

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 net expenditure of \$9.905 million for Municipal Licensing and Standards is \$0.575 million over the 2006 Approved Budget. The unfavourable net variance due to unrealized revenues has been mitigated by savings from staff vacancies and managed program spending.
 - The variance experienced in both expenditures and revenues should decrease in 2007 as Municipal Licensing and Standards is actively attempting to accelerate the hiring process which will reduce the time in which a position is vacant and increase expenditures to budgeted levels. As well, forecasted user fee volume has been adjusted downward so that the budgeted revenue is better aligned with historical actual experience.
- The 3-Year Budget is consistent with ML&S' objective to be a leader in supporting the City of Toronto as a safe, vibrant, creative and clean community for all who live, work and visit the City. This is accomplished through the delivery of their primary services of license and permission issuance and bylaw enforcement.
 - ML&S has experienced an upward trend in demands for service in recent years as a result of increases in service demands, including new bylaws. Staff complement increases have not kept pace with the increased service demands and staffing levels have been impacted by hiring delays. ML&S will continue to work with Human Resources in 2007 to develop a plan to accelerate the hiring process.
 - Historically, ML&S has experienced challenges attaining budgeted revenues. The budgeted revenues in 2007 for business licensing have been decreased. ML&S and Financial Planning (FPD) staff will monitor the 2007 revenues for business licensing to determine if an additional decrease is again required in 2008. ML&S will also be reviewing its cost recovery model with Accounting Services and FPD staff to ensure that all eligible direct and indirect costs are addressed in future fee structures. As mandated by the Licensing Bylaw, business license fees have been increased in 2007 by CPI at 1.9%.
 - ML&S is facing information technology challenges as there are five separate and unconnected computer databases with no case management system specifically designed for investigations. To address this situation, funding has been approved through the Policy, Planning, Finance and Administration's 2007 Capital Budget to allow ML&S to pursue the implementation of computer technologies, which would handle investigations relating to business licensing, property standards, waste and use of boulevards, as well as license, permit and exemption issuance.
- The 2007 Recommended Budget is 18.1% over the Program's target. This variance is entirely the result of revenue issues. The revenue realignment coupled with a loss of revenues associated with licensing of Electrical Contractors and Electricians which have been assumed by the

Province, and a reduction in business licensing fees for Body Rub Parlours, as per Council direction. While reduced revenue has created a net pressure, gross expenditures are at a level consistent with the 2006 Approved Budget.

Table 1: 2007 Recommended Budget

| (In \$000s) | 2006 | | 2007 Recommended Operating Budget | | | Change - 2007 Recommended from 2006 Approved Budget | | FY Incremental Outlook | |
|---|--------------------|------------------------|-----------------------------------|-------------------|-----------------------|---|-------|------------------------|-------|
| | 2006 Appvd. Budget | 2006 Projected Actual* | 2007 Base | 2007 New/Enhanced | 2007 Operating Budget | \$ | % | 2008 | 2009 |
| | \$ | \$ | \$ | \$ | \$ | | | \$ | \$ |
| GROSS EXP. | 33,610.3 | 30,660.7 | 33,635.3 | 2.9 | 33,638.2 | 27.9 | 0.1 | 1,123.8 | 540.1 |
| REVENUE | 24,280.8 | 20,755.7 | 22,621.7 | 0.0 | 22,621.7 | (1,659.1) | (6.8) | 428.8 | 437.4 |
| NET EXP. | 9,329.5 | 9,905.0 | 11,013.6 | 2.9 | 11,016.5 | 1,687.0 | 18.1 | 695.0 | 102.7 |
| Approved Positions | 381.0 | 326.0 | 380.0 | 0.0 | 380.0 | (1.0) | (0.3) | | 5.0 |
| TARGET | | | 9,329.5 | | 9,329.5 | | | | |
| \$ Over / (Under) Program Target | | | 1,684.1 | | 1,687.0 | | | | |
| % Over / (Under) Program Target | | | 18.1% | | 18.1% | | | | |

Source: *Projected Actuals Based on the Preliminary Year-End Actual Expenditures.

- The 2007 Recommended Operating Budget of \$11.017 million net is comprised of base funding of \$11.014 million and new/enhanced service priorities of \$0.003 million. This represents a \$1.687 million or 18.1% increase over the 2006 Approved Operating Budget of \$9.330 million.
 - To maintain service levels in 2008, impacts of \$1.124 million gross and \$0.695 million net will occur as a result of the 2007 Recommended Budget. The gross increase is attributed to incremental increases to salaries and benefits resulting from Cost of Living Adjustments (COLA), merit and step increases and an additional working day in the 2008 calendar year. These increases related to business licensing administration and enforcement will be partially offset by the incremental increase to revenues based on the mandated increase to fees in accordance with the City’s bylaws.
 - The 2007 Recommended Operating Budget results in 2009 impacts of \$0.540 million gross and \$0.103 million net. The net increase is due to the Operating impact of \$0.650 million from the approved Enhanced Computer Technologies Capital project, which has been offset by the loss of a working day in the 2009 calendar year and an incremental increase to revenues based on the projected mandated increase to fees in accordance with the City’s bylaws. The outlook for 2009 does not include a provision for COLA, as the increase is subject to future negotiations.
- Key cost drivers for 2007 include:

- Labour related increases such as Cost of Living Adjustments (COLA), merit and step increases and annualizations of 2006 approvals total \$1.407 million.
- Increases in non-labour expenses including fuel, stationary, footwear, postage and bad debt total \$0.404 million. To maintain gross expenditures at a level consistent with their 2006 Approved Budget, these expenditure increases were subsequently reduced to \$0.146 million.
- Alignment of budgeted revenue to actual experienced business licensing revenue coupled with a loss of revenues assumed by the Province, and Council directed reductions have resulted in a 2007 revenue reduction of \$1.939 million.
- Proposed major service level reductions have not been recommended for 2007. While they would help defray the Program's escalating base revenue pressures, the impact to the Program's service delivery capabilities would be too severe.
- In an effort to limit, as much as possible, the net budget increase to the corporate affordability target of 0%, with the exception of a small IDC for Polling Harmonization, all new or enhanced initiatives have been deferred to the 2008 Budget process.
 - To address information technology challenges, ML&S will be pursuing the implementation of computer technologies through the Policy, Planning, Finance and Administration's Capital Budget.
 - Utilizing funds available within the ML&S 2007 Recommended Base Budget, ML&S will advance priorities outlined in the Mayor's Mandate. This includes the City's successful graffiti eradication and prevention program, as well as working with Business Improvement Associations (BIAs) to create teams to improve the look and feel of our retail strips by strengthening enforcement of the City's property standards bylaws. Further, ML&S staff will support increasing Toronto's diversion rate to 70% by 2010. Further funding will be required to support the enforcement activities of this Solid Waste Management initiative as ML&S is responsible for the enforcement.
- ML&S is participating in the Integrated Inspection, Enforcement and Prosecution program review with seven other City divisions/board making up the City's regulatory enforcement community. It is anticipated that this review will allow ML&S and the seven other divisions/board to progress forward with new strategies aimed at improving service delivery.
- The 2007 Recommended Operating Budget provides base funding for ML&S to maintain service levels for its two primary service areas, license and permission issuance and bylaw enforcement. These services will be provided through:
 - Licensing Services continuing to serve the business and broader community through the issuance of new and renewal business licenses, right-of-way permits for outdoor cafes and vending, and temporary sign permits. Inspections of vehicles at the Vehicle Test Centres and training of mobile business licensees will also see continued funding.
 - Investigation Services continuing to contribute to a clean and safe City through inspections and investigations of property maintenance regarding waste, fences, heat and vital services, long grass, weeds, graffiti, noise, zoning and business licenses and right-of-way permits.

Recommendations

The City Manager and Chief Financial Officer recommend that:

1. the 2007 Recommended Operating Budget for Municipal Licensing and Standards of \$33.638 million gross and \$11.017 million net, comprised of the following services, be approved:

| <u>Service:</u> | <u>Gross (\$000s)</u> | <u>Net (\$000s)</u> |
|----------------------------------|---------------------------|-------------------------|
| Office of the Executive Director | 1,461.1 | 1,461.1 |
| Licensing Services | 9,888.1 | (12,088.1) |
| Investigation Services | 22,289.0 | 21,643.5 |
| | <hr/> | <hr/> |
| Total Program Budget | <u>33,638.2</u> | <u>11,016.5</u> |

2. the Executive Director of Municipal Licensing and Standards report back to the Budget Committee prior to the 2008 Operating Budget process on the recommended business license fee structure arising from the cost recovery model review.

Section A: 2006 Budget Variance Analysis

Table 2: 2006 Budget Variance Review

| (In \$000s) | 2005 Actuals | 2006 Approved Budget | 2006 Projected Actuals* | 2006 Appvd. Budget vs Projected Actuals Variance | |
|---------------------------|--------------|----------------------|-------------------------|--|--------|
| | \$ | \$ | \$ | \$ | % |
| GROSS EXP. | 25,755.4 | 33,610.3 | 30,660.7 | (2,949.6) | (8.8) |
| REVENUES | 20,008.5 | 24,280.8 | 20,755.7 | (3,525.1) | (14.5) |
| NET EXP. | 5,746.9 | 9,329.5 | 9,905.0 | 575.5 | 6.2 |
| Approved Positions | 315.0 | 381.0 | 326.0 | (55.0) | (14.4) |

Source: *Projected Actuals Based on the Preliminary Year-End Actual Expenditures.

2006 Experience

The 2006 preliminary year-end actual gross expenditure of \$30.661 million is under the 2006 Approved Budget of \$33.610 million by \$2.950 million. The under expenditure is primarily in Salary & Benefits and is the result of unspent funds arising from vacant positions that are in the process of being filled.

The 2006 preliminary year-end actual revenue of \$20.756 million is under the 2006 Approved Budget of \$24.281 million by \$3.525 million. The decrease in revenue is primarily attributed to system errors, and an overestimation of the 2006 budgeted business license revenues. New licensing applications and license renewals are 11.7% and 13.0% less than budgeted for in 2006 respectively. Lower revenues are also due to a loss of revenues associated with licensing of Electrical Contractors and Electricians which have been assumed by the Province, and a reduction in business licensing fees for Body Rub Parlours, as per Council direction.

City Council at its meeting of October 26, 27 and 28, 2005, approved the report from the Executive Director of Municipal Licensing and Standards, Review of Business Licensing Fees, increasing licensing fees to offset the shortfall associated with cost recovery of licensing fees. The licensing fees were raised on November 1, 2005, resulting in a revenue increase of \$0.5 million for the remainder of 2005 and an incremental amount of \$2.5 million in 2006, thereby planning to eliminate the revenue shortfall and achieving full cost recovery in 2006. The revenue increases have not been realized as the anticipated volume was overestimated.

The 2006 preliminary year-end actual net expenditure of \$9.905 million is over the 2006 Approved Budget of \$9.330 million by \$0.575 million. The net unfavourable variance due to less than anticipated revenues has been partially offset by savings from staff vacancies and managed program spending.

Impact of 2006 Operating Variance on 2007 Recommended Budget

Gross expenditure savings of \$2.950 million realized in 2006 are not expected to fully continue in 2007 as Municipal Licensing and Standards is actively attempting to accelerate the hiring process which will reduce the time in which a position remains vacant.

In an effort to correct the 2006 revenue shortfall of \$3.525 million, the 2007 user fee forecasted volume has been adjusted downward. This has resulted in an additional pressure of \$0.988 million on the 2007 Recommended Operating Budget for Municipal Licensing and Standards.

Section B: 2007 Operating Budget Overview**3-Year Operating Budget Overview**

The 3-Year Budget is consistent with ML&S' objective to be a leader in supporting the City of Toronto as a safe, vibrant, creative and clean community for all who live, work and visit the City. This is accomplished through the delivery of their primary services of license and permission issuance and bylaw enforcement.

Based on preliminary year-end data, ML&S' Licensing Services issued 49,681 new and renewal business licenses in 2006. They also processed 1,738 right-of-way permits for outdoor cafes and vending. ML&S conducted 20,414 vehicle inspections and trained 4,364 licensees holding mobile business licenses. It is anticipated that Licensing Services will experience increased service demands in 2007. A reduction to staff vacancies through an accelerated hiring process will accommodate the anticipated increase in service demands.

ML&S' Investigation Services projected 40,000 District based investigations in 2006, along with 2,000 Clean City investigations. They also provided a projected 25,000 Mobile Business Enforcement Team inspections/investigations and 60,000 Waste Enforcement Team inspections. It is expected that service demands for bylaw enforcement will increase in 2007. As is the case for Licensing Services, a reduction to staff vacancies through an accelerated hiring process will accommodate the anticipated increase in service demands.

During the next 3 years, ML&S will be focusing on improving its services by implementing a strategic planning process resulting in the development of a vision document, divisional goals and work-unit objectives to ensure service delivery focuses on the 4 E's – efficient, effective, economical and essential. The focus will also be on establishing the capacity to develop and maintain operational policies and procedures, and to train staff to ensure consistency in by-law knowledge and application, while enhancing customer service and reducing risk to the City.

Additional emphases will be placed on developing and implementing performance standards and benchmarks for work processes, and process mapping the issuance, inspection and enforcement practices to identify opportunities to enhance service delivery and to forecast activity levels.

ML&S will address IT issues by pursuing the implementation of computer technologies that will handle investigations of business licensing, property standards, waste and use of boulevards, as well as license, permit and exemption issuance. This is funded through the Policy, Planning, Finance and Administration Capital Budget in the amount of \$3.000 million over 2007 and 2008 with an operating impact to ML&S of \$0.650 million in 2009.

Focus will also be placed on responding to legislative changes contained in the new City of Toronto Act 2006, developing and implementing communication initiatives to enhance the awareness of Council members, the public and other City divisions and partners of the Division's work, and ensuring 311 readiness.

The 2008 Outlook net increase of \$0.695 million or 7.5% and (\$0.322 million) or (3.5%) in 2009 reflects increased personnel costs offset by CPI increases to fees, while maintaining the 2007 level of services.

The 3-Year Budget does not fully address volume based revenue reductions that may be required. ML&S and Financial Planning staff will monitor the 2007 revenues for business licensing to determine if an additional decrease beyond the \$0.988 million in 2007 is required in 2008 to fully align budgeted and actual revenues.

Service Delivery - Challenges and Issues

ML&S is facing a number of staffing pressures due to the following:

- the 2004 business license threshold strategy did not identify the increased workload for walk-in counter assistance;
- Municipal Standards Officer (MSO) complement in District offices has not kept pace with increase in complaints received;
- carryover of District Office files from reception year to the next year has demonstrated an upward trend since 2002;
- increased demands for service and bylaw standards require expanded hours of enforcement (i.e., weekends, nights);
- District Office workload for 2005 was 426 files per officer annually; projected at 476 files for 2006; and,
- in 2002, District MSO's handled an average of 388 files annually.

To address these staffing challenges ML&S will be working to fill vacant positions and will continue to work with HR to develop a plan to accelerate the hiring process. A reduction in vacancies will allow for a more manageable workload and result in reduced backlog and greater service.

ML&S is experiencing revenue challenges that are the result of historical overestimation in business licensing coupled with the loss of revenues associated with licensing of Electrical Contractors and Electricians which have been assumed by the Province, and a reduction in licensing fees for Body Rub Parlours, as per Council direction. To address this the budgeted revenues in 2007 for business licensing have been decreased by \$0.988 million and ML&S and FPD staff will monitor the 2007 revenues for business licensing to determine if an additional decrease of up to \$0.988 million is again required in the 2008 budgeted revenues.

Municipal Licensing and Standards will also be reviewing its cost recovery model with Accounting Services and Financial Planning staff to ensure that all eligible direct and indirect costs are addressed in future fee structures.

ML&S is facing information technology challenges as there are five separate and unconnected computer databases with no case management system specifically designed for investigations. To address this challenge, ML&S will be working to acquire computer technologies that will handle investigations relating to business licensing, property standards, waste and use of boulevards, as well as license, permit and exemption issuance. This will be funded through the Policy, Planning, Finance and Administration's 2007 approved Capital Budget in the amount of \$3.000 million over 2007 and 2008 with an operating impact to ML&S of \$0.650 million in 2009.

Mayor's Mandate

The 2007 Recommended Operating Budget directly supports the following priorities outlined in the Mayor's Mandate:

- ***Expand the City's Successful Graffiti Eradication and Prevention Program:***

There is no incremental financial cost to achieve this priority as ML&S' current graffiti eradication and prevention efforts will continue in 2007. ML&S is responsible for promoting compliance and undertaking enforcement in accordance with Toronto Municipal Code Chapter 485, Graffiti, concerning graffiti on private property. Through the Clean and Beautiful Secretariat, new strategies involving various City Programs may be created.

- ***Work with Business Improvement Associations (BIAs) to Create Teams to Improve the Look and Feel of Our Retail Strips by Strengthening Enforcement of the City's Property Standards By-Laws:***

A minimum of 10 proactive targeted strategies are to be implemented in 2007 utilizing existing resources. To expand this program in future years, staff reallocation or additional resources would be required.

- ***Increase Toronto's Diversion Rate to 70% by 2010:***

Additional funds will be required to support the enforcement activities of this City priority, as ML&S is responsible for the enforcement. No new resources for 2007 should be considered until overall efforts identify funding requirements to increase diversion rate from current target of 60% to 70%.

Section C: 2007 Recommended Base Budget

Table 3: 2007 Recommended Base Budget

| (In \$000s) | 2006 Appvd. Budget | 2007 Recommended Base | Change | | FY Incremental Outlook | |
|---|--------------------|-----------------------|---|-------|------------------------|----------------|
| | | | 2007 Recommended Base v. 2006 Appvd. Budget | | 2008 | 2009 |
| | \$ | \$ | \$ | % | \$ | \$ |
| GROSS EXP. | 33,610.3 | 33,635.3 | 25.0 | 0.1 | 1,123.8 | (109.9) |
| REVENUE | 24,280.8 | 22,621.7 | (1,659.1) | (6.8) | 428.8 | 437.4 |
| NET EXP. | 9,329.5 | 11,013.6 | 1,684.1 | 18.1 | 695.0 | (547.3) |
| Approved Positions | 381.0 | 380.0 | (1.0) | (0.3) | | |
| NET TARGET | | 9,329.5 | | | 0.0 | 0.0 |
| \$ Over / (Under) Program Target | | 1,684.1 | | | 695.0 | (547.3) |
| % Over / (Under) Program Target | | 18.1% | | | 7.45% | -5.87% |

2007 Recommended Base Budget

The 2007 Recommended Base Budget of \$11.014 million net represents an 18.1% increase over Municipal Licensing and Standards’ 2006 Approved Base Budget while maintaining 2006 service levels.

- Municipal Licensing and Standards’ 2007 Recommended Base Budget is \$1.684 million or 18.1% over its corporate affordability target of \$9.330 million.
- The 2007 Recommended Base Budget includes a decrease of \$0.988 million net from 2006 budgeted licensing revenues. This reduction will shift revenue estimations closer to historically experienced actuals. Loss of revenues associated with licensing of Electrical Contractors and Electricians which have been assumed by the Province, and a reduction in licensing fees for Body Rub Parlours, as per Council direction have also contributed to a combined net pressure of \$1.659 million.
- Efficiencies totaling \$0.258 million to be realized by Municipal Licensing and Standards have no service level impact on this budget. While reduced revenue projections have created a net pressure, these efficiencies have allowed Municipal Licensing and Standards to maintain gross expenditures at a level consistent with its 2006 Approved Budget.
- Proposed major service level reductions of \$2.819 million and a reduction of 36.3 positions was not accepted to help defray the program’s escalating base revenue pressures, as this would severely impact the Program’s service delivery capabilities.

The 2007 Recommended Base Budget will accommodate delivery of the following;

- ML&S will be working with HR to develop a plan to accelerate the hiring process and reduce the period of time that positions are vacant.
- Municipal Licensing and Standards staff will also be reviewing the applicable cost recovery model with the assistance of Accounting Services and Financial Planning staff to ensure that all eligible direct and indirect costs are addressed in future fee structures.
- ML&S will be pursuing the implementation of computer technologies that will handle investigations relating to business licensing, property standards, waste and use of boulevards, as well as license, permit and exemption issuance. This will be funded through the Policy, Planning, Finance and Administration 2007 approved Capital Budget.
- ML&S is participating in the Integrated Inspection, Enforcement and Prosecution program review with seven other City divisions/board making up the City's regulatory enforcement community. It is anticipated that this review will allow ML&S and the seven other divisions/board to progress forward with new strategies aimed at improving service delivery.

2007 Key Cost Drivers

- To ensure that existing service levels are maintained, increases of \$0.600 million are required for Cost of Living Adjustments (COLA) and \$0.507 million for other related labour costs (merit and step increases); and \$0.300 million for the annualization of five new positions approved in 2006; and increases in other non-labour expenses including fuel, stationary, footwear, postage and bad debt totaling \$0.404 million.
- The above costs will be partially off-set by salary savings due to the impact of harmonization and prior year position conversion totaling \$1.432 million; and efficiencies which have no service level impact that total \$0.258 million.
- While 2006 resource levels are being maintained with little change to the Municipal Licensing and Standards gross 2007 Operating Budget, there are additional pressures to their budget as a result of the \$1.659 million in lower revenues from the 2006 Budget.

2008 and 2009 Outlook: Net Incremental Impact

- To maintain service levels in 2008, impacts of \$1.124 million gross and \$0.695 million net will occur as a result of the 2007 Recommended Base Budget. The gross increase is attributed to incremental increases to salaries and benefits resulting from Cost of Living Adjustments (COLA), merit and step increases and an additional working day in the 2008 calendar year. These increases related to business licensing administration and enforcement will be partially offset by the incremental increase to revenues based on the mandated increase to fees in accordance with the City's bylaws.

- To maintain service levels in 2009, impacts of (\$0.110 million) gross and (\$0.547 million) net will occur as a result of the 2007 Recommended Base Budget. The decrease in gross expenditures is attributed to the loss a working day in the 2009 calendar year. An incremental increase to revenues is based on the projected mandated increase to fees which is in accordance with the City's bylaws. The outlook for 2009 does not include a provision for COLA, as the increase is subject to future negotiations.

Section D: 2007 Recommended Service Priorities

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

| Description | 2007 Recommended | | Rec. New Positions | Net Incremental Impact | |
|--|------------------|------------|--------------------|------------------------|--------------|
| | Gross Exp. | Net Exp. | | 2008 | 2009 |
| | \$ | \$ | # | \$ | \$ |
| (a) Enhanced Service Priorities - Council Approved Enhanced Computer Technologies Project | 0.0 | 0.0 | | | 650.0 |
| (b) Enhanced Service Priorities - Program Initiated | | | | | |
| Sub-Total Enhanced Services | 0.0 | 0.0 | 0.0 | 0.0 | 650.0 |
| (a) New Service Priorities - Council Approved IDC from the City Clerks Office for Polling Harmonization | 2.9 | 2.9 | | | |
| (b) New Service Priorities - Program Initiated | | | | | |
| Sub-Total New Service Priorities | 2.9 | 2.9 | 0.0 | 0.0 | 0.0 |
| Total Recommended New / Enhanced Service Priorities | 2.9 | 2.9 | 0.0 | 0.0 | 650.0 |

2007 Recommended Service Priorities**Enhanced Service Priorities – Council Approved:*****Enhanced Computer Technologies Project***

As there is currently no case management system specifically designed for investigations, ML&S will be pursuing the implementation of computer technology solutions that will handle investigations concerning business licensing, property standards, waste and use of boulevards, as well as license, permit and exemption issuance.

This system development will be funded through the Policy, Planning, Finance and Administration's 2007 Approved Capital Budget in the amount of \$3.000 million over 2007 and 2008 with an Operating impact to ML&S of \$0.650 million in 2009, primarily used to fund an additional 5 temporary full time positions.

New Service Priorities - Council Approved:***Polling Harmonization***

This represents the funding of \$0.003 million gross and \$0.003 million net for an IDC from the City Clerks Office for polling harmonization.

Issues for Discussion

2007 Operating Budget Issues

2007 Recommended Operating Budget vs. Guideline

Municipal Licensing & Standards 2007 Recommended Operating Budget is \$11.017 million net. In an effort to limit, as much as possible, the net budget increase to the corporate affordability target of a 0% increase, with the exception of a small IDC for Polling Harmonization, no new or enhanced initiatives have been recommended at this time. Simply adjusting the Program's base budget however, still results in a 2007 Recommended Operating Budget that is 18.1% over the 2007 target of \$9.330 million.

Full Cost Recovery Model

The current methodology in place to establish and set annual business licensing fees based on category of license is a static application based on 2004 known requirements which may not fully account for all eligible direct and indirect costs in 2007, nor is it flexible enough to account for future year costs.

In reviewing the current model, ML&S with the support of Accounting Services and Financial Planning staff will develop a new methodology that more accurately represents the effort involved in business licensing activities related to all category of license and ensure that all eligible costs are addressed in future business licensing fee structures.

An improved cost recovery model in 2008 coupled with the volume alignment of budgeted business licensing revenues to historically experienced actuals will allow Municipal Licensing and Standards to more accurately forecast revenues.

Revenue Changes

2007 budgeted licensing revenues have been adjusted downward in the amount of \$0.988 million from the 2006 Approved Budget. ML&S and FPD staff will monitor the 2007 revenues for business licensing to determine if an additional decrease of up to \$0.988 million is again required in the 2008 budgeted revenues. The need for the 2007 adjustment is the result of the following;

- **Incremental Revenue**

City Council, at its meeting of October 26, 27 and 28, 2005, approved the report from the Executive Director of Municipal Licensing and Standards, Review of Business Licensing Fees, increasing the licensing fees to offset the shortfall associated with cost recovery of licensing fees. The licensing fees were raised on November 1, 2005, resulting in revenues to increase by \$0.5 million for the remainder of 2005 and by an incremental amount of \$2.5 million in 2006, thereby planning to eliminate the revenue shortfall and achieving full cost recovery in 2006. These revenue increases have not been realized due to historical overestimations.

- **Licensing of Electrical Contractors and Electricians**

Master electricians and electrical contractors are no longer licensed by the City. Loss of these revenues, which have been assumed by the province result in a net increase of \$0.671 million to Municipal Licensing and Standards 2007 Operating Budget.

- **Body Rub Parlour Fee Adjustment**

As per Council direction, the licensing fee for Body Rub Parlours has been reduced, resulting in a net increase of \$0.272 million to Municipal Licensing and Standards 2007 Operating Budget.

Recruitment Strategy

Savings in salary and benefit funding for Municipal Licensing and Standards are resulting from, in part, the time that positions are vacant until the positions are filled with new staff. Vacant position accounted for the majority of the favourable 2006 preliminary year-end actual gross expenditure variance of \$2.950 million. As well, District Office teams are projected to close 42,000 files in 2006. This represents a 19.3% increase to the amount of files closed in 2005, however it is projected that 18,524 files will carryover from 2006 into 2007. The vacant positions coupled with escalating service demands, are creating greater workload and increased backlogs. To address this, ML&S is actively attempting to fill vacant positions and will continue to work with the Human Resources Division to develop a plan to accelerate hiring process.

Toronto Licensing Tribunal

City Council approved the transfer of the responsibility for recommending and administering the direct costs to support the Toronto Licensing Tribunal to Court Services from City Clerks effective January 1, 2007, subject to budget approval. ML&S has budgeted \$0.479 million in 2007 for these services which will now be recovered from Court Services through an interdepartmental charge. The charge from Court Services to ML&S for the Toronto Licensing Tribunal will continue to be funded from the business licensing fee revenues collected by ML&S.

Information Technology

There are currently five separate and unconnected computer databases with no case management system specifically designed for investigations. Funding has been approved to allow ML&S to develop/acquire an investigations case management system relating to business licensing, property standards, waste and use of boulevards, as well as licence, permit, and exemption issuance. This system development will be funded through the Policy, Planning, Finance and Administration's 2007 Approved Capital Budget in the amount of \$3.000 million over 2007 and 2008 with an Operating impact to ML&S of \$0.650 million in 2009.

Appendix 1

**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 |
| | | \$ | \$ | \$ | \$ | \$ |
| 2006 Council Approved Operating Budget | 381.0 | 33,610.3 | 24,280.8 | 9,329.5 | 0.0 | 0.0 |
| In-year approvals and technical adjustments | 0.0 | 0.0 | 0.0 | 0.0 | | |
| Corporate adjustments | 0.0 | 0.0 | 0.0 | 0.0 | | |
| 2006 Approved Operating Budget | 381.0 | 33,610.3 | 24,280.8 | 9,329.5 | 0.0 | 0.0 |
| Prior year impacts | (1.0) | (1,250.6) | (1,041.4) | (209.2) | 115.5 | (109.9) |
| Merits | | 354.3 | | 354.3 | 330.8 | |
| Zero base items | | | | 0.0 | | |
| Economic factors | | 598.0 | 488.1 | 109.9 | 248.7 | (437.4) |
| Adjusted Base Budget | 380.0 | 33,312.0 | 23,727.5 | 9,584.5 | 695.0 | (547.3) |
| Other base changes | | 580.9 | (7.1) | 588.0 | | |
| Base revenue changes | | | (2,086.8) | 2,086.8 | | |
| Recommended Service Level Adjustments: | | | | | | |
| Service efficiencies | | (257.6) | | (257.6) | | |
| Revenue adjustments | | | 988.1 | (988.1) | | |
| Minor service impact | | | | 0.0 | | |
| Major service impact | | | | 0.0 | | |
| Total Recommended Base Adjustments | 0.0 | 323.3 | (1,105.8) | 1,429.1 | 0.0 | 0.0 |
| 2007 Recommended Base Budget | 380.0 | 33,635.3 | 22,621.7 | 11,013.6 | 695.0 | (547.3) |
| 2007 Program Operating Target | N/A | N/A | N/A | 9,329.5 | 0.0 | 0.0 |
| % Over (Under) Program Target | | | | 18.1% | 7.4% | -5.87% |
| % Over (Under) 2006 Appvd. Budget | | | | 18.1% | 7.4% | -5.87% |

Appendix 2

Summary of Service Level Adjustments

Appendix 3

Summary of 2007 Recommended New / Enhanced Service Priorities

Appendix 4

Inflows / Outflows to / from Reserves & Reserve Funds

| Reserve / Reserve Fund Name | Reserve / Reserve Fund Number | Balance as of December 2006 | Proposed Withdrawals (-) / Contributions (+) | | |
|---|-------------------------------|-----------------------------|--|------------|------------|
| | | | 2007 | 2008 | 2009 |
| | | \$ | \$ | \$ | \$ |
| Fleet Reserve | XQ1301 | 340.8 | 212.0 | | |
| Total Reserve / Reserve Fund Draws / Contributions | | | 212.0 | 0.0 | 0.0 |