STAFF REPORT
ACTION REQUIRED

Toronto Police Service – 2015 Operating Budget - Revised Request

Date:	February 19, 2015
To:	Budget Committee, City of Toronto
From:	Shelley Carroll, Acting Vice-Chair, Toronto Police Services Board

SUMMARY

The purpose of this report is to provide the Budget Committee with the Toronto Police Service's revised 2015 operating budget request.

RECOMMENDATION

It is recommended that the Budget Committee approve a revised 2015 net operating budget request of $952.7 Million (M), a decrease of $5.0M from the 2014 net approved budget, excluding the impact of any 2015 labour contract negotiations.

FINANCIAL IMPACT

The Toronto Police Service's (Service) 2015 budget request that was approved by the Board at its November 2014 meeting (Min. No. P260/14 refers), included action that enabled the Service to reach the 0% increase target requested by the City Manager, not including the 2015 impact from the collective agreements that expired on December 31, 2014.

At its meeting on February 13, 2015, the City's Budget Committee requested a further $5M reduction to the Service's 2015 operating budget request (see Attachment B). The reduction requested by the Budget Committee is to assist the City in meeting an overall $86M budget shortfall in 2015. In response to the City's request, the Service has reviewed various areas of our current budget submission to identify potential reductions.

As a result of additional reductions identified by the Service, the revised 2015 operating budget request is $952.7M net ($1,149.5M gross). This is a decrease of $5.0M from the 2014 net approved budget of $957.7M and the original 2015 budget request approved by the Board at its November 2014 meeting. A breakdown of the recommended $5M reduction is provided below.

Item	Reduction	Explanation/Implication
Sick Pay Gratuity Reserve	$1.0M	Increase 2014 contribution Creates future base budget pressure
Health Care Spending Reserve	$1.0M	Increase 2014 contribution Creates future base budget pressure
Telephones	$0.2M	Expansion of VOIP telephone services
Computer maintenance	$0.3M	Final 2014 reconciliation of contract values
Multi-function (printing/ copying/scanning) devices (MFD's)	$0.1M	Reduced operating costs from continued elimination of photo copiers, with implementation of MFD's
Gasoline	$1.5M	Reduction in City-provided budgeted price per litre
Revenues	$0.9M	Change in estimates and assumptions
Total	**$5.0M**	

It should be noted that it was difficult to find the magnitude of reduction requested by the City without impacting staffing levels and service, as well as contractual obligations with vendors. As a result, while the Service has achieved the $5M reduction, a good part of the reduction is not sustainable, given that some of the recommended amounts are driven by assumptions about market prices and or create future pressures on reserves, which are significant sources of funding for capital or operating costs. As an example, the $1M reduction to each of the two reserves simply defers the required additional contributions to future years.

ISSUE BACKGROUND

At a meeting held on February 19, 2015, the Board was in receipt of a report dated February 17, 2015 from Chief of Police William Blair containing a revised 2015 operating budget request for the Toronto Police Service.

COMMENTS

The Board approved the report from Chief Blair.

CONCLUSION

A copy of Board Minute No. P24/15, in the form attached as Appendix "A", regarding this matter is provided for information.

CONTACT

Chief of Police William Blair
Toronto Police Service
Telephone No. 416-808-8000
Fax No. 416-808-8002

SIGNATURE

Councillor Shelley Carroll
Acting Vice-Chair

ATTACHMENT

Appendix A – Board Minute No. P24/15

c. Mr. Rob Rossini, Deputy City Manager and Chief Financial Officer

a: TPS 2015 operating budget revised request.doc

APPENDIX "A"

THIS IS AN EXTRACT FROM THE MINUTES OF THE PUBLIC MEETING OF THE TORONTO POLICE SERVICES BOARD HELD ON FEBRUARY 19, 2015

#P24. TORONTO POLICE SERVICE 2015 OPERATING BUDGET – REVISED REQUEST

The Board was in receipt of the following report February 17, 2015 from William Blair, Chief of Police:

Subject: TORONTO POLICE SERVICE 2015 OPERATING BUDGET – REVISED REQUEST

Recommendations:

It is recommended that:

(1) the Board approve a revised 2015 net operating budget request of $952.7 Million (M), a decrease of $5.0M or 0.5% from the 2014 net approved budget, and excluding the impact of any 2015 labour contract negotiations;

(2) the Board forward a copy of this report to the City's Deputy City Manager and Chief Financial Officer for information; and

(3) the Board forward a copy of this report to the City Budget Committee for approval.

Financial Implications:

The Toronto Police Service's (Service) 2015 budget request that was approved by the Board at its November 2014 meeting (Min. No. P260/14 refers), included action that enabled the Service to reach the 0% increase target requested by the City Manager, not including the 2015 impact from the collective agreements that expired on December 31, 2014.

At its meeting on February 13, 2015, the City's Budget Committee requested a further $5M reduction to the Service's 2015 operating budget request (see Attachment B). The reduction requested by the Budget Committee is to assist the City in meeting an overall $86M budget shortfall in 2015. In response to the City's request, the Service has reviewed various areas of our current budget submission to identify potential reductions.

As a result of additional reductions identified by the Service, the revised 2015 operating budget request is $952.7M net ($1,149.5M gross). This is a decrease of $5.0M from the 2014 net approved budget of $957.7M and the original 2015 budget request approved by the Board at its November 2014 meeting. A breakdown of the recommended $5M reduction is provided below.

Item	Reduction	Explanation/Implication
Sick Pay Gratuity Reserve	$1.0M	Increase 2014 contribution Creates future base budget pressure
Health Care Spending Reserve	$1.0M	Increase 2014 contribution Creates future base budget pressure
Telephones	$0.2M	Expansion of VOIP telephone services
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Gasoline	$1.5M	Reduction in City-provided budgeted price per litre
Revenues	$0.9M	Change in estimates and assumptions
Total	**$5.0M**	

It should be noted that it was difficult to find the magnitude of reduction requested by the City without impacting staffing levels and service, as well as contractual obligations with vendors. As a result, while the Service has achieved the $5M reduction, a good part of the reduction is not sustainable, given that some of the recommended amounts are driven by assumptions about market prices and or create future pressures on reserves, which are significant sources of funding for capital or operating costs. As an example, the $1M reduction to each of the two reserves simply defers the required additional contributions to future years.

Background/Purpose:
(Service) 2015 net operating budget request of $957.7M ($1,088.7 gross) which was $0M or 0% above the 2014 approved budget (Min. No. P260/2014 refers), excluding the impact of collective agreement negotiations which have yet to be completed.

Through the City budget process, the gross budget was further increased by $64.9M for estimated costs to be incurred as a result of security to be provided to the 2015 PanAm/Parapan Games (Games), for a gross budget of $1,153.6M. There is no impact on the Service's net budget request as the security costs related to the Games are expected to be fully recoverable from the Province.

The 2015 operating budget request approved by the Board at its November 2014 meeting achieved the City Manager's target request to all City divisions, agencies, boards and commissions of a 0% increase over the 2014 approved budget.

On February 4, 2015, the Chair of the Police Services Board (Board) wrote to the Chief of Police (Chief) and advised that the City Manager had approached the Board and requested additional operating budget reductions in the amount of $5.0M. The Chair indicated that the City Manager had requested that a similar exercise be applied to finding reductions in the capital program. The Chair further advised that the Board's Budget Sub-Committee (BSC) had discussed the City Manager's request and that it is seeking a $10M reduction in the capital program for 2015, and at least a $5M reduction to the operating budget request. The correspondence from the Chair, which is attached to this report (see Attachment A), provided spreadsheets with suggested reductions, but indicated that the BSC looked forward to alternative approaches the Chief would propose.

At its meeting on February 13, 2015, the City's Budget Committee requested reductions from City Divisions, the Toronto Transit Commission (TTC) and the Service, as part of a strategy to help it address an overall budget shortfall of $86M in 2015. The reduction requested from the Service is $5M.

The Budget Committee did not request any reduction to the capital programs of the City Divisions, TTC and the Service, as City staff's proposed strategy did not require such reductions.

As the City's Budget Committee request differs from the request in the Chair's correspondence to the Chief, the Service's Chief Adminstrative Officer (CAO) discussed the matter with the City Manager and City's Deputy City Manager and Chief Financial Officer (CFO), who confirmed that the City did not require any reductions to the Service's capital program.

Accordingly, this report focuses on proposed reductions to the Service's operating budget request for the Board's consideration.

<u>Discussion:</u>

2015 Operating Budget:

The Service's operating budget process started in May 2014. In order to achieve the 0% increase target requested by the City Manager, the Service maintained uniform average deployment for 2015 at the 2013/2014 average of 5,260, taking into account the recommended civilianization of 43 uniform positions by the Service in 2015. The operating budget process also included a detailed review of anticipated premium pay requirements, contractual obligations, and expenditure trends in categories such as gasoline and benefits, and took into account the impact of the continued civilianization of some uniform positions. All cost drivers that were known or could be reasonably anticipated were considered in the development of the budget. The Service's budget request was developed, with the objective to start from a zero-base where possible, keep non-salary requests at a minimum and include no new initiatives unless they saved or avoided costs, increased efficiencies or were necessary to mitigate risk.

As a result of the Chair's memo of February 4, 2015 and the request from the February 13, 2015 meeting of the City's Budget Committee, the Service re-examined various areas of our budget submission, to determine if there were any further reductions that could be made in order to achieve the $5M targeted reduction being requested.

Salaries:

The salaries budget is driven by salary rates established by the various collective agreements negotiated by the Board with the Toronto Police Association (TPA) and the Senior Officers' Organization (SOO). It also takes into account approved positions, as well as average uniform officer deployment targets and anticipated gapping for civilian positions.

The 2015 uniform salaries budget was premised on maintaining an average deployment of 5,260, based on 2013/2014 average staffing levels. As a result, the Service's human resource strategy planned for three classes of recruits: 42 in April; 74 in August; and 144 in December. In addition, the 2015 budget plans for six direct hires from other police services during the year. Any reduction to the salary budget would require a reduction in classes planned for the 2015 year, which would impact the number of officers that would be available to provide public safety services across the City. It would also create a budget pressure in 2016, in order to at least replace the number of officers that separated from the Service in 2015 and 2016.

It is also important to note that provincial grants are impacted by the average complement of officers in the Service, as a certain threshold of officers must be maintained. Any decrease in average deployment further threatens grant revenue, lessening the amount of the actual salary savings.

As a result, no reductions are recommended in the uniform salaries budget.

Civilian salaries are based on established positions, adjusted for gapping expectations. The 2015 budget contains the annualized impact of the 2014 civilianization initiatives. Actual staffing of the approved civilian positions is currently underway. In addition, the Service has been actively staffing the backlog of vacancies that resulted during the 2013 Board-imposed hiring freeze. Any reductions to civilian staffing would impair the Service's ability to deploy uniform members as the activities for which civilianization was recommended would continue to be performed by uniform members. In addition, the backlog of other civilian vacancies if not addressed, would continue to put significant pressure on the current strength of members, requiring significant amounts of overtime, which is not sustainable. It would also increase the risk of errors and other deficiencies, and seriously affect service levels performed by the impacted units, in support of business units.

As a result, no reductions are recommended in the civilian salaries budget.

Premium Pay:

The Service has made a concerted effort to monitor and manage premium pay, despite the need for overtime or call-backs as part of regular operations or as a result of the impact of major unplanned events, such as demonstrations, high profile homicide/missing persons and emergency situations. Between 2011 and 2014, premium pay budgets were reduced by a total of $6.9M (18.4%) to address budget pressures. Monitoring and management efforts continued in 2014, allowing the Service to recommend a further premium pay reduction of $1.5M, bringing the total reduction since 2011 to $8.4M (22.5%).

No further reductions in premium pay can therefore be made at this time.

Statutory Payroll Deductions and Fringe Benefits:

The majority of the 2015 budget in this category is mandated by legislation or entitled as a result of collective agreements. Legislated rate decreases have already been factored in.

Medical and dental expenses are major cost drivers in this category. In 2012, the Service engaged the services of Manulife, through a joint competitive procurement process with the City of Toronto for medical and dental benefits. The agreement with Manulife included premium-based insurance benefits and the adjudication of medical and dental reimbursements through an Administrative Services (ASO) arrangement. The premiums for 2012 to 2014 were set through the Request for Proposal process, and the Service achieved savings as a result of the consolidated arrangement with the City and TTC. However, the remaining two years were open to increases imposed by Manulife based on experience ratings. Giving the time lag between Manulife's proposed increases and the budget preparation process, an estimated increase for 2015 based on industry assumptions was made. The estimated increase in rates, coupled with a decline in benefit usage resulted in a moderate increase of $0.1M.

In December 2014, Manulife provided the City and Service with rate increases for 2015. The proposed increases for the Service would have resulted in an additional budget requirement of approximately $820,000, due to percentage increases that ranged from 10% to 95% of 2014 premium values. The Service began negotiations with Manulife, utilizing experience from the past three years to support lower increases, despite the fact that the Service was currently part of a pooling arrangement, which required that both risks and benefits be achieved as part of a pool of organizations. As a result of these negotiations, which were concluded in early February 2015, many of the premium values remained at their 2014 amounts, resulting in cost avoidance of $820,000.

As a result, no further reductions can be accommodated in this cost category.

Reserve Contributions:

The health of all reserves utilized by the Service to smooth out annual cost fluctuations is dependent on regular contributions to meet on-going expenditure obligations. In order to mitigate past budget pressures, the Service in consultation with City staff, has sacrificed required contributions to reserves, either through reduced contributions or phasing in required increases over longer periods of time. In order to meet the City Manager's original 0% budget target, the Service extended the phase-in period for increases to the Sick Pay Gratuity Reserve by an additional year, to 2017. As a result, $1M was reduced from the 2015 budget request. However, this creates a future base budget pressure in order to increase the Service's contributions by the required $5.2M. The 2015 budgeted contribution into this reserve is $7.5M and the corresponding budgeted draw is $12.7M.

The total budgeted contribution to reserves for 2015 is $38.4M. There is an opportunity to reduce the budgeted contribution by $2M, $1M coming from the Sick Pay Gratuity Reserve contribution and $1M from the Health Care Spending Account Reserve. At the present time, the Service's anticipated surplus for 2014 is $4.9M as reported to the Board at its meeting of November 13, 2014 (Min. No. P249/2014 refers). While the year-end accounting process is not yet complete, it is anticipated that surplus funds will be available to make the contribution from the 2014 available funds in the 2014 year. This would require Board approval and a request to the City CFO. The Service's CAO has had preliminary discussions with the City CFO who is receptive to this strategy, which would also require extending the increased contributions to beyond 2017.

As a result, a $2.0M reduction in reserve contributions in 2015 is recommended pending approval to make these contributions in 2014, using available 2014 funds.

Other Expenditures:

The remaining expenditure categories include the materials, equipment and services required for day-to-day operations, much like those incurred by regular business entities. Wherever possible, accounts within this category were flat-lined to the 2014 level or reduced even further. Increases were only included where considered mandatory and or to meet contractual obligations, and one-time reductions were taken into account where applicable. The total increase in the 2015 budget request for these expenditures was $4.7M (a 0.5% increase over the Service's total 2014 operating budget).

The largest components of the $4.7M increase requested in 2015 are for computer maintenance and the operating impact of capital projects that are now fully operational. The total increase from these two categories is $3.8M, and is largely dependent on market-driven contract prices. The remaining $0.9M is scattered throughout all units within the Service in varying amounts and represents a multitude of smaller budget requests required to maintain daily operations.

However, in light of the City's request, and new and more up-to-date information related to market rates for certain expenditures, $2.1M in reductions are recommended, as follows:

Expenditure category	Reduction	Explanation
Telephones	$0.2M	Expanded use of VOIP telephone services
Computer maintenance	$0.3M	Final 2014 reconciliation of contract values
Multi-function devices (MFD's)	$0.1M	Reduced costs from continued elimination of photocopiers, with implementation of MFD's
Gasoline	$1.5M	Reduction in City-provided budgeted price per litre
Total	**$2.1M**	

The largest recommended reduction, of $1.5M, comes from declining prices for fuel purchases. Average contract prices have dropped significantly in the past few months. For 2015, industry analysts suggest that oil prices are in the range of $25 to $65 US per barrel, currently at $49 US per barrel and anticipated to average at $55 US per barrel. The 2015 budgeted price per litre provided to the Service by the City of Toronto was $1.20/litre, which is significantly higher than the anticipated average price of $0.923/litre.

Historically, the Service has benefited from contract prices which were $0.10 to $0.12 per litre lower than the budget price provided by the City. As a result, there is opportunity to reduce the budgeted price to better reflect the reductions experienced in the market. Therefore, following discussions with City Fleet Operations on the current spot price, potential participation in the City's gasoline hedge program, and an updated review of 2015 anticipated consumption, a reduction of $1.5M is recommended.

Revenues:

The Service revenue budget includes fees, cost recoveries, grants and draws from reserves. The Service regularly re-evaluates fee prices which are set to values that cover the costs of the service provided. The 2015 operating budget request reflects the calculated costs of providing services and already includes increases in vulnerable sector screening fees to fund additional staff to enable a two week time line for completion, as approved by the Board. The cost recoveries budget represents reimbursements of expenses incurred by the Service and generally results in a net zero budget impact. Grant budgets are tied to specific contractual provisions regarding uniform officer staffing levels and/or specific expenditures. Other in-year grant funding opportunities are generally tied to new expenditures and therefore cannot be used to fund existing expenditures. Draws from reserves are tied to expenditures and cannot be increased to fund unrelated costs.

The Service is generally conservative with respect to the assumptions it makes to develop the various revenue budgets. However, after a further review of the revenue assumptions made, it is recommended that overall revenues be increased by $0.9M.

Conclusion:

In response to the City's request for additional budget reductions to assist it in addressing an overall $86M budget shortfall, this report provides recommended reductions, totalling $5M, to the previously Board approved 2015 operating budget request.

The Service worked diligently in preparing its initial budget request that was approved by the Board at its November 2014 meeting, and which achieved the 0% increase requested by the City Manager.

It was therefore difficult to find a further $5M reduction without impacting service levels and contractual obligations with vendors. While this report identifies areas to further reduce the 2015 operating budget request, it is important to note that some of the reductions recommended are one-time in nature. As a result, these 2015 reductions will create future base budget pressures that must be dealt with in addition to the impacts of the new collective agreements, once the contract negotiations between the Board and the TPA and SOO are complete.

Mr. Tony Veneziano, Chief Administrative Officer, Corporate Services Command will be in attendance to answer any questions from the Board.

The Board approved the foregoing report.

Moved by: S. Carroll

Attachment A

INTERNAL CORRESPONDENCE MTP 649/91

TORONTO POLICE SERVICES BOARD

TO:	**Chief Bill Blair**	FROM:	**Chair Alok Mukherjee**
	cc. Budget Sub-Committee Members,		
	CAO Tony Veneziano	DATE:	**15-02-04** YY/MM/DD

RE: **2015 Capital Program and 2015 Operating Budget Request**

Chief:

The City Manager has advised that concerted efforts are being made to find additional overall reductions in City operating budgets. He has approached the Board, the TTC and the City's own departments with a request that they identify additional operating budget reductions in the amounts of $5.0M for each of the Board and TTC and a $10.0M reduction across City departments. He has also requested a similar exercise be applied to finding reductions in capital programs.

The Budget Sub-Committee has discussed the City Manager's request and, while acknowledging that TPS has already made a very commendable effort in reducing its budget requests, the BSC is seeking a $10M reduction in the capital program for 2015 as per the enclosed spreadsheet and at least a $5M reduction in the operating budget request. The spreadsheets that I have attached are merely suggestions for discussion and the BSC very much looks forward to discussing the details of alternative approaches that you propose.

Given that the City Budget Committee will make its decisions on February 12, 2015 the Board BSC would like to achieve these changes within the next 7 days, that is by February 11, 2015. We propose to convene a meeting with you next week to consider your proposals for assisting the Board in achieving these targets.

Alok Mukherjee
Chair

Cc BSC Members – Mayor Tory, Councillor Carroll, Councillor Lee

Major Projects in the 10-Year Capital Budget & Plan (Debt funded Projects)

Project Name	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2015-2024 Program
State-of-Good-Repair - Police	1,800	3,000	4,000	4,100	4,100	4,100	4,100	4,100	4,100	4,100	37,500
HRMS Upgrade	1,125	0	0	0	0	378	799	0	0	0	2,302
52 Division - Renovation	5,352	0	0	0	0	0	0	0	0	0	5,352
Peer-to-Peer Site (Disaster Recovery Site)	0	3,629	8,470	6,659	130	0	0	0	0	0	18,888
Upcoming Projects											
54 Division (includes land)	0	7,000	2,500	18,500	9,296	0	0	0	0	0	37,296
TRMS Upgrade	600	1,500	2,022	0	0	0	0	630	1,500	2,022	8,274
Business Intelligence	2,336	2,818	3,664	0	0	0	0	0	0	0	8,818
Electronic Document Management (Proof of Concept)	0	50	450	0	0	0	0	0	0	0	500
Radio Replacement	0	13,913	2,713	3,542	2,478	4,093	5,304	4,480	0	0	36,523
41 Division (includes land)	0	0	0	0	395	9,561	19,122	9,850	0	0	38,928
TPS Archiving	0	0	0	0	750	0	0	0	0	0	750
32 Division - Renovation	0	0	4,990	4,990	2,000	0	0	0	0	0	11,980
13 Division (includes land)	0	0	0	372	8,645	18,500	11,411	0	0	0	38,928
AFIS (next replacement)	0	0	0	0	3,053	0	0	0	0	0	3,053
Expansion of Fibre Optics Network	0	0	0	0	0	0	881	0	4,785	6,385	12,051
55 Division - Renovation	0	0	0	0	0	0	0	0	3,000	5,300	8,300
22 Division - Renovation	0	0	0	0	0	0	0	0	3,000	5,300	8,300
Relocation of PSU	0	0	0	0	0	0	0	500	7,400	5,148	13,048
Relocation of FIS	0	0	0	0	0	0	0	0	0	4,649	4,649
Total Debt Funded Capital Projects	**11,213**	**31,910**	**28,809**	**38,163**	**30,847**	**36,632**	**41,617**	**19,560**	**23,785**	**32,904**	**295,440**

Attachment A (continued)

Staff Recommended 2015 Net Operating Budget

(000s)	2014 Net Budget	2015 Net Budget Proposed by TPS	2015 Net Budget Revised	Suggested Reduction
Chief of Police	5,258	5,174	5,174	0
Corporate Services Command	60,411	64,681	64,181	500
Operational Support Command	144,891	137,721	136,721	1,000
Community Safety Command	458,774	460,573	458,573	2,000
Specialized Operations Command	174,138	176,899	175,899	1,000
Centralized Service Charges	114,189	112,613	112,113	500
Total	**957,661**	**957,661**	**952,661**	**5,000**

TORONTO

STAFF REPORT
ACTION REQUIRED

Toronto Pooling Compensation for Social Housing – Budget Strategy Follow up

Date:	February 11, 2015
To:	Budget Committee
From:	City Manager and Deputy City Manager & Chief Financial Officer
Wards:	All
Reference Number:	P:\2014\Internal Services\Cf\Bc15004Cf (AFS #20841)

SUMMARY

The purpose of this report is to respond to Budget Committee direction to recommend a short term financing strategy to replace the loss of Toronto Pooling Compensation (TPC) grants for Social Housing from the Province. At the same time, staff have recommended budget adjustments to begin to address the funding shortfall on a permanent basis in 2015.

The recommended strategy is based on spreading the budget impact of the TPC grants elimination over four years to allow time to identify budget adjustments to mitigate the revenue loss and a related increase in capital financing costs. The interim operating shortfall would be managed by temporarily reducing capital contributions in the operating budget by an aggregate of $130 million over three years, and commensurately increasing (short term) debt financed capital.

The recommended financing approach is to use internal borrowing rather than bank loans or public debenture issues, for reasons of administrative simplicity, cost and flexibility. The City's long term fiscal strategy would be maintained as the borrowing would be paid off within 6 years, Capital From Current funding fully restored, including scheduled increases, and, according to current forecasts, the debt service ratio maintained below the 15% of property tax revenues threshold. Nevertheless, staff propose to undertake a thorough review of the 2016-2025 capital plan to identify projects that might be deferred and report back to the Budget Committee early in the 2016 Budget process.

RECOMMENDATIONS

The City Manager and the Deputy City Manager & Chief Financial Officer recommend that:

1. City Council adopt a 4 year budget and capital financing strategy (as set out in Appendix 2) to deal with the elimination of Toronto Pooling Compensation grants, so as to fully address the budgetary impact of the associated revenue loss over four years (by 2018), and fully repay any resulting capital financing in 6 years (by 2020), comprising the following:
   a. a 4 year schedule of budgetary adjustments equivalent to $25.3million in 2015 and approximately $45 million in each of 2016 through 2018;
   b. the temporary reduction of Capital From Current ("CFC") to offset the remaining portion of the Toronto Pooling Compensation revenue loss not addressed by the budgetary adjustments in each of 2015, 2016 and 2017;
   c. the full restoration of CFC, including currently planned increases, by 2018; and,
   d. the issuance of City debt to the City's investment portfolio to replace the capital funding shortfall resulting from the temporary reduction of CFC, such debt to mature no later than 2020.

2. The Budget Committee address the $86.3 million Toronto Pooling Compensation revenue shortfall for social housing in 2015 by adjusting the 2015 Staff Recommended Operating Budget as follows:

   a. Reduce the 2015 Staff Recommended Operating Budgets by a total of $32.033 million gross and $25.3 million net for the following City Programs and Agencies (as set out in Appendix 1):

      i. City Programs:
         - Toronto Employment and Social Services by $13.833m gross and $1.650m net;
         - Shelter, Support & Housing Administration by $0.500m gross and net
         - Childrens' Services by $0.150m gross and net
         - Transportation Services by $1.522m gross and net
         - Fire Services by $0.300 gross and net
         - Policy, Planning, Finance and Administration by $0.128m gross and net
         - Engineering & Construction Services by $0.050m gross and net
         - Fleet Services by $1.700m gross and net
         - 311 Toronto by $0.300m gross and net
         - Non-Program Expenditures by $5.0m gross and net
         - Non- Program Revenue by $4.0 million net

ii. Agencies:
- Toronto Transit Commission by $4.0 m gross and $5.0m net
- Toronto Police Services by $5.0m gross and net

and request the CEO of the TTC, and the Chair of the Toronto Police Services Board, to report to the final wrap-up meeting of the Budget Committee on February 20, 2015, to confirm the specific actions to meet these budget reduction targets;

b. Reduce the 2015 capital contribution from the Operating Budget to the 2015 Staff Recommended Capital Budget (CFC) by $61.0 million; and,

c. Increase debt financing of capital projects by up to $61.0 million as described in Recommendation 1 (d).

3. The Deputy City Manager & Chief Financial Officer commence a detailed review of the City's 2016 – 2025 capital requirements as part of the City's 2016 Capital Budget process to ensure that debt affordability targets continue to be maintained, and report the results to Budget Committee early in the 2016 Budget process.

Implementation Points

The recommendations contained in this report would require City budgetary adjustments to address the Toronto Pooling Compensation funding shortfall to be phased in over four years, from 2015 through 2018, rather than immediately upon the elimination of the funding in 2015 and 2016. The strategy requires reduction of a portion of Capital From Current during the phase-in period, creating a temporary capital funding shortfall. Instead of relying on traditional debentures, a Provincial loan, or bank financing to fund the shortfall, staff recommend short term internal borrowing through the City's pooled investment program.

Financial Impact

The recommended budgetary impacts to deal with the elimination of $129 million in Toronto Pooling Compensation by 2016 comprise adjustments to 2015 budget expenditures and revenues in the amount of $25.3 million, plus a 5.1% tax-supported budgetary increase/pressure over 2016 – 2018, summarized as follows:

4 year Budget Strategy to Replace Pooling Compensation Revenue Loss
$ Millions

Table 1 – Revenue Loss	2013	2014	2015	2016	2017	2018
Original TPC schedule	$149.3	$142.5	$135.6	$128.8	$121.9	$115.1
TPC Elimination schedule	$149.3	$100.0	$50.0	0	0	0
Revenue Loss	0	($42.5)	($85.6)	($128.8)	($121.9)	($115.1)

Table 2 – Budget Impacts	2015	2016	2017	2018	2019	2020	2021
Revenue Loss	$85.6	$128.8	$121.9	$115.1	$115.1	$115.1	$115.1
Incremental Budgetary Adjustments*	$25.3	$44.0	$45.2	$46.2	-	-	($45.7)
Future Residential Tax Increases and/or budget adjustments		1.7%	1.7%	1.7%	-	-	(1.6%)

Table 3 – Borrowing Plan	2015	2016	2017	2018	2019	2020	2021
Borrowing	$60.3	$59.5	$7.5	-	-	-	
Short Term Interest @1.5%	-	$0.9	$1.8	$3.3	$2.2	$1.1	
Debt Repayment Charges	-	-	-	$45.5	$45.5	$45.5	
Net Amount Owing	$60.3	$120.7	$130.0	$87.7	$44.4	$0.0	

*Includes interim financing repayment (principal and interest)

Table 4 – CFC Impacts	2015	2016	2017	2018	2019	2020	2021
CFC Budget	$258.7	$284.6	$313.1	$344.4	$378.8	$416.7	$458.4
CFC Reduction Requirement	$60.3	$59.5	$7.5	-	-	-	-
Revised CFC	$198.4	$225.1	$305.6	$344.4	$378.8	$416.7	$458.4

This approach spreads the budget impact of the revenue loss over 2015 – 2018, providing two more years to manage the resulting social housing budget pressure, and affording Council the opportunity to plan budget adjustments in advance, so as to minimize future tax impacts due to the loss of provincial funding.

The recommended 2015 net budget adjustments, as described in Appendix 1, are as follows:

Division/Agency	**$M**
Cluster A	
Ontario Works - reduce caseload	1.650
Shelter, Support & Housing - reduce mortgage costs/lower interest rates	0.500
Children Services – reduce part time hours	0.150
Total Cluster A	2.300
Cluster B	
Transportation – reduce vacant positions/increase parking permit revenue	1.522
Fire – reduce materials and equipment expenses	0.300
PPFA – reduce non-salary costs	0.128
ECS – reduce contracted services for office space	0.050
Total Cluster B	2.000
Cluster C	
311 reduce payroll costs related to rescheduled part time staffing	0.300
Fleet – reduce fuel costs	1.700
Total Cluster C	2.000
	6.300

Total Divisions	
Agencies	
Police – reduce fuel costs, increase community safety grant,, reduce sick bank contribution & other non-payroll expenditures	5.000
TTC – operating service improvements, increased gapping, reduced WSIB contributions, increased recoveries from capital	5.000
Total Agencies	10.000
Non-Program	
Tax Deficiencies (assessment appeals) Reduction	5.000
Payments in Lieu of Taxes	2.000
Parking Ticket Revenues	2.000
Total Non-Program	9.000
Total Budgetary Adjustments	25.300
Non-Program CFC Offset	60.700
Total Toronto Pooling Compensation Loss Response	86.000

These budget adjustments have minimal impact on 2015 service levels and reflect updated 2014 operating results.

DECISION HISTORY

At the January 29, 2015 meeting of the Budget Committee, a motion was passed (2015.BU3.4) requesting the City Manager and the Deputy City Manager & CFO to report to the February 13, 2015 meeting of the Budget Committee on the Social Housing Support Phase-out strategy including:

a. A short term financing strategy based upon the City's available financing authorities to deal with the revenue shortfall;
b. Options for funding the shortfall in 2015 and beyond through a phased strategy of budgetary adjustments, such phase-in strategies not to exceed 6 years (2015-2020); and
c. Options for funding the 2015 shortfall inclusive of budgetary adjustments related to City Divisions and Agencies.

ISSUE BACKGROUND

In 2008 the Province, in conjunction with changes resulting from the Provincial Municipal Fiscal and Service Delivery Review (PMFSDR), initiated the Toronto Pooling Compensation (TPC) grant program to compensate the City for the termination of GTA Equalization ("pooling") payments and Ontario Municipal Partnership Fund (OMPF) grants formerly provided by the Province to mitigate the disproportionate cost of downloaded social housing costs borne by the City.

In June 2013 the Province unexpectedly announced the phase-out of Toronto Pooling Compensation grants over three years, from 2014 to 2016, creating a $129 million annual revenue shortfall by 2016. In 2014 the City funded the first $43 million shortfall with one time sources. As a result, the 2015 shortfall is $86 million.

In 2013 City Council responded by requesting the Province rescind its decision to eliminate Toronto Pooling Compensation grants by 2016 or, at a minimum, maintain the social housing component of Toronto Pooling Compensation.

COMMENTS

The elimination of Toronto Pooling Compensation was announced in June 2013. In accordance with Council direction, staff had pursued a strategy of persuading the provincial government to reconsider this action. Since November of 2014, staff have been pursuing some form of compromise to delay the full elimination of the pooling funding to at least 2018. In January, given the Provincial rejection of delaying the full elimination, the strategy shifted, by necessity, to exploring ways to phase-in the impact to 2018 through reducing capital contributions, and financing the resulting capital funding shortfall on a short term basis.

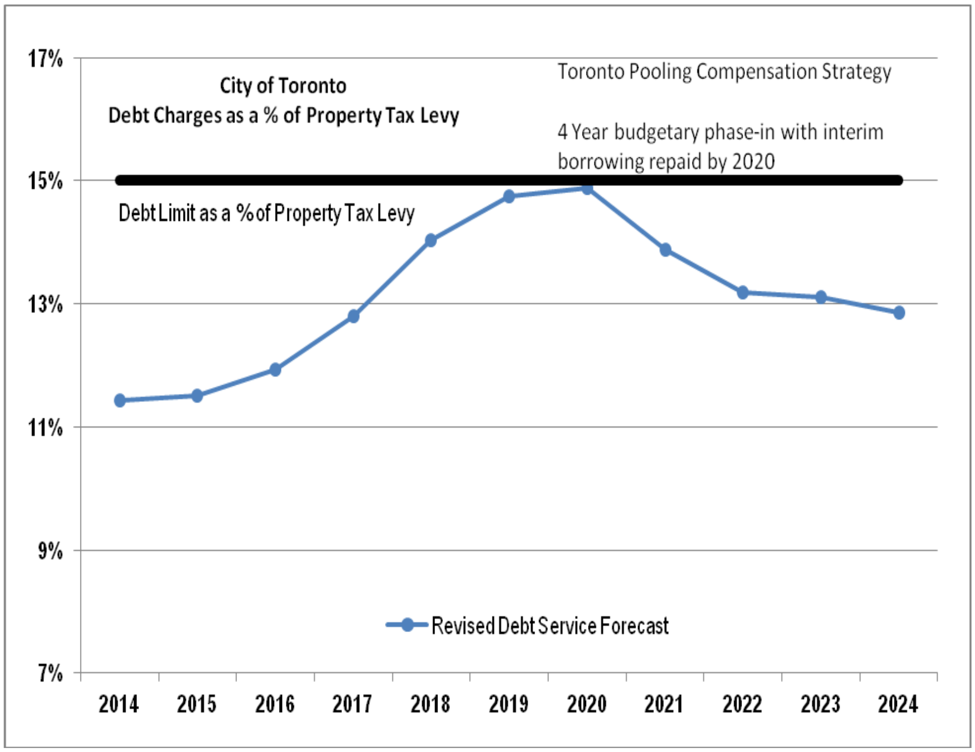
The City considered a Provincial proposal for a loan (at full market terms), but determined that other means were available that would be more advantageous to the City, specifically bank loan financing. Subsequently, staff have identified an internal borrowing mechanism (from the City's investment pool) and are now recommending that approach.

The key characteristics of the recommended phase-in are as follows:

1. Budgetary Phase-in Period – it is recommended that the budget be adjusted to fully address the TPC revenue loss over a period of 4 years. Longer term phase-ins were considered, but resulted in more short term borrowing (for capital). For example, if the budget phase-in is extended to 6 years, the amount of capital financing increases by approximately $35 million (i.e. from $130m to $165 m). In addition, the budget increases required to repay the debt are larger, increasing from 6.1% in aggregate, to 7.3% (see Appendix 2 and 3 for details). Four years is considered sufficient time to identify budget adjustments and minimize the need for any associated tax increases. Finally, the recommended strategy deals with the full shortfall within this term of Council.

2. Debt repayment term – the recommended strategy would see the debt fully repaid within 6 years. This period is recommended in order to avoid encumbering the operating budget with the associated debt payments for an extended period. Constraining repayment to six years balances affordability of payments with maintaining longer term budget flexibility, takes advantage of current low short term borrowing costs, and completes all repayments prior to the City's peak projected debt service ratio in 2021. Once the debt has been repaid, a budget decrease of $46 million or about 1.6% could be considered in 2021. Staff would recommend that this decrease be used to increase the contribution from the operating fund to the capital fund (CFC).

Debt service ratio - the recommended strategy requires debt repayments of approximately $45 million per year from 2018 to 2020. These payments increase the City's debt service ratio over the period, just prior to the expected peak in the City's debt service ratio in 2021. Based on an updated debt service ratio forecast to reflect the current and forecasted low interest rate environment, the capital financing plan as recommended in this report is not expected to raise the debt service ratio above the Council adopted 15% limit, as shown below. Nevertheless, it is recommended that staff commence a detailed review of the City's capital requirements as part of the City's 2016 Capital Budget process, to ensure that debt affordability targets continue to be maintained, and report the results to Budget Committee early in the 2016 Budget process.



4. Internal borrowing mechanism - The least administratively burdensome and most flexible way to obtain the required financing is to borrow from internal sources. Under this approach, rather than accessing the capital markets or a bank, it is recommended that the City issue debt that is held by the City and held as an investment in its own investment portfolio. The City is permitted by regulation to invest in its own debt, including holding its own debentures as investments.

The advantage of this approach is twofold – increased flexibility and lower costs. The transaction costs would be much less than a comparable syndicated market debenture issuance, and execution will be administratively simpler than a comparable bank loan. The City may also have some increased flexibility in structuring the debt so as best to suit the situation.

The authorities for temporary borrowing, issuing debentures, and investing in City debt, are provided by the City of Toronto Act, 2006, Ontario Regulation 610/2006, Chapter 30 of the Municipal Code, and the City's Investment Policy. The Deputy City Manager & Chief Financial Officer is required to report annually to Council on all debt issuance and investment activity which has occurred in the year.

CONTACT

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SIGNATURE

Joseph P. Pennachetti City Manager	Roberto Rossini Deputy City Manager & Chief Financial Officer

ATTACHMENTS:

Appendix 1 – Financial Implications

Appendix 2 – Summary of Budgetary Adjustments and Capital Financing Plan

Appendix 3 – Illustration of Budgetary Adjustments and Capital Financing Plan

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Appendix 1
Financial Implications

2015 Budget Adjustments

In order to absorb the housing impact in 2015, staff recommend $25.3M in budget adjustments to absorb the potential 1% tax increase in 2015. The following adjustments are recommended to Budget Committee:

Program	Description	Gross $M	Net $M	Position
Cluster A - $2.3M				
Toronto Employment & Social Services	• Reduction of average monthly caseload by 1,500 (95,000 to 93,500) based on 2014 projected actual caseload	13.833	1.650	26
Shelter, Support & Housing Administration	• Reduction in non-TCHC mortgage renewals due to lower interest rates	0.500	0.500	
Children's Services	• Fewer part-time hours required for the directly operated programs as a result of the implementation of full day kindergarten.	0.150	0.150	
Cluster B - $2.0M				
Transportation Services	• Reduce 5 vacant positions since 2012 ($0.425M) • Increase parking permit revenues based on 2014 accounts ($0.868M) • Funding of 2 positions related to Public Realm from the reserve ($0.229M)	1.522	1.522	-5
Fire Services	• Reduction in materials, supplies and equipment expenses based on 2014 projected actual expenditures	0.300	0.300	
Policy, Planning, Finance and Administration	• Reduction in various non-salary accounts based on 2014 projected actual expenditures	0.128	0.128	
Engineering & Construction Services	• Reduction in contracted services for office space adjustments	0.050	0.050	
Cluster C - $2.0M				
Fleet Services 311 Toronto	• Reduction of $1.7M due to update of lower fuel costs. • Lower payroll costs due to improved scheduling of part-time staffing	1.700	1.700	

Program	Description	Gross $M	Net $M	Position
Agencies - $10.0M				
Toronto Police Service	• Reduction of $2M in fuel costs based on current fuel prices • Increase in Safer Communities Policing Grant by $1M to maintain 2014 funding level • Reduction in contribution to sick pay reserve by $1M • Reduction in non-payroll expenditures by $1m based on 2014 experience	4.000	5.000	
Toronto Transit Commission	• WSIB – reduced by $0.6M due to lower than anticipated payouts • Gapping - increase of 0.4% (2.6% to 3.0%) to reflect anticipated staffing levels with savings of $1.0M • New operating service improvements – reduction of 40 positions ($2.0m) • Reallocate costs for streetcar road infrastructure appropriately to the Capital Budget ($1.4M)	5.000	5.000	-40
Non-Program – 9.0M				
Expenditures	• Tax deficiencies reduction of $5.0M to reflect 2014 projected actual expenditures	5.000	5.000	
Revenues	• Payment in lieu of taxes – increase of $2.0M to reflect 2014 projected actuals • Parking ticket revenues – increase of $2.0M to reflect 2014 projected actuals		4.000	
City Total		**21.300**	**25.300**	**-19**

Appendix 2
Summary of Budgetary Adjustments and Capital Financing Plan

Recommended 4 yr Phase-in

Year	2015	2016	2017	2018	2019	2020	2021
Original TPC schedule	$135.6	$128.8	$121.9	$115.1	$115.1	$115.1	$115.1
TPC Elimination schedule	$50.0	0	0	0	0	0	0
Revenue Loss	$85.6	$128.8	$121.9	$115.1	$115.1	$115.1	$115.1
Recommended Cumulative Budgetary Adjustments	$25.3	$69.3	$114.5	$160.7	$160.7	$160.7	$115.0
Equivalent Residential Tax Increases	1.0%	1.7%	1.7%	1.7%	-	-	-1.6%
Cumulative Equivalent Residential Tax Increases	1.0%	2.7%	4.4%	6.1%	6.1%	6.1%	4.5%
Year	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**
Borrowing	$60.5	$59.5	$7.5	-	-	-	-
Short Term Interest @1.5%	-	$0.9	$1.8	$3.3	$2.2	$1.1	-
Debenture Debt Charges	-	-	-	$45.5	$45.5	$45.5	-
Net Amount Owing	$60.3	$120.7	$130.0	$87.7	$44.4	$0.0	-
Year	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**
CFC Budget	$258.7	$284.6	$313.1	$344.4	$378.8	$416.7	$458.4
CFC Reduction	$60.3	$59.5	$7.5	-	-	-	-
Revised CFC	$198.4	$225.1	$305.6	$344.4	$378.8	$416.7	$458.4

Appendix 3

Illustration of Budgetary Adjustments and Capital Financing Plan

6 year Budgetary Phase-in

Year	2015	2016	2017	2018	2019	2020	2021	2022
Original TPC schedule	$135.6	$128.8	$121.9	$115.1	$115.1	$115.1	$115.1	
TPC Elimination schedule	$50.0	0	0	0	0	0	0	
Revenue Loss	$85.6	$128.8	$121.9	$115.1	$115.1	$115.1	$115.1	
Recommended Cumulative Budgetary Adjustments	$25.3	$57.7	$90.9	$125.0	$159.9	$195.7	$157.5	$115.0
Equivalent Residential Tax Increases	1.0%	1.25%	1.25%	1.25%	1.25%	1.25%	-1.35%	-1.37%
Cumulative Equivalent Residential Tax Increases	1.0%	2.25%	3.5%	4.75%	6.0%	7.25%	5.88%	4.51%
Year	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**
Borrowing	$60.3	$71.1	$31.0	-	-	-	-	-
Short Term Interest @1.5%	-	$0.9	$2.0	$4.1	$4.0	$3.0	$1.0	$0.0
Debenture Debt Charges	-	-	-	$9.9	$44.8	$80.6	$42.0	$0.0
Net Amount Owing	$60.3	$132.3	$165.2	$159.5	$118.6	$41.0	-	-
Year	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**
CFC Budget	$258.7	$284.6	$313.1	$344.4	$378.8	$416.7	$458.4	$504.2
CFC Reduction	$60.3	$71.1	$31.0	-	-	-	-	-
Revised CFC	$198.4	$213.5	$282.1	$344.4	$378.8	$416.7	$458.4	$504.2