BU32.7

REPORT FOR ACTION

2018 Budget Process: Budget Directions and Schedule

Date:	May 8, 2017
To:	Budget Committee Executive Committee
From:	City Manager Deputy City Manager & Chief Financial Officer
Wards:	All

SUMMARY

The purpose of this report is to establish the 2018 Budget process and schedule to review and approve the Tax and Rate Supported 2018 Operating Budget and the 2018 to 2027 Tax and Rate Capital Budget and Plan for the City of Toronto.

The recommended 2018 Budget Process and Schedule is designed so that the Rate Supported Budgets are approved by December 7, 2017 and the Tax Supported Budgets are approved by February 13, 2018.

To ensure adequate time to review agency board budget submissions and to assess service and expense risks, it is recommended that City Council direct all City Agencies to submit their respective budget submissions in accordance with the submission timelines and requirements determined by the Deputy City Manager & CFO and submit their final Board-approved budget submissions no later than October 1, 2017.

This report also lays out the 2018 operating revenue and expenditure projections which have been, in part, determined by decisions approved in the 2017 Budget process as well as anticipated costs and revenues associated with maintaining 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 2018. 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 expenditure increase of $343 million is projected for 2018. This estimate is driven by an assumed 2% residential tax rate increase. These estimates account for the reversal of $91 million in one-time bridging strategies approved in the 2017 Budget.

Operating expenses are forecasted to increase by $499 million with the City's key Agencies - TTC ($126 million); TCHC ($72 million); Toronto Police ($9 million) and Toronto Public Library and Public Health ($10 million) - and Capital Financing and other Non-Program expenses ($171 million), projected as the key service cost drivers. With revenues assumed to grow by $156 million, net budget pressures are estimated to be $343 million. Cost containment, service efficiency, modernization and service level changes as well as revenue strategies are required to offset net base pressures in order to balance the 2018 Operating Budget. These strategies will simply address current service costs and exclude any funding for new and enhanced service investments.

Given the limited funding for City services, there is little additional financial capacity to fund any new capital works in 2018. As a result, City Programs, Agencies and Accountability Officers must submit 2018 – 2027 Capital Budget and Plans on a status quo basis. This requires capital plan requests to adhere to the 2017 – 2026 Capital Plan's annual debt funding approved by Council as part of the 2017 Budget process, and projects be added in the new tenth year, 2027, that can be accommodated within current debt targets to be provided by the Deputy City Manager & Chief Financial Officer.

Prior to 2017, the City Manager and Chief Financial Officer set targets for all City Programs and Agencies in advance of budget preparation. These targets were met with varying degrees of compliance and impact. Beginning with the 2017 Budget process, Budget Committee recommended budget targets for all City Programs, Agencies and Accountability Offices for approval by City Council.

This report recommends for Budget Committee's consideration an operating budget target that requires all Operating Budget (net) submissions to be equal to their 2017 Net Operating Budget, representing a 0% increase over the 2017 Net Operating Budget and a status quo 10-Year Capital Budget and Plan based on the City's current debt limits.

In addressing 2018 budgetary challenges, it will be necessary to ensure consistency between decisions to be taken in 2018 with the City's emerging longer-term priorities

RECOMMENDATIONS

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

1. City Council approve the 2018 Budget Process and Schedule which is designed to develop, review and adopt 2018 Rate Supported Operating Budget and 2018 to 2027 Capital Budget & Plan by December 7, 2017 and the 2018 Tax Supported Operating Budget and 2018 to 2027 Capital Budget & Plan by February 13, 2018 as set out in Appendix 1 of this report;

2. City Council direct that all City Agencies submit their respective Operating Budget and 2018 – 2027 Capital Plan requests to the Deputy City Manager & CFO in accordance with the following requirements:

a. Budget targets approved by City Council;
b. Submission format, submission components and the period that it covers as established by the Deputy City Manager & Chief Financial Officer;
c. The City's 2018 Operating and Capital Budget Submission Guidelines and Instructions Manual; and
d. Budget Submission deadlines as established by the Deputy City Manager & Chief Financial Officer, so that City staff can fully review Agency budget submissions as part of the Administrative Review process;

3. City Council direct that all City Agencies submit their final Board-approved 2018 Operating Budget and 2018 – 2027 Capital Budget and Plan requests no later than October 1, 2017;

4. Budget Committee consider and recommend for City Council's approval, the following Operating Budget target and guidelines for the preparation and submission of 2018 Operating Budget requests by all City Programs, and Agencies:

a) All City Programs and Agencies be directed to prepare their 2018 net operating budgets equal to the 2017 Approved Net Operating Budget; and

b) All City Programs and Agencies continue to pursue cost containment, service efficiency, modernization, service level and revenue strategies to meet the budget target set out in 4.a) above.

5. City Council direct that City Programs and Agencies submit their 2018 – 2027 Capital Budget and Plans requiring that:

a) Capital Plan submissions adhere to the debt levels approved by Council for the 2017 – 2026 Capital Plan as part of the 2017 Budget process, and projects be added in the new tenth year, 2027, that can be accommodated within current debt affordability targets to be determined by the Deputy City Manager & CFO;

b) Annual cash flow funding estimates be examined to more realistically match cash flow spending to project activities and timing, especially in the first 5 years of the Capital Plan's timeframe;

c) Priority be placed on completing transit, transportation and social infrastructure projects funded through intergovernmental agreements in order to meet program conditions and deadlines to mitigate risk to the City;

d) Stage-gating be implemented for major capital projects with the requirement for Council approval be conditional on project cost estimates being based on detailed design completion and secured funding sources; and,

e) Unfunded capital project estimates and timing be refined and submitted to inform the Long Term Financial Plan's expenditure and revenue strategies.

6. Budget Committee consider whether its recommended 2018 operating budget reduction target and guidelines and also its capital budget guidelines detailed in

Recommendations 4 and 5 above be applied to Accountability Offices for the 2018 Budget process.

7. City Council direct City Programs and Agencies to report on the equity impacts of the recommended efficiencies and service level changes included in the 2018 Operating Budget, with particular focus on the gender impact of these budget change proposals and the impact on persons with low-income

FINANCIAL IMPACT

Adoption of the recommendations in this report will establish the 2018 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 2018. Similarly, guidelines and directions provided for the preparation, review and approval of the 2018 – 2027 Capital Budget and Plan will support the continuation of establishing a 10-year Capital Plan that contains debt based on the City's current debt service ratio policy that was relaxed to an average of 15% over 10 years in the 2017 Budget process.

DECISION HISTORY

During its deliberation of 2017 Property Tax Rebates and Related Matters (EX22.1) and the 2017 Operating Budget and 2017 - 2026 Capital Plan (EX22.2) on February 15, 2017, City Council approved, amongst others, recommendations that looked forward to the 2018 Budget process and requested the City Manager, the Deputy City Manager & CFO and other appropriate staff to report back on the following matters:

Methodologies for Setting Tax Rate Guidelines

11. City Council request the Deputy City Manager and Chief Financial Officer to report to the Budget Committee prior to the 2018 Budget process on a range of methodologies to calculate the rate of inflation for the purposes of setting the tax rate guideline for the 2018 Budget.
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2017.EX22.1

3-Year Spending and Reform Plan for City Divisions and Agencies

235. City Council request the City Manager to report back to the Executive Committee in the Spring of 2017 on a 3-year plan that restrains spending and reforms programs for City Divisions and Agencies that would include a targeted reduction of positions by attrition similar to 2017, inclusive of a 10 percent reduction of management positions, beginning in 2018 that:

a. builds on the Mayor's four-point plan to save money and improve service to residents through innovation, modern technology and improved efficiency;

b. is based on the City's Long Term Financial Plan's financial targets required to achieve fiscal sustainability;
c. aligns with Council's key priorities;
d. accounts for transformation initiatives and other program/service delivery reforms already implemented, currently planned and/or underway; and incorporates an evaluation of program/service effectiveness and outcomes.

An Intersectional Gender-Based Framework to Assess Budgetary Impacts

321. City Council request the Director, Equity, Diversity and Human Rights, in consultation with the City Manager, the Deputy City Manager & Chief Financial Officer and the Executive Director, Social Development Finance and Administration to:

1. develop an Intersectional Gender-Based Framework with indicators that will help determine the impacts of City programs and services on various genders during the 2018 Budget process, with the goal of promoting an equitable, effective and appropriate resource allocation to support gender equity, and report to the October 2, 2017 meeting of City Council on the progress of the framework, indicators and an implementation plan;

2. consult with experts in gender-based analysis, and representatives from staff, community agencies serving women, including those with complex, intersecting identities, and gender-diverse members of equity-seeking groups and vulnerable populations, to review and advise on the development and implementation of the Intersectional Gender-Based Framework/Index; and

3. work with City Divisions to develop a disaggregated data collection strategy for the City that will assist in, among other things, assessing the gendered impacts of City budgetary and policy decisions and report back to the November 29, 2017 meeting of the Executive Committee on the strategy and implementation plan.

Service and Expense Risk Assessment in Large Agencies

323. City Council request the City Manager to report to the Executive Committee, prior to initiating the 2018 Budget process, on what is required by the City to address the expense and service risks the City Manager has identified at the Toronto Police Service and the Toronto Community Housing Corporation.
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2017.EX22.2

The recommended 2018 Budget directions, guidelines and process included in this report incorporate strategies that respond to these requests made by City Council.

ISSUE BACKGROUND

Funding the Persistent Budget Gap

Since late 2015, staff have been engaging in an earnest conversation with City Council and the public about the state of the City's finances and its current fiscal framework. These efforts have been aimed at establishing a long term financial direction and plan that will provide for a sustainable financial framework for municipal services and city-building investments, involving both expense and revenue measures.

At that time, a review of historical expenditure and revenue trends showed that expenditures had outpaced the City's stagnant but changing revenue base that, annually, has resulted in a budget funding "gap". Annually, the City has eliminated the funding gap with a series of balancing strategies that have included a combination of expenditure reductions and deferrals, efficiency savings, one-time measures and revenue increases while maintaining residential property tax rate increases at or below the rate of inflation.

Going forward, a 5-year forecast presented for the years 2017 to 2021 demonstrated that forecasted revenue growth based on inflationary tax rate increases and existing revenue sources would continue to be outpaced by expenditure growth. In the absence of new revenues, significant expenditure reduction strategies would be necessary to match revenues. In essence, annual inflationary tax increases would be insufficient to cover growing gross expenditures. As well, almost $23 billion in capital investments were identified at that time as unfunded due to the City's policy to cap debt servicing costs to no more than 15% of property tax revenues on an annual basis.

Staff advised Council that it should *first* establish its collective vision for the City to determine the level and quality of services it wishes to deliver, determine and prioritize the City-building investments required to achieve this vision and consider the associated expenditures necessary to carry this out. In order to fund this expenditure level and any resultant gap, City Council would have to raise revenues and should look to all of its revenue-generating authorities and tools to do so, including property tax rate increases. This would be especially necessary if Council chose not to reduce its services and service levels.

In the 2016 Budget process, the City faced an expenditure pressure of $426.1 million that increased by $29.4 million in Council approved service investments. A budget reduction target of -1.0% was set with the requirement to find the equivalent of 2% of the net Operating Budget in efficiency savings within that target. After a rigorous budget process, Council approved a final 2016 Budget with a 1.3% residential tax increase with no service level reductions but the use of $38 million in one-time reserves plus $100 million increase in the Municipal Land Transfer Tax (MLTT) revenue owing to a favourable housing market, thereby increasing the City's reliance on this revenue source. In the absence of these latter revenue strategies, additional service expenditures and/or property tax rate increases would have been necessary.

In the 2017 Budget process, the City faced a $731 million expenditure pressure. As a result, 2017 Budget directions and budget targets of -2.6% were established by Council to address the budget gap based on an assumed property tax rate increase of 2%.

On the capital side, the total value in unfunded capital projects rose from the initially reported amount of almost $23 billion to $29 billion and finally to $33 billion over a 15 year period. The addition of key priorities such as the cost escalation for the Gardiner Expressway Rehabilitation, SmartTrack and other transit expansion projects and the need to leverage Federal infrastructure funding on an incremental basis would require the City to examine ways to maximize its debt capacity and leverage new revenue sources.

As part of the City's work on establishing a sustainable financial framework for the City, generally, and in recognition of the need for new revenue sources, specifically, City Council, at its meeting on December 13, 14 and 15, 2016, adopted two closely aligned reports:

- *"EX20.2 The City of Toronto's Immediate and Longer-term Revenue Strategy Direction*" that provided a framework for the application of existing and new revenues and principles for their selection; and:
  http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2016.EX20.2

- "*EX20.3 Asset Optimization Review - Toronto Hydro Corporation and Toronto Parking Authority*" in which it details an asset optimization study in relation to the City's investments in Toronto Hydro Corporation and Toronto Parking Authority.
  http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2016.EX20.3

City Council referred various revenue options to the Budget Committee for consideration as part of the 2017 Budget process and directed the Deputy City Manager & Chief Financial Officer to report to the Budget Committee as part of the 2017 Budget process on the potential for increasing the Toronto Parking Authority's income share rate to the City.

2017 Operating Budget – Actions Taken to Balance the Budget

In the end, Council approved another inflationary residential tax increase (2%) supplemented by additions revenue from new and existing revenue sources to help close the operating funding gap.

The 2017 Operating Budget incorporated balancing strategies that:

- Were consistent with Council policy and service direction
- Provided, primarily from City Programs, realistic proposals to achieve the Council approved -2.6% reduction target
- Reflected Agency Board recommendations (primarily above the previously approved budget guideline), including the use of $91 million in bridging strategies
- Maximized existing revenue sources, including a significant increase in MLTT revenues of $182 million and new revenue sources (Hotel and Lodging Tax)
- Incorporated an inflationary residential property tax rate increase.

Appendix 3 summarizes the actions and measures undertaken to balance the 2017 Budget.

The 2017 Approved Budget: Implications for 2018

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

- Service efficiencies and service level adjustments with part year implementation will result in additional to reflect full year implementation.

- Changes to existing revenues and new revenues with part year implementation will result in revenue to reflect full year implementation.

- 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.

- Balancing strategies that are one-time in nature must be reversed in the following year, as they are not available on a sustainable basis. These actions 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 which must be addressed; and,

Finally,

- The level of debt approved in the Capital Budget increases debt servicing costs for which the City must begin repayment of principal and interest (in the operating budget) that begins part way in the following year.

Table 1 below details the financial impact that arises from approving the 2017 Operating Budget, including bridging strategies approved in 2017 to balance the Operating Budget. These 2017 decisions result in a $112 million net pressure for 2018.

Table 1
2018 Pressure Estimates Resulting from 2017 Budget Decisions
($ Millions)

	Expense	Revenue	Total
Annualized Savings from Prior Year Decisions	(10)		
Annualized Costs from Prior Year Decisions	10		
Annualization of Hotel and Lodging Tax		(15)	
Annualization of Municipal Land Transfer Tax Harmonization with the Province		(7)	
Annualization of New User Fee Revenues		(7)	
Operating Impact of Completed Capital Projects	11		
Operating Impact of Completed Capital Projects (TTC)			
TYSSE	26		
Presto Card Implementation:			
Elimination of Ticket Collectors	(45)		
Increase in Presto Fees	38		
Fare Gate Maintenance and other Legacy Savings	(5)		
Other	6		
Phased-In Impact of TPC Loss (Add'l increase in CFC)	8		
Deferred Funding of Employee Benefit Liabilities	5		
Deferred Funding of Insurance Premiums & Claims	6		
Bridging Strategies			
Deferred TCHC Expenditures to 2018	72		
One-Time Savings	1		
One-Time Use of TTC Stabilization		14	
One-Time Use of Tax Stabilization Reserve to Fund New / Enhanced		4	
2018 Pressure Resulting from Prior Year Decisions	**123**	**(11)**	**112**

COMMENTS

2018 Operating Budget Estimated Pressures

As in 2017, the model to be used to establish the City's budget strategies and targets for 2018 will be determined by what revenues are available first with expenses and services to be adjusted to fit the funding envelope.

For 2018, it is expected that (Tax-Supported) revenues will increase by $156 million net as outlined in Table 2 below:

Table 2
2018 Total Revenue Changes:
($ Millions)

	Revenue
Prior Year Impacts	
One-Time Use of TTC Stabilization	14
One-Time Use of Tax Stabilization Reserve to Fund New / Enhanced	4
Annualization of Hotel and Lodging Tax	(15)
Annualization of Municipal Land Transfer Tax Harmonization with the Province	(7)
Annualizations of New User Fee Revenues	(7)
Total Prior Year Impacts	**(11)**
2018 Revenue Changes	
OW Benefit Upload (Final Year)	(22)
TTC Ridership / Volume Change	(10)
User Fee Change (Inflationary)	(6)
Interest / Dividend Income	4
Other Revenue Changes	(3)
Total 2018 Revenue Changes	**(37)**
Revenue Changes Before Tax Impact	**(48)**
Assessment Growth	(50)
2% Tax Rate Increase	(57)
2018 Total Revenue Change	**(156)**

Almost 2/3 of the 2017 budget pressure was offset by maximizing existing and new revenue sources. The City approved revenue options identified in both the Revenue Strategy and the Asset Optimization Study, with the introduction of the Hotel and Lodging Tax and increased income-sharing from the Toronto Parking Authority, respectively. Most notably, the City significantly increased its reliance on MLTT as a funding source by increasing budgeted revenue reflective of 2016 housing market activity *and* its rates.

As a result, the City will benefit from almost $30 million in incremental revenue from these new sources, however, the use of one-time reserves from 2017 approved bridging strategies will reduce the benefit by almost half. For 2018, an additional $22 million will be received from the Provincial government, representing the final instalment in the 10-year phased uploading of the City's share of funding the cost of delivering the Ontario Works program.

At the time of 2017 Budget approval, TTC forecasted 2018 ridership revenue was anticipated to increase and generate an additional $10 million in fare revenue. In fact, TTC has been underachieving its 2017 budgeted ridership estimates, averaging at about 2% below planned ridership levels. It is possible that the forecasted revenue could reverse itself in a revenue pressure should the ridership trend continue in 2017. It should also be noted that no TTC fare increase has been projected at this time based on the TTC Commission's direction to maintain TTC fares at 2017 approved rates.

2018 MLTT revenue is forecasted at 2017 budgeted levels given the repeated action in 2017 of maximizing this revenue source by budgeting at 100% of 2016 actual experience. At this point, no decline in MLTT revenue is assumed for 2018, however, recent Provincial actions to address the hot housing market in Toronto and surrounding area may negatively impact this revenue source. Given the City's reliance of MLTT, the assumption of a stable real estate market may pose a risk. At the end of the first quarter of 2017, MLTT revenue was $32.5 million higher than planned. The unpredictability of the housing market makes it difficult to project whether this rate of revenue activity will be sustained throughout 2017. MLTT revenue is being closely monitored by the City.

If the residential property tax rate increase is kept at or below the rate of inflation, the total incremental tax revenue will be insufficient to offset expected budget pressures, notwithstanding increased revenues from new and existing revenue sources approved in 2017.

After accounting for $156 million in net revenue, the *net expenditure pressure* on the tax base is estimated to be $343 million, at outlined in Table 3 below:

Table 3
2018 Operating Budget Pressure Summary:
($ Millions)

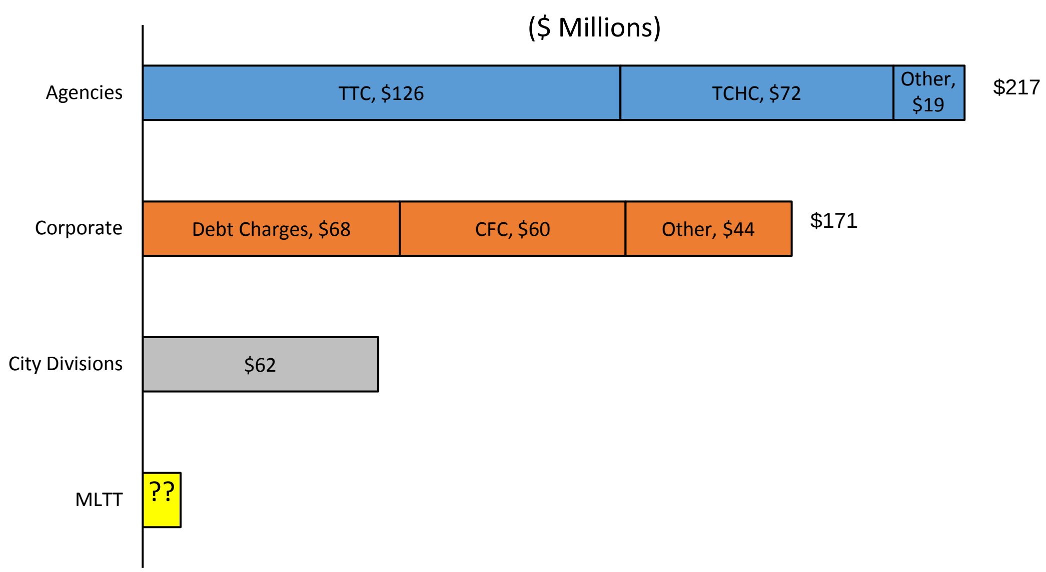
	Expense	Revenue	Total
2018 Pressure Resulting from 2017 & Prior Year Decisions	**123**	**(11)**	**112**
2018 Total Revenue Changes	**-**	**(144)**	**(144)**
2018 Incremental Expense Pressure:			
Base Compensation & Benefits (Excl TTC)	90		
Non-Salary Inflationary	14		
TTC (Excl Op Impact of Capital)	102		
CFC Base (Excluding TPC Loss)	52		
Debt Servicing Costs	68		
Tax Deficiencies	27		
Contributions to Reserves	11		
Other Base Pressures	12		
2018 Incremental Expense Pressure Total	**376**	**-**	**376**
Total 2018 Tax Supported Operating Pressure	**499**	**(156)**	**343**

Corporate and service pressures facing the City include:

- The annualized impact of 2017 and prior year decisions outlined in Table 1 above ($112 million);
- Increased salary and benefit costs for all City Program and Agencies, excluding TTC ($90 million);
- Increased non-salary inflationary costs, including higher than planned utility costs due to provincial pricing ($14 million);
- TTC expenditure pressures to maintain existing service levels, excluding the operating impact of implementing TYSEE and Presto ($102 million);
- 10% increase in Capital from Current funding as planned and allocated to projects approved in the 2017 to 2016 Capital Plan ($52 million);
- Increased debt servicing costs arising from additional capital works approved in the 2017-2026 Capital Plan ($46 million);
- Increased Tax Deficiencies due to appeals from reassessment and a reduction in the reserve funding contribution from the Assessment Appeals Stabilization Reserve used to smooth these expenses ($27 million);
- Higher contributions primarily for Police reserves to fund the replacement of vehicle and equipment; employee liabilities and Police Transformation implementation ($11 million); and,
- Increased base budget expenses to maintain 2017 service levels ($12 million)

As noted below in Chart 4, operating budget pressures continue to be driven by the City's 2 largest agencies – TTC and TCHC - and by capital and corporate financing to fund the approved 10-year Capital Plan.

Chart 4
Key Service Drivers



It is important to note that the projected 2018 net pressure or "gap" does not account for any additional service investments or priorities approved or identified by Council. For example, the $126 million forecasted pressure for TTC is based on maintaining current service levels. This excludes an additional $59 million identified by the TTC for initiatives such as Station Transformation which would be categorized as a new request and will be considered separately, subject to funding availability.

Balancing the Operating Budget pressures will be a challenge. Projected revenues, while higher, will not be sufficient to cover growing expenditures, especially compensation costs in City Programs and Agencies. It will be equally critical that the City find budget adjustments to compensate for $112 million in prior year impacts and bridging strategies for 2018.

It will be difficult to find the necessary savings to keep spending in line with revenue growth without continuing to rely 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); are no longer feasible (e.g. deferring TCHC pressures); or have been fully optimized (e.g. new revenue sources within Council's authority).

Further expense reductions in 2018 will require strong action and a willingness to both reduce and sustain reductions in service levels *if* residential tax increases are to be kept at the rate of inflation. As recently made evident in the 2016 and 2017 Budget processes, there has been a reluctance by Council to embrace service level or service model changes; creating a mismatch between service aspirations and revenue generation.

The level of expenditure restraint anticipated for 2018 will require ***all*** City Programs, Agencies and Accountability Offices to bring forward 2018 Budgets that reflect innovative and transformative service delivery and service adjustments that may require a change in service direction in order to meet the fiscal, service and tax expectations of Council. It will also be necessary to ensure that budget decisions taken in 2018 are consistent with the City's longer term financial direction for fiscal sustainability.

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.

2018 Operating Budget Target Reduction Options and Directions

Prior to the 2017 Budget process, the City Manager and Deputy City Manager & Chief Financial Officer set the operating budget target as the key direction provided for budget preparation to all City Programs and Agencies at the start of each budget process. These targets were met with varying degrees of compliance and impact so, beginning with the 2017 Budget process, City Council approved operating budget targets for all City Programs, Agencies and Accountability Officers.

In 2017, City Council approved an across the board -2.6% budget target for all City Programs, Agencies and Accountability Offices. For the most part, City Programs met the budget reduction target and/or provided realistic options for Council's consideration to address residual pressures. Excluding the Toronto Police Service, the City's larger

Agencies such as the TTC, TCHC, Toronto Public Library and Toronto Public Health did not meet the reduction target nor did many provide realistic proposals to do so.

There has been a fair amount of discussion by Council and input from the public (Long Term Financial Plan public consultation) that across the board budget targets do not reflect Council priorities, and therefore, should be differential. The current challenge to establish differential targets is the lack of stated *relative Council* priorities and implementation plans. A key issue is not that priorities are lacking but rather that there are many – many Council approved strategies, plans and service demand initiatives - some of which have been considered in relation to one another with their respective financial impacts within a priority-setting process that links service and policy planning to the City's budget process and considered within the City's financial capacity.

The Long Term Financial Plan report from the City Manager and Deputy City Manager & Chief Financial Officer expected in Fall, 2017, will bring forward recommendations to mature the City's governance and financial decision-making processes to implement more robust strategies to address these shortcomings for Council.

In the interim, an across the board budget target, with associated guidelines, is recommended for 2018 which requires all City Programs, Agencies and Accountability Offices absorb their 2017 Operating Budget pressures.

Recommended Operating Budget Target and Guidelines

0% Reduction Target for City Programs, Agencies and Accountability Offices, requiring $63 million in corporate pressures to be funded from corporate strategies

This approach requires ***all*** City Programs, Agencies and Accountability Offices to fully offset their respective 2018 budget pressures. The $63 million in corporate pressures would require mitigation strategies that include, but are not limited to, reducing debt servicing by a corresponding reduction in approved capital projects; examining the risk of further MLTT increases in light of market volatility; reviewing additional revenue options and tax preferences as well as considering the methodology for best calculating the inflationary tax rate increase (as discussed below).

The 2018 Budget direction and guidelines are shaped by the need to address the City's projected Operating Budget shortfall due to the pressures mentioned above, ***with a particular emphasis to be placed on efforts to modernize, transform and innovate City services, service levels and service delivery processes and to demonstrate their resultant benefits***. These budget directions are to be used by ***all*** City Programs, Agencies and Accountability Offices (if Council so chooses) as strategies to achieve Council's budget target for the 2018 process:

- Continue to contain costs through cost saving measures such as:
  - ➢ Review previous three year spending experience for further expenditure reductions
  - ➢ Reduce utility costs through short term energy saving measures
  - ➢ Review contracts for better pricing

    - Review use of consultants
- Provide a thorough justification for all requests for new positions.
- Review all services and activities for efficiency savings through:
    - Modernization, transformation and innovation opportunities
    - Cross-divisional collaboration and/or dependencies
    - Functional and organizational reviews
    - Vacancy and attrition opportunities
    - Reengineering and/or streamlining of business processes
    - Rationalization of space, technology, equipment and vehicles
    - The continued implementation of Shared Services
- Submit all modernization, transformation and innovation initiatives completed, planned or underway, with expected benefits and timing, as part of the 2018 Budget submission.
- Explore all opportunities for outsourcing/alternative service delivery changes
- Review all current service levels against standards and benchmarking
- Review service relevance, value and impact against outcomes
- The "offloading" of expenses to other City Programs and Agencies will not be accepted.
- 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
- Review existing tax and fee waivers, discounts and exemptions.

Given the fiscal situation, there will be little opportunity to fund new/enhanced requests for 2018. New/enhanced service requests *will only be considered* for:

- Previously approved initiatives with phased implementation that are 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.
- New investments that will transform, modernize or innovate City services, processes or delivery;

3-Year Spending and Reform Plan

As noted earlier, Council requested the City Manager to report back to Executive Committee in the Spring of 2017 on a 3-year spending and reform plan for City Divisions and Agencies beginning with the 2018 Budget process. It is premature to report back in the absence of the Long Term Financial Plan. The Long Term Financial Plan report will provide a 5-year financial forecast of expenses and revenues and expenditure management and revenue strategies. A reform plan that will modernize the whole of government will be informed by expenditure management strategies that will set out a modernization and transformation agenda as one of its key components. The strategies outlined above begin the work on developing such a plan.

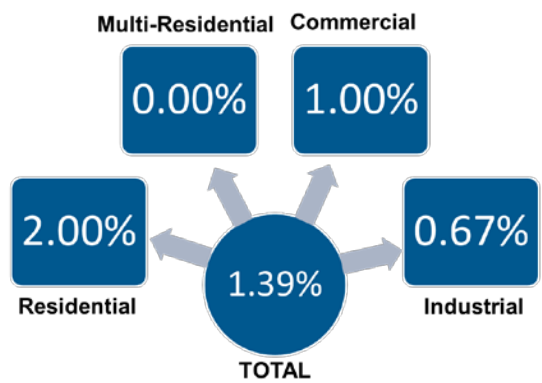
Methodologies to Calculate Tax Rate Guideline

All Operating Budget pressure estimates account for an assumed inflationary increase in property taxes. During its consideration of *2017 Budget Process - Budget Directions and Schedule (EX16.37)* on February 15, 2017, City Council directed the City Manager to prepare the 2017 tax-supported net operating budget based on estimated revenue resulting from a residential property tax increase at or below the rate of inflation.

In accordance with Council direction, the 2017 Preliminary Operating Budget presented by staff to Budget Committee on December 6, 2016 for consideration as part of the 2017 Budget process, included a residential property tax rate increase of 2% prior to City Building Fund and Current Value Assessment (CVA) Policy Shift impacts.

This increase was reflective of an inflation-level adjustment based on the percentage change over the previous 12 month period according to the Consumer Price Index for the Toronto area, as provided by Statistics Canada. In keeping with Council tax policy and new legislation / regulation for multi-residential properties, a 2% residential property tax rate increase equated to an overall tax rate increase of 1.39%, as detailed in the table below:

2017 Property Tax Rate Increase



During its consideration of *2017 Property Tax Rebates and Related Matters (EX22.1)* on February 15, 2017, City Council requested the Deputy City Manager & Chief Financial Officer to report to the Budget Committee prior to the 2018 Budget process on a range of methodologies to calculate the rate of inflation for the purposes of setting the tax rate guideline for the 2018 Budget.

In response to this request, City staff have reviewed the following three methodologies that can be used to calculate the rate of inflation:

1. The percentage change over the previous 12 month period for the Consumer Price Index (CPI) for the Toronto area;
2. The annual CPI forecast for the Toronto area for the following (budget) year; and
3. Establishing a Municipal Price Index for the City of Toronto.

CPI (Actual Change over the Previous 12 Months)

CPI measures the price changes for common household purchases. Housing, food and transportation are the major cost drivers used in the CPI calculation. CPI is often used in inflation calculations for Social Security payments, labour agreements, service contracts and retirement benefits.

CPI is a useful proxy for cost inflation as it is well known and produced monthly by an independent source (Bank of Canada) and available publically free of charge.

The City of Toronto's historical practice for applying CPI in setting tax rate increase is based on applying the percentage inflationary increase experienced year over year a set date. This approach ensures the application of actual average inflationary increases experienced over the past year in determining revenue increases needed to support future municipal cost increases.

This methodology results in discrepancies between inflation experienced over the last year compared to cost increases anticipated in the following year, as well as the concern that goods and services measured in the CPI calculation are not entirely reflective of the goods and services purchased by a municipality or the relative weighting of those expenses.

Annual CPI Forecast

The annual CPI forecast projects the anticipated CPI percentage increase for future years based on inflationary assumptions applied to the same common household purchases calculated by the Bank of Canada in establishing CPI experienced over the previous 12 period.

This particular addresses the issue of possible discrepancies between inflation experienced over the prior year compared with the inflationary increase anticipated in the following year and provides better insulation from month to month fluctuations.

The CPI forecast method of calculation is not entirely reflective of the goods and services purchased by a municipality and does not address issue of a municipality's true costs. Information for this forecast is obtained through a combination of the Conference Board of Canada, Moody's and Statistics Canada.

Municipal Price Index

The Municipal Price Index (MPI) measures and reflects forecasted inflationary increases in the mix of goods and services purchased by the municipality. In calculating the MPI, the inflationary increases used for each good and service is weighted proportionately, reflecting the relative size of the expense within overall City costs.

The MPI methodology, is in practice, the current methodology utilized by the City, in accordance with the City of Toronto's User Fee Policy, to calculate inflationary increases for user fees: inflationary increases are based on the weighted cost inputs unique to the service or activity for which the user fee applies.

The use of an MPI addresses weaknesses of using a CPI method of calculation in that it reflects *both* the relative inflationary cost increases experienced by a municipality compared to those experienced by a common household and it eliminates any possible discrepancies between inflation experienced over a prior year compared to cost increases anticipated in the following year. An MPI methodology accounts for the cost of a municipality's unique basket of goods and services it consumes.

One concern shared by the MPI and CPI forecast methodologies is that the information used to calculate these indexes are not readily available to the public, unlike the published year over year results. In some instances, inflationary cost projections may have to be derived by City staff drawing on various sources, which could lead to the perception that the inflationary estimates are overly inflated. For example, cost of living adjustments (COLA) to wages and benefits are based on collective agreements and Council decisions, which is the single largest weighted increase for a municipality. As well, these cost drivers are not be available when future year increases are subject to future collective bargaining outcomes.

Jurisdictional Review

As part of the review of methodologies to calculate the rate of inflation, twenty of Canada's largest municipalities were surveyed to determine the methodology used for setting their annual property tax rates. This review determined the following:

- The majority of municipalities (fourteen) surveyed did not use inflation calculations to set annual property tax rates;
- Two municipalities applied CPI based on previous 12 month results;
- Four municipalities utilized an MPI: Calgary, Kitchener, Milton and Waterloo;
- No municipality reported using an annual CPI forecast.

Best Practice

The Government Finance Officers Association (GFOA) recommends the use of an MPI as best practice and has published literature suggesting the benefits of developing a municipal price index, noting the importance of creating an understanding that the pattern of municipal spending is different than those of the common household.

GFOA literature notes that an MPI is most successful when potential credibility issues are addressed through:

- Continued refinement of the calculations;
- Quarterly reporting of the MPI figures;
- Public reporting on the value of an MPI compared to use of CPI; and
- Use in conjunction with a long-tern financial view.

The use of an MPI for the City of Toronto will be further considered by staff in conjunction with the current development of the City's Long Term Financial Direction, as this methodology would be best used together with a multi-year financial forecast, as noted above.

For 2018, staff will determine the rate of inflation for the purpose of preparing the Operating Budget based on an annual CPI forecast.

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 policy, debt servicing costs cannot exceed 15 percent of property tax revenues *in any given year*. In 2017, the 15% debt service ratio policy was relaxed to *an average of 15% over the 10-year capital plan period* as a result of the increased debt capacity made available to fund key capital priorities in 2017.

$5.8 billion in new capital investments was made possible by adding $3.3 billion in increased debt capacity, based on the following actions:

- $134 million debt room made available by better matching cashflow funding estimates to actual project timelines and activities
- $2.2 billion in debt capacity was added in the latter 5 year years of the capital plan period by adding new projects that filled unoccupied debt room reflective of a 14.75% debt servicing ratio; and
- $1 billion in additional debt borrowing capacity was made possible with Council's approval of a 0.5% levy for each of 5 years as a contribution to a capital City Building Fund for transit and housing priorities.

The added debt capacity enabled the City to fund critical, unfunded capital priorities such as the added costs for the Gardiner Expressway Rehabilitation Project, the SmartTrack transit expansion project; Port Lands Flood Protection; the City's required matching funds for TTC and non-TTC critical state of good repair projects eligible under the Public Transit Infrastructure Fund (PTIF); Toronto Public Library state of good repair and various transformation and modernization investments.

While this added debt capacity allowed the City to fund key projects included in the $33 billion of unfunded capital projects, doing so has maximized the City's debt capacity based on its current, yet now relaxed, debt servicing policy.

In the absence of other revenue sources, the City has reached its debt capacity. For 2018, the 2018 – 2027 Capital Budget and Plan submission must be prepared on a status quo basis. This requires that:

- 10-year capital plan submissions adhere to the 2018 – 2027 Capital Plan approved by Council as part of the 2017 Budget process, and projects be added in the new tenth year, 2027, that can be accommodated within current debt targets.

- City Program, Agency and Financial Planning staff 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 rate of 65% and carries forward approximately one third or $1 billion of its approved capital budget annually to complete prior year capital projects. Programs and Agencies will be required to adjust budgets to meet real, expected annual spending rates;

- Priority be placed on completing transit, transportation and social infrastructure projects funded through intergovernmental agreements in order to meet program conditions and deadlines and to mitigate risk to the City; and,

- Should any funding become available, that capital funding priorities be limited to projects that address:
  - Critical State of Good Repair, including energy retrofits
  - AODA Compliance
  - Transformation, modernization and innovation projects with financial benefits
  - High-needs social infrastructure

- Stage gating process be implemented to govern the development and approval process for new major capital projects during the entire project lifecycle based on project complexity.

  - Stages requiring Council approval for project advancement will be as follows:

    - ***Stage 1: Initiation and Development*** – Council approval to proceed with concept development and feasibility;
    - ***Stage 2: Preliminary Design and Preparation*** - Council approval to initiate preliminary design and project preparation activities;
    - ***Stage 3***: ***Detailed Design -*** Council approval to complete 30% design for the capital project; and
    - ***Stage 4: Procurement and Construction*** – Council approval to initiate procurement and project construction based on refined project scope, timing and cost estimates resulting from the detailed design.

  - The requirement for funding approval will be subject to:
    - the completion of the prior gate, with procurement and construction approval requiring completion of 30% design for standard design/bid,/build project delivery or in the case of an alternative procurement and delivery, 15% to 30% as dictated by the chosen method of procurement; ***and,***
    - Funding being secured

- Project estimates and timing of all remaining unfunded capital projects continue to be refined to inform the City's Long Term Financial Plan and any associated expenditure and revenue strategies.

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 mature Council's strategic decision making and financial oversight, the 2018 Budget process will be similar to the 2017 Budget process which is based on principles of good governance and incorporates best and leading financial planning and budgeting practices into its budget; namely:

- Service-Based Budgeting;
- Public Education and Engagement;
- Accessible Information;
- Transparent Decision Making; and most recently.
- Gender Equity and Economic Impact Analyses

Gender, Equity and Economic Impact Lenses

In addition to providing financial and service level impact analyses, the City is transforming its budget process to better assess and respond to the City's equity priorities in the budget process and to identify the economic impacts of its budgetary decision making. The budget process will provide City Council and the public with gender equity and economic impact information to better understand the implications of proposed changes to the budget to support informed budgetary decision making.

This transformation is a long-term project, requiring several phases with the 2017 Budget process representing the first phase of these changes. An external group of reviewers analyzed the potential equity impacts of proposed service level changes in select Program budgets. Also an analysis of the economic impacts of proposed service adjustments and changes were also presented. The findings were provided to Budget Committee in Budget Briefing Note #31 entitled, "*Equity and Economic Impacts of the 2017 Operating Budget".*

Phase 2 will see the City implementing several new measures. Starting with the 2018 Budget process and through the 2019 Budget process timeframe, the City will include an analysis of the potential equity impacts of proposed service level changes in the Operating Budgets of all City Programs and Agencies. Particular attention will be given to the gender impact of budget proposals and the impact on residents with low-income. This analysis will be supported by the application of the City's recently revised Equity Lens as well as new budget reporting requirements of all Programs and Agencies.

The 2018 Operating Budget Notes will include a summary of the equity impacts of the program's Operating Budget, with an emphasis on gender impact and the impact on residents with low-income. Additionally, an External Review of the potential equity impacts of the Budget will be conducted. The findings will be reported to Budget Committee during the budget process.

In October 2017, staff will be reporting to Council with a status on the development of an Intersectional Gender-Based Framework. The Framework will be integrated into an online version of the Equity Lens, which is currently under development, with delivery anticipated in late 2017. This tool will allow for more robust gender analysis and gender-responsive budgeting.

Later phases of this work initiative will focus on identifying how budget proposals explicitly enhance Council-directed equity priorities, and also broaden the equity-impact analysis to include the Capital Budget, as well as revenue options. Later phases of the project will also benefit from and be revised based on the implementation and outcomes of the City's Disaggregated Data Collection Strategy.

2018 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 2018 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 1 to October 22, 2017
Once this report is approved in May, the City Manager (CM) and Deputy City Manager & Chief Financial Officer (DCM & CFO) will develop and distribute budget directions and guidelines for the 2018 Operating and Capital Budgets to all City Program and Agency Heads.

By August 2, 2017 all City Programs and Agencies will submit their 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 2018 Preliminary Operating Budget and 2-year Plan and a 10 - year Capital Budget and Plan must be finalized no later than October 22nd to provide sufficient time to prepare the necessary budget documents, communications and budget website in time for the Budget Launch.

In prior years, certain agencies were unable to adhere to submission timelines limiting opportunities for City staff to analyze and review Agency budget requests during the budget development and review stage. In a few situations, City staff had limited budget materials to review prior to Board deliberation on the budget request, which did not occur until the fourth quarter of the year.

In addition to limiting time available for City staff to review Agency budget requests, late and incomplete submissions impacted the ability of City staff to accurately determine the City-wide budget position, as well as develop strategies to resolve Agency-specific or resultant City-wide budget issues.

To allow for sufficient time for City staff to review Agency budget submissions and business cases; assess and validate expenditure, revenue and service risks; identify expenditure and funding options; and then consolidate and prepare budget documents for the Public Launch, it is recommended that Council direct that all City Agencies submit operating and capital budgets requests to the Deputy City Manager & Chief Financial Officer that adhere to the following requirements:

a) Budget targets established by City Council;
b) Submission format, submission components and the period that it covers, as established by the Deputy City Manager & Chief Financial Officer;
c) The City's 2018 Operating and Capital Budget Submission Guidelines and Instructions Manual; and
d) Budget Submission deadlines as established by the Deputy City Manager & Chief Financial Officer, so that City staff can fully review Agency budget submissions as part of the Administrative Review process.

Budget Committee Member (Informal) Review: mid-September – mid October, 2017

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: October 23 – November 29, 2017

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.

As noted above, 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.

In these cases it has been difficult for City staff to prepare final budget materials for the City Budget Launch, as well as address any issues arising from Board directed changes to the Agency Board approved budget submission.

Late Board budget deliberations also result in competing priorities for Agency finance staff during a period that they are required to both produce budget materials for their respective Boards while also working collaboratively with City staff to finalize outstanding information requirements needed to support the City's Budget Launch. This has at times resulted in insufficient, and sometimes contradictory, information available to support Council's decision making process.

To ensure an appropriate length of time is provided for City staff to finalize the City's whole of government budget in time for the Public Launch, it is critical that City Agencies submit their respective final Board-approved 2018 Operating and Capital Budget requests to both Budget Committee and the Deputy City Manager & Chief Financial Officer ***no later*** than October 1, 2017.

Committee Review Process:

Public Budget Launch: November 30, 2017
The Preliminary Tax Supported Operating Budget and 10-year Capital Plan will be launched on November 30, 2017, 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 2018 Preliminary Operating and Capital Budgets and Plans 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 addressed at Budget Committee meetings scheduled specifically for Program/Agency budget briefings and review, as noted below.

- Beginning with the 2018 Budget process, Budget Binders comprising of Budget Notes for every Capital and Operating Program/Agency Budget will no longer be printed for distribution. All Budget Notes will be made available on the City's Budget website and City Clerk's site for Councillor and public access. These will be made available the morning of the Launch. Budget communications information will continue to be distributed to members of Council and will be made available on the City's Budget Website at the time of Budget Launch for the public.

Budget Briefings: December 12, 14, 15 & 18, 2017

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 2018 service levels;
- service challenges, issues and performance;
- 2018 preliminary service operating budgets;
- 2018 – 2027 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 these four days. 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 1, 2016 to January 22, 2018

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 8, 9 and 10, 2018

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 2017, public meetings were held at each of the 6 civic centre locations. Sufficient time has been set aside to continue Budget Committee's practice of attending 6 locations across the City over the 3 days

The location and approach for 2018 will be determined by the Chair of the Budget Committee, together with its members.

Budget Committee Wrap-up: January 12, 2018
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 23, 2018
This is the final meeting of the Budget Committee's deliberations on the 2018 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 6, 2018
At this meeting, the Executive Committee receives and reviews the Budget Committee Recommended 2017 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 2018 Operating Budget and 10-Year Capital Budget and Plan to City Council.

Council Review and Approval: February 12, 13, 2018
This is the final step in the Budget process. Two days are scheduled for City Council's deliberations and approval of the 2018 Tax Supported Operating and Capital Budget and Plan.

In summary, the 2018 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, efficiency and effectiveness of the services it delivers as well as the assets that support current services and those that will contribute to building a modern city. This dialogue must take into account the revenues the City has available to it for both its service and capital needs. By its very nature, municipalities are inherently risk adverse. It will be a continued challenge to balance the management of fiscal risks and financial sustainability of the City as it addresses the persistent budget gap.

CONTACT

Josie La Vita
Executive Director, Financial Planning
Phone: 416-397-4229
Fax: 416-397-4465
Email: jlavita@toronto.ca

SIGNATURE

Peter Wallace City Manager	Roberto Rossini Deputy City Manager & Chief Financial Officer

ATTACHMENTS

Appendix 1 – 2018 Budget Schedule
Appendix 2 – List of City Agencies
Appendix 3 – 2017 Actions to Balance the Budget
Appendix 4 - Municipal Price Index Calculation Methodology

APPENDIX 1

2018 BUDGET SCHEDULE

Activity	Operating / Capital Budget - Rate Supported Programs	Capital Budget - City Divisions & Agencies	Operating Budget - City Divisions & Agencies
Budget Submission ***Operating - Base Budget Only***	**June 12, 2017**	**June 12, 2017**	**June 12, 2017**
Budget Submission ***Operating - Reduction Options and New Requests***	**August 2, 2017**	**N/A**	**August 2, 2017**
BC Members Informal Reviews	September 18 - September 29, 2017	September 18 - October 13, 2017	
Budget Launch - **Budget Committee**	**November 2, 2017**	**November 30, 2017**	
Budget Briefings - Budget Committee	November 10, 2017 ***(Regular BC Meeting)***	December 12, 14, 15 & 18, 2017	
Public Presentations - Budget Committee	November 10, 2017 ***(Regular BC Meeting)***	January 8, 9 & 10, 2018	
Budget Committee Wrap-Up	N/A	January 12, 2018	
Budget Committee Final Wrap-Up	November 27, 2017	January 23, 2018	
Special Executive Committee	November 29, 2017 **(Regular Executive)**	February 6, 2018	
Special Council	December 6 & 7, 2017 **(Regular Council)**	**February 12 & 13, 2018**	

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

APPENDIX 3

ACTIONS TAKEN TO BALANCE THE 2017 BUDGET

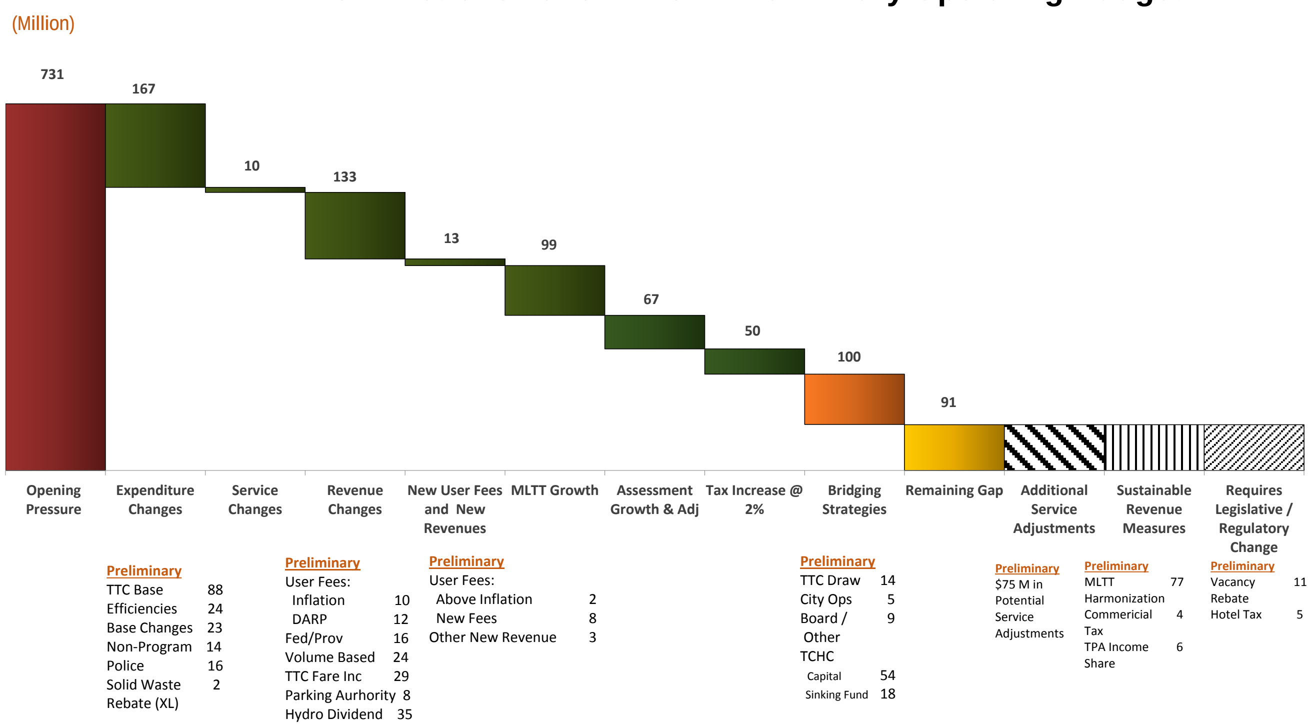
Chart 1 below summarizes the actions taken to reduce the opening pressure to $91 million, with the residual pressure being driven by TTC ($77 million) and TCHC ($31 million) offset by the cumulative reduction in all other City Program, Agency and Corporate Budgets of $18 million.

In order to close the residual gap, expenses would have to be reduced, revenues would have to increased or some combination thereof. The Budget Committee was provided with:

- $75 million in potential service adjustments, arising from proposals to achieve the 2.6 % target;
- $87 million in sustainable revenue measures available to Council within its legislative authority; and,
- $16 million in revenue measures that required legislative and/or regulatory changes by the Provincial government.

The measures identified in the 2 revenue options were those identified in the Revenue Strategy and Asset Optimization Study reports which were referred to 2017 Budget process for consideration.

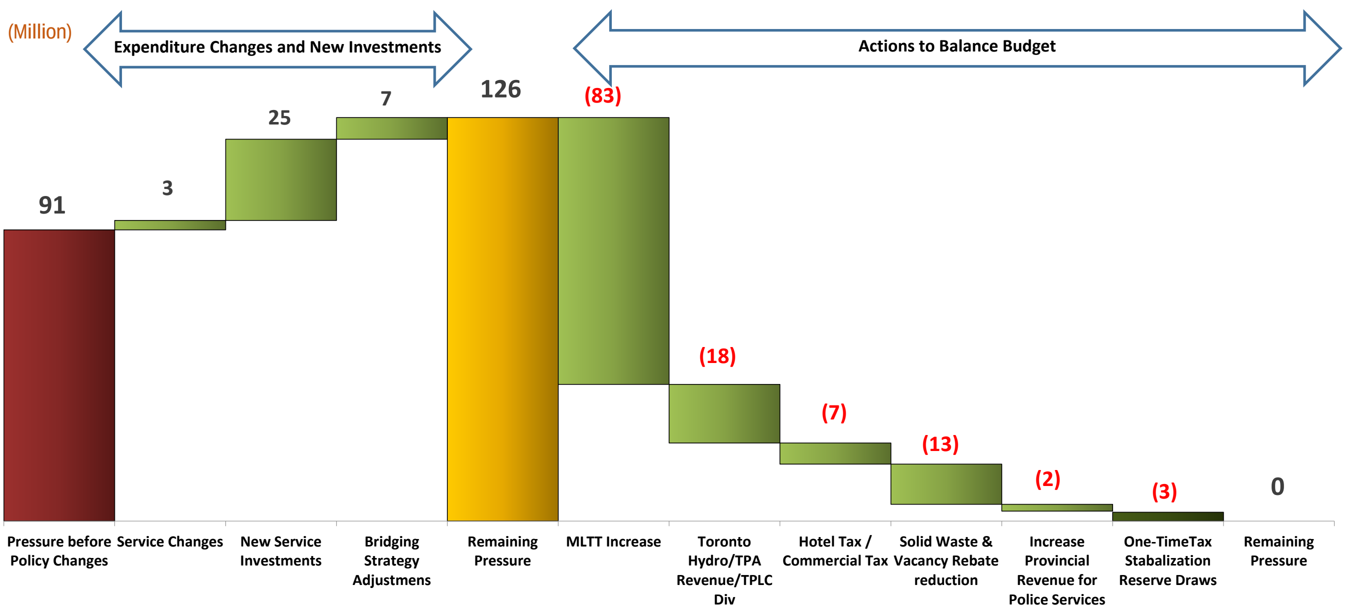
Chart 1
2017 Actions Taken – 2017 Preliminary Operating Budget



As detailed in Chart 2 below, the sum of Budget Committee, Executive Committee and City Council actions saw the residual gap increase from $91 million to $126 million which was offset by optimizing the City's revenues, namely:

- Harmonizing MLTT rates with Provincial rates
- Increasing dividends from Toronto Parking Authority and Toronto Hydro and redirecting Toronto Pubic Lands Corporation dividends to fund the City's economic development priorities
- Leveraging the City's commercial tax base
- Introducing a new Hotel and Lodging Tax (subject to Provincial approval)
- Adjusting tax preferences (elimination of the vacancy rebate program and reduction in the solid waste rebate program)
- Increasing one-time use of reserves to fund added service investments.

Chart 2
2017 Actions Taken by Council



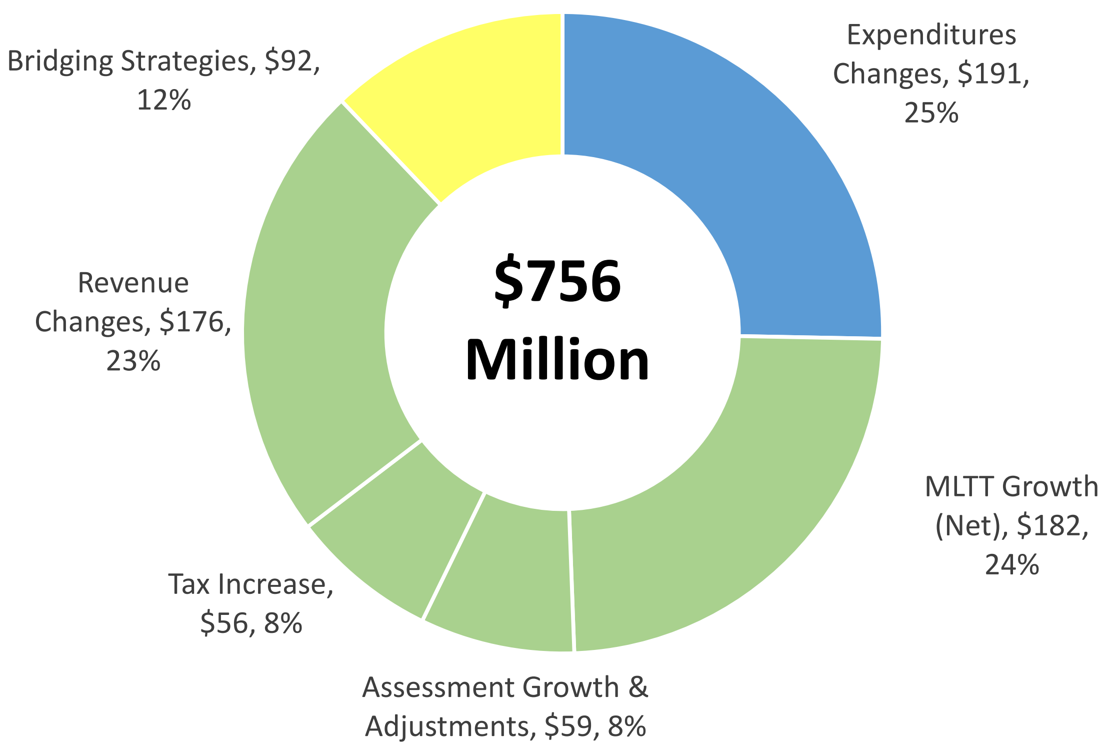
Bridging Strategies Adjustments	
Preliminary	100
BC reversals	(7)
BC Confirmation of police rev from Prov	(6)
EC Add back TTCreserve draw to offset restoration of occupancy grants	2
CN One-Time Tax Stab Res Draws	3
Total	92

Overall, the balancing strategies utilized to address the 2017 Operating Budget total pressure of $756 million ($731 plus $25 million in added service investments) were comprised of 4 key actions representing:

- 25% or $191 million in ***expenditure reductions*** reflective of base budget reductions, efficiency savings and service adjustments
- 12% or $92 million in ***bridging strategies*** that defer $72 million in critical expenses to 2018 for TCHC and use of $18 million in one-time TTC and Tax Stabilization Reserve Funds
- 47% or $348 million by ***maximizing existing and new revenue sources***; namely:
  - 24% or $182 million in additional MLTT revenue that matches 2017 budgeted revenue to 2016 experience $99 million) and harmonizes City

MLTT rates with provincial rates, less an increase for the First Time Homebuyers' Rebate ($83 million); and,
   - 23% or $173 million in existing and new user fee revenue including a TTC fare increase, optimizing proceeds from City agencies and corporations; increased transfers from other orders of government and a new Hotel and Lodging Tax.
- 16% or $112 million was derived from ***increasing the City's property tax funding*** due to assessment growth and a 2% residential property tax rate increase (excluding the .5% levy increase for the capital City Building Fund).

Chart 3
2017 Actions Taken – Revenue Vs Expenditure Changes



APPENDIX 4

MUNICIPAL PRICE INDEX CALCULATION METHODOLOGY

As detailed in the table below, there are two components used in calculating the MPI:

1. The inflation factor for each cost item; and
2. The relative weight of each cost item based on the recommended or forecast operating budget.

Table 1 - City Of Toronto MPI Calculation

Categories		Weights*	2016	2017	2018	2019	2020
Salaries and Benefits		62.67%					
Salaries	48.88%		1.94%	1.72%	2.91%	1.64%	2.08%
Benefits	13.79%		4.00%	1.48%	3.69%	2.68%	3.47%
Contractual and General Services		15.85%	2.50%	2.50%	2.50%	2.59%	2.66%
Materials & Supplies		7.24%	2.25%	1.32%	1.63%	1.84%	1.80%
Equipment		0.63%	2.20%	2.10%	2.80%	2.92%	3.01%
General Equipment	0.56%						
Hardware	0.04%						
Software	0.04%						
Utilities		3.57%					
Hydro	2.87%		6.00%	8.00%	4.80%	9.97%	10.26%
Steam Heating	0.04%		8.00%	3.00%	3.00%	3.11%	3.20%
Natural Gas	0.32%		0.00%	10.00%	1.00%	2.04%	2.10%
Water	0.16%		8.00%	5.00%	3.00%	3.11%	3.20%
Gasoline	0.18%		0.00%	0.00%	2.90%	3.00%	3.09%
Postage		0.13%	0.00%	0.00%	0.00%	0.00%	0.00%
Telephone		0.13%	0.00%	0.00%	0.00%	0.00%	0.00%
Cellular Phones		0.08%	0.00%	0.00%	0.00%	0.00%	0.00%
Transfer Payments**							
Interest Expense**							
Capital From Current		3.45%	10.00%	10.00%	10.00%	10.00%	10.00%
Gross Debt Charges		6.24%	8.80%	8.80%	8.80%	8.80%	8.80%

**Based on 2017 Approved Operating Budget, and set as Base Year. Excludes non-inflationary items.*

***As suggested in Calgary's MPI*

	2016	2017	2018	2019	2020
General CPI	2.2%	2.0%	2.1%	2.3%	2.2%
Municipal Price Index	**3.2%**	**2.7%**	**3.5%**	**3.0%**	**3.3%**

The use of an MPI would have resulted in a residential property tax rate increase of 3.2% and 2.7% in 2016 and 2017 respectively compared to Council approved rate increases of 2.18% and 2.0% based on use of CPI.