

Analyst Briefing Notes
Administration Committee
(January 5, 2006)

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PART I: 2006 Operating Budget Overview

Table 1: 2006 Proposed Budget

	2005		2006 Proposed Operating Budget			Change 2006 Proposed from 2005 Budget		FY Incremental Outlook	
	2005 Approved Budget	2005 Proj Act.	2006 Proposed Base	2006 New Council Priorities	2006 Proposed Op. Bud.			2007	2008
(In \$000s)	\$	\$	\$	\$	\$	%	\$	\$	
GROSS EXP.	60,452.2	61,263.2	62,109.4	1,102.6	63,212.0	2,759.8	4.6	204.3	0.0
REVENUE	30,126.7	31,590.2	31,177.4	1,102.6	32,280.0	2,153.3	7.1	204.3	0.0
NET EXP.	30,325.5	29,673.0	30,932.0	0.0	30,932.0	606.5	2.0	0.0	0.0
Approved Positions	724	724	718.0	14.0	732.0	8.0	1.1	0.0	0.0
TARGET			30,932.0						
\$ Over / (Under) Program Target			(0.0)						
% Over / (Under) Program Target			(0.0)						

Executive Summary

- The 2005 projected net expenditure of \$29.673 million is \$0.653 million below the 2005 Approved Budget due mainly to realized savings from hiring delays and non-recurring revenue.
- The 2006 Proposed Budget for the Office of the Treasurer of \$30.932 million net is comprised of Base funding of \$30.932 million and \$0.00 million for New Services and is 2.0% higher than the 2005 Approved Budget and therefore meets the target. The 2006 Proposed Budget also includes a base budget reduction of 6 positions in Accounting Services to reflect the implementation of the 3 Way Match capital project scheduled for completion in June 2006 and the addition of 14 new positions for New Services detailed below for a net increase of 8 staffing positions.
- 2006 Key Cost Drivers include collective agreement decisions and inflationary increases of \$2.770 million.
- Proposed Base Budget Adjustments total of \$1.026 million for the following:
 - Implementation of a new administrative transaction fee for Parking Tag web payments and an increase in current administrative transaction fees for paying parking tickets on the City’s automated payment systems that will generate revenues of \$0.550 million;
 - Efficiency savings in the amount of \$0.426 million for non-labour expenditures, the elimination of manual distribution of bid documents, transition from using external support to internal support for the City’s Parking Tag System and reduction in the overtime budget; and

- Revenue of \$0.050 million for vendor early payment discounts.
- Proposed New Program Requests of \$1.103 million gross and \$0 net includes \$0.477 million for 5 additional staff to enhance tax assessment analysis and to maximize the City's property tax revenues; \$0.509 million for 6 additional resources in the Purchasing Division and 3 temporary staff for the capital Fixed Asset Records System Project Team.

Recommendations:

It is recommended that the Office of the Treasurer's 2006 Proposed Operating Budget of \$63.212 million gross and \$30.932 million net, comprised of the following services, be approved:

<u>Service:</u>	<u>Gross</u> <u>(\$000's)</u>	<u>Net</u> <u>(\$000's)</u>
Pension, Payroll and Employee Benefits	11,251.8	9,645.1
Purchasing & Materials Management	8,342.5	6,630.2
Accounting Services	11,173.5	8,846.7
Revenue Services	32,444.2	5,810.0
	<hr/>	<hr/>
Total Program Budget	<u>63,212.0</u>	<u>30,932.0</u>

PART II: BASE BUDGET

Section A: 2005 Budget Variance Analysis

Table 2: 2005 Budget Variance Review

	2004 Actuals	2005 Approved Budget	2005 Projected Actuals*	2005 Approved vs Projected Actuals Variance Over/(Under)	
(In \$000s)	\$	\$	\$	\$	% Unspent
GROSS EXP.	56,995.3	60,452.2	61,263.2	811.0	1.3
REVENUES	28,857.8	30,126.7	31,590.2	1,463.5	4.9
NET EXP.	28,137.5	30,325.5	29,673.0	(652.5)	(2.2)
Approved Positions	722	724	724	0.0	0.0

*Projected Actual expenditures to year-end based on 3rd Quarter Variance Report

2005 Experience

The 3rd quarter projection to year-end is \$29.673 million net. This represents a \$0.653 million favourable variance which is attributed to the following:

- Gross expenditures are over spent and revenues are over achieved in the amount of \$1.279 million. This is due to unbudgeted commodity tax contributions and recoveries that are administered through the Accounting Services Division. There is no impact on a net basis.
- On a net basis under-spending of \$0.653 million is due to a delay in hiring and one-time refund of SAP maintenance fees. The 2005 Operating Budget includes budgeted gapping of \$1.676 million which represents a rate of 3.5%. The program is expected to achieve a 3.5% gapping for 2005. Under expenditures realized during 2005 are outlined below:

Major projected cost savings to year-end:	(\$000s)
Delays in hiring /Increased Gapping	500
One-time refund of SAP maintenance fees	<u>153</u>
Projected Savings	\$653

Impact of 2005 Operating Variance on 2006 Proposed Budget

- The savings realized in 2005 is not expected to recur in 2006.

Section B: 2006 Proposed Base Budget

Table 3: 2006 Proposed Base Budget

(In \$000s)	2005 Approved Budget	2006 Requested Base	2006 Proposed Base	Change 2006 Proposed Base v. 2005 Approved Budget		FY Incremental Outlook	
	\$	\$	\$	\$	%	2007	2008
						\$	\$
GROSS EXP.	60,452.2	62,559.3	62,109.4	1,657.2	2.7	0.0	0.0
REVENUE	30,126.7	30,601.4	31,177.4	1,050.7	3.5	0.0	0.0
NET EXP.	30,325.5	31,957.9	30,932.0	606.5	2.0	0.0	0.0
Approved Positions	724	718	718	(6)	(1)	0.0	0.0
NET TARGET			30,932.0				
\$ Over / (Under) Program Target			(0.0)				
% Over / (Under) Program Target			0.0%				

2006 Proposed Base Budget

- The 2006 Proposed Base Budget of \$30.932 million net represents a 2% increase over the Program's 2005 Approved Budget.
- The 2006 Proposed Base Budget meets the targeted 2% increase in net expenditures over the 2005 Approved Budget. The 2% was achieved through the introduction of a new Administrative user fee (\$0.300 million) and an increase in the current administrative user fee (\$0.250 million). These were approved by City Council at its meeting of December 5, 6, and 7, 2005.
- The 2006 Proposed Base Budget also includes service level efficiency savings of \$0.426 million and \$0.050 million in revenues generated from additional vendor early payment discounts.
- A reduction of 6 temporary staff positions is due to the implementation of the Accounts Payable 3 Way Match capital project scheduled for completion in June 2006.

2006 Key Costs Drivers

Most of the cost increases in the Office of the Treasurer are salary related given that 76% of the gross program budget is comprised of salaries and benefits. Such costs include:

- Ongoing merit, higher cost of benefits, and inflationary increases for an increase of \$1.449 million; and
- Collective agreement decisions which impact salary costs in the amount of \$1.321 million (COLA, Local 416 and 79 wage harmonization).

**Table 4: Summary of Proposed Base Budget Changes
From 2005 Approved Budget**

	Summary of 2006 Base Budget Adjustments				Net Incremental Outlook	
	Approved Positions	Gross Expenditures	Revenues	Net	2007	2008
(\$000's)		\$	\$	\$	\$	\$
2005 Approved Operating Budget	721	58,649.5	30,126.7	28,522.8	0.0	0.0
In-year approvals and technical adjustments	3	1,802.7	0.0	1,802.7		
2005 Approved Operating Budget	724	60,452.2	30,126.7	30,325.5	0.0	0.0
Annualizations		1,226.0	40.0	1,186.0		
Economic factors		1,543.6	37.2	1,506.4		
Adjusted Base Budget	724	63,221.8	30,203.9	33,017.9	0.0	0.0
Other base changes	(6.0)	(662.5)	(278.0)	(384.5)		
Base revenue changes		0.0	675.5	(675.5)		
2006 Base Budget Request	718	62,559.3	30,601.4	31,957.9	0.0	0.0
Proposed Base Adjustments:						
Other base changes						
Service efficiencies		(390.9)	(24.0)	(366.9)		
Revenue adjustments		0.0	600.0	(600.0)		
Minor service impact		(59.0)	0.0	(59.0)		
Major service impact						
Total Proposed Base Adjustments	0	(449.9)	576.0	(1,025.9)	0.0	0.0
2006 Proposed Base Budget	718	62,109.4	31,177.4	30,932.0	0.0	0.0
2006 Program Operating Target	N/A	N/A	N/A	30,932.0		
% Over (Under) Program Target	N/A	N/A	N/A	(0.0)		
% Over (Under) 2005 Approved Budget	(0.8)	2.7	3.5	2.0		

Section C: 2006 Base Budget Issues

Key Issues / Recommendations

Service Level Changes

The service level adjustments proposed by the Program are recommended. A thorough review of the expenditures and revenues was conducted resulting in efficiency savings of \$0.169 million; changing external support for the Parking Tags System to internal support for a savings of \$0.119 million; and elimination of the manual distribution of bid documents to suppliers for a savings of \$0.138 million. These efficiency measures will not affect current services.

Revenue Changes

- **Vendor early payment discounts**

The 2006 Proposed Budget includes a recovery of vendor early payment discounts in Accounting Services due to continuous improvements in the payment cycle. This will result in a recovery of \$0.050 million.

In 2004, as a result of findings from the Payment Process Improvement Project, Accounting Services identified increasing vendor early payment discounts as a priority for 2005 and budgeted \$0.380 million gross as the target. As approved by Council, the savings realized are split 50/50 between other City Divisions and Accounting Services as both play a role in expediting payment. In February of 2005, an Accounts Payable Discount desk was created to identify and expedite vendor invoices that have early payment discount terms. In the summer of 2005, existing large vendors to the City that were not providing early payment discounts were contacted to determine their interest in offering discounts for early payment.

The program has been a success and the following results have been achieved.

	Discounts Earned	Discounts Missed	Late Payment Penalties Paid
2005 – September 30	\$ 259,411	\$64,369	\$ 5,093
2004 annual	\$ 119,000	\$280,000	\$ 9,945
2003 annual	\$ 41,000	N/A	\$ 40,051

It is expected that the \$0.380 million target for 2005 will be achieved as there has been an upward trend in discounts realized in each quarter. In 2006, Accounting Services is targeting \$0.480 million in discounts realized (\$0.120 million per quarter as compared to the third quarter in 2005 which was \$0.108 million).

- **New User Administration Fee for parking tag web payments**

An administrative/user fee of \$1.50 per transaction for parking tickets paid via the City’s web payment portal will be introduced January 1, 2006. This fee will generate \$0.300 million revenues based on an estimate of 200,000 transactions per year. Currently the City does not

charge a fee for this service while other GTA municipalities charge a \$1.50 Administration fee for each parking ticket paid through their internet/website.

A staff report entitled “User Fees: Parking Tag Operations” was approved at the Policy and Finance Committee at its November 22, 2005 meeting outlining the proposal and was adopted by City Council at its meeting on December 5, 6 and 7, 2005.

- **Increase Administration Fee for IVR payments by \$0.50**

The 2006 Proposed Budget includes an increase in the administrative/user fee from the current fee of \$1.00 to \$1.50 per transaction for payment of a parking ticket via the City’s internet web payment portal system effective January 1, 2006. This \$0.50 fee increase will generate additional revenues of \$0.250 million based on estimates of 500,000 transactions per year.

A staff report entitled “User Fees: Parking Tag Operations” was approved at the Policy and Finance Committee at its November 22, 2005 meeting outlining the proposal and was adopted by City Council at its meeting on December 5, 6 and 7, 2005.

3 Yr Operating Budget Overview

- The strategic direction of the Office of the Treasurer over the next three years is to improve the levels of service provided to its internal and external customers. This will be accomplished by implementing various capital initiatives that will provide service enhancement tools for staff. These capital initiatives will be supported by the appropriate resource allocations in the future years’ Operating Budgets for the Office of the Treasurer.

For its external customers, the implementation of a document management system in Revenue Services and Accounts Payable will improve the level of response to taxpayer, water customer and vendor inquiries. The implementation of a fixed area network for water meters will enhance reading and reduce errors and complaints.

For its internal customers, the document management system for Accounts Payable will allow Divisions to approve invoices on a timely basis which will reduce vendor complaints and increase early payment discounts. The completion of the Time Entry System (TES) replacement project will provide Divisions with one time entry and attendance system.

In addition, initiatives reflected in the operating budget will enhance services as well. The provision of bid documents on-line will streamline the bidding process and encourage more bidders. Adding a direct deposit option for vendor payment will improve service, increase early payment discounts and reduce incidents of cheque fraud.

On an ongoing basis, the Divisions of the Office of the Treasurer will continue to review and revise the policies and processes they are responsible for, particularly those in Purchasing and Materials Management, to ensure that they are efficient, effective and meet our client’s needs. Training for both staff within the Divisions and for staff within the client divisions remains a priority.

Service Levels, delivery, or Gap Issues

- Continue implementation of the Auditor General recommendations arising from the Purchasing Process Review.

- Complete Phase 3 Deployment of the TES Replacement Project, replacing TES functionality with SAP functionality.
- In collaboration with the Executive Office of the City Manager and the Financial Planning Division, Accounting intends to revisit the cost centre structures/program maps put in place in the City's financial information system in 1999. The cost centre is the basic building block of the City's financial reporting and budgeting requirements. Since 1999, the information needs of both Council and management have changed as greater interest has been placed on non-financial performance measurement. Further changes may be warranted as a result of the new organization structure.

Using improved design principles, the Division intends to review the existing cost centre structures/program maps based on the new organizational structure and establish cost centres which will be able to provide necessary information to division staff, senior management and Councillors. It is intended that this project use in-house staff resources and therefore the speed in which this project will proceed will depend upon the availability of staff, particularly divisional staff, against other competing priorities.

The goal of this project is to ensure that the cost centres in place allow for the efficient collection of financial data at a level of detail that promotes relevant and meaningful reporting to management and Council.

- Complete implementation of a new organizational structure for the Revenues Services Division that will enhance customer service response time and promote operational efficiencies.

Issues Referred to 2006 Operating Budget Process

None.

Outstanding Issues from 2005 and Prior Years

At its meeting held on April 19, 20, 21, 22, 23, 26, 27 and 28, 2004 City Council, in adopting as amended, Clause No. 2 contained in Report No. 3 of the Policy and Finance Committee, entitled "City of Toronto 2004 Budget Advisory Committee Recommended Budget" requested that the Chief Financial Officer and Treasurer report to the Budget Advisory Committee prior to the 2005 Budget process, on a strategy to defend the City's assessment base, such a report to include a business case for adjusting resources to this area.

In response to the aforementioned motion, the Budget Advisory Committee at its meeting held on January 1, 2005 received a report (dated January 26, 2005) from the Chief Financial Officer and Treasurer advising that the Revenue Services Division was establishing an Assessment Analysis and Review Unit through the realignment of three (3) existing/internal staff.

The Revenue Services Division and Legal Services have identified a need for six (6) additional staff resources to manage the increasing demands associated with participating in assessment and tax appeals and actively reviewing the City's assessment base. A new request for 5 additional staff is requested for 2006 (see page 10).

Appendix A

Summary of Proposed Service Level Adjustments

PART III: NEW COUNCIL PRIORITIES

Section D: 2006 Proposed New Council Priorities

Table 5: Summary of 2006 Proposed New Council Priorities (\$000)

Council Priority	Description	Total 2006 New Requests		2006 Not Proposed		2006 Proposed Council Priorities		Proposed New Positions	Net Incremental Impact													
		Gross Exp.	Net Exp.	Gross Exp.	Net Exp.	Gross Exp.	Net Exp.		2007	2008												
		\$	\$	\$	\$	\$	\$		#	\$	\$											
Council Priorities:																						
	Sub-Total Council Priorities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0												
New Requests Referred to 2006 Operating Budget:																						
10	Additional staff for Assessment Analysis & Review unit	476.9	0.0			476.9	0.0	5.0	0.0	0.0												
	Sub-Total Referred	476.9	0.0	0.0	0.0	476.9	0.0	5.0	0.0	0.0												
New Program Requests:																						
10	Fixed Asset Records System Project Team	117.0	0.0			117.0	0.0	3.0	0.0	0.0												
10	Additional staffing and professional services resources required for large or complex commodity procurement	508.7	0.0			508.7	0.0	6.0	0.0	0.0												
	Sub-Total New Program Requests	625.7	0.0	0.0	0.0	625.7	0.0	9.0	0.0	0.0												
Total New Council Priorities		1,102.6	0.0	0.0	0.0	1,102.6	0.0	14.0	0.0	0.0												
<table style="width: 100%; border: none;"> <tr> <td style="width: 40%; border: none;">Council Priority</td> <td style="border: none;">6 - Ensure housing is affordable</td> </tr> <tr> <td style="border: none;">1 - Improve Public Service</td> <td style="border: none;">7 - Get the powers and funding needed for Toronto to succeed</td> </tr> <tr> <td style="border: none;">2 - Make Progress on the Waterfront</td> <td style="border: none;">8 - Improve the planning process</td> </tr> <tr> <td style="border: none;">3 - Improve Business Climate</td> <td style="border: none;">9 - Increase public involvement in civic affairs</td> </tr> <tr> <td style="border: none;">4 - Make Toronto a clean and beautiful city</td> <td style="border: none;">10 - N/A</td> </tr> <tr> <td style="border: none;">5 -Strengthen our at-risk neighbourhoods</td> <td style="border: none;"></td> </tr> </table>											Council Priority	6 - Ensure housing is affordable	1 - Improve Public Service	7 - Get the powers and funding needed for Toronto to succeed	2 - Make Progress on the Waterfront	8 - Improve the planning process	3 - Improve Business Climate	9 - Increase public involvement in civic affairs	4 - Make Toronto a clean and beautiful city	10 - N/A	5 -Strengthen our at-risk neighbourhoods	
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5 -Strengthen our at-risk neighbourhoods																						

Key Issues / Recommendations

2006 New Council Priorities

- There are no new Council Priorities proposed for 2006.

New Requests Referred to 2006 Operating Budget Process

- **Additional Staff for Assessment Analysis and Review**

On December 5, 6 and 7, 2005 City Council approved the staff report titled “2006 Operating Budget Request –Additional Staff Resources to Manage Assessment and Taxation Issues” for 5 additional staff for the Assessment Analysis & Review Unit in Revenue Services requiring \$0.477 million to be fully funded by a reduction in the City’s Non-Program Tax Deficiency budget.

The additional staff are required to monitor the quality of the returned assessment roll, undertake assessment appeals and participate in appeals to prevent unjustified erosion of the assessment base. The Assessment Analysis Unit is currently comprised of 3 staff. It is proposed that the complement be increased by 3 analysts and 2 clerks as well as 1 solicitor in Legal Services (to prepare and defend appeals before the Assessment Review Board). This will allow for an increase in the number of properties that are reviewed and appealed in order to correct the assessed value and to maximize the City's property tax revenues. If successful, these appeals will generate an additional \$2 million in additional property tax revenues that would otherwise not have been realized.

2006 New Program Requests

- All recommended new program proposals are to be restricted to items that are fully funded. The following proposals in this category are fully funded and are included in the Office of the Treasurer's 2006 Proposed Operating Budget.

- **Fixed Asset Records System Project Team**

It is proposed that 3 temporary staff be assigned to work with Program areas to gather asset information, identify gaps and develop a system required to meet the accounting and reporting requirements mandated by the Province of Ontario when standards are finalized by the Public Service Accounting Board. The \$0.117 million in staffing costs will be fully funded from the Fixed Asset Records System project included in the Program's 2006 Approved Capital Budget.

- **Additional Staffing and Professional Services Resources for Large or Complex Commodity Procurement**

In order to facilitate procurement for capital project completion, it is proposed that six new staff and professional services be added to the Purchasing complement to address workload issues and to establish a budget to assist in the development and preparation of RFPs and multi year contracts for large or complex commodities.

The current level of resources in the Purchasing Division is inadequate to meet the purchasing requirements of the City. There are currently 25 buyer positions including management staff and this group issued 1,991 calls in 2004. In addition, a standards and specifications unit of five staff inspects and tests goods delivered to ensure they meet defined specifications. There is no professional services budget to assist in the development and preparation of RFPs and blanket contracts for large or complex commodities. The addition of five buyer positions to address the workload and the addition of one engineer due to an increase in the number of specifications is requested. In addition, a professional services budget to support the preparation of large, complex contracts for priority purchases is requested.

The procurement process is a critical component in completing capital project work. Senior management across the organization have identified the lack of purchasing resources as a significant issue that requires immediate attention. The Purchasing

Division has undergone a reorganization to maximize the use of existing resources and process improvements have been made. The additional resources proposed in this budget are to address the need to catch-up on its existing workload and meet the needs of the growing capital program. All resources will be funded through inter-program recoveries from the various Divisions' operating budgets in 2006 and 2007, including Parks, Forestry and Recreation, Toronto Water and Technical Services, on behalf of Transportation Services.

Appendix B

Summary of New and Enhanced Services