

RE:BU22.4

The City of Toronto's 2017 Budget: *Directions & Schedule*

Purpose

- Budget Committee sets process and policy direction
- Establish 2017 revenue and expense framework
- Confirm 2017 expense objectives and initial targets
- Set out budget process and schedule

Fiscal Framework

- Long-Term Financial Directions report to Executive Committee
 - Divergence between operating revenue and expense
 - Capital gap
- Reaching limits of “kick-the-can-down-the-road” strategies
- 2017 budget outcomes should be consistent with longer-term aspirations
- Opportunity to establish financial discipline and move towards sustainability

Budget Committee Confirmation: Core Policy Direction

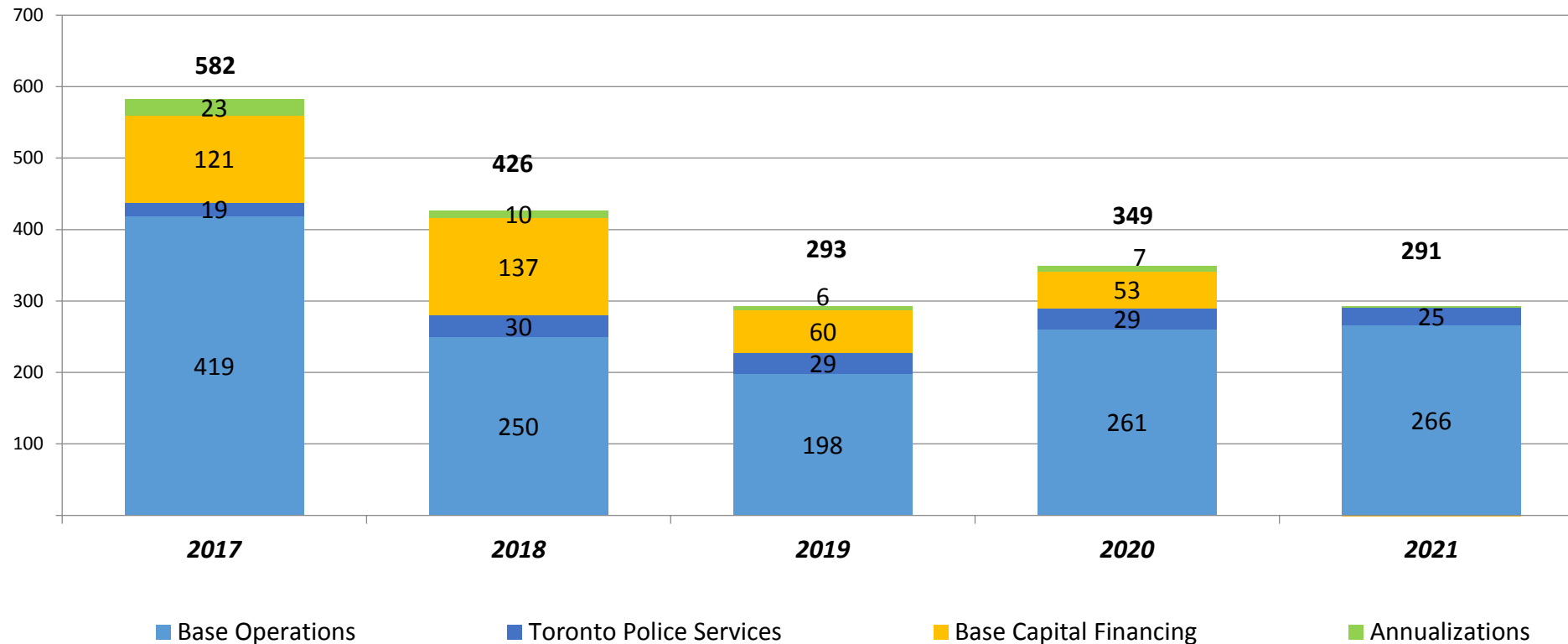
- Revenue as the starting point – expense adjusted to meet revenue capacity
- Revenue forecast based on policy direction / current values
 - No asset sales, revenue tools or new transfers prior to Council or other government decisions
- Adjusted for 2016 one-time measures
- Establishes limit for 2017 expense growth
- ***Increment revenue of \$66 million***

2017 Total Revenue Changes

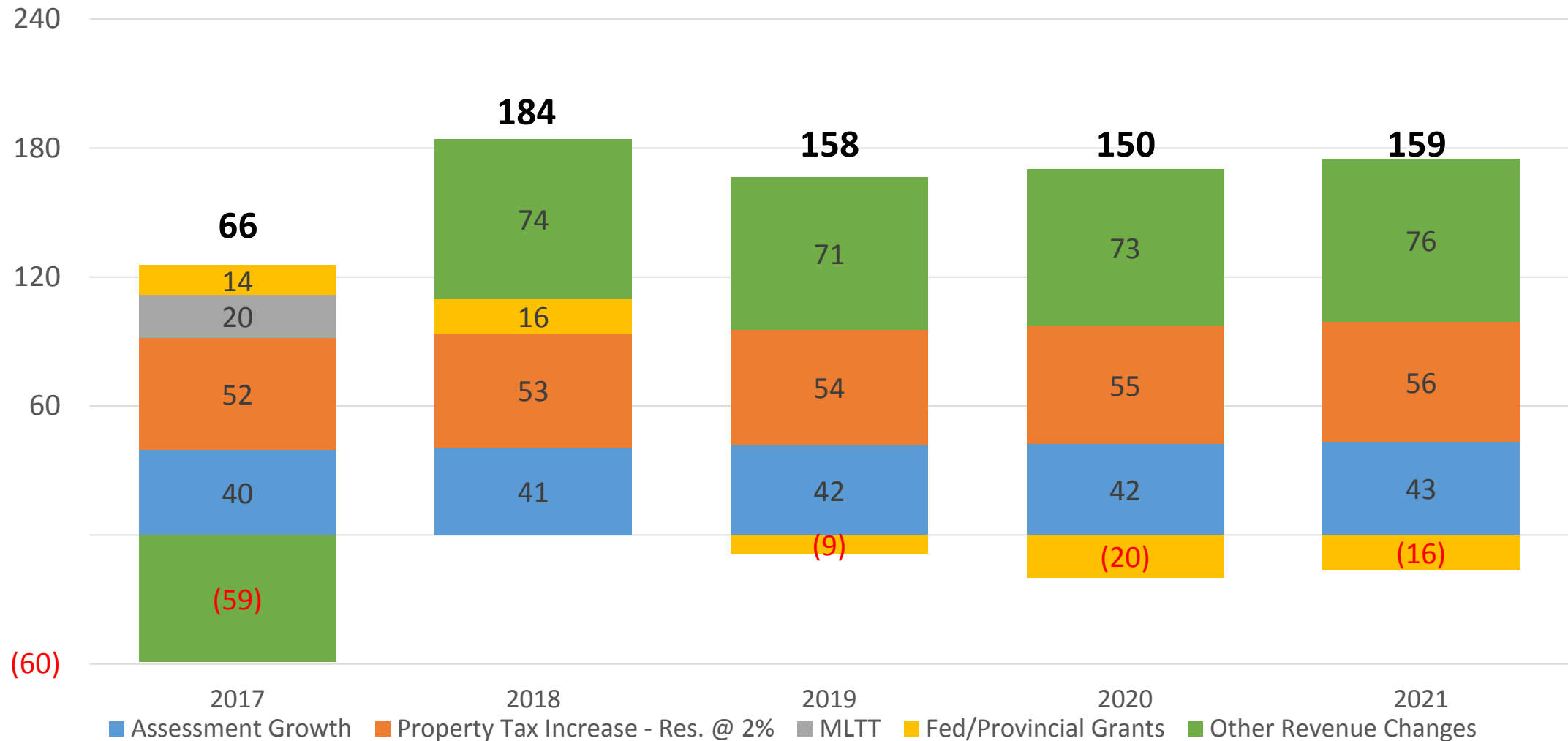
(\$M)	<u>Revenue</u>
One-Time Revenues to balance 2016 budget	(38)
MLTT	20
Change in Provincial /Federal Funding	(10)
OW Provincial Upload	24
Interest / Investment Earnings	(5)
Supplementary Taxes	(5)
Hydro Dividend	(10)
TPA Dividend	(5)
Other Corporate Revenues	(2)
All Other Program Revenue Changes	5
TTC Fare	(12)
Other User Fee	12
Revenue Changes before Tax Impact	(25)
Assessment Growth	40
Tax Rate Increase @ 2% Residential	52
2017 Total Revenue Changes	66

Operating Expense is Growing Faster than Available Revenues

- Early estimates show significant pressures
- Based on costs to maintain existing service level



Projected Incremental Revenue Growth (\$M) 2017 to 2021

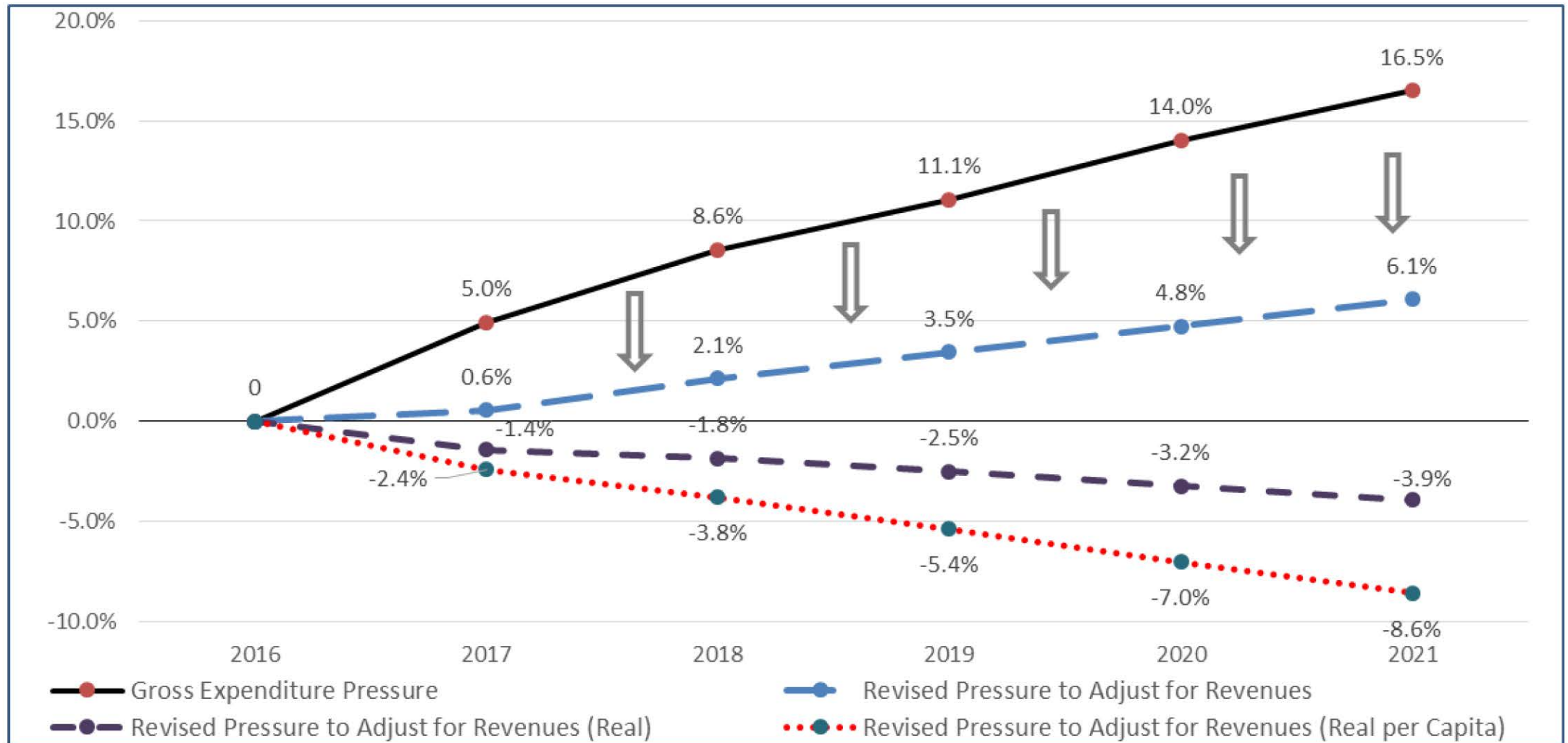


2017 Operating Budget Pressure Summary

(\$M)	<u>Expense</u>	<u>Revenue</u>	<u>Total</u>
2017 Expense Pressure resulting from prior year decisions	125	38	163
2017 Total Revenue Changes		(104)	(104)
<u>2017 Incremental Expense Pressure:</u>			
Base compensation and benefits	56		
Non-salary inflation	23		
TTC - base (excl. Presto & prior year impact)	136 *		
Police - Total	19		
TCHC - Total	96		
CFC base	31		
Debt charges on current capital budget & plan	46		
Tax Deficiencies/Write-offs (net)	30		
Other Program/Non-Program Expenditures	20		
2017 Incremental Expense Pressure Total	457	-	457
Total 2017 Tax Supported Operating Pressure	582	(66)	516

*Total TTC pressure, including prior year decision impacts and revenue loss, is a total of \$189 Million
Refer to slide 36 in appendix for further details

Establishes Future Pattern



Basic Approach for 2017

- 1) Council to establish legal spending authority
- 2) Constrain operating growth to match available revenue room
 - Direction to City divisions + Agencies
 - Create options for review by Budget Committee, Executive Committee and Council
 - Targets must also accommodate non-program aspects of expenses / revenue that are fixed for the short-term or by policy
 - Debt charges, capital policy, tax and employee benefit liabilities, pooling compensation loss
- 3) Assume current levels of capital funding:
 - Constrain projects to fit established capital plan

Options for Operating Expense Constraint

- Agencies are key drivers of net operating expense
- Core question is extent to which agencies share in / limit exposure to overall fiscal pressure
- 3 options, based on differing distribution of reductions between Agencies and City divisions
- Option 1 provides broadest coverage, best targeting for key sources of expense growth

2017 Operating Budget Target Options

Options based on: absorbing Non-Program plus Corporate Pressures

➤ Option 1:

- ❑ Across the Board -2.6% Reduction Target for all City Programs, Agencies and Accountability Offices
- ❑ \$516m pressure absorbed by all divisions and agencies

➤ Option 2:

- ❑ -5.1% Reduction Target for City Programs, Agencies and Accountability Offices, but
- ❑ Maintains TTC, TPS and TCHC at 2016 Approved Budget or 0% increase

➤ Option 3:

- ❑ -3.8% Reduction Target for City Programs, Agencies and Accountability Offices
- ❑ -4.1% for TTC to absorb incremental debt servicing for its capital costs, and
- ❑ TPS and TCHC maintained at 2016 Approved Budget or 0% increase

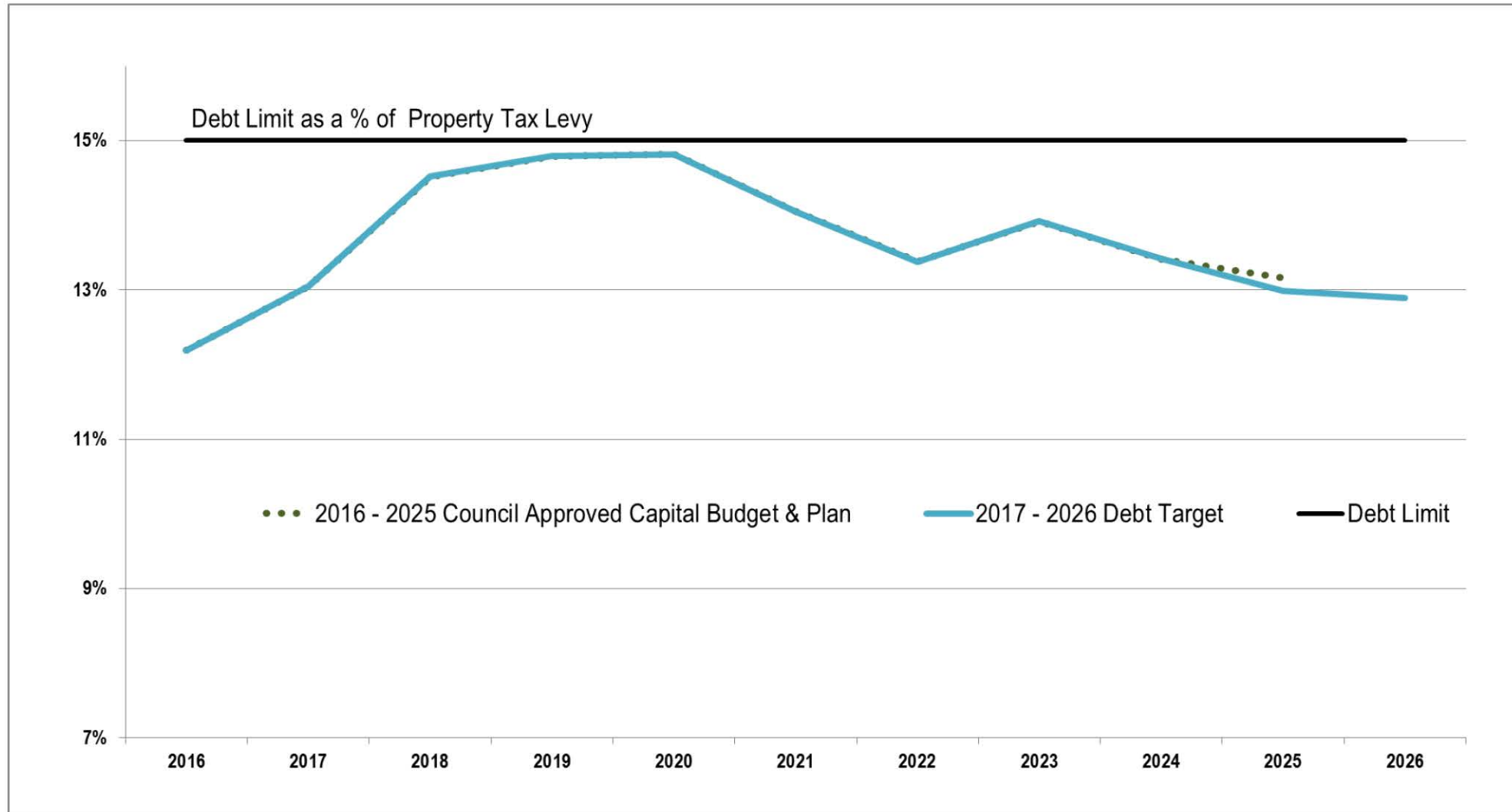
2017 Operating Budget Target Options

2017 Budget Reduction Targets vs. 2016 Budget				Option 1		Option 2		Option 3	
	2016 Budget Net	2017 Pressure Net (\$M)		Further cut		Further cut		Further cut	
		Forecast	If All Div/Agency Keep Flat	%	\$	%	\$	%	\$
Other City Operations	1,740	66	-	-2.6%	(45)	-5.1%	(88)	-3.8%	(66)
Other Agencies	264	8	-	-2.6%	(7)	-5.1%	(13)	-3.8%	(10)
SSHA/TCHC	348	130	-	-2.6%	(9)	0.0%	-	0.0%	-
TTC & Wheel Trans	610	189	-	-2.6%	(16)	0.0%	-	-4.1%	(25)
Police	1,006	19	-	-2.6%	(26)	0.0%	-	0.0%	-
Total excl. Non-Program	3,967	414	-		(102)		(102)		(102)
Non-Program/Corp Net of Taxes	5	102	102						
Total Tax Supported (incl. SSE)	3,972	516	102						

How City Divisions will Approach Targets

- Focus on non-core expense / back office
- Consolidation and integration strategies
- Alternative service delivery
 - Business-case supported
 - Consistent with ancillary Council policies – fair wage
- Support core policy outcomes
- Program-related revenues
- Adjust service levels

Debt Costs as % of Tax Levy



2017 – 2025 Capital Budget and Plan Directions

- The 2017 – 2026 Capital Budget and Plan submission to be prepared on a status quo basis:
 - This requires that capital plan submissions adhere to the 2017 – 2025 Capital Plan approved by Council as part of the 2016 Budget process, and
 - Projects be added in the new tenth year, 2026, that can be accommodated within current debt targets.
 - Estimate and timing of unfunded list to be refined and prioritized

Summary of Unmet Capital Needs (\$M)



Major Unmet Capital Needs (\$Million) - 15 Years	
Unmet Need Priorities	
TCHC Province/Federal Share of \$2.6 billion requirement	1,728
TCHC Capital Maintenance	650
TCHC Revitalization Projects	356
<i>Less Prov Grant on Energy Retro Fit</i>	-29
SOGR Backlog to 2% of Asset Value (Exc.TCHC)	1,046
TTC Board Approved Unfunded	2,679
SSHA (George Street Revitalization)	480
Long Term Homes Care Services	246
Other City Priorities	1,318
Lower Don Flood Protection	975
Waterfront Land Servicing (EBF, WDL and Keating)	150
Waterfront Public Realm Initiatives	350
<i>Less Waterfront DCS/Federal & Provincial Funding</i>	-1,125
Unfunded Projects from Environmental Assessments	2,000
Tier 2 Unmet Need Priorities	
TTC Future Capital Needs	2,323
Other Programs	597
Unfunded Transit Expansion Initiatives	
All Unfunded Transit Expansion Initiatives <i>(Preliminary - Pre-Design Estimates)</i>	15,300
Total of Unfunded Capital Projects (\$Million)	29,043

Budget Schedule

2017 Budget Schedule

Activity	Parking Authority, Toronto Water, Solid Waste Management	Capital Budget - City Divisions & ABCs	Operating Budget - City Divisions & ABCs
Budget Submission <i>Operating - Base Budget Only</i>	June 20, 2016	June 20, 2016	June 20, 2016
Budget Submission <i>Operating - Reduction Options and New Requests</i>	August 2, 2016	August 2, 2016	August 2, 2016
BC Members Informal Reviews	September 15 - September 30,	September 15 - October 18, 2016	
Budget Launch - Budget Committee	November 4, 2016	December 2, 2016	
Budget Briefings - Budget Committee	November 18, 2016 <i>(Regular BC Meeting)</i>	December 16, 19, 20 & 21, 2016	
Public Presentations - Budget Committee	November 18, 2016 <i>(Regular BC Meeting)</i>	January 4, 5 & 9, 2017	
Budget Committee Wrap-Up	N/A	January 12, 2017	
Budget Committee Final Wrap-Up	November 28, 2016 (Afternoon)	January 24, 2017	
Special Executive Committee	December 1, 2016 (Regular Meeting)	February 7, 2017	
Special Council	December 13 & 14, 2016 (Regular Meeting)	February 15 & 16, 2017	

For Budget Committee's Consideration & Approval:

- The 2017 budget process schedule
- Operating reduction target
- Capital budget guidelines



Thank You

Appendix

Objectives of the Report

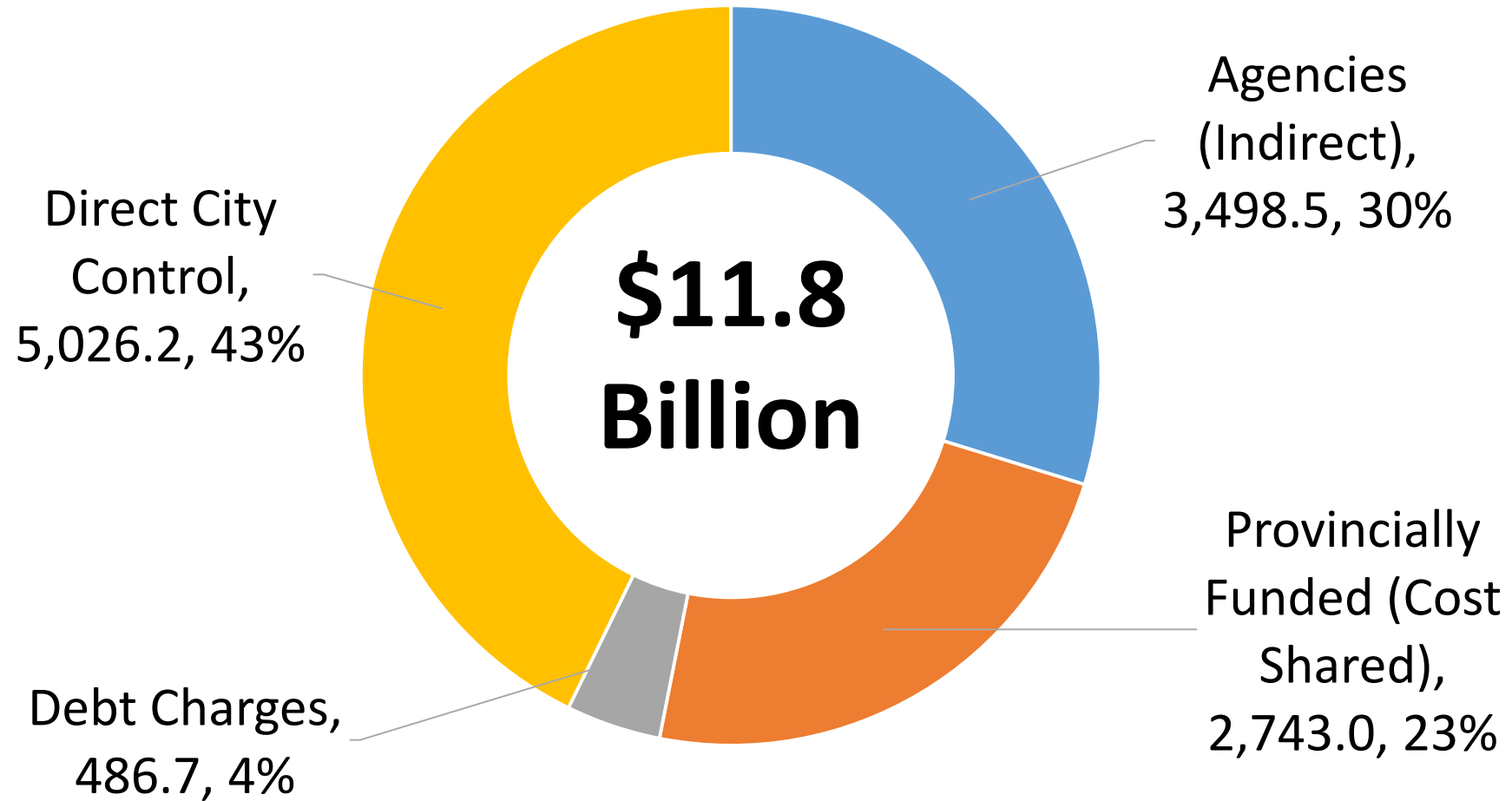
- Targets set at staff level in the past have been met with mixed compliance
- Formal policy direction through Budget Committee to establish budget targets for City Programs and Agencies
- Uses current forecast of pressures for City Programs, Agencies, and Non Program to set budget targets to achieve property tax rate increase at inflation

What's different for 2017?

- Budget Committee and Council approval of budget directions and targets
- Ability to examine service delivery and service levels
- Success will be determined by more explicit treatment of Agencies
- Budget targets address current pressures only
- Corporate freeze not consistent with agenda
 - Does not make progress in new service or capital investments **deferred**/discussed by Council
- No new revenue sources assumed
 - Additional revenue premature prior to Council decisions

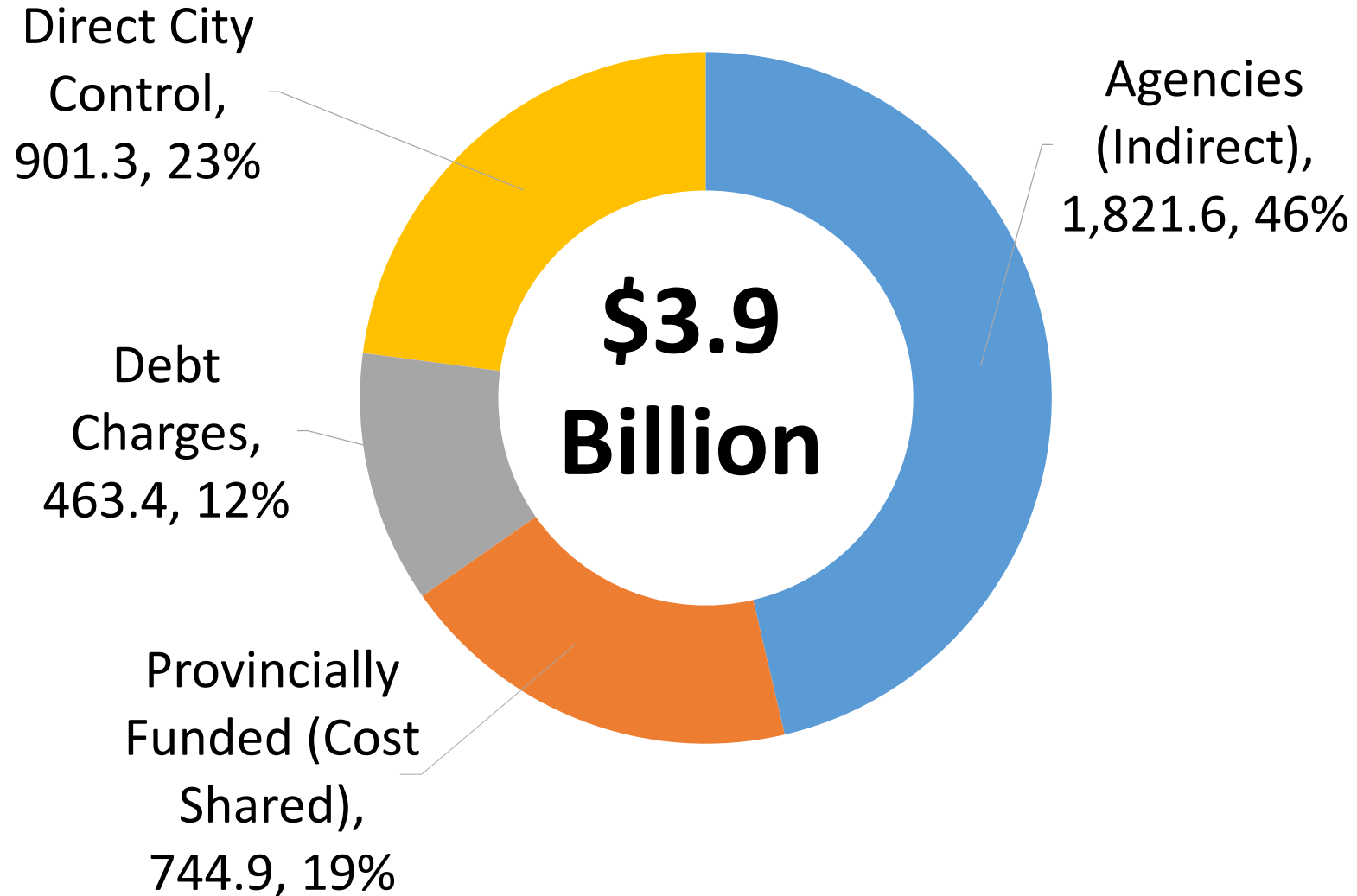
City Governance: Gross Budget

City Council has direct control of 43% of the Gross Budget



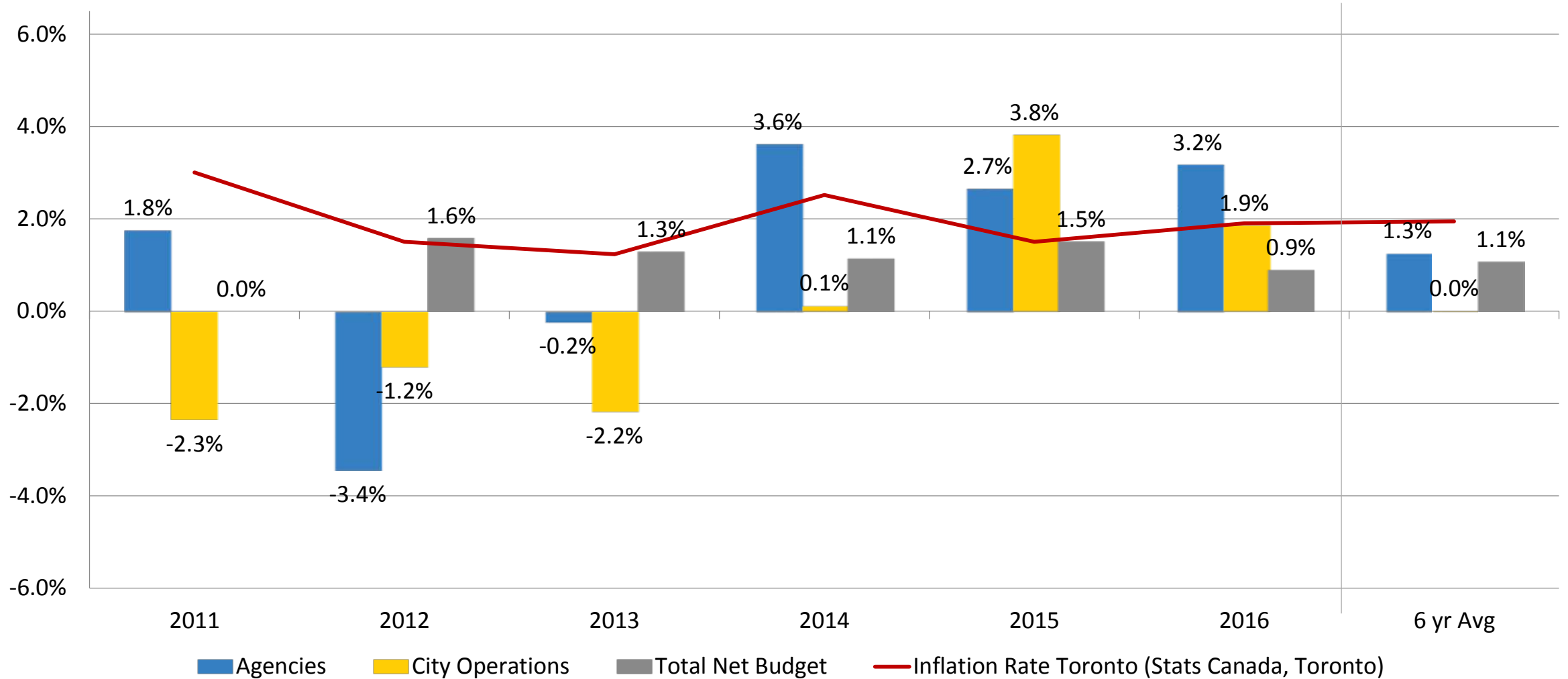
City Governance: Net Budget

City Council has direct control of 23% of the Net Budget

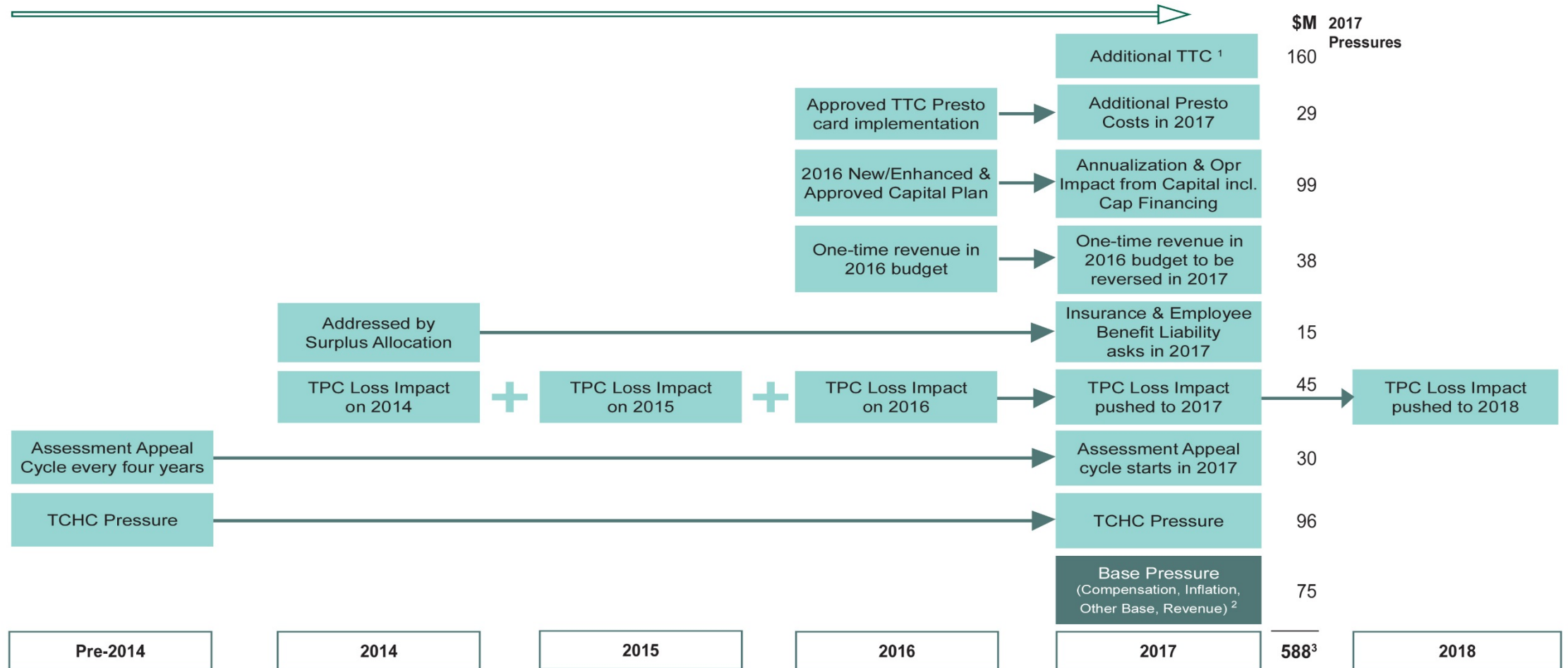


City Governance: Net Budget Increase

6-Year Net Budget Increase Comparison – Agencies & City Operations



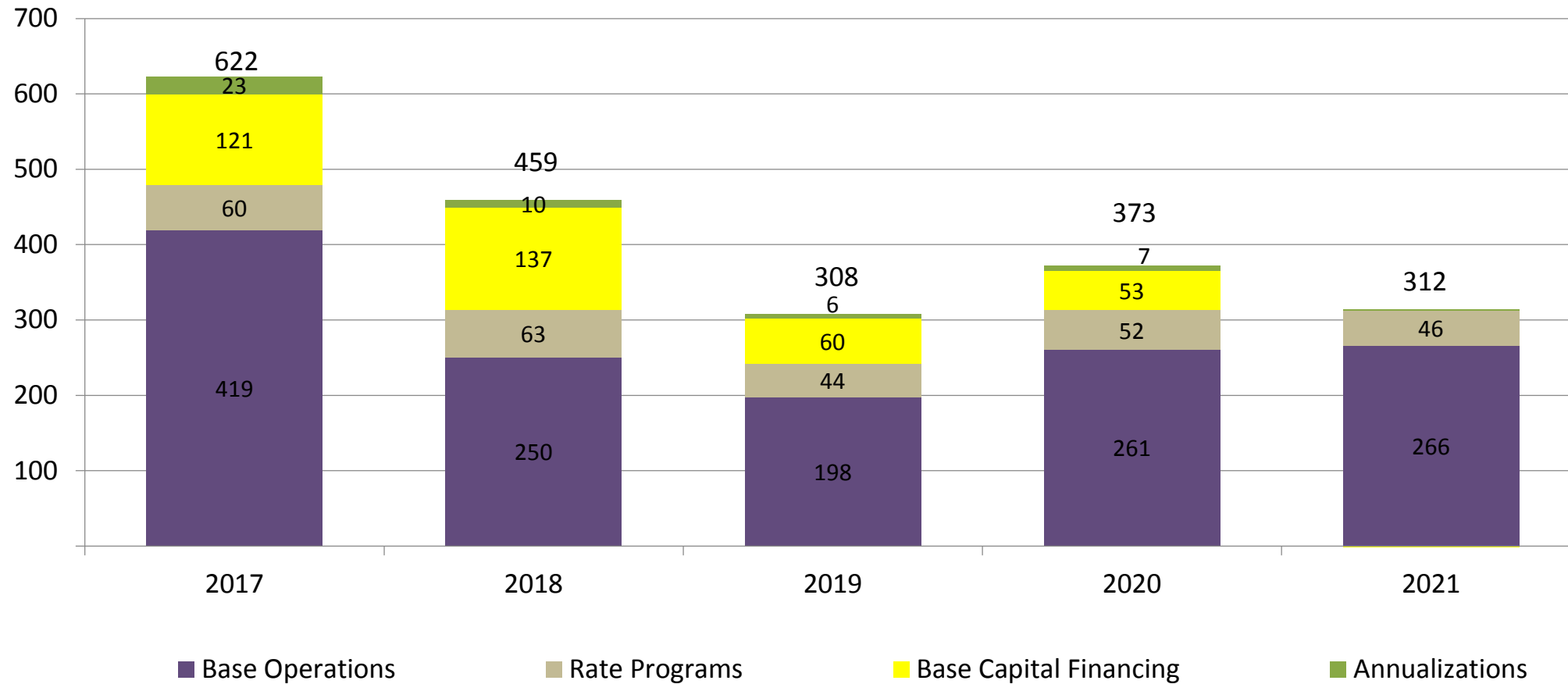
2017 Operating Pressures



Note:

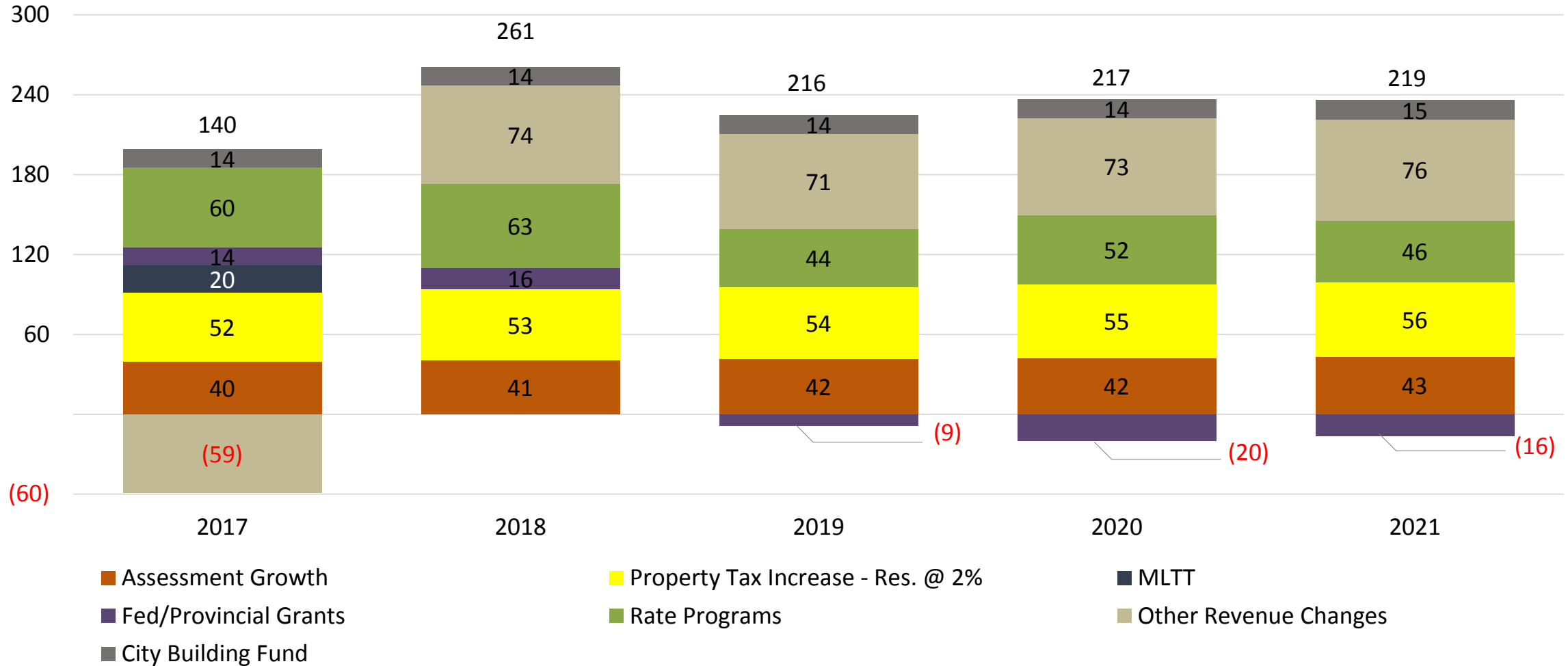
1. Additional TTC pressure includes revenue shortfall and base salary increase, but excludes Presto and service improvement cost increases.
2. Base pressure mainly includes base salary increases (excl. TTC and Police), base non-salary inflation increases, as well as other base expense and revenue changes (incl. user fee, MLTT, upload), etc.
3. Total 2017 operating pressure of \$588m excludes service improvements, debt costs for unmet needs, and Police. Net pressure is **\$483m** after Tax Rate Increase (\$52m), Assessment Growth (\$40m), and the City Building Fund estimates (\$13.5m).

Projected Incremental Base Expense Growth (\$M) 2017 to 2021

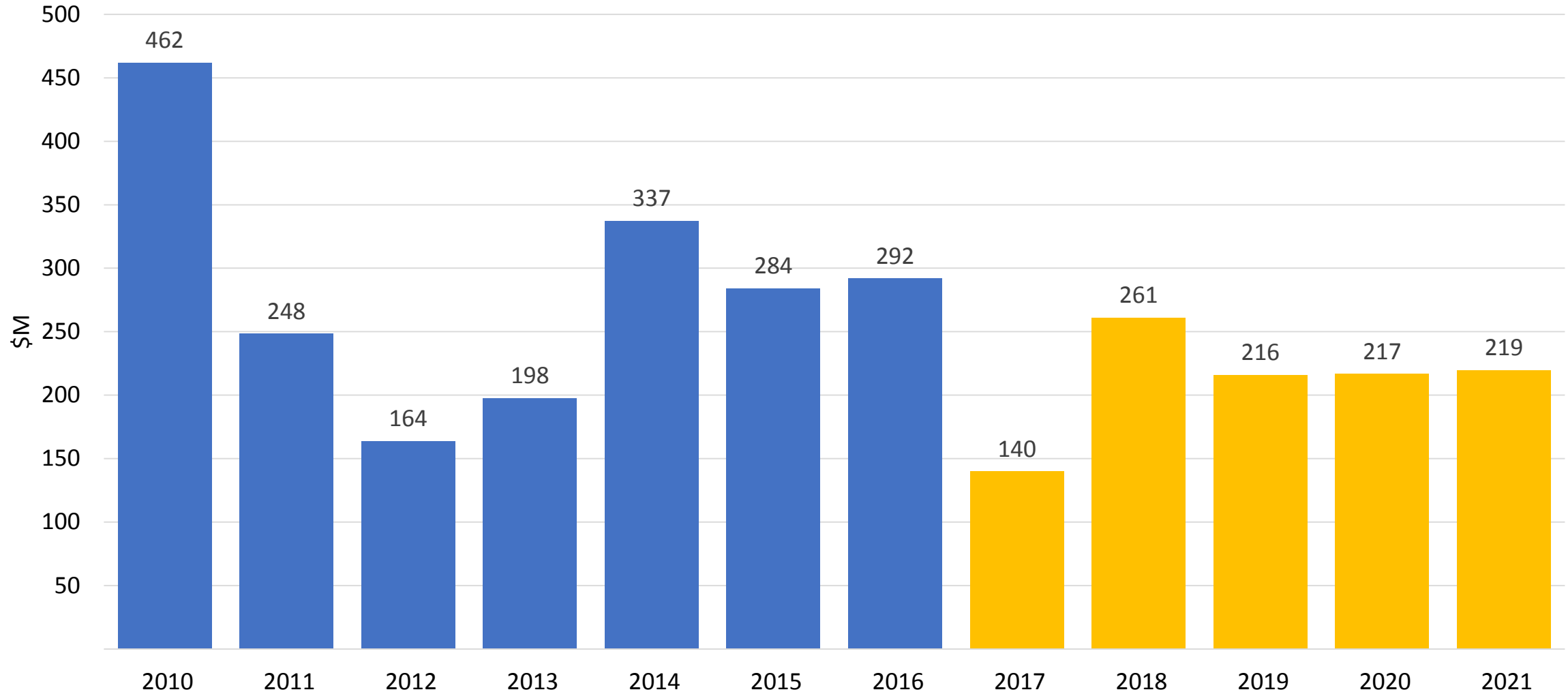


Projected Incremental Revenue Growth (\$M)

2017 to 2021

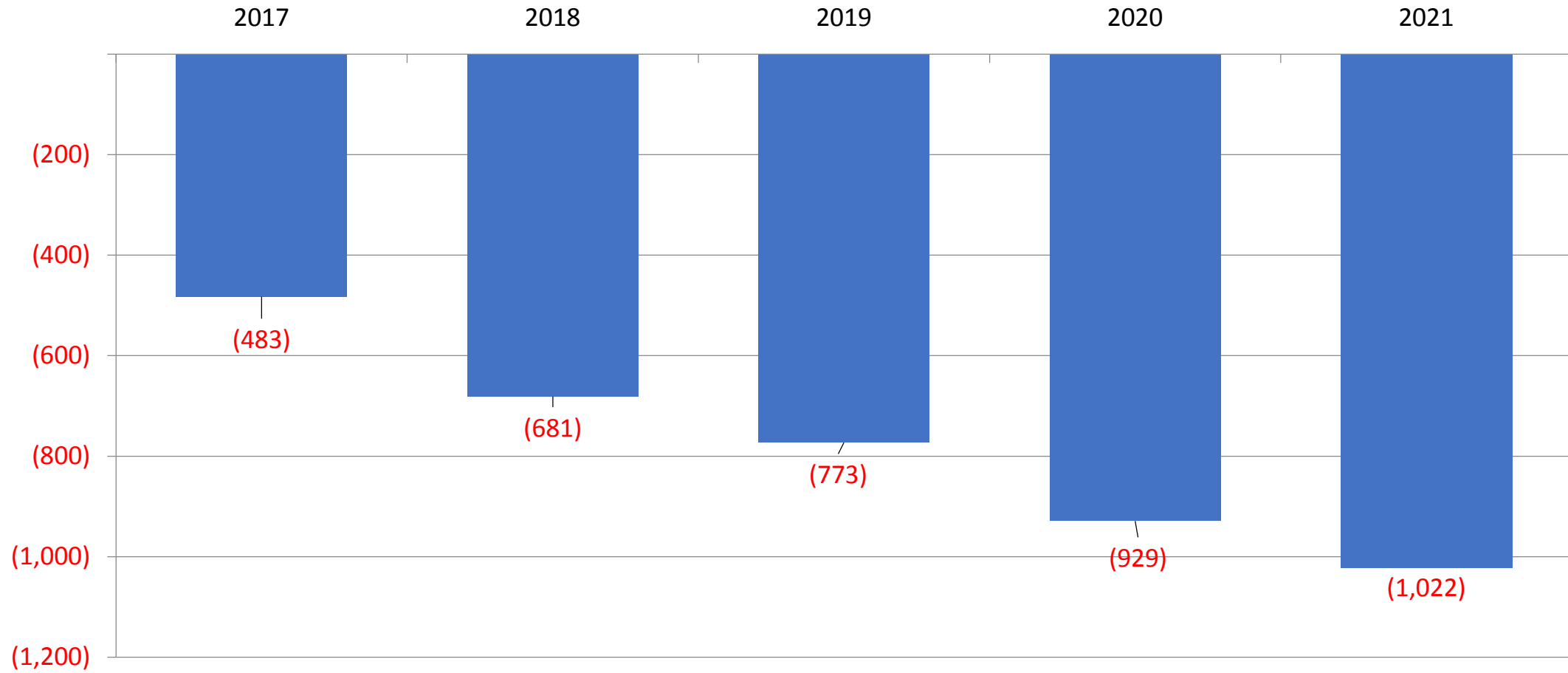


Incremental Revenue Growth – 2010 to 2016 (budgeted) and 2017 to 2021 (projected)

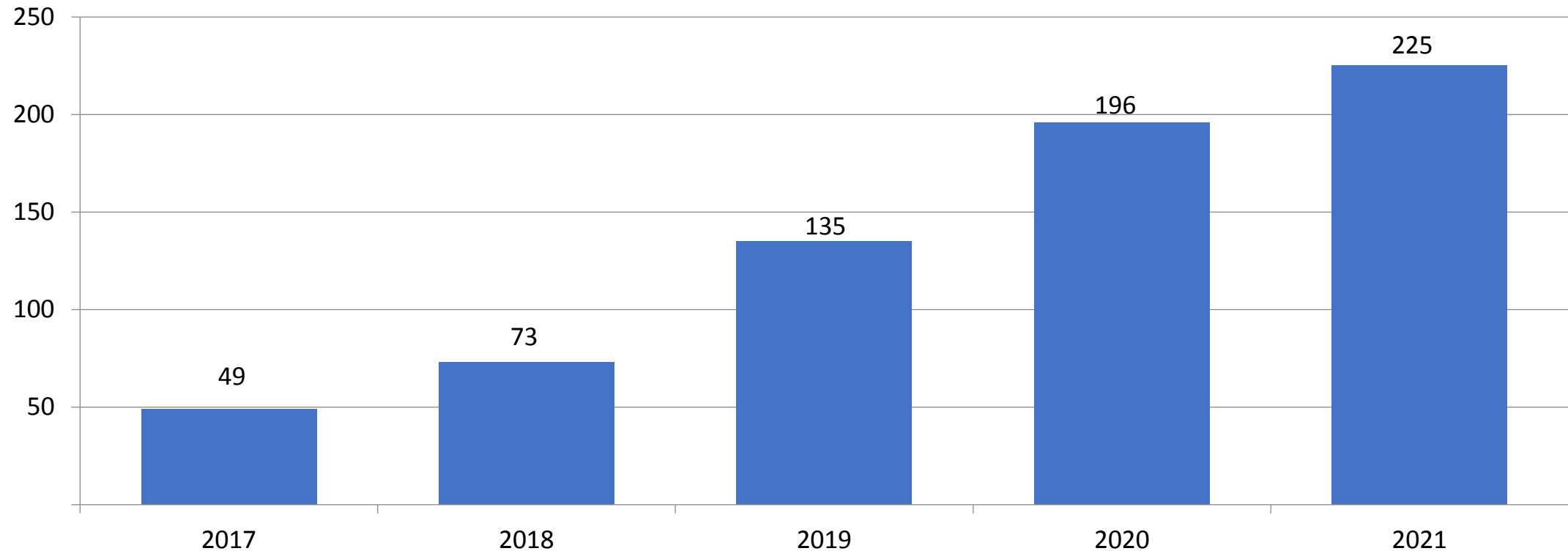


Projected Cumulative Net Pressures (\$M)

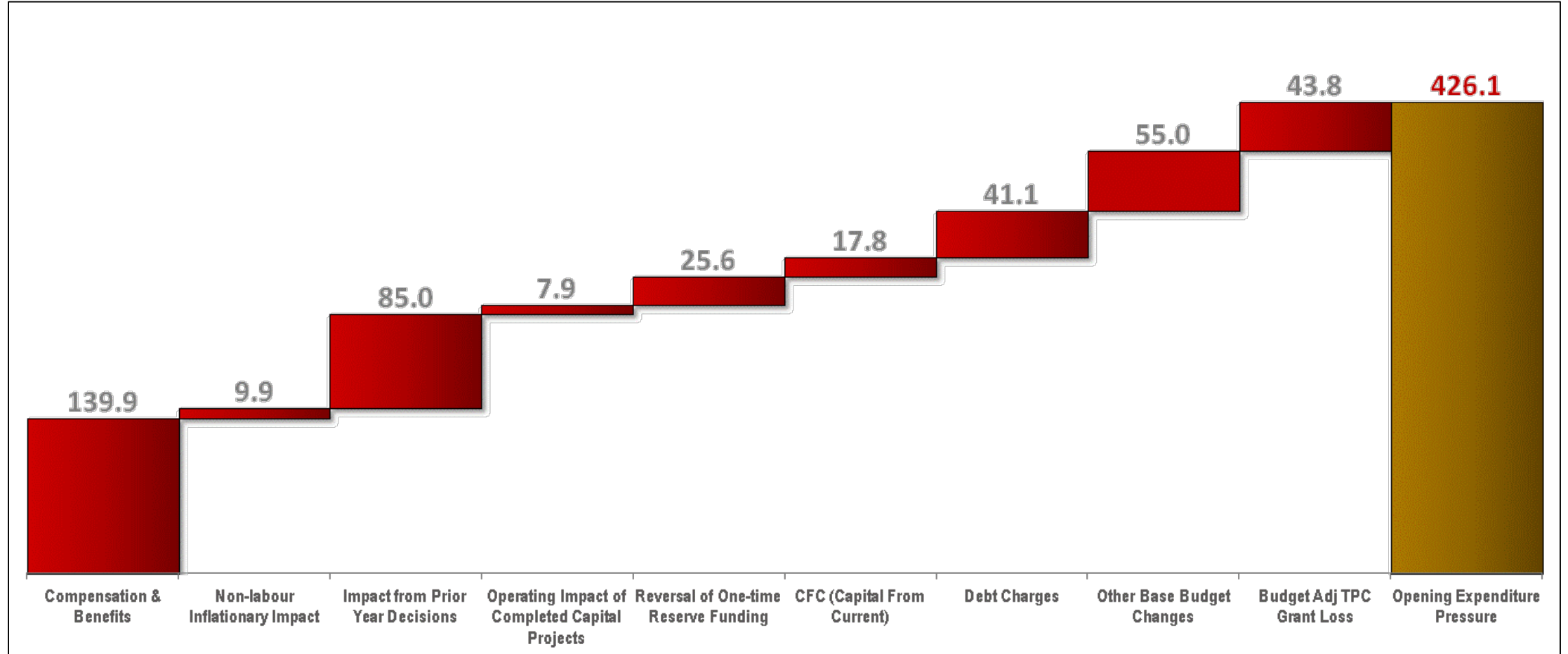
2017 to 2021



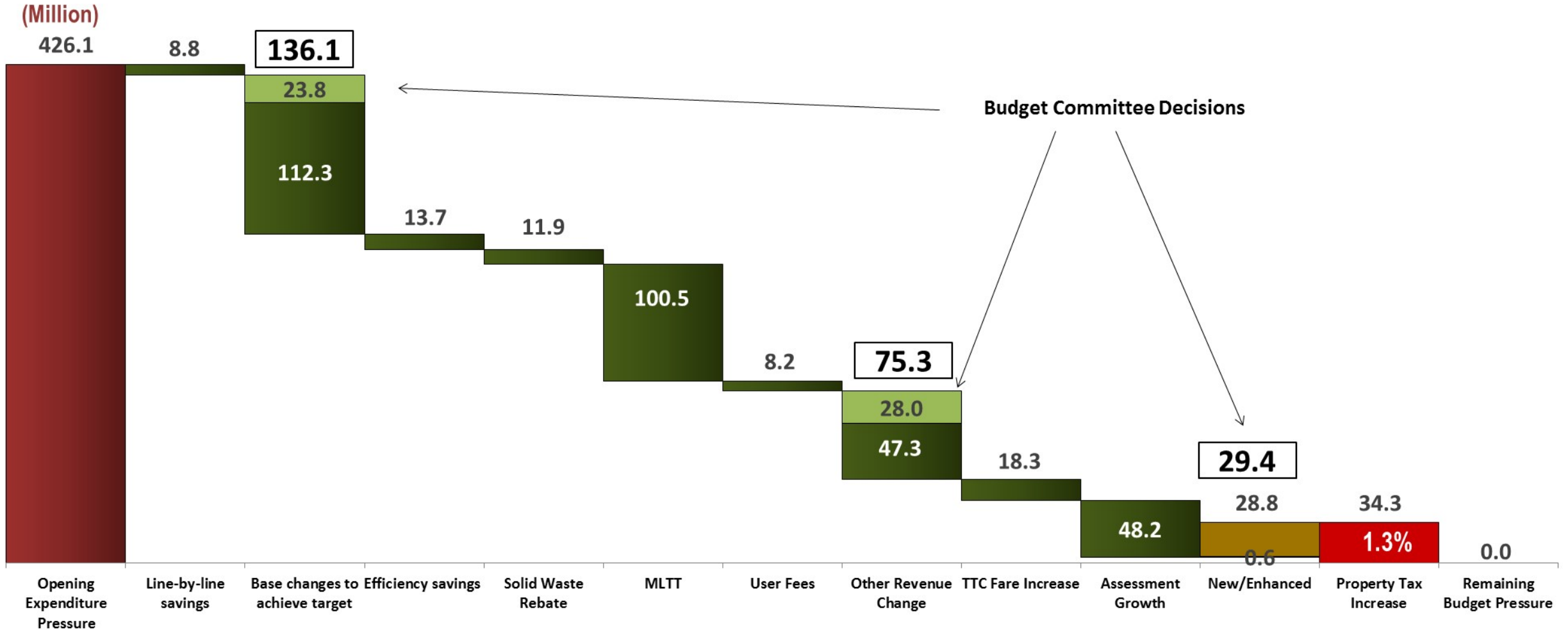
Projected Incremental Debt Charge Growth for Unmet Capital Needs (\$M) - 2017 to 2021



2016 Operating Budget Pressures



2016 Balancing Actions



2017 Pressure Estimates Resulting from 2016 Budget Decisions

(\$M)	<u>Expense</u>	<u>Revenue</u>	<u>Total</u>
Annulization from prior year decisions (incl. TTC)	14		
Operating Impact from completed capital projects (incl. TTC)	22		
TTC - Previously Approved Presto Card Implementation	29		
Phased Impact from TPC loss (Add'l increase in CFC)	45		
Deferred funding of employee benefit liabilities	10		
Deferred funding of insurance premiums & claims	5		
One-Time Revenues to balance 2016 budget		38	
2017 Pressure resulting from prior year decisions	125	38	163
Equivalent to Additional Residential Property Tax Increase of:			6.2%