

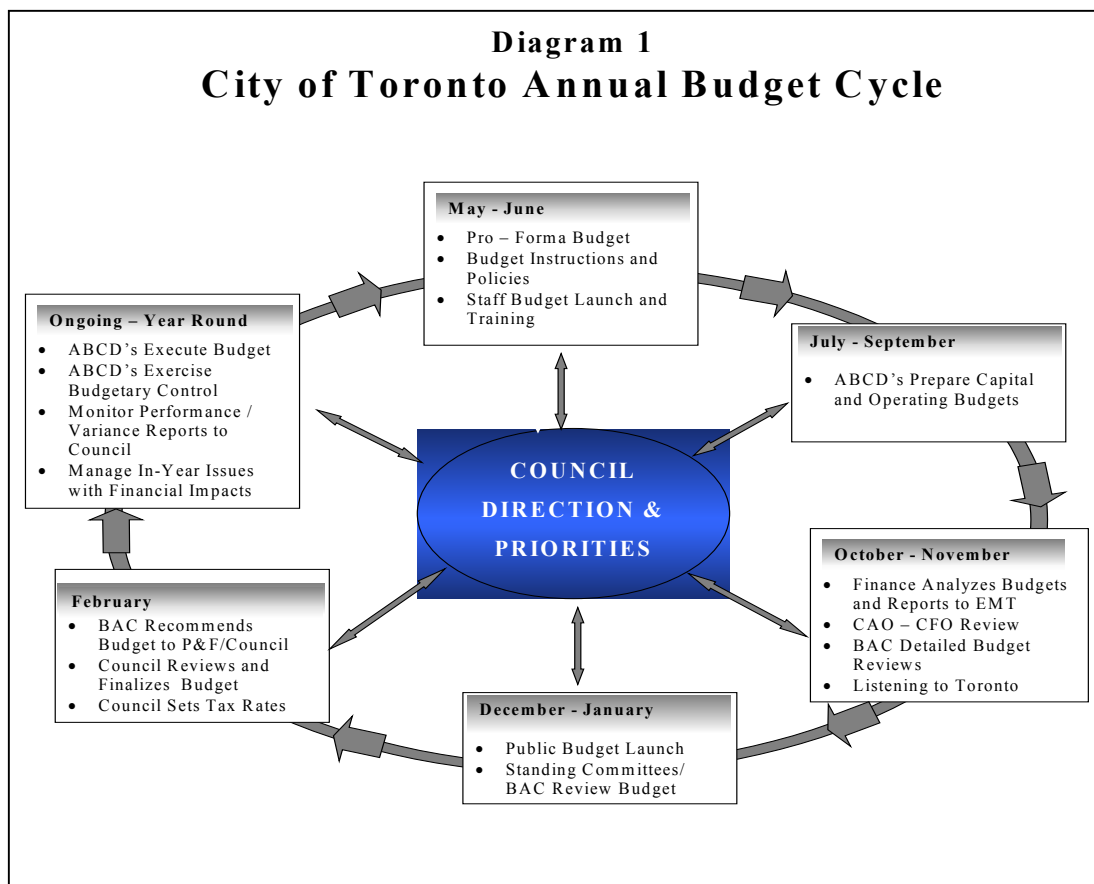
2005 Operating Budget

Background:

The City of Toronto Budget Cycle

Diagram 1 below reflects the various phases of the City of Toronto's annual budget cycle. For 2005, the Finance Department prepared and distributed to Agencies, Boards, Commissions and Departments (ABCDs) the 2005 Pro-Forma Operating Budget and Capital Expenditure Targets, along with budget instructions and policies in May and June 2004. Staff of the ABCDs prepared their budgets during the period July through September. These budgets were submitted to the Finance Department in November and were thoroughly reviewed / analyzed by Financial Planning Division staff as the preliminary phase of the Administrative Review process. Toward ensuring stakeholder participation, the Committees / Council review, which began in December 2004 and continued into February 2005 included a major public consultation, and afforded opportunity for the public to provide input into the budget through deputations. Council is expected to approve the 2005 Capital and Operating Budgets in February, subsequent to which staff will proceed to execute the budget, exercise budget controls, monitor performance, prepare variance and other performance reports on a quarterly basis and manage in-year changes which have financial implications.

As indicated in Diagram 1, the annual budget cycle is comprised of key steps that result in an effective budgeting process and as a key element, ensured that Council priorities formed the basis for decisions on allocation of scarce resources to programs and services.



2005 Operating Budget Process

The 2005 Operating Budget process focused on linking resources to service levels, service priorities and resultant community impacts. Consistent with prior years, the starting assumption for the 2005 operating budget process was that services and service levels approved in 2004 would be maintained wherever possible. Therefore, the 2004 budget was adjusted to annualize in-year Council initiatives and decisions. Next, the annualized base budget was adjusted for inflation. The result of the above exercise was the cost of continuing to provide the 2004 approved services and service levels in 2005 dollars.

Inflation / Economic Factors

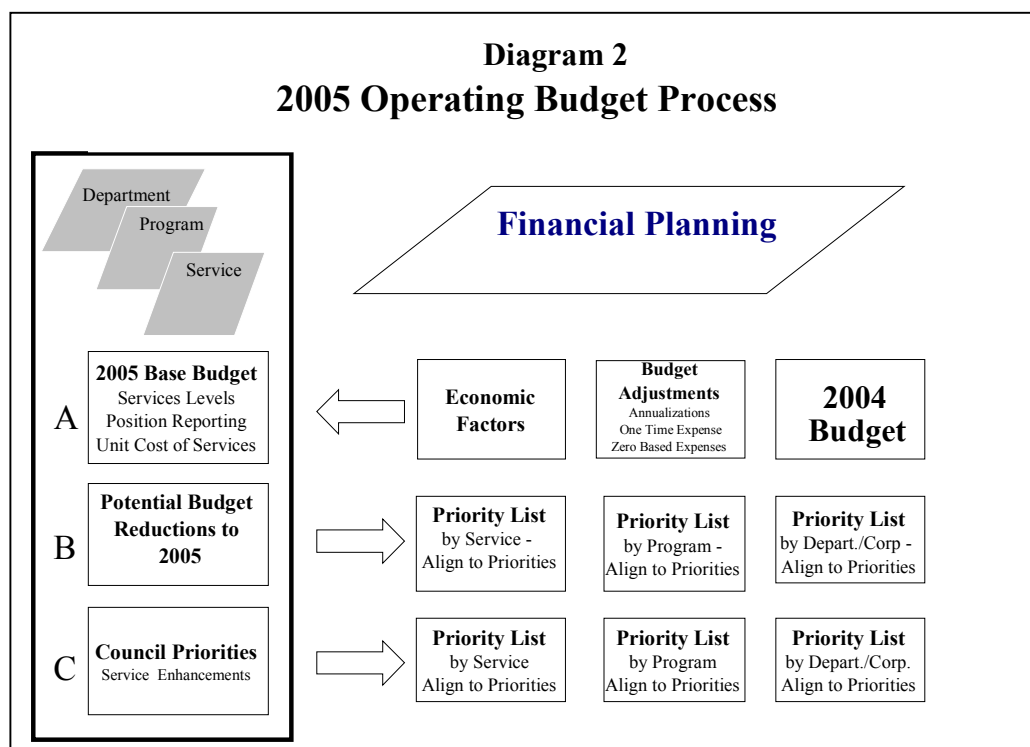
With regard to inflation, a single rate cannot be applied to all commodities consumed by the City. For instance, some contract prices are fixed for their duration, while others may have pre-established cost schedules and may not require adjustments for inflation until renewal. Others may have escalation clauses with pricing formulae that adjust for changes in economic conditions. Therefore, applying CPI against all contracts would unduly inflate the budget. Similarly, some goods and services are more volatile than others, as was the case with natural gas, hydro, and oil and gas products during the past two years. This warranted a commodity specific price schedule that is more reflective of the behaviour of specific items on which the City spends substantive amounts.

To better address commodity specific sensitivity, the 2005 economic factor list comprised 14 items (see Table 1 below). Staff developed price indices based on research of a variety of sources. Excluding hydro, water, and natural gas, which were tied to contracts, commodity price forecasts for 2005 were determined based on predictions of appropriate private and public sector organizations. For expenditure items not specifically listed in Table 1, the CPI rate of 2.0% was applied. In accordance with the City's strategy to closely monitor spending on furniture and consulting costs, these expenditures were zero-based. Consistent with policy, the economic factors will continue to be reviewed and any significant changes that warrant in-year changes will be reported in the quarterly variance reports.

Table 1 2005 Operating Budget Economic Factors	
Expenditure	Economic Factors %
Printing & Paper Products	6.7
Food	2.0
Hydro	8.0
Gas	8.0
Steam Heating	10.0
Diesel	5.0
Natural Gas	20.0
Water	6.0
Postage	2.0
Telephone	4.6
Aggregate - Bldg./Trade Material	3.0
Salt	0.0
Medical supplies	3.0
General (Core CPI)	2.0

The 2005 operating budget instructions required City Programs and ABCs to submit, as separate budget packages, requests for any additional funding for current (base) services as well as for new services and / or service enhancement initiatives. In effect, any incremental change of a substantive nature to the approved base budget constituted a decision requirement that had to be supported by a business case / issue decision package.

Further, the 2005 budget instructions required Programs and ABCs to clearly detail the service levels that would be provided for the resources requested. In addition, any gap between available resources and enhanced or expanded service demands required detailed assessment and prioritization of other base services and service levels. The 2005 budget process, therefore, required decision support information about base level services and sound justification for any change to the base. Through the 2005 budget instructions, City Programs and ABCs were also requested to provide reduction options to bring their 2005 gross budget request to the same level as the 2004 Approved Operating Budget. Business cases had to be prepared for each reduction option submitted and classified based on the following four categories: efficiencies, revenue change, minor service impact or major service impact. These steps in the process are clearly displayed in Diagram 2 below.



Performance measurement continues to be a priority. As part of the 2005 process, programs were to build on prior years' experience and demonstrate improvement in their performance levels, with particular emphasis on efficiency, customer impact, and effectiveness in service delivery. The use of benchmarks was re-emphasized. Programs were encouraged to measure their performance against appropriate benchmarks and to include such benchmarks in their budget submissions wherever possible.

The Chief Administrative Officer (CAO) and Chief Financial Officer & Treasurer (CFO) reinforced the need to focus on performance measures to justify resource needs. Access to better and detailed financial data enabled program staff to identify key performance measures useful for tracking annual performance and trends. This is especially critical as performance information becomes more widely used for decision-making, as evidenced by the Municipal Report Card requirements mandated by the Province. A project to develop a Financial Planning, Analysis and Reporting System that supports performance-based budgeting has been approved and will be incrementally implemented beginning with the 2007 budget process.

Council Priorities:

Members of Council and the Executive Management Team met on June 17, 2004 to develop a set of priorities for Council to accomplish during the 2003 – 2006 term of office. This exercise resulted in the establishment of the following nine Council priorities: (1) improve public services, (2) make progress on the waterfront, (3) improve the business climate, (4) make Toronto a clean and beautiful city, (5) strengthen our at-risk neighbourhoods, (6) ensure housing is affordable, (7) get the powers and funding needed for Toronto to succeed, (8) improve the planning process and (9) increase public involvement in civic affairs. As part of the 2005 Operating Budget Process an initiative to align services and resource allocation to Council priorities was started. City Programs and ABCs were required to provide information in a structured fashion and to identify service / activity information and costs according to the nine established priorities.

2005 Budget Objectives, Principles and Guidelines:

Early assessment of the magnitude of the preliminary 2005 base budget pressure suggested that the principles established in the 2004 budget process would provide the financial planning foundation for the 2005 budget process with consideration given to Council priorities. At the staff budget launch held on June 19, 2004, the CAO and CFO emphasized the fact that the 2005 budget pressure was substantial given the strategies used to balance the 2004 budget. In particular, the one-time funding sources, including the increased utilization of Hydro revenues for operating purposes, the Provincial subsidy and loan repayment deferral, the growing operating cost of TTC and Emergency Services combined with revenue losses translated into a substantive starting pressure in 2005.

In consideration of the financially challenging environment in which the City operates, the CAO and CFO defined the 2005 Budget guiding principles in a manner that committed all staff to be responsive to cost containment strategies essential to meeting the 2005 Budget objectives. The following principles were established for the 2005 Budget process:

- Protect services that are aligned with Council's highest priorities;
- Demonstrate efficiencies and realize savings through continuous improvement initiatives and innovation;
- Maximize non-tax revenues while ensuring balance between access to services and ability to pay;
- Maximize cost-sharing opportunities with other orders of government;
- Ensure that all stakeholders have an opportunity to participate in the budget process; and,

- Use historical trends as part of analysis / justification of budget requests.

These guidelines directed staff on where to focus their efforts to mitigate budget pressures. The budget guidelines set out specific areas where the Administrative Review would focus and these are indicated below:

- Identify efficiencies in service delivery;
- Maintain service standards and minimize service reductions;
- Maximize user fees in accordance with established policies;
- Maximize cost-sharing opportunities with other levels of government;
- Apply strict criteria for new / expanded services or programs; and,
- Implement Council approved service improvement initiatives.

Notwithstanding best efforts to contain expenditure and to maximize efficiencies, uncontrollable pressures were quite significant and represented a major challenge for 2005. As was the case in 2004, containing the budget pressures associated with Programs and ABCs not under the direct control of the City proved to be difficult. In addition, the continuing structural revenue problem increases the challenge of maintaining services and service levels.

Public Consultation on the 2005 Budget:

On November 28, 2004, the Mayor, Chair of BAC and members of Council held a public consultation session entitled 'Listening to Toronto'. This meeting was held primarily to give the public an opportunity to provide feedback on Council priorities and input into the 2005 budget process. During the meeting participants were asked to give advice on how to accomplish three of the nine priorities set out by Council: (1) How can we make Toronto clean and beautiful, (2) How can the City increase public involvement in civic affairs and (3) How can the City strengthen neighbourhoods?

The top responses to question (1) above showed that the public values keeping the city clean and that there is a willingness to invest in good urban design and planning to maximize quality of life in the City. They also value maintaining beautiful public and cultural spaces, to promote environmental sustainability, protect and maintain our green spaces, promote sustainable transportation and invest in diverse and vibrant communities.

Top responses for question (2) indicated that the public has placed high priority on the availability of clear, timely information about the City and Council. They would like to be provided with opportunities for public debate and dialogue and receive feedback from their input. They enjoy celebrating diversity by breaking down barriers to allow all Torontonians to participate. They want to see improvement in Councillor visibility and accessibility and establish ways to educate the public about municipal government so that there will be improved accountability and transparency of City Hall.

When asked the third question on how can the City strengthen neighbourhoods, the top responses were to make better use of public facilities and improve access to services, be more responsive to local needs, build neighbourhood identity and pride, invest more in youth, establish more effective partnerships, make our communities safer and plan and invest more wisely in our communities.

In conclusion, the key messages that emerged from this meeting were that City Council must move forward on the Clean and Beautiful City initiatives and in order to succeed, the City must complete the new deal for cities with the other orders of government with affordable housing as the top priority. The 2005 budget review of the City's budget took these key messages into consideration.

How Toronto Performs:

Municipalities have been mandated by the province to report results on twenty-five performance measures in nine different service areas as part of the Municipal Performance Measurement Program (MPMP). This program enables municipalities to report measures in a consistent manner for comparison purposes. Toronto is unique among Ontario municipalities because of its size and its role as the centre of business, culture, entertainment, sporting and provincial and international governance activities in the Greater Toronto Area. However, on an overall basis and given its unique characteristics, the MPMP results indicate that Toronto is performing well relative to Ontario municipalities. The City continues to promote a continuous improvement culture in order to provide our citizens and businesses with services that are as efficient and effective as possible, looking for the optimal combination of efficiency, quality and beneficial community impact.

2004 Accomplishments

In 2004, programs and ABCs achieved objectives established in the 2004 Council Approved Budget. Preliminary estimates indicate that despite cost containment efforts, a shortfall in revenues may result in a budget shortfall between Council approved expenditures and revenues in 2004. For the most part, under-funding of provincial downloaded social programs were the principal causes of the revenue shortfall. Notwithstanding implementation of cost containment measures the City successfully provided the services and service levels promised in the 2004 Operating Budget.

Comments:

City of Toronto Economic Profile – Setting the Context for 2005:

Key Indices

Table 2 below compares key indices of the City of Toronto with that of the Toronto Census Metropolitan Area (CMA). The Toronto CMA refers to the municipalities assigned by Statistics Canada on the basis of labour market and commuting criteria, comparable to the U.S. Metropolitan Statistical Area (MSA). It is comprised of the City of Toronto plus 23 municipalities in the 905 area. Although the City's land area is 10.7% of the CMA, it accommodates 53.0% of the total CMA population. Similarly, 76,000 or 54.5% of businesses in the CMA operates their businesses in the City of Toronto. The per capita income in Toronto is slightly lower than that of the CMA, however, the average price of resale of a single detached house is significantly higher in Toronto. Of the 45,475 Housing Starts in the Toronto CMA, 14,895 or 32.8% were in the City of Toronto.

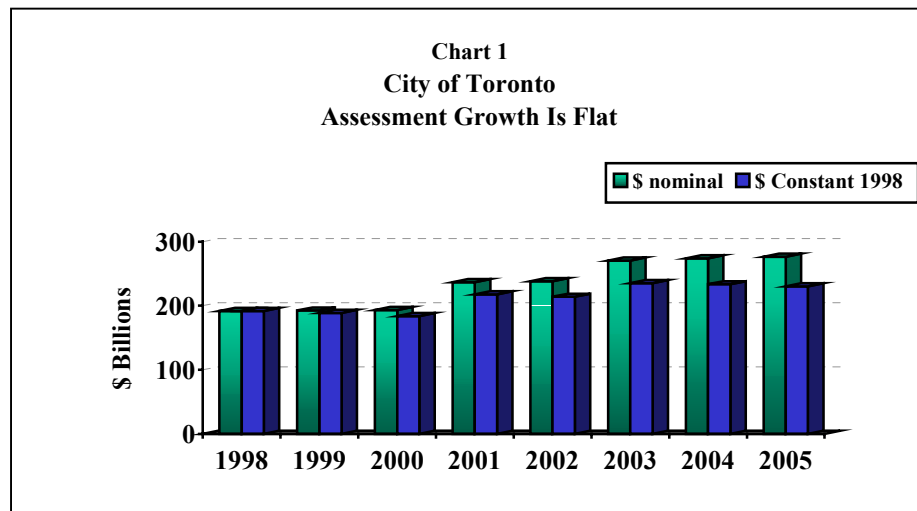
Table 2 Comparison of 2003 Key Indices		
	City of Toronto	Census Metropolitan Area (CMA)
Population (2001 Census)	2,481,494	4,682,897
Land Area Km2	629.91	5,902.74
Labour Force	1,434,037	2,900,530
Number of Businesses	76,000	139,467
Gross Domestic Product (in 1997 \$ B)	\$98	\$190
Per Capita Income \$ (2001 Census)	26,271	26,689
Average Household Income \$ (2001 Census)	69,125	76,454
Average Price of Resale Single Detached	\$426,088	\$378,185
Housing Starts	14,895	45,475
Source: Economic Development		

Table 3 below provides statistics on building permit activities in the City of Toronto and the Toronto CMA. In 2004 the City realized an 11.8% reduction in the number of residential permits issued. By comparison, the number of residential permits issued in the Toronto CMA declined by only 3.4%. Overall, the total number of permits issued in the City in 2004 decreased by 1,193 or 9.4% compared to a decrease of 3.6% in the CMA.

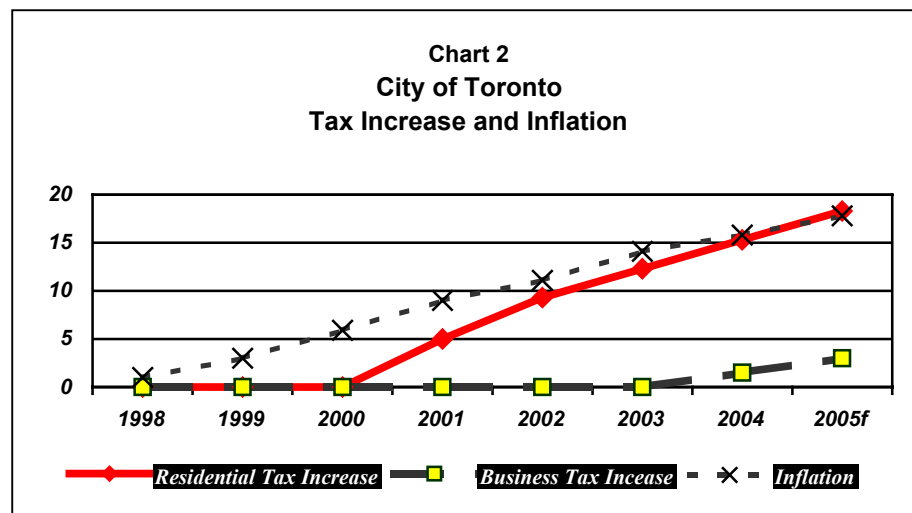
Table 3 Building Permits						
	City of Toronto 2004	City of Toronto 2003	Year over Year Change %	CMA 2004	CMA 2003	Year over Year Change %
Residential - Value (\$000)	1,887,608	1,933,094	(2.4)	7,644,663	7,391,618	3.4
- No. of Permits	7,038	7,982	(11.8)	40,969	43,078	(4.9)
Commercial - Value (\$000)	947,455	872,323	8.6	2,198,476	1,884,278	16.7
- No. of Permits	3,697	3,988	(7.3)	7,879	7,795	1.1
Industrial - Value (\$000)	181,167	227,368	(20.3)	913,757	962,927	(5.1)
- No. of Permits	379	377	0.5	2,139	2,099	1.9
Institutional - Value (\$000)	733,096	693,194	5.8	1,387,785	1,378,254	0.7
- No. of Permits	439	399	10.0	1,090	1,037	5.1
TOTAL - Value (\$000)	3,749,326	3,725,979	0.6	12,144,681	11,617,077	4.5
- No. of Permits	11,553	12,746	(9.4)	52,077	54,009	(3.6)
Source: Statistics Canada						

Assessment:

Chart 1 below shows assessment values both in nominal dollars and in constant 1998 dollars. On average, property taxes represent approximately 45% of total revenues. Slow growth in assessment values tends to result in slow increase in property tax revenues, as has been the case since 1998. This is further exacerbated when tax increases are held below the rate of inflation.



During the first term of Council after amalgamation, (1998 to 2000) the City adopted a no tax increase policy. Subsequently, residential property taxes (which on average represent 43% of total property tax revenues) were increased by 5% in 2001, 4.3% in 2002, and 3% in each of 2003 and 2004. Influenced by provincial constraints, business property taxes remained unchanged until 2004 when a 1.5% increase was imposed. As evident in Chart 2 below, cumulative residential property tax increases finally caught up to inflation in 2005, given the 3% increase.



Long Term Fiscal Sustainability:

In an environment of rising costs and increasing demand for services, the City has met its objective of balancing its budget while limiting tax increases. This has been achieved through prudent fiscal strategies, continuous improvement, service efficiencies, and service prioritization and rationalization initiatives.

Constraints on property tax increases and an inelastic revenue base has made it increasingly challenging to balance the City budget in recent years. Since amalgamation, the City has had to rely on unsustainable revenue sources to deliver services much of which are outside its direct

control. One time subsidies from the province, the use of Hydro Revenues, OMERS holiday savings and reserve funds to balance the budget are examples of fiscally unsustainable strategies that have been employed to balance the City's budget.

As observed in an assessment performed by the Finance Department in support of the Ad Hoc Committee for a five-year Fiscal Plan and confirmed in a recent credit rating update, "the City has a structural financial problem and it is not financially sustainable into the future." This conclusion was premised on the fact that funding responsibilities do not match the financial tools that are available. In its report dated October 15, 2004 to the Ad hoc Committee, the Chief Financial Officer & Treasurer identified the following key contributors to the City's long-term financial challenges:

Expenditures:

- The City has a higher cost structure than other municipal governments in the rest of the GTA, e.g. Police, transit, social assistance, social housing, and debt charges.
- Demands for growth as laid out in the Official Plan or other Sectoral and program plans are not adequately funded.

Revenues:

- Business taxes are not competitive.
- The City lacks adequate revenue sources to fund its municipal responsibilities.
- Inadequate funding of Provincial cost-shared programs has resulted in significant financial pressures for the City, e.g. capping of Provincial share, capping of GTA pooling revenues and Social Service costs / risk exposure

Assets and Liabilities:

- The City's investment in its ageing infrastructure has been lagging.
- Employee Benefits and other liabilities are not adequately funded.

All of the above have cumulatively contributed to the current financial conditions faced by the City. In 2005, the City is in the untenable situation of not having the financial tools to meet the rising cost of services, and to cover the funding gap associated with one-time revenues. This restricts the City from independently rationalizing and re-prioritizing its services in order to ensure that limited resources are spent for the greatest impact.

New Deal & The City of Toronto Act

The City has been negotiating for a new relationship with the other orders of government in part to find long-term fiscal solutions and tools. A long-term strategy must rationalize existing revenue and cost sharing arrangements with the federal and provincial governments. The long-term strategy has to recognize the significant role the City plays in the national and provincial economies and the need to address the structural revenue problem that has placed stress on the

ability to maintain the City's infrastructure in a state of good repair and to address the growth demands in the community.

During 2004, progress was made in establishing a new relationship with the other orders of government. However, all benefits of the promises have yet to be realized. Initiatives that have advanced the New Deal for the City include the following:

Federal Government:

- Goods and services tax exemption was fully implemented effective February 1, 2004. This provided cost relief estimated at \$48.0 million to the City, (both Operating and Capital Budgets).
- Announcement of a 5-cent share of the federal gas tax revenues accruing to this order of government which is to be phased in beginning in 2005. As yet, the allocation formula is not known.

Provincial Government:

- City's share of 2 cents of the provincial gas tax revenues to be distributed to municipalities to be phased in at the beginning of October, 2004. The City's share is estimated at \$92.0 million for 2005. Strict criteria have been established for the use of the gas tax. For instance, the Province requires municipalities to "ensure that all funds are used exclusively towards the provision of public transportation service."
- Review of the City of Toronto Act is another provincial initiative that may help address the fiscal challenges faced by the City. The review looks at ways to provide more financial tools to the City.

In addition to the above, a tripartite Canada Strategic Infrastructure Fund (CSIF) was entered into with the other orders of government. This agreement is worth \$1.0 billion over 5 years equally distributed between the three orders of government. A draft Memorandum of Understanding has been prepared. This draft memorandum sets eligibility criteria and funding or participation rates for each partner to the agreement. Four major projects identified include: Modernizing Canada's First Subway, Saving the Streetcar, Integrated Bus Network and Integrated Ticketing System. While the City welcomes the above initiatives, more must be done to ensure that the City achieve a truly sustainable financial position.

2005 Key Pressures:

Included in the 2004 Operating Budget were a number of one-time revenue solutions. These unsustainable revenues presented uncontrollable challenges to balance the 2005 Operating Budget. Based on 2005 budget submissions from City Programs and ABCs, the beginning pressure approximated \$390.0 million. Unsustainable 2004 revenues in the form of Special Provincial Assistance to TTC (\$70.0 million), Provincial loan payment deferral (\$20.0 million), Hydro Revenues (\$92.0 million), and Prior Year Surplus (\$15.0 million) represented 50% of the beginning pressure. Other pressures included in the 2005 Base Operating Budget Submission of Program and ABCs were largely made up of inflation adjustments totalling \$127.0 million.

The Staff Recommended 2005 Operating Budget included a net pressure of \$166.0 million before assessment growth and tax increases. After assessment growth of \$13.10 million and property tax increases of 3.0% on residential and other unrestricted classes, and 1.5% on Commercial, Industrial and Multi-residential and other restricted classes totalling \$62.0 million the staff recommended net operating pressure was \$90.0 million. It is significant that this net pressure was after addition of new services essential to meet Council priorities and expanding demand for service of \$16.0 million.

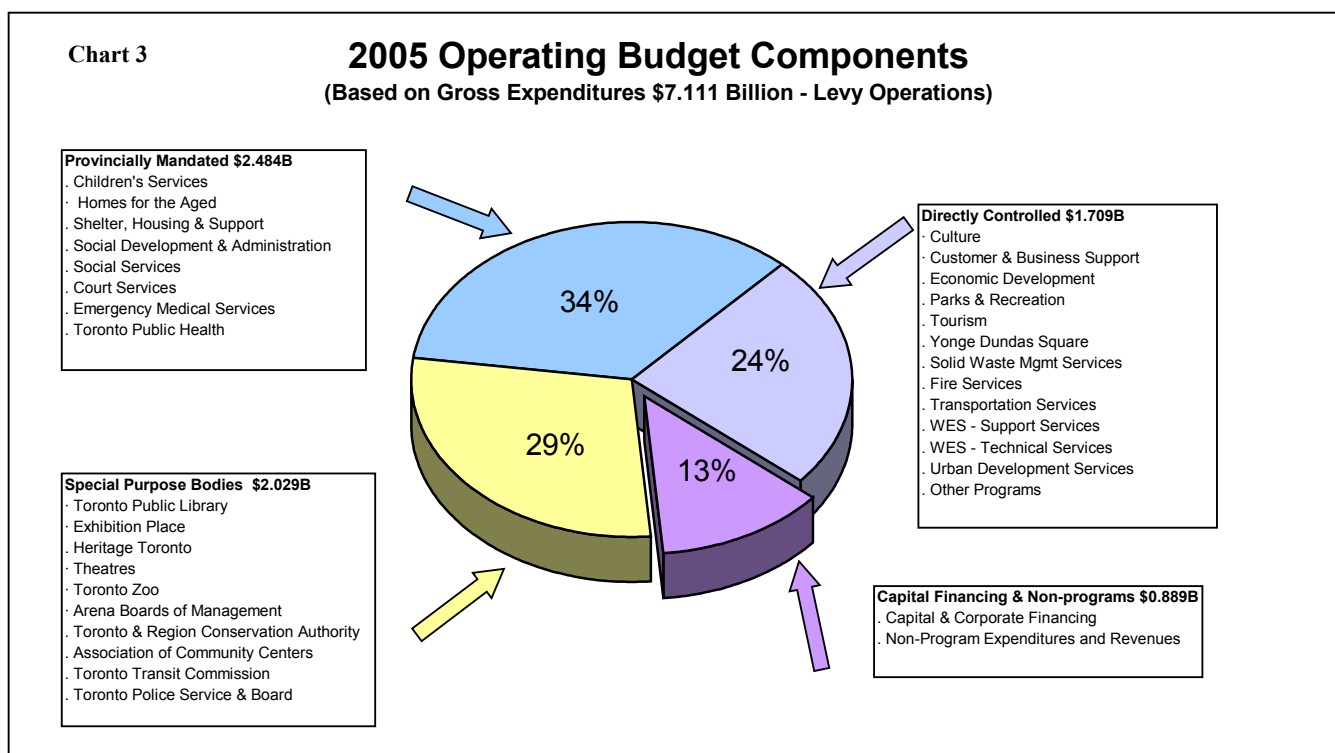
2005 Council Approved Operating Budget

The 2005 Council Approved Operating Budget, after assessment growth, is comprised of a base budget of \$7.032 billion gross expenditure and \$2.982 billion net to deliver current services, and \$78.979 million gross and \$21.621 million net for new / enhanced services. Overall, the 2005 Council Approved Gross Operating Budget is \$7.111 billion representing a 6.9% increase over the 2004 Approved Budget; and the 2005 Council Approved Net Operating Budget is \$3.003 billion net or 2.1% increase over the 2004 Approved Budget.

After adjustments for assessment growth of \$13.068 million, the 2005 Council Approved Operating Budget necessitates a tax rate increase of 3.0% for residential and 1.5% for commercial, industrial and multi-residential taxpayers.

2005 Controllable versus Uncontrollable Expenditures

Chart 3 below highlights the percentage breakdown of the 2005 Council Approved Budget by controllable and uncontrollable components. Provincially mandated programs make up 34% or \$2.484 billion, Special Purpose Bodies or ABCs total 29% or \$2.029 billion, Directly Controlled Programs totalled 24% or \$1.709 billion while Capital Financing & Non-Program Budget make up 13% or \$0.889 billion of the City's 2005 Operating Budget. It should be noted that the City has direct control over only 24% of the 2005 gross operating budget.



Actions Taken to Balance the 2005 Pressures:

As part of the administrative review process, the Financial Planning Division analyzed program submissions to ensure compliance with Council and CAO / CFO directions and budget guidelines and presented findings and recommendations to the CAO & CFO for consideration. Through reviews that focussed on minimizing cost increases through efficiencies while maintaining base services, EMT reduced the beginning expenditure pressure represented in the budget submission of City Programs and ABCs by \$71.0 million. Further, it mitigated the significant one-time revenue pressure carried forward from 2004 by recommending that the Province extend its loan payment deferral of \$20.0 million, and provide its full share of the cost of social services downloaded on the City. As well, it acknowledged the increased revenues from the Provincial decision to share a part of the gas tax with municipal government. the full amount of the gas tax is included in the TTC's 2005 Operating Budget. After the EMT adjustments, staff recommended a net pressure of \$90.0 million to BAC.

Standing Committees generally play a significant role in determining service delivery efficiencies, service priorities, service levels and service level adjustments. These committees reviewed the Staff Recommended 2005 Operating Budget for programs falling under their respective jurisdictions. To ensure public input into the budget process, Standing Committees received public deputations and were responsive to ideas provided by deputants in performing their reviews. The Standing Committee recommendations were then forwarded to the Budget Advisory Committee (BAC) for review. Standing Committees recommended increases to the Staff Recommended 2005 Net Operating Budget of \$13.3 million. These committees increased the base budget by \$4.2 million and increased New / Enhanced services by \$9.0 million, thereby, recommending a total pressure of \$104.7 million.

To mitigate pressures, Reserve funding has been utilized for cost-shared programs in 2005 as shown in Table 4 below. The use of reserves for operating budget purposes is unsustainable, and the social assistance (Ontario Works) reserve fund is projected to be depleted in 2005 resulting in significant budget pressures in 2006.

Table 4 2005 Proposed Reserve Funding (\$ Million)	
Social Assistance Stabilization Reserve Fund	
Subsidy shortfall in cost of administration (estimated)	24.6
Ontario Works Caseload	18.0
Increase Ontario Disability and Drug Benefits	15.1
2000 Child care space expansion (conditional)	3.7
Increase of 3% Social Assistance & Econ. Factors	2.9
Social Housing Stabilization Reserve Fund	2.5
Total Reserve Funding	66.8

The Budget Advisory Committee reviewed the recommendations of the Standing Committees together with staff recommendations. BAC identified a number of incremental strategies to balance the 2005 Operating Budget, which included the following:

- Committee recommendation adjustments - \$12.2 million
- TTC fare increase - \$10.0 million
- TTC additional ridership revenue and expenditure reduction - \$4.7 million
- Sale of Street-lighting Asset to Hydro and Dividends - \$90.0 million

Appendix 1 provides the 2005 Council Approved Operating Budget by Program and ABC. Appendix 2 summarizes the recommended changes arising out of the BAC review stage by Program.

The 2005 Council Approved Operating Budget reflects a commitment that reasonable service growth is maintained, despite existing financial challenges. It contains new and enhanced services totalling \$78.979 million gross and \$21.621 million net. This was achieved by limiting approval to those items critical to achieving Council priorities, or those financed from other sources in order to minimize any incremental financial impact on the 2005 budget shortfall.

The 2005 budget increases are the result of uncontrollable issues such as the Provincial cost-sharing shortfalls, inflation and increasing cost of emergency services and transit operations. Careful evaluation of the City's user fees indicated that there were few opportunities to increase user fees beyond what had already been recommended by staff. As well, a thorough review of the City's user fees disclosed limited opportunities to increase fees in order to fully recover increased costs without creating undue burden on the less privileged. This, therefore, left the City with limited options to fund remaining pressures: increase taxes or reduce funding for services, and continue to seek financial assistance from the Provincial government.

The 2005 Council Approved Operating Budget includes increases to user fees and charges as detailed in Appendix 3 attached. These increases comply with City's policies and relevant provincial legislation. Notice requirement as prescribed in Part XII, Fees and Charges, of the Municipal Act, 2001 were met for fees and charges proposed to change as part of the budget process.

To comply with the Municipal Act, a list of fees and charges proposed to change that required four days notice were posted on the internet on January 31 so as to enable the public to depute thereon at its meeting of February 7, 2005. A second list was posted on February 1, 2005. There were no fees and charges requiring 21 days notice. A briefing note entitled 'Proposed Changes in User Fees in the 2005 Operating Budget' was distributed to all members of Council during the BAC Budget Review.

Budget Highlights:

The 2005 Council Approved Operating Budget achieved the goal of preserving core services and service levels. As well, it achieved cost savings by ensuring that services are being delivered efficiently. This budget optimizes non-tax revenues while ensuring fair access to all residents.

Consistent with Council direction, the 2005 Operating Budget has had minimal impact on the services the City provides to its residents.

Clean and Beautiful City Initiative:

The City has embarked on a program to make Toronto a clean and beautiful city which is one of nine Council priorities. At its meeting of March 1 to 3, 2004, City Council unanimously approved a two-stage approach to achieving this priority. As detailed in Appendix 5 of this report, stage 1 of the program focused on cleaning up the city for which Council allocated \$2.60 million in 2004 solely for clean city initiatives. Stage 2 continues the clean city initiatives and introduces actions to beautify Toronto with the participation and assistance of the public and private sector. The five-point City action plan to Make Toronto a Clean and Beautiful City was approved by Council at its meeting on November 30, December 1 and 2, 2004. The five key actions are Sweep it, Design it, Grow it, Build it and Celebrate it which are implemented over a 3-year period as shown in Table 5 below. The plan represents an ongoing cycle of activities in which the City and its residents are engaged at any given moment.

Table 5 City of Toronto Clean and Beautiful Initiative Operating Budget - 3 Year Program Summary of Base Budget and New Funding (\$ Million)					
Actions	Base Budget	New Funding			
	2005	2005	2006	2007	Total
1. SWEEP IT	31.174	1.341	1.571	0.442	3.353
2. DESIGN IT	0.188	0.352	(0.004)	(0.010)	0.337
3. GROW IT	36.044	4.445	2.423	3.249	10.117
4. BUILD IT		0.185	(0.185)	-	-
5. CELEBRATE IT		0.050	(0.050)	-	-
Total	67.406	6.372	3.754	3.681	13.807

The 2005 Council Approved Operating Budget includes funding in the amount of \$6.372 million for the first year of the Clean and Beautiful City initiatives. Spending in 2006 is estimated at \$3.754 million and in 2007 the budget will include an amount of \$3.681 million.

3-1-1 - Improved Public Services

As part of Council's priority to Improve Public Services, a 3-1-1 (non-emergency) Customer Service Strategy was approved in 2004. The 3-1-1 strategy aims to simplify public access to city services through a single gateway over the telephone and on the City Web site, using modernized, streamlined service processes, and by implementing an electronic tracking system to monitor all customer service request from receipt to completion. A three-year phased-in implementation for this strategy has been recommended.

At its meeting of November 30, December 1 and 2, Council directed that a 3-1-1 Council-Staff Working Group (CSWG) be established to report, through the e-City Committee, to the

Administration Committee on refinement and further development of the 3-1-1 implementation plan. The CSWG has agreed to responsibilities of a Project Management Office, which will require operating budget funding in 2005.

Included in the 2005 Council Approved Operating Budget is an amount of \$503.102 thousand for the Project Management Office (PMO) for the 3-1-1 project. This will cover the cost for staff, equipment, administrative and other associated costs of the PMO essentially to ensure strategic planning and implementation of the initiative.

2005 Council Approved Operating Budget Approved Positions:

Appendix 4 summarizes changes between the 2004 Council Approved Positions and the Approved Positions by Program / ABC which are included in 2005 Policy & Finance (P & F) Recommended Operating Budget. The 2005 P & F Recommended Budget reflects an increase of 597.3 approved positions of which City Operations account for an increase of 300.4 approved positions whereas the total change for ABCs is 296.9 approved positions.

Total change in approved positions for City Operations includes an increase of 300.4 positions of which 220.3 are permanent and 80.1 are temporary positions. The total change of 296.9 approved positions for ABCs comprise of 328.5 permanent and (31.6) temporary positions. The change in ABCs is primarily for TTC of 219 positions and Toronto Police Services of 35 positions.

Conclusion:

The 2005 Council Approved Operating Budget of \$7.111 billion gross and \$3.003 billion net (after assessment growth) includes a base budget of \$7.032 billion gross and \$2.982 billion net to deliver services approved by City Council as well as \$78.979 million gross and \$21.546 million net for new / enhanced services. 2005 Council Approved Operating Budget results in a gross expenditure increase of \$458.255 million or 6.9% and a net expenditure increase of \$61.884 million (after assessment growth) or a 2.1% increase over the 2004 Approved Budget. With core services being maintained and revenues adjusted, the City required 3.0% residential property tax rate increase and commercial, industrial and multi-residential tax rate increase of 1.5%.

A significant portion of the revenue sources contained in the 2005 budget is one-time and, therefore, not sustainable. These will translate into pressures in 2006 confirming that the City will continue to have a structural financial problem. While Provincial financial assistance has been realized with receipt of gas tax revenue and other short term subsidies, the City still requires the fiscal tools to enable it to continue to be the economic engine of Canada, and the centre of business, culture, entertainment and international activities in the Greater Toronto Area. This is urgent and can only be achieved by the other orders of government accelerating further progress on the New Deal and the new City of Toronto Act.