



Toronto STAFF REPORT

March 23, 2006

To: Budget Advisory Committee

From: City Manager
Deputy City Manager and Chief Financial Officer

Subject: City of Toronto 2006 BAC Recommended Tax Supported Operating Budget

Purpose:

The purpose of this report is to present the 2006 Budget Advisory Committee (BAC) Recommended Operating Budget for the City Programs, Agencies, Boards and Commissions.

At its meeting of March 27, 2006 the Policy and Finance Committee will review the 2006 BAC Recommended Operating Budget and will forward its recommendations to Council for its deliberation. City Council's consideration of the 2006 Recommended Operating Budget will occur at its special meeting of March 29, 30, 31, and April 5, 6 and 7, 2006.

Financial Implications / Budget Highlights:

2006 Budget Pressures

The 2006 Budget Process, Directions, and Guidelines approved by Council, recognized that the City has a structural fiscal problem which has resulted in the continuing reliance on one-time revenues to balance the Operating Budget. This circumstance has culminated in a significant and untenable 2006 starting budget pressure of \$759 million of which \$439 million was attributed to one-time funding sources (see Table 1).

Table 1 2006 Operating Budget Analysis of Beginning Pressures (\$ Millions)		
Provincial Responsibilities:		
- Provincial Loan Deferral	20	
- Special Provincial Transfer	45	
- Gas Tax Revenues for Operating	92	157
City / Toronto Hydro One Time Funding:		
- Interest Income -- Hydro Note for Operating	67	
- Hydro Dividends -- for Operating	38	
- Special Dividends -- for Operating	30	
- Sale of City Lighting Assets	60	
- Reserve Draws	87	282
Total 2005 Unsustainable / One-time Funding		439
2006 Operating Impacts:		
- Debt Service Cost	44	
- Cost of Living allowance	90	
- Inflation on Materials, Supplies and Services	81	
- Annualizations and Other	105	320
Starting 2006 Pressure		759

The major driver behind the City's budget pressures is that the accumulated cost of paying for provincial income redistributive programs reached the point where funding such services has put a drain on the delivery of basic municipal services. In 2006 alone, the cost of paying for Ontario Disability Support Program and Ontario Disability Benefits approximates \$168 million; the under-funded costs resulting from the Province's unilateral cap on its share of funding for downloaded social services are estimated at \$60 million; and the cost of the social housing draw on property taxes will increase to \$218 million. Furthermore, by reducing its pre-amalgamation responsibility for funding the Toronto Transit Commission's (TTC) operating budget, the Province has effectively transferred an additional \$210 million onto the property tax revenue base including operating and debt charge expenses. In total, by not fully funding its responsibilities the Province will transfer approximately \$731 million onto the property tax base in 2006.

Two independent studies conducted in 2005 corroborated the City's disclosure that it has a significant structural fiscal problem which, for the most part, is driven by an imbalance between the cost of downloaded services and provincial funding of these services. In one study, the Conference Board of Canada affirmed that the City has "a fiscal capital and operating problem that approximates \$1.1 billion in 2006 and will continue to grow if sustainable solutions are not found." In a separate study, the Toronto Board of Trade reinforced the City's call for new revenue sources and noted that "a significant mismatch exists between Toronto's expenditure responsibilities and its revenues sources...." Since amalgamation, the City has had to rely on one-time revenue solutions including unsustainable annual assistance from the Province to balance its budget.

Given the above fiscal realities, Council's 2006 Operating Budget Directions emphasized fiscal constraint, maximization of efficiencies and cost containment measures. Staff were asked to focus on services that were aligned to Council's highest priorities; to increase user fees while protecting access for the most vulnerable, and to consider service reductions. In addition to Council directions summarized above, a target of no more than 2% increase over the 2005 Net Expenditure Budget was approved for 2006, and targets of a 0% increase were set for 2007 and 2008.

2006 Budget Briefing:

At the January 4, 2006 Budget Briefing for the BAC and Policy and Finance Committee, staff presented a 2006 Proposed Net Operating Budget with a \$532 million pressure as indicated in Table 2 below. After reviewing the proposed budget, Standing Committees recommended additional expenditures which increased the budget pressure by \$7 million to \$539 million. BAC recognized that even with the cost containment measures that have been implemented over the years, there is limited room left to solve what is now a significant budget gap for the City without cutting services or service levels. BAC committed to look at all options internally and with the Province in order to address the problem and to permanently put Toronto on a stronger financial footing. In pursuit of this objective, BAC set out the following five strategies to address the structural fiscal problems and the more immediate \$539 million operating budget shortfall:

1. Committee and Council find further savings in the budget – that is, beyond the \$43 million already found as part of the Administrative Review;
2. The City consider appropriate tax increases and use of reserves and other revenues where necessary;
3. The Province pay for the increased cost of provincial programs and continue to defer repayment of the amalgamation loan;
4. The Province take back housing and income redistributive programs - funding such programs from the property tax does not work; and,
5. The City be given access to revenues that grow when the economy expands. Revenues from growth may then be reinvested into maintaining city services.

After detailed reviews of City Program and ABC budgets, the 2006 BAC Recommended Operating Budget has been balanced without any major impact on services. However, after a combination of efficiencies, continuous improvements, user fee revenue increases, service rationalization strategies totalling \$167 million, and the Province responding favourably to the City's request to funding its responsibilities, it was still necessary to make substantive draws from reserves (about \$160 million in total) to address the shortfall and to minimize the increase in property taxes. Table 2 below summarizes the budget balancing strategies taken by the BAC.

Table 2 2006 BAC Recommended Budget Pressure Reductions Strategies (\$ Millions)		
Starting Pressure		759
Council Approved Adjustments:		
Hydro Revenues (Interest \$67M, Dividends \$25M)	(92)	
Gas Tax Revenues	(92)	(184)
		575
Administrative Adjustments		(43)
Proposed Budget Pressure		532
Standing Committee Adjustments		7
Standing Committee Rec'd Pressure		539
BAC Adjustments:		
Base Budget	(119)	
New and Enhanced	(5)	(124)
		415
Financial Decisions:		
Additional Hydro Dividends	(21)	
Assessment Growth	(60)	
Additional Reserves	(113)	(194)
		221
Provincial Responsibilites:		
Loan Deferral	(20)	
TTC	(100)	
Ontario Municipal Partnership Fund	(35)	
EMS - increased subsidy	(10)	(165)
Net Budget Shortfall		56
Additional City Policy Options:		
Property Tax Increases (each 3% res \$37.1M, 1% non res \$18.5M)		(56)
Net Pressure		0

2006 Provincial Funding Responsibilities / Assistance

As noted above, the recently tabled 2006 Provincial budget has included a number of Provincial revenues to the City for 2006 budget purposes. The Provincial funding includes the provincially announced increase in EMS funding (\$10.4 million), \$35 million from the Ontario Municipal Partnership Fund for high municipal social program costs relative to its residents' household incomes and a commitment to defer the Provincial loan in 2006 (\$20 million). More significantly, the Province is providing \$200 million to the City for transit operational funding which will be utilized for 2006 and 2007 in order to move to a 50% partnership.

In regard to the Provincial loan, the Province is setting up an accounting provision for the remaining balance of the loan. We will continue to work with the Province to reach a settlement related to the outstanding amount of the loan.

Most importantly, the Province has recognized the City's need for longer term fiscal solutions which will assist the City in moving toward a multi-year sustainable financial plan by committing to increased transit funding and recognizing the social assistance requirements through the commencement of the Ontario Municipal Partnership funding.

Thus, the Province has indicated it will work with the City in moving towards a multi-year sustainable financial plan including a commitment to enhance partnership funding in 2007 and beyond.

2006 BAC Recommended Operating Budget

Table 3 summarizes the 2006 BAC Recommended Net Operating Budget before property tax increases. Overall, the gross budget increased by \$447.7 million or 6.3%. By comparison the net budget increased by \$115.3 million or 3.8%. Of this increase, \$106.5 million is attributed to the Base Budget to maintain existing services and \$8.8 million is allocated to address New and Enhanced Services to meet Council's highest priorities and to leverage additional funding from federal and/or provincial governments. Approved City tax policy restricts non-residential property tax increases to no more than one-third of residential tax increases. Therefore, the BAC recommends a residential property tax increase of 3% or \$37.2 million, and a non-residential property tax increase of 1% or \$18.4 million for a total increase of \$55.6 million in order to balance the budget.

Table 3 2006 BAC Recommended Operating Budget Summary (Before Assessment Growth) \$ Millions						
	Gross	Net	Change from 2005 Approved Budget			
			Gross		Net	
	\$	\$	\$	%	\$	%
2005 Approved Budget	7,135.0	3,016.5				
2006 Base Budget	7,433.2	3,123.0	298.2	4.2%	106.5	1.5%
2006 New Services	149.5	8.8	149.5	2.1%	8.8	0.3%
Total 2006 Recommended	7,582.7	3,131.8	447.70	6.3%	115.30	3.8%

In summary, the 2006 BAC Recommended Operating Budget generally maintains service levels and focuses on priorities of residents and businesses, with emphasis on community safety and strong neighbourhoods, the Children's Services Best Start program, celebrating the Year of Creativity and continuing the Toronto Clean and Beautiful initiative.

As has been the case in prior years, on average, more than 60% of property tax revenues are earmarked to pay for police, fire, emergency medical services, the TTC, garbage collection and recycling, libraries, parks and roads – services that most impact the quality of life of residents. Despite the very challenging fiscal constraints that exist, services and service levels have been generally maintained and key new investment priorities have been funded.

Downloaded provincial income redistributive programs onto the City along with TTC operating pressures have been the primary causes of the structural fiscal problem that confronts the City. To address this problem, the City has had to rely on non-recurring funding sources during the past several years. This strategy needs to be permanently resolved to ensure that the City remains economically viable and continues to realize its role as the economic engine of the province and country.

Noteworthy is that there is too much reliance on reserve draws. Recommended draws of approximately \$160 million from reserves are unsustainable. When reserve draws are combined with Hydro Revenues of \$113 million, the 2007 starting budget pressure for one-time revenues will approximate \$273 million (exclusive of 2007 inflation and growth pressures). These revenues have been reallocated from capital funding purposes and should only be utilized in 2006 as a transitional plan to long term fiscal sustainability.

Fiscal Sustainability and City / Provincial New Deal Partnership

The City of Toronto Act, a significant and welcomed legislative requirement sought by the City during the past three years, provides some potential for modest new revenues. However, these new revenue sources will not be available to the City in 2006. The City cannot tax itself out of the problem or set user fees at a level where only few can afford the service. It is also not possible to eliminate complete services to fill the gap, as such actions would impact the City's economic competitiveness and Toronto citizens' quality of life.

It is imperative that the City permanently resolves its operating budget dilemma in order to alleviate the significant pressures on property tax revenues and to continue to provide the municipal services demanded by its constituents. As a start in moving to a new partnership, the provincial government had begun a change in municipal funding enhancements over the past two years with the transfer of gas tax funding, the enhanced provincial funding for Health Services and the deferral of the Provincial Loan.

The Province's 2006 Budget announcements makes significant progress related to TTC operating budget funding and our objective of 50% partnership funding. Also, there is recognition of social service pressures in Toronto which indicates a major step towards the New Deal and fiscal sustainability for the City of Toronto. The next step is for the Province to agree on a plan to fully upload the cost-shared social programs. These initiatives, when combined with

the transfer of revenues that grow with the economy to the City (transitional over the 2007 – 2010 period), will provide the financial foundation to ensure the City's fiscal sustainability.

Recommendations:

It is recommended that:

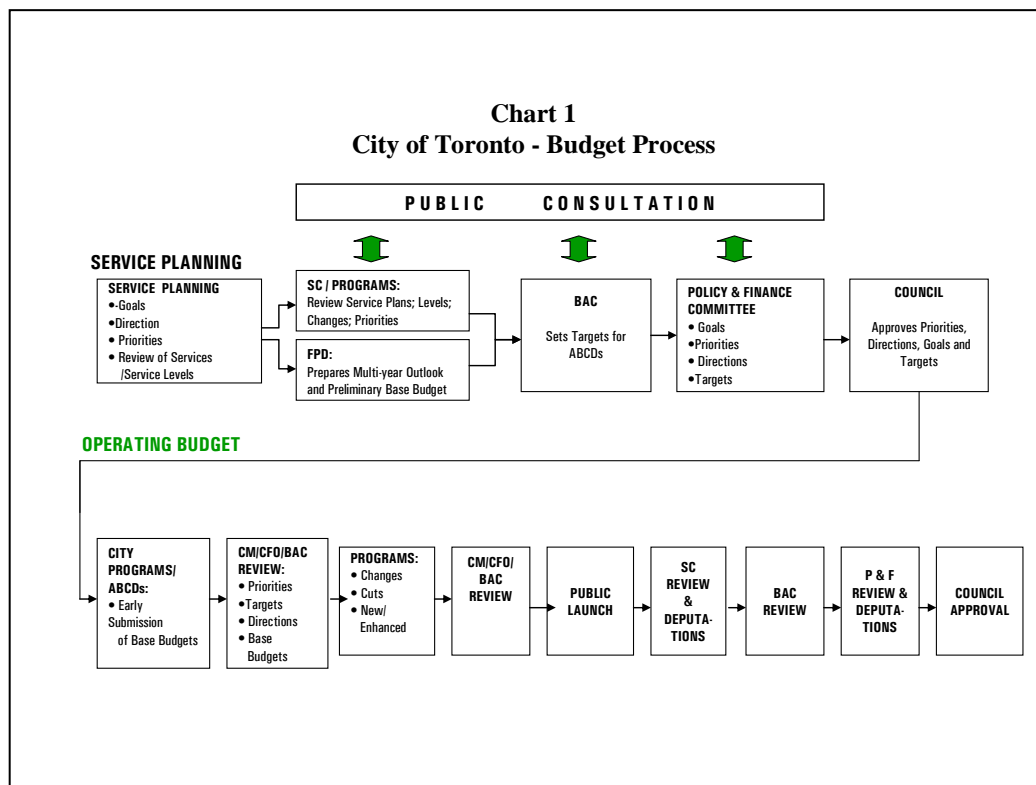
- (1) the 2006 BAC Recommended Non Program Revenue Budget be increased by \$135.0 million to recognize incremental commitments from the Province to fund its responsibilities;
- (2) the 2006 BAC Recommended Non Program Revenue Budget be adjusted for increased contributions from reserves and reserve funds totalling \$112.862 million;
- (3) the 2006 BAC Recommended Non Program Revenue Budget be adjusted for increased Hydro dividends of \$21.0 million;
- (4) the 2006 BAC Recommended Capital and Corporate Financing Budget be reduced by \$20.0 million based upon an agreement to defer the 2006 Provincial loan repayment installment and continuing discussions with the Province on the remaining balance of the loan;
- (5) the 2006 BAC Recommended Operating Budget of \$7.583 billion gross and \$3.132 billion net expenditures (before assessment growth), comprised of a Base Budget of \$7.433 billion gross expenditures and \$3.123 billion net, and a New / Enhanced Services budget of \$149.483 million gross and \$8.755 million net, as detailed in Appendix 1, be approved;
- (6) a residential property tax increase of 3.0% or \$37.232 million and a Commercial, Industrial, and Multi-residential tax increase of 1.0% or \$18.352 million be approved (after assessment growth);
- (7) the Program Recommendations regarding the 2006 BAC Recommended Operating Budget for each City Program, Agency, Board and Commission, as detailed in Appendix 3 be approved;
- (8) the increases in fees and charges included in the 2006 BAC Recommended Operating Budget for the City's Programs, Agencies, Boards and Commissions, detailed in Appendix 4, be approved;
- (9) the reports, transmittals and communications that are on file with the City Clerk's Office (including Appendix 6 herewith attached) as considered by the Budget Advisory Committee at its 2006 budget review meetings be received;
- (10) the additional subsidy of \$100.0 million from the Province be set aside in the TTC Stabilization Reserve for the 2007 TTC Operating Budget; and,

- (11) the appropriate City Officials be authorized and directed to take the necessary action to give effect thereto, including any necessary assessment / tax-related technical adjustments.

Background:

2006 Operating Budget Process

At its meeting of May 17, 18, and 19, 2005 Council approved a report from the Deputy City Manager & Chief Financial Officer (DCM & CFO) entitled '2006 Budget Process, Directions and Guidelines' which recommended a new budget process for the City that focused on linking resources to service levels, service priorities and resultant community impacts. This process required clear links between budgeting and Council's strategic plan, priorities and program area service plans. It established the need for planning to take place over a longer-term horizon, with multi-year financial and operating plans and firm Five-Year capital plan approvals. It shifted the budget review focus onto service priorities, with service level trade-offs within a fiscal framework. Finally, the new budget process required Council to provide up-front directions and endorsement of corporate strategies, guidelines, budget priorities and targets.



The 2006 budget instructions required City Programs and ABCs to clearly detail the service levels that would be provided for resources requested. In addition, any request for new and enhanced services required detailed justification and prioritization.

The starting assumption for the 2006 Operating Budget process was that services and service levels approved in 2005 would be maintained wherever possible. Therefore, the 2005 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 2005 approved services and service levels in 2006 dollars.

Inflation / Economic Factors

Table 4 lists the commodity specific inflation rates utilized to develop the 2006 Operating Budget. Excluding hydro, water, natural gas, salt, TTC diesel, and other contract-driven prices, the economic factors for 2006 were determined based on forecasts of leading private sector organizations (including the Chartered Banks, the Conference Board of Canada). These economic factors will continue to be reviewed and any significant changes that warrant in-year adjustments will be reported in the 2006 quarterly variance reports. In accordance with the City's strategy to closely monitor spending on furniture and consulting costs, these expenditures were zero-based.

Table 4 2006 Operating Budget Economic Factors (Revised January 2006)	
Expenditure	Economic Factors %
Printing & Paper Products	0.0
Food	2.1
Hydro	1.0
Gas	2.0
Steam Heating	20.0
Diesel	6.0
Natural Gas	10.0
Water	9.0
Postage	2.0
Telephone	0.0
Salt (City Contract)	4.0
Medical Supplies	3.0
General	2.0

Public Consultation

Public consultation is a key element of the City's mature budget process. As part of the 2006 Operating Budget process, the public was provided with several opportunities to depute on the budget, first during Standing Committee meetings of January 5, 9, 11, 12, and 16, 2006 and again at the Policy and Finance Committee meeting of February 16, 2006. Further, four public consultation sessions were held across the City on February 4, 8, and 9, 2006, for the express purpose of receiving advice from citizens on the 2006 Operating Budget.

Participants were asked to express their concerns, and to provide advice and ideas about managing the City's expenses and increasing the City's revenue. The following highlights indicate a common theme at the four public consultation sessions:

Expenditures

- Provincial partnership in funding transit operations;
- the full cost of Social Housing and Social Services should be uploaded to the Province;
- the Federal Government should pay for services it has mandated such as policing of foreign embassies;
- the City should be more accountable and should undertake a thorough review of all programs;
- any duplication of services run by City agencies should be streamlined; and
- a strategy to build-up the commercial tax base and attract more businesses and jobs should be created.

Revenues

- non-residents who utilize / enjoy the services provided by the City must be made to share the cost of these services;
- the City needs a sustainable form of revenue such as a share of hotel, sales tax and/or income tax; and
- progressive taxes that grow with the economy should be reallocated from the Provincial and Federal levels.

Although there was general agreement on the need to upload costs of social housing and social services to the other levels of government, the time period over which this should be done varied.

Council Priorities:

Council set priorities for its 2003 to 2006 term of office as follows: (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. This initiative continued with the 2006 Budget process.

Given fiscal constraints, limited new investment in the 2006 BAC Recommended Operating Budget has been restricted to: Clean & Beautiful Initiative; 3-1-1 Customer Service Strategy and the Waterfront Initiative as well as spending priorities to address Community Safety particularly in at-risk neighbourhoods; Year of Creativity – Live with Culture; Transit – Ridership Growth Strategy; and, Waste Diversion Plan – 2010.

2006 Budget Objectives, Principles and Guidelines:

(a) 2006 Budget Directions

In May of 2005, Council recognized the magnitude of the fiscal challenges that it was faced with and the need for fiscal restraint in developing the 2006 Operating Budget. While a permanent solution to the fiscal imbalance discussed above was the ultimate goal, it was evident that this would not fully materialize in 2006, thus prompting Council to provide the following 2006 Operating Budget Directions:

- in order to address the significant gap in funding of provincially cost-shared programs, the following measures be adopted:
 - the City request that the provincial government recognize the actual cost of emergency and community services and meet its legislated obligation to fully cost-share those services for 2006;
 - the City review with the Province opportunities for service efficiencies in the administrative and reporting requirements for cost-shared programs; and,
 - consideration be given to service reductions in the Provincial cost-shared programs and/or further draws on related reserves to mitigate pressures on the City's property tax base.
- eligible revenues from the Provincial Gas Tax received in 2006 be used to fund the Toronto Transit Commission's operating budget;
- the City expand its current program of continuous improvement and efficiency initiatives to include service reviews and rationalization;
- where direct users can be identified, that City user fees be set to recover the full cost of the service and be increased by the rate of inflation, while ensuring that the most vulnerable are protected; and
- services aligned to Council's highest priorities for 2006 be protected.

Notwithstanding best efforts to contain expenditures and to maximize efficiencies, uncontrollable pressures were quite significant and represented a major challenge for 2006. As was the case in 2005, containing the budget pressures associated with the delivery of services by City Program and ABC not under the direct control of the City proved to be difficult. In addition, the continuing structural revenue problem increased the challenge of maintaining services and service levels.

(b) 2006 – 2008 Operating Budget Targets (2006 – 2%; 2007 – 0% and 2008 – 0%)

On July 19, 2005, the City Manager and the Deputy City Manager & Chief Financial Officer issued to staff the following multi-year targets: 2% increase over the 2005 Council Approved

Operating Net Expenditure for 2006 and 0% increase for each of 2007 and 2008. The multi-year target approach considered 2006 to be a transition year and recognized that sustainable budget reduction strategies tend to take longer than one year to implement or to fully realize associated cost savings.

Comments:

City of Toronto Economic Profile – Setting the Context for 2006:

Despite the fiscal challenges that confront it, the City of Toronto continues to implement public policies that are geared toward ensuring a strong economy, and that the City remains an attractive place in which to do business. Toronto is Canada's head office city with the largest concentration of head offices (comprised of a unique diversity of industry sectors) of any city in the country. The Toronto industry sector is comprised of major North American industry clusters vital to the new economy. As has been pointed out by the Toronto Board of Trade, "these clusters are the drivers of innovation and prosperity and are essential to the economic success of the city and country." The indices below confirm that Toronto continues to do very well economically and to outpace the rest of the Toronto Census Metropolitan Area in many key areas.

Key Indices

Table 5 compares 2005 key indices between the City of Toronto and the Toronto Census Metropolitan Area (CMA) which is comprised of the City of Toronto plus 23 surrounding municipalities in the 905 area. Although the City's land area is 10.7% of the CMA, it accommodates 49.0% of the total CMA population. Similarly, 76,000 or 49.7% of businesses in the CMA operate in the City of Toronto. The per capita income in Toronto is slightly lower than that of the CMA; however, the average price of a resale single detached house is higher in Toronto. Of the 41,596 Housing Starts in the Toronto CMA, 15,602 or 37.5% were in the City of Toronto.

Table 5 Comparison of 2005 Key Indices City of Toronto vs. Census Metropolitan Area (CMA)		
Key Indices	City of Toronto	Census Metropolitan Area (CMA)
Population (inter-censal estimates)	2,607,637	5,304,090
Land Area Km ²	630	5,903
Labour Force	1,425,330	2,970,630
Number of Businesses	76,000	153,000
Gross Domestic Product (in 2004 \$ B)	\$127	\$262
Per Capita Income \$ (estimate))	33,555	34,648
Average Household Income \$ (2001 Census)	69,125	76,454
Average Price of Resale Single Detached \$	503,018	437,204
Housing Starts	15,602	41,596

Table 6 below provides statistics on building permit activity in the City of Toronto and the Toronto CMA. Overall, the total number of building permits issued in the City in 2005 increased by 173 or 1.5% compared to a decrease of 4,502 or -8.6% in the CMA. The City realized a 4.7%

increase in the number of residential permits issued in 2005. By comparison, the number of residential permits issued in the Toronto CMA declined by -11.9%.

Table 6 Comparison of Building Permits: 2005 vs 2004						
	City of Toronto 2005	City of Toronto 2004	Year over Year Change %	CMA 2005	CMA 2004	Year over Year Change %
Residential - <i>Value (\$000s)</i>	2,917,053	1,887,608	54.5	7,506,849	7,644,663	(1.80)
- <i>No. of Permits</i>	7,367	7,038	4.7	36,091	40,969	(11.9)
Commercial - <i>Value (\$000s)</i>	962,149	947,455	1.6	2,143,597	2,198,476	(2.50)
- <i>No. of Permits</i>	3,588	3,697	(2.9)	7,458	7,879	(5.34)
Industrial - <i>Value (\$000s)</i>	81,384	181,167	(55.1)	676,638	913,757	(25.9)
- <i>No. of Permits</i>	310	379	(18.21)	2,013	2,139	(5.89)
Institutional - <i>Value (\$000s)</i>	449,163	733,096	(38.73)	1,058,134	1,387,785	(23.75)
- <i>No. of Permits</i>	461	439	5.0	2,013	1,090	84.7
TOTAL - <i>Value (\$000s)</i>	4,409,749	3,749,326	17.6	11,385,218	12,144,681	(6.25)
- <i>No. of Permits</i>	11,726	11,553	1.5	47,575	52,077	(8.6)
Source: Statistics Canada						

City of Toronto – Limited Revenue Base:

Overall, these indices indicate that the Toronto economy and outlook continue to be quite favourable and, in general, has outpaced the CMA. However, the City has not benefited directly from the successes it has generated since its revenues are not tied to the economy. While the City's policies generate economic growth, the real beneficiaries are the federal and provincial governments whose revenue intake is directly correlated to income and the economy (i.e. sales and income tax).

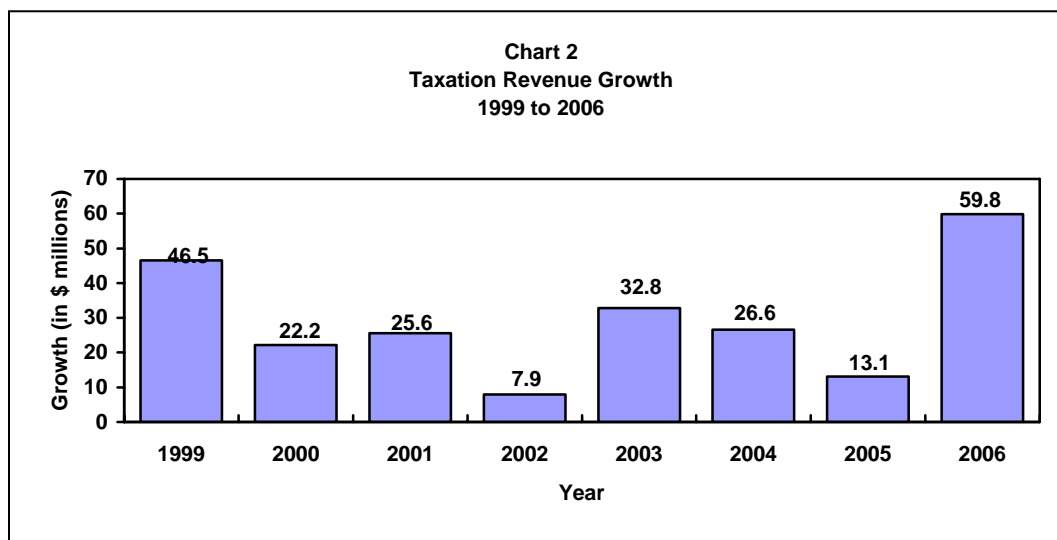
Over and above property taxes, user fees and grants from State and Federal governments, American cities have authority to implement a wide range of consumption and growth related taxes, to run deficits and to borrow money for their operating budget (See Table 7 above). They have a greater degree of fiscal and policy flexibility. In contrast, a significant proportion of the services provided by the City of Toronto is either mandated by the Province or is for the emergency services. Further exacerbating the fiscal issue is the fact that the Province has not provided sufficient funds or adequate financial tools to cover the cost of providing downloaded social services. In addition, the demand for several of the downloaded or mandated social services tends to increase with population growth and economic conditions, while the principal revenue source of property tax is inelastic.

Table 7
Municipal Fiscal Authority
Toronto and U.S.A.

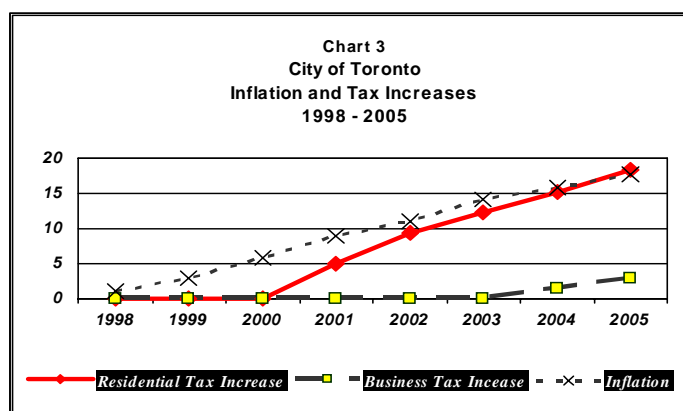
	Toronto	U.S.A.
Property tax	*	*
Sales Tax		*
Hotel / motel tax		*
Fuel tax		*
User Fees and Charges	*	*
Income tax: individual and corporate		*
Development Charges	*	*
Tax-exempt municipal bonds		*
Tax incentives		*
Grants to corporations		*
Borrow money	*	*

Assessment:

Chart 2 below shows a history of assessment growth and related changes to ‘taxation’ revenues from 1999 – 2006. With the exception of 1999 and 2006, growth has been averaging less than 1% of the total property tax base (or less than \$30 million):



On average, property taxes represent approximately 43% of the City of Toronto’s total revenues. During the period 1998 to 2000 - the first term of Council after amalgamation - a *zero tax increase* policy was adopted. Subsequently, residential property taxes 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. In 2005, residential property taxes increased by 3% while non residential taxes increased by 1.5%. As evident in Chart 3 below, cumulative residential property tax increases finally caught up with inflation in 2005.



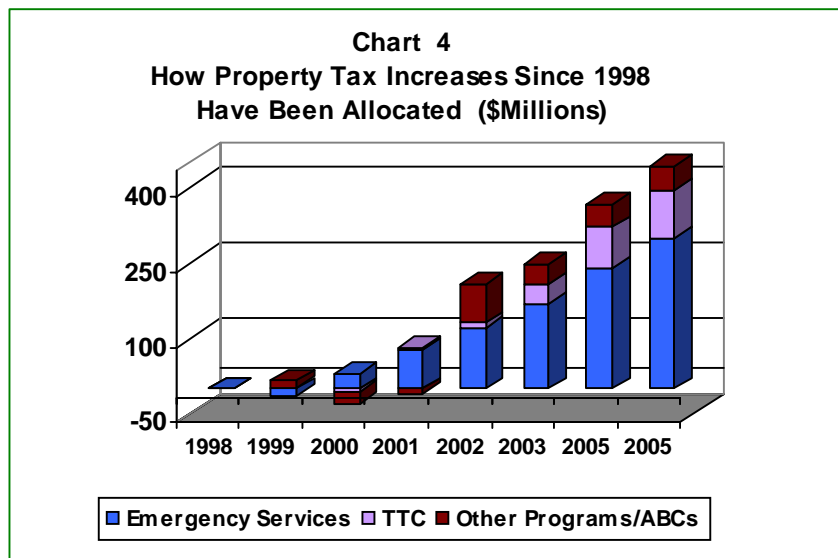
Causes of Toronto's Fiscal Challenges:

Unlike large cities in the European Union and USA, the City of Toronto has had to rely on three main revenue sources to provide a wide range of services and to meet the uncontrollable increasing cost of inflation and growth. On a \$7 billion expenditure budget, inflation at current rates imposes an approximate \$250 - \$300 million pressure (exclusive of growth) on the City's budget annually. In addition there is an increasing demand for services associated with population growth, and new services to fulfill Council's priorities and to meet quality of life expectations of the public.

Further compounding the problem is under-funding of services downloaded by the Province. Without revenue sources that grow with the rate of expenditure increases, the City has had to rely primarily on continuous improvements and efficiencies, limited user fee increases, property tax increases, and restricted and unsustainable assistance from the Province to balance its budget. Typically, the Province has offered only one-time assistance (ranging from a low of \$50 million in 2001 to a high of \$90 million in 2004), which does not permanently remedy the fiscal problem that exists. As well, the City has had to rely on its own internal one-time revenue contributions (growing to \$282 million in 2005) to fill the gap in recurring revenues since amalgamation (see Table 8).

Table 8 2001 - 2005 Provincial and City One-time Funding					
	\$Millions				
	2001	2002	2003	2004	2005
Provincial Assistance:					
Deferral of Provincial Loan Repayment			10	20	20
Provincial Subsidy	50		64	70	45
Total Provincial Assistance	50	0	74	90	65
Internal Funding Initiatives:					
Continuous Improvement / Efficiency	40	45	50	60	60
One Time Internal Funding:					
Reserves	41	72	99	69	87
Hydro Revenues				92	195
Other One Time					
Total One Time Internal Funding	41	72	99	161	282
Property Taxes:					
Tax Increase	48	44	32	59	62
Assessment Growth / Change	26	8	33	27	13
Total Property Taxes	74	52	65	86	75
Total Internal Funding Initiatives:	155	169	214	307	417

Chart 4 below confirms that a sizable portion of property tax revenue increases since 1998 have been utilized to pay for the increasing cost of emergency services (police, fire and emergency medical services) and transit. Property taxes in 2005 totalled \$3.016 billion compared to \$2.575 billion in 1998. This represents a \$441 million or 17% increase, of which 90% or \$394 million was used to pay for increases in transit and emergency services. In effect, only the remaining \$47 million or 10% of the cumulative 2005 property tax revenue increase (when compared to 1998) was available to pay for inflation and growth initiatives for the balance of City municipal services and ABCs. At the same time, since 1998, the cost of Provincially-mandated services has grown by \$214.723 million or 8.4%, while the Provincial subsidy has increased by \$7.846 million or 1.0%.



The operating risks associated with the above fiscal challenges are significant. It is critical that sustainable fiscal solutions be obtained to enable the City of Toronto to continue to serve its constituents, and to remain economically competitive in the global marketplace. Achievement of the latter would be beneficial to both the Ontario and the Federal governments - evidenced by the fact that the City sends \$11 billion in revenue to other orders of government excess of what it gets back from them.

New Deal and Funding Plan:

In a 'Five Year Plan to Put Toronto on Stable, Sustainable Financial Footing', the Conference Board of Canada study indicated that the City "faces an annual imbalance of \$1.1 billion between the cost of its service responsibilities, and the amount of money it raises to provide those services." Further, the Plan attributed the reason for the imbalance to the City's obligation "to pay for services, such as social programs, when they should be paid for by the Province, as in the rest of Canada" and reinforced the fact that, "the City has no access to growing revenue sources, such as sales or income taxes, unlike many other large North American cities, nor will the new City of Toronto Act provide the means to address the fiscal imbalance."

The 'Five Year Plan to Put Toronto on Stable, Sustainable Financial Footing' attempts to address the fiscal imbalance referenced above and proposes solutions which required all orders of

government to fulfill their responsibilities. Key responsibilities and actions included in the Five Year Plan, implementation of which begins in 2006 are as follows:

City Actions

- restrict program-spending growth to 2% in 2006, and 0% in 2007 and 2008, and continued fiscal restraint in 2009 and 2010
- manage the imbalance created through increased debt, deferred expenditures and use of non-recurring funding sources for the first four years
- modest increase in City building initiatives
- use of the new revenue strategy under the new City of Toronto Act in 2007 and 2008

Provincial Actions

- implement new City of Toronto Act
- honor program cost sharing arrangements
- fund 100% ODSP/ODB administration and mandatory benefits programs
- forgive transition loan payments
- increase base gas tax transfer for transit to 1.5 cents in 2006 and 2.0 cents indefinitely
- Increase sales tax transfer to 1/16th of PST (1/2%) and/or comparable GST
- initiate and continue phase-in to achieve 50:50 City/Provincial funding for TTC operating budget over the five-year period
- adopt a five-year plan to change the City's structural imbalance in 2006
- take back GO Transit expansion cost in 2007

Federal Actions

- increase gas tax transfer for transit (population based) to 1.5 cents in 2006, 2 cents in 2007, 2.5 cents in 2008 and 5 cents thereafter
- amend Bill C48 gas tax transfer for transit, ridership based in 2006, 1 cent of gas tax permanently

The City of Toronto has determined that if these actions are adopted by the three orders of government, its fiscal imbalance will be remedied over a five-year phased-in approach at a declining rate of: \$496 million in 2006, \$445 million in 2007, \$190 million in 2008, \$155 million in 2009 and zero in 2010.

The City of Toronto Act

On September 17, 2004, the City of Toronto and the Province officially launched a joint Toronto-Ontario review of the City of Toronto Act, 1997 and other private (special) legislation. The purpose of the review was to develop recommendations for a modernized City of Toronto Act that would provide the City with an enabling legislative framework commensurate with its responsibilities, size and significance to the Province. Associated objectives of this review include the following:

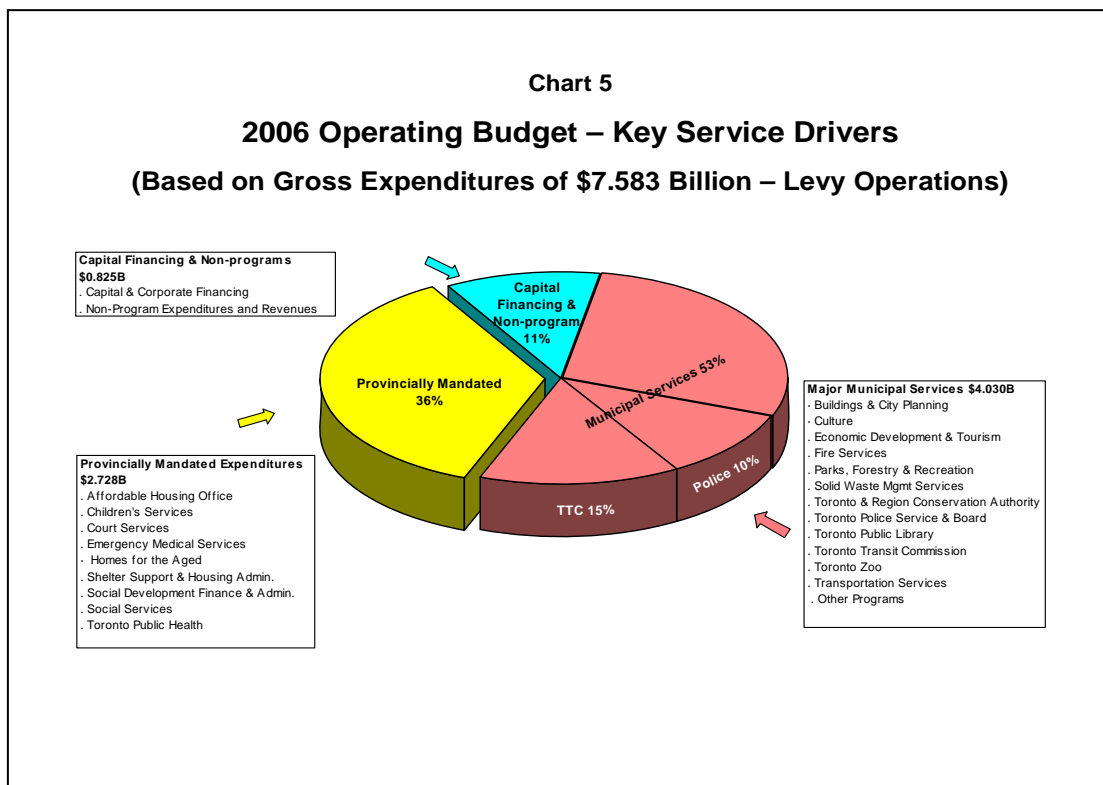
- make the City of Toronto more fiscally sustainable, autonomous and accountable;
- improve Ontario's quality of life and competitiveness by equipping Toronto with the legislative tools it requires to thrive as a modern, global urban centre; and,
- reduce red tape and improve the efficiency of the government of Ontario and Toronto by eliminating duplicate, unnecessary and time-consuming measures that provide little public benefit.

The Task Force established to review the City of Toronto Act and other private (special) legislation suggested that a modernized City of Toronto Act should fundamentally alter the way Ontario empowers Toronto. The Act should start from the premise that Toronto can exercise broad permissive governmental powers within its jurisdiction, subject only to exceptions in the provincial interest. Toronto requires a wider mix of revenue sources to better meet its financial requirements and more effectively achieve public policy objectives. 'Toronto also requires broader scope ... to raise revenue and manage its financial and physical assets.' Providing Toronto with expanded financial management and revenue tools will make the City more fiscally sustainable, autonomous and accountable.

2006 BAC Recommended Operating Budget

2006 Key Service Drivers

Chart 5 below highlights the percentage breakdown of the 2006 BAC Recommended Budget by key service drivers. Provincially-mandated Programs make up 36% or \$2.728 billion, Municipal Services total 53% or \$4.030 billion while Capital Financing & Non-Program Accounts comprise 11% or \$0.825 billion of the City's 2006 Operating Budget.



The structural fiscal problem faced by the City presented major challenges in producing a balanced budget for 2006. As a starting point, the City had an overwhelming \$759 million pressure mainly engendered by unsustainable budget balancing solutions. In addition to the one time revenue problem, the impact of inflation on expenditures continued to be significant, particularly because the City's revenues are not similarly tied to income. Despite the fact that most City Programs achieved the assigned 2% net expenditure target, the City again had to rely on non-recurring revenue solutions. In effect, while the Programs and ABCs demonstrated their commitment to fiscal prudence, once again the City had to resort to the use of strategies that are inconsistent with its budgetary and fiscal principles, including about \$160 million of reserve funding.

Table 9 presents the 2006 BAC Recommended Gross Operating Budget totalling \$7.583 billion which is an increase of \$447.633 million or 6.3% over the 2005 Approved Operating Budget. The 2006 BAC Recommended Net Operating Budget is \$3.132 billion, an increase of \$115.345 million or 3.8% over 2005 before assessment growth.

Table 9 2006 BAC Recommended Operating Budget								
(\$000's)	2005 Approved Budget		2006 BAC Rec'd Budget		Change from 2005 Approved Budget		Change from 2005 Approved Budget	
	Gross	Net	Gross	Net	Gross	%	Net	%
CITY OPERATIONS								
Citizen Centred Services "A"	2,665,347.3	897,888.5	2,835,642.1	963,601.7	170,294.8	6.4%	65,713.2	7.3%
Citizen Centred Services "B"	981,829.7	681,969.3	1,019,992.1	707,954.4	38,162.4	3.9%	25,985.1	3.8%
Internal Services	281,778.8	143,315.9	289,511.9	145,660.2	7,733.1	2.7%	2,344.3	1.6%
City Manager	34,378.3	32,272.5	36,177.5	33,811.2	1,799.2	5.2%	1,538.7	4.8%
Other City Programs	91,121.2	62,243.9	100,764.9	72,226.4	9,643.7	10.6%	9,982.5	16.0%
City Operations	4,054,455.3	1,817,690.1	4,282,088.5	1,923,253.8	227,633.2	5.6%	105,563.8	5.8%
Agencies, Boards and Commissions	2,270,654.1	1,235,322.9	2,429,936.4	1,293,109.0	159,282.4	7.0%	57,786.2	4.7%
Community Partnership and Investment Program	44,157.3	38,862.1	45,357.9	40,174.9	1,200.6	2.7%	1,312.8	3.4%
Capital & Corporate Financing	455,964.7	432,464.7	481,477.8	476,546.8	25,513.1	5.6%	44,082.1	10.2%
Non Program	309,780.0	(507,856.7)	343,783.3	(601,256.3)	34,003.3	11.0%	(93,399.6)	18.4%
Levy Operating Budget - Before Assessment Growth	7,135,011.4	3,016,483.0	7,582,643.9	3,131,828.3	447,632.5	6.3%	115,345.3	3.8%
Assessment Growth -- 2006	0.0	0.0	0.0	(59,761.3)	0.0	n/a	(59,761.3)	n/a
Total Levy Operating Budget - After Assessment Growth	7,135,011.4	3,016,483.0	7,582,643.9	3,072,067.0	447,632.5	6.3%	55,584.0	1.8%

Key Base Program Pressures

The City Operations increase of 5.8% is driven largely by the increase in cost-shared programs, emergency services (Fire and Emergency Services) and Solid Waste Management Services.

The pressures for ABCs are driven by the TTC and Police increase. The capital and corporate financial increase is attributed to the debt charge increase related to the approved capital budgets.

Non-Program is down mainly due to the utilization of one-time City reserve funding combined with increased Provincial funding.

Finally, the 2006 assessment growth of 2.0% or \$59.8 million results in a 1.8% net expenditure increase of \$55.6 million.

New / Enhanced Services

The 2006 BAC Recommended Operating Budget includes funding to invest in key City priorities. Investment in new services total \$149.483 million gross and \$8.755 million net. This was achieved by restricting new investments to those initiatives that are critical to achieving Council priorities, and those that leveraged third party funding in order to minimize any incremental financial impact on the 2006 budget shortfall.

Table 10 below summarizes the 2006 BAC Recommended New / Enhanced services by Council highest priorities.

Table 10		
BAC Recommended New / Enhanced Services		
Description	\$000s	
	Gross	Net
Council's Highest Priorities:		
Strong Neighbourhoods	34,365.2	4,858.4
Clean & Beautiful	542.5	542.5
Year of Creativity	3,250.0	1,500.0
Waterfront Initiative	152.0	105.0
Total Council's Highest Priorities	38,309.7	7,005.9
Best Start (Children's Services)	95,608.0	
Housing Initiative(s)	4,036.8	
Courts - Off Duty Police Court Attend.	1,200.0	(300.0)
Other Program New/Enhanced	7,483.3	1,285.7
Total New and Enhanced	146,637.8	7,991.6

Community Safety and Priority Strong Neighbourhoods

The Community Safety Plan has been established to improve public safety and build on existing strengths in our communities. The plan involves four pillars: Strong Neighbourhoods strategy, Crisis Response, Youth Opportunities and Youth Justice. The Community Safety Secretariat coordinates the various components of the Community Safety Plan which spans across several City programs to improve public safety and build on existing strengths in the community.

Table 11 below highlights, by program, new investment included in the 2006 BAC Recommended Operating Budget of \$34.365 million gross and \$4.858 million net as well as an increase of 276.7 approved positions for the continuing work for the Community Safety and Priority Neighbourhoods Plan. Continuation of this Plan in 2007 will require net funding of \$5.670 million.

Table 11 Initiatives Supporting Community Safety (\$000s)				
Program	2006			2007 Outlook (Net)
	Gross	Net	Approved Positions	
Children's Services		-	-	-
Best Start - 1810 new child care spaces	18,000.0	-		
After School Program - 3,600 after-school child care spaces	3,700.0	-		
Social Development, Finance & Administration				
Community Crisis Response Team in 13 Priority neighbourhoods	312.5	312.5	3.0	64.0
Neighbourhood Action Community Development - six additional priority communities	425.6	425.6	-	96.0
Youth Outreach Program for high-risk youths (includes \$150K in CIP Budget)	175.0	175.0	6.0	125.0
Youth Employment and Local Leadership involving Youths in community development	1,958.0	-	1.0	-
Youth Action, Youth Safety - involving Youths in skill building workshop	124.4	-	-	-
Parks, Forestry & Recreation				
Implementation of Youth Recreation Strategy - "After School Youth" and "Drop-in Social Clubs for Youth with Disabilities"	154.8	154.8	2.9	154.8
Toronto Police Service				
Pathfinders - enhanced court security	934.5	934.5	-	-
Hiring of new police officers	6,300.0	1,900.0	204.0	2,059.0
Toronto Transit Commission				
Hiring of 11 new constables	242.8	242.8	11.0	2,670.8
Toronto Public Health				
Enhanced service to priority neighbourhoods	2,037.6	713.2	48.8	500.8
TOTAL	34,365.2	4,858.4	276.7	5,670.4

Clean and Beautiful City Initiative

Consistent with Council priorities, 2006 BAC Recommended Budget includes new funding for the City's Clean and Beautiful initiative. In 2005, Phase 1 of the initiative focused on cleaning up the City for which Council allocated \$2.6 million solely for clean city initiatives. Phase 2, for 2006, continues the clean city initiatives and introduces actions to beautify Toronto with the participation and assistance of the public and private sector (see Table 12). 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 to be implemented over a 3-year period. The plan represents an ongoing cycle of activities in which the City and its residents are engaged at all times.

Table 12 City of Toronto Clean and Beautiful Initiative Summary of 2006 Base Budget and New Funding (\$000s)			
Actions	Base Budget Funding	New/Enhanced Services	2006 Proposed Operating Budget
1. SWEEP IT	294.6	406.7	701.3
2. DESIGN IT	(129.5)	15.0	(114.5)
3. GROW IT	1,475.7	-	1,475.7
4. BUILD IT	(185.0)	120.8	(64.2)
5. CELEBRATE IT	(50.0)	-	(50.0)
Total	1,405.8	542.5	1,948.3

The 2006 BAC Recommended Operating Budget includes funding in the amount of \$1.948 million for Clean and Beautiful City initiatives of which \$1.406 million is for base funding that provides full funding for initiatives that began in 2005 and \$0.543 million is for new / enhanced activities in 2006 such as: \$0.015 million to implement the Municipal Benefits of Green Roofs Study and the recommendations of the New Official Plan; \$0.407 million to provide maintenance services to orphaned areas like expressway ramps and medians; and \$0.121 million to continue implementing the Neighbourhood Beautification Program in 2006 to identify and deliver beautification projects in each of the City's 44 wards.

Year of Creativity – Live with Culture

The Culture Plan approved by City Council calls for Toronto to catch the wave created by the completion of an unprecedented number of cultural facilities through a celebration of culture in 2006, the 'Year of Creativity'. This program allows Culture to continue promoting a healthy environment for community arts as well as promote and facilitate a citywide community arts network. Heritage programs will also continue to be revitalized to meet emerging community needs in terms of access to collection, research and community based programs. Culture will also continue to broker partnerships among various sectors including internal and external partners, businesses and agencies, building on the successes achieved.

Within the 2006 Operating Budget for Culture, the Budget Advisory Committee has recommended \$3.25 million gross and \$1.5 million net for the Year of Creativity subject to the program securing \$1.75 million in revenue from Provincial, Federal governments and other sources. Activities include the development of a web portal (LiveWithCulture.ca), a fact the arts campaign, Domestic Marketing, Community arts Projects Targeted at Children and Youth, Songs from Above the Treeline, enhanced Doors Open, Humanitas Festival, Aboriginal Public Art Project, Nature in the Garage and Nuit Blanche.

Waterfront Secretariat

The purpose of the Toronto Waterfront Secretariat is to lead and direct the City's participation in the Toronto Waterfront Revitalization Initiative as well as to ensure that all City divisions,

boards, agencies, commissions and corporations assist in implementing the Waterfront Revitalization Initiative in a coordinated, efficient and cost-effective manner. The Secretariat acts as the liaison between City divisions, agencies, boards, commissions and corporations and the Toronto Waterfront Revitalization Corporation. Negotiating with other governments on major issues of governance, funding, legal documentation and land contributions is among the roles of the Secretariat.

City Council approved the Five-Year Business Plan/Ten Year Forecast for Waterfront Revitalization Initiative in September 2005. With the cost sharing agreements between the Federal, Provincial and City governments now in place, the Waterfront Revitalization Initiative is transitioning from a “planning” to an “implementation” phase of the Waterfront project. As a result, it is anticipated that there will be a significant increase in workload in 2006 and beyond to deal with numerous complex issues such as brownfield liabilities, land/asset management, governance, Gardiner/Lakeshore corridor, business attraction and relocation, communications protocol and strategy. In order to address the increase in workload and to ensure that the Initiative Capital Program is delivered on a timely basis, the 2006 BAC Recommended Operating Budget includes additional funding in the amount of \$0.152 million gross and \$0.105 million net for 2 new positions: the conversion of a temporary Project Officer position to permanent, and a new temporary Technical Co-ordinator position (the latter cost to be funded from the Capital Budget).

The 2006 BAC Recommended Operating Budget includes funds in the amount of \$0.994 million gross and \$0.827 million net for the operation of the Waterfront Secretariat.

3-1-1 – Customer Service Strategy

The 3-1-1 Customer Service 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 requests from receipt to completion. Included in the 2006 BAC Recommended Operating Budget is a net amount of \$389.1 thousand for the Project Management Office (PMO) for the 3-1-1 project. This will cover the cost of annualization of staff, equipment, administrative and other associated costs of the PMO essentially to ensure strategic planning and implementation of the initiative.

Best Start

The BAC approved \$95.6 million gross and zero net for the Best Start program. Under Best Start, the City must develop a plan to use existing vacant child care spaces to increase licensed spaces and more child care fee subsidies in 2005/2006 with a priority for children in Junior Kindergarten and Senior Kindergarten and a gradual expansion for children aged 0-4 years of age, and work with the Best Start Network to develop a longer term plan to implement early learning and care hubs. As well, through the Best Start Transitional Infrastructure Plan, the City will identify renovation and new building requirements for the transition year of 2005/2006 and beyond.

The City has received \$73.467 million for the provincial year 2005/2006. The City approved a three year plan from April 2005 to March 2008 assuming an additional \$125 million in annual funding by 2008. The plan proposed the creation of new licensed child care spaces through renovation and/or construction of current or new facilities using Best Start capital funding. The plan recommends Best Start operating funding be used to increase the number of fee subsidies, provide for increased funding for wage subsidies, improve supports for children with special needs, and maintain the current system through wage improvements, increases to per diem rates and funding for health and safety. Included in the 2006 Operating Budget is \$18.0 million in Best Start funding that will be used to create 1,810 new child care spaces in 41 expansion sites in the priority neighbourhoods as included in Table 11.

Recent Federal and Provincial announcements with respect to the National Early Learning Child Care and Best Start programs will have an impact on the City's ability to implement the Best Start plan because the City will only receive approximately \$18.0 million per year for the next four years instead of the \$125 million. The Children Services Division will be reviewing the impact from these announcements and bringing a revised plan for Council's approval in the Spring of 2006. However, there is sufficient funding for 2006 and well into 2007 to maintain current service levels included in the 2006 BAC Recommended Operating Budget.

Actions Taken to Balance the 2006 Budget:

As part of the administrative review process, the Financial Planning Division analyzed program submissions to ensure compliance with Council directions and guidelines and presented findings and recommendations to the City Manager and Deputy City Manager & Chief Financial Officer (DCM & CFO) for consideration. Through detailed reviews that focused on optimizing revenues and minimizing cost increases while maintaining base services, the 2006 Budget Request from City Programs and ABCs was reduced by \$43 million. Budget issues were presented at the January 4, 2006 Joint meeting of the Budget Advisory and Policy and Finance Committees. The \$532 million remaining budget pressure contained in the proposed budget was mainly a function of the one-time revenues that were used to balance the 2005 Operating Budget.

Standing Committees reviewed the 2006 Proposed Operating Budget for programs falling under their respective jurisdictions. Standing Committees received public deputations and were responsive to ideas provided by deputants. Recommendations of Standing Committees were presented to the BAC for consideration. Altogether, Standing Committees increased the 2006 Proposed Budget by adding \$2.1 million to the base budget and \$4.9 million in funding for New / Enhanced services resulting in a total increase of \$7 million.

Faced with a 2006 budget shortfall of \$539 million, the BAC explored every opportunity to constrain expenditure increases, and to increase user fee revenues without negatively impacting the most vulnerable. Every City Program and ABC was reviewed to ensure that services are being provided efficiently.

In January 2006, the Chair of the BAC emphasized that in order to reduce the substantive pressures in the 2006 BAC Recommended Operating Budget, programs needed to identify further cost savings of at least \$50 million. The Mayor and the Chair of BAC instituted a City-wide cost containment strategy that, for the balance of 2006 until the first quarter of 2007, restricts hiring to only essential positions and further, imposed constraints on discretionary

spending. It was estimated that the hiring freeze and other spending restraint measures will generate savings of \$10 million across the corporation.

By February 14, 2006, the BAC had, through its further review of City programs and detailed review of ABCs, made budget adjustments that resulted in a \$117 million reduction to the base budget with minimal impact on service levels. Any further reduction to the budgets of City Programs and ABCs would have required service reductions and / or elimination.

To mitigate the remaining pressure of \$415 million, the Province has provided increased funding totalling \$165 million comprised of the following:

- \$10.4 million for the Critical Care Strategy which begins to restore the Provincial funding share to 50% for Emergency Medical Services by 2008;
- \$100 million for TTC operations;
- \$35 million from the Ontario Municipal Partnership Fund to address the City's Municipal social service program costs relative to its residents; and
- \$20 million for Provincial loan repayment deferral.

With limited other revenue options, the BAC has recommended additional draws from reserves and reserve funds of about \$113 million, and to increase taxes to balance the budget. After assessment growth of \$59.8 million, the 2006 budget pressure has been reduced to \$55.0 million. The BAC has recommended a 3% residential property tax increase to generate \$37.2 million, and 1% commercial, industrial and residential property tax increase which will generate \$18.4 million.

2006 Budget Highlights:

The 2006 BAC Recommended Operating Budget achieves the goal of protecting important and essential services and service levels. As well, it ensures that services are being delivered efficiently. This budget optimizes non-tax revenues while ensuring fair access to all residents.

Table 13 details the 2006 BAC Recommended Operating Budget by major expenditure and revenue category. Salaries and Benefits, which total \$3.517 billion or 46% of the gross expenditure, represent the largest expenditure category. Emergency services (Fire, Police and EMS) and TTC alone total \$1.932 billion, approximately 55% of the total salary and benefit budget. Property taxes constitute the major source of revenue in the amount of \$3.132 billion or 41%.

Table 13 2006 BAC Recommended Operating Budget Summary by Expenditure and Revenue Category (in \$000s)				
Category	2005 Approved	2006 BAC Rec'd	Change from 2005 Approved Budget	
	\$	\$	\$	%
Salaries and Benefits	3,341.2	3,517.2	176.0	5.3
Materials and Supplies	397.4	436.4	39.0	9.8
Equipment	47.1	46.4	(0.8)	(1.6)
Services and Rents	1,122.6	1,198.2	75.6	6.7
Contribution and Transfers	2,009.0	2,132.5	123.5	6.1
Other	274.7	272.0	(2.7)	(1.0)
Total Gross Expenditures	7,192.1	7,602.6	410.6	5.7
Grants from Others	1,693.9	1,879.5	185.7	11.0
User Fees	1,071.6	1,126.3	54.7	5.1
Other	1,410.1	1,465.0	54.8	3.9
Total Revenue	4,175.6	4,470.8	295.2	7.1
Total Net Expenditures	3,016.5	3,131.8	115.4	3.8

The 2006 BAC Recommended Operating Budget includes increases to user fees and charges (see Appendix 3) which will generate additional revenues which comply with the City's policies, relevant provincial legislation and the notice requirement prescribed in Part XII, Fees and Charges, of the Municipal Act, 2001. (Note that a detailed listing of user fees and charges proposed to change in 2006 can be viewed on the City's Website at www.toronto.ca/budget2006/budgetbriefingnotesoperating2006.)

Appendix 1 details the 2006 BAC Recommended Operating Budget by City Program and ABC. Appendix 2 summarizes the recommended changes arising out of the BAC review stage by Program.

2006 BAC Recommended Positions:

In accordance with the City's Financial Policies, all approved positions to support capital work as well as direct service delivery (Operating) are to be included in the Operating Budget. As indicated in the attached Appendix 4, the 2006 BAC Recommended Operating Budget includes a total of 47,315.4 positions for Operating and Capital purposes. This is comprised of 1,400.5 capital positions and 45,914.9 operating positions.

Compared to 2005, operating positions included in the 2006 BAC Recommended Budget increased by 838.2 (see Table 14 below). City Operations account for an increase of 120.8 positions of which an increase of 104 positions or 86% is in Citizen Centred Services "A". The increase is primarily attributed to cost-shared programs and Parks, Forestry & Recreation. An increase of 18.8 positions in Citizen Centred Services "B" is primarily in Transportation Services.

Table 14 2006 BAC RECOMMENDED BUDGET SUMMARY OF APPROVED POSITIONS (OPERATING)			
Program / ABCs	2005 Approved Positions	2006 BAC Recommended	Change from 2005
Citizen Centred Services "A"	11,508.5	11,612.5	104.0
Citizen Centred Services "B"	7,491.3	7,510.1	18.8
Internal Services & Other City Programs	3,418.8	3,416.8	(2.0)
Total City Operations	22,418.6	22,539.4	120.8
Agencies, Boards & Commissions	22,658.1	23,375.5	717.4
Total Levy Operations	45,076.7	45,914.9	838.2

Overall, ABCs operating positions increased by 717.4 over the 2005 approved positions. This approximates 86% of the total increase of 838.2 positions. The ABC increase is mainly attributed to the following: 263.5 positions to deliver new services in Public Health; 202 positions to support expanded TTC service to meet ridership levels. Toronto Police Service increased their front line service by 204 permanent positions and decreased temporary position by 5 resulting in a net increase of 199 positions. In total, the 2006 BAC Recommended positions for direct service delivery for Levy Operations increased from 45,076.7 to 45,914.9. (Note that a detailed analysis of approved position proposed to change in 2006 can be viewed on the City's Website at www.toronto.ca/budget2006/budgetbriefingnotesoperating2006.)

2007 Outlook:

Typically, services approved in one year will have an incremental financial impact on future years' budgets due to factors such as the annualized cost of base budget changes; the reversal of one-time expenditures and one-time sources of revenue; and the annualized cost of the introduction of new / enhanced services in the prior year. As indicated in Table 15, the 2007 Operating Budget will increase by \$519.7 million, resulting in a Net Operating Budget forecast of \$3.652 billion. For the most part, the increase is attributed to City one-time revenues of \$273.0 million utilized to balance the 2006 Operating Budget. This is based on the commitment by the Province to continue a multi-year plan for TTC's cost shared program partnership funding. Other significant reasons for the increase include inflation (including cost of living adjustments), annualization costs, debit service costs, etc. that total \$231.7 million.

The 2007 Operating Budget Target has been set at 0% change over the 2006 Council Approved Net Expenditure Budget of \$3.132 billion. Given the preliminary 2007 Outlook pressure outlined in Table 15 budget reductions of about \$450 million would be necessary to achieve a 0% target in 2007. This is a significant challenge which cannot be achieved only through austerity measures. It is, therefore, urgent that the City continue to work to achieve further operating efficiencies while pursuing sustainable revenue solutions with the Province.

Table 15 City of Toronto 2007 Outlook - Incremental Impacts		
		\$Millions
Annualization - Base:		
- Revenue Increase		(5.3)
- Expenditures		7.6
Annualized - New and Enhance Services		7.5
Contribution to Reserves/Reserve Funds		25.6
One-time Grants & Subsidies		5.3
Debt Service Cost		44.0
Cost of Living Allowance		107.0
Inflationary Adjustments		40.0
Total Before 2006 Unsustainable Budget Balancing Strategies		231.7
Unsustainable Budget Balancing Strategies:		
Provincial Assistance		
- Ontario Municipal Partnership Fund	35.0	
- EMS Increased Funding	(20.0)	15.0
City One-Time		
- Hydro Note Revenues - Interest and Dividends	113.0	
- Reserve Draws	160.0	273.0
Total Unsustainable 2006 Budget Balancing Revenues		288.0
Total 2007 Outlook - Incremental Impacts		519.7

Conclusion:

The 2006 BAC Recommended Operating Budget of \$7.582 billion gross and \$3.132 billion net (before assessment growth) is made up of a base budget of \$7.433 billion gross and \$3.123 billion net to deliver current services approved by City Council as well as \$149.5 million gross and \$8.755 million net to invest in key City priorities for new / enhanced services. Approval of the 2006 BAC Recommended Operating Budget will result in a gross expenditure increase of \$447.633 million or 6.3% and a net expenditure increase of \$55.574 million (after assessment growth) or a 1.8% increase over the 2005 Approved Budget. To balance the budget the City again relied on substantive expenditure reductions and user fee increases of about \$110 million, increased Provincial assistance of about \$165 million, one-time revenue sources including reserve draws of about \$273 million which results in a 3.0% residential property tax increase and a 1% commercial, industrial and multi-residential tax increase for a total of \$55.6 million.

In summary, the 2006 BAC Recommended Operating Budget generally maintains service levels and focuses on priorities of residents and businesses, with emphasis on community safety and strong neighbourhoods, the Children's Services Best Start program, celebrating the Year of Creativity and continuing the Toronto Clean and Beautiful initiative. As has been the case in prior years, on average, more than 60% of property tax revenues is earmarked to pay for police, fire, emergency medical services, the TTC, garbage collection and recycling, libraries, parks and roads – services that most impact the quality of life of residents. Thus, despite the very challenging fiscal constraints that prevail, services generally have been maintained and key new investment priorities have been funded.

Notwithstanding enhanced Provincial assistance in 2006, the City still requires 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. Therefore, it is imperative that the City permanently resolves its operating budget dilemma with a long term funding plan, in order to alleviate the significant pressures on property tax revenues and to continue to provide the municipal services demanded by its constituents.

The Province's partnership funding in 2006 makes significant progress toward funding up to 50% of the TTC's 2006/2007 Operating Budget and commences increased cost shared (social assistance) program funding. The next step is for the Province to agree on a plan to fully upload the cost-shared social programs over the next four years. These initiatives, when combined with the transfer of revenues that grow with the economy to the City over the 2007 – 2010 period, will provide the financial foundation to ensure the City's fiscal sustainability.

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List of Attachments:

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|------------|---|
| Appendix 1 | BAC Recommended 2006 Operating Budget (Net, Gross, Revenue) |
| Appendix 2 | 2006 Operating Budget – BAC Review Summary |
| Appendix 3 | Budget Advisory Committee Recommendations by Program |
| Appendix 4 | 2006 User Fee Changes |
| Appendix 5 | 2006 BAC Recommended Positions |
| Appendix 6 | Budget Advisory Committee Transmittal |