TORONTO

STAFF REPORT
ACTION REQUIRED

2008 Budget Committee Recommended Operating Budget

Date:	March 04, 2008
To:	Executive Committee
From:	City Manager Deputy City Manager and Chief Financial Officer
Wards:	All
Reference Number:	P:\2007\Internal Services\FP\ec08005Fp (AFS #6061)

SUMMARY

The purpose of this report is to present the 2008 Budget Committee (BC) Recommended Operating Budget for City Programs, Agencies, Boards and Commissions, and to obtain Council's approval of the service levels and spending plans proposed therein. The recommendation results in a residential property tax increase of 3.75 % and a Commercial, Industrial and Multi-residential increase of 1.25%.

The 2008 Recommended Operating Gross Expenditure Budget is $8.170 billion and is funded primarily by Property Taxes (the net budget) totalling $3.322 billion. Compared to 2007, the 2008 Recommended Gross Budget reflects an increase of $310.614 million or 4.0%. The budget includes strategic investments in new and enhanced services of $56.703 million gross and $12.385 million net including public transit, waste diversion, public safety, community health and wellness, economic development and culture, and climate change.

In accordance with the Mayor's guidelines and directions, the 2008 Recommended Operating Budget continues the strategic process of balancing short-term needs against long-term objectives. For the first time since amalgamation, the 2008 Operating Budget was balanced when introduced by staff on January 28, 2008. This significant achievement was the culmination of Council's decision to introduce a municipal land transfer tax (MLTT) and a vehicle ownership tax (VOT) in the Fall of 2007; moderate increases in user fees without impairing access to services for the less privileged; savings from cost containment initiatives implemented in 2007 which will be continued in 2008; and successful negotiations for increased provincial assistance for public transit, in

particular. The 2008 BC Recommended Operating Budget maintains services and service levels needed by residents and businesses.

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RECOMMENDATIONS

The Budget Committee recommends that Council approve:

1. The 2008 Budget Committee Recommended Tax Supported Operating Budget of $8.170 billion gross and $3.322 billion net, comprised of the following:

   i. a Base Budget of $8.113 billion gross and $3.310 billion net as detailed in Appendix 1 to maintain current services and service levels; and,

   ii. $56.703 million gross and $12.385 million net, as detailed in Appendix 1 to invest in strategic new and enhanced services.

2. The Budget Committee 2008 Recommended Operating Budget for the Toronto Parking Authority totalling $63.498 million.

3. A residential property tax increase of 3.75% or $51.075 million and a commercial,

industrial, and multi-residential tax increase of 1.25% or $23.566 million.

4. The introduction of new user fees and charges, and changes to the price of existing user fees and charges included in the 2008 Budget Committee Recommended Operating Budgets of City Programs, Agencies, Boards and Commissions which will generate incremental revenues totalling $11.490 million.

5. The 2008 sinking fund levies of $192,652,253.83 for the City of Toronto and $2,293,802.99 for the Toronto District School Board.

6. The Recommendations for City Programs, Agencies, Boards and Commissions as detailed in Appendix 3 attached.

7. 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 2008 budget review meetings.

Financial Impact

Fiscal Challenges

In 2007, the City used a significant number of unsustainable revenue strategies to balance the operating budget. Reserve draws alone amounted to $282 million, which, when added to other one-time revenues including Provincial one-time funding for transit operations of $100 million and a reduction of Toronto Hydro revenues of $21 million, contributed $403 to the 2008 beginning budget pressure. On the expenditure side, uncontrollable or fixed costs such as inflation ($159 million), capital financing charges ($60 million) and other expenditures just to maintain services approved in 2007, resulted in an additional pressure of $200 million. Altogether, the impact of non-recurring revenues, the cost of maintaining existing services and service levels, and modest investments in new and enhanced services resulted in a budget pressure of $615 million (see Table 1).

Table 1 2008 Beginning Pressure		$Millions
Base Budget Changes:		
- Cost of Living Allowance and Step/Merit		120
- Inflation		39
- Capital Financing		60
- Annualization and Other Base and Revenue Changes		(19)
Total Base Budget Impact		**200**
2007 Non-recurring Budget Balancing Strategies:		
Provincial Assistance - Transit Operations	100	
Hydro Revenue Reductions	21	
Non Program Reserve Draws	282	
Total Non-Recurring Budget Balancing Strategies		**403**
2008 Base Budget Pressure		**603**
New and Enhanced Services		12
Total Pressure		**615**

2008 Budget Committee Recommended Operating Budget - Summary

The 2008 Operating Budget directions required staff to maintain existing services and service levels, and to restrict new investment to key initiatives that satisfy Council and the Mayor's priorities. Staff was further directed to continue the process of fixing the structural deficit and to bring forward a balanced operating budget. Consistent with the City's fiscal management practices, strategies to achieve the above objectives included continuation of the City's continuous improvement initiatives; increasing user fees to maximize cost recovery while ensuring protection of the most vulnerable; and most importantly, to reduce reliance on one-time revenues to fund operating expenditures.

As shown in Table 2 below, the 2008 Budget Committee Recommended Operating Budget of $8.170 billion is $310.6 million higher than the 2007 Approved Budget, representing an increase of 4%. The 2008 Budget Committee Recommended Operating Budget is funded primarily by Property Taxes of $3.322 billion, User Fees and Charges of $1.273 billion and Provincial and Federal Grants and Subsidies of $1.973 billion. It is noted that Property Taxes represent 41% of total revenues, approximately the same proportion as in 2007. Overall, property tax revenues are expected to increase by $101 million, including growth in assessment.

Table 2 2008 BC Recommended Operating Budget $Millions					
	2007 Budget $	2008 Budget		Change from 2007	
		$	% of Total	$	%
2008 BC Recommended Budget (Gross)	7,859.6	8,170.2	100.0%	310.6	4.0%
Less:					
Provincial and Federal Grants and Subsidies	1,823.6	1,972.6	24.1%	149.1	**8.2%**
User Fees and Donations	1,206.5	1,272.8	15.6%	66.3	**5.5%**
Reserves and Reserve Funds	571.3	272.4	3.3%	(298.9)	**(52.3%)**
New Taxation Revenues	-	175.0	2.1%	175.0	**n/a**
Other Non Tax Revenues	1,037.6	1,155.5	14.1%	118.0	**11.4%**
Net Budget - Property Tax Revenues	**3,220.7**	**3,321.9**	**40.7%**	**101.2**	**3.1%**

Balancing the 2008 Operating Budget

Table 3 below shows how the 2008 Operating Budget was balanced. Council's decision to institute a Municipal Land Transfer Tax and a Personal Vehicle Tax will generate new revenues of $175 million in 2008. These revenues are sustainable and therefore, will contribute significantly toward fixing the City's structural deficit. Savings resulting from efficiency reviews, service and service level adjustments, and continuance of the cost containment measures introduced in 2007, along with revenue increases will reduce the budget pressure by $73 million. In addition, it is projected savings from the 2007 cost containment measures along with other favourable variances will result in a 2007 operating surplus of $78 million, that will be fully utilized to reduce the 2008 budget pressure.

Ongoing negotiations with the Province to upload social services and to increase transit funding resulted in an increase in provincial funding of $188 million comprised of $39 million upload of the Ontario Disability Support Program and $149 million in additional transit funding. It is noted that the transit funding includes $49 million to fund part of the debt service cost associated with the Toronto Transit Commission (TTC) capital works program. Finally, assessment growth of $26.6 million (0.8% of the total property tax base) along with property tax rate increases which will generate revenues of $74.643 million will ensure a balanced budget in 2008. The tax revenues reflect a Residential property tax rate increase of 3.75%, which will generate incremental revenues of $51.075 million and a Commercial, Industrial, and Multi-residential tax rate increase of 1.25% or $23.566 million. On the total 2007 tax base of $3.221 billion, this represents a net tax rate increase of 2.3%, which approximates the City of Toronto rate of inflation.

To provide the services and service levels incorporated in the 2008 Budget Committee Recommended Operating Budget will result in a 2009 starting budget pressure of $532.8 million. The 2009 Outlook, which is discussed in detailed later in this report, indicates that the net financial impact of providing 2008 services and services levels is $183.4 million. On an $8.2 billion budget, this reflects a 2% increase which is quite reasonable. However, despite significant progress in mitigating the structural deficit problem that has existed since amalgamation, non-recurring revenues used to balance the 2008 Budget totals $349.4 million, and represent 66% of the estimated 2009 starting pressure.

Table 3
2008 Budget Balancing Strategies

		$Millions
Total Pressure		**615**
Cost Containment / Revenue:		
Prior Year Surplus including 2007 Cost Containment		(78)
2008 Annualized Cost Containment and Revenue Increases		(73)
Total Cost Containment and Prior Year Surplus		**(151)**
Adjusted Pressures		**464**
Provincial Upload:		
Social Services (ODB)	(39)	
Transit Operations and Debt Charges (One-Time)	(149)	
Total Provincial Upload		**(188)**
Net Pressure after Provincial Upload		**276**
City Taxation Revenues:		
New Taxes	(175)	
Assessment Growth	(26)	
Property Tax Increase - 3.75%	(75)	
Total Taxation Revenues		**(276)**
		0

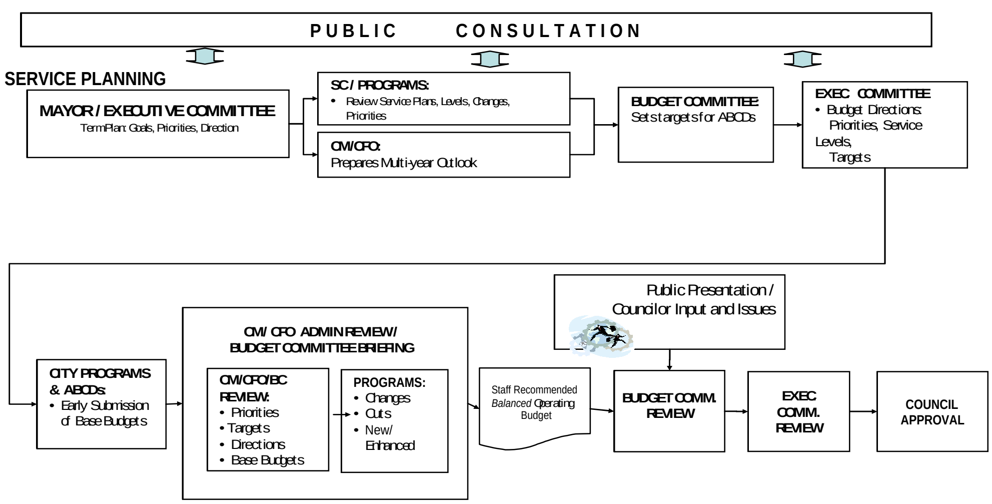
The 2008 Budget Committee Recommended Operating Budget achieves the major goals of maintaining services while controlling expenditures and addressing the structural deficit challenge that has prevailed since amalgamation. It is anticipated that the ongoing Provincial / Municipal Fiscal and Service Delivery Review, which will be completed in the spring of 2008 will result in permanent funding for transit operations and increased upload of social services costs. Should this materialize, the structural deficit problem will be substantively addressed beginning with the 2009 Operating Budget.

COMMENTS

The City's Financial Planning Process

The City of Toronto Council Approved Financial Planning Process is based on sound financial and service planning principles and best budgeting practices. The process, which is illustrated in Chart 1 below, was designed to provide a longer-term view, and to emphasize the need for upfront priority-setting, service reviews and public consultation to guide the formulation of the City's budget. It focuses on linking resource allocation decisions to results and outcomes. Service Planning is the stage of the City's financial planning process where service directions, objectives, priorities, strategies and challenges are established and / or confirmed. Furthermore, it is at this stage that service levels are defined, reviewed or validated in the context of City priorities and strategies, public demands and resource availability. In summary, Service Planning is a process through which high-level strategies are operationalized, and City and community objectives are aligned with service delivery plans. It is a key tool that supports informed decisions about services and service levels, and ensures the best use of available resources to achieve strategic directions.

Chart 1
City of Toronto
Financial Planning Process



As a key element of the financial planning process, Service Planning was scheduled for full implementation in 2008. However, because of many competing challenges the Service Planning Process was only piloted. Overall, the pilot was quite useful. It positioned staff to better articulate services, service standards and confirmed the value of a common, consistent and coordinated approach. The 2008 pilot was, in effect, a good start in advancing a multi-year service-based model to be used for planning, budgeting and evaluation of how services are delivered.

The operating budget process as depicted in Chart 1 was designed to ensure that the City's resources are utilized in a manner that produces results in a responsible and measurable way. Key elements of the 2008 operating budget process included the following:

- On behalf of the Executive Committee, the Mayor provided upfront directions to bring forward a balanced operating budget that fulfills Council's strategic policy agenda by aligning resources to priorities that are based on sound financial management principles, and meet budgetary targets;
- Prior to finalizing the recommended budget, the Budget Committee members would undertake 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, would hold formal meetings / hearings to receive public presentations and input from Councillors on matters and issues of interest and, where warranted, would make changes to the staff recommended budget;
- The Budget Committee would recommend a balanced budget to the Executive Committee. This budget should demonstrate strategic alignment of resources to Council priorities, highlight expected results and outcomes, and should incorporate strategies adopted to resolve the structural deficit problem;
- The Executive Committee's review of the budget should focus on major fiscal and policy issues and should confirm the budget as a strategic financial plan that will implement Council policies and priorities; and,
- On behalf of the Executive Committee, the Mayor will present the 2008 Operating Budget to Council.

Monitoring and Improving Services

Another key element of the City's financial planning process is to set performance targets and to measure actual performance against these targets. This is especially significant as the City moves toward a full performance based, multi-year financial planning process. The City uses a number of methods to monitor and improve its services, and to support strategic decisions on allocation of its limited resources. These include:

- Performance measurement and benchmarking;
- Program reviews;
- Enhanced internal controls and audit reviews; and,
- Encouraging a climate of continuous improvement.

Performance Measurement and Benchmarking

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 achieved and how efficiently and effectively services are being delivered.

The City measures the performance of delivering City services both internally over a number of years, and externally in relation to other Ontario municipalities. This includes an examination of the service levels provided to citizens, as well as performance in terms of efficiency, customer service/quality and community impact or outcomes.

Toronto is one of fifteen cities and regional municipalities in Ontario that work together under the Ontario Municipal Chief Administrative Officers (CAOs) Benchmarking Initiative (OMBI). These cities and regions together represent 72% of the province's population for regional services and about 40% for local services such as Fire, Parks and Recreation, and Libraries. The City Manager will be reporting on Toronto's 2006 performance measurement and benchmarking results at the Executive Committee's April meeting.

In addition to the work being done with other Ontario Municipalities, Toronto has also been part of a pilot project initiated by the World Bank involving nine North and South American Cities. The Cities Indicator Initiative involves development of measures of city service delivery and quality of life indicators. This work is still in the early stages with challenges in consistency of technical definitions and data sources between countries, but in time, it has the potential to provide Toronto and other cities with a valuable mechanism to more broadly assess, compare and share information and move to world-wide performance measurement.

Program Reviews

Each year Program Reviews are undertaken to ensure that City programs and services respond to the community's needs, continue to be relevant and are delivered effectively and efficiently. These Program Reviews involve:

- Documenting existing program purpose, outcomes expected, legislative base;
- Gathering evidence of relevance & cost competitiveness;
- Projecting future needs;
- Identifying gaps and solutions to close those gaps;
- Validating through a due diligence process; and,
- Consulting stakeholders throughout the process.

The table below summarizes those reviews that have been recently completed, are underway, or are candidates for future reviews.

Table 4 Programs Review Schedule			
Program Review	**Completed**	**Underway**	**Future Candidate**
Children's Services – organizational restructuring	**2006**	-	-
Court Services – administrative restructuring	**2006**	-	-
Human Resources – new mandate & organizational restructuring	**2006**	-	-
Strategic Communications – new mandate & organizational restructuring	**2006**	-	-
Social Development, Finance & Administration – Community Partnership & Investment Program Standards and Performance Measures Update	**2006**	-	-
Economic Development, Culture and Tourism – to provide clarity of mandate, priorities & structure and outline options for the future	**2006**	-	-
Parks, Forestry & Recreation – review full cost model for recreation programs	**2007**	-	-
Information & Technology – organization review and service rationalization	**2007**	-	-
Toronto Animal Services – review of appropriate placement within admin. structure, service needs, etc.	**2007**	-	-
Accounting Services – review organizational structure and services	-	✓	-
Integrated Inspection, Enforcement and Prosecution – review the eight divisions	-	✓	-
Fire Services and Emergency Medical Services – review management & administrative structures	-	✓	-
Facilities	-	✓	-
City Planning	-	✓	-
Fleet Services	-	-	✓
Transportation Services – review programs and activities	-	-	✓
Shelter, Support and Housing Administration			✓

Internal Control and Audit Reviews

Both the Internal Audit Division within the City Manager's Office, as well as the Auditor General's Office develop annual work plans for internal control and audit reviews to be undertaken.

Internal Audit reviews City Programs with significant exposure to risk and helps strengthen risk management and internal control systems. In the past two years, over thirty reviews have been completed and internal controls enhanced in areas such as contract management, the construction tendering process, the collection of accounts receivable, purchasing, and hiring practices.

The Auditor General's Office also conducts various operational reviews and in the past five years, over sixty reviews have been completed. Of the 844 recommendations made by the Auditor General's Office since 1999, approximately 81% have been implemented by the City as of July 2007. Provincially-Mandated Programs have also been independently audited.

Continuous Improvement

All City Program areas continue to examine operations for ways to improve their efficiency and effectiveness in support of a culture of continuous improvement. The City's efforts have been recognized by a number of external organizations with many awards such as the Public Sector Quality fair awards; the Government Finance Officers of America (GFOA) awards; and the Recycling Council of Ontario awards.

The establishment of 3-1-1 services for the public is another example of continuous improvement initiative. This has involved working with five City divisions to re-engineer processes and identify service standards for service requests, and when 3-1-1 becomes operational by the fourth quarter of 2008, compliance with these standards will be measured.

2008 Budget Directions and Guidelines:

A major goal of the 2008 budget process was to continue work to eliminate the structural deficit. The Mayor directed staff to develop a fiscally prudent and responsible budget that ensures approved services are delivered in a cost effective manner, and that mandated service levels are protected. On behalf of the Executive Committee, the Mayor provided the following specific directions and guidelines for consideration in developing the 2008 Operating Budget:

- Achieve a *zero net base budget increase* over the previous year for all City Programs, Agencies, Boards and Commissions;
- Continue implementation of the City's continuous improvement initiative which includes program reviews, efficiency reviews, and performance results to find savings of at least $40 million;
- Protect services and service levels that are aligned to the Mayor's mandate and Council's priorities;
- Increase the 2008 contribution to the capital fund by $12.4 million in order to reduce reliance on debt financing and the resultant debt service impact on the operating budget;
- Consider only investments in new and enhanced services that are aligned to Council's highest priorities and those that are 100% or substantively funded by the Federal government, Provincial government or other funding partners;

- Avoid funding Provincial cost-shared programs from the property tax base and use any gains from uploading of Provincial programs to mitigate the structural fiscal deficit;
- Where feasible, introduce new user fees or increase existing user fees to recover the full cost of services that confer a direct or special benefit to an individual, identifiable group or business; and,
- Given the significant, prevailing structural deficit, use Toronto Hydro Revenues (dividends and interest earnings) as an operating revenue source.

To complement the Mayor's direction, the City Manager and Deputy City Manager & Chief Financial Officer prescribed the following administrative guidelines, which apply to all City Programs and ABCs:

- At a minimum, maintain the gapping rate incorporated in the 2007 Council Approved Operating Budget;
- If the zero net base budget is not achievable, full justification must be given;
- Budget fringe benefits based on the 2007 experience, but not to exceed 24.8% (of salaries and wages) for permanent staff and 11% for recreation and casual staff; and,
- Continue the 2007 approved cost containment initiative into 2008 in order to arrive at a balanced budget.

How the Budget was Developed

The starting assumption for developing the 2008 Operating Budget was that services and service levels approved in 2007 would be maintained wherever possible. To estimate the cost of maintaining these services and service levels, the 2007 Approved Budget was adjusted to annualize initiatives that were implemented and funded for part of the year, and to reverse one-time expenditures and revenues. Next, the base budget was adjusted for inflation to estimate the cost of continuing to provide the approved 2007 services and service levels in 2008.

The City Manager (CM) and Chief Financial Officer's (CFO) 2008 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 2008 budget process, therefore, required decision support information about base services and sound justification for any base budget change, as well as for any proposed investment in new and enhanced services.

Inflation/Economic Factors

As indicated above, the 2008 Operating Budget was developed based on the direction that services and service levels approved in 2007 should be maintained. Based on this premise, a key element of the budget process was to forecast inflationary or economic factors that should be applied against 2007 expenditures in order to estimate the 2008 cost of continuing to provide the prior year approved services and service levels.

The City consumes a wide range of commodities with varying inflationary impacts to provide its services. Some goods and services are quite volatile when compared to the general rate of inflation, as is the case with gas and oil products. As a result, the City uses a commodity specific price schedule that is more reflective of the behaviour of specific goods and services on which it spends substantive amounts.

The economic factors used in producing the 2008 Budget Committee Recommended Operating Base Budget are listed in Table 5. It is noted that contracts with fixed prices over their term are not adjusted for inflation. Where contracts specify 2008 prices, such expenditures are adjusted in the operating budget to reflect the contracted price for 2008. Also notable is that at $0.8457 per litre, the TTC signed a favourable contract for diesel, resulting in a price decrease of 1.2% compared to 2007. The Financial Planning Division will continue to monitor all economic factors throughout 2008 and will recommend appropriate adjustments, if warranted.

Table 5
2008 Operating Budget
Inflation / Economic Factors

Printing & Paper Products	0.0%
Food	4.4%
Hydro	3.0%
Steam Heating	4.0%
Gas	3.0%
Diesel - TTC	(1.2%)
Diesel - Other	3.0%
Natural Gas	0.0%
Water	9.0%
Postage	1.9%
Telephone	2.3%
Aggregates - Bldg/Trade Mat.	5.0%
Salt	5.0%
Medical Supplies	5.0%
Contracted Services	Per contract
General	2.0%

Administrative and Budget Committee Review

The City Manager and Deputy City Manager & Chief Financial Officer conducted a detailed review to confirm compliance with Council priorities, budget policies, directions and guidelines. To initiate and support this review, the Financial Planning Division

(FPD) analyzed submissions from Programs and ABCs to ascertain that base services were maintained, 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, and aligned to Council's policy agenda and the Mayor's priorities.

As a result of this review, further service delivery efficiencies and other cost saving measures totalling about $40 million were achieved. This is especially significant given that City programs and ABCs have been realizing savings averaging $66 million annually since 2001.

Several City Programs and ABCs were not able to achieve the *zero* net budget target without impacting municipal services and service levels and those services that are aligned to the Mayor and Council's priorities. In the interest of protecting services, strategies to balance the operating budget by addressing the revenue problem were considered. These included the approval of new taxation revenues totalling $175 million, increasing user fees by $11.4 million, negotiating increased funding from the Province by $188 million and proposing moderate tax increases of $75 million. Through expenditure containment and revenue fixes, the CM and CFO presented a balanced operating budget to the Budget Committee for the first time since amalgamation.

Finally, the Staff Recommended Operating 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 the City Manager and Chief Financial Officer. In particular, BC acknowledged that deeper cuts to achieve the *zero* target would compromise municipal services that constitute the mandate of the City, while continuing to subsidize downloaded and under funded provincially mandated social services.

One significant change made by the BC was to revise the user fee increases proposed by Parks, Forestry and Recreation. It was determined that certain user fee increases were too significant and would negatively impact users of recreation services. The original 2008 Recommended Parks, Forestry and Recreation budget included an average 21% increase to fees (over the 3% cost of living adjustment). Budget Committee directed City staff to consider lower recreation and permit fees. As a result of this request, an across-the-board increase of 5% over the 3% COLA adjusted 2008 rates for all recreation user fees and permit fees (with all free permit policies and discount rate structure remaining in effect) has been recommended by the Budget Committee.

Budget Overview

2008 Budget Committee Recommended (Gross) Operating Budget

The 2008 Budget Committee Recommended Operating Budget is $8.170 billion representing an increase of $310.614 million or 4% over 2007 (see Table 6). Salaries and benefits of $3.935 billion constitute the largest expenditure component, approximating

48% of the gross expenditure budget. Salaries and benefits increased by $157 million or 4.2% over 2007. The major funding sources are property tax revenues, user fees, and provincial and federal grants and subsidies.

Table 6
2008 Budget Committee Recommended Operating Budget
By Category ($Millions)

	2007 Approved Budget	2008 Recommended Budget		Change from 2007 Approved Budget	
		$	%	$	%
Gross Expenditures					
Salaries and Benefits	3,777.7	3,935.1	48.2%	**157.4**	**4.2%**
Materials and Supplies	438.7	462.9	5.7%	**24.2**	**5.5%**
Equipment	43.4	40.6	0.5%	**(2.8)**	**(6.5%)**
Services and Rents	1,095.1	1,162.8	14.2%	**67.7**	**6.2%**
Contributions and Transfers	1,549.3	1,521.0	18.6%	**(28.3)**	**(1.8%)**
Other (Includes IDCs)	955.4	1,048.1	12.8%	**92.7**	**9.7%**
Total Gross Expenditures	**7,859.6**	**8,170.4**	**100.0%**	**310.9**	**4.0%**
Funded By:					
Provincial and Federal Grants and Subsidies	1,823.6	1,972.6	24.1%	**149.1**	**8.2%**
User Fees	1,206.5	1,272.8	15.6%	**66.3**	**5.5%**
Reserves / Reserve Funds	571.3	272.4	3.3%	**(298.9)**	**(52.3%)**
New Taxation Revenues	-	175.0	2.1%	**175.0**	**n/a**
Other (Includes IDRs)	1,037.6	1,155.7	14.1%	**118.2**	**11.4%**
Total Non-tax Revenues	**4,638.9**	**4,848.5**	**59.3%**	**209.6**	**4.5%**
Net Buget - Property Tax Revenues	**3,220.7**	**3,321.9**	**40.7%**	**101.2**	**3.1%**

Gross Expenditures for City Operations increased by $110 million or 2.5%, compared to $95 million or 3.7% for Agencies, Boards, Commissions. Non Program expenditures increased by $105 million or 11.3%. Major contributors to these increases are as follows:

City Operations:

- Children's Services ($19.405 million gross or 5.7% increase) – this increase is attributed primarily to cost of living allowance and inflationary adjustments, purchase of 500 additional child care spaces under the Ontario Works Advanced Child Care Start-up Benefits, and completion of the Aboriginal Child Care Centre;
- Homes for the Aged ($13.697 million or 7.1% increase) – key cost drivers include COLA, fringe benefits and harmonization costs of part-time union staff;
- Parks, Forestry and Recreation Services ($17.084 million gross or 5.6% increase) – this is attributed to annualization of 2007 approved new services, union settlements and wage increases for exempt staff, non-labour inflation factors, operating impacts of new facilities and parkland, and investments in new and enhanced services;
- Fire Services ($15.024 million gross or 4.4% increase) - the increase is attributed to the full year impact of COLA for Firefighters' Local 3888, recognition pay, facility maintenance increases, and contributions to reserves for portable radio replacement increase; and,

- Solid Waste Management Services ($24.995 million gross or 9.9% increase) – this increase is attributed to annualized cost of new services approved in 2007, union settlements and wage increases for exempt staff, economic factors, and investments in new and enhanced services.

Agencies, Boards and Commissions:

The 2008 Operating Budget Expenditure increase for ABCs is primarily attributed to Toronto Police Service and TTC, driven by the following:

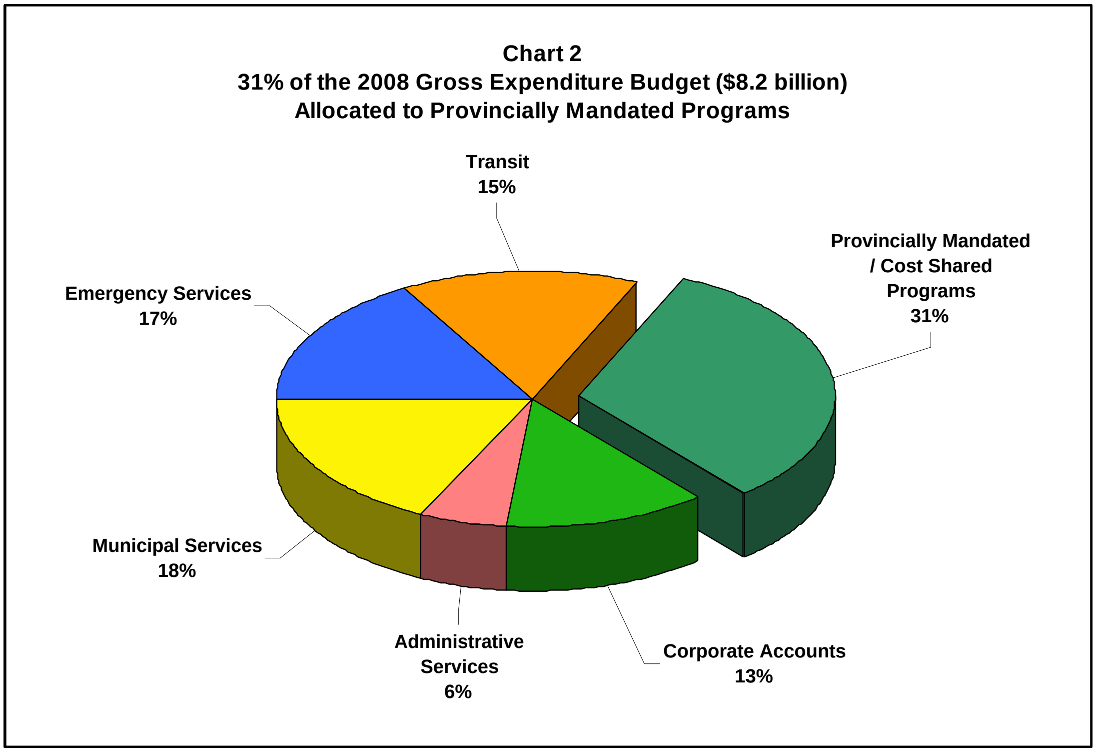
- TTC Conventional Services increase of $72.521 million or 6.7% (exclusive of cost of living allowance which is subject to collective bargaining), is attributed to annualized cost of 2007 approved new services, annualization of April 2007 wage increase, increase in pension contribution, non-discretionary expenditures for increased medical, dental & other benefits, increased accident claims, non-salary economic factors, and increase service costs to deliver 450 million rides in 2007.
- Toronto Police Service increase of $10.293 million or 1.2% (exclusive of cost of living allowance which is subject to collective bargaining) is attributed to increased fringe benefits, the annualized impacts of 2007 separations, replacements & reclassifications, the full year impact of 15 new provincial courts opened in 2007, and an increase reserve contributions for lifecycle replacement.

Corporate Accounts:

Corporate Accounts gross expenditures increased by $105.302 million representing 11.3% of the total 2008 Operating Gross Budget increase. Debt Service Charges were the principal cause of this increase. Debt Service Charges increased by $35.9 million or 8.9%, reflecting the annualized debt repayment of the 2007 Approved Capital Budget. In addition, contributions to capital increased by $12.4 million. Included in the Corporate Accounts is an estimate of COLA for the Toronto Police Service and TTC.

Where the 2008 Gross Operating Budget is Spent

Chart 2 reveals that only 18% of the 2008 Budget Committee Recommended Gross Operating Budget of $8.187 billion 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 to fund social services programs. Together, Transit and Emergency Services account for another 32% of the City's total expenditure budget. The above pattern has been consistent since amalgamation. It should be noted that Capital Financing of $598 million makes up the majority of Corporate Accounts.

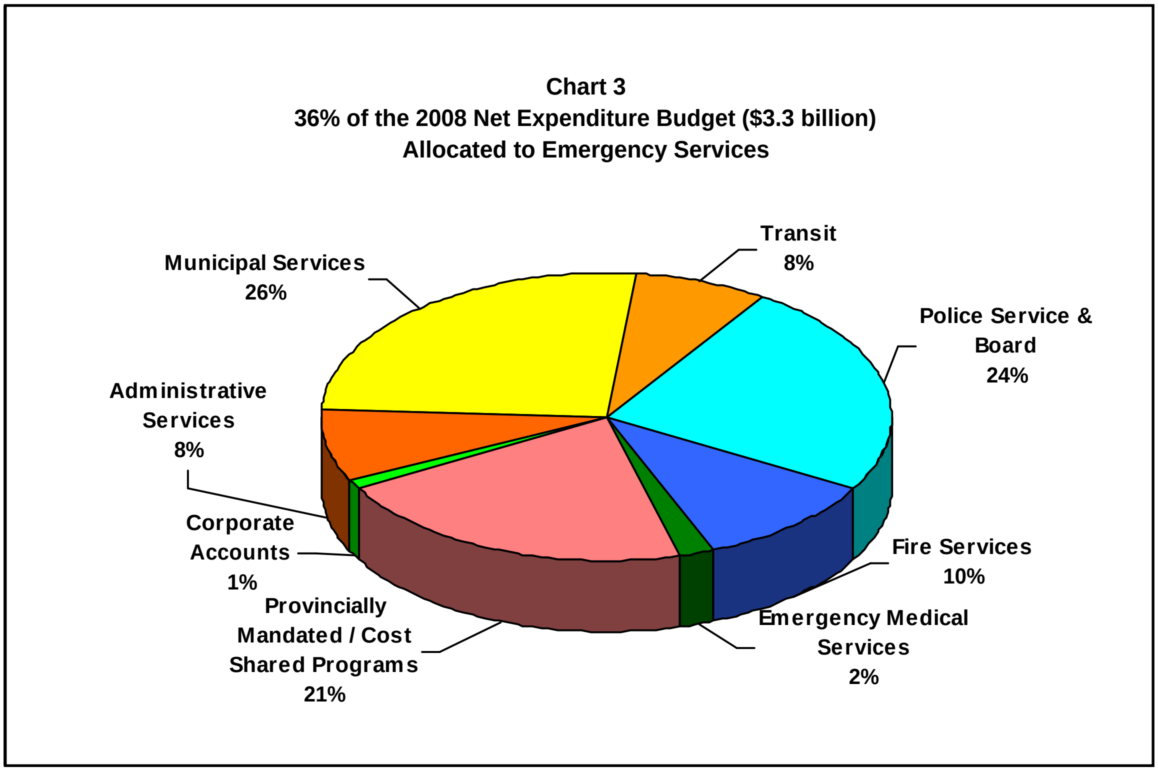


2008 Budget Committee Recommended Net Operating Budget

The Net Operating Budget (or Net Expenditures) refers to the amount of the City's total expenditures that are to be funded by property tax revenues (after other revenue sources are applied). The 2008 Recommended Net Operating Budget is $3.322 billion, representing an increase of $101.251 million or 3.1% over 2008.

It is noted that as a proportion of the gross operating budget, the net budget has declined consistently from a high of 46% in 1999 to 40.7% in 2008. The change in 2008 is mainly attributed to the introduction of the MLLT the VOT, which together will generate sustainable revenues totalling $175 million.

Chart 3 illustrates where the 2008 Budget Committee Recommended Net Budget will be spent. As indicated in the Chart below, 26% of the net budget is allocated to Municipal Services, compared with 36% to Emergency Services. Approximately 24% of the net budget is allocated to Toronto Police Services, and 21% to fund provincially mandated programs. In effect, two-thirds of the 2008 property tax levy will be spent on Emergency Services, Provincially Mandated Programs and Transit.



2008 BC Recommended Operating Budget – Approved Positions

As indicated in Table 7, a total of 48,743.9 positions, comprised of 44,529.6 permanent and 4,206.2 temporary positions, are required to deliver 2008 services through City Programs and ABCs. Compared to 2007, this represents an increase of 639.1 positions or 1.3%.

An increase of 634.4 positions or 1.4% over 2007 approved positions is recommended for Tax Supported Operations. The recommended approved position increase for City Operations is 246.1 of which 137.8 or 56% is attributed to Citizen Centred Services “A”, followed by 77.9 positions or 32% to Internal Services.

Citizen Centred Services “A” increase of 137.8 positions is primarily attributed to the following Programs:

- *Homes for the Aged - increase of 46 permanent positions* - 12 new positions to transition employees currently relying on WSIB back to work on modified duties; 20 new positions to respond to an increase in resident acuity; 14 new positions for Infection Prevention and Enhanced Nutritional and Support to ensure compliance with the new Long Term Care (LTC) Act.
- *Parks, Forestry and Recreation - increase of 65.5 positions* - this increase is primarily to operate new parkland and facilities coming into service.

Table 7 2008 Budget Committee Approved Positions				
Program / ABCs	**2007 Approved Positions**	**2008 Recommended**	**Change from 2007**	**% Change from 2007**
Citizen Centred Services "A"	11,770.0	11,907.8	137.8	1.2
Citizen Centred Services "B"	7,468.8	7,490.7	21.9	0.3
Internal Services	2,207.6	2,285.5	77.9	3.5
City Manager's Office & Other City Programs	1,266.0	1,274.5	8.5	0.7
Total City Operations	**22,712.4**	**22,958.5**	**246.1**	**1.1**
Agencies, Boards & Commissions	23,415.6	23,803.9	388.3	1.7
Total Tax Supported Operations	**46,128.0**	**46,762.4**	**634.4**	**1.4**
Rate Supported Operations	**1,976.8**	**1,981.5**	**4.7**	**0.2**
Total Recommended Positions	**48,104.8**	**48,743.9**	**639.1**	**1.3**

- *Social Services - increase of 32 temporary positions* - 24 temporary base positions are required to manage the projected increase in the monthly average caseload from 75,000 to 77,000 cases. An additional 2 temporary positions are required to support the Partnership to Advance Youth Employment program (PAYE), a joint initiative between private employers and the City of Toronto (50% funded by the Province) established to respond to the City's Safe Communities, Strong Neighbourhoods Strategy; and 6 temporary positions to support new service priority, Woodbine Entertainment Redevelopment.

The increase of 77.9 approved positions in Internal Services is mainly in the Office of the Treasurer and Facilities & Real Estate and is required for capital projects and implementation of new taxes and Solid Waste user fees:

- *Office of the Treasurer - increase of 33 positions* - 12 new temporary positions are required for the implementation of capital projects, and 21 new permanent positions are required to implement new initiatives such as the Municipal Land Transfer Tax, the design, development and sustainment of the Solid Waste Billing System and to support procurement activities in the Solid Waste Management 70% Diversion Program; and,

- *Facilities and Real Estate - increase of 42.9 positions* – primarily to provide the following new and enhanced services mainly attributed to capital projects: Sustainable Energy Plan; additional custodial services; corporate security services at Union Station and at various Toronto Water locations; Conservation and Demand Response; and, Union Station Revitalization Implementation.

Agencies, Boards and Commissions collectively require an additional 388.3 new positions to deliver their operating programs, representing a 1.6% increase over 2007.

The increases are predominately for TTC with an offsetting reduction in Toronto Public Health.

- *Toronto Transit Commission - increase of 422 positions* – primarily to support service requirements associated with an increase in ridership to 464 million riders; and, Ridership Growth Strategy – Off-Peak Improvements, which involves standardizing the hours of all surface routes to match the subway hours of operation from 6 a.m. to 1 a.m.

- *Public Health - decrease of 44.3 base positions:* 44 permanent and temporary positions are reversed for one-time 100% externally funded health services programs; 10 permanent and temporary positions are reduced as a result of efficiencies and service level reductions; and, a reduction of 3 permanent positions due to the re-organization of the Heat Alert Outreach Program. In addition, 12.7 positions are required to expand and enforce the Dog and Cat Licensing Strategy.

A briefing note that discusses approved position changes incorporated in the 2008 Operating Budget is available on the City's website at the following address: www.toronto.ca/budget2008/briefingnotes_operating.htm

User Fees and Charges – Revenue Impact

In accordance with the City of Toronto Act, 2006 and other relevant legislation, the City and its agencies, boards and commissions charge user fees to recover the cost of services when it is established that a direct benefit or advantage is conferred upon specific persons, businesses or groups of persons and not the citizens of Toronto as a whole. While a significant number of user fees and charges have already been approved by City Council, some fees and charges have been referred to the 2008 budget process.

Table 8 below summarizes incremental revenues from new, or changes to existing user fees by City Program and ABC. As indicated in the table, new user fees and changes to existing user fees proposed in the 2008 Recommended Operating Budget will generate revenues totalling $11.490 million in 2008. This is comprised of $8.182 million from increasing existing fees, and $3.308 million from new user fees. Existing user fees were adjusted either for inflation, to reflect market prices, or to recover the full cost of the respective user fee service. A detailed list and analysis of changes to existing user fees and new user fees introduced as part of the 2008 Operating Process is available on the City's Website at www.toronto.ca/budget2008/briefingnotes_operating.htm

Table 8
2008 Budget Committee Recommended Operating Budget
New User Fees and Recommended Price Change Summary
Incremental Revenue Impact

Program	Existing User Fees - Price Change	New User Fees	Total Incremental Revenues
Court Services		324,000	324,000
Economic Development, Culture & Tourism	48,600		48,600
Emergency Medical Services	21,245		21,245
Parks, Forestry & Recreation	816,900	2,341,501	3,158,401
City Planning	726,670		726,670
Municipal Licensing & Standards	523,100		523,100
Toronto Building Services	1,165,883		1,165,883
Solid Waste Management Services	-909,000		-909,000
Transportation Services	3,889,900		3,889,900
Office of the Treasurer - Revenue Services	1,848,000	642,340	2,490,340
City Clerk's Office	10,475		10,475
Toronto Public Health	0		0
Theatres - St. Lawrence Centre for the Arts	15,395		15,395
Toronto Zoo	25,000		25,000
Revenue Impact on Fee Changes	**8,182,168**	**3,307,841**	**11,490,009**

New Investments in the 2008 Operating Budget – Highlights

Despite the emphasis on cost containment and fiscal restraint in order to find permanent solutions for the structural deficit, limited and strategic investments in key initiatives that advance the Mayor's priorities and Council's policy agenda have been considered. The following highlights (by major themes) new and enhanced services and initiatives included in the 2008 Budget Committee Recommended Operating Budget which total $56.703 million gross, and $12.385 million net.

Public Transit

- Run all City bus routes from 6 am to 1 am on weekdays effective November 2008 ($2.616 million gross and net)
- Operate 100 new Ridership Growth Strategy buses to relieve peak overcrowding effective November 2008 ($1.000 million gross and net)
- Open new bus garage to house 100 new Ridership Growth Strategy buses ($1.996 million gross and net)
- Invest in improving the cleanliness and appearance of subway stations ($1.250 million gross and net)

- Reduce occupational injury rates by instilling safety as a culture in the TTC ($2.644 million gross and net)
- Establish Health and Wellness Program – to reduce absenteeism due to sickness and to improve the general physical well-being of TTC staff ($0.673 million gross and net)

70% Diversion

- To achieve the 70% Waste Diversion Target by 2010, ($16.849 million gross and $0 net), Solid Waste Management Services will:
  - Implement volume-based user fees for waste collection for apartments, condominiums and single family homes in order to encourage more reuse and recycling;
  - Provide single unit residences with larger recycling carts that will increase their ability to recycle. Multi-unit residences will also be provided with on-floor recycling carts;
  - Expand the range of recyclable materials in the blue box to include: polystyrene and plastic film which could divert 3500 tonnes annually;
  - Expand the Green Bin program to include apartments & condominiums;
  - Implement Collection of Usable and Durable Goods for all residents for reuse and recycling (once every two weeks); and
  - Establish a reusable goods drop-off centres to provide residents with a one-stop location for reusable goods.
- Honour City's stewardship of the environment by contributing to the Perpetual Care of Landfills Reserve Fund ($3.500 million gross and $0 net)
- Develop, maintain and support a new billing system to integrate the solid waste billing system with the current water billing system to produce one utility bill ($1.110 million gross and $0 net)

Climate Change

- Provide incentives to achieve, through demand response measures, 90 MW of energy savings, in partnership with Ontario Power Authority ($3.220 million gross and $0 net)
- Live Green Toronto - Establish a social marketing and local food campaign to assist Toronto's neighbourhoods and communities to take action on climate change ($0.800 million gross and net)
- Provide tree maintenance on 2,300 trees annually on Arterial / Main Streets and Commercial Areas ($0.700 million gross, $0 net and 1 position)

- Remove Tree Hazards on pathways, picnic areas and park entrances ($0.705 million gross and net and 3 positions)
- Provide funding for the Smart Commute Initiative to implement workplace-based transportation demand management strategies within Metrolinx ($0.280 million gross and $0.150 million net)
- Purchase Green Power to meet electricity requirements of City Hall ($0.500 million gross and net)
- Develop and implement a strategy to address forecast changes in weather patterns ($0.085 million gross and net)
- Establish dedicated financial portfolio management for the Sustainable Energy Plan initiatives ($0.238 million gross and $0 net)
- Establish Green Economic Sector Development Initiatives for the Toronto Discovery District - District Energy Assessment, the Municipal Green Vendors Trade Fare and the Green Manufacturing Action Team/Plan ($0.075 million gross and net)

Public Spaces

- Increase Neighbourhood Beautification project funding to $20,000 per ward ($0.220 million gross and $0 net), that will provide $3,000 per ward for a neighbourhood based community project and $17,000 per ward for Demonstration Projects that will transform and enhance neighbourhood
- Orphan Spaces Clean-Up – Implement Final Phase of maintenance of 360 landscaped orphaned areas on City streets and boulevards ($0.400 million gross and $0 net)
- Establish Public Realm Office – to improve the public realm including the deployment of over 3,500 new street furniture elements in 2008 ($3.598 million gross and $0 net)
- Open new Waterfront parkland and facilities ($0.799 million gross and net)
- Improve service delivery in Community Planning, Heritage Preservation Services, Urban Design and Transportation Planning ($0.500 million gross and net, and 12 positions)
- Establish Unit to begin implementing the Union Station Revitalization project ($0.410 million gross and $0 net)

Creative City

- Install Stingray Touch Tank Exhibit 2008, Toronto Zoo ($0.932 million gross, $1.024 million net revenue)
- Improve Nuit Blanche ($0.505 million gross and net)
- Begin planning for Bicentennial of War of 1812 ($0.048 million gross and $0.025 million net)

- Enhance funding for the Toronto Arts Council, Major Arts Organizations, Local Arts Services Organizations, and the Glenn Gould Protégé Award within the Community Partnership & Investment Program mainly to support the Culture Plan established in 2003. ($1.097 million gross and net)

Community Health and Wellness

- Enhance funding for the Community Services Partnership Program and the Service Development Program within Community Partnership & Investment Program to address inflationary pressures and increasing service needs for the Arts and emerging communities and priority neighbourhoods. ($0.467 million gross and net)
- Meet safety requirements as recommended by the SARS Commission Report in Homes for Aged for infection prevention and control demands ($0.544 million gross and $0 net)
- Enhance Nutritional and Support Services to ensure compliance with the new Long Term Care Act within Homes for the Aged ($0.670 million gross and $0 net)
- Increase support for the Streets to Homes Initiative to help people living on the streets find and keep housing ($0.116 million gross, $0 net, 1 position)
- Provide necessary training and supports to Ontario Work clients to find permanent employment through the Woodbine Entertainment Redevelopment project ($0.491 million gross and $0 net)

Public Safety and Security

- Increase reception relief coverage hours at Eastview Neighbourhood Community Centre to ensure security is maintained during weekend and evenings ($0.016 million gross and net)
- Enhance Central Ambulance Communication Centre contingency and disaster recovery planning at EMS ($0.160 million gross and $0 net)
- Establish Fleet Safety and Standards to ensure safe operation of City vehicles and equipment ($0.063 million gross and $0 net)
- Provide funding to the Native Child and Family Services Toronto to develop two aboriginal child care centres that will create an additional 66 child care spaces ($2.928 million gross and $0 net).
- Create new child care centres in three elementary schools that will provide up to 69 additional child care spaces for preschool children and school age children at each site ($2.0 million gross and $0 net)

Improving the Business Climate

- Introduce Financial Services Sector Strategic Initiatives to support the development of an International Centre for Financial Services Training and the Financial Services Information Technology Innovation Initiative ($0.100 million gross and net)

- Continued implementation of the Council Approved Tax Policy to reduce non-residential taxes.

<u>Sinking Fund Levy for 2008</u>

When the City issues debentures, the *City of Toronto Act 2006* requires that the principal repayment must be amortized over the term-to-maturity of the debenture or an annual amount be contributed to a sinking fund. Sinking funds are required by provincial legislation and established to ensure that adequate financing is available at a debenture's maturity. Currently, the City has three separate sinking fund portfolios (4%, 5% and 6%) associated with its debenture issues. Each portfolio represents a specific actuarial rate of return that is used in calculating the required annual contribution. The Sinking Fund Committee, consisting of four citizen members appointed by Council and the Chair who is the Deputy City Manager and Chief Financial Officer, is responsible for the administration and management of all sinking fund investment portfolios.

As Trustee of these portfolios, the Sinking Fund Committee exercises its fiduciary responsibility by achieving the specified actuarial rates of return while ensuring compliance with legislative and policy limits. This is accomplished through the prudent investment management of the annual sinking fund contributions, the re-investment of interest income, and achieving capital gains as appropriate.

Sinking Fund Levies for 2008

Section 255(4) of the City of Toronto Act 2006 states that:

"If in any year an amount is or will be required by law to be raised for a sinking fund or retirement fund of the City, the city treasurer shall prepare for city council, before the budget for the year is adopted, a statement of the amount.

Amounts required by by-law (as amended by the Ontario Municipal Board orders to reduce levies) to be raised in 2008 by Council for deposit in the City of Toronto Sinking Fund are provided for as follows:

City of Toronto	$ 192,652,253.83
Toronto District School Board	2,293,802.99

This requirement is addressed in this report. The sinking fund deposit for the City's requirements forms part of the City's 2008 operating budget and is included in Capital & Corporate Financing, "Debt Charges". While Council is required to levy the sinking fund deposit on behalf of the Toronto District School Board, it is not included in the City's operating budget as it is fully recovered from the TDSB.

2009 Outlook

Included in the 2008 Operating Budget is a number of items which will impact the estimated cost of providing the same level of services in future years. For instance, initiatives approved for part-year implementation in 2008 (for example, transit ridership growth strategy) will result in increased costs when the full-year financial impact is incorporated in future years. Similarly, unsustainable (non-recurring) revenues used as funding sources in the operating budget will result in budgetary pressures in future years when these revenue sources are no longer available. Table 9 below shows the incremental cost of providing in 2009, the same services and service levels proposed in the 2008 Budget Committee Recommended Operating Budget.

Expenditure increases to deliver the 2008 Council approved services and service levels in 2009 are primarily driven by inflation and cost of living allowances. It is estimated that inflation on goods and services, COLA, merit and step increases will approximate $147 million, annualization of new and enhanced services and other initiatives introduced in the 2008 Operating Budget will increase 2009 costs by $74.9 million. In addition, it is estimated that capital financing will increase by $46.9 million based on Council's approval of the 2008-2012 Capital Plan. The incremental cost of providing the 2008 approved services and service levels in 2009 is estimated at $268.8 million, which is the 2009 beginning budget pressure.

It is estimated that incremental revenues associated with the annualization of the Municipal Land Transfer Tax and the Vehicle Ownership Tax will generate an additional $50 million of sustainable revenues; while projected increase TTC Ridership Revenues will result in incremental sustainable revenue of $15.3 million, which will partially offset ridership growth expenditures. The Province has committed to upload the ODSP cost of administration which will reduce expenditures by $20 million. As shown in Table 9, the 2009 Operating Pressure before the impact of unsustainable revenues is $183.5 million.

Non-recurring revenues in the 2008 Budget Committee Recommended Operating Budget include: Provincial assistance for TTC of $149 million; unsustainable City revenues such as Social Programs' reserve draws of $37.5 million; and, the 2007 Surplus of $78 million used as a revenue source in the 2008 Operating Budget. These non recurring revenues total $264.5 million.

Thus, a number of one-time revenues will require permanent replacement in order to minimize the 2009 budget pressures. While the City's budgetary policies and good fiscal management practices preclude the use of one-time revenues in the operating budget, this was again necessary in 2008 because of the ongoing structural deficit problem. In effect, the non-recurring revenues will increase the beginning 2009 budget pressure to $448 million.

Table 9 2009 Outlook - Incremental Impacts		
	$Millions	
Expenditures Increases:		
- Inflation, Cost of Living Allowance and Merit	147.0	
- Capital Financing	46.9	
- Annualization and Other	74.9	268.8
Revenue Change:		
- TTC Increase Ridership	(15.3)	
- Further Provincial Upload - ODSP Administration	(20.0)	
- New Taxation Revenue Increase	(50.0)	(85.3)
		183.5
Unsustainable 2008 Budget Balancing Strategies:		
One-time Provincial Assistance:		
- Transit Operations	100.0	
- Transit Debt Service Costs	49.0	149.0
City One-Time		
- Reserve Draws - City Programs	37.5	
- Prior Year Surplus	78.0	115.5
2009 Outlook / Beginning Pressure		**448.0**

It should be noted that these non-recurring revenue impacts assumes continued utilization of Toronto Hydro Revenues which, according to Council policy, should be used to finance the capital program

2009 and Beyond Implementation of the Long Term Fiscal Strategy

Given a starting budget pressure of $448 million, it is evident that implementation of the City's long-term financial strategies is required in 2009 and beyond in order to achieve fiscal sustainability (see Chart 4 below).

Chart 4

Moving Toward Fiscal Sustainability

The City continues cost control measures and has introduced new taxation measures in moving toward fiscal sustainability. Some progress has been made with regards to uploading Social Services Programs and gaining recognition for increased transit operating funding. It is anticipated that the City's efforts to obtain fairer funding for provincially mandated services will be addressed in the Provincial / Municipal Fiscal and Service Delivery Review currently underway. Favourable resolution of the provincially mandated social services programs and the operating funding imbalance must resolve the prevailing fiscal deficit challenge for the City of Toronto in the short term.

In the longer term, to ensure growth and prosperity for the City of Toronto, we require a sharing of revenues that grow with the economy and the confirmation of a National Transit Strategy to meet strategic financing objectives.

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ATTACHMENTS

Appendix 1 – 2008 Budget Committee Recommended Operating Budget – Summary by Program

Appendix 2 – 2008 Budget Committee Recommended Positions - Operating Positions Only

Appendix 3 – Program Recommendations

Appendix 4 – City Clerk's Office Reports, Transmittals and Communications