

2011 Budget Process

Date:	December 6, 2010
To:	Executive Committee
From:	City Manager and Deputy City Manager and Chief Financial Officer
Wards:	All
Reference Number:	P:\2010\Internal Services\Fp\Ec10018Fp (AFS#12899)

SUMMARY

The purpose of this report is to present to City Council for its consideration a 2011 Budget Process that responds to a request from the previous Council for staff to propose a budget process that complies with the 2006 City of Toronto Act (CoTA) to the new Executive Committee at its first meeting.

In compliance with the CoTA, the recommended 2011 budget process fulfills the City's obligation to "prepare and adopt a budget including estimates of all sums required during the year" for the purpose of continuing the business of the City. It is designed to ensure that both the Tax Levy and Rate Supported Capital and Operating Budgets are approved by February 28, 2011 with minimal impact on best practices. It is noted that, as directed by Council, the recommended budget process does not include the Budget Committee briefings stage of the budget process. A 2012 budget process that sets out budget reductions strategies and timelines is discussed in this report. Staff will present a more comprehensive budget process that incorporates service planning and review, and a role for Standing Committees for consideration prior the summer of 2011.

RECOMMENDATIONS

The City Manager, and Deputy City Manager and Chief Financial Officer recommend that:

1. City Council approve the 2011 Budget Process and Schedule which is designed to develop, review and adopt the 2011 Operating and Capital Budgets by February 28, 2011 as set out in Appendix 1.

Financial Impact

There are no financial impacts arising from the adoption of this report.

ISSUE

At its meeting on June 8 and 9, 2010, City Council adopted the following recommendation:

1. City Council discontinue the Committee briefings stage of the budget process.
2. City Council request the City Manager to report to the first meeting of the new Executive Committee on a process which will ensure compliance with COTA and the Procedures By-law.
3. City Council request the City Manager in preparing his report, to also include some options in terms of the budget process for 2011 and beyond, having canvassed interested Councillors and Community Stakeholders.

In compliance with Council's request, Councillors were invited to provide input to the budget process. Four Councillors responded to this request. In summary, the input received emphasized the need to strengthen public education on how the City's budget is developed, improve focus on services and service levels, performance measurement, value for money, a multi-year outlook and an improved process to allocate scarce resources. The 2011 budget process recommended in this report incorporates some of the suggestions received from Councillors. The recommended process discontinues Budget Committee briefings.

COMMENTS

The City of Toronto Act (CoTA), sub-section 228(1) specifies that, "For each year, the City shall in the year or the immediately preceding year prepare and adopt a budget including estimates of all sums required during the year for the purposes of the City, including: (a) amounts sufficient to pay all debts of the City falling due within the year; (b) amounts required to be raised for sinking funds or retirement funds; (c) amounts required for any board, commission or other body. CoTA permits Council to "adopt a multi-year budget from 2 to 5 years duration provided that it is reviewed and confirmed on an annual basis within the multi-year planning period."

2011 Recommended Budget Process

In accordance with CoTA, in elections years the annual budgets must be approved in the budget year. This requires an accelerated budget process to ensure timely approval of all capital and operating budgets. The budget process proposed below is designed to obtain Council approval of the 2011 Budgets by February 28, 2011. While the timelines

proposed are very aggressive, every effort has been made to ensure that the key elements of a good budget process are maintained.

The 2011 Budget Process begins with the Mayor and Executive Committee providing directions to staff in order to guide the development of the 2011 Operating and Capital Budgets. Key elements of the process are as follows:

Budget Committee Briefing Sessions - December 13 – 15

- Education / briefing sessions on the City's budget process and principles for the Chair and members of the Budget Committee. These sessions will be open to the public.

Budget Development - December 16 – January 10

- Staff develop the 2011 Capital and Operating Budgets based on directions and targets prescribed by the Mayor / Executive Committee. This includes producing budget analyst notes, briefing notes and other information to provide perspective on key elements of the Staff Recommended Budgets.

Public Budget Launch - January 10 - 14

- The Staff Recommended Budget will be launched on January 10, thereby beginning the political review process. This stage of the process includes the following:
 - The City Manager and Chief Financial Officer present the 2011 Staff Recommended Operating and Capital Budgets to the Budget Committee.
 - Division / Agency Heads will present their Program/Agency Staff Recommended Capital and Operating Budgets. The presentation will include services, service levels / standards delivered; challenges/accomplishments and performance metrics.
 - Budget Committee members and Councillors make requests for additional Program/Agency information; and Budget Committee will identify budgets that can be finalized without further deliberations.

Public Deputations - January 19 - 20

- Members of the Public are provided with opportunities for input/response to staff recommended budgets.
- Staff prepare budget briefing notes and response to information requests from Councillors.

Budget Committee Wrap-up - January 24 and 25

- Budget Committee reviews briefing notes, responses to additional Program/Agency information requests, and budget options.
- Budget Committee makes decisions on the Staff Recommended Budgets and approves City Program and Agency 2011 budgets.

Budget Committee Final Review - February 10

- Budget Committee finalizes its review and establishes its 2011 Operating and Capital Budgets for recommendation to the Executive Committee.
- Staff prepare the Corporate Reports on the 2011 Budget Committee Recommended Capital and Operating Budgets.

Executive Committee Review - February 17

- Executive Committee receives and reviews the Budget Committee Recommended Capital and Operating Budgets.
- Executive Committee recommends its Capital and Operating Budgets to City Council.

Council Review and Approval - February 23 - 28

- Council review and approval of the 2011 Capital and Operating Budgets. It is proposed that one day should be assigned to the review and adoption of the Solid Waste Management Services and Toronto Water Capital and Operating Budgets; one day for the Tax Programs Capital Budget; and two days for the Tax Programs Operating Budget.

It is necessary that all dates proposed above be adhered to in order to ensure quality budget analysis, public engagement and approval of the 2011 Operating and Capital Budgets in the proposed timeframe.

2012 Budget Process

Operating Budget

Achieving a balanced budget in 2012 will be challenging given the potential loss of two significant revenue sources, the PVT and the MLTT, and the desire to keep property tax increases at or below the rate of general inflation.

To bridge the revenue loss and to accommodate expected spending pressures resulting from the rising cost of operations and capital financing, an ambitious program to find offsetting cost savings will be required immediately following the passage of the 2011 budget in February. Staff propose to approach this exercise in three ways.

Budget Reduction Strategy:

First, staff intend to engage third party expertise to review the business and service practices of City Divisions that have the largest draws on property tax funding. The business and service practices of these Divisions will be compared to the best practices in both the public and private sector. The outcome of these reviews will be a series of efficiency recommendations that do not have an impact on the services residents and businesses receive and that can be implemented quickly by staff to generate significant

savings for 2012 and beyond. It is recommended that Council direct that the larger Agencies such as the TTC, the Toronto Police Service, the Toronto Public Library be requested to participate with the City in this review.

The second exercise, also facilitated by third party expertise is to review the service level standards of all City services. The outcome of this exercise is to identify where adjustments can be made to the service standards that will result in cost savings without a significant impact on service outcome or customer service.

The third and final component of the budget reduction program for 2012 is a comprehensive review and update of the City's fees and user charges. This exercise will be conducted by City staff led by the Financial Planning Division. The goal of this exercise is to determine if the cost recovery regime for City services is appropriate after giving consideration to the full cost of the services provided, equitable allocation of fee subsidies, comparisons within City districts and with neighbouring jurisdictions and alignment with City policies and objectives.

Timing

In January and February, staff will develop the necessary RFPs to engage the required third party assistance for this program with the expectation that work can begin in late March and be completed by the end of June.

The results of the reviews will inform the budget process for 2012. If the combined savings from these three initiatives are large enough to balance the budget for 2012 without major impacts on services, the amount of time dedicated to public, committee and Council consultation and deliberation could remain at levels experienced in the last three years and the timing of approval could be moved to an earlier date.

However, if the size of the savings is significantly below what is required to balance the 2012 budget, Council will have to consider other choices such as service reductions or raising revenues beyond the levels targeted. If this is the case, a more robust and lengthier budget process will be recommended to allow for adequate time to consider and weigh the choices.

Capital Budget

For the capital budget, the most pressing issue is to ensure that the tax supported debt financing for the 10 year capital plan stays within the debt repayment ceiling established by Council at 15% of the property tax base. In the 2010 capital plan, the forecasted debt payments to finance the capital plan are very close to the ceiling.

If the updated 10 year capital plan is within the debt financing guidelines established by Council, the budget process for 2012 could be similar to previous years and can be approved in the fall of 2012. The 2011 capital budget is being finalized by staff. As in previous years, there are several capital projects that have been requested that cannot be

accommodated within existing financing targets. In addition, the TTC after working through the impact of accommodating the loss of the federal funding for the streetcar replacement program has identified a significant amount of SOGR work that cannot be accommodated within the capital plan without additional sources of financing.

For the TTC capital budget pressure, TTC and City staff have begun discussions with the Province about the need for provincial funding of TTC SOGR to ensure that their broader goals for GTA transit are achieved. These negotiations will continue into 2012.

Even if the City is successful in securing additional provincial funding for the TTC, additional capital pressures beyond the City's current capital financing capacity will be require other sources of financing. One potential source of financing is through asset sales or the monetization of income streams. The concept of monetizing assets was raised with the last Council but no action was taken to initiate a monetization and Council removed the monetization of Toronto Hydro from consideration. Since the election, staff have received numerous enquiries from the financial community about the City's interest in monetization of City assets

In the spring, staff intend to bring forward a comprehensive asset monetization program that would recommend the City assets that are the best candidates for monetization and the process, sequencing and timing of their monetization.

Staff will also review the City's processes for capital project procurement to determine if there are ways to reduce the City's cost of capital. This will include a review of the City's general terms and conditions within its construction contracts to ensure that the construction risks we are asking our contractors to bear are not unduly increasing the cost of City contracts.

Timing

It is difficult to predict the timing and result of any provincial negotiations. The monetization of City assets program will come forward to Council for consideration in the spring. The results of the City's capital program procurement review will also be submitted in the spring.

Like the operating budget, the budget process for capital will depend on the outcome of the initiatives noted above to bring the required capital plan in line with the City's financing capability. Should there be a significant gap, more time will be required for Council and public deliberations on the Capital budget.

Staff will come back to the June Council cycle with a report on the progress staff have made with the Operating and Capital budget initiatives and recommend a budget process that responds to those outcomes.

The recommended process will incorporate best budgeting practices and principles promoted by the Government Financial Officers Association (GFOA), and in particular, the following key principles:

- Engagement of stakeholders through upfront public consultation.
- Long-term perspective - annual operating budget plus two-year outlook; and 10-Year Capital Budget and Plan.
- Linkage of resource allocations to service objectives and establishment of targets driven by Council priorities through a multi-year service planning process.
- Service-focused and performance based - that is it focuses budget decisions on priorities, service objectives and targets, and on results and outcomes.

Furthermore, the recommended process for 2012 - 2014, will consider the following key elements:

- Upfront directions and priorities from the Mayor/Executive Committee to guide staff in the preparation of the annual budget and multi-year fiscal plans.
- City Programs and Agencies develop firm 10-year Capital Budget and Plan based on prescribed directions and priorities, along with affordable debt capacity for each year; and a one-year Operating Budget along with a two-year outlook.
- Submission of Capital and Operating budgets to the Financial Planning Division for analysis and recommendations to the City Manager and the Deputy City Manager and Chief Financial Officer.
- Review of the 10-Year Capital Budget and Plan and the Operating Budget by the City Manager and the Deputy City Manager and Chief Financial Officer with the program's Deputy City Manager and Division Head. Staff recommended Capital and Operating Budgets that are balanced, affordable and consistent with budget targets, guidelines, and directions are forwarded to Standing Committees for the next phase of the review process.
- Standing Committees review the budget submissions for programs within their mandate and make recommendations to the Budget Committee.
- Budget Committee undertakes detailed reviews in an effort to fully understand service issues and key cost drivers of the budget. This enables a more structured review of corporate issues and the identification of areas in which programs can collaborate in shared-services and the balancing of competing priorities.
- Executive Committee reviews the Budget Committee recommended budgets and submits a budget to Council for its review and adoption.

It is noted that, in compliance with a request from City Council, informal meetings with the Budget Committee have not been included in the 2011 Budget Process.

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SIGNATURE

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Attachments:

Appendix 1 – 2011 Budget Process

Appendix 2 – 2011 Recommended Budget Process Schedule

Appendix 1

2011 Recommended Budget Process

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