

Analyst Briefing Notes

Budget Committee

(March 26, 2007)

2007 OPERATING BUDGET

Executive Summary	2
Recommendations	4
Section A: 2006 Budget Variance Analysis	5
2006 Experience	5
Impact of 2006 Operating Variance on 2007 Recommended Budget	5
Section B: 2007 Operating Budget Overview.....	6
3-Year Operating Budget Overview.....	6
Service Delivery - Challenges and Issues.....	6
Mayor's Mandate	7
Section C: 2007 Recommended Base Budget	8
2007 Recommended Base Budget	8
2007 Key Cost Drivers	9
Section D: 2007 Recommended Service Priorities	10
Summary of 2007 New / Enhanced Service Priorities	10
Issues for Discussion.....	13
2007 Operating Budget Issues	13
Issues Referred to 2007 Operating Budget Process	13
Appendices:	
Appendix 1: Summary of Recommended Base Budget Changes from 2006 Approved Budget .	14
Appendix 2: Summary of Service Level Adjustments	15-16
Appendix 3: Summary of 2007 Recommended New/Enhanced Service Priorities.....	17-19
Appendix 4: Inflows/Outflows to/from Reserves and Reserve Funds.....	20

Contacts: John Di Lallo, Manager, Financial Planning Division
Tel: (416) 397-4207

Tom Chemnjor, Financial Planning Analyst
Tel: (416) 397-4295

March 23, 2007

2007 OPERATING BUDGET

Executive Summary

- The 2006 preliminary year-end actual expenditure for Toronto Building is (\$11.748) million net compared to a budget of (\$11.969) million. The marginal variance is a result of a combined effect of savings realized in gross expenditures due to hiring delays and lower than planned revenue received from large construction projects.
 - On-going reconsideration of the union harmonization awards that affect staff salaries in the Program, if successful, has the potential of further reducing the surplus position in 2006 and impacting 2007.
- The strategic direction for the Program in the next 3 years will be to improve the Planning Process and meet legislative timeframes for Bill 124 while maintaining provincially prescribed service standards in light of increased legislative requirements and demand for service.
 - The Program had more than thirty vacant positions at the end of 2006 and will strive to provide a competitive market environment in order to fill the vacant positions in 2007.
- The 2007 Recommended Operating Budget of (\$11.969) million net is on target and represents a 0% increase over the 2006 Approved Operating Budget. It comprises a Base budget of (\$12.172) million and \$0.203 million net in new and enhanced service priorities.

Table 1: 2007 Recommended Budget

	2006		2007 Recommended Operating Budget			Change - 2007 Recommended from 2006 Approved Budget		FY Incremental Outlook	
	2006 Appvd. Budget	2006 Projected Actuals*	2007 Base	2007 New /Enhanced	2007 Operating Budget			2008	2009
	\$	\$	\$	\$	\$	\$	%	\$	\$
GROSS EXP.	38,853.6	36,168.0	39,198.4	501.1	39,699.5	845.9	2.2	1,170.1	(135.9)
REVENUE	50,822.7	47,915.9	51,370.7	298.0	51,668.7	846.0	1.7	1,740.0	1,064.9
NET EXP.	(11,969.1)	(11,747.9)	(12,172.3)	203.1	(11,969.2)	(0.1)	0.0	(569.9)	(1,200.8)
Approved Positions	401.5	362.5	401.5	6.0	407.5	6.0	1.5		
TARGET			(11,969.1)		(11,969.1)				
\$ Over / (Under) Program Target			(203.2)		(0.1)				
% Over / (Under) Program Target			1.7%		0.0%				

Source: *Projected Actuals Based on the Preliminary Year-end Actual Expenditures.

- The 2007 Recommended Base Budget of (\$12.172) million net is 1.7% below the Program's net expenditure target of (\$11.969) million and represents a net increase over 2006 of \$0.345 million in gross expenditures, and an increase of \$0.548 million in gross revenues for a net revenue of \$0.203 million.
 - Key cost drivers in 2007 include labour adjustments arising from inflation and merit that will increase expenditure by \$1.486 million and a projected reduction in building permit revenues from low-rise residential buildings of \$0.893 million.
 - Recommended Base budget adjustment of \$0.213 million comprising of gapping reduction from 3.5% to 2.9% reflects actual staffing level needs and would cater for recruitment of technical staff to support the Program's goal of improving and maintaining target performance levels in all program areas; a temporary revenue reduction of \$0.893 million is projected from a decrease in building permit applications for construction of low-rise residential buildings.
 - Base Budget funding of \$0.100 million gross and \$0 net has been recommended to fund policy studies for Green Roof Technologies to ensure ecologically friendly buildings, which supports the Mayor's Mandate for environmental sustainability.
- The 2007 Recommended Operating Budget expenditure of \$39.700 million gross includes recommended funds of \$0.501 million gross and \$0.203 million net for new and enhanced services to be funded from reductions in overtime in the base budget and new revenue from the Municipal road damage deposit fees:
 - Four new Zoning Examiner positions to address the increase in workload as a result of Brownfields Statute Law Amendment Act, requires funding of \$0.203 million gross and net.
 - Two new Counter Clerk positions for a harmonized Municipal road damage deposit process, for a total of \$0.085 million gross and \$0 net in 2007.
- The 2007 Recommended Operating Budget is consistent with Council's directive for zero growth target and includes additional revenue of \$1.298 million in 2007 based on Council approved fee structure that reflects both 100% cost recovery and annual inflationary adjustments.
 - The recommended budget addresses some of the priority areas outlined in the Mayor's Mandate, such as supporting the creation of 1,000 affordable housing units each year through the provision of innovative technical advice and other expert resources.
- The 2007 Recommended Operating Budget for Toronto Building of (\$11.969) million net will provide funding to; improve the Planning Process, meet legislative timeframes for Bill 124, respond to other legislative changes and enhance the organizational infrastructure and service to the public.
- The Program is projecting future year expenditure increases from new staff positions and COLA of \$1.170 million in 2008 which would be offset by gross revenue increases of \$1.740 million for a net position of (\$0.570) million. The outlook in 2009 for an increase of (\$1.201) million net does not include a provision for COLA, as the increase is subject to future negotiations.

Recommendations

The City Manager and Chief Financial Officer recommend that:

1. the 2007 Recommended Operating Budget for Toronto Building of \$39.700 million gross operating expenditure and \$51.669 million in gross revenue resulting in net revenue of (\$11.969) million, be approved:

<u>Service:</u>	<u>Gross (\$000s)</u>	<u>Net (\$000s)</u>
Toronto Building	<u>39,699.5</u>	<u>(11,969.2)</u>
Total Program Budget	<u>39,699.5</u>	<u>(11,969.2)</u>

Section A: 2006 Budget Variance Analysis

Table 2: 2006 Budget Variance Review

	2005 Actuals	2006 Approved Budget	2006 Projected Actuals*	2006 Appvd. Budget vs Projected Actuals Variance	
(In \$000s)	\$	\$	\$	\$	%
GROSS EXP.	35,939.6	38,853.6	36,168.0	(2,685.6)	(6.9)
REVENUES	49,347.3	50,822.7	47,915.9	(2,906.8)	(5.7)
NET EXP.	(13,407.7)	(11,969.1)	(11,747.9)	221.2	(1.8)
Approved Positions	413.5	401.5	362.5	(39.0)	(9.7)

Source: *Projected Actuals Based on the Preliminary Year-End Actual Expenditures.

2006 Experience

- The preliminary 2006 year-end actual expenditure for Toronto Building is (\$11.748) million net, 1.8% below the 2006 Approved Operating Budget of (\$11.969) million. The marginal variance is a result of a combined effect of savings realized in gross expenditures, and lower than anticipated revenue from application fees for large construction projects.
- The 2006 preliminary year-end gross expenditure for Toronto Building is \$36.168 million, 6.9% below the 2006 Approved Operating Budget gross of \$38.854 million. The variance is primarily attributed to hiring delays and significant unexpected savings in salaries and benefits resulting from the Hay and union harmonization awards.
- The preliminary year-end actual gross revenue is \$47.916 million, 5.7% below the 2006 Approved Operating Budget revenue of \$50.823 million. This variance is due to several large construction projects whose applications were not received by the Program as earlier anticipated.
- Thirty nine of the approved positions in Toronto Building were vacant at year end largely due to salary adjustments arising from the Local 79 union harmonization awards and a competitive labour market.

Impact of 2006 Operating Variance on 2007 Recommended Budget

The 2006 year-end favourable variance in preliminary actual gross expenditures in 2006 of 6.9% may reduce if a reconsideration of the decision on the Local 79 union harmonization awards currently underway is successful; 2007 Recommended Operating Budget includes a savings of \$1.166 million realized in 2006 from Hay and union harmonization awards.

Section B: 2007 Operating Budget Overview

3-Year Operating Budget Overview

The strategic direction for Toronto Building in the next 3 years is driven by Council's priority for improving the planning process and meeting legislative timeframes for Bill 124. The Program will continue to face challenges especially in maintaining the provincially prescribed service standards in light of vacancies, increased legislative requirements, and demand for service in the coming three years.

The Program will accomplish its priorities by:

- Implementing the new Objective Based Code process as per the 2006 Edition of the Building Code Act.
- Increasing capacity to meet legislated performance standards for permit reviews through adequate staffing levels, service efficiencies and technology.
- Continuing with development and implementation of a one-window service delivery approach for all development related fee payments in each District.
- Integrating those Initiatives that affect Toronto Building.
- Achieving 100% response rate for all Freedom of Information (FOI) requests for building information and property records.
- Increasing Health and Safety training and awareness to support achieving the goal of zero accidents in the workplace.
- The outlook for 2008 and 2009 forecasts the Program's review of revenue volumes in order to maintain the 2007 levels of service. These adjustments would create net revenue impact of (\$0.570) million in 2008 and (\$1.201) million in 2009.
- The 2008 and 2009 expenditure outlook includes funding in the base budget which advance priorities set out in the Mayor's Mandate for environmental sustainability, a clean and beautiful city and making housing affordable.

The 2009 expenditure outlook does not include provision for COLA, as the increase is subject to future negotiations. No other cost drivers are likely to impact on the 2007, 2008 and 2009 operating budgets.

Service Delivery - Challenges and Issues

Performance Targets

Toronto Building had 39 vacant positions at the end of 2006. The Program will strive to provide a competitive market environment in order to fill these vacant positions so as to achieve a 10% increase in permit application review performance target from 80% to 90% and a 5% increase in inspection response performance target from 90% to 95% in 2007.

Other key performance objectives that the Program will aim to attain include maintaining a 100% response to emergency calls within a day and increasing from 95% to 98% the complaint investigation response rate in 2007.

The 2007 Recommended Operating Budget includes funding to hire six new positions in response to anticipated additional operational and policy requirements as a result of the new Brownfields Statute Law Amendment Act and the new Municipal road damage deposit process.

Permit Fees

Council waives permit fees on qualified non-profit rental housing projects that are either City owned or City funded as provided by Council policy adopted in May 2000, it has also considered waiving building permit and other fees related to certain projects, including those that meet the definition of affordable housing as approved by Council.

Consequently, the creation of 1,000 units of affordable housing each year for the next four years as per the Mayor's Mandate may impact on the Program's revenue and service delivery targets if building permit fees were waived on this volume of units. Toronto Building will continue to track all the building fee waivers to determine the overall financial impact from fee waivers on the Program's revenue for 100% cost recovery and for future revenue forecasting.

Mayor's Mandate

The 2007 Recommended Operating Budget for Toronto Building supports the following priority areas outlined in the Mayor's Mandate:

- ***A Clean and Beautiful City***

Toronto Building is responsible for issuing permits for all building projects in the City of Toronto. It will continue to support architectural excellence in Toronto by ensuring that, where applicable, city building projects as well as those done by the private sector have been subjected to review by the new Toronto Design Review Panel.

- ***Environmental Sustainability***

The Program's 2007 Recommended Operating Budget includes a \$0.100 million funding proposal towards policy studies in areas such as the Green Roof Technologies in line with the Mayor's Mandate of implementing the recently approved Toronto Green Building Standard to ensure ecologically friendly buildings.

- ***Make Housing Affordable***

Toronto Building will support the City's plans to create 1,000 units of affordable housing each year for the next four years on the Railway Lands, the West Don Lands, and by redeveloping existing locations. This will be achieved through provision of innovative technical advice and other expert resources within the Program.

Section C: 2007 Recommended Base Budget

Table 3: 2007 Recommended Base Budget

(In \$000s)	2006 Appvd. Budget	2007 Recommended Base	Change 2007 Recommended Base v. 2006 Appvd. Budget		FY Incremental Outlook	
			\$	%	2008	2009
	\$	\$	\$	%	\$	\$
GROSS EXP.	38,853.6	39,198.4	344.8	0.9	1,170.1	(135.9)
REVENUE	50,822.7	51,370.7	548.0	1.1	1,740.0	1,064.9
NET EXP.	(11,969.1)	(12,172.3)	(203.2)	(1.7)	(569.9)	(1,200.8)
Approved Positions	401.5	401.5	0.0	0.0		
NET TARGET		(11,969.1)			0.0	0.0
\$ Over / (Under) Program Target		(203.2)			(569.9)	(1,200.8)
% Over / (Under) Program Target		1.7%			4.76%	10.03%

2007 Recommended Base Budget

The 2007 Recommended Base Budget for Toronto Building of (\$12.172) million net is 1.7% below the Program's net expenditure target of (\$11.969) million while maintaining the 2006 service level.

- The net increase of \$0.345 million in gross expenditure includes \$1.486 million needed to fund cost of living adjustments and annual merit and step increases; the increase will be partially offset by expenditure savings of \$1.215 million from training materials and adjustments in staff remuneration arising from the Hay and union harmonization awards.
- The 2007 Recommended Base Budget revenue of \$51.371 million reflects a net increase of \$0.548 million in gross revenue above the 2006 Approved Operating Budget. The 1.1% increase includes an upward adjustment of \$1.298 million in building permit and other building related fees needed to fund 100% cost recovery in compliance with the Building Code Act requirements.
- The increase from building permit fees will be partially offset by a reduction in revenue of \$0.893 million arising from temporary slow-down in low rise residential sector building permit applications anticipated in the first half of 2007.

2007 Key Cost Drivers

The following is a summary of key cost drivers in 2007:

- Cost-of-living (COLA) and merit/step adjustments for labour in 2007 that will result in additional costs of \$1.486 million will ensure that existing service levels are maintained, these additional costs would be offset by revenue adjustments in compliance with the Building Code Act requirements.
- Base budget adjustment of \$0.213 million comprising of gapping reduction from 3.5% to 2.9% to reflect actual staffing needs, will cater for recruitment of four technical positions to support the Program's goal of improving and maintaining target performance levels in all service areas.
- Projected temporary volume reduction in construction of low-rise residential buildings will translate into a decrease in building permit revenues of \$0.893 million.
- Policy Studies funding of \$0.100 million in the Base Budget for consulting services will enable the Program to undertake timely consultations on policy changes in line with the Mayor's Mandate for environmental sustainability.

2008 and 2009 Outlook: Net Incremental Impact

Other than salary related increases of \$0.839 million in 2008 and review of revenue forecasts based on volumes of \$1.740 million in 2008 and \$1.065 million in 2009, there are no other cost drivers that are likely to impact on the 2008 and 2009 operating budgets for this Program. Increases due to COLA have not been included in the outlook for 2009 as this will be subject to future negotiations.

The outlook maintains the 2007 recommended levels of service while managing the COLA increments and merit changes.

Section D: 2007 Recommended Service Priorities

Table 4: Summary of 2007 New / Enhanced Service Priorities (In \$000s)

Priority	Description	2007 Recommended		Rec. New Positions	Net Incremental Impact	
		Gross Exp.	Net Exp.		2008	2009
		\$	\$		#	\$
(a) Enhanced Service Priorities - Council Approved						
(b) Enhanced Service Priorities - Program Initiated						
Sub-Total Enhanced Services		0.0	0.0	0.0	0.0	0.0
(a) New Service Priorities - Council Approved						
1	Customer Service -Hamonization of Municipal Road Damage Deposit process	84.8		2.0	64.0	0.0
(b) New Service Priorities - Program Initiated						
1	Brownfields Staff Resources - offset by reduction in base funding for overtime	203.1	203.1	4.0	126.9	0.0
2	Gapping Reduction	213.2				
Sub-Total New Service Priorities		501.1	203.1	6.0	190.9	0.0
Total Recommended New / Enhanced Service Priorities		501.1	203.1	6.0	190.9	0.0

2007 Recommended Service Priorities**New Service Priorities – Council Approved:*****Municipal Road Damage Deposit***

In May of 2006, Council approved the new Municipal Road Damage Deposit process developed by Transportation Services Division, and deferred hiring of two Road Inspectors in the Transportation Services Division and two Counter Clerks in Toronto Building to the 2007 Budget process. These additional resources and the implementation of a non-refundable fee of \$50.00 (fifty dollars) per application to cover the staffing costs are required to address the anticipated increase of work resulting from the process.

The Municipal Road Damage Deposit process and the fees collected varied among the former municipalities prior to amalgamation. Some municipalities levied a fixed fee deposit; some based the deposit on the affected length of frontage of the property; and some did not collect deposits. The new harmonized Municipal Road Damage Deposits process streamlines and clarifies the application process. Additional resources are required to provide ‘one-window’ service to homeowners and their agents for determining and collecting the road damage deposit directly at the time when fee payment for a building permit is made.

It is estimated that up to 10,000 building permit applications require road damage deposits out of approximately 25,000 applications received yearly. A fee of \$50.00 (fifty dollars) per application would be sufficient to cover the additional costs of staffing, training and equipment. The required funding for the two positions with an effective date of July 1, 2007, is \$0.085 million gross, which will be offset by the new fee resulting in \$0 net impact for 2007. The incremental impact in 2008 is \$0.064 million gross and \$0 net.

The request for 2 new Counter Clerk positions in Toronto Building is recommended for approval, subject to approval of a non-refundable fee of \$50.00 (fifty dollars) per road damage deposit application.

New Service Priorities - Program Initiated:***Brownfields Staff Resources***

In 2006, Council approved overtime funding of \$0.400 million towards implementation of additional operational and policy requirements under the Brownfields Statute Law Amendment Act.

Estimates indicate that Toronto Building will have to undertake some level of review on approximately 8,700 residential permit applications, or 67% of approximately 13,000 projects requiring permits annually in the City. The review requires about 8,700 additional hours of work per year for which the Program has identified the need to hire four new Zoning Examiners to address the increase in workload. This will increase efficiency since work will now be completed during regular hours thus reducing turn around times for plan reviews and permit issuance.

The funding required for the positions of \$0.203 million in 2007, with an additional increase of \$0.127 million in 2008 and will be offset by a reduction in overtime funding in the Base budget. This funding has been recommended.

Reduction in Gapping

The gapping rate for this Program has increased steadily over the past several years to the present level which is inconsistent with the Program's hiring plans; the 2006 gapping rate is 3.5%, an equivalent of about 18 full time positions.

Toronto Building's request to reduce its gapping level from 3.5% to 2.9% in 2007 would lower the gapping level by 4 full time positions to allow for the filling of four technical positions. The additional staff would support the Program's goal of improving and maintaining performance target levels in all service areas. The recommended gapping reduction would translate to an increased funding requirement of \$0.213 million gross and \$0 net and a service level change of 4 full time positions.

Issues for Discussion

2007 Operating Budget Issues

Permit Fees

In May 2000, Council adopted policy that provided for exemption of planning application fees, building permit fees and parkland dedication requirements on qualified non-profit rental housing projects that were either City owned or City funded. Council has from time to time considered waiving building permit and other fees related to certain projects, including projects which meet the definition of affordable housing as approved by Council. Recent examples include: 4277 Lawrence Ave. E. (Motions in Council July 30, 31 & Aug. 1, 2002 Clause S6.69), McLevin Ave & Neilson Road (Motions in Council July 30, 31 & Aug. 1, 2002 Clause S6.69) and 38 St. Lawrence St. (Motions in Council May 18, 19, 20, 2004 Clause 8.119).

The 1,000 unit target for the creation of affordable housing, identified in the Mayor's Mandate, could have significant impacts on Toronto Building revenues and service delivery targets if building permit fees were waived on this volume of units. Toronto Building will track the impact of any decisions to waive fees on 2007 budgeted revenue in view of the Program's full cost recovery compliance requirement and consider any future implications in the development of the 2008 operating budget. Toronto Building is preparing the first annual report to demonstrate that building permit fees collected do not exceed the anticipated reasonable costs of the principle authority to administer and enforce the Building Code Act, as required by legislation effective March 2007.

The Chief Financial Officer will also be reporting on the implications of waiving various fees in 2007, including consideration of the budget implications as per Council directive on: "Everybody's Business" (City Council October 26, 27, 28 and 31, 2005), "Increasing the Supply of Space Available for Community Use" (City Council June 27, 28, 29, 2006) and "Waiving City Fees for Heritage and Charitable Properties" (City Council September 2005).

Issues Referred to 2007 Operating Budget Process

During the 2006 Budget process, Council approved the following recommendations:

1. the Chief Building Official & Executive Director of Building Services assess the workload and needs of the Program and report back prior to the 2007 budget process on a long-term strategy for processing Building Permit applications within the legislated timeframes under Bill 124 and the new application review requirements under the Brownfields Statute Law Amendment Act; and,
2. the Chief Building Official & Executive Director of Building Services monitor the building permit fees collected during 2006 and report back to the Budget Advisory Committee as part of the 2007 budget process addressing whether the 4.6% Building Permit fee increase was sufficient to achieve cost recovery as authorized under the Building Code Act.

It is anticipated that a report to address the two recommendations will be submitted to the Budget Committee in March, 2007.

Appendix 1

Summary of Recommended Base Budget Changes From 2006 Approved Budget

(In \$000s)	Summary of 2007 Base Budget Adjustments				Net Incremental Outlook	
	Approved Positions	Gross Expenditures	Revenues	Net	2008	2009
		\$	\$	\$	\$	\$
2006 Council Approved Operating Budget	408.5	39,276.0	50,822.7	(11,546.7)	0.0	0.0
In-year approvals and technical adjustments						
Transfer of support positions to MLS	(7.0)	(422.4)		(422.4)		
2006 Approved Operating Budget	401.5	38,853.6	50,822.7	(11,969.1)	0.0	0.0
Prior year impacts		(1,081.2)	0.0	(1,081.2)	140.2	(135.9)
Zero base items						
Economic factors		1,485.7	1,297.9	187.8	(837.0)	(1,064.9)
Adjusted Base Budget	401.5	39,258.1	52,120.6	(12,862.5)	(696.8)	(1,200.8)
Other base changes		(59.7)	143.4	(203.1)	0.0	0.0
Base revenue changes			(893.3)	893.3	0.0	0.0
Recommended Service Level Adjustments:						
Service efficiencies						
Revenue adjustments						
Minor service impact						
Major service impact						
Total Recommended Base Adjustments	0.0	(59.7)	(749.9)	690.2	0.0	0.0
2007 Recommended Base Budget	401.5	39,198.4	51,370.7	(12,172.3)	(696.8)	(1,200.8)
2007 Program Operating Target	N/A	N/A	N/A	(11,969.1)	0.0	0.0
% Over (Under) Program Target				1.7%	5.8%	10.03%
% Over (Under) 2006 Appvd. Budget				1.7%	5.8%	10.03%

Appendix 2

Summary of Service Level Adjustments

Appendix 3

Summary of 2007 Recommended New / Enhanced Service Priorities

Appendix 4

Inflows / Outflows to / from Reserves & Reserve Funds

Reserve / Reserve Fund Name	Reserve Fund Number	Balance as of December 31, 2006	Proposed Withdrawals (-) / Contributions (+)		
			2007	2008	2009
		\$	\$	\$	\$
Building Code Act Service Improv't	XR1305	4,321.3	2,100.0	2,100.0	2,100.0
Total Reserve / Reserve Fund Draws / Contributions		4,321.3	2,100.0	2,100.0	2,100.0