

Appendix 5

2011 Budget Committee Recommended Tax Levy Operating Budget

2012 Outlook

Consistent with the practice in the past several years, the City has had to use significant one-time revenues to balance the 2011 Operating Budget. While major progress has been made to mitigate the City's structural shortfall, growth in recurring expenditures has outpaced growth in recurring revenues. In effect, the annual beginning pressure has been growing incrementally, despite successes in constraining expenditures.

The City has implemented sustainable expenditure reduction initiatives since 2006. Although some successes have been realized, revenue increases have not kept pace with the rate of inflation mainly because the City lacks diversified revenue sources and, in particular, revenues that grow with the economy. Key strategies used to address the structural shortfall include the following:

- Cost containment and expenditure control initiatives which are now permanent features of the financial planning process.
- Conducting comprehensive line by line reviews of all City Programs in order to find permanent cost savings.
- Negotiating responsible wage increases and containing sick pay costs.
- Uploading the City's share of cost-shared programs with the Province of Ontario.
- Introducing new user fees and increasing existing user fees in order to recover full cost, or a greater portion of the cost of providing services that benefit individuals or groups of individuals
- Service reviews and rationalization of service delivery approaches in order to identify efficiencies.
- Introducing new and sustainable taxes such as the municipal land transfer tax.
- Restructuring city debt in order to reduce the debt service cost burden on the annual operating budget.

As shown in Table 9 below, the 2012 Operating Outlook Pressure is \$643 million. One-time strategies used to balance the 2011 Operating Budget account for \$360 million or 56% of the 2012 Outlook Pressure. Cost of living allowances and other payroll cost increases total \$216 million, 64% of which is attributed to TTC and Toronto Police Service. Non payroll expenditure increases total \$198 million and is mainly comprised of inflation of \$50 million increased contributions to capital of \$55 million (including debt service charges of \$37 million), and other expenditures including the annualized impact of initiatives implemented part year totalling \$67 million. Altogether, reversal of unsustainable (one time) strategies and expenditure increases result in an Outlook Pressure of \$774 million before revenue increases.

**Table 9
2012 Outlook**

	\$Millions	
City One-time Prior Year Funding Strategies:		
Surplus		346
Reserve Draws		14
Total Unsustainable Revenue Strategies		360
Expenditure Increase - Payroll:		
Cost of Living Allowance and Progression Pay	138	
Fringe Benefit Liabilities - Contribution Requirements	78	216
Expenditure Increase - Non Payroll:		
Inflation - Materials, Supplies, Equipment, Services and Rents	50	
Contribution to Capital	55	
Contribution to Reserves	10	
Operating Impact of Capital	16	
Other Base and Revenue Changes	67	198
Outlook Pressure Before Revenue Increases		774
Revenue Increases		
MLTT, Interest and Investment Income & Hydro Revenues	(35)	
User Fee Revenue Increase	(66)	
Assessment Growth	(30)	(131)
2012 Beginning Outlook Pressure		643

Sustainable revenue increases total \$131 million. As shown in Table 9, this is comprised of increases to municipal land transfer tax revenues, interest income and Hydro dividends of \$35 million; user fee revenues are projected to increase by \$66 million, mainly from TTC (\$30 million for a 10 cent fare increase and \$30 million from ridership growth). It is estimated that assessment growth will approximate \$30 million in 2012. After applying revenue increases, the 2012 Beginning Outlook Pressure is \$643 million.

Balancing the 2012 Operating Budget will be a major challenge. Major cost reductions as well as increases in predictable, sustainable revenue sources are required. The expenditure strategies used in the past will help but only modestly. A strategy and comprehensive action plan is required to fix the structural imbalance. A staff proposed action plan includes the following:

- Service Level Reviews (City Programs and Agencies)
- Detailed Service Efficiency Reviews

- Comprehensive user fee policy and review
- Continued negotiations with the Province on TTC Subsidy
- Return to Social Housing Funding by the Federal Government
- Procurement Policy & Practice review
- Asset Monetization review

Implementation of the action plan is urgent. Staff will work on the above initiatives immediately after approval of the 2011 Budget.