Recommendation

It is recommended that:

- The Library Board provide direction to Administration in the drafting of the 2011 LPL Operating Budget based on background information previously provided to the Board, the Library Board Budget Guiding Principles and the 4.3% target set by the City of London; and

- Administration report back to the Library Board on the strategies/scenarios required to manage cost increases and high service utilization levels in order to meet the assigned target for 2011.

Issue/Opportunity

The London Public Library (LPL) budget serves as the annual financial plan for the Library and for achieving its Vision, Mission, Service Excellence Model and Strategic Plan.

The purpose of this report is to provide information about the 2011 Operating Budget Targets established by the City of London and to seek board direction for the development of the draft budget.

Background & Review

LPL Operating Budget Target

On June 9, 2010, Board of Control approved the 2011-2015 Operating Budget Targets. The 2011 targets are based on the current economic environment in London and impact of the downturn in the world economy. The Library’s 2011 target is set at 4.3% and the
projected targets for the four following years were 3.3% each year in 2012, 2013, 2014 and 2015.

As part of the 2010 budget process, the Library projected that a 6% increase would be required for 2011. At that time, it was anticipated that approximately 2.5% would be needed for operating expenses associated with the new Northeast branch; 0.5% for unsustainable reductions made in order to meet the 2010 target; and 3.0% for operating expenditure increases due to collective agreement obligations, inflationary pressures etc.

The City has made an adequate allowance within their 2010 budget for the new Northeast branch, so the Library’s actual budget need for 2011 is reduced to 4.8%. The approved budget target is 4.3%.

The report to Board of Control, by City Treasurer Martin Hayward, states that the 2011 budget targets include contingencies for unsettled collective agreements. Where agreements expire December 31, 2010 costs are budgeted centrally; where collective agreements exist in 2011, associated increases are incorporated within the respective groups. This means that wages and benefit increases resulting from LPL’s collective agreement which extends into 2011 are to be incorporated into the LPL budget target.

The 2011 budgets do not include costs for new, previously unfunded initiatives that could be endorsed by the Service Review Committee.

**Next Steps**

The process and timelines will be similar to those for the 2010 budget, although there will be some changes to the budget format. Budget targets were set in consultation with the Boards and Commissions and approved by London City Council.

City Finance staff is holding a Budget Guidelines meeting on Thursday, June 17, 2010 to release instructions for the 2011 budget preparation. The timelines may necessitate a special Board meeting in the summer.

Please see Appendix 1: 2011 – 2015 Operating Budget Targets Report to Board of Control.
TO: CHAIR AND MEMBERS  
BOARD OF CONTROL  
MEETING ON JUNE 9th, 2010

FROM: MARTIN P HAYWARD  
CITY TREASURER AND CHIEF FINANCIAL OFFICER

SUBJECT: 2011 - 2015 OPERATING BUDGET TARGETS

RECOMMENDATIONS

It is recommended that:

1. The 2011 operating budget targets for the property tax supported budget as presented under a Service Based Budget context in Appendix 1 BE APPROVED, noting that this would result in a property tax levy increase from rates of 2.2% after assessment growth and before any additional requests and/or new initiatives; it being further noted that the 2011 budget targets are approximately $4.1 million lower than the 2011 budget projections provided by departments, boards and commissions during the 2010 budget process;

2. The 2012 to 2015 targets as presented in Appendix 1 BE APPROVED in principle and used in the development of the respective future budgets and,

3. Board of Control REQUEST pre-budget consultation sessions with the London Police Service, the London Transit Commission, and the London Public Library to gain a better understanding of the challenges and ramifications of the 2011 to 2015 budget targets.

BACKGROUND

During 2010 budget deliberations, Municipal Council resolved that "Municipal Council work with Civic Administration, the Boards and Commissions in May 2010 TO SET clear tax levy target increases for 2011 through 2014...." Consistent with prior year processes, budget targets are being presented for discussion and approval for 2011 - 2015.

The 2011 targets are based on the recognition of the current economic environment in the London community. The 2011 Operating Budget targets includes sufficient capital financing to fund the 2011 to 2019 Capital Budget Forecast projected in 2010 and also provides for a moderate increase in services that were endorsed by Council in 2010.

Administration is recommending the targets presented in APPENDIX 1. If implemented, these targets could result in a 2.7% total tax levy increase before 0.5% of projected assessment growth for a 2.2% tax levy increase from rates.

The 2011 budget targets include contingencies for unsettled collective agreements. Where collective agreements expire December 31, 2010, Civic Administration will budget centrally for these agreements under the Financial Management Service Group for Civic Departments, London Police Services, and London Fire Services. Where collective agreements exist in 2011, increases associated with these employee groups are incorporated within their respective Service Groups.

The 2011 budget targets, however, do not include any estimates for significant program initiatives such as Green Bin and any enhanced transit subsidy program. These targets also do not include any estimate in additional funding required for new initiatives that could be endorsed by the Service Review Committee.
2011 BUDGET TARGETS BY SERVICE GROUPING

The following is a breakdown by Service Group of the major contributors to the 2011 Property Tax Supported Operating Budget Target increase:

(a) Social and Health Services + 5.4% The recommended target increase for the Social and Health Services grouping is $4.1 million or a 5.4% increase over the 2010 approved net budget. This increase is comprised of the following key areas:

i. Social Services + 8.1% Ontario Work caseload is the predominant factor contributing to this services increase. OW caseload is expected to increase by 1,100 cases in 2011 representing a $2.9 million cost pressure recognizing the gradual upload of Ontario Works cost by the Province.

ii. Housing + 4.6%
   a. London & Middlesex Housing Corporation + 7% Revenues continue to remain flat, while costs are increasing in the 3-4% range as part of normal operations and to meet the needs of the residents. Owing to the revenue split, the increase on the municipal portion is disproportional to the overall cost. This continues to emphasize the need for regulatory change with respect to the shelter allowance for Ontario Works recipients.

iii. Social Housing + 3.1%

(b) Transportation Services + 5.0% The recommended target increase is $2.5 million or a 5.0% increase over the 2010 approved net budget. The primary services contributing to this increase are:

i. Public Transit + 8.1% The recommended $1.7 million increase allows transit to continue on service development, and operational costs of new facility on Wonderland Road. The London Transit Commission has projected a 9.2% requirement based on the needs identified above and ridership revenue shortfalls that continue to persist through 2010.

ii. Parking + 9.3% The recommended $0.2 million increase is required to cover revenue loss attributed to the amendments to the overnight parking program.

(c) Protective Services + 1.3% The recommended target increase is $1.8 million or a 1.3% increase over the 2010 approved net budget. The primary services contributing to this increase are:

i. London Police + 1.9% The 1.9% target increase addresses funding for additional staffing, flow through costs from 2010 hirings, as well any grant revenue loss. The 1.9% target increase does not include any cost associated with the renewal of collective agreements.

ii. London Fire + 0.5% The recommended 0.5% target in 2011 addresses the flow through costs associated with Station 14. The 0.5% target increase does not include any cost associated with the renewal of collective agreements.

The projected cost as a result of the renewal of collective agreements for London Police Services and London Fire labour groups is budgeted corporately and is not included in the targets above. In 2011, there are significant cost pressures that are expected in these areas primarily from the anticipated renewal of collective agreements with their respective associations, it being noted that the combined personnel cost in this area exceeds $110 million.

(d) Culture Services + 3.6% The recommended target increase is $0.7 million or a 3.6% increase over the 2010 approved net budget. The primary service that is contributing to this increase is:

i. Library + 4.3% An additional $0.7 million is required due to operating costs associated with opening of the new Northeast Branch Library, contractual labour costs, and reduced draws from their Energy Stabilization Reserve. Note that the London Public Library projected a 4.7% increase in 2010 to accommodate these increases.

(e) Parks, Recreation & Neighbourhood Services + 2.9% The recommended target increase of $0.7 million or a 2.9% increase over the 2010 approved net budget is primarily attributed to 4 additional supervisors at new community centres as well as collective agreement impacts for Local 107.
(f) Environmental Services + 2.2% The recommended target increase of $0.4 million is 2.2% higher than the 2010 approved net budget amounts. The primary services contributing to this increase are:

i. Conservation Authorities + 2.7%:
   a. Upper Thames River Conservation Authority + 2.1%
   b. Lower Thames Valley Conservation Authority + 1.9%
   c. Kettle Creek Conservation Authority + 2.3%
ii. Garbage, Recycling, & Composting + 2.3% Collective agreement adjustments related to Local 107 and other costs.

(g) Corporate, Operational & Council Support + 0.1% The recommended target increase of $0.1 million or a 0.1% increase over 2010 approved net budget amounts is primarily due to:

i. Corporate Services +1.3% Anticipated inflationary increases in purchased service contracts, and materials and supplies in areas such as Technology Services.
ii. Financial Management - 0.5% Anticipated decrease in costs primarily related to
   a. The upload of Ontario Disability Support costs ~ $10.4 million;
   b. Capital financing, increased contribution to reserve funds, and increase in corporate contingencies (labour and legal). + $10 million.

(h) Strategic Draws from Operating Budget Contingency Reserve (OBCR) reduced 31.9%: As part of the 2010 budget, Municipal Council approved the strategic use of $4.9 million in draws from the Operating Budget Contingency Reserve. The $4.1 million drawdown from the OBCR was intentionally used to offset one time costs such as increased costs due to ODSP and one time revenue losses (e.g. recycling revenue). Since ODSP will have been fully uploaded in 2011 and the revenue from Recycling is expected to return to normal levels in 2011, there is less revenue required from the OBCR in 2011. The recommended $1.6 million impact on the tax levy is the result of a reduced draw from the OBCR as the cost of ODSP is anticipated to be fully uploaded in 2011, and revenues from recycling and W12A tipping fees are anticipated to return to 2009 levels. Beginning 2012, dependence on the use of the OBCR will be reduced recognizing the upload in Ontario Works.

BUSINESS PLANS / NEW INITIATIVES: LINKAGE TO BUDGET TARGETS AND SERVICE GROWTH:
The Service Review Committee will receive a set of business plans in June, 2010 that outlines services, current state and future direction, including performance measures. In addition, a number of "new initiatives" will be advanced for recommendation to be considered as part of the service growth section for the 2011 budget. New Initiatives can include new services, increases in service levels or reductions in services. In all cases, the Service Review Committee should receive: the objective(s) of the new initiative; a description; the target year for implementation; sunset date; exit strategy (if eliminating a service); and, the estimates of the impact on operating and capital budgets. The intent is to provide Council with a more comprehensive review of services it provides and adequate time to discuss changes in the direction of those services along with the associated impact on the budget, both in the next and subsequent years.
The decisions resulting from the Service Level Review Committee will then be integrated into the 2011 budget development process. Each service area has the option to either:

• fund an endorsed new "initiative" through the 2011 budget target adopted by Council;

or,

• request additional funding noting that the funding of new initiatives will increase the projected tax levy requirement in 2011.

An example of a new initiative is the Green Bin Program. The following is an excerpt from that Business Plan.

On January 18, 2010 as part of the discussion on the Interim Business Plan for the Green Bin, Municipal Council directed staff to report back in fall 2010 on the initial findings of the Green Bin Pilot Program and updated information for comparable Ontario municipalities. Key issues that
remain include funding, challenges at a number of composting facilities in Ontario and changing Ministry of the Environment policies with respect to composting processes and compost quality. It is anticipated that the fall 2010 report will be used by Council for further deliberations on the budget and timing challenges of the proposed Green Bin Program for London.

Subject to final Council deliberations on financial matters, the Interim Business Plan for the Green Bin was adopted on January 18, 2010 and included both a proposed schedule for implementation and proposed funding required. These details are repeated below.

### Operating Impact
The Green Bin Program has the following financial impacts as part of the proposed, phased rollout:

<table>
<thead>
<tr>
<th>Year</th>
<th>Funding</th>
<th>Description</th>
</tr>
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<tbody>
<tr>
<td>2010</td>
<td>$100,000</td>
<td>750 household Pilot Project (Council Approved)</td>
</tr>
<tr>
<td>2011</td>
<td>$1,800,000</td>
<td>On October 1, 2011, about 50,000 households would receive curb side service</td>
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<tr>
<td>2012</td>
<td>$2,500,000</td>
<td>On October 1, 2012, the remaining households (about 50,000) would receive curb side service</td>
</tr>
<tr>
<td>2013</td>
<td>$1,100,000</td>
<td>The remaining amount of funding required for full year service for homes starting in late 2012</td>
</tr>
<tr>
<td></td>
<td>$5,600,000</td>
<td>Total Annual Operating Impact (in 2009 dollars)</td>
</tr>
</tbody>
</table>

### Capital Impact
Capital items that require purchasing include new vehicles, retrofits to a number of existing vehicles and Green Bins (carts). In 2011 the amount would be approximately $4 million with an additional $2.3 million required in 2012 for a total of $6.3 million in capital items.

### Summary
It is worth noting that Zero Waste strategies that are also required to achieve higher levels of waste diversion as being pursued by the Provincial Government include an annual operating impact of an additional $500,000 (phased in over 3 years) and a onetime capital investment of $3.2 million (over 2 years).

The future of Extended Producer Responsibility (EPR) and changes to the Provincial Waste Diversion Act are unknown at this time. Estimates provided to ETC and Council in the Interim Business Plan suggest that the City of London could see additional annual revenues (or program savings) of $2 to $4 million per year under an EPR program.

The fall 2010 report will include new details with respect to EPR funding, Green Bin program performance and any potential changes to the timetable for Council's consideration as a result of new information.

### BUDGETARY ISSUES/CHALLENGES FOR 2011 AND BEYOND:
Council must consider and balance the ramifications of approving the 2011 targets with the operational challenges that the Corporation is facing. Containing personnel costs to appropriate and reasonable levels will determine the likelihood of the Corporation achieving an overall property tax levy increase of around 2%.

Some of the key budgetary issues that Council will face in the 2011 Property Tax Supported budget include:

- **Labour Relations / Collective Bargaining:** The labour component of the property tax supported budget is well in excess of $300 million (including boards and commissions that receive an appropriation from the property tax levy). A 1% increase in salaries, wages, and benefits easily equates to a $3 million increase in property taxes before changes to staff compliment is even considered. As of December 31, 2010, three of the city’s major employee groups; CUPE Local 101, London Professional Firefighters Association, and London Police Association will be looking to negotiate new contracts with some sort of an economic adjustment. These 3 groups alone account for $173.8 million of the City’s labour budget. A corporate collective bargaining strategy that reviews the key collective bargaining issues and overall personnel costs on a centralized and corporate basis is crucial to the 2011 to 2015 target setting process.
• **Ontario Works Caseload**: The economic impacts of a recession and the impacts on municipal services such as Ontario Works (Caseload levels 2010: 11,000 - 2011: 12,100 projected) are expected to continue in 2011. Ontario Works program costs are expected to increase by 11% in 2011 as a result of a projected 1,100 increase in Ontario Works caseload. On a per case basis, an increase of one case would result in a $3,500 increase in municipal cost; the projected 1,100 caseload increase results in a $3.9 million increase in municipal cost or a 0.9% increase to the municipal tax levy.

This significant impact on the 2011 Property Tax Levy is mitigated to some extent by the Province uploading 3% of the Ontario Works “direct” caseload costs.

• **OMERS**: Based on the current status of the OMERS pension fund, both the employee and the employer contributions could face a significant contribution increase in 2011. Civic Administration is closely monitoring this area with current estimates that a 1% contribution rate increase could represent a $1.5 to $2.5 million impact on the Corporate Budget.

• **New Programs**: As previously indicated, demand for new services and service levels continue to increase (e.g., Green bin, transit subsidy).

• **Strategic use of Operating Budget Contingency Reserve and “2010 Planned Savings”**: Cost increases in 2011 from Ontario Works, are in part mitigated by the strategic use of draws from the Operating Budget Contingency Reserve ($3.5 million planned) to offset projected increases pending the upload of the direct costs associated with these programs.

It is important to note that the balance anticipated in the Operating Budget Contingency Reserve by 2012 is below 0.5% of the total gross expenditures of the municipality, therefore administration has taken measures to ensure that Departments and Program Managers embrace a “planned savings” approach to program services in 2010. Civic Departments are working to maximize planned savings in 2010 ($1.1 million reported planned saving in 4th quarter) which effectively reduces the reliance on the Operating Budget Contingency Reserve in 2010 to achieve a breakeven position by year end. A drawdown that is lower than originally anticipated assists the Corporation in managing its operating budget/tax levy challenges for the 2011 to 2015 period.

Without the efforts of planned savings in 2010 and the effective utilization of Operating Budget Contingency reserve money ($3.5 million planned in 2011), the projected tax levy increase would exceed the 3% level.

**PROVINCIAL UPLOADING (ODB, ODSP, OMPF AND OW):**

Overall provincial uploading has been a good news story for municipalities and local property tax payers. The chart below clearly indicates that since 2007, $27.9 million of social service budgeted costs have been eliminated due to the upload of the Ontario Drug Benefits and ODSP Programs. This cost has been partially offset by budget reduction of $14.1 million in OMPF revenue realized in 2007. Therefore, on a net budget basis, the City has effectively reduced its Corporate Budget by $13.9 million.

![Drug Benefit and ODSP Upload including OMPF](chart.png)
Economic Analysis, Data and Moving Forward:

With a downturn in the world economy, the resultant negative impact is having an effect in Ontario and while London has not been affected to the extent of other places in Ontario, we must remain alert keeping costs low and taking advantage of opportunities

- As expected, the outlook for assessment growth is low but there have been definitely signs in 2010 that the recovery will be faster than originally anticipated. Building Permits are higher than anticipated at this time last year.

Outlined in the table below are some economic indicators for the Province of Ontario from the past 5 months.

<table>
<thead>
<tr>
<th>Key Economic Indicator:</th>
<th>Percentage Change Over Prior Year</th>
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<tbody>
<tr>
<td></td>
<td>December '09</td>
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<tr>
<td>Consumer Price Index (1)</td>
<td>1.2%</td>
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<tr>
<td>Unemployment Rate (2)</td>
<td>9.2%</td>
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<tr>
<td>Employment Rate (2)</td>
<td>60.8%</td>
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<tr>
<td>Participation Rate (2)</td>
<td>67.0%</td>
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</table>

(1) Statistics Canada - Consumer Price Index by province, and for Whitehorse, Yellowknife and Iqaluit – as of Friday May 21, 2010
(2) Statistics Canada - Labour force characteristics by province “Seasonally Adjusted” CANSIM table 262-0087.

- Demands on other social programs have increased as people in need seek assistance for housing, medical needs and employment readiness.
- Less money being generated in the local economy means property tax payers ability to pay for goods and services are reduced. This includes taxes and other user pay municipally run services (recreation, water and waste water).
As a response to the economic slowdown, Council is maintaining an aggressive approach to attracting economic development by offering competitive industrial land prices and waiving industrial development charges.

Outlined in the table below are key economic indicator forecasts for the Province of Ontario for the 2011 to 2015 period which was compiled by The Conference Board of Canada in their Provincial Outlook Long-Term Economic Forecast 2010.

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<thead>
<tr>
<th>Key Economic Indicator</th>
<th>Percentage Change Over Prior Year</th>
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<tbody>
<tr>
<td>Ontario</td>
<td>2011</td>
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<td>GDP</td>
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<td>Employment</td>
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<td>Unemployment Rate</td>
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<td>Retail Sales</td>
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<td>Housing Starts</td>
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Source: The Conference Board of Canada

In Appendix 1, Civic Administration has provided budget targets for the next 5 years. These targets, if adopted by Municipal Council could achieve an average tax levy increase from rates of 2.3% over the next 5 year period. These increases would accommodate a moderate growth in service while maintaining modest increases in property taxes. It should be noted that in that same period personal disposable income is expected to increase on average 4.86%.

CONCLUSION:

Adoption of the targets for 2011 – 2015 will create challenges for the various departments, boards and commissions as the Corporation transitions into a service based organization. It is important that Council indicate its intention as early as possible to allow departments, boards and commissions sufficient time to adapt to any service based targets that would require business or service level changes.

PREPARED BY:

Larry Palarchio
Director of Financial Planning & Policy

RECOMMENDED BY:

Martin Hayward
Chief Financial Officer and City Treasurer

CONCURRED BY:

Ross Fair
Acting Chief Administrative Officer

cc: Members of CMT, City of London; Suzanne Hubbard-Kimmer, London Public Library; Jerry Campbell, Lower Thames Valley Conservation Authority; Lori DaSilva, London Convention Centre; Larry Ducharme, London Transit Commission; Chief Murray Faulkner, London Police Services; Ugo Filice, London Middlesex Housing Corporation; Elizabeth VanHooren, Kettle Creek Conservation Authority; Brian Meehan, Museum London; Dr. Graham Pollett, Middlesex-London Health Unit; Ian Wilcox, Upper Thames River Conservation Authority; John Winston, Tourism London
### Appendix 1 - 2011 to 2015 budget targets in 2011 (In $ 000's)

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