

# Analyst Briefing Notes

## Budget Committee

(March 26, 2007)

### 2007 OPERATING BUDGET

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**2007 OPERATING BUDGET**

**Executive Summary**

- The 2006 preliminary year-end actual expenditure is \$52.569 million net and reflects a favourable variance of \$0.392 million or 0.7% of the 2006 Approved Budget. This variance is attributable to lower than planned utility costs as a result of the mild weather and higher than planned revenue recoveries as a result of additional work performed for clients.
  - The favorable net operating budget variance reported in the Preliminary Year-End Variance Report is not expected to have any impact on the 2007 Recommended Budget since it is attributable to one-time factors which will not recur in 2007.
  
- The 3-Year Operating Budget supports Facilities and Real Estate’s commitment to advance City-wide priorities by protecting and maximizing the City’s property assets in a fiscally sustainable manner.
  - A major challenge for 2007 and beyond will be to identify and monitor emerging issues, policies, code and legislative requirements pertaining to maintenance of facilities and to ensure adherence to technical standards and safety regulations. Facilities and Real Estate staff are also committed to a number of other initiatives that will be undertaken and implemented internally, such as a facilities governance review, introduction of a new leasing data base application and upgrade and replacement of software for tracking and monitoring capital assets, as well as externally, including the Nathan Phillips Square redevelopment and Union Station revitalization.
  
- The 2007 Recommended Operating Budget of \$53.944 million net is \$0.983 million or 1.9% over the 2006 Approved Budget and the 2007 target.

**Table 1: 2007 Recommended Budget**

| (In \$000s)                             | 2006               |                       | 2007 Recomm'd Operating Budget |                         |                            | Change - 2007 Recommended Operating Budget v. 2006 Appvd. Budget |     | FY Incremental Outlook |       |
|---|--------------------|-----------------------|--------------------------------|-------------------------|----------------------------|--|-----|------------------------|-------|
|   | 2006 Appvd. Budget | 2006 Projected Actual | 2007 Recomm'd. Base            | 2007 Rec. New /Enhanced | 2007 Rec. Operating Budget |  |     | 2008                   | 2009  |
|   | \$                 | \$                    | \$                             | \$                      | \$                         | \$   | %   | \$                     | \$    |
| <b>GROSS EXP.</b>                       | 117,761.2          | 119,428.0             | 120,629.9                      | 1,791.1                 | 122,421.0                  | 4,659.8  | 4.0 | 2,245.0                | 699.8 |
| <b>REVENUE</b>                          | 64,800.3           | 66,859.2              | 66,867.7                       | 1,609.1                 | 68,476.8                   | 3,676.5  | 5.7 | 0.0                    | 0.0   |
| <b>NET EXP.</b>                         | 52,960.9           | 52,568.8              | 53,762.2                       | 182.0                   | 53,944.2                   | 983.3  | 1.9 | 2,245.0                | 699.8 |
| <b>Approved Positions</b>               | 764.4              | 764.4                 | 764.4                          | 9.6                     | 774.0                      | 9.6  | 1.3 |                        |       |
| <b>TARGET</b>                           |                    |                       | <b>52,960.9</b>                |                         | <b>52,960.9</b>            |  |     |                        |       |
| <b>\$ Over / (Under) Program Target</b> |                    |                       | <b>801.3</b>                   |                         | <b>983.3</b>               |  |     |                        |       |
| <b>% Over / (Under) Program Target</b>  |                    |                       | <b>1.5%</b>                    |                         | <b>1.9%</b>                |  |     |                        |       |

- The 2007 Recommended Operating Budget of \$53.944 million net is comprised of \$53.762 million net for base funding and \$0.182 million net for new/enhanced service priorities which require an increase of 9.6 new positions.
  - The 2008 and 2009 Outlook net increase of \$2.245 million or 4.2% and \$0.700 million or 1.3% respectively includes the following: (a) for 2008, cost of living adjustments (COLA), ongoing merit and step increases, an additional one day in 2008 (leap year) and the annualized impact of new positions recommended for 2007, and (b) for 2009, ongoing merit and step increases, and reversal of an additional day included in 2008. The outlook for 2009 does not include a provision for COLA, as the increase is subject to future negotiations.
- The 2007 Recommended Base Budget is \$0.801 million or 1.5% over the 2007 target. The base budget includes anticipated savings of \$1.816 million from increased service contract efficiencies (\$1.384 million) as well as from step and merit adjustments (\$0.432 million).
  - 2007 key cost drivers consist of COLA, merit, step and non-salary inflationary increases (\$4.009 million) and other base changes (\$0.682 million) which include the impact of one additional working day in 2007 and increased fuel costs and rental rates for corporate vehicles. To offset these pressures, the 2007 Recommended Base Budget includes, in addition to the above savings, an increase in recoveries from fully recoverable client services (\$0.556 million) and lease revenues (\$1.511 million).
- The 2007 Recommended Base Budget provides funding to maintain the same level of service as in 2006. It should be noted, however, that inflationary impacts from rising utility prices in 2007 are included in the City's 2007 Recommended Non-Program Budget. When transferred to Facilities and Real Estate, this item will create an additional pressure on this Program's base budget in future years.
- The 2007 recommended new/enhanced service priorities will result in an increase of \$1.791 million gross / \$0.182 million net and a 2008 net incremental cost of \$0.049 million. These priorities will require 9.6 new positions and include the following:
  - Program-initiated enhanced service priorities: (a) one additional position to respond to emerging environmental issues and to satisfy anticipated demand for environmental projects, and (b) an additional 1.6 positions to provide cleaning and caretaking services for Toronto Police Service.
  - Program-initiated new service priorities: (a) establishment of a management unit for Union Station (3 new positions) in order to realize its full revenue potential, and (b) establishment of a taxation unit (2 new positions) to provide property tax and assessment support to all City Divisions.
  - In addition to the above, two new service priorities are included in support of the Mayor's objective to develop a comprehensive climate change plan to cut greenhouse gas emissions to help combat global warming: (a) Council-approved funding for the Toronto Energy Plan development, and (b) a Program-initiated Demand Response Program Proposal (2 positions) to respond to the Ontario Power Authority initiatives to reduce future power generation in Ontario.
- In addition to the funding required to maintain the same level of service as in 2006, the 2007

Recommended Budget provides funding which will result in: (a) service enhancements such as dedicated staff for environmental projects, as well as additional caretaking and cleaning services for Toronto Police Service, and (b) new service priorities including provision of an Energy Plan for Toronto, sound stewardship for a key heritage building such as Union Station, as well as greater participation in the energy demand reduction options initiated by Ontario Power Authority.

- A key issue for Facilities and Real Estate continues to be the development and evaluation of different strategies, programs and priorities which promote the latest building maintenance standards and green initiatives that reduce energy consumption.

**Recommendations**

The City Manager and Chief Financial Officer recommend that:

1. the 2007 Recommended Operating Budget for Facilities and Real Estate of \$122.421 million gross and \$53.944 million net, comprised of the following services, be approved:

| <u>Service:</u>      | <u>Gross</u><br><u>(\$000s)</u> | <u>Net</u><br><u>(\$000s)</u> |
|----------------------|---------------------------------|-------------------------------|
| Facilities           | 108,525.8                       | 65,922.1                      |
| Real Estate          | <u>13,895.2</u>                 | <u>(11,977.9)</u>             |
| Total Program Budget | <u>122,421.0</u>                | <u>53,944.2</u>               |

2. the funding for the Recommended Coordination and Oversight positions for the Proposal for City Demand Response (DR) submitted to the Ontario Power Authority, in the amount of \$0.150 million, gross \$0 net, be approved subject to this proposal being accepted and funding being provided by the Ontario Power Authority; and
3. the Director of Real Estate report back on operational results and financial viability of the Recommended Real Estate Taxation Unit after the first year of its implementation, in time for consideration with the 2009 Operating Budget process.

## Section A: 2006 Budget Variance Analysis

**Table 2: 2006 Budget Variance Review**

| (In \$000s)               | 2005<br>Actuals | 2006<br>Approved<br>Budget | 2006<br>Projected<br>Actuals* | 2006 Appvd. Budget vs<br>Projected Actuals Variance |       |
|---------------------------|-----------------|----------------------------|-------------------------------|---|-------|
|                           | \$              | \$                         | \$                            | \$  | %     |
| <b>GROSS EXP.</b>         | 111,810.2       | 117,761.2                  | 119,428.0                     | (1,666.8)   | (1.4) |
| <b>REVENUES</b>           | 61,011.6        | 64,800.3                   | 66,859.2                      | (2,058.9)   | (3.2) |
| <b>NET EXP.</b>           | 50,798.6        | 52,960.9                   | 52,568.8                      | 392.1   | 0.7   |
| <b>Approved Positions</b> | 764.4           | 764.4                      | 764.4                         | 0.0   | 0.0   |

\* Projected Actuals Based on the Preliminary Year-End Operating Variance Report

### 2006 Experience

The Preliminary Year-End Operating Variance report for Facilities and Real Estate reflects a favourable variance of \$0.392 million net that brings the year-end spending 0.7% under the 2006 Approved Budget. This variance is due to lower than planned utility costs as a result of the mild weather and higher than planned revenue recoveries as a result of additional work performed for clients.

### Impact of 2006 Operating Variance on 2007 Recommended Budget

The preliminary year-end favorable net operating budget variance is not expected to have any impact on the 2007 Recommended Budget since the 2006 variance is attributable to one-time factors which will not recur in 2007.

## **Section B: 2007 Operating Budget Overview**

### **3-Year Operating Budget Overview**

The 3-Year Operating Budget supports Facilities and Real Estate's commitment to work collaboratively with clients to advance City-wide priorities by protecting and maximizing the City's property assets in a fiscally sustainable manner.

Facilities and Real Estate will continue to evaluate strategies, programs and service priorities that promote the latest building maintenance standards, including green initiatives that lower energy consumption rates and contribute to the reduction of greenhouse emissions. The Program's key strategic priorities and directions include:

- Identifying and monitoring emerging issues, policies, code and legislative requirements pertaining to maintenance of facilities and to ensure adherence to technical standards and safety regulations and to implement the City-wide maintenance standards.
- Developing and implementing the following initiatives:
  - Complete the Toronto Energy Plan.
  - Continue to enhance the City's participation in the Toronto Hydro-Electric System Limited Conservation and Demand Management Plan.
  - Maximize the City's energy efficiency incentive funding received from other orders of government.
  - Continue to implement the Business Integration Project (BIP) system including introduction of a new leasing data base application and upgrade and replacement of software for tracking and monitoring capital assets.
  - Commence the Nathan Phillips Square redevelopment.
  - Complete Union Station revitalization project plan and funding assessment.

### **Service Delivery – Challenges and Issues**

Facilities and Real Estate provide the following services:

- The Facilities Operations section provides facility maintenance and security and life services to various City Divisions. It services 950 City buildings, with approximately 44,000 work orders completed on an annual basis.
- Facilities Services is responsible for custodial services and customer support functions for various buildings throughout the City of Toronto. In 2006, it provided custodial service for approximately 9.0 million square feet of public space. It also administered 58,000 room bookings and coordinated 8,000 events.
- Business and Strategic Innovation Services (BSI) provides business analysis, energy and waste management, strategic policy and project development and portfolio planning. It implemented a "no-waste program" in 20 buildings and it will continue to implement the City-wide energy

efficiency projects and building retrofits.

- Design, Construction and Asset Preservation (DCAP) provides construction project management services and space and facility life cycle planning. It completes about 275 building condition assessments annually. In 2006, it worked on 600 capital projects and renovated 160,000 square feet of floor space.
- Real Estate manages the asset portfolio of 5,250 properties, including 860 leases generating over \$20 million in revenue annually.

The 2007 Recommended Budget provides base funding to maintain the same level of services as in 2006 as follows:

- \$108.526 million gross, \$65.922 million net for services provided by Facilities (Facilities Operations, Facilities Services, Business and Strategic Innovation and Design, Construction and Asset Preservation).
- \$13.713 million gross, \$(11.978) million net for services provided by Real Estate.

In addition to the above, the 2007 Recommended Budget provides funding for enhanced and new service priorities (\$1.791 million gross, \$0.182 million net) resulting in a total service cost as follows:

- \$108.526 million gross, \$65.922 million net for services provided by Facilities:
  - Facilities Services - additional custodial and care taking services will be provided to Toronto Police Service - another 10,000 square feet will be added to the floor space at cost of \$0.119 million gross, \$0 net.
  - Design, Construction and Asset Preservation – the environmental unit will be expanded by adding one staff position (\$0.087 million gross, \$0 net), providing proactive response to the emerging environmental issues as well as an enhanced service to its clients.
  - Business and Strategic Innovation – new service priorities are added in order to increase revenues from Union Station management (0.683million gross, \$0 net) and to respond to new energy demand management initiatives by Ontario Power Authority (\$0.150 million gross, \$0 net).
- \$13.895 million gross, \$(11.978) million net for services provided by Real Estate:
  - A new Real Estate Taxation Unit will be established to provide property tax and assessment support to all City Divisions for properties where city has an interest.

A major challenge for 2007 and beyond will be to maintain the existing service levels without affecting the management and maintenance of the City's property asset portfolio as well as security, cleaning and other services provided at corporate buildings and at Special Events.

### Mayor's Mandate

The 2007 Recommended Operating Budget supports the following key objective of the Mayor's Mandate:

- *Develop a comprehensive climate change plan to cut greenhouse gas emissions to help combat global warming*

Facilities and Real Estate, through the Energy Efficiency Office, coordinates energy efficiency efforts across the City and assists other Programs to enable the City's participation in various provincial and federal initiatives concerning renewable energy, clean energy generation and energy conservation and demand projects. This is aligned with an overall objective of lowering energy consumption rates and reducing greenhouse emissions. The 2007 Recommended Budget includes the funding for the following new service priorities:

- Administration of the City's Demand Response Program in the amount of \$0.150 million to provide an overall program coordination and oversight in order to respond to the Ontario Power Authority initiative to reduce future power generation demand.
- Development of the Toronto Energy Plan in the amount of \$0.570 million to address critical energy issues for various initiatives in conservation and demand management and provision of renewable energy.

## Section C: 2007 Recommended Base Budget

Table 3: 2007 Recommended Base Budget

| (In \$000s)                             | 2006 Appvd.<br>Budget | 2007<br>Recommended<br>Base | Change<br>2007 Recommended<br>Base v.<br>2006 Appvd. Budget |     | FY Incremental<br>Outlook |              |
|---|-----------------------|-----------------------------|---|-----|---------------------------|--------------|
|   |                       |                             |   |     | 2008                      | 2009         |
|   | \$                    | \$                          | \$  | %   | \$                        | \$           |
| <b>GROSS EXP.</b>                       | 117,761.2             | 120,629.9                   | 2,868.7   | 2.4 | 2,196.0                   | 699.8        |
| <b>REVENUE</b>                          | 64,800.3              | 66,867.7                    | 2,067.4   | 3.2 | 0.0                       | 0.0          |
| <b>NET EXP.</b>                         | 52,960.9              | 53,762.2                    | 801.3   | 1.5 | 2,196.0                   | 699.8        |
| <b>Approved Positions</b>               | 764.4                 | 764.4                       | -   | -   |                           |              |
| <b>NET TARGET</b>                       |                       | <b>52,960.9</b>             |   |     | <b>0.0</b>                | <b>0.0</b>   |
| <b>\$ Over / (Under) Program Target</b> |                       | <b>801.3</b>                |   |     | <b>2,196.0</b>            | <b>699.8</b> |
| <b>% Over / (Under) Program Target</b>  |                       | <b>1.5%</b>                 |   |     | <b>4.15%</b>              | <b>1.32%</b> |

## 2007 Recommended Base Budget

The 2007 Recommended Base Budget of \$53.762 million net represents a 1.5% or \$0.801 million increase over the 2006 Approved Budget and the 2007 target, while maintaining the same level of service as in 2006.

The additional \$4.685 million in gross expenditures or 4% is needed to fund merit and step increases, union settlements, wage increases for exempt staff and non-salary economic factors (\$4.003 million), as well as other base budget changes (\$0.682 million). To alleviate the expenditure impact, the 2007 Recommended Base Budget incorporates anticipated increases in recoveries (\$2.067 million) as well as anticipated savings from increased contract efficiencies (\$1.384 million) and from adjusting salary items based on the 2006 actual experience (\$0.432 million).

## 2007 Key Cost Drivers

- Cost-of-living adjustments (COLA), ongoing merit and other non-salary inflationary increases result in an additional cost of \$4.003 million.
- One additional working day for 2007 and increased fuel costs and rental rates for corporate vehicles account for an additional pressure of \$0.682 million.
- The above costs are offset by the following reductions and service adjustments:
  - \$1.384 million in cost savings based on the revised consumption forecast for various materials and supplies and estimated service contract efficiencies.

- \$0.432 million in salary adjustments to account for actual ongoing step and merit increases, which were lower than initially estimated.
- \$0.556 million in additional recoveries from clients wanting expanded/increased service levels.
- \$1.511 million in projected revenue increases from new and existing leases currently under negotiations which will result in new rental agreements that are more reflective of true market rates.

### **2008 and 2009 Outlook: Net Incremental Impact**

The 2008 and 2009 Outlook base budget net increase of \$2.196 million or 4.1% and \$0.700 million or 1.3 % respectively includes the following:

- For 2008, cost of living allowance (COLA), merit and step increases, an additional one day in 2008 (leap year) and the annualized impact of new positions recommended for 2007.
- For 2009, ongoing merit and step increases, and reversal of an additional day included in 2008. The outlook for 2009 does not include a provision for COLA, as the increase is subject to future negotiations.

It should be noted that inflationary pressures for utilities in 2007 (\$1.000 million) are included in the Non-Program Budget. Inflationary impacts from rising utility prices may be significantly higher in 2008 and beyond. Once transferred to Facilities and Real Estate, this item will create additional pressure on the Program's base budget in future years.

The 2008 and 2009 Outlook will be further reviewed to identify potential service level gaps as well as service level adjustments required to meet future year targets.

## Section D: 2007 Recommended Service Priorities

Table 4: Summary of 2007 New / Enhanced Service Changes (In \$000s)

| Description  | 2007 Recommended |              | Rec. New Positions | Net Incremental Impact |            |
|--|------------------|--------------|--------------------|------------------------|------------|
|  | Gross Exp.       | Net Exp.     |                    | 2008                   | 2009       |
|  | \$               | \$           | #                  | \$                     | \$         |
| <b>(a) Enhanced Service Priorities - Council Approved</b>                      |                  |              |                    |                        |            |
| <b>(b) Enhanced Service Priorities - Program Initiated</b>                     |                  |              |                    |                        |            |
| 1 DCAP Environmental Projects - Project Coordinator                            | 87.0             | 0.0          | 1.0                |                        |            |
| 2 Custodial Services - New 23 Division   | 119.1            | 0.0          | 1.6                |                        |            |
| <b>Sub-Total Enhanced Service Priorities</b>                                   | <b>206.1</b>     | <b>0.0</b>   | <b>2.6</b>         | <b>0.0</b>             | <b>0.0</b> |
| <b>(a) New Service Priorities - Council Approved</b>                           |                  |              |                    |                        |            |
| 1 Development of the Toronto Energy Plan                                       | 570.0            | 0.0          |                    |                        |            |
| <b>(b) New Service Priorities - Program Initiated</b>                          |                  |              |                    |                        |            |
| 2 Union Station Management   | 683.0            | 0.0          | 3.0                |                        |            |
| 3 Administration of Ontario Power Authority Initiative for Energy Conservation | 150.0            | 0.0          | 2.0                |                        |            |
| 4 Real Estate Taxation Initiative  | 182.0            | 182.0        | 2.0                | 49.0                   |            |
| <b>Sub-Total New Service Priorities</b>  | <b>1,585.0</b>   | <b>182.0</b> | <b>7.0</b>         | <b>49.0</b>            | <b>0.0</b> |
| <b>Total Recommended New / Enhanced Service Priorities</b>                     | <b>1,791.1</b>   | <b>182.0</b> | <b>9.6</b>         | <b>49.0</b>            | <b>0.0</b> |

## 2007 Recommended Service Priorities

The 2007 Recommended New / Enhanced Service priorities of \$1.791 million gross, \$0.182 million net and a 2008 net incremental cost of \$0.049 million will require 9.6 new positions.

**Enhanced Service Priorities – Program Initiated:**

There are two recommended enhanced service priorities, both based on cost recovery, resulting in a \$0 net impact.

***Environmental Project Coordinator***

One additional position (\$0.087 million gross, \$0 net) is needed to respond to projected demand for environmental expertise. Based on a recent review of projected workloads, staff levels and qualifications, the Design, Construction and Asset Preservation (DCAP) environmental unit has determined that having a dedicated staff for environmental projects would provide a proactive

response to emerging environmental issues. Funding for this position (Project Coordinator) is fully recoverable from client programs.

***Custodial Services for Toronto Police Service***

An additional 1.6 staff positions are required to provide custodial and caretaking services for Police Service's new 23<sup>rd</sup> Division at a cost of \$0.119 million. The new police station is larger than the current one by approximately 10,000 sq. feet. Police will also require more service to accommodate a central lock-up program and weekend cleaning. The service will be provided on a cost recovery basis and will result in a \$0 net cost to Facilities and Real Estate.

**New Service Priorities – Council Approved:*****Development of the Toronto Energy Plan***

At its meeting of September 25, 26 and 27, 2006 City Council adopted the report entitled "Request for Funding for an Energy Plan for Toronto; and Status Report on the Energy Plan for Toronto – Second Update".

By adoption of this report, City Council directed that the Facilities and Real Estate's 2007 Operating Budget submission include an allocation of \$0.570 million gross, \$0 net (funded from the Better Building Partnership Loan Repayment Reserve Fund) for consideration with the City's 2007 Operating Budget Process.

Funding in the amount of \$0.570 million is included in the 2007 Operating Budget and is recoverable from the Better Building Partnership Loan Repayment Reserve Fund.

This funding is required to undertake activities for the development of an Energy Plan for Toronto. The current data does not provide a sound indication of predicted energy use in the City over the timeframe of the Energy Plan (2010-2030). Therefore, it will be necessary to obtain reliable information on the technical, economic and market potential for various initiatives in conservation and demand management and provision of renewable energy.

This initiative is consistent with and will advance one of the key objectives of the Mayor's Mandate: "Develop a comprehensive climate change plan to cut greenhouse gas emissions to help combat global warming".

**New Service Priorities – Program Initiated:**

The 2007 Recommended New Service priorities initiated by the Program total \$1.015 million gross, \$0 net, and will result in the addition of 7 positions.

***Union Station Management***

Unique expertise in different disciplines, including high-end commercial marketing and development, is required to realize the full potential of Union Station. Currently, such expertise does not exist in the City. In order to revitalize this public asset and improve overall revenues, establishment of a new unit is recommended. The unit will include three staff positions: the unit manager position, the project manager position and support assistant position (\$0.373 million). Its mandate will be to promote the best use of Union Station, consistent with the City's overall goals and principles of sound stewardship.

In addition, consulting services will be required to analyze the technical and financial viability of various options, to develop technical specifications and to provide compliance with legal requirements (\$0.310 million).

This unit will be fully funded from newly generated lease revenues in the estimated amount of \$0.683 million, for a \$0 net impact.

***Real Estate Taxation Initiative***

In order to enhance Revenue Services' (Office of the Treasurer) efforts to maximize tax collection, a new unit in Facilities and Real Estate is recommended. This involves the establishment of a Real Estate Taxation Unit which will provide additional property tax and assessment expertise and support to all City Divisions for properties where the City has an interest. It will be staffed by 2 temporary positions.

The unit will work closely with the Municipal Property Assessment Corporation (MPAC) and the Assessment Review Board (ARB) to make necessary adjustments in the existing property assessments and tax classifications (as required). The following benefits are anticipated:

1. New property tax revenue for the City by reclassifying leased properties from exempt to taxable.
2. Additional lease rental / property taxes for the City from new tenants by re-assessing the property values and taxes to the current prevailing market rates.
3. Applying tax exemptions for City used properties to assist Revenue Services in correcting / adjusting the outstanding taxes.

It is estimated that some of the anticipated benefits will result in additional revenue to the City. However, any additional property tax revenues from the reassessment of property values would not materialize until future years. Therefore, it is anticipated that introducing this service will result in net costs of \$0.182 million in 2007 with a net incremental impact of \$0.049 million in 2008. It is recommended that the Director of Real Estate report back on operational results and financial viability of this unit after the first year of its implementation, in time for consideration with the 2009 Operating Budget process.

***Ontario Power Authority Initiative for Energy Conservation***

In order to respond to the Ontario Power Authority (OPA) initiative to reduce future power generation demand in Ontario, the City of Toronto recently submitted a Proposal for a City Demand Response (DR) Program. The Proposal involves implementation of a broad scale program to achieve up to 20 megawatts (MW) of controllable demand response resources by the year 2010.

Included in the Proposal to the Ontario Power Authority was a request for funding in the amount of \$0.150 million for overall program coordination and oversight. These responsibilities would require two new staff positions, a project manager position and a support assistant position. Both positions are fully recoverable with no impact to the City, since the Ontario Power Authority will provide incentive payments to all eligible projects submitted in the Proposal, including the program administration. Since the Proposal is still under the OPA's consideration, it is recommended that this

service priority be approved subject to the Proposal being accepted and funding being provided by the Ontario Power Authority.

The OPA initiative is consistent with the City's overall energy conservation goals and one of the key objectives of the Mayor's Mandate: "Develop a comprehensive climate change plan to cut greenhouse gas emissions to help combat global warming".

## **Issues for Discussion**

### **2008 and 2009 Outlook: Net Incremental Impact**

The 2008 and 2009 Outlook include net increases of \$2.245 million or 4.2% and \$0.700 million or 1.3% respectively. In 2008, increased funding is required to cover ongoing COLA, merit and step increases and the annualized impact of the 2 new real estate taxation positions recommended in 2007. The 2009 Outlook reflects ongoing merit and step increases, and reversal of an additional one day included in 2008. The outlook for 2009 does not include a provision for COLA, as the increase is subject to future negotiations.

It should be noted that inflationary pressures for utilities in 2007 (\$1.000 million) are included in the Non-Program Budget. Inflationary impacts from rising utility prices can be significantly higher in 2008 and beyond. Once transferred to Facilities and Real Estate, this item will create additional pressure on the Program's base budget in future years.

The 2008 and 2009 Outlook will be further reviewed to identify potential service level gaps as well as service level adjustments required to meet future year targets.

The Program is working closely with the City Manager's Office on a Facilities Corporate Organizational and Operational Review in order to respond to actions recommended by the Auditor General in his report concerning Facilities and Real Estate maintenance and administrative controls. The review, which includes only buildings that are directly owned by the City, commenced in 2006. The following are principal objectives:

- documenting the resources, roles, responsibilities and business processes of all existing organizational and operational models for facility maintenance and management;
- identifying the benefits and issues of concern associated with the existing model;
- establishing a set of principles, to guide the consideration on how to corporately organize the facility maintenance and management activities and capital project planning; and
- identifying, within the context of those principles, the need to address identified issues of concern, service improvement options and the preferred organizational and operational model including implementation plan.

The review will be conducted in three phases:

- Phase 1: Documentation and Evaluation of the Current Situation, resulting in the Initial Findings Report, is to be completed in May 2007.

- Phase 2: Organizational Model Designs, resulting in the Final Report detailing various available options, along with the costs and benefits and implementation schedules, is to be completed in August 2007.
- Phase 3: Implementation Support to provide assistance by discussing recommendations and report throughout August and September of 2007.

As a result, a comprehensive model will be developed to guide the corporate facility maintenance and management activities as well as capital project planning. This may have an impact on the Facilities and Real Estate future year operating and capital budgets.

Appendix 1

**Table 4: Summary of Recommended Base Budget Changes from 2006 Approved Budget**

| (In \$000s)                                   | Summary of 2007 Base Budget Adjustments |                    |                 |                  | Net Incremental Outlook |              |
|---|---|--------------------|-----------------|------------------|-------------------------|--------------|
|   | Approved Positions                      | Gross Expenditures | Revenues        | Net              | 2008                    | 2009         |
|   |   | \$                 | \$              | \$               | \$                      | \$           |
| <b>2006 Council Approved Operating Budget</b> | <b>764.4</b>                            | <b>116,478.4</b>   | <b>64,585.3</b> | <b>51,893.1</b>  | <b>0.0</b>              | <b>0.0</b>   |
| In-year approvals and technical adjustments   | 0.0                                     | 0.0                | 0.0             | 0.0              |                         |              |
| Corporate adjustments                         | 0.0                                     | 1,282.8            | 215.0           | 1,067.8          |                         |              |
| <b>2006 Approved Operating Budget</b>         | <b>764.4</b>                            | <b>117,761.2</b>   | <b>64,800.3</b> | <b>52,960.9</b>  | <b>0.0</b>              | <b>0.0</b>   |
| Prior year impacts                            |   |                    |                 | 0.0              |                         |              |
| Zero base items                               |   |                    |                 | 0.0              |                         |              |
| Economic factors                              |   | 4,002.9            | 0.0             | 4,002.9          | 2,196.0                 | 699.8        |
| <b>Adjusted Base Budget</b>                   | <b>764.4</b>                            | <b>121,764.1</b>   | <b>64,800.3</b> | <b>56,963.8</b>  | <b>2,196.0</b>          | <b>699.8</b> |
| Other base changes                            |   | 681.7              |                 | 681.7            |                         |              |
| Base revenue changes                          |   |                    | 555.8           | (555.8)          |                         |              |
| Recommended Service Level Adjustments:        |   |                    |                 |                  |                         |              |
| Service efficiencies                          |   | (1,815.9)          |                 | (1,815.9)        |                         |              |
| Revenue adjustments                           |   |                    | 1,511.6         | (1,511.6)        |                         |              |
| Minor service impact                          |   |                    |                 | 0.0              |                         |              |
| Major service impact                          |   |                    |                 | 0.0              |                         |              |
| <b>Total Recommended Base Adjustments</b>     | <b>0.0</b>                              | <b>(1,134.2)</b>   | <b>2,067.4</b>  | <b>(3,201.6)</b> | <b>0.0</b>              | <b>0.0</b>   |
| <b>2007 Recommended Base Budget</b>           | <b>764.4</b>                            | <b>120,629.9</b>   | <b>66,867.7</b> | <b>53,762.2</b>  | <b>2,196.0</b>          | <b>699.8</b> |
| <b>2007 Program Operating Target</b>          | <b>N/A</b>                              | <b>N/A</b>         | <b>N/A</b>      | <b>52,960.9</b>  | <b>0.0</b>              | <b>0.0</b>   |
| <b>% Over (Under) Program Target</b>          |   |                    |                 | <b>1.5%</b>      | <b>4.1%</b>             | <b>1.3%</b>  |
| <b>% Over (Under) 2006 Appvd. Budget</b>      |   |                    |                 | <b>1.5%</b>      | <b>4.1%</b>             | <b>1.3%</b>  |

**Appendix 2**

**Summary of Service Level Adjustments**

**Appendix 3**

**Summary of 2007 Recommended New / Enhanced Service Priorities**