



## STAFF REPORT ACTION REQUIRED

### 2017 Budget Process: Budget Directions and Schedule

<b>Date:</b>	June 8, 2016
<b>To:</b>	Budget Committee Executive Committee
<b>From:</b>	City Manager Deputy City Manager & Chief Financial Officer
<b>Wards:</b>	All
<b>Reference Number:</b>	P:\2016\Internal Services\FP\Bc16012Fp

#### SUMMARY

The purpose of this report is to establish the 2017 Budget process and schedule to review and approve the Tax and Rate Supported 2017 Operating Budget and the 2017 to 2026 Capital Budget and Plan for the City of Toronto.

The recommended 2017 Budget Process and Schedule is designed to ensure that the Rate Supported Operating Budgets and 10-Year Capital Plans are approved by December 14, 2016 and the Tax Supported Operating Budget and 10-Year Capital Plan are approved by February 16, 2017. To ensure adequate time to review agency budget submissions, it is recommended that City Council direct all Agencies to submit their final Board-approved budget submissions by October 1, 2016.

This report also lays out the 2017 operating revenue and expenditure projections which have been, in part, determined by decisions approved in the 2016 Budget process as well as anticipated costs and revenues associated with maintaining 2016 approved service levels. These projected pressures are presented to assist Budget Committee and Council in establishing recommended budget targets and directions for City Programs, Agencies and Accountability Offices in order to address significant budget pressures forecasted for 2017. These estimates are projected based on current information and are not final. These estimates will change with the receipt of actual budget submissions.

A net tax supported revenue increase of \$66 million is projected for 2017. This estimate is driven by an assumed 2% residential tax rate increase of \$52 million, assessment growth of \$40 million or 1% and only a marginal increase of \$20 million in Municipal

Land Transfer Taxes that will be reduced to account for the reversal of \$38 million in approved one-time 2016 revenues and other net revenue reductions of \$8 million.

Operating expenses are forecasted to increase by \$582 million with Capital Financing and other Non-Program expenses (\$166 million), TTC (\$178 million), TCHC (\$96 million) and Toronto Police Services (\$19 million) projected as the key service cost drivers. With revenues fixed at \$66 million, budget reduction strategies are required to offset net base pressures of \$516 million in order to balance the 2017 Operating Budget. These strategies would simply address current service costs and exclude any funding for new and enhanced service investments.

Given the limited funding for City services, there is no additional financial capacity to fund any new capital works in 2017. As a result, City Programs, Agencies and Accountability Officers must submit 2017 – 2026 Capital Budget and Plans on a status quo basis. This requires capital plan requests to adhere to the 2017 – 2025 Capital Plan's annual debt funding approved by Council as part of the 2016 Budget process, and projects be added in the new tenth year, 2026, that can be accommodated within current debt targets as provided by the Deputy City Manager & Chief Financial Officer.

Staff are requested to continue to refine their estimates for the unfunded capital projects valued at \$29 billion identified in 2016 and to submit these to establish priorities. Staff have begun developing a funding plan for priority capital projects, which will include a review of debt capacity, the application of new and existing revenue options, as well as the eligibility of Federal and Provincial funding programs over the next 12 to 24 months. The ensuing list of new unfunded capital projects will be considered in concert with the City Manager and Chief Financial Officer's report on a multi-year revenue strategy which will then form the basis for the development of a funding plan for priority capital projects as part of the City's Long Term Financial Plan. The funding plan would then be submitted to Council for its consideration and approval.

Revenue tools currently under study may not be available for the 2017 Budget process and should not be considered as providing any significant relief for 2017. Should any become available for use, they must be considered as a bridging strategy to sustainable operating budgets only. New revenue sources must be considered for the sizable unfunded capital needs that have been identified as critical to maintaining reliable City service delivery and meeting city building and other strategic objectives.

In prior years, the City Manager and Chief Financial Officer set targets for all City Programs and Agencies in advance of budget preparation. These targets have been met with varying degrees of compliance and impact. Beginning with the 2017 Budget process, Budget Committee is requested to recommend budget targets for all City Programs, Agencies and Accountability Offices for approval by City Council.

In addressing 2017 budgetary challenges, it will be necessary to ensure consistency between decisions to be taken in 2017 with the City's emerging longer-term priorities.

## RECOMMENDATIONS

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

1. City Council approve the 2017 Budget Process and Schedule which is designed to develop, review and adopt 2017 Rate Supported Operating Budget and 2017 to 2026 Capital Budget & Plan by December 14, 2016 and the 2017 Tax Supported Operating Budget and 2017 to 2026 Capital Budget & Plan by February 16, 2017 as set out in Appendix 1 of this report;
2. City Council direct that all Agencies submit their respective final Board-approved 2017 Operating Budget and 2017 – 2026 Capital Budget and Plan requests no later than October 1, 2016;
3. Budget Committee consider and recommend one of the following options for 2017 Operating Budget targets for City Programs, and Agencies for City Council approval:
  - a) Across the Board budget reduction target of -2.6% net below the 2016 Approved Net Operating Budget for all City Programs and Agencies; or
  - b) A budget reduction target of -5.1% net below the 2016 Approved Net Operating Budget for all City Programs and Agencies and a 0% net increase budget target for Toronto Transit Commission, Toronto Police Service and Toronto Community Housing that maintains 2017 funding equal to their 2016 Approved Net Budget; or
  - c) A budget reduction target of -3.8% net below the 2016 Approved Net Operating Budget for City Programs and Agencies; a budget reduction target of -4.1% for the Toronto Transit Commission to absorb incremental debt servicing for its capital costs and a budget reduction of a 0% increase for the Toronto Police Service and Toronto Community Housing that maintains 2017 funding equal to their respective 2016 Approved Net Budget.
4. City Council direct that City Programs and Agencies submit their 2017 – 2026 Capital Budget and Plans requiring that:
  - a) Capital Plan submissions adhere to the debt levels approved by Council for the 2017 – 2025 Capital Plan as part of the 2016 Budget process, and projects be added in the new tenth year, 2026, that can be accommodated within current affordability targets;
  - b) Annual cashflow funding estimates be examined to more realistically match cashflow spending to project activities and timing, especially in the first 5 years of the Capital Plan's timeframe; and

- c) Unfunded capital project estimates and timing be refined and submitted for prioritization.
5. Budget Committee consider whether its recommended 2017 operating budget reduction targets and also its capital budget guidelines detailed in Recommendation 4 above be applied to Accountability Offices for the 2017 Budget process.

## **Financial Impact**

Adoption of the recommendations in this report will establish the 2017 Budget process timelines and provide City Programs, Agencies and Accountability Officers with Council approved directions and budget targets to address projected operating expenses based on revenues anticipated for 2017. Similarly, guidelines and directions provided for the preparation, review and approval of the 2017 – 2026 Capital Budget and Plan will support the continuation of establishing a 10-year Capital Plan based on the City's current 15% debt ratio guideline.

## **ISSUE BACKGROUND**

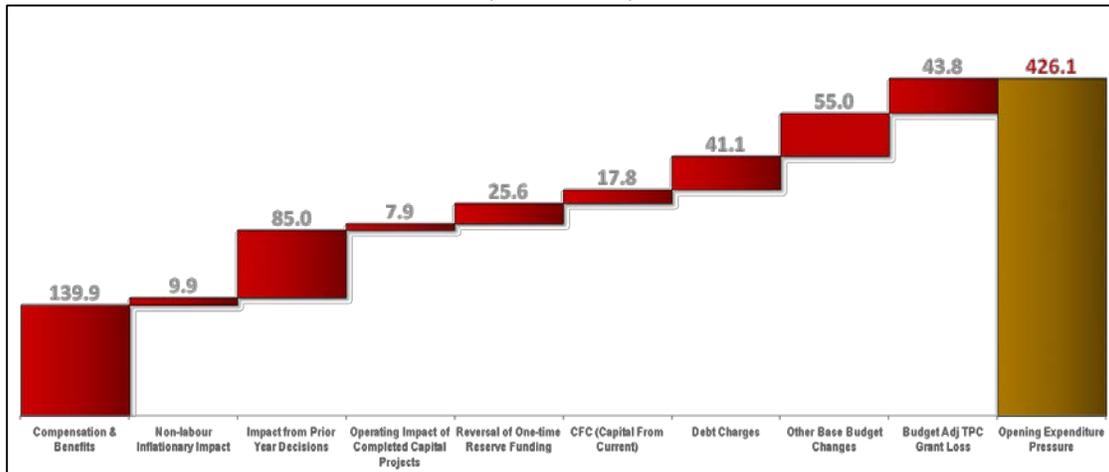
### ***The 2016 Approved Budget: Actions Taken to Balance the Budget***

In preparing for 2016 Budget deliberations, staff began an earnest conversation about the state of the City's finances and its current fiscal framework. A review of historical expenditure and revenue trends showed that expenditures have outpaced the City's stagnant but changing revenue base that, annually, has resulted in a funding "gap". As well, over \$22 billion in capital investments were identified as unfunded due to the City's policy to cap debt servicing costs to no more than 15% of property tax revenues.

During its deliberations of the 2015 Budget, Committee and Council were advised that the City would continue to face significant budgetary challenges. Expenditure pressures for 2016 were forecasted to be \$425 million prior to any revenue changes. It was further noted that annual inflationary tax increases would be insufficient to cover growing gross expenditures (specifically compensation costs in certain City Programs and Agencies). The 2016 net pressure forecasted at that time of \$425 million was equivalent to a residential property tax impact of approximately 16.1%.

Based on Program and Agency submissions, the actual 2016 expenditure pressure facing the City was \$426.1 million, as detailed in Chart 1 below.

**Chart 1  
2016 Operating Budget Pressures  
(\$ Millions)**



In order to help mitigate these pressures, recommended expenditure balancing strategies resulted \$170.5 million in expenditure reductions from:

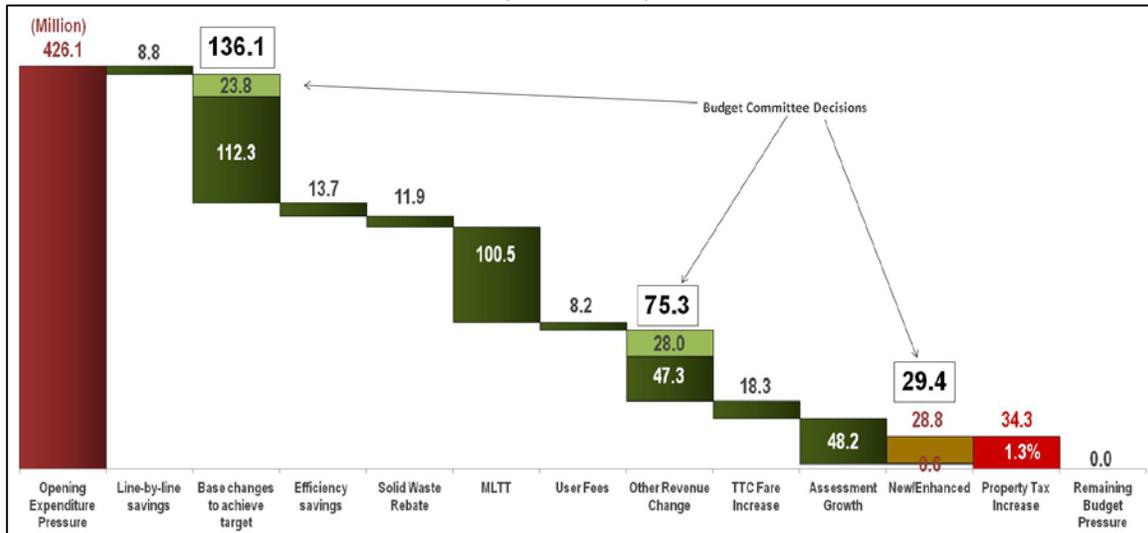
- line-by-line review savings (\$8.8 million),
- base changes to achieve target (\$136.1 million),
- efficiency savings (\$13.7 million), and;
- reduction to solid waste management rebates (\$11.9 million).

In addition, a total of \$202.3 million in revenue changes further reduced the overall budget pressure. Key contributors to the revenue changes included:

- increasing MLTT revenue to match 2015 actual experience which eliminated any "cushion" for downward swings (\$100.5 million),
- user fee increases based primarily on inflation (\$8.2 million)
- other revenue changes such as the uploading of service costs to the Province (\$37.3 million),
- one-time revenue increases and reserve contributions (\$38 million); and
- Toronto Transit Commission fare increase generated an additional \$18.3 million.

Council also approved new and enhanced services initiatives that invested \$29.4 million net in part-year funding, as noted in Chart 2 below. After assessment growth, the final pressure of \$34.347 million was offset by a 1.30% residential property tax increase (excluding the Scarborough Subway Extension Special Levy). The 2016 Operating Budget was approved with no service level reductions through a combination of expenditure control and increases in revenues that included short term measures.

**Chart 2  
2016 Balancing Actions  
(\$ Millions)**



***The 2016 Approved Budget: Implications for 2017***

Decisions made in the annual budget process have a direct financial impact on the following year's budget pressures:

- Approval of part-year funding for new and enhanced service investments to be implemented part way in the fiscal year will have incremental costs the following year in order to fully fund and implement the initiative.
- Approval of capital projects in the Capital Budget will have incremental operating costs to operate a rehabilitated or new asset once the project is completed or savings if transforming how work is completed
- Service efficiencies, service adjustments and changes to revenues with part year implementation will result in additional savings or revenues to reflect full year implementation.
- Balancing strategies that are one-time in nature must be reversed in the following year, as they are not available on a sustainable basis. If not matched to one-time expenses, these actions will result in pressures in the following year. The use of one-time revenues, reserve funding and expense reductions that cannot be sustained do not provide permanent pressure relief.
- Deferral of unavoidable expenses that must be addressed.

Table 1 below details the financial impact that arises from approval of the 2016 Operating Budget, including short term measures approved in 2016 to balance the Operating Budget. These 2016 decisions result in \$163 million in pressures for 2017.

**Table 1**  
**2017 Pressure Estimates Resulting from 2016 Budget Decisions**  
(\$ Millions)

	<u>Expense</u>	<u>Revenue</u>	<u>Total</u>
Annualization from prior year decisions (incl. TTC)	14		
Operating Impact from completed capital projects (incl. TTC)	22		
TTC - Previously Approved Presto Card Implementation	29		
Phased Impact from TPC loss (Add'l increase in CFC)	45		
Deferred funding of employee benefit liabilities	10		
Deferred funding of insurance premiums & claims	5		
One-Time Revenues to balance 2016 budget		38	
<b>2017 Pressure resulting from prior year decisions</b>	<b>125</b>	<b>38</b>	<b>163</b>

## COMMENTS

### 2017 Operating Budget

The approach to developing and establishing the City of Toronto's budget to date has been to forecast expenditures and revenues and to implement strategies that adjust both in order to balance the operating budget. Budget targets have been set for City Programs and Agencies but compliance with these targets have been mixed. While operating budgets have been balanced, strategies have included short term measures that do not permanently fund budgetary pressures.

Going forward, the model to be used to establish the City's budget strategies will be determined by what revenues are available first with expenses and services to be adjusted to fit the funding envelope.

For 2017, it is expected that (Tax-Supported) revenues will increase by \$66 million net as outlined in Table 2 below:

**Table 2**  
**2017 Total Revenue Changes:**  
**(\$ Millions)**

	<u>Revenue</u>
One-Time Revenues to balance 2016 budget	38
MLTT	(20)
Change in Provincial /Federal Funding	10
OW Provincial Upload	(24)
Interest / Investment Earnings	5
Supplementary Taxes	5
Hydro Dividend	10
TPA Dividend	5
Other Corporate Revenues	2
All Other Program Revenue Changes	(5)
TTC Fare	12
Other User Fee	(12)
<b>Revenue Changes before Tax Impact</b>	<b>25</b>
Assessment Growth	(40)
Tax Rate Increase @ 2% Residential	(52)
<b>2017 Total Revenue Changes</b>	<b>(66)</b>

Moving forward, MLTT revenue is forecasted to stabilize given the 2016 action of maximizing this revenue source by budgeting at 100% of actual experience. In fact, it assumes no decline in the future. Given the City's reliance of MLTT, a stable real estate market is assumed. However, there is still some further upside potential for MLTT and other fees depending on the overall state of the economy. If the residential property tax increase is kept below the rate of inflation, the total incremental tax revenue will be significantly lower and cannot offset the budget pressures.

The 5-year forecast contained in the Long Term Financial Direction Report shows that the *gross expenditure pressure* on the tax base for 2017 is estimated to be \$582 million. This estimate is adjusted to eliminate gross expenses and revenues for Rate-Supported budgets that are neutral (net \$0) to the tax base. After accounting for the \$66 million in net revenue, the *net expenditure pressure* on the tax base will be \$516 million.

**Table 3**  
**2017 Operating Budget Pressure Summary:**  
(\$ Millions)

	<u>Expense</u>	<u>Revenue</u>	<u>Total</u>
<b>2017 Pressure resulting from prior year decisions</b>	<b>125</b>	<b>38</b>	<b>163</b>
<b>2017 Total Revenue Changes</b>		<b>(104)</b>	<b>(104)</b>
<b><u>2017 Incremental Expense Pressure:</u></b>			
Base compensation and benefit	56		
Non-salary inflation	23		
TTC - base (excl. Presto & prior year impact)	136		
Police - Total	19		
TCHC - Total	96		
CFC base	31		
Debt charges on current capital budget & Plan	46		
Tax Deficiencies/Write-offs (net)	30		
Other Program/Non-Program Expenditures	20		
<b>2017 Incremental Expense Pressure Total</b>	<b>457</b>	<b>-</b>	<b>457</b>
<b>Total 2017 Tax Supported Operating Pressure</b>	<b>582</b>	<b>(66)</b>	<b>516</b>

Corporate and service pressures facing the City include:

- increased salary and benefit costs (\$56 million);
- non-salaried inflationary pressures including higher than planned utility costs due new provincial pricing (\$23 million);
- the annualized impacts resulting from several new initiatives approved as part of the 2016 budget process (\$12 million);
- operating impact from the completion of previously approved Capital projects (\$11 million)
- increased debt servicing costs arising from additional capital works approved in the 2016-2025 Capital Plan (\$46 million);
- TTC pressures and annualizations, including contractual payments for Presto use (\$178 million);
- TCHC operating gap, as reserve and debt financing offsets are less tenable (\$96 million);
- the realization of deferred pressures for Toronto Pooling Compensation loss (\$45 million), tax deficiencies (\$30 million) and employee liabilities and insurance (\$15 million);
- pressures from the use of one-time revenue measures implemented in prior years that now must be reversed (\$38 million);
- Police salary and benefits costs pressures arising from collective agreement (\$19 million); and

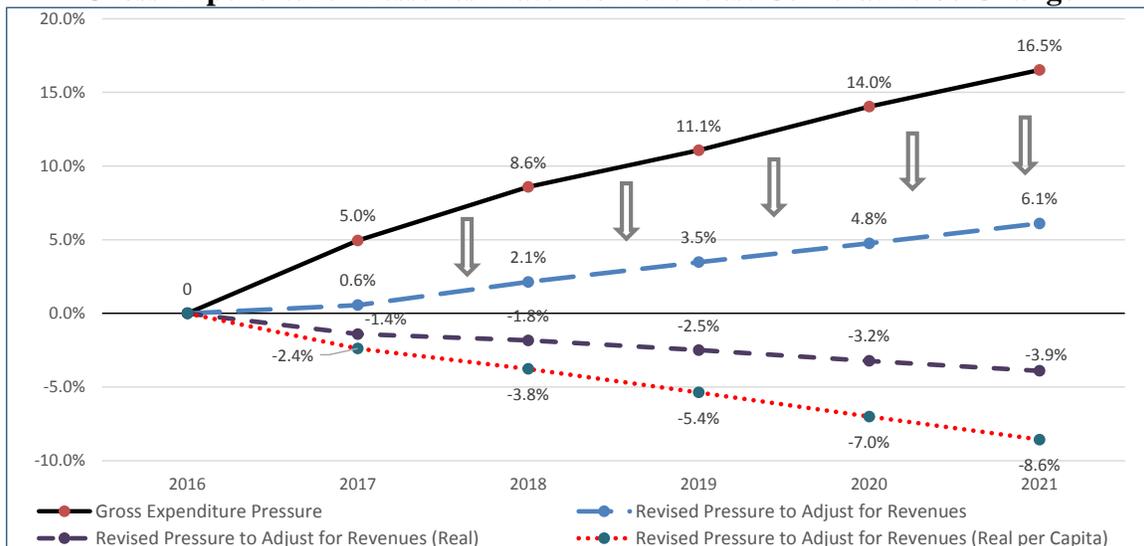
- TTC revenue decline due to loss in ridership (\$12 million).

It is important to note that the projected 2017 net pressure or “gap” does not account for any additional service investments or priorities approved or identified by Council.

Balancing the Operating Budget pressures will be a challenge. Projected revenues will not be sufficient to cover growing expenditures (especially compensation costs in certain City Programs and Agencies). It will be critical that the City find budget adjustments to compensate for loss of the Toronto Pooling Compensation grant. Furthermore, the City will need to eliminate \$163 million in prior year impacts and short term measures for 2017.

Chart 3 below shows the impact the 5 year forecast for revenue growth has on forecasted expenses. In the absence of any additional revenues, expenditure management strategies will be necessary to reduce expenses to match forecasted revenues. Gross expenditures can only grow by a cumulative 6.1% over 5 years reflecting only moderate annual increases, in nominal terms. After accounting for CPI and population growth, gross expenditures will fall by a cumulative 8.6% by 2021. However, it should be noted that tax supported gross expenditures actually increased by \$190 million in 2016.

**Chart 3**  
**Gross Expenditure Pressures Match to Revenues: Cumulative % Change**



It will be difficult to find the necessary savings to keep spending in line with revenue growth without relying on one-time revenue sources or other unsustainable measures such as the deferral of necessary expenses. While the City has faced budget challenges in the past, mitigating measures which helped balance the budget previously are either not expected to reoccur (e.g. large MLTT revenue growth, social assistance savings) or are no longer feasible (e.g. deferring TCHC pressures, deferring capital projects). As a result, the level of expenditure restraint anticipated for 2017 will require *all* City Programs, Agencies and Accountability Offices to bring forward 2017 Budgets that

reflect innovative and transformative service delivery and service adjustments in order to meet the fiscal, service and tax expectations of Council.

Further expense reductions in 2017 would require strong action and a willingness to both reduce and sustain reductions in service levels. This will require significant changes in service directions, if residential tax increases are to be kept at the rate of inflation. However, it will be necessary to ensure that budget decisions taken in 2017 are consistent with the City's emerging priorities in the long-term. The two directions may conflict with each other.

It should be noted that these expense and revenue projections are based on the best information currently available and are provided to form the basis for setting operating budget targets. This information will change and will only become final with the receipt of actual operating budget submissions.

## **2017 Operating Budget Target Options**

In prior years, the City Manager and Deputy City Manager & Chief Financial Officer have set the operating budget target as the key guideline for budget preparation for all City Programs and Agencies in advance of budget preparation. These targets have been met with varying degrees of compliance and impact. Beginning with the 2017 Budget process, City Council must approve operating budget targets for all City Programs, Agencies and Accountability Officers.

Target options for 2017 are presented below and assume City Programs, Agencies and Accountability Offices absorb their 2017 Operating Budget pressures and depending on the recommended option, further reductions are required below their respective 2016 Approved Operating Budget to offset corporate net pressures of \$102 million.

Corporate pressures reflect:

- increases in Capital from Current (CFC) and debt charges (\$122 million) based on the approved 2016-2025 Capital Plan;
- tax deficiencies, deferred employee liabilities and insurance cost increases (\$45 million);
- a net reduction in revenues that includes a marginal increase in MLTT offset by decreases in TPA and Hydro Dividend, Interest and Supplemental Tax Revenue (\$26 million);
- an increase in tax revenue based on an assumed 2% residential tax rate increase and 1% assessment growth (\$92 million).

Three budget target options for City Programs and Agencies are presented below for Budget Committee and Council review and consideration, including their application to Accountability Offices.

**Option 1:**

***Across the Board -2.6% Reduction Target for all City Programs, Agencies and Accountability Offices***

To balance the budget with a starting pressure of \$516 million requires a whole of government approach with an across the board reduction target of 2.6% to balance the budget. This would require all City Programs, Agencies and Accountability Offices to absorb their 2017 respective operating pressures and further reduce their 2017 Operating Budget requests to 2.6% below their respective 2016 Approved Net Operating Budget.

**Option 2:**

***-5.1% Reduction Target for City Programs, Agencies and Accountability Offices but maintains Toronto Transit Commission, Toronto Police Service and Toronto Community Housing at 2016 Approved Budget or 0% increase***

TTC, TPS and TCHC combined 2017 operating pressures total \$305 million. Depending on priorities and direction from Budget Committee and Council, two further reduction options are presented that exclude these Agencies in varying degrees from further reductions below their 2016 Approved Net Operating Budget to offset corporate net pressures.

If TTC, TPS and TCHC are excluded from the requirement to reduce their respective 2017 Operating Budget requests to help mitigate corporate pressures, the remaining City Programs, Agencies and Accountability Offices would be required to increase their budget reductions to 5.1 % (from 2.6%) below their respective 2016 Approved Net Budgets to offset corporate pressures. The TTC, TCHC and Police would still be required to fully absorb their significant budget pressures.

**Option 3:**

***-3.8% Reduction Target for City Programs, Agencies and Accountability Offices;  
- 4.1% for Toronto Transit Commission to absorb incremental debt servicing for its capital costs and Toronto Police Service and Toronto Community Housing maintained at 2016 Approved Budget or 0% increase***

Option 3 assumes that TTC will absorb its projected base pressures as well as the \$25 million in incremental debt servicing costs directly tied to its capital projects while Toronto Police Service and Toronto Community Housing are required to absorb their 2017 base pressures but are excluded from further cuts below their respective 2016 Approved Net Operating Budgets. The reduction target for the remaining City Programs, Agencies and Accountability Offices would require a budget target that takes their respective 2017 Operating Budgets to 3.8% below their respective 2016 Approved Net Operating Budget in order to fund remaining corporate pressures.

The 2017 Budget directions communicated to City Programs and Agencies are shaped by the need to address the City's projected Operating Budget shortfall due to the pressures mentioned above and are to be used by City Programs and Agencies as strategies to achieve Council's budget target for the 2017 process:

- Continue to control expenditures through cost saving measures:
- Review the impact of vacancies on service levels delivered;
- Review previous three year spending experience for further expenditure reductions
- Reduce utility costs through short term energy saving measures
- Review the annualized costs of all 2016 "new and enhanced" services impacts on the 2017 Operating Budget and make appropriate adjustments based on actual experience.
- Reduce fleet by 2% based on use of Fleet Services' new Carshare program and other rationalization measures;
- Explore all services for efficiency savings including opportunities from business process reengineering, streamlining, transformation and innovation to service delivery from :
  - Cross divisional collaboration;
  - Service delivery rationalization and restructuring;
  - Opportunities for alternative service delivery;
  - Changes to procedures where there may be dependencies;
  - Implementation of outstanding Service Efficiency Study recommendations;
  - Implementation of Shared Services; and
  - Rationalization of technology and space needs.
- The "offloading" of expenses to other City Programs and Agencies will not be accepted.
- Rationalize and benchmark service levels against service outcomes
- Review service relevance, value and impact;
- Maximize user fee revenue by reviewing full cost recovery where applicable, review existing fines and permit fees and identify new fines and other user fees where appropriate; and

Given the fiscal situation, there will be little opportunity to fund new/enhanced requests that may be determined by Council. New/enhanced service requests *will only be considered* for:

- Previously approved initiatives for phased implementation and/or currently under way;
- Initiatives fully funded by third parties; and
- New initiatives already approved by Council or where Council has directed staff to consider the implementation thereof.

It should be noted that revenue tools currently under study may not be available for the 2017 Budget process and should not be considered as providing any significant relief for 2017. Should any become available for use, they must be considered as a bridging strategy to sustainable operating budgets only. New revenue sources must be considered for the sizable unfunded capital needs that have been identified as critical to maintaining reliable City service delivery and meeting city building and other strategic objectives.

## **2017 – 2025 Capital Budget and Plan Directions**

Capital spending, which is largely supported through borrowing, is constrained by the limitations on debt servicing costs and associated affordability concerns in the operating budget. Under current Council direction, debt servicing costs cannot exceed 15 percent of property tax revenues in any given year.

As a result, and without additional funding partners or revenue options, \$29 billion in identified capital investment requirements cannot be funded within current capital funding limitations. Staff have begun developing a funding plan for priority capital projects, which will include a review of debt capacity, the application of new and existing revenue options, as well as the eligibility of Federal and Provincial funding programs.

As this work continues to progress over the next 12 to 24 months, and in the absence of additional revenues for 2017, the 2017 – 2026 Capital Budget and Plan submission will have to be prepared on a status quo basis. This requires that capital plan submissions adhere to the 2017 – 2025 Capital Plan approved by Council as part of the 2016 Budget process, and projects be added in the new tenth year, 2026, that can be accommodated within current debt targets.

- Beginning in 2017 and consistent with work done to date to support the City of Toronto's long-term financial direction, greater emphasis will be placed on all those capital projects that have been identified as an unmet need to address State of Good Repair or Service Improvement projects that, to date, could not be funded within current debt targets.
- These projects are to be prioritized and the list of prioritized unfunded capital needs, in concert with the City Manager and the Chief Financial Officer's report on a multi-year revenue strategy, will then form the basis for the development of a funding plan for priority capital projects as part of the City's Long Term Financial Plan.

In addition, City Program, Agency and Financial Planning staff will continue to examine annual cashflow funding estimates to more realistically match cashflow spending to project activities and timing, especially in the first 5 years of the Capital Plan's timeframe. The City consistently experiences an average spending rates of 65% and carry forward approximately one third or \$1 billion annually. Programs and Agencies are requested to adjust budgets to meet real expected annual spending rates.

The path forward requires both expenditure and revenue strategies; City Council needs to recognize the true costs of delivering its services so that services may be adequately funded. It is equally important to establish realistic financial and performance targets aimed at areas of growth versus those for reduction. The City cannot achieve fiscal sustainability through expenditure reductions alone. The City requires revenues that increase annually to help fund City services and hence it is not sustainable or realistic to constrain total revenue increases.

## **The City of Toronto Budget Process**

The City of Toronto has continuously refined and matured its budget process to ensure that the budget development, review and approval process results in the most efficient use of City resources to effectively meet the service and infrastructure priorities and needs of the citizens of Toronto in a fiscally sustainable manner.

Until such time as staff report back on strategies and processes to support Council's strategic decision making and financial oversight, the 2017 Budget process will be similar to the 2016 Budget process which does incorporate best and leading financial planning and budgeting practices and principles of good governance into its budget process; namely:

### **Service-Based Budgeting**

Over the past 4 years, the City has increasingly focused its operating budget deliberations on the services and service levels provided to the public. In 2014, the City approved its first service-based budget that had previously been oriented to a traditional expenditure view. Approval of a service based operating budget since 2014 has meant that Council approves budgets (financial), staff complement and service levels based on the services provided by the City, as outlined in every City Program and Agency Program Map. Committee and Council will have more performance measures associated with each service and its activities available, as the City matures in this area.

The City is seen as a leader in service-based budgeting as this approach is a leading practice that is being adopted by other municipal, provincial and federal governments to better plan, budget, monitor and report on its core function: the delivery of services to the public.

### **Public Input and Education**

The City's annual budget process is designed to give the public the opportunity to provide input during budget deliberations on service funding priorities and service issues. In many instances, the public's input has resulted in changes to the budget. Individual Councillors can also hold town hall meetings in their wards to encourage public participation in the budget process. The City has placed additional attention on providing opportunities and information that educate the public on the City's budget; its financial

and service issues to better understand the budget process; the services provided and the challenges faced by the City.

- Individual Councillors are provided with toolkits to hold town hall meetings in their wards that are supported by City Financial Planning staff.
- The City's Budget Website has been redesigned and reoriented to a service view to enhance public understanding of the budget content and process by incorporating various mediums (videos; infographics, presentations and documents) with the purpose of educating and engaging the public in the City's budget process by making the budget more understandable to the general public.
- Budget Notes, prepared for every City Program and Agency's capital and operating budget provide detailed information and analysis regarding the recommended operating and capital budgets and plans; service levels, cost drivers; recommended service adjustments; capital projects and associated issues.
- Budget Briefing Notes are prepared to provide additional summary analysis on Program/Agency topics or as requested by Committee to address requests for further information.

## **Accessible Information**

As noted above, the City prepares and distributes an array of information during the budget process, all of which is distributed to Councillors and made available to the public in Committee, on the City Clerks website as well as the Budget Website. The information is easily available, comprehensive and AODA compliant.

## **Transparent Decision-Making**

The City provides public notice of all budget meetings in 15 newspapers and in 10 languages plus English. All decision-making during the budget process is documented and made available by the City Clerk and is posted on both the City Clerk's and Budget Website. Staff prepare wrap-up notes that document actions requested and taken at Budget Committee meetings which are distributed and posted on the City's Budget Website.

## **2017 Budget Process and Schedule**

As in prior years, the Budget process will be service based in focus and will ensure that the budget development, review and approval process results in the most efficient use of City resources to effectively meet the service and infrastructure priorities and needs of the citizens of Toronto in a fiscally sustainable manner.

The 2017 Budget process will incorporate the following key elements:

- Administrative Review Budget Committee Member (Informal) Review
- Budget Launch of Rate Supported Capital and Operating Budgets Budget Launch for Tax Supported Capital and Operating Budgets
- Public Input (at all Civic Centres) and Education
- Support for Councillor Town Hall Meetings
- Budget Committee Program Reviews & Wrap-Up Meetings
- Executive Committee Review
- City Council review and approval

The City's budget process is comprised of 2 key stages: the Administrative Review and the Budget Committee Review consisting of the following key activities:

### **Administrative Review Process:**

#### ***Budget Development and Review: May to November, 2016***

In early June, the City Manager (CM) and Deputy City Manager & Chief Financial Officer (DCM & CFO) developed and distributed budget directions and guidelines for the 2017 Operating and Capital Budgets identifying that 2017 will be very challenging.

By early August, 2016 all City Programs and Agencies will have submitted their Tax Supported Capital Budget and Plan and their Operating Budget requests to the Financial Planning Division for review and recommendation to the City Manager and Deputy City Manager & Chief Financial Officer.

Over the course of the rest of the summer and fall, each budget request will be analyzed and reviewed, with a first round of analysis and review undertaken by the Executive Director, Financial Planning from July to early September. A second round of review will occur with the City Manager and Chief Financial Officer to review unresolved issues and recommendations with the Deputy City Managers and respective Program and Agency Heads. The Preliminary 2017 Operating Budget and 2-year Plan and a 10 - year Capital Budget and Plan will be finalized by the end of October to provide sufficient time to prepare the necessary budget documents, communications and budget website in time for the Budget Launch.

#### ***Budget Committee Member (Informal) Review: mid September – mid October, 2016***

These Budget Committee members' detailed briefings occur in the late Fall during the latter part of the Administrative Review process. It has been the Budget Committee's practice to have its members assigned in teams of up to two members to each City Program/Agency to receive detailed briefings regarding Program/Agency-specific service issues and pressures, cost drivers and capital requirements as well as to ensure alignment with priorities and affordability targets.

***Budget Preparation: November 1, 2016 – December 2, 2016***

During this period, staff prepare for the Public Launch, including producing budget presentations, budget analyst notes, briefing notes and preparing the City’s budget website with key other information to provide perspective on key elements of the Preliminary Budgets.

To ensure an appropriate length of time required to review, consolidate and prepare budget documents for the Public Launch, it is critical that all Agencies finalize their budget submissions as early as possible. In prior year, certain agencies were unable to finalize budget submissions in a timely manner as their Boards had scheduled their budget deliberations too close to the Budget Launch date. To allow for sufficient time to review and prepare budget documentation, it is recommended that Council direct all Agencies submit their respective Board-approved 2017 Operating and Capital Budget requests no later than October 1, 2016.

**Committee Review Process:**

***Public Budget Launch: December 2, 2016***

The Preliminary Tax Supported Operating Budget and 10-year Capital Plan will be launched on December 2, 2016, thereby beginning the Committee review process. This activity includes the following elements:

- The City Manager, Chief Financial Officer and Executive Director, Financial Planning Division present the 2017 Preliminary Operating and Capital Budgets to the Budget Committee.
- Budget Committee members and visiting Councillors have an opportunity to question staff on the budget presentations made about the Preliminary Operating and Capital Budgets as a whole. Program-specific questions are intended to be addressed at Budget Committee meetings scheduled specifically for Program/Agency budget briefings and review, as noted below.
- Budget Binders comprising of Budget Notes for every Capital and Operating Program/Agency Budget as well as Budget communications information are distributed to members of Council. The distributed information is made available on the City’s Budget Website at the time of Budget Launch for the public.

***Budget Briefings: December 16 to 21, 2016***

Four days have been scheduled to provide Budget Committee members as well as non-member visiting Councillors with the opportunity for a more detailed briefing on each Operating Budget and 10-year Capital Plan.

The four days of budget briefings have been recommended to ensure Budget Committee members receive a more detailed understanding of the budgets that are before them for consideration.

Over this period, Cluster Deputy City Managers and Agency Heads will present their respective Preliminary Capital and Operating Budgets. The presentations will continue to be service-based, focusing on:

- preliminary 2017 service levels;
- service challenges, issues and performance;
- 2017 preliminary service operating budgets;
- 2017 – 2026 preliminary capital budget and plan for service assets; their state of good repair & backlog;
- capital projects and any associated capital issues;
- unfunded capital projects.

A schedule will be established that details which Programs and Agencies will be considered in each of the four days.

It is the intent that Budget Committee members and visiting Councillors use these briefings to gain a more detailed understanding of the Program/Agency budgets and issues as presented, and have the opportunity to have questions answered by staff. It is expected that staff be given every opportunity to provide answers and clarification during these meetings. Any requests for additional Program/Agency information should be made only after it is deemed by the Committee and/or Chair that it is warranted. If so, requests for Budget Briefing Notes may be made at this meeting. It should be noted that these meetings will take place the week following the Public Launch in order to provide Councillors with the opportunity to familiarize themselves with the distributed budget information in advance of these meetings

All Councillors are welcome to attend the Budget Committee briefing sessions to be held during December 16 to 21, 2016. Should a Councillor wish additional information, then it would be recommended that the Councillor arrange specific meetings with appropriate staff coordinated through the Financial Planning Division staff.

***Town Hall Meetings: December 3, 2016 to January 24, 2017***

Any time during the Committee Review Process, Councillors may wish to hold town hall meetings in their ward to educate constituents and receive their input on the Preliminary Budgets. Financial Planning Division staff prepare tool kits to assist Councillors' offices with this event and can attend to make presentations or support question periods.

***Public Presentations: January 4, 5 and 9, 2017***

Three days have been scheduled to provide the public with the opportunity for input/response to the preliminary budgets presented by staff. Budget Committee members and visiting Councillors may question deputants and Committee members may request additional information from staff regarding any issues raised during these meetings. In the past, public deputation meetings have occurred at City Hall as well as various sites in the Community Council boundaries. For 2016, public meetings were held at each of the 6 civic centre locations.

The location and approach for 2017 will be determined by the Chair of the Budget Committee, together with its members. It is not clear at this time what, if any, impact the public engagement process to be undertaken for the Long Term Financial Plan will have on 2017 Budget deliberations and public input.

***Budget Committee Wrap-up: January 12, 2017***

At this meeting, Budget Committee considers Budget Briefing Notes and supplementary reports to address additional inquiries and to support the decision making process. Budget Committee members may table motions that amend preliminary budgets and forward these and any outstanding reports for consideration at its final wrap-up meeting.

***Budget Committee Final Wrap Up: January 24, 2017***

This is the final meeting of the Budget Committee's deliberations on the 2017 Preliminary Budgets. At this meeting, the Committee reviews Budget Briefing Notes, responses to additional Program/Agency information requests; considers motions that may amend staff recommended budgets or that provide further advice to Executive Committee. The Budget Committee finalizes its review and establishes the Budget Committee Recommended Operating Budget and 10-Year Capital Budget and Plan to be considered by the Executive Committee.

The Budget Committee recommends a balanced Operating Budget and 10-Year Capital Budget and Plan to the Executive Committee that align resources to Council priorities, highlight expected results and outcomes, and incorporate sustainable funding strategies within the City's debt and tax framework.

Financial Planning staff are requested to prepare, on behalf of Budget Committee, corporate reports, reflecting the Committee's Recommended Operating Budget with an updated 2 year Plan and the 10-Year Capital Budget and Plan, for submission to the Executive Committee.

***Executive Committee Review: February 7, 2017***

At this meeting, the Executive Committee receives and reviews the Budget Committee Recommended 2015 Operating Budget and 10-Year Capital Budget and Plan. The Executive Committee's review of the budget focuses on major fiscal and policy issues and confirms the budget as a strategic financial plan that implements Council policies and priorities in a fiscally sustainable manner. The Executive Committee recommends the 2017 Operating Budget and 10-Year Capital Budget and Plan to City Council.

***Council Review and Approval: February 15, 16, 17 (if necessary), 2017***

This is the final step in the Budget process. Three days are scheduled for City Council's deliberations and approval of the 2015 Tax and Rate Supporting Operating and Capital Budget and Plan.

In summary, the 2017 Budget process and schedule will provide the opportunity for a dialogue to determine the true needs of the City of Toronto, to assess the costs of delivering services and the assets that support current services and contribute to building a modern city. This dialogue must include take into account the revenues the City has available to it for both its service and capital needs. By its very nature, municipalities are generally inherently risk adverse. It will be a continued challenge to manage the fiscal risks and demonstrate financial sustainability of the City.

## **CONTACT**

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## **SIGNATURE**

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Peter Wallace  
City Manager

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Roberto Rossini  
Deputy City Manager &  
Chief Financial Officer

## **ATTACHMENTS**

Appendix 1 – 2017 Budget Schedule  
Appendix 2 – List of City Agencies

## Appendix 1

### 2017 Budget Schedule

Activity	Operating / Capital Budget - Rate Supported Programs	Capital Budget - City Divisions & Agencies	Operating Budget - City Divisions & Agencies
Budget Submission <i>Operating - Base Budget Only</i>	June 20, 2016	June 20, 2016	June 20, 2016
Budget Submission <i>Operating - Reduction Options and New Requests</i>	August 2, 2016	N/A	August 2, 2016
BC Members Informal Reviews	September 15 - September 30, 2016	September 15 - October 18, 2016	
Budget Launch - <b>Budget Committee</b>	November 4, 2016	December 2, 2016	
Budget Briefings - Budget Committee	November 18, 2016 <i>(Regular BC Meeting)</i>	December 16, 19, 20 & 21, 2016	
Public Presentations - Budget Committee	November 18, 2016 <i>(Regular BC Meeting)</i>	January 4, 5 & 9, 2017	
Budget Committee Wrap-Up	N/A	January 12, 2017	
Budget Committee Final Wrap-Up	November 28, 2016 (Afternoon)	January 24, 2017	
Special Executive Committee	December 1, 2016 <b>(Regular Executive)</b>	February 7, 2017	
Special Council	December 13 & 14, 2016 <b>(Regular Council)</b>	<b>February 15 &amp; 16, 2017</b>	

## **Appendix 2**

### **List of City Agencies**

- Arena Boards of Management
- Association of Community Centres
- Exhibition Place
- Heritage Toronto
- Theatres
- Toronto Atmospheric Fund
- Toronto Parking Authority
- Toronto Police Service
- Toronto Police Services Board
- Toronto Public Health
- Toronto Public Library
- Toronto Transit Commission
- Toronto Zoo
- Yonge-Dundas Square

### **Other**

- Toronto & Region Conservation Authority