



STAFF REPORT ACTION REQUIRED

Cost Containment Measures

Date:	September 7, 2007
To:	Budget Committee
From:	City Manager Deputy City Manager and Chief Financial Officer
Wards:	All
Reference Number:	P:\2007\Internal Services\FP\ bc07024Fp - wo (AFS #5970)

SUMMARY

The purpose of this report is to outline the 2007 cost containment initiatives which are essential to address the structural deficit challenges confronting the City.

At its meeting of July 16, 2007, the Deputy City Manager and Chief Financial Officer requested Council's approval for a Land Transfer Tax and a Personal Vehicle Registration Fee which would generate an estimated \$356 million in new revenues in 2008. Council's decision to defer consideration of the new revenue tools from its meeting in July to its October meeting put at risk the City's ability to fully generate and utilize those revenues for the 2008 Operating Budget. Should Council approve the new revenues at its October 22, 2007 meeting, the estimated revenues from these sources will decrease by between \$80 and \$100 million, given that the new revenue tools would not be implemented and collected on January 1, 2008, thus further exacerbating an already strained financial situation.

Given the above, the Mayor requested all City Divisions, Agencies, Boards and Commissions to immediately implement cost containment measures with the goal of reducing operating and capital expenditures in order to generate an operating surplus during the remainder of 2007 towards reducing the 2008 estimated operating budget shortfall of \$575 million. After careful analysis, cost containment initiatives with savings totalling \$42.721 million have been identified and are outlined in Appendix 2. Despite best efforts, the cost containment measures will impact service levels for some services.

RECOMMENDATIONS

The City Manager and Deputy City Manager and Chief Financial Officer recommend that Budget Committee:

1. forward this report to the Executive Committee for its consideration.

FINANCIAL IMPACT

Adoption of this report will position the City to realize \$42.721 million in operating expenditure reductions in 2007. It is noted that the cost containment initiatives proposed will not result in adjustment of the 2007 Council Approved Budget. Instead, actual expenditures will be constrained to realize an operating budget surplus which will be used as revenues in the 2008 Operating Budget. This strategy will help mitigate the fiscal deficit problem that will result in an estimated \$575 million budget pressure in 2008.

As shown in Table 1 below, the cost containment measures will generate savings of \$42.721 million in 2007. Primarily, the savings will be derived from constraining discretionary spending of \$27.1 million, representing 64% of the total savings. Hiring freeze and Service Level Adjustments will each generate savings of approximately \$15.5 million or 36% of the total savings.

Program	2007 Approved Budget	2007 Approved Positions	Vacancies			Cost Containment			
			Total Vacant	To be Filled	To be Held	Hiring Freeze Savings	Discretionary Savings	Service Level Adjustments	Total Cost Containment
Provincially Mandated / Cost Shared Programs	727,728.2	8,155.5	200.0	90.8	109.2	(1,706.1)	(2,764.6)	(507.4)	(4,978.1)
Municipal Services	823,108.7	12,474.1	355.0	180.0	175.0	(1,263.0)	(8,840.5)	(5,852.9)	(15,956.4)
Emergency Services (excl. Police)	397,674.0	4,400.2	17.0	16.0	1.0	(20.0)	(4,343.1)	(691.5)	(5,054.6)
Administrative Services	149,875.0	3,581.0	180.0	81.0	99.0	(4,831.5)	(2,187.3)	(712.8)	(7,731.6)
Total - excluding TTC and Police	2,098,385.9	28,610.8	752.0	367.8	384.2	(7,820.6)	(18,135.5)	(7,764.6)	(33,720.7)
Transit and Toronto Police Services	1,122,274.1	19,112.0	0.0	0.0	0.0	0.0	(9,000.0)	0.0	(9,000.0)
Total Cost Containment Savings	3,220,660.0	47,722.8	752.0	367.8	384.2	(7,820.6)	(27,135.5)	(7,764.6)	(42,720.7)

ISSUE BACKGROUND

In 2007, Council approved an operating budget that was balanced by using, amongst other strategies, \$388 million in one-time City funding solutions, including \$252 million in reserve funds. This has virtually depleted the City's discretionary reserve funds and exhausted any further one-time funding options. Staff identified at that time that the City would require other solutions to fill the City's projected funding gap for 2008 and beyond. Good budgetary policy precludes the use of one-time revenues in the operating budget; however, this strategy has been used during the past several years because of the City's significant fiscal deficit problems.

On July 16, 2007, the Deputy City Manager and Chief Financial Officer requested Council approval to introduce a Land Transfer Tax, and a Personal Vehicle Registration Fee which would generate new revenues estimated at \$356 million in 2008. During his presentation to City Council, the Deputy City Manager and Chief Financial Officer advised that the new revenue was needed to fund the City's operating budget and that without those revenues, an 18% property tax increase or significant cuts to core municipal services would be required to address the City's budget shortfall.

Council's decision to defer consideration of the new revenue tools from its meeting in July to its October meeting put at risk the City's ability to fully generate and utilize those revenues for the 2008 Operating Budget. Should Council approve the new revenues at its October 22, 2007 meeting, the estimated revenues from these sources will decrease by between \$80 and \$100 million, given that the new revenue tools would not be implemented and collected on January 1, 2008, thus further exacerbating an already strained financial situation.

In July 2007 the Mayor requested that all Divisions immediately implement cost containment measures with the goal of reducing operating and capital costs for the remainder of 2007. The purpose of these measures is to use the savings achieved toward reducing the 2008 projected operating budget shortfall. The cost containment actions to be implemented in 2007 will provide Council with options during the 2008 Budget Process to address the funding shortfall, as the one-time solutions have now been exhausted.

COMMENTS

In a memorandum introducing the Mayor's 2007 cost containment measures to City Programs, Agencies, Boards and Commissions the City Manager provided the following guidelines:

1. A hiring freeze within all areas of the corporation. The only exceptions to the hiring freeze are for positions where there are:
 - a. legislated requirements for staffing ratios
 - b. health and safety requirements; or

- c. 100% funding for the position from other orders of government or external agencies.
2. Service level adjustments that save operating budget dollars by reducing service levels (hours of service etc.); but not the elimination of entire services.
3. Elimination of discretionary spending, including, but not limited to, all business travel, conferences, consulting contracts, purchases of equipments, furniture, supplies, etc.
4. Cancellation of all advertising and production of print materials with significant circulation unless such materials are critically required for the delivery of services.
5. Deferral of any 2007 new or enhanced services and any capital projects where contracts have not yet been awarded related to service improvement and growth capital projects that will have future operating budget impacts.

The following principles were applied to the cost containment measures and service level adjustments review done by each division:

1. Service standards and/or service levels were to be adjusted to achieve targets
2. Service level adjustments were not to affect the most vulnerable, where possible
3. New or enhanced services approved by Council would be deferred
4. Full elimination of major programs or services would not be recommended
5. Capital projects will proceed only if they do not affect operating budget reduction targets.

The 2007 cost containment measures will generate savings of \$42.721 million, and will result in 384.2 vacant positions not being filled as a result of the hiring freeze. Appendix 1 summarizes the estimated savings to year-end by City Program, Agency, Board and Commission. It is noted that Municipal services, which constitutes 24.6% of the City's Tax Levy Budget, will contribute savings of \$15.9 million or 37.4% of the total. This is especially significant given that the fiscal deficit problem confronting the City mainly results from the Province not adequately funding its downloaded programs. Similarly, 175 or 45.5% of the vacancies that will be held due to the hiring freeze will be in Municipal Services.

Appendix 2 details the cost containment measures taken by each City Program, Agency, Board and Commission, highlighting each measure's savings, positions frozen and the subsequent service level impact.

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ATTACHMENTS

- Appendix 1 – 2007 Cost Containment Measures - Estimated Savings to Year-End Summary
- Appendix 2 – 2007 Cost Containment Service Implications