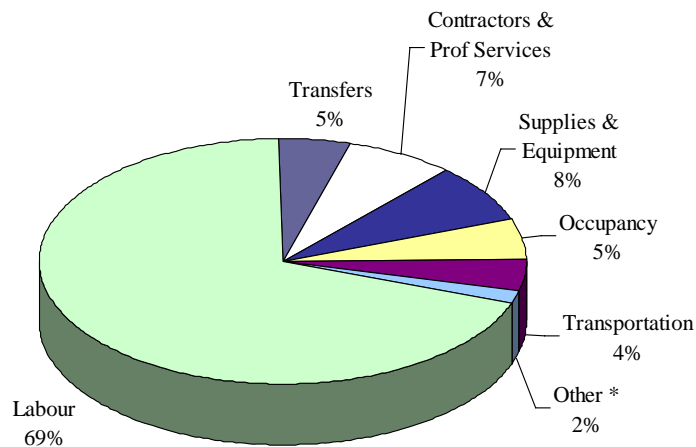
DESCRIPTION	2005	2006	CHANGE IN 2006	
	RESTATED BUDGET	REQUESTED BUDGET	REQUESTED BUDGET TO 2005 RESTATED BUDGET	
	\$	\$	\$	%
EXPENDITURES				
LABOUR COSTS	286,964,100	310,787,100	23,823,000	8.3%
Staff Development Costs	1,483,700	1,470,600	(13,100)	-0.9%
Communication Costs	2,485,600	2,714,300	228,700	9.2%
Transportation Costs	17,517,900	19,059,800	1,541,900	8.8%
Occupancy & City Costs	23,514,400	23,382,100	(132,300)	-0.6%
Equipment Costs & Maintenance Agreements	6,457,500	6,427,100	(30,400)	-0.5%
Contractor & Professional Services	28,637,500	31,956,900	3,319,400	11.6%
Advertising & Promotions	2,994,700	3,072,100	77,400	2.6%
Materials, Supplies & Other Services	27,270,800	29,209,000	1,938,200	7.1%
Transfers*	60,465,700	21,658,200	(38,807,500)	-64.2%
OTHER OPERATING EXPENSES	170,827,800	138,950,100	(31,877,700)	-18.7%
TOTAL EXPENDITURES	457,791,900	449,737,200	(8,054,700)	-1.8%
REVENUES				
Supplementary Railway & Corridors	(5,786,100)	(5,286,100)	500,000	-8.6%
Payments In Lieu	(22,918,800)	(22,238,800)	680,000	-3.0%
Grants & Subsidies	(2,311,500)	(2,247,500)	64,000	-2.8%
Fees, Rents & Service Charges	(128,718,500)	(135,791,300)	(7,072,800)	5.5%
Tax Penalties & Interest	(7,290,000)	(5,990,000)	1,300,000	-17.8%
Investment Income	(5,829,000)	(6,761,000)	(932,000)	16.0%
Donations & Contributions	(284,200)	(165,500)	118,700	-41.8%
Transfers from Reserves*	(46,903,100)	(18,163,300)	28,739,800	-61.3%
Other Revenue	(16,185,200)	(15,083,000)	1,102,200	-6.8%
TOTAL REVENUES	(236,226,400)	(211,726,500)	24,499,900	-10.4%
NET TAX LEVY	221,565,500	238,010,700	16,445,200	7.4%

* Reflects the removal of \$25 million in transfers from the Hydro Fund that flowed through the Operating Program and into the Capital Program in 2005. Under the City's new Capital Financing Strategy, Hydro funds have been allocated directly to existing capital reserves and an internal debt revolving fund.

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Operating Expenditure Highlights By Cost Category

A break down of the major operating expenditure categories is as follows:

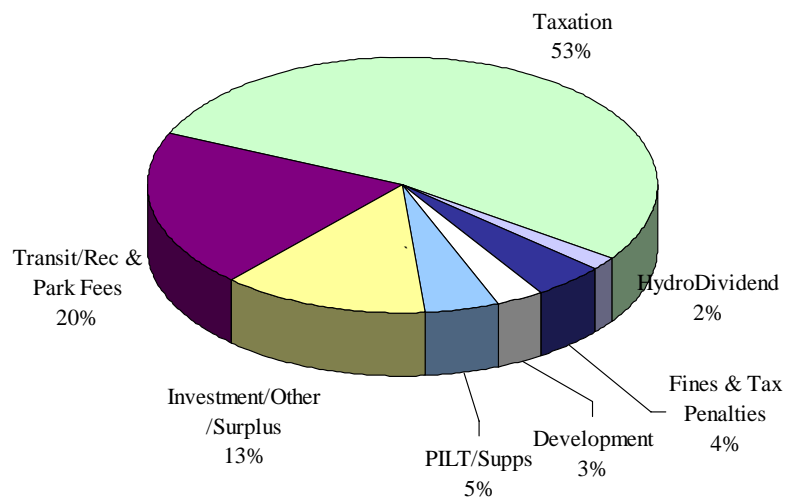


Total \$449.7 million

* Other includes Staff Development, Communications, Advertising and Promotions

Operating Program Revenues

A break down of the major financing categories is as follows:



Total \$449.7 million

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2006 Recommended Operating Program by Department and Service

The 2006 recommended departmental net budget by department is as follows:

Net Recommended Budget (\$000's)									
Department	2005 Restated Budget	2006 Base Budget	2006 New Services & Initiatives	2006 New Revenues	2006 Service Level Reductions	2006 Efficiencies & Reserve Transfers	2006 Requested Budget	Change in 2006 Requested Budget to 2005 Restated Budget	
	\$	\$	\$	\$	\$	\$	\$	\$	%
City Manager's	3,087	3,279	220				3,499	412	13.3%
Community Services	131,597	144,895	43	(14)		(1,142)	143,782	12,185	9.3%
Corporate Services	28,417	31,692	25	(50)		(211)	31,456	3,039	10.7%
Mayor & Council	2,879	3,146					3,146	267	9.3%
Planning & Building	1,239	2,381		(650)			1,731	492	39.7%
Transportation & Works	77,445	86,742	1,425	(3,588)		(1,243)	83,336	5,891	7.6%
Non-Departmental	(23,098)	(22,301)				(6,637)	(28,938)	(5,840)	-25.3%
Total Net City Budget	221,566	249,834	1,712	(4,302)	0	(9,233)	238,011	16,445	7.4%

The following chart shows the same information categorized by major city service.

Service (\$000's)	2005 Restated Budget	2006 Base Budget	2006 New Services & Initiatives	2006 New Revenues	2006 Service Level Reductions	2006 Efficiencies & Reserve Transfers	2006 Requested Budget	Change in 2006 Requested Budget to 2005 Restated Budget	
	\$	\$	\$	\$	\$	\$	\$	\$	%
Corporate Support	39,255	41,829	25			(211)	41,642	2,388	6.1%
Departmental Support	11,898	13,058	80	(50)			13,088	1,190	10.0%
Fire and Emergency	61,360	69,655		(14)		(20)	69,621	8,261	13.5%
Land Development	976	1,999	220	(600)			1,619	643	65.9%
Library	17,960	19,135					19,135	1,175	6.5%
Municipal Buildings	23,782	25,233				(536)	24,697	916	3.9%
Non-Departmental	(23,098)	(22,301)				(6,637)	(28,939)	(5,841)	-25.3%
Regulatory	(5,547)	(4,467)		(50)			(4,517)	1,030	18.6%
Recreation & Parks	23,588	25,586				(586)	25,000	1,411	6.0%
Roads and Watercourses	41,990	45,569	199			(1,243)	44,526	2,536	6.0%
Transit	29,404	34,540	1,188	(3,588)			32,140	2,736	9.3%
Total Net City Budget by Service	221,566	249,834	1,712	(4,302)	0	(9,233)	238,011	16,445	7.4%

(Numbers may not add due to rounding)

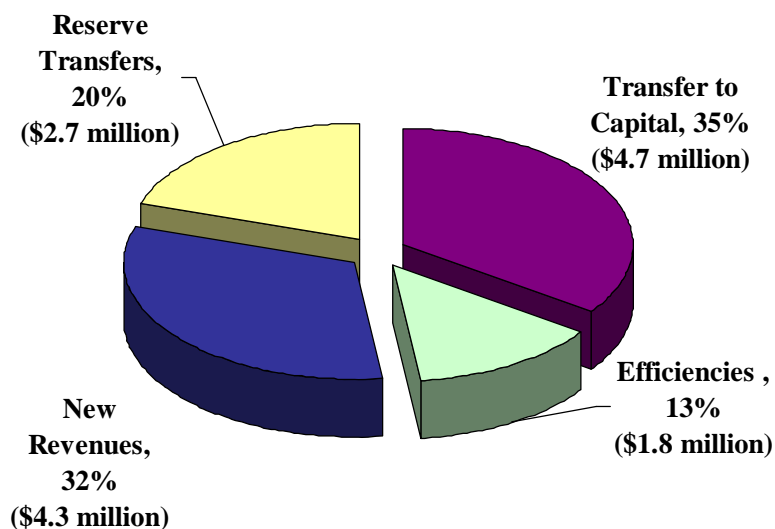
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2006 Operating Program Reductions

With pressures of \$28 million or a 12% tax increase, strategies were developed to reduce the tax impact while retaining existing services as residents have consistently indicated that they do not want services reduced.

The following chart shows the areas where adjustments were made to bring the tax increase down from the 12% to 5.9% for a total net expenditures reductions of \$13.2 million. Details can be found in Appendix 2 - Summary of Program Changes tab.

2006 Efficiencies, New Revenues, & Reserve Transfers Totaling \$13.5 million



Highlights of new revenues of \$4.3 million are as follows:

- \$2,400,000 Transit revenue increase due to fare increases (25 cents for tickets, \$1.00 for passes and 10 cents for cash fares);
- \$1,188,100 Increased provincial gas tax revenue offsetting the operating costs of 8 new transit buses which will be put into service in 2006; and
- \$500,000 Increased planning fees to reflect a higher cost recovery ratio.

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Highlights of cost saving efficiencies of \$1.8 million are as follows:

- \$890,000 Savings in hydro electric costs resulting from changes to the new electricity purchasing method using an open market contact;
- \$171,000 Reduction of telephone costs due to elimination of Direct Inward Dial system for staff phones as well as continued conversion of lines to an integrated voice communication system;
- \$100,000 Maintenance and energy savings through replacement of overhead doors at the Central Parkway Transit Maintenance Facility; and
- \$80,000 Reduction in insurance brokerage costs (\$40,000) and job advertising in newspapers (\$40,000).

Various other smaller administrative changes comprise the remainder of the savings.

Highlights of reserve fund transfers of \$7.4 million are as follows:

- \$4,717,000 Reduction in the transfer of funds from the operating to the capital program;
- \$1,200,000 Phasing in of certain negotiated labour increases over a two year period;
- \$680,000 Funding a one-time decline in Payments-in-Lieu of Taxes (PILT) for the Greater Toronto Airport Authority (GTAA) from reserves. Preliminary estimates of passenger counts indicate this revenue shortfall will be eliminate in the 2007 Budget; and
- \$810,800 Elimination of loan repayments associated with the renovations of the Lakeview Golf Course (\$293,300) and the installation of the LED traffic signals (\$517,500).

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2006 Staffing Summary

This section provides an overview of 2006 staffing levels and summarizes any changes from the previous year. The permanent staff complement changes are as follows:

Department	2004	2005 Complement			2006 Complement	
	Approved Total	Approved Total	Changes (Net)	Revised Total	Add/Delete	Recommended Complement
City Manager's Office	28	28	0	28	0	28
Community Services	1,515	1,539	(4)	1,535	45	1,580
Corporate Services	475	484	0	484	8	492
Planning & Building	213	207	(12)	195	(2)	193
Transportation & Works	1,154	1,172	61	1,233	33	1,266
Sub-Total	3,385	3,430	45	3,475	83	3,558
Mayor & Council	32	32	0	32	7	39
TOTAL	3,417	3,462	45	3,507	91	3,598

For 2006, departments are requesting a net total of 91 new permanent positions. Details of these new positions are provided on the next page. The increases are concentrated in two areas: firefighters and transit operators. Other increases primarily relate to growth and service demand pressures.

The City of Mississauga continues to critically examine every vacant position to determine whether or not the position should be refilled.

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2006 Recommended Permanent Staff Requests	
Details of Complement Changes	
Community Services: 45	
Recreation & Parks	1 Parks Person II 1 Urban Forestry Inspector
Facilities & Property Management Planning & Administration	2 Project Coordinators 1 IT Analyst 1 Infrastructure Management Asset Coordinator 1 Heritage Coordinator
Fire	28 Firefighters
Library	1 Vehicle Maintenance Fleet Clerk 1 Branch Manager 1 Senior Librarian 1 Librarian 3 Library Assistants, Level 4 3 Library Assistants, Level 3
Corporate Services: 8	
Enforcement	1 Customer Service Clerk 1 Municipal Law Enforcement Officer
Information Technology	1 Application Developer 1 Database Administrator 1 eCity Manager 1 eCommerce Specialist
Legal	1 Legal Counsel
Material Management & Admin	1 Buyer
Planning & Building: (2)	
Development Workload	-1 Zoning Plan Examiner -1 Building Plan Examiner
Transportation & Works: 33	
Transit	1 Project Manager 1 Support Staff 1 Health & Safety Specialist 1 Land Information Services 4 Mechanics 22 Transit Operators 1 General Service Person 1 Operations Supervisor 1 Route Supervisor
Mayor & Council: 7	
Mayor's Office	1 Community Liaison
Councillor's Office	2 Councillors 2 Executive Assistants 2 Administrative Assistants

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The table below shows the distribution of the contract positions recommended for 2006:

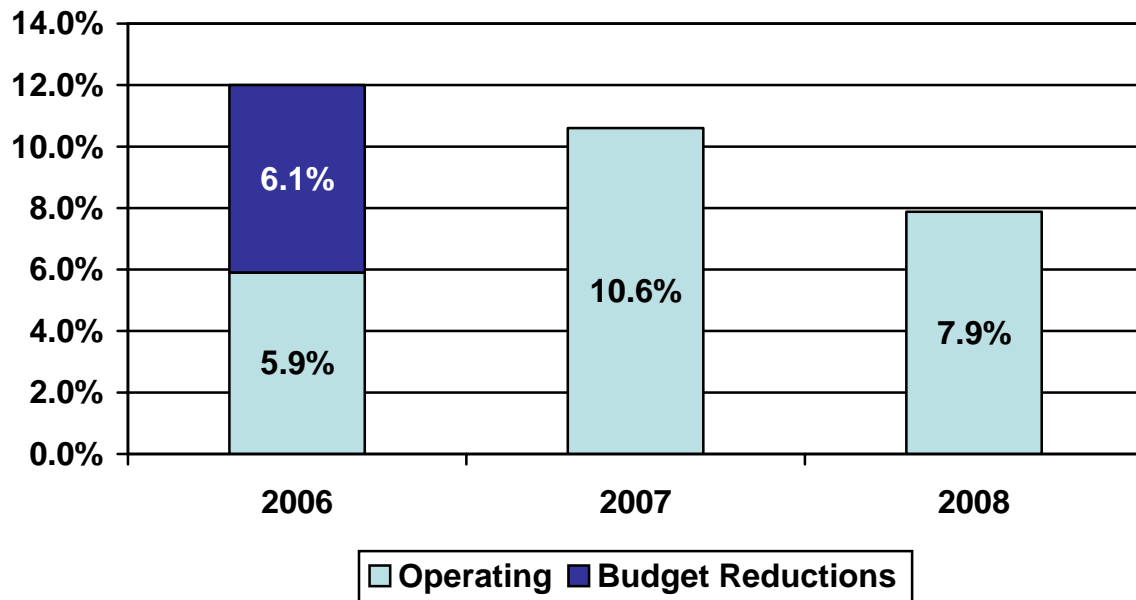
Department	2004	2005			2006	
	Approved Contract Positions	Approved Contract Positions	Additions and / or Transfers	Revised Contract Positions	Contract Conversions or Deletions	Recommended Contract Positions
City Manager's	5	5	0	5	0	5
Corporate Services	3	3	0	3	0	3
Community Services	0	0	0	0	0	0
Transportation & Works	2	1	0	1	0	1
Planning & Building	0	2	0	2	3	5
Mayor & Council	0	0	0	0	0	0
Total	10	11	0	11	3	14

There have been three contract positions added in Planning & Building: Urban Designer, Committee of Adjustment Planner and a Policy Planner.

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Operating Program – Forecast of Future Tax Increases

The following chart provides a preliminary estimate of future year's tax increases associated with the operating program. Based on existing assumptions, Mississauga is facing 8% to 11% tax increases in 2007 and 2008. If not for reserve funding and other budget reductions, the 2006 increase would have been 12%. These increases do not reflect any additional tax funding support to the capital program beyond the proposed 2006 level.



As labour is the largest component of City's Operating program, it is a major factor contributing to future cost pressures. Small increases in labour, associated with economic adjustments or performance increases, have a large impact on the tax rate. In addition to labour pressures, price increases and reduced revenues are contributing to tax rate increases. Other contributing factors include:

- < Rising costs associated with providing emergency services;
- < Annualization costs associated with servicing new residents and businesses such as two new Ward Councillor and the new Churchill Meadows Library;
- < Operating costs of new facilities such as additional parks acreage and new roads;
- < Utility rate and diesel fuel cost increases; and
- < Contract price increases for winter maintenance, road repair and information technology maintenance contracts.

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2006 RECOMMENDED CAPITAL PROGRAM AND 2007-2015 FORECAST

Introduction

The Capital portion of the Overview Section has been structured in the following manner:

- Introduction – provides brief historical information related to the capital section;
- Capital Highlights – provides an overview of changes from the 2005-2014 Capital Program;
- Capital Issues – provides a list of capital challenges the city is facing;
- 2006 Capital Program Highlights – provides a summary of capital projects or programs for 2006;
- 2006-2015 Capital Program Highlights– provides a summary of capital projects or programs for the 10 year period;
- Fund Balances – provides details of projected reserve fund balances which combines revenue projections and forecasted project expenditures; and
- Funding Strategy – provides details related to the funding of the non-growth (i.e. tax-based capital) program as well as the projected tax impacts.

Mississauga's capital program is made up of two primary components. Non-growth which includes replacement, maintenance and changes to existing infrastructure. Growth which includes acquisition or construction of additional or new assets. Some projects may include both components such as the expansion and replacement of the Fire Training and Vehicle Maintenance Centre.

Funding can be classified into either subsidy or recovery, tax-based or development-based. Subsidies or recoveries are amounts received from third parties as contributions towards specific projects. Examples include joint funding of a road expansion with another municipality, contributions from senior levels of governments towards bus replacements or contributions from a community group towards a tennis court renovation. Tax-based funding includes annual transfers from the operating fund, tax-based reserves, gas tax revenues and internal and external debt. Development based funding are monies received under the *Development Charges Act* and the *Planning Act*. Examples include development charges for the construction of new roads or cash-in-lieu of parkland.

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The following chart provides a high level summary of the 2006 Capital proposed Program as compared to the 2005 Approved Capital Program.

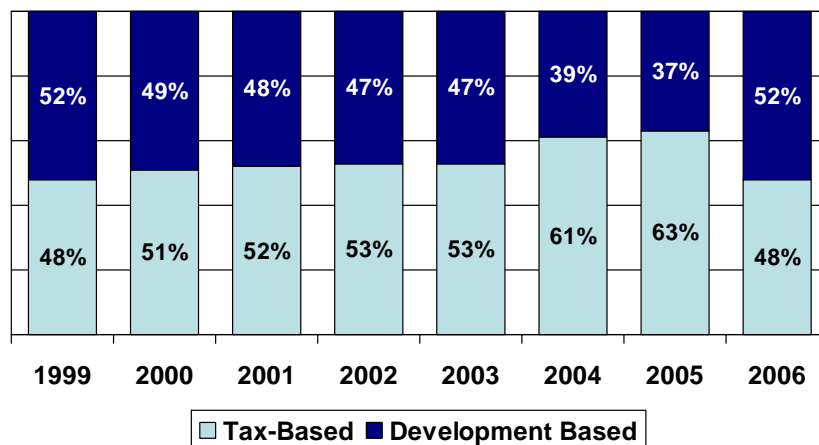
(\$millions)	2005 Approved	2006 Recommended	Change \$	Changes %
Capital Expenditures:				
- Growth	\$36.8	\$104.7	\$67.9	185%
- Non Growth	70.6	97.9	27.3	38%
Total	\$107.4	\$202.6	\$95.2	89%
Capital Financing				
- Subsidy/Recovery	\$5.5	\$19.6	\$14.1	256%
- Reserves	101.9	183.0	81.1	80%
Total	\$107.4	\$202.6	\$95.2	89%

The 2006-2015 Capital Program strikes a balance between providing for the service needs of newly developed areas, including installation of new playgrounds, new roads, new parks, and addressing the needs of older communities including replacement, repair and rehabilitation of existing pathways, roads and buildings.

The following chart provides a brief historical summary of tax versus development based funding. Although the City continues to grow, the capital budget is slowly shifting its focus from adding new infrastructure to maintaining Mississauga's existing asset base.

In 2006, however, the results are distorted, compared to past years, by the funding of the growth-related project - the Sports Complex at \$36.1 million using funds from the Cash in lieu of Parkland Dedication and Development Charges Reserve Funds as both are development-based funding.

Capital Program Funding History



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Capital Highlights

The City has taken a different long term approach in the development of the 2006-2015 Capital Program. In addition to updating the ongoing capital projects required to ensure that the roads, buildings, vehicle and equipment are maintained at an appropriate level, all departments critically reviewed their entire capital requirements. These projects have been incorporated into the 2006-2015 Capital Program and financing plans have been developed to ensure sustainability in the 10 year forecast period. Mississauga will continue to critically review and scrutinize projects. In 2006, a capital prioritization process will be developed to assist Council in decision making for the 2007 capital process.

The 2006-2015 Capital Program reflects a new direction in the City's financing policies and long term infrastructure planning as outlined below.

At Budget Committee on November 2, Council approved a report recommending the implementation of a new strategic financing plan involving the reallocation of the Hydro Reserve Fund to provide for future infrastructure needs on the following basis:

- \$5.0 million to fund the 10% co-payment for soft services under the *Development Charges Act, 1997*;
- \$14.7 million to fund the non-growth portion of the storm water management capital program;
- \$144.4 million was transferred into the city's existing tax based capital reserve funds; and
- \$144.4 million was transferred to a new revolving fund to provide for internal debt financing.

The elimination of the Hydro Reserve Fund has affected the 2006 Budget in several ways. In prior years, the \$39.3 million transfer from operating to capital was comprised of three separate funding components:

- \$20.0 million in interest earnings from the Hydro Reserve Fund;
- \$5.0 million transfer in principal from the Hydro Reserve Fund; and
- \$14.3 million in transfers from the tax base.

With the reallocation of the Hydro Reserve Fund, the interest and principal of \$25 million will no longer flow through the operating program into the capital program. The reallocation of Hydro Reserve Funds to existing capital reserves and the revolving fund also permits the remaining capital transfer of \$14.3 million to be reduced by an additional \$4.7 million. The 2006 Budget recommends a net transfer from operating to capital of \$9.6 million.

This new approach has the following impacts on the Capital Program:

- The amount of projects funded is significantly higher than 2005 and realistically reflects the long term needs of the City;
- As all capital requirements have been incorporated into the long term plan, the unfunded project list has been significantly reduced or virtually eliminated. Where unfunded projects remain, they are comprised of development-funded projects; and

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- Changes to the City's financing strategy for capital projects includes drawing down reserves, internal reserve borrowing and external debt issuance.

Without this strategy and use of reserves, we either would have to raise property taxes much higher in the short term or allow our infrastructure to decline.

Capital Issues

Aging Infrastructure

During 2004 and 2005, Mississauga began a process to determine its long-term infrastructure needs. Depending on the asset group reviewed, information available for long term costing estimates varied. For the Roads network, which accounts for 68% of the city's infrastructure, much detailed planning work has been conducted with the assistance of computer modeling software. Other assets, such as building and Information Technology, have prepared costing estimates based on lifecycle estimates. Lastly, there are several categories of assets for which no provisions for additional maintenance costs have been included in the capital program. Given these assumptions, the long term infrastructure maintenance and rehabilitation needs will be refined in future years as more accurate information becomes available.

Transportation

It has been widely recognized by senior levels of government that cities need a 'New Deal'. The change in both the Federal and Provincial political environments has demonstrated a commitment to address these needs. Both the Federal and Provincial gas tax allocations will assist Mississauga in addressing one of its most critical issues - transportation.

Funding from the Federal and Provincial levels of government can be summarized as follows:

- Federal Gas Tax;
- Provincial Gas Tax;
- Ontario Transit Vehicle Program (OTVP); and
- Federal one-time Transit Funding

The following chart provides a summary of revenues over the next 5 years

(\$ millions)	2006	2007	2008	2009	2010	Total
Provincial Gas Tax	11.9	14.4	14.4	14.4	14.4	69.5
Provincial – Bus Replacement (OTVP)	8.0	8.2	5.6	5.9	3.1	30.8
Federal Gas Tax	6.0	8.0	10.0	20.0	20.0	64.0
Federal – Transit one-time	6.0	6.1				12.1
Total	31.9	36.7	30	40.3	37.5	176.4

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Provincial Funding Sources

The Ontario Transit Vehicle Program (OTVP) subsidizes one third of all the costs of replacing buses. This plan has been in place for several years and is expected to continue in the foreseeable future.

The Province has announced gas tax funding for transit at 1 cent per litre per year starting in October 2004 with increases of one half cent per litre in October 2005 and October 2006, bringing the total contribution to 2 cents per litre of gas sales. These funds will be allocated across Ontario municipalities 70% based on transit ridership and 30% based on population. The primary purpose of this funding is to increase overall ridership through the expansion of public transportation capital infrastructure and levels of service. The Ministry of Transportation requires that ridership growth and asset management plans be prepared, detailing the use of these and future gas tax receipts. The existing plan, which expired on September 30, 2005, permits the use of gas tax revenues to offset the increased operating costs of putting new buses into service. There are ongoing concerns that this provision may be removed in future agreements.

In the 2006 Budget, the annual impact of running one additional bus is approximately \$100,000. If future provincial gas tax agreements eliminate the use of these funds for operating costs, the residents and businesses of Mississauga will have to pay for these costs through higher taxes. In other words, the province will pay the one-time capital costs but they will not contribute to the ongoing operating costs.

Provincial gas tax funding is being used to offset the operating costs of new buses as well as a ridership improvement plan and an asset management plan. These studies will assist the city in determining future use of these funds. Provincial gas tax funding can not be used to offset higher day to day transit costs (such as salaries/wages, diesel fuel, bus parts, etc.) and therefore can not be used to offset property tax increases relating to maintaining existing service levels.

Federal Funding Sources

The Federal one-time transit funding is a receipt of \$12.1 million over the 2005 and 2006 years. This one-time funding was negotiated as part of the agreement for the New Democratic Party (NDP) support of the Liberal 2005 Budget. This funding is restricted exclusively to transit capital expenditures.

Federal gas tax revenue is based on gas tax sharing of 1.5 cents per litre in 2005 and 2006. This will increase to 2 and 2.5 cents respectively in 2007 and 2008. Finally in 2009, the gas tax is forecast to double from the 2008 level of 2.5 cents to 5.0 cents per litre. The receipts in 2009 are estimated at \$20 million with a total of \$50 million being received over the first five year period (2005-2009).

The use of these funds are restricted for certain purposes. These funds can be applied to no more than two of the following city services: transit expansion, storm water systems and community energy systems. To be eligible for funding, municipalities can not reduce their existing/historical

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spending on capital projects. Similar to Provincial gas tax revenues, Federal gas taxes can not be used to reduce property taxes.

Projects under Consideration

In addition to the renovation of the Central Parkway Transit Facility and 28 additional 40-foot buses, transit is focusing on improving the speed and frequency of service to make transit more attractive. Projects under study/consideration include:

- Further development of Hurontario Street as a major transit corridor;
- Burnhamthorpe Road on-street terminal;
- Queue jump lanes/signal pre-emption; and
- Hybrid buses

The mix of future transit projects will ultimately be the result of outcomes from the Transit Ridership Growth and the Hurontario Corridor studies which are included in the recommended 2006 Capital Program. The funding for these future projects will be provided from gas tax revenues.

Financial Health of the City of Mississauga

Although Mississauga is maturing, the City is still expecting growth, albeit at a slower rate over the next 30 years. As the overall asset base is early in its life cycle and in good condition, Mississauga has the benefit of time to adequately plan for its eventual replacement. As part of the maturing process, Mississauga has re-evaluated its needs related to its long term infrastructure replacements over the next 10 years.

The City of Mississauga currently operates under a pay-as-you-go philosophy and does not have any debt. On an annual basis, the Province of Ontario calculates the Annual Debt Repayment Limit respecting long-term debt charges and other financial obligations which can not exceed 25% of own source revenues. The City of Mississauga's 2005 Annual Repayment Limit, provided by the Ministry of Municipal Affairs and Housing is \$88.9 million which would support \$900 million in debt. Since the City of Mississauga has no debt, this Annual Repayment Limit is not utilized at this time. However, in order to address future infrastructure funding needs, the City has reviewed internal and external debt financing options in the 2006-2015 Capital Program as part of its new financing strategy.

Based on a recent financial review by Standards & Poor, the City of Mississauga was awarded an AAA credit rating. This is the highest credit rating assigned to a municipality. Outside the United States, Mississauga is only the 11th municipality to earn this coveted rating.

Mississauga has many tools available to manage its finances in the future. Although Mississauga's debt free status and high credit rating will assist in managing of the City's growing infrastructure needs, future challenges will still be significant. Future tax increase will be required to fund the forecast capital program requirements.

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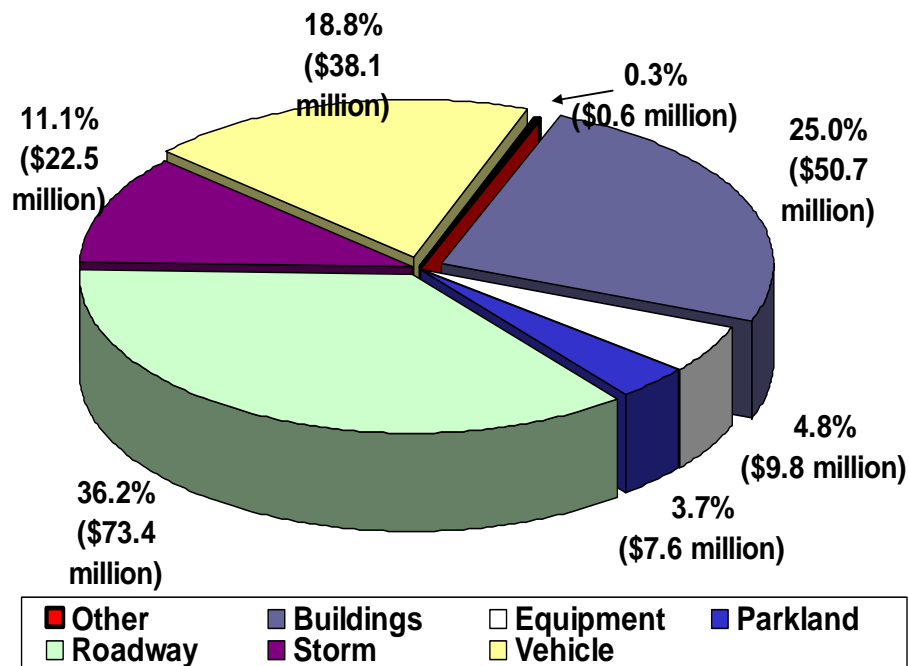
2006 Capital Program Highlights

The City of Mississauga's Capital Program for 2006 is being recommended at \$202.6 million (gross costs) and \$183.0 million, net of subsidies and recoveries.

Department (\$ millions)	Gross Cost	Subsidy / Recovery	Net Cost
Community Services	69.2	.02	69.2
Corporate Services	8.7	0	8.7
Transportation & Works	124.8	19.6	105.2
TOTAL	202.6	19.6	183.0

The following chart shows the distribution of expenditures by major asset category:

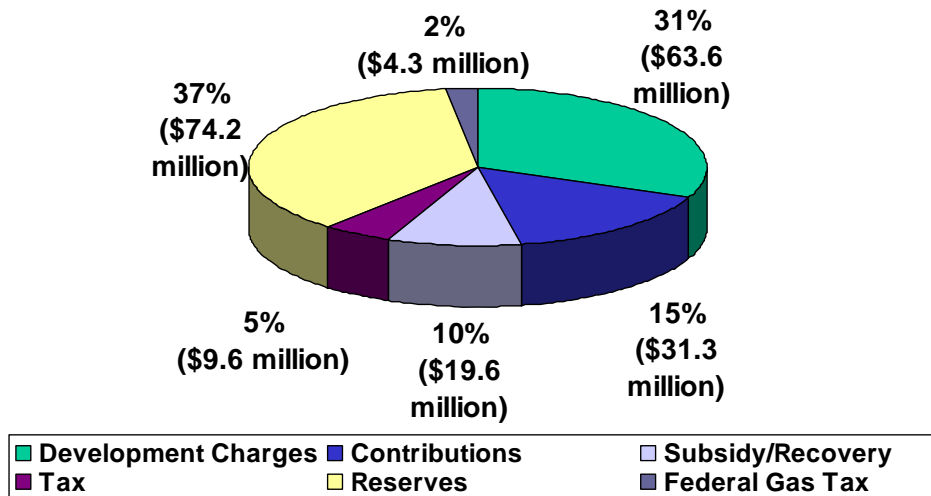
Total Capital Budget 2006 Gross Expenditures (\$202.6 million)



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The following chart shows the funding sources for the forecast 2006 Capital Program.

Total Funding 2006 Projects (\$202.6 million)



Highlights of 2006 projects are as follows:

\$38.1 million	Major Roads - Torbram Road Grade Separation, Confederation Parkway Bridge, Eglinton Avenue (Winston Churchill Boulevard to Erin Mills Parkway) and Netherhart Road (Britannia Road to Courtneypark Drive);
\$36.2 million	New Sports Complex;
\$35.5 million	Transit – 8 New Buses, 57 Replacement Buses and Design for Central Parkway Transit Facility Expansion;
\$26.4 million	Roadway Rehabilitation;
\$13.2 million	Storm Drainage;
\$10.3 million	Other Engineering – Construction of South East Works Yard, New & Replacement Vehicles and Equipment, Traffic Signals and Street lighting;
\$7.7 million	Office Accommodation Project;
\$7.0 million	Major Facility Maintenance and Repairs;
\$4.2 million	Parkland Acquisition;
\$6.4 million	Major Information Technology (IT) applications (Mississauga Approval Xpress (MAX), TXM (tax system), SAP, eCity, Election) and other IT requirements;
\$2.1 million	Inquiries Management – Call Centre;
\$2.2 million	Bicycle/Pedestrian Streetscape; and
\$2.0 million	Fire vehicles.

A summary and details of the 2006 Recommended Capital Program can be found in Appendix 3 – 2006 Summary of Capital Projects tab of the Budget Book.

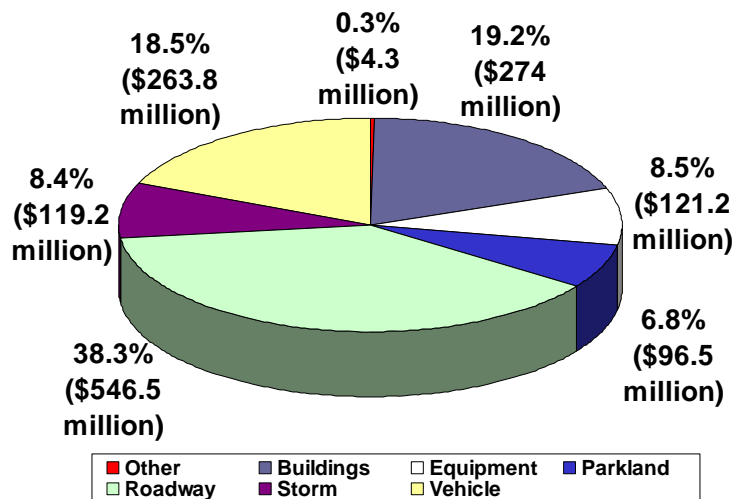
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2006 – 2015 Capital Forecast Highlights

Department (\$ millions)	Gross Cost	Subsidy / Recovery	Net Cost
Community Services	410.8	5.9	404.9
Corporate Services	99.9	0.0	99.9
Transportation & Works	914.8	69.6	845.2
TOTAL	1,425.5	75.5	1,350.0

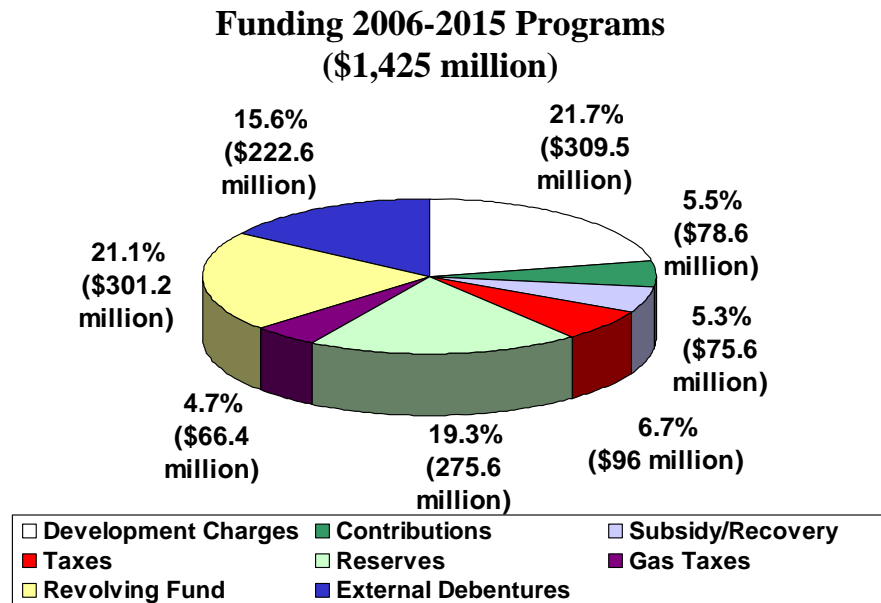
The following chart shows the distribution of expenditures by major asset category.

Total Capital Forecast 2006-2015 Gross Expenditures (\$1,425 million)



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The following chart shows the funding sources for the 2006 -2015 Capital Program.



Highlights of 2006 -2015 are as follows:

- \$282.8 million Roadway Rehabilitation;
- \$255.3 million Transit;
- \$173.2 million Major Roads;
- \$131.9 million Building Maintenance and Major Repairs;
- \$98.2 million Information Technology including new, replacement and upgraded applications, Personal Computer and peripheral replacements, network and server management;
- \$95.6 million Other Engineering (including Traffic Signals, Sidewalks, Property Acquisition, Noise Walls);
- \$90.3 million Storm Drainage;
- \$64.0 million Parkland Acquisition, Development, and Redevelopment;
- \$63.1 million City Wide Facilities (Sports Complex and Indoor Soccer);
- \$43.7 million Facility Renovations (Community Centres, Arenas, Libraries);
- \$31.2 million Parks and Sports Field Maintenance;
- \$32.0 million Fire Vehicles & Equipment;
- \$17.75 million Bridge & Structure Rehabilitation; and
- \$15.2 million Fire Training Centre and Fire Station Renovations

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Capital Reserve Fund Balances

Revenue Projections

New Development Charge rates were approved by Council on July 7, 2004. The development industry filed an appeal of Mississauga's 2004 Development Charge By-law and a settlement was negotiated. The Ontario Municipal Board (OMB) approved the settlement in January, 2005. The Development Charge revenues, included in the 2006-2015 Capital Program, reflect these revised rates for the ten year period.

Based on the Development Charges By-law, rates are adjusted on a semi-annual basis, for increases in the Construction Price Index. Under the *Development Charges Act, 1997*, the city's Development Charges By-law must be revised every five years. Neither of these impacts have been incorporated into the revenue projections used at this time.

The City's tax based reserve funds, used to fund infrastructure maintenance projects, include a Capital Reserve Fund as well as 6 subsidiary reserve funds as follows:

- < Roadway Infrastructure Maintenance Reserve Fund
- < Transit Vehicle Replacement and Equipment Replacement Reserve Fund
- < Corporate Facility Repairs and Renovations Reserve Fund
- < Community Facility Redevelopment
- < Main Fleet Vehicle and Equipment Replacement Reserve Fund; and
- < Fire Vehicle Replacement and Equipment Replacement Reserve Fund.

In addition to these Reserve Funds, other tax based reserves have been established for other specific projects such as the non-growth portion of the Fire Training Centre and BraeBen Golf Course.

The Capital Reserve Funds will receive transfers from the operating budget of \$9.6 million per year totaling \$96 million over the ten year period 2006-2015.

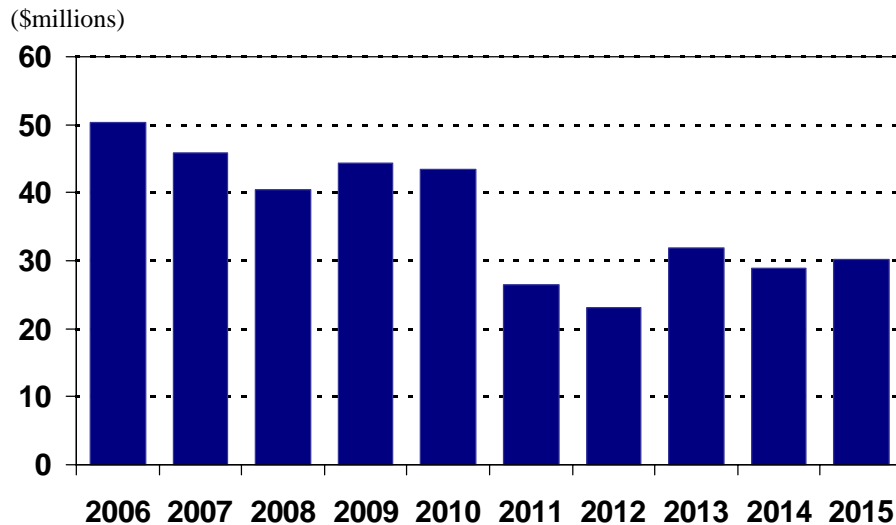
With respect to growth-related development financing, sufficient funding is not immediately available from every source for the recommended capital works. The need to provide services in advance to an area not yet fully populated is necessary in several instances. Funding these projects may create a negative fund balance in any one Development Charge Reserve Fund which is recovered from future growth.

By combining the projects within the 10 year capital forecast with the related revenue projections, an annual estimate of balances is generated.

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The following chart shows the total balance in the Development Charge based Reserve Funds over the next ten year period.

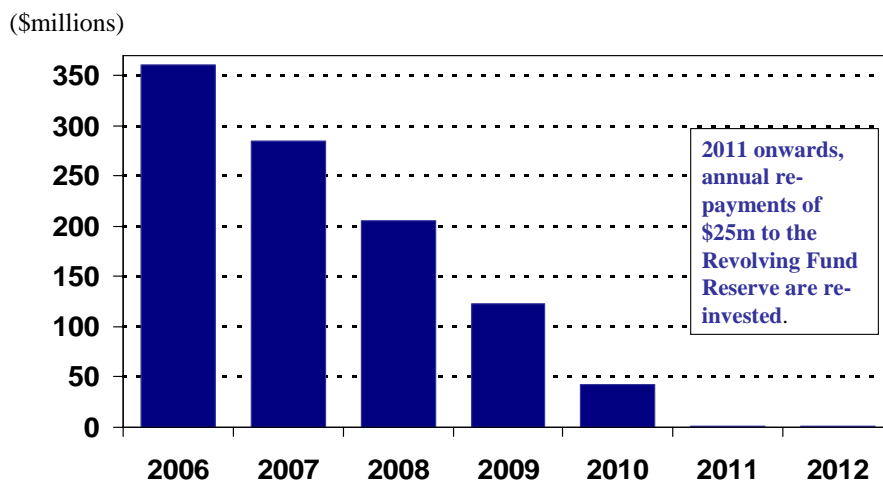
Summary of Development-Based Capital Reserve Funds Closing Balances



Development charge reserve funds will remain in a positive balance throughout the 10 year forecast period.

As illustrated in the following chart, the tax based reserve fund balances will be completely depleted in 2009. As a result, the capital forecast must be reviewed in the future. Capital needs must be critically evaluated to better match future spending with available reserve levels, and/or contributions to tax-based reserve funds increased.

Summary of Tax-Based Capital Reserve Funds Closing Balances

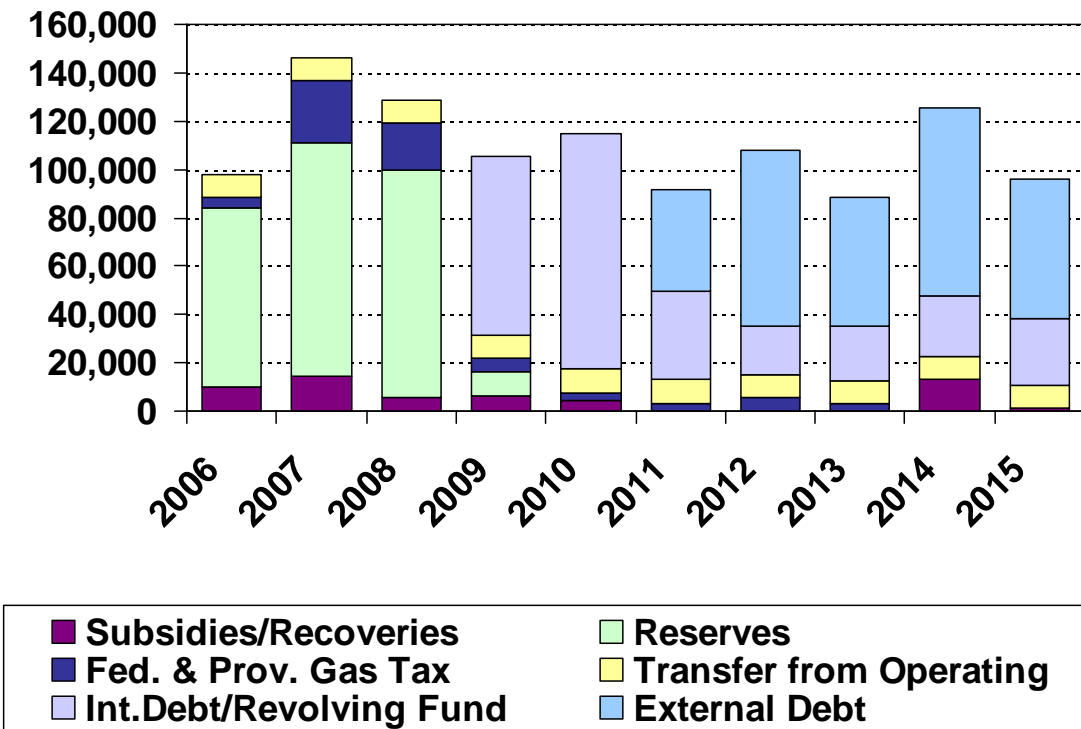


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Non-Growth Based Funding

When these project costs are adjusted for inflation and combined with the City's funding strategy, the following financing plan is necessary (see graph below). In this model, the tax based reserve funds, including the additional funds provided via the reallocation of the Hydro Reserve Fund, are fully depleted in 2009. The principal balance of the revolving fund is depleted in 2011 with interest and principal repayments being the only source of funding for future years. External debt financing becomes the primary source of funding for tax-based capital expenditures from 2011 onward, along with the annual tax contribution of \$9.6 million.

**Non-Growth Capital Budget
(Gross Costs, Inflated, 000's)**

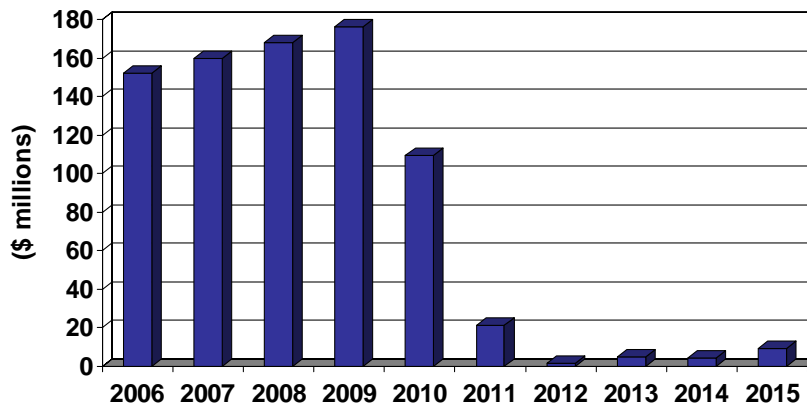


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Internal and External Long-Term Debt

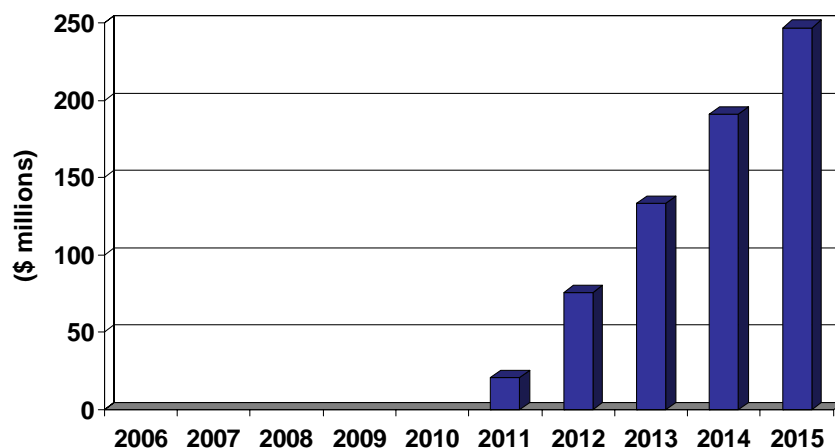
Under the new capital financing strategy, the revolving fund will be used as a self-sustaining, internal borrowing fund. Funds borrowed would be repaid (principal and interest) through property taxes. The following chart shows the outstanding balance of the Revolving Fund year by year. At the end of 2011, the principal portion of the revolving fund would be depleted. Only the principal and interest repayments are available as a source of future funding. These proceeds are then re-invested in the capital forecast as a source of financing.

Revolving Fund Balance over 15 years



As the principal portion of the revolving fund is depleted, the City must issue external debt to finance the capital program. The following chart shows the cumulative value of external debt accumulated by the city over the next 10 years.

External Debt over 10 years

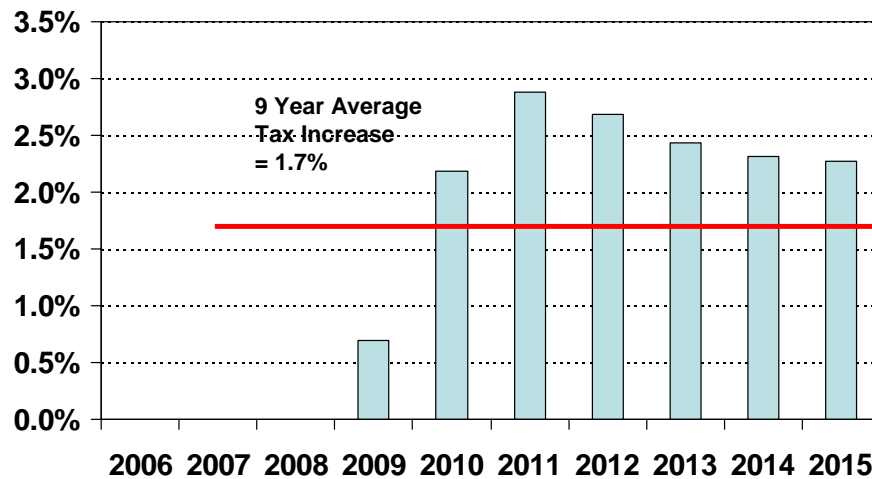


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Capital Program – Forecast of Future Tax Increases

The city’s new capital financing strategy includes the use of existing reserve fund balances and internal and external debt financing. Based on these financing principles, Mississauga has two basic options available for implementing the strategy which are summarized in the chart below.

Annual Tax Impacts of Funding Non Growth Capital Budget



As the issuance of internal or external debt necessitates a repayment schedule, the above chart shows the tax rate increases necessary in each individual year to support the recommended capital program. Mississauga has several options as to how the financing of the capital program will affect the tax rate. The tax impact of the debt issuance would mean an annual average tax impact of 1.7% per year beginning in 2007. Alternately, Mississauga may forego the increases in the earlier part of the 10 year period with the knowledge that the increases in the latter part will be in the 0.7% to 2.9 % range. The tax impacts of financing the capital program will need to be added to the operating tax increases to determine the final impact on Mississauga residents and businesses.

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Conclusions

Mississauga is at a pivotal point in its development. As funding for the City's budget changes from a focus on servicing new growth to one of maintaining existing infrastructure and services, the decisions and trade-offs will become more challenging. In future years, the impact of cost increases within the operating programs will need to be combined and balanced with infrastructure maintenance needs. In order to determine the total tax increase, both the capital and operating impacts must be examined.

While Mississauga's new capital financing strategy is designed to meet the city's long term infrastructure needs, there would be several significant implications from implementing the strategy:

- Future taxes will rise;
- Existing capital reserve funds will be depleted; and
- External debt will be required to fund future years capital programs beginning in 2011.

Clearly stable, sustainable, long-term funding is required from the Federal and Provincial Governments especially for major strategic investments such as transit and roads as well as injections of special funding to support vital investments such as rapid transit. More importantly, the Province must reduce its heavy reliance on funding health, social, education and housing services from the property tax base to free up the funds to be used by municipalities to address our ongoing funding pressures and shortfalls. These improvements are crucial components to any "New Deal" so that municipalities can have the adequate resources needed to deal with Canada's widening infrastructure gap.

In addition, given these future financial implications, the City must review the capital forecast and financing priorities. For the 2007 Budget process, staff will develop a new capital budget prioritization system. Difficult choices will be required as Council deals with competing demands for limited resources.