

April 23, 2007

2008 Budget Outlook

Approval of the 2007 Operating Budget will impact on the 2008 budget due to factors such as annualized cost of base budget changes and in-year implementation of new and enhanced services will result in a starting (known) budget pressure of \$681.7 million in 2008.

The incremental operating cost of providing the 2007 approved services and service levels including inflation, COLA, merit and annualization of part-year costs approved in 2007 is estimated to be \$189.3 million. In addition, it is estimated that debt service charges will increase by \$47.5 million. All together, expenditure increases will contribute \$236.8 million to the 2008 budget pressure. Annualization of non-tax revenues from 2007 will generate additional revenues of \$43.1 million in 2008.

Table 2		
2008 Outlook - Incremental Impacts		\$Millions
Expenditures Increases:		
- Cost of Living Allowance/Merit	120.0	
- Inflation	27.0	
- Debt Service Cost	47.5	
- Annualization and Other	42.3	236.8
Non-Tax Revenue Increase		(43.1)
Total Base Budget Impact		193.7
Unsustainable Budget Balancing Strategies:		
Provincial Assistance - Transit Operations		100.0
City One-Time		
- Hydro Note Revenues - Interest and Dividends	106.0	
- Non Program Reserve Draws	252.0	
- Move Ontario Trust	30.0	388.0
Total 2008 Outlook - Incremental Impacts		681.7

For the most part, the incremental increase for 2008 is driven by the use of one-time revenues in 2007. Reserves of \$211 million used to balance the 2007 Operating Budget is not recurring and therefore will become an operating budget pressure in 2008. Similarly, in 2006 the Province provided non-recurring operating budget assistance for TTC of \$100 million for each of 2006 and 2007 only, resulting in a \$100 million pressure in 2008. In accordance with approved City policy, Toronto Hydro Revenues are to be used to fund the capital program. Therefore, compliance with this policy will contribute \$106 million to the 2008 starting budget pressure, on the assumption that Hydro Revenues will be used as a capital funding source, unless Council determines otherwise. Altogether, these revenue losses will result in a \$417 million pressure for 2008.

Council has directed that the 2008 Operating Budget be held at a *zero increase* over 2007. Given a starting budget pressure of \$610.7 million, the City will continue to face a major challenge to balance the 2008 budget.

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