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2018 OPERATING BUDGET BRIEFING NOTE

Economic Factors

Issue/Background:

This briefing note outlines the economic factors or inflationary percentage increases utilized in the development of the multi-year 2018 Preliminary Operating Budget and 2019 and 2020 Plans.

The 2018 Preliminary Operating Budget was developed on the basis of services and service levels approved by City Council in the prior year that form the starting point for 2018 budget preparation. Based on this approach, a key element of the 2018 budget process is to determine economic factors that should be applied against 2017 Approved Budget expenditures in order to estimate the 2018 cost of providing the previous year's approved services and service levels.

The City consumes a wide range of commodities that have varying inflationary estimated increases. Since the inflationary factors for some goods and services are more volatile than others, a single rate of inflation cannot be applied to all commodities purchased by the City. As a result, the City uses a variety of standard commodity-specific inflationary price factors that more accurately reflect the changing prices of specific goods and services that it consumes.

Key Points:

- The economic factors used in producing the 2018 Preliminary Operating Base Budget and the 2019 and 2020 Plans are listed in Appendix 1.
- The 2017 Approved Budget was adjusted based on corporate assumptions to account for inflationary impacts for specific expenditures only. These included hydro (general), gas, diesel, steam heating, natural gas, water and chilled water, and salary and benefits.
- Economic factors were then adjusted by each City Program and Agency to reflect their specific requirements. As City Council adopted an across the board budget target of a zero percent net increase above the 2017 Approved Net Operating Budget, most City Programs and Agencies absorbed inflationary cost pressures by reducing expenditures to actual experience or through general cost containment.
- The economic factors are also used to guide the budgeted user fee inflationary increases. As per Council's approved User Fee Policy user fee inflationary increases are based on the specific basket of goods or services consumed by the delivery of the services. The detailed user fee rate increases can be found in the briefing note "Changes to Existing User Fees and New User Fees in the 2018 Preliminary Operating Budget".

- Automatic annual inflationary adjustments to user fees, which have been approved by City Council, will be effective on January 1 of each year. Authority is delegated to the Chief Financial Officer to annually determine the automatic annual inflationary adjustment to each such user fee based on the projected rate of inflation for the upcoming year for the weighted average cost of each component of the overall cost of providing the User Fee Service for which the user fee is charged. The projected rate of inflation for each component cost are identified in Appendix 1.
- The following example illustrates how the inflationary rate for user fees is calculated based on the weighted average cost of providing the User Fee Service:

Cost Elements	Salaries and Benefits	Office Supplies	Total	User Fee Inflation Rate
Economic Factor	2.25%	1.30%		
Parks Recreation Program				
Percent of Total Cost	70.00%	30.00%	100.00%	
Weighted Inflation Impact	1.58%	0.39%		1.97%

- Contracts with fixed prices over their term are not adjusted for inflation and are budgeted at the tendered contract prices. Where the contract specifies the 2018 price or a specific escalation clause, such expenditures are adjusted to reflect that specified increase in the 2018 Preliminary Operating Budget.

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Appendix 1 2018 Preliminary Operating Budget - Economic Factors

Expenditures Description	Budget 2017	Budget 2018	Outlook 2019	Outlook 2020		
Comprehensive Medical - Non-union - family	\$3,972	\$3,816	\$3,874	\$3,932		
Comprehensive Medical - Non-union - single	\$1,610	\$1,547	\$1,570	\$1,594		
Comprehensive Medical - Fire - family	\$4,445	\$4,641	\$4,850	\$5,068		
Comprehensive Medical - Fire - single	\$2,134	\$2,228	\$2,329	\$2,433		
Comprehensive Medical - Local 416 - family	\$4,189	\$4,092	\$4,154	\$4,216		
Comprehensive Medical - Local 416 - single	\$1,787	\$1,746	\$1,772	\$1,799		
Comprehensive Medical - Local 79 - family	\$4,539	\$4,429	\$4,495	\$4,562		
Comprehensive Medical - Local 79 - single	\$1,838	\$1,793	\$1,820	\$1,847		
Comprehensive Medical - Council - family	\$3,972	\$3,816	\$3,874	\$3,932		
Comprehensive Medical - Council - single	\$1,610	\$1,547	\$1,570	\$1,594		
Comprehensive Medical - Rec W - family	\$3,054	\$3,100	\$3,146	\$3,194		
Comprehensive Medical - Rec W - single	\$1,237	\$1,255	\$1,274	\$1,293		
Comprehensive Medical - L79 Pt B - family	\$4,445	\$4,512	\$4,580	\$4,648		
Comprehensive Medical - L79 Pt B - single	\$1,502	\$1,524	\$1,547	\$1,570		
Dental - Non-union - family	\$2,259	\$2,184	\$2,217	\$2,250		
Dental - Non-union - single	\$846	\$817	\$829	\$842		
Dental - Fire - family	\$2,086	\$2,017	\$2,047	\$2,078		
Dental - Fire - single	\$960	\$928	\$942	\$956		
Dental - Local 416 - family	\$2,042	\$1,974	\$2,003	\$2,033		
Dental - Local 416 - single	\$797	\$770	\$782	\$793		
Dental - Local 79 - family	\$2,089	\$2,019	\$2,050	\$2,080		
Dental - Local 79 - single	\$794	\$767	\$779	\$791		
Dental - Council - family	\$2,259	\$2,184	\$2,217	\$2,250		
Dental - Council - single	\$846	\$817	\$829	\$842		
Dental - Rec W - family	\$1,990	\$2,019	\$2,050	\$2,080		
Dental - Rec W - single	\$756	\$767	\$779	\$791		
Dental - L79 Pt B - family	\$1,990	\$2,019	\$2,050	\$2,080		
Dental - L79 Pt B - single	\$756	\$767	\$779	\$791		
Non Union - Long Term Disability	4.040% of 70% of salary = 2.828% of annual salary		2.92/\$100 of 70% of salary = 2.044% of annual salary			
Local 79 - Long Term Disability			4.26/\$100 of 70% of salary = 2.982% of annual salary			
Local 416 - Long Term Disability			4.45/\$100 of 70% of salary = 3.115% of annual salary			
Local 3888 - Long Term Disability			5.46/\$100 of 75% of salary = 4.095% of annual salary			
Group Life	0.029% of 2x salary x 12 months = 0.696% of annual salary					
Group Life - Part-Time B	0.029% of max \$3,000 x 12 months = 0.348% of \$3,000 annually					
Group Life - LTC Part-Time	0.029% of max \$20,000 x 12 months = 0.348% of \$20,000 annually					
Accidental Death and Dismemberment (ADD)	\$0.0021% * 2x salary * 12 months = 0.050% of annual salary					
In-Line of Duty Coverage Fire	0.0081% of 3x salary x12 = 0.292% annually					
Employment Insurance Benefits - Sick Pay Plan	\$1,268	\$1,076	\$1,086	\$1,097		
Employment Insurance Benefits - STD / IIP	\$1,185	\$995	\$1,004	\$1,014		
Employment Insurance Benefits - No Sick Plan	\$1,372	\$1,182	\$1,194	\$1,205		
Employer Health Tax	1.95% of annual salary					
Canada Pension Plan	\$2,610	\$2,607	\$2,651	\$2,695		
Pension - OM60 - Fire	9.2% of annual salary up to \$56,141	9.2% of annual salary up to \$56,173	9.2% of annual salary up to \$57,061	9.2% of annual salary up to \$57,962		
	15.8% above \$56,141	15.8% above \$57,173	15.8% above \$57,061	15.8% above \$57,962		
Pension - OM65 - All except Fire	9.0% of annual salary up to \$56,141	9.0% of annual salary up to \$56,172	9.0% of annual salary up to \$57,061	9.0% of annual salary up to \$57,962		
	14.6% above \$56,141	14.6% above \$56,172	14.6% above \$57,061	14.6% above \$57,962		
Vacation Pay - Part-Time B	6% annually					
Vacation Pay - Rec W	5% annually					
Vacation Pay - LTC Part-Time	7% annually					
Vacation Pay - Trades	5% annually					
Allowance - Uniform Cleaning	\$350 annually					
Allowance - Tool	\$750 annually					
Allowance - Clothing	\$150 annually					

Expenditures Description	Budget 2017	Budget 2018	Outlook 2019	Outlook 2020
Fringe - Trade	39.2% annually			
Fringe - Part Time B	16.6% annually			
Fringe - Rec W	9.47% annually			
Fringe - LTC Part-Time	21.1% annually			
COLA - Non-Union Employees	1.25% annually	TBD		
COLA - L416/79, Trades, Rec W	1.00% annually	1.00% blended annually	1.00% blended annually plus 0.25% lump sum	TBD
COLA - Fire	TBD			
COLA - LTCHS Part-Time	TBD			
Progression Pay	2.65% annually			
Printing & Paper Products	1.00%	1.20%	1.10%	1.05%
Utilities - Hydro (General)	4.00%	1.80%	7.90%	7.90%
Utilities - Hydro (Signals & Lights)	9.40%	5.80%	7.20%	9.00%
Utilities - Hydro (LTCC)	N/A	-6.40%	1.70%	2.20%
Utilities - Hydro (SSHA)	N/A	-6.60%	1.60%	2.20%
Utilities - Hydro (Toronto Water)	N/A	1.60%	8.80%	8.50%
Utilities - Hydro (Exhibition Place)	N/A	1.20%	7.30%	8.40%
Utilities - Hydro (Toronto Public Library)	N/A	1.50%	8.10%	7.60%
Utilities - Hydro (Toronto Parking Authority)	N/A	2.50%	7.40%	8.00%
Utilities - Hydro (TTC)	N/A	2.90%	11.20%	8.60%
Utilities - Hydro (Toronto Zoo)	N/A	3.00%	12.90%	8.70%
Utilities - Steam Heating	3.00% annually	3.00%	3.00%	3.00%
Utilities - Natural Gas	10.00%	1.00%	2.00%	2.00%
Utilities - Water	5.00%	5.00%	3.00%	3.00%
Utilities - Chilled Water	2.10% annually	2.10%	2.10%	2.10%
Gasoline	1.04 per litre or 0%	1.07 per litre or 3.9%	1.10 per litre or 2.8%	1.13 per litre or 2.7%
Diesel	1.04 per litre or 0%	1.07 per litre or 3.9%	1.10 per litre or 2.8%	1.13 per litre or 2.7%
Food	2.30% annually	2.40%	2.30%	2.40%
Postage	0.00%	0.00%	0.00%	0.00%
Telephone	0.00%	0.00%	0.00%	0.00%
Cellular	0.00%	0.00%	0.00%	0.00%
Bldg / Trade Materials / Tools & Equipment	2.10% annually	2.80%	2.90%	2.80%
Salt	0.19%	0.39%	1.09%	1.09%
Medical Supplies	2.00%	2.20%	2.20%	2.20%
Contracted Services*	See below			
CPI - General	2.00%	2.12%	2.28%	2.24%

* Note: Contracts with fixed prices over their term are not adjusted for inflation. Where the price schedule specifies the 2018, 2019 and 2020 contract prices, such prices should be included at the prices approved in the tender.