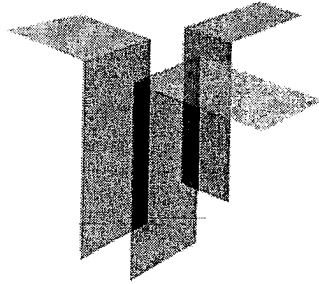


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TORONTO  
BOARD OF TRADE

## **City of Toronto 2013 Operating Budget**

**Toronto Board of Trade  
Consultation Submission**

**January 2013**

# City of Toronto 2013 Operating Budget

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## Executive Summary

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The 2012 City Budget marked a pivotal point in the City's budget development process. Indeed, the Toronto Board of Trade welcomed the Budget's long needed fiscal reforms, including establishing the groundwork for the City's first multi-year budget in over a decade, undertaking independent core service/user fee reviews, identifying service efficiencies and reducing payroll costs. Taken together, these actions helped to more closely align revenues with expenditures, thus making big strides in tackling the structural deficit; undoubtedly, very positive outcomes for Toronto's taxpayers and business community.

It is now more important than ever that we build on this momentum. Although the City has made significant strides in tackling the structural deficit, and has made some progress in addressing revenues required for investments in core infrastructure and social services, major challenges remain. The Board continues to be concerned about the reliance on surpluses and other one-time measures, including draws on reserves, to deal with in-year budgetary shortfalls and program funding. This is not a sustainable practice and moreover does nothing to reduce the city's capital debt and the significant interest charges to carry it. The plan by the City to use \$13-million in recently found additional surplus dollars towards expenditures in the operating budget will only add to the 2014 starting pressure.

On the spending side, the City must ensure labour costs are kept under control. Critical in this regard are current negotiations with Police/Fire/EMS services, where labour costs consume close to 50% of the City's overall payroll costs. Simply put, achieving efficiency goals within these departments will not be possible without addressing these spending pressures. We therefore commend the City Staff budget recommendation to hold expenditure growth in the Police Services budget to zero percent in 2013.

Having said this, it's important that the City also commit to adopting the recommendations of the City's multiple service efficiency reviews covering a wide range of programs and services outside of Police/Fire/EMS services, including parks and recreation.

At the same time the City keeps a careful eye on expenditures, it must also ensure its revenue base can provide the funding needed to pay for investments in the TTC and other critical services and programs. Ultimately, all investments into the TTC must be made with the objective of linking TTC services to the Toronto Region's larger transportation infrastructure needs. However, any increases in taxes or user fees should be accompanied by a strong business case, which among other things assesses its impact on the City's business environment and competitiveness.

Our recommendations for the City of Toronto 2013 Operating Budget are based on a thorough and wide-ranging consultation with the Board's Membership and key stakeholders, including senior municipal officials and community/non-profit organizations.

### **Priority Recommendations**

- 1. Reduce the structural deficit to zero** - Although the 2013 one-time transfer is on track to be significantly less than those of recent years, the Board strongly recommends that the reliance on surpluses and other one-time measures be reduced to zero in the 2013 Operating Budget. The plan by the City to use \$13-million in recently found additional surplus dollars towards expenditures in the operating budget will only add to the 2014 starting pressure.
- 2. Enhance our regional transportation network** - The Board applauds the City for applying cost savings in the 2012 budget toward capital projects that support infrastructure build, including transportation expansion and state-of-good-repair. Nevertheless, these expenditures must be consistent with the objectives of building an integrated regional transit system as set out in the Metrolinx "Big Move" plan.

The Board believes that as a core component of a regional transportation plan, the TTC must maintain service levels and expand its capacity. Although the TTC has found some cost efficiencies in 2012, it should continue to address spending pressures in its operations. Also part of the solution is advancing a long-term predictable operating funding strategy in partnership with the Provincial government. Nevertheless, we stress the importance of any long-term fiscal or governance restructuring being tied to an overall transportation plan for the region.

**3. Control labour costs** – The Board strongly encourages the City to use current budget negotiations with Fire/Police/EMS services to consider a host of outsourcing opportunities and new staffing models to achieve significant cost savings for the City.

**4. Consider the recommendations set forth in the service efficiency reviews** – With ten of the City's service efficiency reviews still underway, and with several more findings already complete, we urge the City to consider these recommendations.

**5. Ensure the competitiveness of business property taxes** - The Board is pleased to see the City following the policies set forth in *Enhancing Toronto's Business Climate* to lower business tax rates relative to other classes. To make the Toronto Region's business tax rates competitive, the Board would like to see the City engage in a discussion with the business community about ways to make Toronto's business taxes more competitive with those in York, Peel, Halton and Durham Regions. The City needs to look at business taxes through the lens of how competitive they are with our neighbours.

**6. Enhance social cohesion and economic inclusion in Toronto's priority neighbourhoods** - The City has a responsibility, even as it pursues elimination of its structural deficit, to adequately fund critical human needs and social service programs. The Toronto Board of Trade has consistently made the case for investing in programs which effectively promote social and economic inclusion across the City of Toronto, such as the Community Partnership Investment Program (CPIP). ~~In this regard we also applaud the City's Partnership to Advance Youth Employment (PAYE) program~~ which effectively leverages existing city staff and financial resources along with private sector partners to match at-risk youth (20 to 30 years of age) with jobs and employers in the City of Toronto.

**7. Implement multi-year operating budgets**– The Board stresses the importance of introducing multi-year budgets as a means of providing tax payers and businesses with longer-term certainty on the direction of City services, finances, and tax levels. This was a key recommendation of the Board during our *Vote Toronto 2010* campaign to put the City firmly on the road to long-term fiscal health. The 2013 budget takes positive steps forward from previous budgets by outlining the City's plan to completely eliminate the use of one-time surplus funds by 2015. In addition, the 2013 budget identifies some of the key impacts which will affect budget decisions in 2014 and 2015.

# Introduction

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## ***Historical Context***

During our VoteToronto2010 campaign, the Toronto Board of Trade highlighted a number of critical issues that needed to be addressed as part of creating a sustainable fiscal framework for the City of Toronto. Although progress is being made in tackling these concerns, much work remains unfinished.

**A) Unsustainable “one-time measures” to balance City operating budget:** By definition, one-time measures (eg. use of previous year surpluses, use of reserves, etc.) are not available to the City in future years and their use has served to widen the City’s structural deficit each year. For this reason the Board has sought to eliminate the use of one-time measures.

Some City Councillors have coined unexpected surpluses (the main source of one-time funds) as “structural surplus” dollars that should be spent on City programs. The Board has vigorously argued that any unexpected surpluses should be directed toward the reduction of capital debt, reducing debt interest charges, and thus providing permanent relief to annual expenditure pressures.

The Board has also emphasized the importance of introducing multi-year budgets as a means of providing tax payers and businesses with longer-term certainty on the direction of City services, finances, and tax levels.

**B) Need to find savings in major cost drivers:** In 2011, the City commenced a comprehensive review of its expenditures through core service, service efficiency, and user fee reviews. These reviews ultimately informed the City’s cost savings actions. While many of the service efficiency reviews have been completed, some important reviews are still underway, including Fire/EMS. Given the large percentage of the City budget that is consumed by these services, these reviews must generate actions that significantly drive down the City’s operating expenditures.

**C) Controlling growth in labour costs:** While the City was successful at reigning in some labour costs through its 2012 negotiations with CUPE Local 79 and Local 416 (4.5% combined base salary increase through January 2015), 85 percent of the growth in expenditures by the City since 2003 is due to Police, Fire, EMS, and TTC, the bulk of which comes from labour costs. The Board’s view is that, in addition to controlling wage increases, the City should examine a host of other creative solutions to reduce labour costs, such as contracting out more services and new service delivery models.

## ***Paradigm Shift: the 2012 Budget***

2012 marked a pivot point in the City’s budget development process. Longstanding Board advocacy positions were implemented, which included laying down the foundations for the City’s first multi-year budget in over a decade, undertaking independent core service/user fee reviews, and the identification of service efficiencies reducing payroll costs. Taken together, these actions helped to more closely align revenues with expenditures, thus making big strides in tackling the structural deficit.

In fact, with City expenditures reduced by \$346-million, the 2012 Budget saw the first decline in gross expenditures since amalgamation with a \$19-million decrease. For these reasons, the Board embraced the 2012 Operating Budget as a paradigm shift. Nevertheless, the City did use \$102-million of surplus to balance the budget, counter to Board arguments against one-time balancing measures.

On balance though, the City’s 2012 budget established the groundwork for a more sustainable fiscal future and competitive business environment.

## 2013 Operating Budget Priority Recommendations

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Our recommendations for the City of Toronto 2013 Operating Budget are based on a thorough and wide-ranging consultation with the Board's membership and key stakeholders, including senior municipal officials and community/non-profit organizations. We believe they strike a reasonable balance between the need to maintain the competitiveness of the Toronto Region while at the same time enhancing the quality of life and prosperity of all Torontonians:

1. **Reduce the structural deficit to zero**
  - The 2012 budget relied on \$102-million of surplus from 2011 to balance the budget. Indeed, the Board is pleased to see that the City continues to decrease its reliance on one-time funding, and has set a goal of eliminating the structural deficit within the next two years. However, we must underline the fact that the use of one-time funding is an unsustainable practice. Although the 2013 one-time transfer is on track to be significantly less than those of recent years, the Board strongly recommends that the reliance on surpluses and other one-time measures be reduced to zero in the 2013 Operating Budget. The plan by the City to use \$13-million in recently found additional surplus dollars towards expenditures in the operating budget will only add to the 2014 starting pressure.
2. **Enhance our regional transportation network** - The Board continues to be a champion of the Metrolinx regional transportation plan, known as *The Big Move*, which addresses the urgent need for massive transportation expansion across the Toronto Region. Any City of Toronto budget decisions regarding transit and transportation financing need to be made in light of how those decisions fit into an integrated regional transportation plan.
  - We believe that maintaining service levels throughout Toronto's transit network, expanding its capacity, and promoting and increasing TTC ridership, are integral to boosting the Toronto Region's economic growth and attracting needed talent and investment in a global economy.
  - The Board commends the City for applying approximately \$115-million of the \$154-million of cost savings in the 2012 budget toward capital projects through the capital financing reserve. Ultimately, these investments should support transportation infrastructure consistent with *The Big Move*.
  - The Board supports the TTC's 2012 measures to reduce costs while maintaining service levels and adding value for its riders. This past year, the TTC has been able to find additional savings by cementing a new health provider at a lower cost, reducing the absentee rate, transforming its insurance model to guard from false passenger accident claims, finding lower diesel fuel costs and downsizing administrative staff. When combined with the 2012 budget approval in principle of a 3-year 5-cent fare increase per year, these cost-cutting measures mean that the TTC will be able to balance its 2013 budget.
  - Although the TTC has found some cost efficiencies for its 2013 budget, for 2014 and beyond it should continue to address spending pressures in its operations. Part of the solution should be advancing opportunities to further automate the TTC system, as well as seeking a long-term predictable operating funding strategy in partnership with the Provincial government. Nevertheless, we stress the importance of any long-term fiscal or governance restructuring being tied to an overall transportation plan for the region.
3. **Control labour costs** - The Toronto Board of Trade continues to emphasize the need to better manage labour costs. While we recognize the City's 2012 paradigm shift on this front, more savings can and must be found.
  - Current budgetary negotiations with Police/Fire/EMS services are a centre piece to achieving the City's efficiency goals, given that their collective payroll costs consume close to 50% of the City's overall payroll costs. Therefore, the Board strongly encourages the City to adopt the recommendations of City Staff and the Police Services Board to hold expenditure growth to zero percent in 2013 and consider a range of outsourcing opportunities and new staffing models.

4. **Consider the recommendations set forth in the service efficiency reviews** – The Board commends the City for beginning extensive service efficiency reviews in 2011 to explore opportunities to reduce the cost of delivering services while still providing key services to City residents. With ten service efficiency reviews still underway, and set to be complete over the next 12 months, it is vital the City consider their recommendations.
  - The Board continues to urge the City, as it has done in the past, to look at ways of more efficiently delivering the services it provides to residents. We broadly outlined some of those opportunities in our 2010 *Bridging the Chasm* report, and they include reforming the City's procurement model; consolidating key shared functions and responsibilities including payroll and financial transactions; introducing competition in the delivery of various operations such as the TTC; closing out long-term vacant positions; and the redeployment of City workers into vacant positions.
  
5. **Ensure the competitiveness of business property taxes** – The Toronto Board of Trade has long argued that the City needs to look at business taxes from the perspective of regional competitiveness. Specifically, the Board has emphasized the need for Toronto business taxes to become competitive with those in the 905 area so the GTA is a level playing field – with investment and economic growth efficiently dispersed across the region. The 2013 taxation year is the beginning of a new 4-year assessment cycle, so key policy decisions by the City on this front will have ongoing impacts through 2016.
  - The Board will continue to support the City's *Enhancing Toronto's Business Climate* policy. The Board is pleased to see that the City Manager's preliminary tax policy recommendations (as presented to Budget Committee December 17) are in line with that policy. The City Manager's proposed tax increases on Toronto businesses (averaging about 0.3 percent for 2013) are likely to be lower than average increases in the 905 area.
  - Looking beyond 2013, the Board would like to see the City consult with the business community about ways to make Toronto's business taxes more competitive – as rapidly as possible – with those in the 905 area.
  
6. **Enhance social cohesion and economic inclusion in Toronto's priority neighbourhoods** - The Toronto Board of Trade has consistently made the case for investing in programs which effectively promote social and economic inclusion across the City of Toronto. Our economy cannot prosper unless we harness the full potential of all our residents.
  - As tragic events highlighted this past summer, the life chances of many of our youth are severely impacted by crime and unemployment. For this reason, we've supported the Community Partnership and Investment Program and similar initiatives that promote youth training, skills upgrading, health and wellness, and community safety. The widespread benefits of these programs go beyond their dollar value in the operating budget. CPIP initiatives have helped create at least 2,000 jobs in the City's 13 "priority neighbourhoods," and have mobilized over 90,000 volunteers to support them, according to the United Way.
  - We also applaud the City's Partnership to Advance Youth Employment (PAYE) program which effectively leverages existing city staff and financial resources along with private sector partners to match at-risk-youth (20 to 30 years of age) with jobs and employers in the City of Toronto. Since PAYE was rolled out, the program has provided 1,400 job interviews to more than 1,000 young people from priority neighbourhoods, resulting in 250 job offers. We see this public/private partnership model as an effective way of creating shared value for both employers and the community and one which could be expanded to a younger demographic, including those currently enrolled in secondary education.

**7. Implement multi-year operating budgets** - The Board stresses the importance of introducing multi-year budgets as a means of providing tax payers and businesses with longer-term certainty on the direction of City services, finances, and tax levels. This was a key recommendation of the Board during our *VoteToronto2010* campaign to put the City firmly on the road to long-term fiscal health.

- The 2013 budget takes positive steps forward from previous budgets by outlining the City's plan to completely eliminate the use of one-time surplus funds by 2015. In addition, the 2013 budget identifies some of the key impacts which will affect budget decisions in 2014 and 2015.
- We would like to see the 2014 operating budget, and all future budgets, follow the recommendation of the Independent Fiscal Review Panel to introduce rolling 5-year operating budgets. In addition, we urge the City to specify expenditure and revenue changes, such as efficiency and user fee changes, with the same detail through years 2-5 as it does through year 1. By doing so, the longer-term fiscal ramifications of City decisions can be considered.