OPERATING BUDGET POLICIES

Annual Operating Budget – In compliance with the City of Toronto Act, 2006, City Council will adopt an operating budget in each year. The operating budget will include estimates of all sums required during the year to pay for all debt falling due during that year; amounts required for sinking funds or retirement funds; and amounts required for agencies, boards and commission.

Balanced Budget – The operating budget approved by Council in any given year must be balanced; which means that estimated revenues must be equal to, or in excess of estimated expenditures. Any in-year increase in operating expenditures or decrease in revenues that could result in a budget imbalance will require Council approval of appropriate budget revisions to ensure that the budget remains balanced.

Basis of Budgeting - The City of Toronto develops its Operating and Capital Budgets on a cash basis. Only revenues that will be received in cash during the budget year are included in the revenue budget; similarly, only payments that will be made during the budget year are included in the expenditure budget. In effect, revenues are budgeted in the year in which they will be received and expenses when they are paid. It is noted that the City has moved to a full accrual basis of accounting. For financial reporting purposes, expenditures are recorded when incurred based upon receipt of goods and services or the creation of a legal obligation to pay.

For budgeting purposes capital assets are not amortized over their useful lives. At present, the City does not produce a budgeted balance sheet. As yet, it has not been mandated that the City adopt the full accrual basis of budgeting. However, in 2010, the Ministry of Municipal Affairs and Housing amended the City of Toronto Act, 2006 to require the City of Toronto to report to Council the impact of amortization expenses, post-employee benefits and solid waste landfill closure and post-closure liabilities on the City's Operating Budget and on future tangible capital asset funding requirements, should it not produce its budget on a full accrual basis. The Ministry of Municipal Affairs and Housing will review this regulation over the next few years and make a final decision on how municipal budgets are to be prepared.

It is City Policy to annually describe the differences between cash budgeting verses accrual accounting in a report to Council prior to approving the Annual Operating Budget. This report can be found on http://www.toronto.ca/legdocs/mmis/2013/bu/bgrd/backgroundfile-54647.pdf.

For budget purposes, the City outlines a 10-year plan of expenditures and funding sources for the assets it plans to build or acquire. Funding sources include provincial and federal funding, future debt, an appropriation of operating budget funding (current contributions to capital or Capital form Current (CFC), and draws from reserves. The operating budget includes amounts set aside for CFC and for debt repayment (interest and principal) for past asset purchases. These represent the cash requirements to acquire and pay for capital assets.

For accounting purposes, capital acquisitions are accounted for as additions to the asset base, not expenses because they generate service benefits beyond one year. There are four ways to acquire an asset:

- Use existing cash (reserves) to buy it. As this is seen as simply trading one asset (cash) for another (physical asset), the use of reserves is not considered a revenue for accounting purposes.
- Generating surplus cash from operations (CFC) to buy it. Although CFC is recognized as expenditure for budget purposes, for accounting purposes, CFC is not recognized an expense.
- Grants from other levels of government or contributions from other parties will sometimes fund a portion of certain assets. These monies are generally recorded as revenues once the asset is bought or built.
- Borrow the funds. Debt issuance is not revenue and the repayment of the principal is not considered an expense for accounting purposes. For budget purposes, debt principal repayment is treated in the same way as CFC as the government must raise funds from operations to repay the debt. Interest on the debt is considered an expense.

For accounting purposes, once the asset is acquired and put into service, the cost of the asset is amortized (expensed over its useful life). For example, if the asset cost $1,000,000 and is expected to last 10 years, $100,000 would be expensed each year representing one-tenth of the asset's cost.

The City does not budget for amortization as it is an approximation of the asset's consumption and, as such, is a non-cash item. There is also one other significant difference between the City's cash budget and the City's accrual basis of accounting financial statements and that is the treatment of large maintenance expenditures. For accounting purposes, many expenditures for maintaining assets are considered as expenses to operations in the year they occur. For budget purposes, large periodic expenditures for maintenance are considered capital works and are budgeted in the capital budget as opposed to operations.

Budget Development – Consistent with prior years, the starting assumption of developing the annual Operating Budget is that services and service levels approved in the immediately preceding year will be maintain wherever possible.

Contingency Funds – A contingency fund is the money approved in the operating budget to provide funding for one-time expenditures that were not known or expected at the time the operating budget was approved by Council. Contingency funds may only be used for: (i) one-time non-recurring costs that were not identified at the time the operating budget was approved; and (ii) unforeseen expenditures resulting from economic, climatic, in-year legislative changes from senior levels of government and legal settlements. The funds shall not be used for over-expenditures by programs, and approval must be obtained by the Chief Financial Officer for any use of the contingency funds.

Diversified Revenue Sources – Diversified and stable revenue sources will be encouraged in order to protect against short-term revenue fluctuations and uncertainty. Individual revenue sources have differing characteristics in terms of stability, growth, sensitivity to inflation, business cycle effects and impact on tax and ratepayers. A diversity of revenue sources must be considered in order to improve the city's ability to handle fluctuations in revenues and help to better distribute the cost of providing services.

One-Time Revenues – Use of one time revenues to fund ongoing expenditures should be restricted to extraordinary situations, which must be approved by Council on a case-by-case basis. One-time revenues should be more appropriately used for purposes such as early debt retirement, capital expenditures, and one-time expenditures.

Operating Budget Amendments - In-year operating budget changes must originate with the controlling Program area and it is the responsibility of the Program to obtain Council approval for in-year budget adjustments, where required. It is the responsibility of the Financial Planning Division to oversee the management of the City's Operating Budget and ensure compliance with applicable policies and procedures. Accordingly, all requests for in-year budget adjustments must be sent directly to the Financial Planning Division.

Budgetary control will be maintained at the service level for decision making purposes and the Financial Planning Division, in concurrence with the City Manager and the Deputy City Manager and Chief Financial Officer, will review the budget adjustment request for justification and net budget impact, and for adherence to applicable policies and procedures.

Generally, all budget adjustments require the approval of Council as set out in Financial Control By-law (Chapter 71). Council approval can be sought by means of a staff report or through the quarterly variance report, depending on the adjustment threshold and the impact on the net operating budget.

Reserves/Reserve Funds – A reserve is an allocation of accumulated net revenue that is a part of the revenue fund, makes no reference to any specific asset and does not require the physical segregation of money or assets. It is distinct from a reserve fund, which is segregated and restricted to meet a specified purpose. The use and funding sources of reserves/reserve funds are determined by the City's CFO, in consultation with beneficiary programs. Moreover, the CFO shall report to City Council on the inflows to, and outflows from each reserve/reserve fund on a quarterly basis.

Surplus Management – Any Operating Surplus realized by the City at year-end will be disposed of in priority order to (i) the Capital Financing Reserve Fund (at least 75% of the additional surplus); and (ii) to fund any under-funded liabilities, and/or reserves/reserve funds.

User Fees and Charges – Where it is determined that a service provided by a City program, agency, board or commission confers a direct or special benefit to an individual, identifiable group or business, a user fee will be imposed to recover the cost of providing the service. User fees will be set to recover the full cost of providing related services, except where full cost recovery conflict with a City's policy objective on community access to services, promotion of specified goals or regulatory practices; the cost of collecting specific user fees is not efficient or constitute a significant portion of the user fee revenue for the service; or other conditions exist that would justify the exception;

User fees should be reviewed and where warranted, adjusted annually as part of the budget process in order to determine the impact of inflation and other cost factors on the adequacy of the user fee to recover the full cost of the respective services, and to adjust the fee where appropriate.

City User Fee Policy:

http://www.toronto.ca/legdocs/mmis/2011/ex/bgrd/backgroundfile-40701.pdf