TORONTO

STAFF REPORT
ACTION REQUIRED

2007 Recommended Operating Budget

Date:	April 11, 2007
To:	Executive Committee
From:	City Manager Deputy City Manager and Chief Financial Officer
Wards:	All
Reference Number:	P:\2007\Internal Services\FP\bc07014Fp

SUMMARY

The purpose of this report is to present the 2007 Budget Committee (BC) Recommended Operating Budget for City Programs, Agencies, Boards and Commissions, and to request Council's approval of the services, service levels and spending plans proposed therein.

The 2007 Recommended Operating Budget totals $7.797 billion gross and $3.221 billion net. To deliver services approved by City Council in 2006 this budget includes a base budget of $7.746 billion gross and $3.206 billion net. Compared to 2006, the 2007 BC Recommended Base Budget reflects a gross expenditure increase of $139.343 million or 1.8%. This confirms that expenditures have been contained through the City's continuous improvement and efficiency initiatives. In addition, investments in new and enhanced services that are aligned to Council priorities and the Mayor's mandate total $51.268 million gross and $14.448 million net.

In accordance with Executive Committee guidelines and directions, the 2007 Recommended Operating Budget continues the strategic process of balancing short-term needs against long-term objectives. Furthermore, it sets the framework for implementing Council's policy agenda and the Mayor's commitment to a prosperous, inclusive city that is safe, economically strong, clean and green, transit friendly, creative and a place where everyone has a chance to succeed. This budget maintains service levels needed by residents and businesses. As has been the case in prior years, on average, more than 60% of property tax revenue is earmarked to pay for police, fire, emergency medical services,

transit, garbage collection and recycling, libraries, parks and roads – services that impact the quality of life of residents.

Notwithstanding significant efficiency savings and productivity increases achieved during the past three years, recurring revenues continue to be insufficient to fund expenditures and essential reserve and reserve fund contributions. For the most part, the 2007 revenue deficit has been driven by the City's obligation to pay for under-funded provincially mandated services from the property tax base. As a result, to balance the 2007 Operating Budget the City has had to rely on unsustainable, one-time revenues including reserve / reserve fund draws of $211 million. These one time revenues will contribute to a beginning revenue shortfall / pressure in 2008.

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RECOMMENDATIONS

The Budget Committee (BC) recommends that Council approve:

1. the 2007 Budget Committee Recommended Tax Supported Operating Budget of $7.797 billion gross and $3.221 billion net, comprised of the following:

   (i) a Recommended Base Budget of $7.746 billion gross and $3.206 billion net as detailed in Appendix 1; and,

   (ii) New and Enhanced Services Budget of $51.268 million gross and $14.448 million net, as detailed in Appendix 1;

2. the 2007 Budget Committee Recommended Operating Budget for the Toronto Parking Authority totalling $57.805 million;

3. a residential property tax increase of 3.8% or $49.114 million and a Commercial, Industrial, and Multi-residential tax increase of 1.267% or $23.504 million;

4. the increases in user fees and charges included in the 2007 BC Recommended Operating Budgets of City Programs, Agencies, Boards and Commissions;

5. the use of reserves and reserve funds totalling $131.266 million as a source of funds to balance the 2007 Budget Committee Recommended Operating Budget;

6. require the Province of Ontario to pay for the 2007 funding deficit of $71 million resulting from unilateral provincial 'capping' of Ontario Works - Cost of Administration ($29.3 million); Shelter Per Diem ($29.1 million); and, Child Care services which was not indexed to inflation and has been frozen at levels established in 1995 ($13 million);

7. the Program Recommendations for City Programs, Agencies, Boards and Commissions as detailed in Appendix 3;

8. the reports, transmittals and communications that are on file with the City Clerk's Office (including Appendix 4 herewith attached) as considered by the Budget Committee at its 2007 budget review meetings; and,

9. authorize and direct the appropriate City Officials to take the necessary action to give effect thereto.

FINANCIAL IMPLICATIONS AND BUDGET SUMMARY

Fiscal Challenges

As a result of ongoing fiscal challenges, the City has been relying on non-recurring or one-time revenue sources to balance its budget. This practice has culminated in a significant and untenable $273 million revenue shortfall for 2007. On the expenditure side, uncontrollable costs such as inflation, debt service charges and other expenditures just to maintain services approved in 2006 amounted to $275 million. Together, the impact of non-recurring one-time revenues, the cost of maintaining the existing services and service levels, along with moderate investments in new and enhanced services resulted in a budget pressure of $562 million (see Table 1).

Table 1
2007 Operating Budget Starting Pressure

	$Million
2007 Operational Impacts	
COLA & Merit	120
Inflation - materials and services	27
Debt Service Charges	70
Prior Year Impacts and Other Base Changes	58
	275
City/Hydro One-time Funds	
Unsustainable 2006 Reserve Draws	160
Toronto Hydro Revenues	113
	273
Total Base Pressure	**548**
New and Enhanced Services	14
Total Pressure	562

A major contributor to the City's fiscal challenges is the continuing redirection of property tax revenue to fund provincially mandated services. In 2007 alone, the City will divert $175 million from its already scarce property tax revenues to pay for the provincial costs for the Ontario Disability Support Program (ODSP) and the Ontario Disability Benefits (ODB) program. Under-funded provincially mandated services which will be paid for from property tax revenues total $127 million due to the Province unilaterally *capping* its share of social services costs. The cost of social housing approximates an additional $329 million to City taxpayers. The Province has transferred a burden (exclusive of GTA pooling) of well over $500 million onto the City's property tax revenue base. This practice of re-directing property tax revenues to fund provincially mandated, income redistribution programs has depleted the scarce recurring resources available to deliver core municipal services, thereby putting the City of Toronto into a structural deficit position.

Independent studies by the Conference Board of Canada and the Toronto Board of Trade separately confirmed that the City has a structural deficit problem which approximates $1.1 billion per annum. As indicated above, a significant contributor to this unsustainable fiscal problem is the imbalance between the cost of downloaded provincially mandated programs and provincial funding. This was corroborated in a 2001 audit report wherein the Provincial Auditor of Ontario concluded that evidence indicated that the Province "did not ensure the ongoing revenue neutrality" of the downloaded programs, "either as a whole or for individual municipalities, and that this problem had been growing over time." It is noted that the Province has not acted to entirely resolve the revenue neutrality issues raised in the audit report, thereby prolonging the downloaded budget pressure on the City of Toronto.

Other contributors to the structural deficit include stagnant non-tax revenues; unpredictable assistance from the Province and the City's (already under-funded) reserves; and assessment growth which is consistently less than the rate of inflation. The 2007 assessment growth is only 0.5% increase in 2007.

2007 Budget Committee Recommended Operating Budget - Summary

Given the above fiscal challenges, the Executive Committee's 2007 Operating Budget directions and guidelines emphasized fiscal constraint, maximization of efficiencies and cost containment measures. Staff was directed to: focus spending on maintaining core services approved in 2006 and on services that are aligned to the Mayor's mandate and Council's policy agenda; to increase user fees while protecting access for the most vulnerable; and, to consider service reductions. In addition, a target of *zero* percent increase over the 2006 Net (Tax Levy) Budget was approved for 2007 and 2008. Further, the Executive Committee directed staff and the Budget Committee to bring forward a balanced operating budget that begins the process of fixing the structural deficit problem within the next four years. These budgetary directions and guidelines complemented the City's ongoing continuous improvement program, program reviews, performance measurement and benchmarking against other organizations, as well as service and efficiency reviews.

The 2007 Budget Committee Recommended Operating Budget is summarized in Table 2 below. The table shows that the 2007 Recommended Gross Budget is $7.797 billion, which represents a $190.611 million or 2.5% increase over 2006. This budget is funded primarily by User Fees and Charges of $1.205 billion, Provincial and Federal Grants and Subsidies of $1.944 billion and Property Taxes of $3.221 billion with the latter representing 41% of total revenues.

The 2007 Recommended Operating Budget includes assessment growth of $16.214 million, and property tax increases of $72.618 million, generated from a 3.8% or $49.114 million increase on residential properties and a 1.267% or $23.504 million increase on commercial, industrial and multi-residential properties. These tax rate increases are consistent with the Executive Committee's direction to keep any property tax increase in line with the City of Toronto rate of inflation. Including assessment growth and recommended tax increases, the 2007 Budget Committee Recommended Net Budget is $3.221 billion, representing an increase of $88.832 million or 2.8% increase over the 2006 property tax base.

Table 2 2007 BC Recommended Operating Budget					
	2006 Budget	2007 Budget		Change from 2006 (Unfavourable)	
	$Millions	$Millions	%	$Millions	%
2007 BC Recommended Budget (gross)	7,606.7	7,797.4	100.0	190.7	2.5
Less:					
User Fees and Charges	(1,176.1)	(1,204.7)	15.5	28.6	2.4
Provincial and Federal Grants and Subsidies	(1,893.0)	(1,943.6)	24.9	50.6	2.7
Reserves and Reserve Funds	(424.1)	(434.2)	5.6	10.1	2.4
Other Non Tax Revenues	(981.7)	(994.2)	12.8	12.5	1.3
2007 Recommended Budget (Net)	**(3,131.8)**	**(3,220.7)**	**41.3**	**88.9**	**2.8**

Balancing the 2007 Operating Budget

As established above, the 2007 Operating Base Budget starting pressure was $548 million. The Budget Committee recommended moderate investment in new and enhanced

Table 3 2007 BC Recommended Budget Budget Pressure Reduction Strategy		
		$Millions
Starting Pressure		562
Less:		
Base Budget Efficiencies / Savings	(85)	
Hydro Revenues	(106)	
Reserve Draws - Cost Shared Programs	(80)	(271)
		291
Financial Decisions:		
Assessment Growth		(16)
One-time Funding - Additional Reserve Draws / 2006 Year End Surplus / City Toronto Act (COTA) - New Revenues		(131)
		144
Provincial Responsibilites:		
Honour Legislated Social Service Programs		(71)
		73
Additional City Policy Option:		
Tax Increases - 3.8% residential; 1.267% non-residential		(73)
		0

City building initiatives that fulfill Council and the Mayor's priorities totalling $51.268 million gross expenditures and $14.448 million net. As a result, the budget pressure was increased to $562 million.

Table 3 shows how the budget was balanced. Firstly, savings resulting from efficiency reviews, service and service level adjustments, and other cost control initiatives totalling $85 million were used to reduce the budget pressure. The Executive Committee directed that Hydro Revenues of $106 million, which in accordance with Council approved policy had been earmarked for funding capital expenditures, be utilized once again in the operating budget. Also, $80 million of social services reserve funds have been utilized for a total of $271 million of reserve adjustments and savings. Finally, the only remaining reduction strategy includes further use of reserves and / or estimated new taxation revenues made possible by the new City of Toronto Act totalling $131 million.

Adjusting for the above strategies, assessment growth of $16 million and tax increases of $73 million resulted in a remaining net budget pressure of $71 million, which is primarily caused by downloaded services. The City cannot continue to absorb budget pressures driven by provincial funding shortfalls for downloaded provincial services and not honouring legislated cost sharing formulae for social services programs. After years of depleting reserves for this purpose, it no longer has sufficient uncommitted internal funds to absorb the remaining budget shortfall.

While the City’s 2007 financial burden resulting from downloaded provincially mandated programs exceeds $500 million, the City asked the Province to begin the process of paying its bills in full. Specifically, the City requested that the Province pay for the 2007 funding deficit of $71 million resulting from: unilateral provincial ‘capping’ of Ontario Works - Cost of Administration ($29.3 million); Shelter Per Diem ($29.1 million); and, Child Care services which was not indexed to inflation and has been frozen at levels established in 1995 ($13 million). Should the Province remedy this revenue inequity, the City’s 2007 Operating Budget will be balanced.

Fixing the Structural Deficit

Even with the substantive cost controls implemented since amalgamation, there is limited opportunity for the City of Toronto to solve what has now become a significant structural deficit problem without cutting services / service levels or finding new sustainable revenue sources. The information in Table 4 confirms that the City has controlled its costs. As evident in the Table 4 below, expenditures for City Operations increased by only 0.7%, well below the rate of inflation. Overall, the 2007 Operating Budget increased by 2.5%, driven mostly by Agencies, Boards and Commissions (4.1%) over which the City has limited control, and Corporate Accounts (6.9%) mainly because of debt service charges resulting from the approval of the 2006 Capital Budget.

Why is the City’s budget pressure so significant? For the most part, it is because of the composition of the City’s recurring revenues which do not grow with the economy. More specifically:

Table 4 2007 Gross Expenditure Budget								
($000s)	2006 Approved Budget	2007 Rec'd Base Budget	Change from 2006 Over / (Under)		Rec'd New/Enh.	Rec'd Total Budget	Change from 2006 Over / (Under)	
			$	%			$	%
Citizen Centred Services "A"	2,856,823	2,831,549	(25,275)	-0.9%	17,786	2,849,335	(7,488)	(0.3%)
Citizen Centred Services "B"	1,018,355	1,037,770	19,416	1.9%	4,999	1,042,769	24,414	2.4%
Internal Services	286,293	295,082	8,790	3.1%	4,856	299,938	13,645	4.8%
City Manager	39,519	39,591	73	0.2%	0	39,591	73	0.2%
Other City Programs	98,724	97,485	(1,239)	-1.3%	721	98,206	(518)	(0.5%)
Council Appointed Programs	3,881	3,988	107	2.8%	241	4,229	348	9.0%
Total City Operations	**4,303,594**	**4,305,465**	**1,871**	**0.0%**	**28,603**	**4,334,068**	**30,474**	**0.7%**
Agencies, Boards and Commissions	2,432,363	2,518,306	85,943	3.5%	13,836	2,532,142	**99,779**	4.1%
Corporate Accounts	870,792	922,321	51,529	5.9%	8,829	931,150	**60,358**	6.9%
Total Levy Operating Budget	**7,606,748**	**7,746,092**	**139,343**	**1.8%**	**51,268**	**7,797,360**	**190,611**	**2.5%**

- Non-tax revenues are generally stagnant. A significant proportion of the City's user fees and charges lag behind inflation either for policy reasons, or because of market consideration. On user fee revenues of approximately $400 million (excluding Toronto Transit Commission) the City will realize increased revenues due to price increases of only $4 million or 1%. This is well below the rate of inflation, despite best efforts to achieve the objective of ensuring that user fees are priced to recover the full cost of the relevant services. Staff will be reviewing these fees on an ongoing basis to ensure full service cost recovery while protecting the most vulnerable.
- Assessment growth will increase by only $16 million in 2007. This represents one-half of one percent (0.5%) increase on the 2006 tax base of $3.132 billion, again, well below the rate of inflation.
- Provincial under-funding of its mandated services is a principal cause of the structural deficit. As has already been discussed, the Provincial Auditor of Ontario has confirmed that downloaded provincial programs have not been revenue neutral. In fact, under-funded provincially mandated programs have contributed well over $500 million to the City's annual fiscal problems. Yet, the Province has not been forthcoming with a commitment to fully pay its bills.

The City's continuous improvement, program reviews, service reviews and aggressive efficiency reviews will assure that the goal of managing controllable expenditures is achieved and that the right services are delivered for the best value. This has been demonstrated in this budget wherein City Operations kept its base gross expenditure increase at 0.04%.

However, the structural deficit will only the fixed by the following strategies:

1. The Province of Ontario must upload the cost of its social services which, because of their significant draw on municipal property tax revenue, are the main cause of the City's structural deficit. This is likely to worsen, given that the social services reserves (which has been utilized to mitigate provincially downloaded programs

budget pressure) has been depleted. Unfortunately, the 2007-2008 Provincial Budget did not address this problem; it included neither promise nor commitment to upload the cost of provincially mandated social services programs.

2. New revenues that grow with economic activity such as sales taxes and excise taxes. A sustainable share of the Goods and Services Tax (GST), for instance, would provide a predictable source of growth revenues that would reduce the demand for temporary or one-time funding to enable the city to provide the core municipal services that its citizens demand.

3) Creation of a National Transit Strategy would be useful in rationalizing the transit infrastructure and funding needs. To some degree, this strategy should influence the federal and provincial governments to recognize the economic and environmental value of public transit, and the need for them to share more equitably in the cost of providing transit services and investing in their growth.

4) New taxation measures under the authority granted by the COTA. It is noted that COTA revenues should be targeted toward City Building for core municipal services such as roads, parks, garbage collection and culture, and therefore would be only minimally available to address the existing structural deficit problem.

The above measures are urgent if the City must achieve Council's priorities and should continue to remain the economic engine of the Province of Ontario and Canada. Fixing the revenue deficit problem is necessary in the short term to prevent the City from cutting core municipal services that are required for the health, safety and lasting economic well being of the citizens of Toronto. Too much of the property tax revenue is being diverted to social programs at the expense of improvement and growth in municipal services that the citizens of Toronto demand.

COMMENTS

2007 Operating Budget Process

The City of Toronto introduced a new governance model in 2006 which provided opportunities to improve fiscal management and strategic planning by ensuring that financial planning and budgetary decision-making is fully aligned with the Mayor and Council's vision and priorities. Toward this goal, Executive Committee in its strategic role, reaffirms the overall vision for the next term of Council. The Budget Committee plays a pivotal role by providing support and advice to the Executive Committee, Council and the Mayor on these matters.

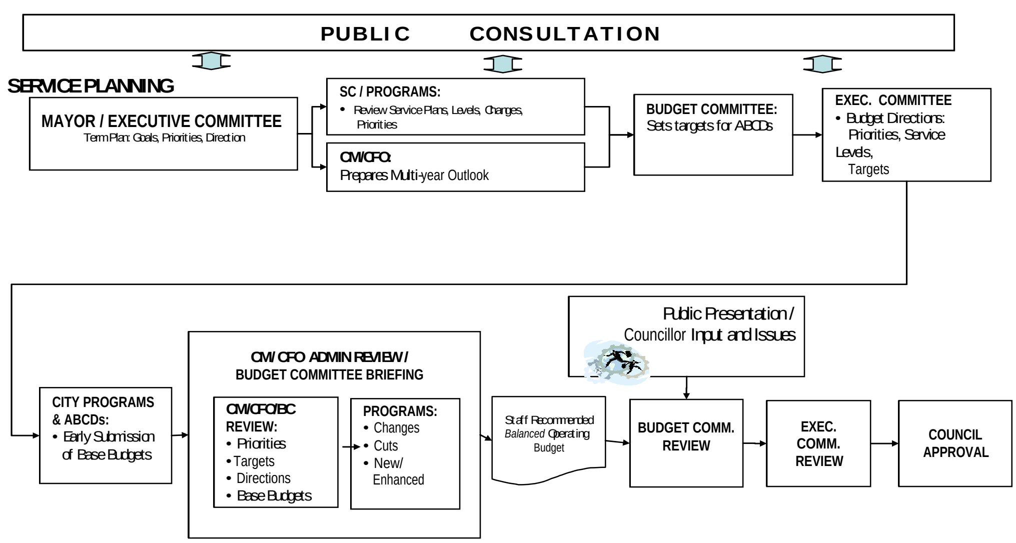
The City's budget process is intended to ensure that scarce resources are utilized in a manner that produces results in a responsible and measurable way. Beginning in 2007, the City's operating and capital budgets will represent strategic financial plans that set the framework for fulfilling Council's goals and priorities.

Chart 1 outlines the City of Toronto mature budget process. Because of time constraints resulting from the 2006 Election, the 2007 Budget process was transitional. It excluded upfront review of services and services levels (an essential best budget practice). As discussed below, to get back to the City's mature budget process, service and service level reviews will be introduced in 2008.

Key elements of the 2007 Budget process included the following:

- On behalf of the Executive Committee, the Mayor gave staff upfront directions to bring forward a balanced operating budget that fulfills Council's strategic policy agenda by aligning resources to priorities that is based on sound financial management principles, and meets budgetary targets.
- Prior to finalizing the recommended budget, the Budget Committee undertook detailed reviews of individual City Program and ABC budgets to ensure that Executive Committee's directions were met.
- The Budget Committee, on behalf of the Executive Committee, held formal meetings to receive public presentations / hearings and input from Councillors on matters and issues of interest and, where warranted, made changes to the staff recommended budget.

Chart 1
City of Toronto Budget Process



- The Budget Committee has recommended a balanced budget to the Executive Committee. This budget reflects the strategic alignment of resources to Council priorities; highlights expected results and outcomes; and confirms financial strategies.

- The Executive Committee's review of the budget will focus on major fiscal and policy issues and will confirm the budget as a strategic financial plan that will implement Council policies and priorities.
- On behalf of the Executive Committee, the Mayor will present the 2007 Operating Budget to Council.

In 2008, the role of the Standing Committees established in the mature budget process will be reinstated. As well, public consultation will be held upfront to ensure that priorities reflect the needs and expectation of the citizens of Toronto. The 2008 budget process is illustrated in Chart 2.

Work to establish 2008 service priorities and financial targets will begin early in 2007. Guided by the Mayor's mandate, and Council's policy agenda, Standing Committees will, in the spring of 2007, review City Program and ABC service plans, assess service issues and outcomes to determine or reconfirm service priorities, and service levels that will be recommended to Executive Committee *in advance of the 2008 budget process*.

Mayor's Directions and Guidelines

On behalf of the Executive Committee, the Mayor provided budget guidelines which stipulated that the 2007 budget must focus on delivering the services that meet the expectations of our citizens, and build on progress made during the last term of Council. Further, the Mayor recognized the fact that since amalgamation, the City has been struggling with a structural fiscal deficit that continues to challenge its ability to provide the municipal services that citizens need and value. To address this fiscal challenge, staff and Budget Committee were directed to ensure that the 2007 Operating Budget begins the strategic process of balancing short-term needs against long-term objectives in a fiscally sustainable way. They were also directed to ensure that the 2007 Budget sets the framework for implementing the goals and priorities established for this term of Council and the City's commitment to a prosperous, inclusive city that is safe, economically strong, clean and green, transit friendly, creative and a place where everyone has a chance to succeed.

Guidelines for developing the 2007 Operating Budget included the following:

- The 2007 Operating Base Budget target be set at a *zero net increase* over the previous year for all City Programs, Agencies, Boards and Commissions;
- To achieve further service delivery efficiencies, the continuous improvement initiative be expanded to include program reviews and service rationalization.
- Services and service levels that are aligned to the Mayor's mandate for this term of Council must be protected;
- Only investments in new and enhanced service that deliver on the Mayor's mandate will be considered;

- Provincial cost-shared programs must not be funded from the property tax base; for 2007, Ontario Disability Support Payments and Ontario Drug Benefit cost must be funded from the Provincial income tax base;
- Given the significant structural deficit, the following measures be considered in order to protect City services in 2007:
  - use Toronto Hydro Revenues (dividends and interest earnings) as a revenue source; and,
  - use reserve and reserve funds to balance the 2007 Operating Budget;
- That the residential property tax increase be generally in line with the City's rate of inflation.

These budget guidelines aimed at ensuring that scarce resources are utilized to produce results in a responsible and measurable way. On behalf of the Executive Committee, the Mayor directed that the 2007 operating budget become a strategic financial plan that sets the framework for fulfilling Council's long-term goals and priorities. In conclusion, to alleviate the fiscal challenges associated with the inherited structural deficit, the Executive Committee's directions and guidelines reiterated the need to make hard decisions to get the City back on a sound fiscal footing and to provide the citizens of Toronto with the services they require and deserve.

How the Budget was Developed

Consistent with prior years, the starting assumption for developing the 2007 Operating Budget was that services and service levels approved in 2006 would be maintained wherever possible. To estimate the cost of maintaining these services and service levels, the 2006 Approved Budget was adjusted to annualize part-year 2006 funding for Council service changes and reverse 2006 one-time expenditures and revenues. Next, the annualized base budget was adjusted for inflation. The result of this exercise was the 2007 cost of continuing to provide the approved 2006 services and service levels.

The 2007 City Manager and Chief Financial Officer's (CM and CFO) 2007 operating budget instructions required City Programs and ABCs to submit as separate budget packages, requests for any additional funding to maintain approved base services and service levels, as well as for new services and / or service enhancement initiatives. Further, the instructions required Programs and ABCs to clearly detail the service levels that would be provided with the resources requested, to demonstrate the intended outcomes and to link the resources requested with performance indicators and results. The 2007 Budget process, therefore, required decision support information about base level services and sound justification for any change to the base, as well as for any proposed investment in new and enhanced services.

The inflation adjusted base budget was reviewed to remove inefficiencies, to incorporate continuous improvement initiatives and best service delivery practices. Driven by the administrative commitment to control cost and the guideline to achieve a *zero* net expenditure increase over 2006, senior staff of City Program and ABCs were directed to demonstrate to the City Manager and Chief Financial Officer that they had explored every opportunity to develop responsible and prudent operating budgets that related performance measures with resource requests, and achieved the Executive Committee directions and guidelines.

Inflation/Economic Factors

The City consumes a wide range of commodities with varying inflationary impacts to provide its services. Therefore, a single rate of inflation cannot be applied to all commodities consumed by the City. For instance, the cost of living allowance (COLA) is set at a rate that is approximately 70% higher than the general rate of inflation; some contract prices are fixed for their duration, while others may have pre-established cost schedules that may not require adjustments greater than inflation until renewal. As well, some goods and services are more volatile than others, as has been the case with gas and oil products during the past two years. As a result, the City uses a commodity specific price schedule that is more reflective of the behaviour of specific items on which it spends substantive amounts.
Table 5 lists the commodity specific inflation rates utilized to develop the 2007 Operating Budget. These economic factors will continue to be reviewed and any significant changes that warrant in-year adjustments will be reported in the 2007 quarterly variance reports. In accordance with the City's strategy to closely monitor spending on furniture and consulting costs, these expenditures were zero-based.

Table 5
Economic Factors

Expenditure	Economic Factor %
Printing & Paper Products	2.50
Food	2.10
Hydro	9.70
Gas	98 cents
Diesel - TTC	86 cents
Diesel - Other	90 cents
Natural Gas	0.00
Steam Heating	0.00
Water	9.00
Postage	2.00
Telephone	0.00
Salt (City Contract)	5.00
Medical Supplies	3.00

Performance Measurement – How Toronto Performs

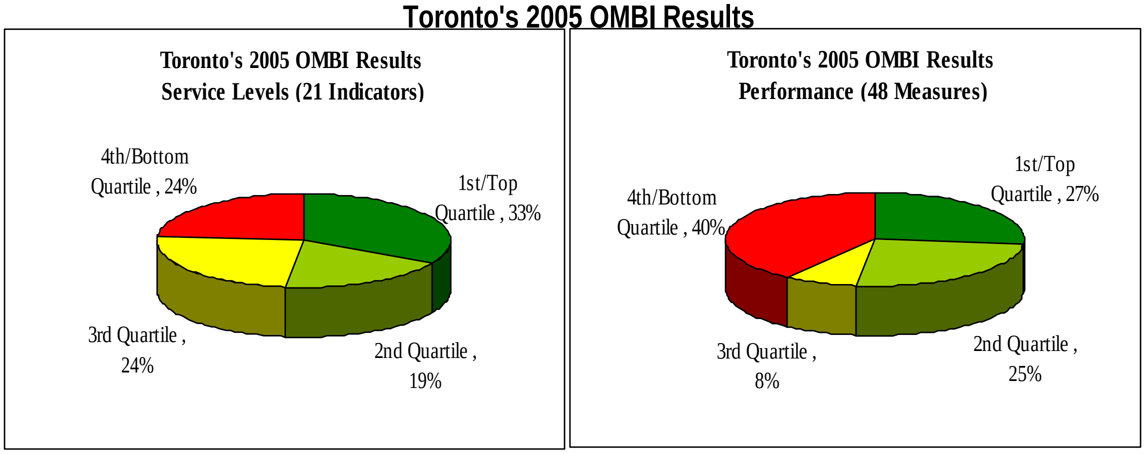
Performance measurement is an integral part of the City's resource planning and management accountability framework. The City is committed to measuring performance in order to determine whether intended results are being produced and how efficiently and effectively it delivers services. Further, performance measures are used as a management tool to help identify areas where improvements can be made.

As part of the budgeting process, performance results are provided by City Programs and ABCs to examine internal trends over a number of years. In addition, the City compares itself externally against other municipalities to identify areas in which it is performing well and areas in which improvements can be made.

The 2007 Operating Budget process includes a considerable number of performance measures which were reviewed during development of the budget. The City of Toronto participates along with 14 other municipalities, in the Ontario Municipal CAO's Benchmarking Initiative (OMBI) which helps municipalities measure their progress towards their goals relative to each other. OMBI produced its first joint benchmarking report in January 2007. Analysis of the report reveals that Toronto has achieved higher than the median scores in 52% of service level indicators and 52% of efficiency, customer service and community impact measure (See Chart 2). Toronto's performance results are very comparable to the other large single-tier municipalities in OMBI.

Chart 2

Toronto's 2005 OMBI Results



- For service levels, results have been sorted highest service levels being the desired goal
- Higher than median in 52% of service level indicators.
- Better than median in 52% of efficiency, customer service and community impact measures

The City Manager will be reporting on Toronto's performance (measurement) results to the May meeting of the Executive Committee. This report will expand on the joint OMBI report to include additional program areas as well as examining our own internal five-year trends.

All program areas continue to examine operations for ways to improve the efficiency and effectiveness of operations in order to become more efficient in all programs. Examples of initiatives that have improved the efficiency of operations include:

- Road maintenance - new street sweeping equipment, technology and routing expected to reduce costs and also examining alternatives for diversion of residual material.
- Winter maintenance of roads - salt management initiatives to optimize salt usage through the use of technology on vehicles, and pre-wetting of salt to make more effective.
- Solid Waste Diversion - implement efficiencies at Organics Processing Facility to increase the processing capacity of source separated organics. Examining optical sorting technology to improve mechanical sorting of single stream materials.
- Solid Waste Disposal - compress hours of operation at transfer stations to eliminate need for night shift
- Wastewater Treatment - have implemented energy efficiency measures and are continuing to do so where possible

The City will continue to refine its performance measures with a focus on ensuring that it delivers services effectively.

City Manager and Chief Financial Officer Review

The City Manager (CM) and Deputy City Manager & Chief Financial Officer (DCM-CFO) conducted an intensive and exhaustive review to confirm compliance with Council priorities, budget policies, directions and guidelines. As part of this review, the Financial Planning Division (FPD) first analyzed Program and ABCs submissions to ascertain that base services were maintained, to perform and verify efficiency reviews, evaluate performance outcomes and metrics in relation to resource requests, and in general to determine the extent to which costs were contained, user fee revenues were maximized and new funding requests were justified. FPD findings were submitted to the City Manager and Deputy City Manager & Chief Financial Officer for consideration during their detailed budget review.

The CM and DCM / CFO budget review focused on four broad categories primarily because of unique factors associated with each of them: Provincially Mandated Services, Transit, Emergency Services and Municipal Services. The degree of control and the service mandate were principal factors influencing this approach. The CM and DCM / CFO review required each Program and ABC to justify their budget submissions by describing the strategies used to achieve the net *zero* percent increase guideline. Further, each Program and ABC discussed the relevance of their service goals and objectives; how these goals and objectives linked to Council’s priorities; actual performance and accomplishments in 2006 and benchmarking results; and, progress made on program review along with potential opportunities for more efficient service delivery emanating from these reviews.

As a result of this review, further service delivery efficiencies and other cost saving measures totalling $85 million were achieved. This is especially significant since City

Programs and ABCs had already incorporated significant cost containment measure in developing their budget submissions.

Despite protracted reviews and successes in cost containment, many City programs and ABCs were not able to achieve the *zero* net budget target without cutting services and service levels essential to preserve the well being of the citizens of Toronto and to achieve the Mayor and Council's priorities. In some cases, non-tax revenue stagnation or reduction resulted in increased net budgets. For example, while Municipal Licensing Services managed to contain its 2007 gross expenditures to a change of 0.1% (from $33.610 million in 2006 to $33.635 million in 2007), 2007 net expenditures increased by 18.1% due to reduced non-tax revenues.

Finally, the Staff Recommended Budget was reviewed by the Budget Committee. BC members performed detailed reviews to confirm compliance with Executive Committee directions. The BC reviews reaffirmed findings and recommendations of staff. In particular, BC acknowledged that deeper cuts to achieve the *zero* target would compromise the municipal services that constitute the mandate of the City, in favour of continuing to subsidize downloaded and under funded provincially mandated social services.

Budget Overview:

2007 Budget Committee Recommended Gross Operating Budget

The Budget Committee recommends a balanced 2007 Operating Budget of $7.797 billion gross (see Table 6). Salaries and benefits of $3.760 billion constitute the largest expenditure component, approximating 48% of the gross expenditure budget. Salaries and benefits increased by $155.6 million or 4.3% over 2006. The major funding sources for 2007 operating expenditures are property tax revenues, user fees and provincial and federal grants and subsidies. Note that there was virtually no growth in non-tax revenues.

As indicated in Table 6, the 2007 Operating Budget (gross) increased by 2.5% over 2006. Most of the budget increase is attributable to Agencies, Boards, Commissions and Non Program. Budgets City Operations expenditures increased by 0.72%, compared to 4.1% for ABCs and 6.9% in Non Program Accounts.

The increase in City Operations is primarily driven by the following programs:

- Social Services ($33.849 million gross or 3.3% increase) – This is due to the legislated 2% rate increase for OW clients totaling $2.7 million; higher ODSP and Ontario Drug Benefits (ODB) costs of $7.0 million; and, COLA, merit and step increase of $6.1 million.

Table 6 2007 Budget Committeee Recommended Budget - by Category					
	2006 Approved Budget	2007 Recommended Budget		Change from 2006 Approved Budget	
		$	%	$	%
Salaries and Benefits	3,604.6	3,760.2	48.2	155.6	4.3
Materials and Supplies	432.9	448.7	5.8	15.8	3.6
Equipment	44.9	43.2	0.6	(1.7)	(3.8)
Services and Rents	1,130.7	1,094.3	14.0	(36.4)	(3.2)
Contribution and Transfers	2,131.1	2,194.5	28.1	63.4	3.0
Other (Includes IDCs)	262.5	256.5	3.3	(6.0)	(2.3)
Total Gross Expenditures	**7,606.7**	**7,797.4**	**100.0**	**190.7**	**2.5**
Funded By:					
Provincial and Federal Grants and Subsidies	1,893.0	1,943.6	24.9	50.6	2.7
User Fees	1,176.1	1,204.7	15.5	28.6	2.4
Reserves / Reserve Funds	424.1	434.2	5.6	10.1	2.4
Other (Includes IDRs)	981.7	994.2	12.8	12.5	1.3
Total Non-tax Revenues	**4,474.9**	**4,576.7**	**58.7**	**101.8**	**2.3**
Net Budget	**3,131.8**	**3,220.7**	**41.3**	**88.9**	**2.8**

- Parks, Forestry and Recreation Services ($14.743 million gross or 5.19% increase) – The increase is due to collective agreement demands and other non-discretionary expenditures totaling $12.500 million. These are partially defrayed by efficiencies of $5.400 million and fee revenue increases of $1.100 million.
- Fire Services ($9.364 million gross or 2.8% increase) – This is due to annualized costs for 2006 approvals, merit and step increases, COLA and inflation.
- Solid Waste Management Services ($8.947 million gross or 3.9% increase) – This is due to merit and step increases, union settlements and wage increases for exempt staff, non-salary inflationary increases, conversion of waste tonnage from disposal to higher diversion processing costs, and higher fuel and maintenance costs for the Solid Waste Management Services fleet.

The expenditure increase in ABC budgets was primarily for Toronto Polices Services, TTC, Toronto Public Library and Exhibition Place. Of the $211 million total expenditure increase, 47% or $98.824 million is attributed to ABCs compared to 24% for City Operations. The major causes of the ABC increase are as follows:

- Toronto Public Library ($5.775 million or 3.6% increase): primarily due to COLA, merit, step and fringe increases totaling $4.943 million; 2% increase for Library materials of $0.331 million; other inflationary increases including utilities of $0.528 million and operating impacts of capital projects such as costs from the Integrated Library System and Virtual Branch Services of $0.200 million.
- Exhibition Place increase of $6.151 million or 13% is due to salary and wage increases prescribed by collective agreements; increased utility costs; and increased contribution to the vehicle replacement reserve.

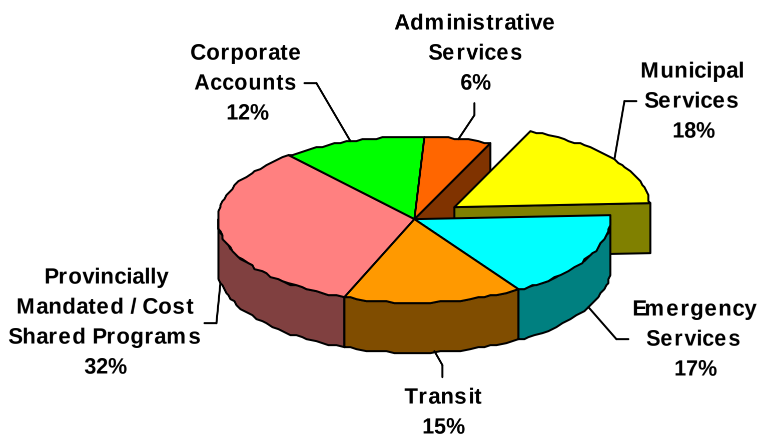
- TTC - Conventional Services increase of $44.901 million or 4.3% is attributed to annualized labour costs from the TTC's 2005 collective agreement and higher energy costs due to price increases in vehicle fuel, utilities and hydro. For the overall service budget, key cost drivers include the incremental cost of fully implementing the 2005 approved initiatives of the TTC's Ridership Growth Strategy to purchase and operate 100 new buses and to house them in the new Mount Dennis facility.
- TTC - Wheel Trans increase of $5.762 million or 9.1% is primarily due to a 7.8% increase in trip demand to maintain a 2% unaccommodated rate and COLA.
- Toronto Police Services increase of $33.272 million or 4.2% is attributed to annualized cost of 250 uniformed officers hired in 2006; uniformed and civilian salary settlement adjustments; and 90 new court security officers for 15 new Provincial courtrooms opening in 2007.

Corporate expenditures increased by $60.358 million representing 32% of the total 2007 Operating Gross Budget change over 2006. Debt Service Charges were the principal cause of this increase. Debt Service Charges increased by $69.610 million or 14.6% reflecting the annualized debt repayment of the 2006 Approved Capital Budget. This increase was partially offset by a decrease in Tax Deficiency Write-off expenses.

Where the 2007 Gross Expenditures are Spent

Chart 3 reveals that only 18% of the 2007 BC Recommended Operating Budget is allocated to municipal services. Provincially Mandated Programs represent approximately one-third of the budget which confirms that much of the City's resources is diverted from core municipal services. Together, Transit and Emergency Services account for another 32% of the City's total expenditure budget. The above pattern is consistent with prior years. Going back to 1998, Transit, Emergency Services, and Provincially Mandated Programs have approximated 70% of the City's expenditures.

Chart 3
2007 Gross Expenditures by Service Type



2007 Budget Committee Recommended Net Operating Budget

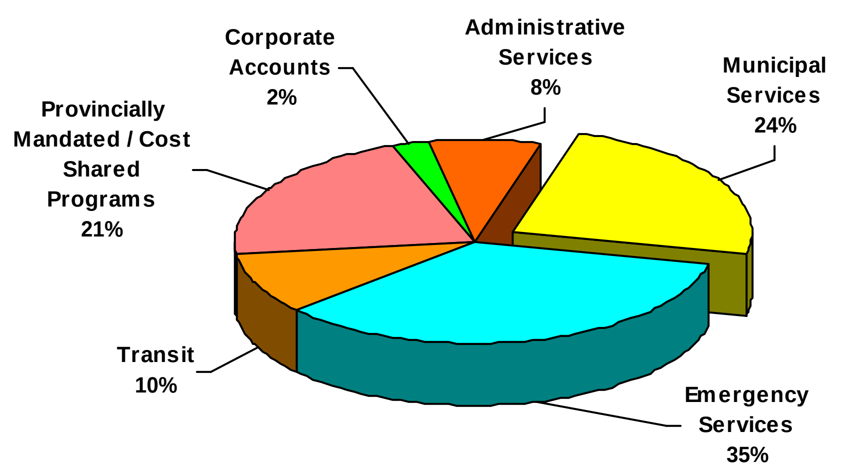
After applying non-tax revenues including provincial and federal subsidies, user fees and reserve draws, the remaining gross operating budget is funded by property taxes (herein referred to as the net budget). The 2007 Recommended Net Operating Budget is $3.221 billion, representing an increase of $89 million or 2.8% over 2006

As a proportion of the gross operating budget, the net budget has declined consistently from a high of 46% in 1999 to 41% in 2007. This reflects the fact that the City has had to rely increasingly on non-tax revenues to fund operating budget increases. In particular, it has had to draw on reserves to fund the growing gap in recurring revenues.

Chart 4 illustrates where the 2007 Budget Committee Recommended Net Budget will be spent. As indicated in the Chart, 24% of the net budget is committed to Municipal Services, compared to 34% to Emergency Services. Approximately one quarter of the net budget is allocated to Toronto Police Services. Note that 21% of the net budget is allocated to fund provincially mandated programs. In effect, two-thirds of the 2007 property tax levy will be spent on Provincially Mandated Programs, Transit and Emergency Services. The Emergency Services, TTC and Provincially Mandated Programs continue to bear the greatest pressures on the City's tax base.

Toronto Police Service and TTC's 2007 Net Operating Budgets increased by $33.037 and $31.242 million, respectively. Together, these ABCs' net budget increases total $64.279 million which accounts for 89% of the recommended tax increase of $72.617 million.

Chart 4
2007 BC Recommended Operating Net Budget by Service Type



2007 BC Recommended Operating Budget – Approved Positions:

In accordance with the City's Financial Policies, all approved positions are accounted for and tracked in the Operating Budget. In total 50,184.6 approved positions are recommended for the year 2007, representing an increase of 738.1 positions or 1.5%. Of the total, 1,851.6 positions are fully dedicated to the Capital Program. Approved positions are required to deliver City services and service levels total 48,333.0 of which 46,251.3 are for delivery of property tax levy supported Programs, and 2,081.7 for rate supported programs.

As shown in Table 7 below, approved positions for tax supported Programs reflect an increase of 526.6 positions or 1.2%. The recommended approved position increase for City Operations is 117.2 of which 111.1 or 95% is attributed to Citizen Centred Services "A". The Citizen Centred Services "A" positions are mainly in Parks, Forestry & Recreation for the second phase of the After-School Recreation care Program, the initial roll-out of the Program's Safety and Security Plan, continuing the Toronto Urban Farm initiative, cleaning up ravines/watercourses and instituting a Park Ranger Program as well as maintaining Toronto's beaches and waterfront, implementing the 'Investing in Families' program maintaining the City's natural environment areas and funding the operating impacts of capital projects. Citizen Centred Services "B's" recommended complement of approved positions represents a net decrease of 20.1 positions primarily in Solid Waste Management Services.

Table 7
2007 Budget Committee Recommended Positions (Operating Budget)

Program / ABCs	2006 Approved Positions	2007 Recommended	Change from 2006	% Change from 2006
Citizen Centred Services "A"	11,651.8	11,762.9	111.1	1.0
Citizen Centred Services "B"	7,343.5	7,323.4	(20.1)	(0.3)
Internal Services	2,135.4	2,159.6	24.2	1.1
City Manager's Office & Other City Programs	1,252.5	1,254.5	2.0	0.2
Total City Operations	**22,383.2**	**22,500.4**	**117.2**	**0.5**
Agencies, Boards & Commissions	23,341.5	23,750.9	409.4	1.8
Total Levy Operations	**45,724.7**	**46,251.3**	**526.6**	**1.2**
Rate Supported Operations	**2,076.1**	**2,081.7**	**5.6**	**0.3**
Total Recommended Positions*	**47,800.8**	**48,333.0**	**532.2**	**1.1**

** Note that 1,851.6 positions dedicated to theCapital Program are not included in this Table.*

Overall, recommended approved positions for ABCs reflect an increase of 409.4 positions or 1.8% compared to 2006. This approximates 77% of the total increase of 532.2 positions. The ABC increase is mainly attributed to the following:

- TTC – increase of 395 positions primarily to support ridership growth levels; operation of 100 new buses and opening of the Mount Dennis Bus Garage;

- Toronto Police Service – increase of 125 positions, of which 90 are due to increased Court Security Officer positions for 15 new Provincial courtrooms to comply with mandatory Provincial requirements;
- Toronto Public Health – decrease of 169.5 positions primarily due to the 5% cap of growth funding for mandatory cost-shared programs in the area of new/enhanced services that were approved in 2006.

In total, the Budget Committee is recommending a complement of 48,333.0 positions to deliver services and service levels funded by the 2007 Operating Budget. This complement level represents an increase of 532.2 or 1.1% over the 2006 approved complement of 47,800.8 positions. A briefing note that discusses approved position changes incorporated in the 2007 Operating Budget is available on the City's website at www.toronto.ca/budget2007/briefingnotes_operating.

User Fees and Charges – Revenue Impact of Price Changes

The City of Toronto Act 2006 empowers the City to impose user fees and charges, and to increase the price of such fees and charges in order to recover the cost of services. While a significant number of fees and charges have already been approved by City Council through the Planning Act, the Building Code and other specific City by-laws, several are being introduced in, or were referred for consideration during the 2007 budget process. Table 8 summarizes the reasons for user fee adjustments, and the resultant incremental

Table 8
2007 User Fees and Charges - Price Change Summary
Incremental Revenue Impact

Program	Reason for Price Change	2007 Estimated Revenue Increase ($Million)
Parks, Forestry and Recreation	Inflation, Cost Of Living, cost recovery	1.113
Emergency Medical Services	Cost recovery	0.063
Solid Waste Management Services	Inflation	0.010
City Planning	Inflation, Cost Of Living	0.707
Toronto Building	Cost Of Living	0.761
Municipal Licensing and Standards	Inflation	0.273
Transportation Services	Cost Of Living, full cost recovery, service fee comparison	0.181
Office of the Treasurer	Cost recovery	0.002
City Clerk's Office	Service fee Comparison	0.003
Toronto Public Health	Cost recovery	0.200
Exhibition Place	Service fee comparison	0.601
Theatres	Inflation	0.104
Total 2007 Incremental Revenues		**4.019**

revenue estimates to be generated in 2007.

The 2007 Recommended Operating Budget includes user fee changes in various programs. These price changes are recommended in order to achieve full cost recovery in accordance with Council's direction, to adjust for inflation, policy objectives, and service comparison with other suppliers. In most cases, the fees were increased by the rate of inflation

The incremental revenues from increasing fees and charges are estimated at $4.020 million. Increases in the majority of fees are based on the consumer price index and cost of living increases, such as recreation fees, building permits and zoning fees. However, a significant number of fees are being increased in order to achieve full cost recovery, for example, medical emergency services fees, golf fees, rifle range fees and Food Handler Training program fee. Exhibition Place admission and parking fee increases are primarily based on market comparison. New fees are recommended for Waterfront weekend parking and for Municipal Road Damage deposits. (Note that a detailed analysis of 2007 changes to user fees can be viewed on the City's Website at www.toronto.ca/budget2007/briefingnotes_operating.)

Overall, 2007 budgeted revenues from user fees and charges total $1.204 billion (inclusive of TTC). This represents an increase of $28.7 million or 2.4%. User fee revenues generated from volume increases approximate $24.7 million of this amount.

What's in the 2007 Budget - Highlights:

The 2007 Budget Committee Recommended Operating Budget is a viable and prudent budget, which maintains core services, and demonstrates the City's commitment to delivering services that residents want in a cost effective manner. Though limited, this budget contains investments in key City building initiatives that are aligned with the Mayor's mandate and Council's policy agenda. The following highlights key services and initiatives included in the 2007 Budget Committee Recommended Operating Budget:

Public Safety

- City funding for Toronto's Joint Chemical, Biological, Radiological and Nuclear Response (CBRN) Team will be continued for 2007 with a request to the Federal Government to fund the Emergency Preparedness Program ($0.348 million).
- The annualized cost of 250 new Police Officers hired and trained in 2006 will be funded to provide a full complement of 5,510 officers in 2007 ($7.600 million).
- 90 new Court Officers will be hired to provide court security in 15 new Provincial courtrooms to accommodate the provincially mandated security requirements for the new Provincial courtrooms within the City of Toronto ($3.530 million gross and net).
- 8 paramedics will be added to improve EMS response time to 70% from 68% (in 2006) within 9 minutes.

- 44 additional red light cameras ($1.202 million gross, $2.539 revenue for a net of -$1.337 million) will be added to the current 47 cameras which will improve the safety at intersections controlled by traffic signals. The existing red-light cameras have been successful in reducing right-angle collisions resulting in personal injury or death by 48%.
- 11 new Special Constables to support the TTC's Subway Zone Patrol Strategy will be added for a total of 125 constables ($0.450 million).

Transit and Transportation

- The appearance of roadway and roadside areas will be improved by Mechanical Weed Control on sidewalks and boulevard as a Clean & Beautiful City Initiative ($0.125 million gross and net).
- TTC transit services for 18 million additional riders will be provided for a total of 454 million riders to be serviced in 2007 ($7.900 million gross).
- 100 additional buses and a new Mt. Dennis Bus Garage to be operational in 2007, in keeping with the TTC's Ridership Growth Strategy ($3.300 million gross).
- Wheel-Trans specialized fully accessible transit services will be provided for 164,200 additional riders and a 2% unaccommodated rate will be maintained ($4.200 million gross, $3.953 million net).
- 4 By-law officers will be hired to enforce front yard parking infractions ($0.050 million gross and net) and funding will be derived from front yard parking fee revenue.
- 2 Roads Inspectors will be hired to administer the new Municipal Road Damage By-law ($0.080 million gross and -$0.019 million net).

Environment

- A comprehensive Western Waterfront Master Plan (new funding of $0.200 million in 2007) will be developed the area from Marilyn Bell Park to the Humber River.
- Beach and Waterfront Maintenance ($0.470 million gross and net) will improve the cleanliness of Toronto 20 public beaches.
- Tree Service Delays will be reduced from 10 – 12 months to 6 months ($0.932 gross and net).
- Ravine and Watercourse Maintenance with a Park Ranger Program ($0.795 million gross and net) will put teams into the ravines and natural areas to clean up debris and reduce illegal dumping.
- New tree plantings will be maintained in natural environment areas ($1.147 million gross and net) to give new trees & shrubs the care they require.
- The Toronto Energy Plan will guide future energy demand management and conservation initiatives will be developed in 2007 ($0.570 million gross, $0 net).

- Ontario Power Authority will provide incentives to achieve, through demand response measures, 20 MW of energy savings ($0.150 million gross, $0 net).
- The Toronto Green Development Standard to encourage the use of environmentally friendly design construction to reduce energy and water consumption, storm water runoff and the urban heat island effects will be implemented in 2007 (new funding of $0.170 million gross, $0 net).
- The City will host the Pedestrian Plan / Walk 21 International Conference to engage international pedestrian planning experts in the development of Toronto's Pedestrian Plan. ($0.367 million gross and net).
- The Toronto Bike Plan implementation will be accelerated and a new Pedestrian Plan will be developed with 4 new funded staff positions to support these initiatives ($0.287 million gross, $0 net).

Public Space Improvements

- A Design Review Pilot Project will be implemented in 6 pilot areas ($0.025 million new funding to be added to base funding of $0.090 million).
- A team for Union Station will be established to provide stewardship, renewal and revitalization of this heritage building ($0.683 million gross, $0 net).
- 1 additional full time staff will be hired to support a new Heritage Property Tax Rebate Program Initiative ($0.058 million gross and $0.018 million net) for applications estimated to total $3.5 million in 2007.
- A Public Space Beautification Plan for 11 major cultural institutions will be developed during 2007 ($0.125 million).
- Neighbourhood Beautification will be enhanced across the entire City (new funding of $0.594 million to be added to base funding of $0.066 million for a total of $0.660 million) (this will increase funding from $1,500 to $15,000 per ward).

Community and Neighbourhood Leisure and Wellness

- 23,844 subsidized day care spaces will be maintained to provide 27% of the children in need of child care services through municipal and community child care centres.
- Phase 2 of the After School Recreation and Care Program ($1.283 million gross, $0 net) will serve up to 3,600 children in 13 priority neighbourhoods. Investing in Families ($0.380 million, $0 net) will work with single parent families on social assistance to provide needed social supports to stabilize their lives.
- Toronto Urban Farm, in the Jane Finch neighbourhood, will continue to engage youth in farming, leadership development, and social entrepreneurship ($0.188 million gross and net).
- Live with Culture will continue in 2007, continuing youth programs, and culture marketing as well as developing a web based portal, with $0.590 million (gross and net) of funding applied from the International Profile initiative for no net budget

increase.

- An expanded Nuit Blanche event will take place in 2007, with reallocated funds of $0.321 million net and new funding of $0.300 million net for a total of $1.131 million gross and $0.621 million net.
- A special Dinosaur Exhibit will animate the Zoo this summer ($0.525 million gross, $0.675 million net revenue).
- New Waterfront parklands and sports fields will be maintained ($0.306 million gross and net).
- New facilities and new parklands will be maintained to City standards, including the maintenance of newly planted trees ($1.035 million gross and $1.023 million net).
- 100 Ontario Works clients will be provided skill building, work experience and support to move to longer term jobs ($2.0 million gross, $0 net).
- An additional $1.538 million will be invested in community capacity initiatives and culture activities within the Community Partnership and Investment Program.
- National Soccer Stadium will open this spring and will attract more visitors to Exhibition Place ($3.642 million gross, $0 net).

Public Service Improvements

- 6 positions will be added in Toronto Building to increase the percentage of building permit applications issued within legislated timeframes to 90% ($0.213 million gross, $0 net).
- A Project office will be established to implement recommendations of the IT Governance Review and improvement of the overall capability of IT services will be established ($0.834 million gross, $0 net).
- A corporate materials management strategy for divisional warehouse operations will be implemented ($0.363 million gross, $0 net).
- A Lobbyist Registrar's Office as mandated by the City of Toronto Act will become operational in 2007 ($0.241 million gross and net). Funding is provided for the Lobbyist Registrar and an Administrative Assistant beginning April 1, 2007.

2008 Outlook

The estimated incremental impact from the approval of the 2007 Operating Budget on the 2008 budget due to factors such annualized cost of base budget changes and in-year implementation of new and enhanced services, are summarized in Table 9 below. In total, these initiatives will result in a starting (known) budget pressure of $610.7 million in 2008.

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

Table 9
2008 Outlook - Incremental Impacts

	$Millions	
Expenditures Increases:		
- Cost of Living Allowance/Merit	120.0	
- Inflation	27.0	
- Debt Service Cost	47.5	
- Annualization and Other	42.3	236.8
Non-Tax Revenue Increase		(43.1)
Total Base Budget Impact		**193.7**
Unsustainable Budget Balancing Strategies:		
Provincial Assistance - Transit Operations		100.0
City One-Time		
- Hydro Note Revenues - Interest and Dividends	106.0	
- Non Program Reserve Draws	211.0	317.0
Total 2008 Outlook - Incremental Impacts		**610.7**

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

Council has directed that the 2008 Operating Budget be held at a *zero increase* over 2007. Given a starting budget pressure of $610.7 million, the City will continue to face a major challenge to balance the 2008 budget through austerity measures only. To complement the cost controls, service and program reviews, and continuous improvement initiatives in place, it is urgent that the City finds sustainable revenue solutions. As discussed above, to fix the structural deficit problem which results in significant budget pressures year after year will require revenues that grow with the economy, upload of provincially mandated social service costs, creation of a National Transit Strategy and new taxation measures under the COTA.

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ATTACHMENTS

Appendix 1	2007 Budget Committee Recommended Operating Budget: summary by Program
Appendix 2	2007 Budget Committee Recommended Positions in the Operating Budget
Appendix 3	Program Recommendations
Appendix 4	City Clerk’s Office Reports, Transmittals and Communications