

# TORONTO STAFF REPORT

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April 29, 2005

To: Budget Advisory Committee

From: Deputy City Manager & Chief Financial Officer

Subject: City of Toronto 2006 Budget Process, Directions and Guidelines

## Purpose:

The purpose of this report is to recommend the 2006 Budget Process which incorporates best practices proposed by the Government Finance Officers Association (GFOA), and to request approval of Budget Directions and Guidelines for staff for preparation of the 2006 – 2010 Capital Budget and Plan, and the 2006 Operating Budget Schedule outlining the timing of the 2006 Process.

## Financial Implications:

There are no financial implications arising from this report. However, the proposed 2006 Budget Process will result in improved financial planning, and move the City towards a mature budget process that will have clear links to Council's priorities and program area service planning. Planning will take place over a longer-term horizon, with multi-year operating plans and a 5-year capital plan. The proposed budget process will require Council to provide up-front directions and endorsement of corporate strategies, guidelines/targets and budget priorities and will promote earlier review by staff and the Budget Advisory Committee (BAC) to bring forward a proposed budget that will meet the City's needs within an affordable fiscal framework. The focus of the budget review will be placed on service priorities, and service level adjustments as required within a fiscal framework. The proposed budget process will de-link the capital and operating budget reviews, resulting in the approval of the Capital Budget; the Toronto Water Budget and Water Rate by December and the approval of the Tax supported Operating Budget by mid-March of the following year.

The report recognizes that the City has a structural financial imbalance, which makes it increasingly difficult to continue providing current services without obtaining new and sustainable financial tools. In this regard, interim measures are proposed for the purpose of balancing the 2006 Operating Budget. Subject to further review, a new debt target of \$350 million is proposed to finance the 2006 Capital Budget based on the City's forecasted needs while at the same time not impacting the City's credit rating.

## Recommendations:

It is recommended that:

- (1) the proposed 2006 Budget process, as described in Appendix 1, be approved for immediate implementation;

- (2) the following Budget Directions and Targets for the 2006 – 2010 Capital Budget and Plan be approved as guidelines for preparation of the 2006 budget:
  - (i) subject to further review and contingent on receipt of projected Provincial and Federal gas tax revenues, the new debt targets be set at \$350 million in each of 2006 and 2007, \$336 million in 2008 and \$285 in each of 2009 and 2010;
  - (ii) the 2006 target for Capital from Current financing be established at the 2005 level of \$124 million;
  - (iii) given the significant 2006 Operating Budget estimated shortfall, Toronto Hydro Revenues (dividends and interest earnings) be used as a revenue source in the 2006 Operating Budget;
  - (iv) in allocating available capital funds in 2006, priority be given first to previously approved projects already in progress, then to new Legislated, Health and Safety and State of Good Repair projects;
  - (v) new Service Improvement and Growth related projects be considered only if they satisfy Council's highest priorities and minimize debt financing; and
  - (vi) the guideline which restricts debt charges to no more than 10 percent of the tax levy be reviewed and staff report to Budget Advisory Committee during the 2006 Budget process;
  
- (3) due to the unsustainable one-time revenues utilized in the 2005 Operating Budget, the following Budget Directions and Guidelines for the 2006 Operating Budget be approved:
  - (i) in order to address the significant gap in funding of provincially cost-shared programs, the following measures be adopted:
    - (a) the City request that the Provincial government recognize the actual cost of emergency and community services and meet its legislated obligation to fully cost-share those services for 2006;
    - (b) the City review with the Province opportunities for service efficiencies in the administrative and reporting requirements for cost-shared programs; and
    - (c) consideration be given to service reductions and/or further draws on reserves to mitigate pressures on the City's tax base;
  - (ii) eligible revenues from the Provincial Gas Tax received in 2006 be used to fund the Toronto Transit Commission's operating budget;
  - (iii) the City expand its current program of continuous improvement and efficiency initiatives to include service reviews and rationalization;

- (iv) where direct users can be identified, that City user fees be set to recover the full cost of the service and be increased by the rate of inflation, while ensuring that the most vulnerable are protected; and
  - (v) services aligned to Council's highest priorities for 2006 be protected;
- (4) the Mature Budget Process, described in Appendix 2, be approved for full implementation beginning in 2007/2008;
  - (5) the Deputy City Manager, Chief Financial Officer and the City Clerk report to the BAC with a revised 2005 and proposed 2006 schedule of meetings that incorporates a budget schedule for the 2006 Capital and Operating Budget, such schedule to consider approval of the Capital Budget by December 31, 2005, and the Operating Budget in March 2006;
  - (6) the City Manager and Deputy City Manger, Chief Financial Officer report to the BAC and the Policy and Finance Committee on a process and schedule for public consultation during the 2006 budget process;
  - (7) the Chairs of Agencies, Boards and Commissions be directed to schedule their budget reviews and meetings to achieve the deadlines established in the City of Toronto 2006 Budget Schedules; and
  - (8) the appropriate staff be authorized to take the necessary action to give effect thereto.

Background:

At its meeting of July 20, 21, and 22, 2004, Council approved a staff report on Capital Budget Issues, Definitions, Policies and Guidelines. By approving this report, Council established capital budget principles and set out a framework for producing and approving a five-year capital plan. At its meeting of September 28 to 30 and October 1, 2004, Council approved a staff report entitled "City of Toronto Budget Process Recommended Improvements" without amendment. The report recommended a new budget process that incorporated best practices as established by GFOA. Premised on the fact that all the changes proposed in these two reports could not be implemented at once, the new budget process included an implementation strategy to phase in the key elements and practices of the ideal process over a two-year period.

Following-up on the above report, the 2006 budget process described in this report emphasizes the need to engage all stakeholders and to incorporate community needs and priorities in the budget guidelines and directions to staff that would be approved by Council at the beginning of the budget process. The 2006 process represents a second phase in the budget process improvement exercise. It is planned to introduce further improvements in 2007/2008 in order to get to the mature budget process. The mature process will require Council to approve service plans that clearly detail service goals, objectives and priorities that will guide and inform multi-year capital and operating budget targets, resource allocation decisions and to evaluate performance and adjustments. In addition, the process encourages Council to do public consultation prior to setting its budget priorities.

This report recommends budget directions and guidelines that Council should consider for the 2006 budget process. The budget directions are responsive to the current fiscal challenges that confront

the City. To mitigate the 2006 Preliminary Operating Budget pressures, a number of measures are proposed. Some of these measures (including the use of one-time revenues, draws from already under-funded reserves to finance ongoing services) actually conflict with the City's present financial policies and practices. However, until financial tools are obtained to enable the City to solve the significant revenue problem that exists, such budget balancing measures are necessary.

Comments:

A. Best Budget Practices

The Government Finance Officers Association (GFOA) has established best budgeting practices and a budgeting framework for State and Local Governments in North America. It has undertaken an aggressive effort to publicize and to encourage governments to incorporate these best practices within their budget framework. Although these practices are not "intended to be mandatory prescriptions for governments" several of them have integrated the framework within their overall budget process. In fact, these practices have become the standard against which individual government's excellence in financial planning and management are assessed.

The central goal of a budget process is to enable governments to allocate scarce resources to programs and services. As a focal point for key resource decisions, the budget process is a powerful tool. The quality of decisions resulting from the budget process and the level of their acceptance depends on the characteristic of the budget process that is used.

A budget process is a formal method through which an organization establishes its goals, program priorities and desired services and service levels for the upcoming fiscal period and identifies resources required to achieve them. A good budget process, as defined by the GFOA, is characterized by the following essential features:

- Incorporates a long-term perspective;
- Establishes linkages to broad organizational goals;
- Focuses budget decisions on results and outcomes; and
- Provides incentives to government management and employees

More than balancing revenues and expenditures on a one-year at a time basis, a good budget process "encompasses a multi-year financial and operating plan that allocates resources on the basis of identified goals" (GFOA). Its focus must be more on providing incentives and flexibility to managers for the purpose of improving service/program delivery, efficiency and effectiveness, than on the traditional concept of line item expenditure review and control.

In addition, a budget process that is well integrated with other activities of government, such as planning and management functions, will provide better financial and program decisions and lead to improved governmental operations. A budget process that involves all stakeholders and reflects their needs and priorities will serve as a positive force in maintaining good public relations and enhances citizens' and other stakeholders' overall confidence in of government.

## GFOA Recommended Budgeting Practices

A budget practice is defined as a procedure that assists in accomplishing a principle and element of the budget process. To operationalize a budget practice it must be (a) clearly linked to activities in the budget process; and (b) specifically contribute to the development, description, understanding, implementation, and evaluation plan for provision of services and capital assets.

The GFOA budget framework consists of four principles:

- Establish broad goals to guide decision making;
- Develop approaches to achieve goals;
- Develop a budget consistent with approaches to achieve goals; and
- Evaluate performance and make adjustments.

These principles underscore the need for governments to have a sound budget process that incorporates long-term planning, establishes linkages to broad organizational goals, focuses budget decisions on results and outcomes, integrates stakeholder input, and provides incentives for effective and efficient financial stewardship.

These principles take into account that the budget process consists of financial, managerial, political, and technical dimensions and also encompass the array of planning and budgeting functions that cut across a governmental organization and allow for consideration of the following questions:

- How will the accomplishment of the goals and objectives be measured?
- How will the goals and objectives be accomplished?
- What goals and objectives are to be accomplished?
- What resources will be used to achieve the goals and objectives?

The budget processes of three Canadian and two international cities are reviewed in Appendix 3 attached. In summary, the reviews confirmed that, while there is no single method that would fulfil the needs of all governments, there are best practices that can help governments improve their management and operations. Each of the jurisdictions referenced in Appendix 3 illustrate how best practices are being used to support sound fiscal decision-making. In each case:

- Long term plans are in place and inform the budget process;
- Council's goals, objectives and priorities are articulated;
- Budget directions/guidelines are developed/approved by Council up-front;
- Stakeholders consultations are done prior to finalizing budget priorities;
- Council's priorities and budget directions are well defined and are responsive to stakeholders consultations;
- There is clarity about City services and service levels;
- Financial policies are well defined and provide a basis for revenue forecasts and resource allocation; and
- A range of public consultation activities form an integral part of the budget process and their uses are dependent on the type of input required, including: focus groups, community

meetings, public opinion polls, customer survey, flyers questionnaires distributed through local newspapers, etc.

Governments desiring to improve their financial management and service delivery need to incorporate community preferences, conduct long-term planning to assess whether the government has sufficient resources to deliver stakeholders preferences and assess how well service delivery mechanisms are meeting community needs. To become high-performance organizations, governments need to adopt best practices for each of their major processes

## B. City of Toronto Budget Process Recommended Improvements

The City's budget process has been designed to comply with generally accepted budgeting principles as well as budgeting practices recommended by the North American-based GFOA. Generally, the City complies with the GFOA best budget practices and measures quite well against other jurisdictions.

Since amalgamation, the budget process has improved in an incremental way. For instance, the City adopted a process that segregates the Base Budget from the Service Expansion Budget for review and decision making purposes. In so doing, it is now possible to review and approve the base budget based on clear understanding of the reasons for increases over the prior year. Service expansion budgets are generally supported by business cases which link to strategic plans and clearly articulate service level impacts, and are presented to Council and Committees as decision packages, clearly distinct from the Base Budget. In the interest of timely approval, this approach enables Council to approve a base budget and to deal with the service expansion budget as separate issues.

Performance measures were introduced as a key element in developing the annual operating budget. In order to assist Council in resource allocation decisions, the focus has shifted to results/outcomes, thus requiring programs to indicate what will be produced or achieved with the resources provided for service delivery. While still evolving, the shift to results-oriented budgeting holds management accountable both for the inputs allocated to their programs and the expected results/outcomes.

A new capital budgeting and planning application was developed in order to capture information critical to ensuring that the highest priority capital projects were approved annually. The application supports staff's development of a long-term capital plan and the assessment of its feasibility and financial implications thereof. It is useful for providing multiple views of the detailed capital plan and supports decisions on affordability and on the allocation of scarce resources based on project priorities.

A more significant role has been given to the Standing Committees, who now perform reviews of budget submissions of programs within its mandate and make recommendations to the BAC. Similarly, the BAC has begun to undertake detailed reviews of key issues in an effort to more fully understand service issues and key cost drivers. In both cases, the increasing use of briefings and issue-specific briefing notes have supported Committee deliberations on the budget.

Over the past two years, determined efforts have been made to engage the public in the priority setting exercise. For the 2006 budget process, staff has already begun discussions on budget directions and targets with the BAC, with a view to getting them confirmed by public input, approved by Council and delivered to ABCDs before they start producing their budgets.

In an effort to make further improvements the following key elements are incorporated into the recommended mature budget process below:

- Up-front dissemination of Council's broad goals, budget directions and targets;
- Assessment of community needs, priorities, challenges and opportunities and incorporating those into the budget guidelines and policy directions to staff;
- Introducing a more structured service planning process;
- Early Council and public engagement in the budget process to provide up-front budget directions and targets, and later when the budget is being reviewed; and
- Evaluation of new services to ensure that they achieve the planned results.

#### The City of Toronto - Mature Budget Process

Accountability for results is the ultimate goal of the City's financial planning process. A system that is designed to link community-developed goals with government programs and performance will be more responsive to the community and will ensure that City services are oriented to the desired results.

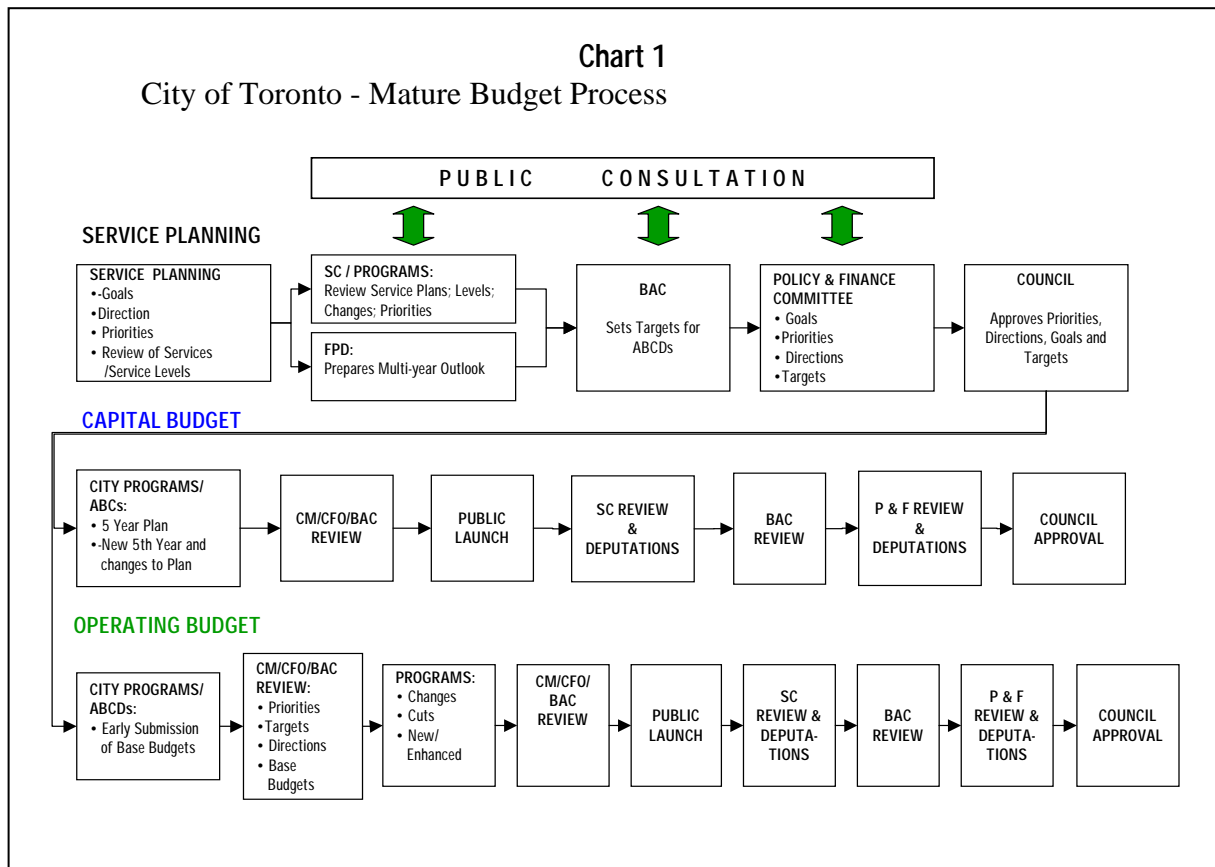
The City of Toronto mature budget process, illustrated in Chart 1 below, provides a framework that incorporates the four principles of the GFOA recommended budget practices. This mature budget process has been designed to link the corporate and service planning processes with the budget process, to provide budget directions and targets early in the process, and to ensure engagement of all stakeholders.

Service planning is the starting point, and a very important element of the mature budget process, as illustrated in Charts 1. It is during this phase that service goals, objectives and priorities are established and/or confirmed. Ideally, Council will set goals for its term of office, which will provide context for priority setting and service planning. Service plans and service levels should reflect the needs of all stakeholders, including the public. Therefore, public consultation is a key and essential element at this phase of the process.

With well-established corporate goals and objectives established, Standing Committees will have a basis for reviewing Divisional and ABC services plans that have a three to five-year financial forecast horizon. The outcome of this review, which includes confirmation or adjustment of services, service levels and priorities, along with multi-year financial forecasts developed by the Financial Planning Division, constitute the main inputs to the budget directions and financial target setting exercise. The intent of these process changes to enable Council to discuss City-wide and local service issues over a longer term horizon early in the process.

The Financial Planning Division (FPD) provides analysis and support to senior management and the BAC in the target setting exercise. This involves development of a multi-year financial outlook, (inclusive of a revenue forecast) and assessment of the impact of environmental (internal as well as external) factors on the City's financial resources. FPD will submit initial proposals on resource allocation options to be considered by senior management and BAC. Development of budget directions and priorities is an interactive exercise. The mature budget process requires at the same time, staff and BAC to work jointly to develop targets that are conducive to achieving the best results and outcome. The City will seek public input on City priorities and fiscal issues

The service planning phase concludes with a joint BAC and Staff report that recommends budget directions and targets to Council. When approved and distributed to staff, the budget directions and targets provide a framework for staff to develop their budgets and for the budget review process. The review and approval of the Capital and Operating Budgets will be de-linked and follow their own process and timing. The Capital Budget and Plan will be approved by City Council by year-end, thus enabling staff to begin capital work by the beginning of the fiscal year. The Operating Budget will be approved by mid March to enable staff to assess actual performance from the previous year against planned requirements. Staff will develop their five-year capital plan and multi-year operating budgets as illustrated in Chart 1 and summarized below.



### Capital Budget - Development and Review

The priorities, directions, goals and targets approved by Council will be the basis for the preparation of the capital budget. Key steps of the capital budget phase are as follows:

City Programs/ABCs prepare 5-year capital budget and plans based on the directions and targets approved by Council. In each subsequent year, a new fifth year is added and where warranted, changes to plan may be made and are highlighted.

Initial review of the capital budget and plan submissions will be done by a joint review team comprised of the City Manager, DCM-CFO and the BAC. These reviews will confirm that

submissions conform with budget targets, directions and priorities before the public launch of the proposed capital budget.

The public launch of the proposed capital budget, signals the beginning of the political review process. Firstly, Standing Committees will review the capital budget and plan to ensure that they address the capacity to deliver services and service levels approved in the service planning phase. The committees will receive public deputations and examine the linkages between Sectoral, Service and Corporate Strategic Plans. Finally, Standing Committees make recommendations to BAC.

After receiving the Standing Committee recommendations, BAC will review the capital budget and plan. If warranted, changes may be made to ensure proper alignment with priorities, to redistribute resources based on public deputations and Standing Committee advice in an effort to maximize returns. BAC then submits its recommendations to Council through Policy and Finance Committee. Finally, the Capital Budget is reviewed and debated, revised and approved by Council.

#### Operating Budget - Development and Review:

The City has adopted a staff recommendation to approve biannual budgets, full implementation of which will take effect with the 2007 budget. The biannual budget will undergo rigorous review as indicated in the operating budget phase of the mature budget process. Principal elements of the operating budget phase are as follows:

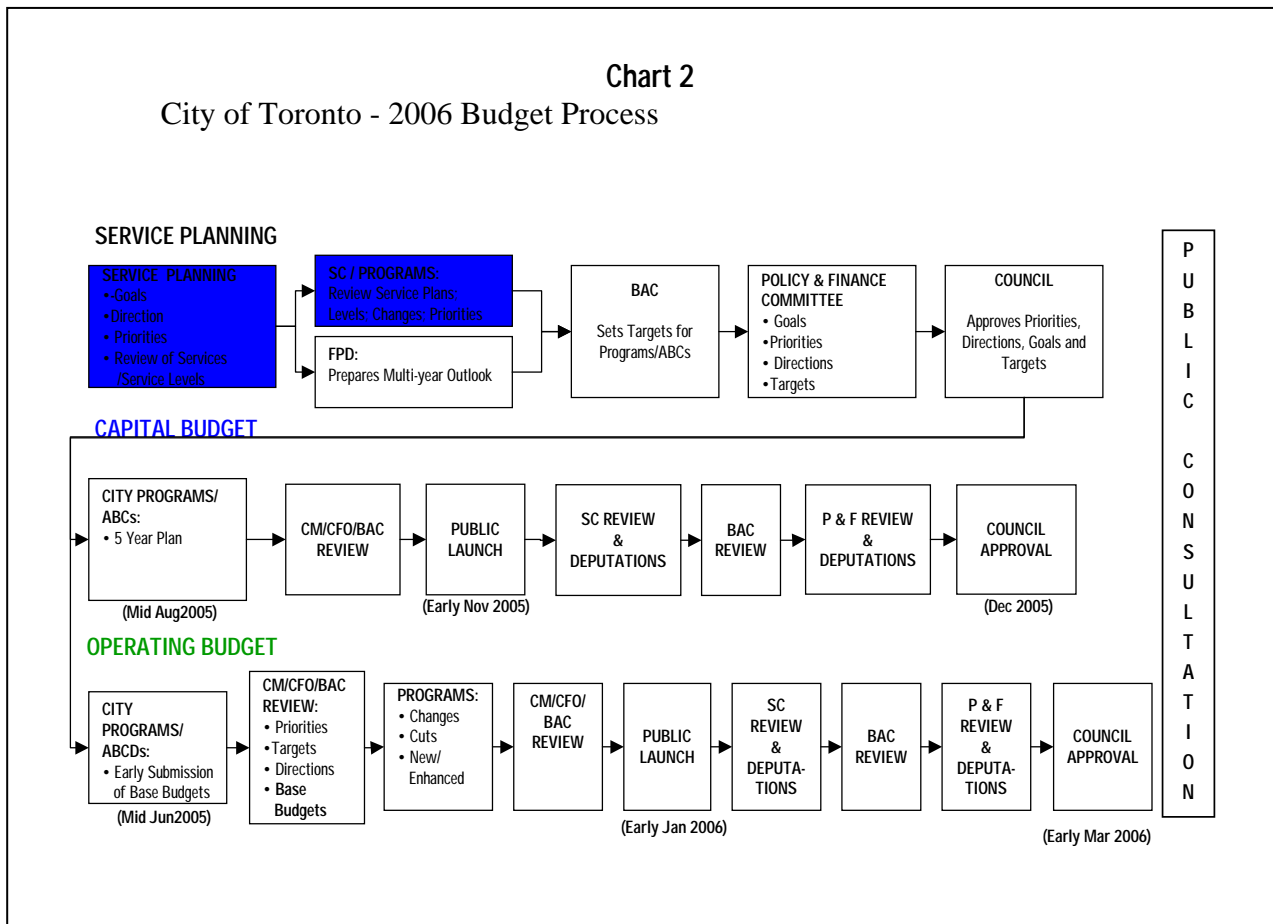
- City divisions submit base budgets to the City Manager/DCM-CFO. The base budget submission will propose the resource needs, by strategy and goals/objectives, to be addressed in the upcoming budget year with clear linkages to the goals, priorities, direction and targets approved by Council. Each division will also submit performance indicators to measure their program's effect on the desired community conditions.
- The base budget will be review by a joint team comprised of City Manager, DCM and Chief Financial Officer and BAC which will enable both senior staff and the BAC to assess the key cost drivers and service issues, and will result in the issuance of program specific budget directions.
- Programs, working with FPD, will then be asked to develop service level adjustment options and submit any service requests, based on approved Council priorities which will also be reviewed by the City Manager, DCM-CFO and BAC team.
- The resultant budget will be a proposed budget from the City Manager, DCM-CFO and BAC.

Public launch of the proposed budget marks the beginning of the political review process, commencing with the Standing Committee Review, service issues or changes will be referred to Standing Committees for review and will hear public deputations on the budget. All local issues will be addressed at the Standing Committee and deputation review phase, so that the Council budget debate focuses more on citywide issues. At this stage, City Programs and ABCs will be required to report on the outcomes of service expansion /new services approved in the following cycle.

- Standing Committee advice and service outcomes will be forwarded to BAC for its final review of the budget. The objective of ensuring the proposed budget is balanced with the City's affordability.
- The BAC recommended budget then goes to the Policy and Finance Committee for review and deputation and then to Council for final approval.
- City divisions implement strategies and annual objectives, as approved by Council for their programs, and each division becomes accountable for making progress toward the three-year/five-year goals and the desired community conditions/outcomes.
- City performance is measured and reported quarterly.

City of Toronto – 2006 Budget Process

All the elements proposed in the mature budget process cannot be fully implemented in 2006. Therefore the 2006 budget process, as shown in Chart 2 below, will follow a modified approach, with the absence of the service planning, standing committee/program review of the service plans, and an up-front public consultation to guide the process. All other phases of the process will take place as described in Chart 2.



The following process is being recommended for 2006:

- Council approval of priorities, directions and targets up-front;
- Public consultation to confirm priorities;
- Approval of 5-year capital plan by December 2005;
- Approval of Water and Waste Water Budget and 2006 Water Rate by December 2005;
- Approval of Operating Budget by mid-March 2006;
- Detailed service level discussion at Standing/BAC Committees, with local issues being addressed at this stage;
- Detailed service review by BAC members; and
- Evaluation and update to BAC and Policy and Finance Committee on status of implementing new/enhanced services approved in prior year.

In order to ensure that the proposed timeframes can be met, it is imperative that all City ABCs adjust their meeting schedules to adhere with the proposed budget schedule for 2006 and beyond. It is therefore recommended that the Chairs of Agencies, Boards and Commissions be directed to schedule their budget reviews and meetings to achieve the deadlines established in the City of Toronto 2006 Budget Schedules.

#### C. City of Toronto - 2006 Budget Directions and Targets

Inadequate Investment in Toronto by the Federal and Ontario Governments:

The City of Toronto continues to be a primary source of wealth as the economic engine of the Canadian economy. However, this core economic leadership role is becoming increasingly more difficult to maintain mainly because of ongoing fiscal challenges that confront cities in Canada, and slow progress in receiving sufficient financial commitments from the Federal and Provincial governments. For the most part, the City has ongoing structural funding problems which make it increasingly more difficult to meet basic cost increases driven by uncontrollable factors such as inflation, growth demands, as well as provincially downloaded services.

Unlike the situation in Canada, the role of cities and towns and the need to ensure that they are fiscally equipped to achieve those roles have been high on the agenda of the European Union (EU) and the United States of America (see Appendix 4). The jurisdictions have allotted substantive to enable local governments to develop and maintain their infrastructure and to remain competitive internationally.

While it appears that both the Federal and Provincial governments acknowledge the challenges faced by Toronto and the huge threat to the prosperity of the Nation, they have been slow in providing the funding support essential for the wellness of the City. Considering that the City sent \$11 billion more to the other orders of government, the request for a reinvestment of at least \$1 billion is deemed appropriate. This would help the City restore or replace capital infrastructure, 68 percent of which is more than 33 years old, and to address growth demands.

#### Causes of Toronto's Fiscal Challenges

Unlike large cities in the EU and USA, the City of Toronto has had to rely on three revenue sources to provide a wide range of services and to meet the uncontrollable increasing cost of inflation and

growth. On a \$7 billion expenditure budget, inflation at current rates imposes a significant pressure on the City's budget. Add to this an annual average expenditure increase of \$70 million to cover the cost of the increasing demand for service associated with population growth, new services to fulfil Council's priorities and the quality of life expectations of the public. Further compounding the problem is under-funding of services downloaded by the Province. Without revenue sources that grow with the rate of expenditure increases, the City has had to rely primarily on efficiencies, tax increases, and restricted assistance from the Province to balance its budget. Typically, the Province has offered only one-time assistance which does not remedy the revenue problem that exists.

As indicated in Table 1, American cities have authority to implement a wide range of consumption and growth related taxes, to run deficits and to borrow money for their operating budget in addition to property taxes, user fees and grants from State and Federal governments. They have a greater degree of fiscal and policy flexibility. In contrast, a significant proportion of the services provided by the City of Toronto is either mandated by the Province or is not directly-controlled.

Further exacerbating the fiscal issue is the fact that the Province has not provided sufficient funds or adequate financial tools to cover the cost of providing downloaded social services. In addition, the demand for several of these downloaded or mandated services tend to increase with population growth and economic conditions, while the principal revenue sources are inelastic.

|                                      | Toronto | U.S.A. |
|--------------------------------------|---------|--------|
| Property tax                         | *       | *      |
| Sales Tax                            |         | *      |
| Hotel / motel tax                    |         | *      |
| Fuel tax                             |         | *      |
| User Fees and Charges                | *       | *      |
| Income tax: individual and corporate |         | *      |
| Development Charges                  | *       | *      |
| Tax-exempt municipal bonds           |         | *      |
| Tax incentives                       |         | *      |
| Grants to corporations               |         | *      |
| Borrow money                         | *       | *      |

The City's infrastructure is aging. Just to maintain its significant network of roads, water systems, public transportation systems and buildings in a state of good repair require in excess of \$300 million annually more than has been allotted since amalgamation. On average, the City's capital budget has averaged \$1 billion since amalgamation. With insufficient investment from the other orders of government, Toronto has had to rely on debt to finance its capital expenditures, thereby placing an increasing debt service burden on the already stressed operating budget.

Recent analysis of Reserves and Reserve Funds disclosed that they are likewise significantly under-funded based on existing obligations / unfunded liabilities, in comparison with other major cities in Ontario and Canada. As at the end of 2004, a reasonable estimate of the shortfall in reserve balances would be in excess of \$4 billion.

The operating risks associated with the above fiscal challenges are significant. Indeed, it is urgent that sustainable fiscal solutions be obtained to enable the City of Toronto to continue to serve its constituents, and to remain economically competitive in the global marketplace. Achievement of the latter would be beneficial to both Ontario and the Federal governments - evidenced by the fact that the City sends in excess of \$11 billion more than it receives to them.

### Long Term Fiscal Sustainability:

On April 12, 2005 City Council approved a Comprehensive Report on the City's Long-term Fiscal Plan. The report discussed some of the existing fiscal challenges that confront the City and proposed long-term, sustainable strategies, principles and policies. In an assessment performed to support the premises held within the Long-term Fiscal Plan and confirmed in recent independent studies, it was determined that, "the City has a structural financial problem and it is not financially sustainable into the future." Key contributors to this structural problem are as follows:

#### Expenditures:

- The City has a higher cost structure than other municipal governments in the rest of the GTA, e.g. Police, transit, social assistance, social housing, and debt charges.
- Demands for growth as laid out in the Official Plan or other Sectoral and program plans are not adequately funded.
- There is variability in certain program expenditures from year to year.

#### Revenues:

- The City lacks adequate revenue sources to fund its municipal responsibilities, including income distributive programs.
- Improper funding of Provincial cost-shared programs has resulted in significant financial pressures for the City, e.g. capping of Provincial share, capping of GTA pooling revenues and Social Service costs/risk exposure.

#### Assets and Liabilities:

- The City's investment in its ageing infrastructure has been lagging.
- Employee Benefits and other liabilities are not adequately funded.

All of the above have contributed incrementally to the critical financial situation currently confronting the City. In 2005, the City continues to be in the untenable situation of not having the necessary fiscal tools to meet the rising cost of emergency services, and to cover the funding gap associated with uncontrollable and/or downloaded emergency and community services that have been under-funded by the Province. Without a sustainable fiscal solution the City may have to consider discontinuing some of the services that it currently offers, albeit as a last resort.

2006 – 2010 Capital Budget and Plan – Directions and Targets:

Table 2 below shows the City’s capital expenditure estimates by project category for the five year period 2006 to 2010. The forecasted capital expenditure estimates from the City’s Divisions, Agencies, Boards and Commissions total \$7.005 billion and range from a high of \$1.6 billion in 2006 to \$1.2 billion in 2009. State of Good Repair is expectedly the highest need and averages \$932 million annually given the age of the City’s infrastructure. The estimated capital spending needs for the three highest categories namely Health and Safety, Legislated/City Policy and State of Good Repair, total \$5.3 billion over the five year term, for an annual average of approximately \$1.1 billion per year.

**TABLE 2**  
**City of Toronto**  
**2006 - 2010 Tax Supported Capital Forecast**  
**By Category (in \$millions)**

| Category                            | 2006         | 2007         | 2008         | 2009         | 2010         | TOTAL<br>2006-2010 |
|-------------------------------------|--------------|--------------|--------------|--------------|--------------|--------------------|
| Health & Safety                     | 66           | 46           | 49           | 52           | 28           | 241                |
| Legislated/City Policy              | 105          | 89           | 54           | 51           | 48           | 347                |
| State of Good Repair                | 990          | 985          | 911          | 871          | 905          | 4,662              |
| <b>Sub-total</b>                    | <b>1,161</b> | <b>1,120</b> | <b>1,014</b> | <b>974</b>   | <b>981</b>   | <b>5,250</b>       |
| Service Improvement and Enhancement | 161          | 108          | 104          | 88           | 78           | 539                |
| Growth Related                      | 302          | 285          | 239          | 152          | 238          | 1,216              |
| <b>Sub-total</b>                    | <b>463</b>   | <b>393</b>   | <b>343</b>   | <b>240</b>   | <b>316</b>   | <b>1,755</b>       |
| <b>Total - Tax Supported</b>        | <b>1,624</b> | <b>1,513</b> | <b>1,357</b> | <b>1,214</b> | <b>1,297</b> | <b>7,005</b>       |

Table 3 shows the financing sources for the forecasted 2006 to 2010 capital expenditure estimates. It must be noted that debt requirement totals \$4.6 billion or 66 percent of the total capital expenditure estimates of \$7 billion. Of the 2006 gross estimates of \$1.6 billion, \$348 million has been previously approved and debt required to fund the previously approved estimates is \$224 million.

**TABLE 3**  
**2006 - 2010 Capital Plan - Tax Supported**  
**by Funding Sources (in \$Million)**

| Source                        | 2006         | 2007         | 2008         | 2009         | 2010         | TOTAL<br>2006-2010 |
|-------------------------------|--------------|--------------|--------------|--------------|--------------|--------------------|
| Provincial Grants & Subsidies | 175          | 178          | 146          | 124          | 124          | 747                |
| Federal Subsidy               | 109          | 117          | 105          | 161          | 161          | 653                |
| Development Charges           | 63           | 34           | 46           | 41           | 49           | 234                |
| Reserves                      | 7            | 6            | 6            | 6            | 4            | 28                 |
| Reserve Funds                 | 55           | 47           | 35           | 27           | 16           | 180                |
| Capital from Current          | 124          | 124          | 124          | 124          | 124          | 620                |
| Other                         | 92           | 66           | 68           | 74           | 68           | 368                |
| Debt                          | 999          | 941          | 827          | 657          | 751          | 4,176              |
| <b>Total - Tax Supported</b>  | <b>1,624</b> | <b>1,513</b> | <b>1,357</b> | <b>1,214</b> | <b>1,297</b> | <b>7,005</b>       |

Based on Council approved financial policies that the cost of new debt should not negatively affect the City’s credit rating (currently AA for long-term debt), and the debt guideline which prescribes that debt service charges should not exceed 10 percent of the property tax levy, this level of debt is not affordable. To ensure compliance with financial policies, the affordable level of debt is estimated to be \$485 million in 2006, roughly 50 percent of the total requirement. Assuming debt retirement of about \$135 million annually, the annual new debt in 2006 is \$350 million (\$42 million

less than was approved in 2005). Table 4 below shows the City's affordable debt estimate for the five-year period 2006 to 2010.

The proposed debt target is substantively less than that required to fulfil capital program needs. At these debt levels, after factoring in other available funding sources the estimated Capital Budget for 2006 is \$1.110 billion, and decreases to \$1.057 billion in 2007, \$1.001 billion in 2008, \$0.977 billion in 2009, and \$0.966 billion in 2010.

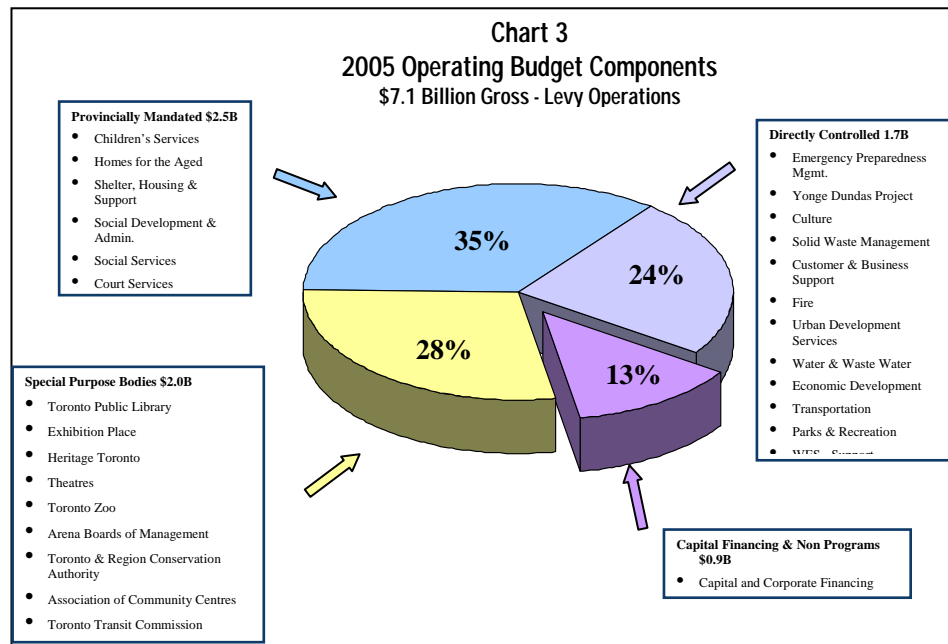
| <b>TABLE 4</b>                                |            |            |            |            |            |            |
|---|------------|------------|------------|------------|------------|------------|
| <b>2006 - 2010 Debt Targets (\$ Millions)</b> |            |            |            |            |            |            |
| Source of Financing                           | YEAR       |            |            |            |            |            |
|   | 2005       | 2006       | 2007       | 2008       | 2009       | 2010       |
| Baseline Debt<br>(Retire / Reissue)           | 135        | 135        | 135        | 135        | 135        | 135        |
| New Debt:                                     |            |            |            |            |            |            |
| TTC   | 237        | 200        | 200        | 186        | 135        | 135        |
| City  | 155        | 150        | 150        | 150        | 150        | 150        |
| New Debt                                      | 392        | 350        | 350        | 336        | 285        | 285        |
| <b>Total Affordable Debt</b>                  | <b>527</b> | <b>485</b> | <b>485</b> | <b>471</b> | <b>420</b> | <b>420</b> |
| Submission Debt                               |            | 999        | 941        | 827        | 657        | 751        |
| <b>Excess Debt Requirement</b>                |            | <b>514</b> | <b>456</b> | <b>356</b> | <b>237</b> | <b>331</b> |

Based on the assumptions above, it is recommended that Council approve the following Capital Budget Directions and Targets for 2006 as goals to guide the preparation of the 2006 budget:

1. That subject to review in the fall of 2005, the new debt targets be set at \$350 million in each of 2006 and 2007, \$336 million in 2008 and \$285 in each of 2009 and 2010.
2. That the 2006 Capital from Current be established at the 2005 level of \$124 million.
3. That given the significant 2006 Operating Budget estimated shortfall, that Toronto Hydro Revenues to fund the capital program be reallocated in 2006 to the Operating Budget (revenues).
4. That in allocating available capital funds in 2006, priority be given first to previously approved projects already in progress, then to new Legislated, Health and Safety and State of Good Repair projects.
5. That new Service Improvement and Growth related projects be considered only if they satisfy Council's highest priorities and minimize debt financing.
6. That the guideline which restricts debt charges to no more than 10% of the tax levy be reviewed and that staff report to BAC during the 2006 budget process.

## 2006 Operating Budget Direction and Guidelines:

Presently, the City has limited authority to select the services it offers or to establish funding sources to cover the cost of services. This is evidenced in Chart 3 below which shows that of the 2005 Tax Supported Operating Budget of \$7.1 billion, only \$1.7 billion or 24 percent was directly controlled. More than two-thirds of the 2005 Gross Expenditure Budget was provincially mandated. Approximately 24 percent or \$1.7 billion of 2005 Property Tax Revenues were allotted to fund provincially mandated services. The use of property tax revenues to fund provincially mandated social programs not only exacerbates the existing fiscal problem, but conflicts with the recently approved Council financial strategy that precludes the use of property taxes to fund income



distributive programs.

As indicated earlier, preliminary estimates indicate that unless significant progress is made immediately on finding sustainable revenue solutions, the City will have a substantive operating budget shortfall in 2006. As shown in Table 5 below, one-time revenues utilized to balance the 2005 Operating Budget, comprised of Provincial Assistance, Toronto Hydro Revenues and Reserve Draws, total \$438 million.

The use of one-time revenues in the operating budget conflicts with the City's normal financial practice, which requires that one-time revenues be dedicated to funding one-time expenditures or to finance capital projects. However, this method of financing has been necessary to maintain current services and service levels and to ensure that Toronto continues to be the key source of wealth creation for the Province of Ontario and Canada.

Temporary measures used to balance the budget every year since amalgamation are no longer available. In addition, the fiscal problem emerging from the use of these interim funding measures have incrementally increased each year, resulting in the substantive shortfall that exists today. It is therefore, essential that the City finds permanent financial solutions and takes appropriate measures, to reduce expenditures to affordable levels.

| <b>Table 5</b>                                       |                |
|--|----------------|
| <b>City of Toronto</b>                               |                |
| <b>2006 Preliminary Operating Budget</b>             |                |
| <b>One-Time Revenue Pressure</b>                     |                |
| <b>\$000</b>   |                |
| <b>Provincial Assistance:</b>                        |                |
| - Provincial Loan Deferral                           | 20,000         |
| - Special Provincial Assistance                      | 45,000         |
| - Gas Tax Revenues                                   | 91,600         |
| Total Provincial Assistance                          | 156,600        |
| <b>Toronto Hydro Revenues:</b>                       |                |
| - Interest Income - Hydro Note                       | 66,656         |
| - Dividends  | 38,400         |
| - Special Dividends                                  | 30,000         |
| - Sale of City Street and Expressway Lighting Assets | 60,000         |
| Total Hydro Revenues                                 | 195,056        |
| <b>Reserve Draws</b>                                 | 86,548         |
| <b>Total One-time Revenue Related Pressure</b>       | <b>438,204</b> |

Interim measures to address the budget pressure resulting from the one-time revenues included in the 2005 Operating Budget are based on the recognition that comprehensive sustainable revenue solutions may not be forthcoming in time for the 2006 Budget. The interim measures are incorporated into the Operating Budget Directions and Targets below:

- (i) in order to address the significant gap in funding of provincially cost-shared programs, the following measures to be taken:
  - (a) the City request that the Provincial government recognize the actual cost of emergency and community services and meet its full legislated obligation to cost-share those services for 2006;
  - (b) the City review with the Province opportunities for flexibility in the administrative and reporting requirements for cost-shared programs; and
  - (c) consideration be given to further draws on reserves and/or service reductions to mitigate pressures on the City's tax base;
- (ii) eligible revenues from the Provincial Gas Tax received in 2006 be used to fund the TTC's operating budget;
- (iii) the City expand its current program of continuous improvement and efficiency initiatives to include service reviews and rationalization;
- (iv) where direct users can be identified, that City user fees be set to recover the full cost of the service and be increased by the rate of inflation, while ensuring that the most vulnerable are protected; and
- (v) services that are aligned to Council's highest priorities for 2006 be protected.

In the longer term, that City of Toronto should explore sustainable funding arrangements with the Provincial and Federal Governments and should put into effect the financial policy that which precluded the use of the property tax base to fund income distributive programs.

Conclusion:

The mature budget process recommended in this report meets several objectives. It incorporates best practices proposed by the GFOA and apparent in the budget process of other cities in Canada and internationally. It emphasizes the need for corporate strategic plans and business plans to guide the budget process; and establishes clear links to goals, objectives and priorities, and program area business plans. Under this process, planning will take place over a longer-term horizon, with multi-year financial and operating plans and 5-year capital plan approvals. The focus of the budget review in the proposed process will be placed on service priorities, with service level adjustments within a fiscal framework. Finally, the proposed budget process emphasizes the need for public consultation and requires Council to provide up-front directions and endorsement of corporate strategies, guidelines, budget priorities and targets.

The City of Toronto has major fiscal challenges that make it increasingly more difficult to fulfil its role as Canada's economic engine. While Toronto continues to be a major contributor to regional, provincial and national economic, cultural and social wellness, this is being threatened by the fact that it lacks the resources to adequately maintain its infrastructure, and to meet the rising cost of providing the services its constituents have come to expect. Unlike major cities in Europe and the United States, Toronto has limited revenue sources and receives limited infrastructure support from the Federal and Provincial governments. It has a structural fiscal problem which is very evident by the size of the annual budget shortfall. Since 2000, the City has had to rely on temporary solutions to balance its budget including one-time revenue sources and draws from its already under-funded reserves. While debt has been steadily increasing, the City is still not able to maintain all its assets in a state of good repair let alone address service changes and growth demands in its communities. These measures are unsustainable and conflict with the City's financial policies/practices. As a result, Toronto needs new financial tools to be competitive in the international arena and to generate wealth for the region, province and nation.

The City's new budget process requires that Council approves budget directions and targets at the start of the budget process. While it is committed to finding permanent solutions to its fiscal problems, it is apparent that these will not all materialize in the short term. As a result, a number of interim strategies are recommended to guide staff in the preparation of the 2006 Capital and Operating Budgets. These include setting an annual additional new debt target of \$350 million for the 2006 capital budget (subject to review in the fall of 2005), and directing that priority be given to previously approved projects and new Health and Safety, Legislated / City Policy, and State of Good Repair projects. The 2006 capital targets to be established comply with the City's debt policies and the requirement to at least maintain the existing credit rating.

The Operating Budget guidelines and directions are based on the assumption that the Provincial government will provide new financial tools to the City. Given the significance of the preliminary 2006 budget pressure, the City will have to use one-time revenues again in 2006. This is an interim but necessary measure which, it is hoped, will not continue into 2007.

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List of Attachments:

- Appendix 1 Mature Budget Process – 2007 and Beyond
- Appendix 2 2006 Budget Process
- Appendix 3 How Other Jurisdictions Incorporate Best Practices
- Appendix 4 Infrastructure Investment Essential for Canadian Cities to be Competitive

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## **Appendix 1**

### **The City of Toronto - Mature Budget Process**

Accountability for results is the ultimate goal of the City's financial planning process. A system that is designed to link community-developed goals with government programs and performance will be more responsive to the community and will ensure that City services are oriented to the desired results.

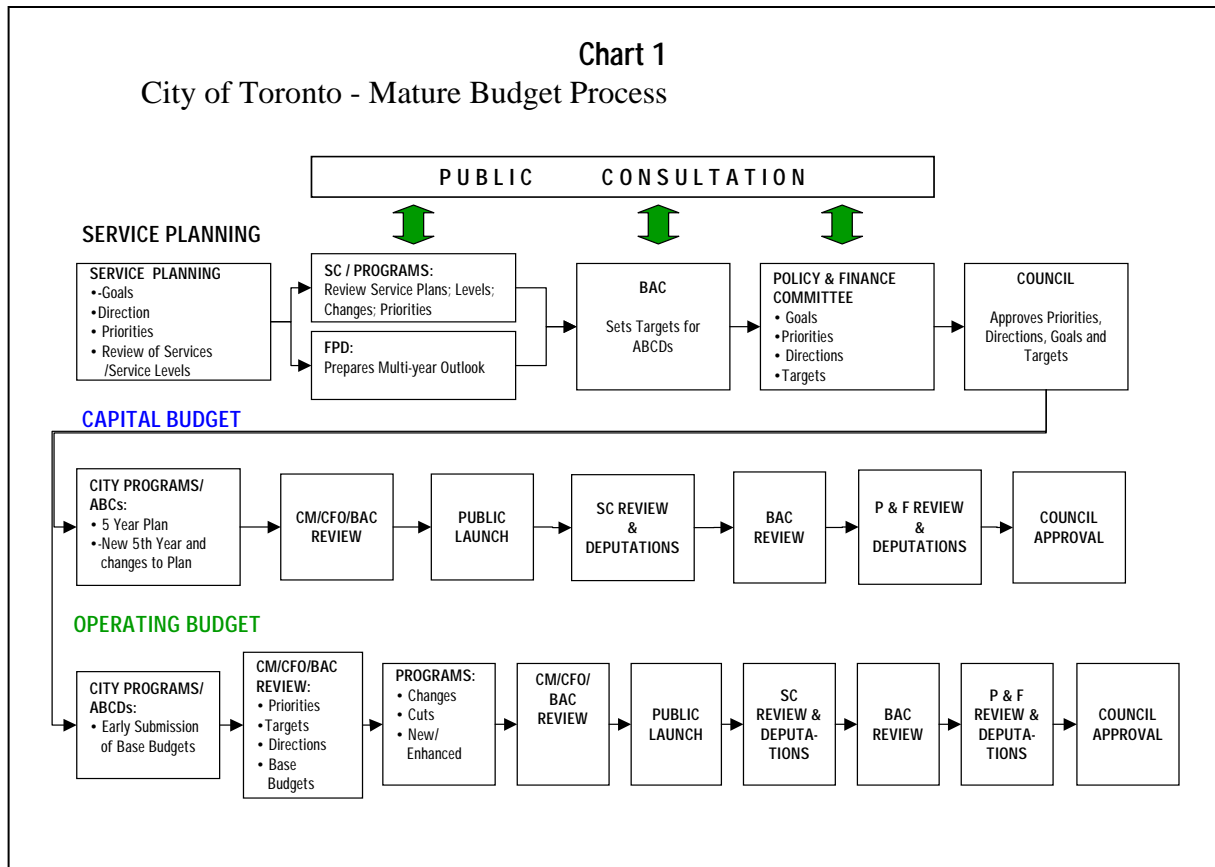
The City of Toronto mature budget process illustrated in Chart 1 below provides a framework that incorporates the four principles of the GFOA recommended budget practices. This mature budget process has been designed to link the corporate and service planning processes with the budget process, to provide budget directions and targets early in the process, and to ensure engagement of all stakeholders.

Service planning is the starting point, and a very important element of the mature budget process as illustrated in Charts 1. It is during this phase that service goals, objectives and priorities are established and/or confirmed. Ideally, Council will set goals for its term of office, which will provide context for priority setting and service planning. Service plans and service levels should reflect the needs of all stakeholders, including the public. Therefore, public consultation is a key and essential element at this phase of the process.

With well-established corporate goals and objectives established, Standing Committees will have a basis for reviewing Divisional and ABC services plans that have a three to five-year financial forecast horizon. The outcome of this review, which includes confirmation or adjustment of services, service levels and priorities, along with multi-year financial forecasts developed by the Financial Planning Division, constitute the main inputs to the budget directions and financial target setting exercise. The intent of these process changes to enable Council to discuss City-wide and local service issues over a longer term horizon early in the process.

The Financial Planning Division (FPD) provides analysis and support to senior management and BAC in the target setting exercise. This involves development of a multi-year financial outlook, (inclusive of a revenue forecast) and assessment of the impact of environmental (internal as well as external) factors on the City's financial resources. FPD will submit initial proposals on resource allocation options to be considered by senior management and BAC. Development of budget directions and priorities is an interactive exercise. The mature budget process requires at the same time, staff and BAC to work jointly to develop targets that are conducive to achieving the best results and outcome. The City will seek public input on City priorities and fiscal issues

The service planning phase concludes with a joint BAC and Staff report that recommends budget directions and targets to Council. When approved and distributed to staff, the budget directions and targets provide a framework for staff to develop their budgets and for the budget review process. The review and approval of the Capital and Operating Budgets will be de-linked and follow their own process and timing. The Capital Budget and Plan will be approved by City Council by year-end, thus enabling staff to begin capital work by the beginning of the fiscal year. The Operating Budget will be approved by mid March to enable staff to assess actual performance from the previous year against planned requirements. Staff will develop their five-year capital plan and multi-year operating budgets as illustrated in Chart 1 and summarized below.



### Capital Budget - Development and Review

The priorities, directions, goals and targets approved by Council will be the basis for the preparation of the capital budget. Key steps of the capital budget phase are as follows:

City Programs/ABCs prepare 5-year capital budget and plans based on the directions and targets approved by Council. In each subsequent year, a new fifth year is added and where warranted, changes to plan may be made and are highlighted.

Initial review of the capital budget and plan submissions will be done by a joint review team comprised of the City Manager, DCM-CFO and the BAC. These reviews will confirm that submissions conform with budget targets, directions and priorities before the public launch of the proposed capital budget.

The public launch of the proposed capital budget, signals the beginning of the political review process. Firstly, Standing Committees will review the capital budget and plan to ensure that they address the capacity to deliver services and service levels approved in the service planning phase. The committees will receive public deputations and examine the linkages between Sectoral, Service and Corporate Strategic Plans. Finally, Standing Committees make recommendations to the BAC. After receiving the Standing Committee recommendations, the BAC will review the capital budget and plan. If warranted, changes may be made to ensure proper alignment with priorities, to

redistribute resources based on public deputations and Standing Committee advice in an effort to maximize returns. BAC then submits its recommendations to Council through Policy and Finance Committee. Finally, the Capital Budget is reviewed and debated, revised and approved by Council.

#### Operating Budget - Development and Review:

The City has adopted a staff recommendation to approve biannual budgets, full implementation of which will take effect with the 2007 budget. The biannual budget will undergo rigorous review as indicated in the operating budget phase of the mature budget process. Principal elements of the operating budget phase are as follows:

- City divisions submit base budgets to the City Manager/DCM-CFO. The base budget submission will propose the resource needs, by strategy and goals/objectives, to be addressed in the upcoming budget year with clear linkages to the goals, priorities, direction and targets approved by Council. Each division will also submit performance indicators to measure their program's effect on the desired community conditions.
- The base budget will be review by a joint team comprised of City Manager, DCM and Chief Financial Officer and BAC which will enable both senior staff and the BAC to assess the key cost drivers and service issues, and will result in the issuance of program specific budget directions.
- Programs, working with FPD, will then be asked to develop service level adjustment options and submit any service requests, based on approved Council priorities which will also be reviewed by the City Manager, DCM-CFO and BAC team.
- The resultant budget will be a proposed budget from the City Manager, DCM-CFO and BAC.

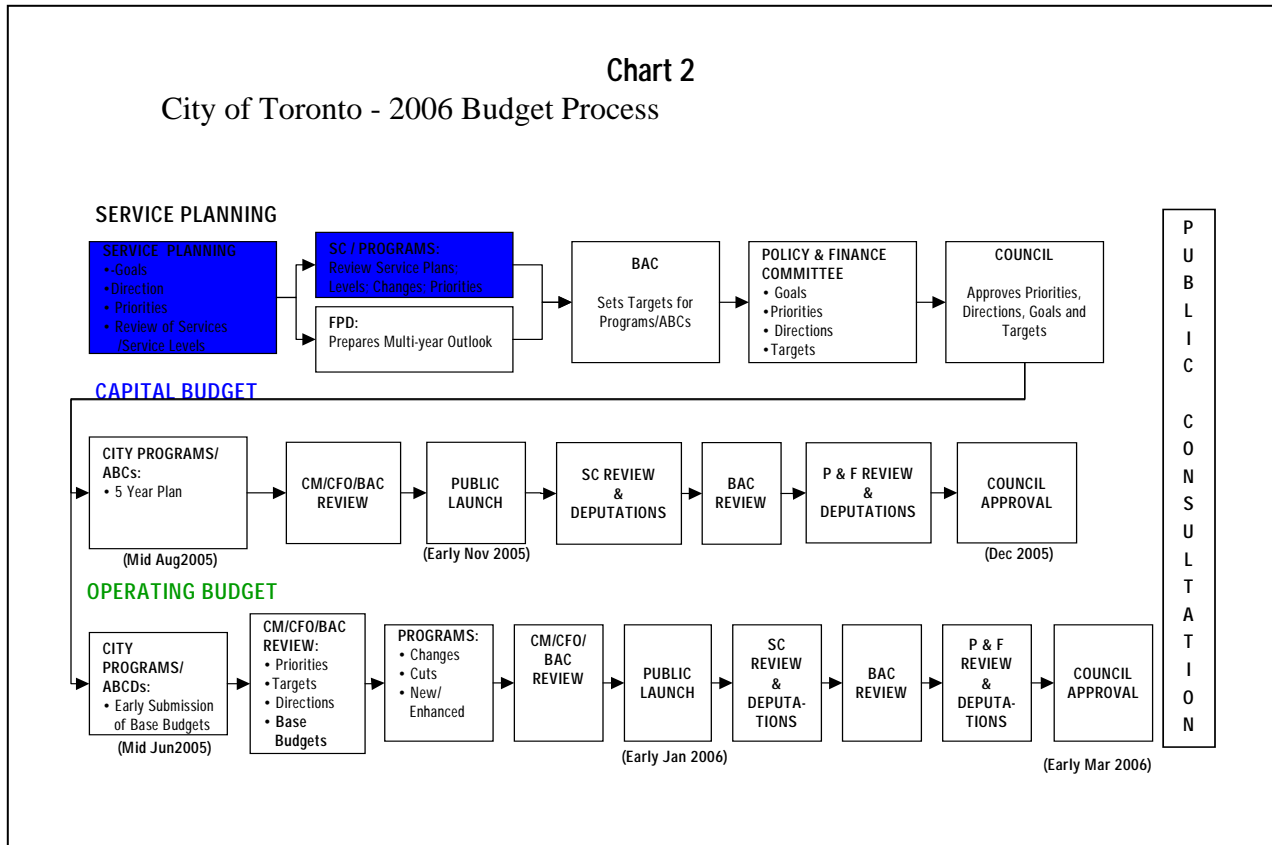
Public launch of the proposed budget marks the beginning of the political review process, commencing with the Standing Committee Review, service issues or changes will be referred to Standing Committees for review and will hear public deputations on the budget. All local issues will be addressed at the Standing Committee and deputation review phase, so that the Council budget debate focuses more on citywide issues. At this stage, City Programs and ABCs will be required to report on the outcomes of service expansion/new services approved in the following cycle:

- Standing Committee advice and service outcomes will be forwarded to BAC for its final review of the budget. The objective of ensuring the proposed budget is balanced with the City's affordability.
- The BAC recommended budget then goes to the Policy and Finance Committee for review and deputation and then to Council for final approval.
- City divisions implement strategies and annual objectives, as approved by Council for their programs, and each division becomes accountable for making progress toward the three-year/ five-year goals and the desired community conditions/outcomes.
- City performance is measured and reported quarterly.

## Appendix 2

### City of Toronto – 2006 Budget Process

All the elements proposed in the mature budget process cannot be fully implemented in 2006. Therefore the 2006 budget process as shown in Chart 2 below will follow a modified approach, with the absence of the service planning, standing committee/program review of the service plans, and an up-front public consultation to guide the process. All other phases of the process will take place as described in Chart 2.



The following process is being recommended for 2006:

- Council approval of priorities, directions and targets up-front;
- Public consultation to confirm priorities;
- Approval of 5-year capital plan by December 2005;
- Approval of Water and Waste Water Budget and 2006 Water Rate by December 2005;
- Approval of Operating Budget by mid-March 2006;
- Detailed service level discussion at Standing/BAC Committees, with local issues being addressed at this stage;
- Detailed service review by BAC members; and
- Evaluation and update to BAC and Policy and Finance Committee on status of implementing new/enhanced services approved in prior year.

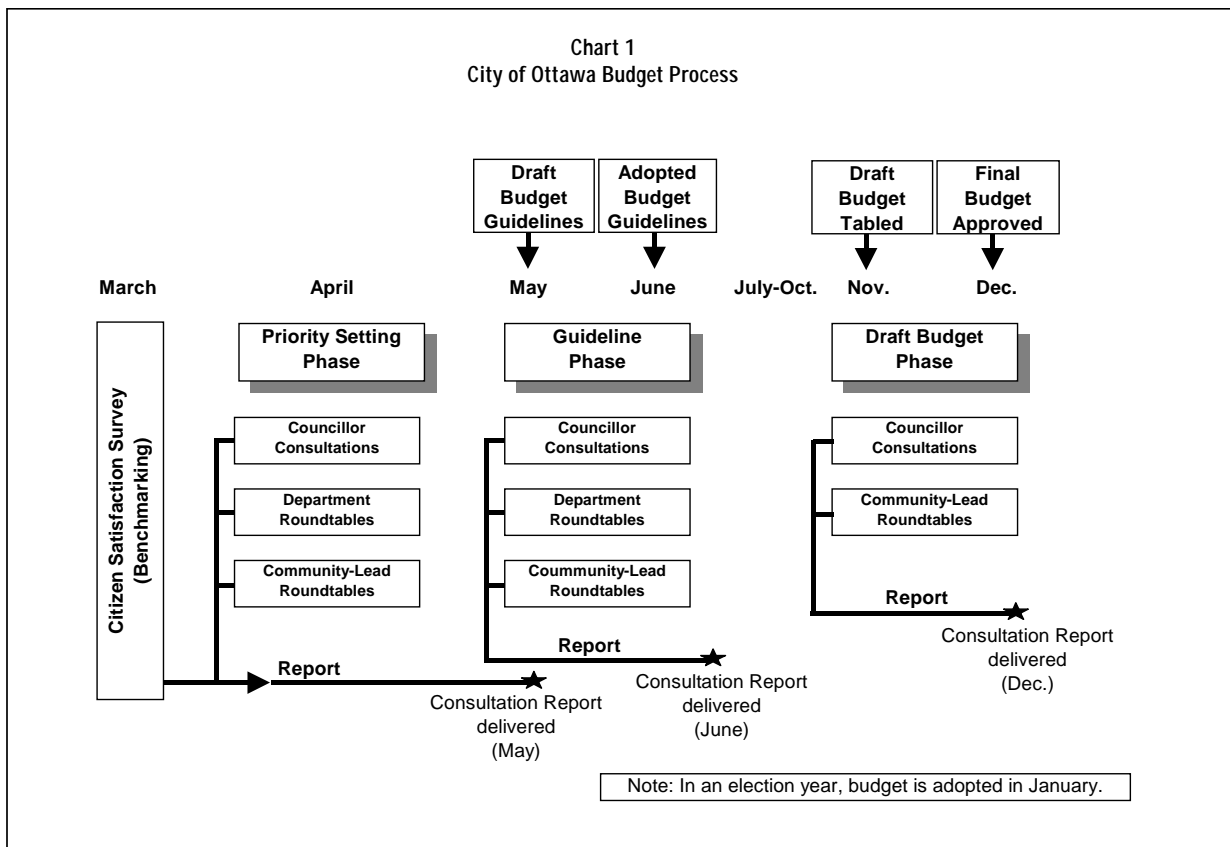
### Appendix 3

#### How Other Jurisdictions Incorporate Best Practices

Discussion with staff, and analysis of the budget processes and budget documents of several local governments confirmed that, like the City of Toronto, they generally comply with the GFOA recommended budget practices, although to varying degrees of excellence. Though they differ in methodology and details, all jurisdictions included public consultation as a key step in their budget process. Also, it was quite evident that long term fiscal and program plans, corporate strategic plans, as well as annual guidelines and priorities from their individual council or relevant legislative body guided the development of the budget in a definite way. All the jurisdictions examined have well defined revenue policies and revenue forecasts that span several years. Most of the jurisdictions linked the budget process to a corporate plan, long-term fiscal plan and to business plans.

The following section presents highlights of governments that have implemented best practices to improve their financial management and budgeting processes:

(i) City of Ottawa



The City of Ottawa's budget process (see Chart 1 above) starts with a Citizen Satisfaction Survey, that takes place in March, and which feeds into the other three phases of the budget process: (a) Priority Setting; (b) Guideline Development and Approval; and (c) Draft Budget. The priority setting phase begins in April and results in staff proposing budget guidelines to Council in May.

Council issues budget directions and guidelines before the end of June. A draft budget is tabled by November with the final budget approved in December, prior to the start of the fiscal year. Each phase of the budget process consists of councillor consultations, department roundtables and community-lead roundtables. A report is prepared at each phase and informs the next phase of the process.

Budget directions are normally quite prescriptive about existing services and enhancements to key services and include specific targets for efficiencies and revenues. This is indicated in the City of Ottawa's 2005 Budget Directions and Guidelines summarized below:

- Maintain Existing Services in 2005 – estimated to increase the operating budget by \$68 million;
- Enhance some key services – paramedics, transit, recycling, budget consultation, community funding, Library, childcare, and roadside grass cutting;
- Set a target for efficiency – established at \$4.5 million for 2005;
- Increase all user fees by the % cost increase in their respective service areas except for transit services, which would increase by CPI and parking rates which would not increase;
- Increase water / sewer rates to cover increased cost of providing the service; and
- Fund Festivals and Ottawa Tourism Convention Authority for 2005 from one-time source, the City Wide Capital Reserve.

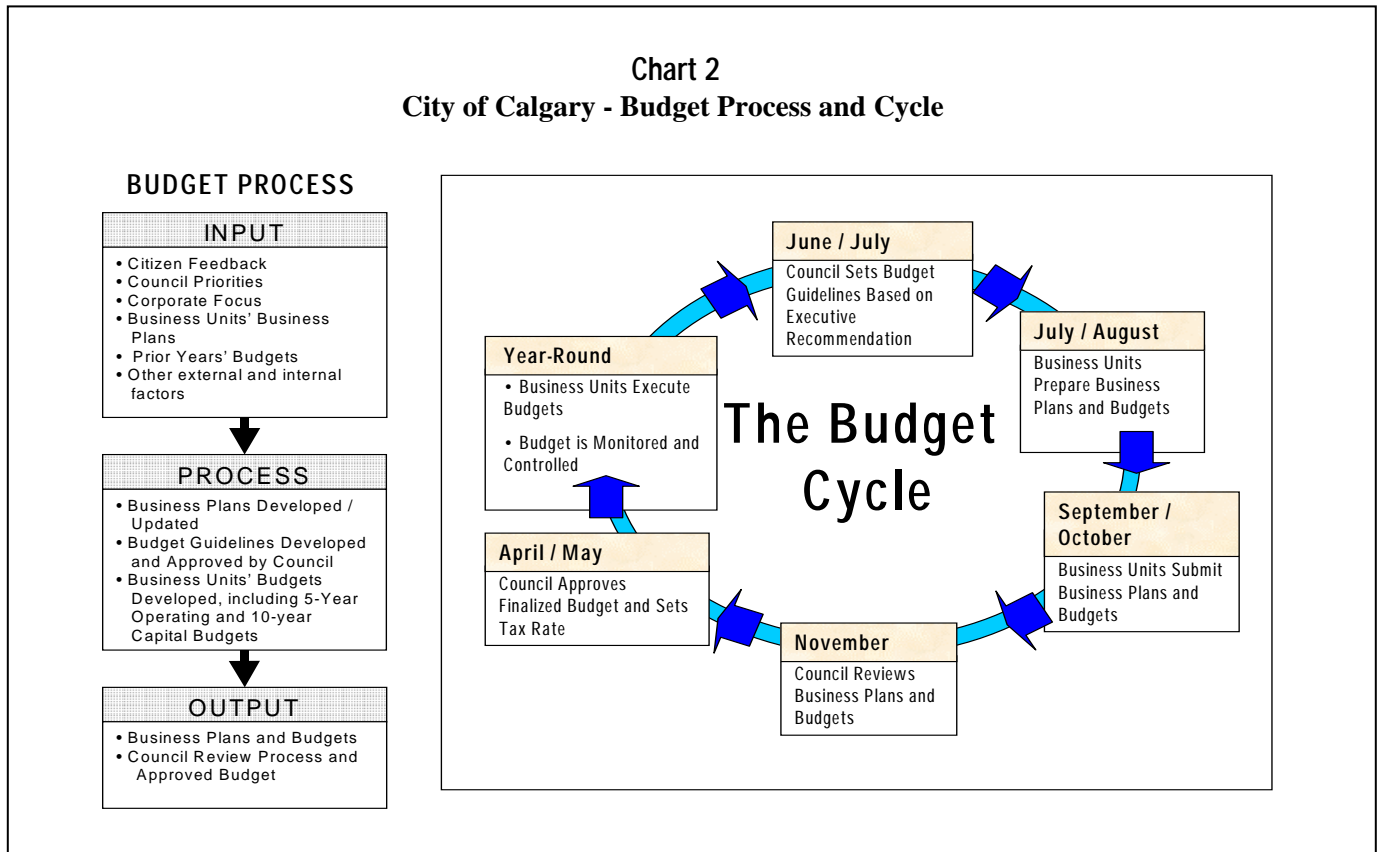
(ii) City of Calgary

The City of Calgary Budget Process and Budget Cycle are shown in Chart 2 below. The budget process formally begins with Council providing directions and guidelines to staff. Budget directions and guidelines are developed with input from the public, and are informed by an economic / environment scan, the prior year budget and actuals, and business plans. Business units prepare business plans and budgets during July/August and staff submit capital and operating budgets to Council in September/October. In November, Council reviews the business plans and budgets and gives final approval in April/May. Calgary produces a 5-year operating budget and a 10-year capital budget.

Calgary's Council provides directions and guidelines that are quite instructive as indicated in the following extract:

- Front-line services should be maintained;
- No increases for growth or level of service enhancements beyond those specified;
- Threshold for five year pay-as-you-go envelope at \$276 million;
- Property tax rate increase not more than 3.5 percent;

- Emphasis on protective services, transit, parks and libraries; and
- Cost reduction in corporate services.



(iii) City of Vancouver

The City of Vancouver has been conducting public consultations since 1997 as part of the budget process. Public consultation is used as part of a consultative process with a goal to determine the most acceptable course of action to deal with fiscal challenges and to understand the public views on how to collect additional revenues and to allocate available funds between competing services.

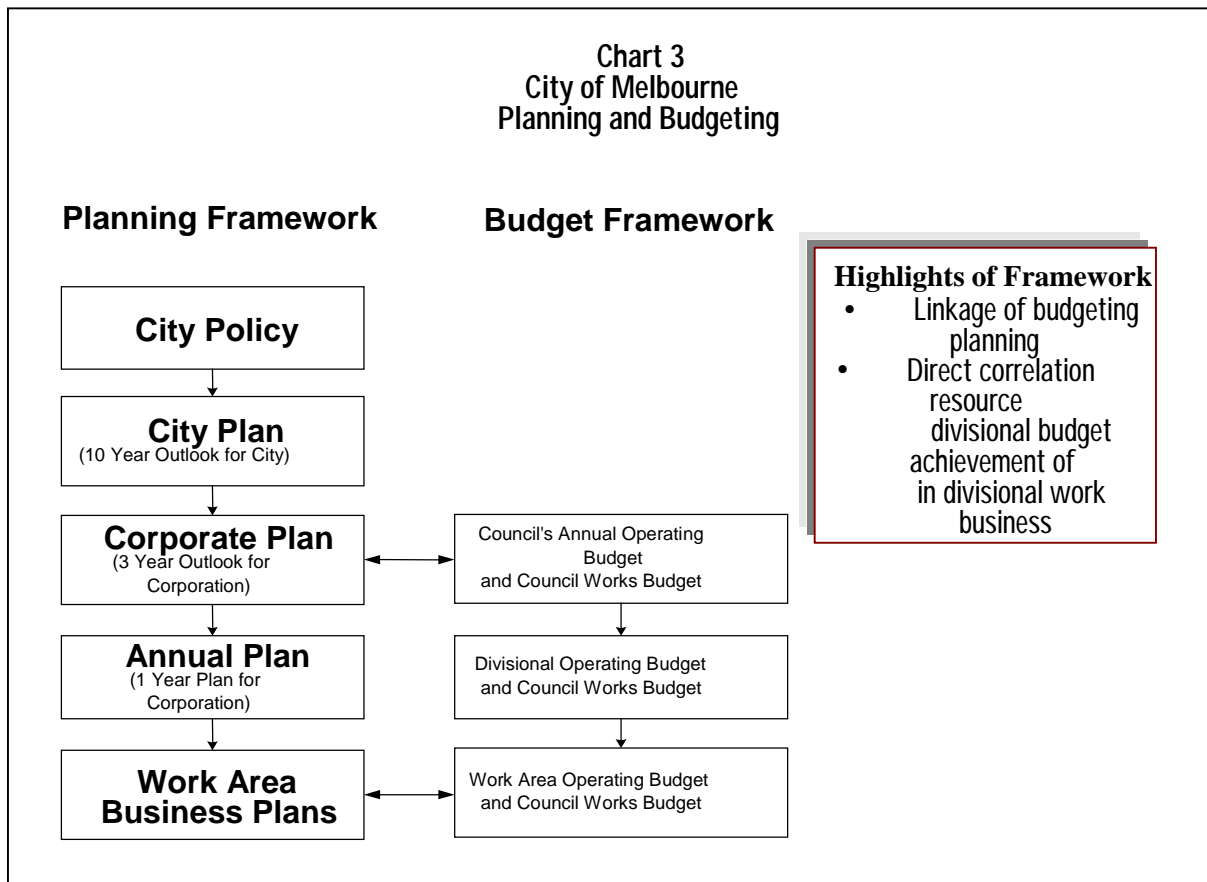
For 2004, Vancouver's public consultation process, undertaken by a local polling firm, included a public opinion survey called a "City Choices 2004 involving an information flyer, a message line and e-mail box for comments and a mini-questionnaire that could be faxed or mailed back to the City, plus two Mayor's Forums were held, focusing the budget discussion on two themes:

- Poverty, Homelessness, and Provincial Offloading; and
- Crime and Safety.

Findings of the public consultation were useful influenced the Vancouver City Council to make key decisions on service priorities and fiscal options.

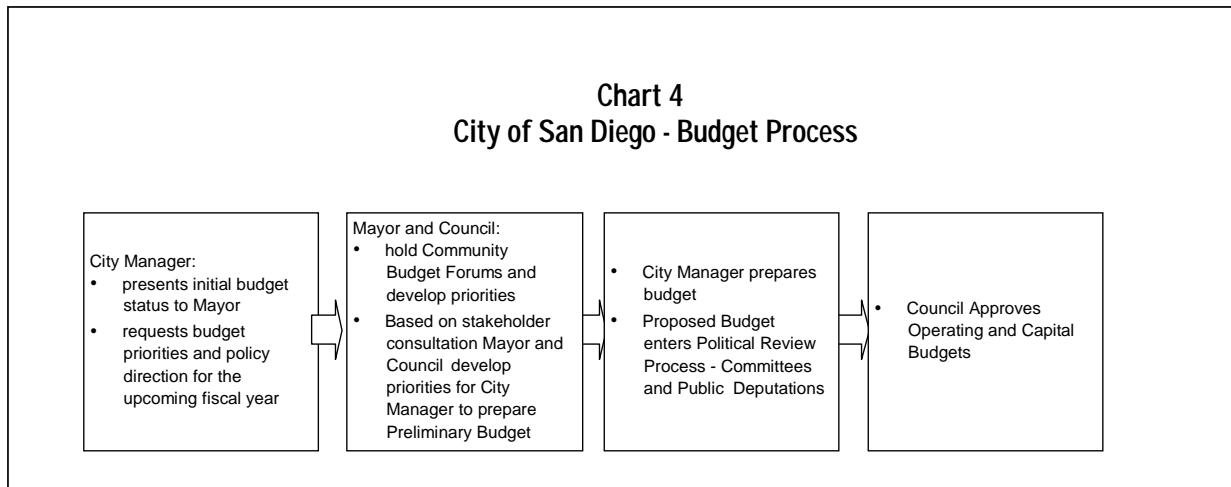
(iv) City of Melbourne, Australia

The City of Melbourne’s planning and budgeting framework is illustrated in Chart 3 below. Noteworthy is the well-defined planning framework, which includes corporate long-range, medium-term and operating plans all of which feed into the budget process. There is a distinct linkage between planning and budgeting and a direct correlation between resource allocation in divisional budgets and achievement of objectives in divisional work areas’ business plans. Melbourne planning and budgeting framework begins with a ten-year outlook, which feeds into a three-year Corporate Plan that informs an Annual Plan. The Corporate Plan and the Work Area Business Plans guide the budget framework.



(v) City of San Diego

As illustrated in Chart 4 below, the San Diego budget process starts with the City Manager providing a preliminary budget picture to the Mayor and Council. The preliminary budget provides context to the Mayor for the priority and policy setting exercise which precedes actual development of the budget. As a preliminary step in establishing budget priorities and directions, the Mayor and Council hold public consultations and, based on information obtained from these consultations, develop the budget priorities and direction to guide staff in developing the budget.



San Diego enacted new provisions to create a Strong Mayor form of Government for a trial period from January 2006 to December 2010. Elements of the new structure include the following:

- The Mayor becomes the CEO - in charge of running the affairs of the City;
- The Mayor will be responsible for preparing the annual budget for Council's consideration and adoption; and
- Council will appoint an Independent Budget Analyst to review and provide budget information to the Council, independent of the Mayor.

In summary, it is quite evident that the above jurisdictions have all incorporate best budgeting practices in their budget process. All have long term corporate plans, provide budget guidelines and council priorities up-front and have engaged all stakeholders in the budget process.

## Appendix 4

### **Infrastructure Investment Essential for Canadian Cities to be Competitive**

The European Union (EU) recognized the importance of healthy cities and the need for ‘new efforts ... to strengthen or restore Europe’s cities as places of social and cultural integration, as sources of economic prosperity and sustainable development.’ Toward achieving this goal, the EU has taken deliberate policy action on growth and development of cities in a number of areas including: establishing policies, which promote economic competitiveness and employment; sustainable development and the quality of life in cities. The EU has allotted sizeable funds to cities to enable them to fulfil their roles as engines for regional, national and European economic progress.

A report entitled *The Role of Metro Areas in the U.S. Economy*, prepared for the United States Conference of Mayors similarly emphasized that metropolitan areas are vital to the nation’s economic development. The report asserts that the concentration of people and business in cities and towns “creates unique economic conditions that give rise to new industries, speed the diffusion of knowledge, spur technological innovation, increase productivity, and promote growth.” Further, it points out that collectively, cities and towns generate more than 80 percent of the nation’s employment, income, and production for goods and services. Notwithstanding that local governments in the US are provided with considerable financial tools by comparison to the City of Toronto (see Table 1 below), they continue to require infrastructure funding from the State and Federal Governments in order to compete successfully in the global market place. A commitment to invest over \$100 billion US over six years in public transportation alone evidences the US federal government’s acknowledgement of the need for renewal of cities and towns.

Urbanization in Canada is equally vital to the country’s development. Indeed, two-thirds of Canada’s population, employment, and real output are located in 27 Census Metropolitan Areas with a minimum population of 100,000 persons. Toronto is by far the largest of these areas and has a significant impact on the country’s economy. Yet, investment in urban areas has not been as high a national priority as is the case in the EU and US. While Toronto, along with other municipal governments across the country, have articulated their concern that existing fiscal imbalances prevent them from achieving the level of competitiveness that seems so essential to grow the country’s economy, response from the other orders of government have been minimal. The municipal governments have not been alone in making the case for increased investments at the local level if only to develop the infrastructure required to satisfy growth demands. Still, there are no comprehensive national policies or tripartite strategies to deal with ongoing issues confronting cities and towns.

In its 2002 study, *A choice between investing in Canada’s Cities or Disinvesting in Canada’s Future*, TD Economics iterated the need for cities to be economically competitive. The Bank reinforced the position long held by the City of Toronto that its fiscal tools are inadequate to keep its infrastructure in a state of good repair and to meet the expansion needs of a growing economy and population. Note the following comment:

“Given the multiplicity of challenges facing Canadian cities today, a new way of thinking is required – one that puts the affairs of cities front and centre on Canada’s economic and policy radar screens. In many cities, the infrastructure is eroding. Social housing, water systems, sewers, roads and public transit systems all require re-investment. But cash

strapped municipalities are in no position to deliver. Between 1995 and 2001, local government revenues edged up by only 14 per cent – a fraction of the gains of 38 per cent and 39 percent reaped at the federal and provincial levels. This has left cities singularly ill-equipped to cope with responsibilities being downloaded to them.”

Similar observations were made by the Canadian Institute of Planners in a March 11, 2002 submission to the Prime Minister’s Caucus Task Force on Urban Issues, entitled ‘*Towards a Canadian Urban Strategy - Framework for Government of Canada Involvement in Urban Affairs*’. Consistent with the City of Toronto vision, the Institute reinforced the position that Canada’s future quality of life and international competitiveness will depend on its urban- centred regions. The Institute asserts that Canada’s cities are in trouble and that most of them are approaching crisis and needed financial assistance if they are to continue to guarantee the country’s economic, cultural and social future.

In a compelling way, the Institute supports the City’s position that the other orders of government need to invest in cities in order to generate economic development, revitalize core areas, replace and upgrade infrastructure, develop transit systems and enhance the urban natural environment. The Institute concluded that Canadian cities lacked the fiscal capacity to compete successfully for economic development in the global economy.

Similar and equally convincing cases for the provision of financial tools by the provincial and federal governments tools to Toronto, in particular, have been championed by Scotia Bank and The Toronto Board of Trade (the Board). In a 2002 policy statement titled *Strong City, Strong Nation – Securing Toronto’s Contribution to Canada*, the Board, while recognizing that Toronto is Canada’s economic core and a major contributor to Canadian prosperity, noted that “Toronto’s ability to contribute to the prosperity of Ontario and Canada is at risk.” To alleviate this problem, the Board made the case for a new deal predicated on the following principles:

1. Toronto is a significant generator of prosperity for the region, the province and the country and must continue to be so going forward.
2. Toronto’s governance structure must be reformed to be effective and accountable and reflect its status as the largest city in Canada.

Toronto’s public finance model must provide the municipal government with greater access to wealth created in the city in order to generate more wealth.