

City of Toronto

Budget Committee Orientation

December 14, 2010



Agenda

1. Financial Overview
 - Capital
 - Operating
2. 2011 Budget Process
3. Role of Budget Committee
4. Financial Policies, Protocols and Practices
5. Financial Planning Division

Financial Overview Legislative Framework

Financial Planning Framework

- **Legislation** – City of Toronto Act, 2006; Financial Control By-law
- **Governance** – City Council; Standing Committees; Auditor General
- **Delegated Authority** – given to City Manager and Management Team – excludes approval of budget
- **Accountability** – Financial approvals, in-year budget changes and financial impact protocols, financial performance reporting (variance reporting), and internal control mechanisms

COTA Section 228:

- "The City shall in each year prepare and adopt a budget including estimates of all sums required during the year" for the purpose of continuing the business of the City
- It may prepare and adopt a budget covering a period of **two to five years** in the first year to which the budget applies or in the year immediately preceding the first year to which the budget applies
- For the second and each subsequent year to which a multi-year budget applies, the City shall, in the year or the immediately preceding year, review and readopt the budget for that year and for subsequent years to which the budget applies
- "... a budget for a year immediately following a year in which a regular election is held may only be adopted in the year to which the budget applies."

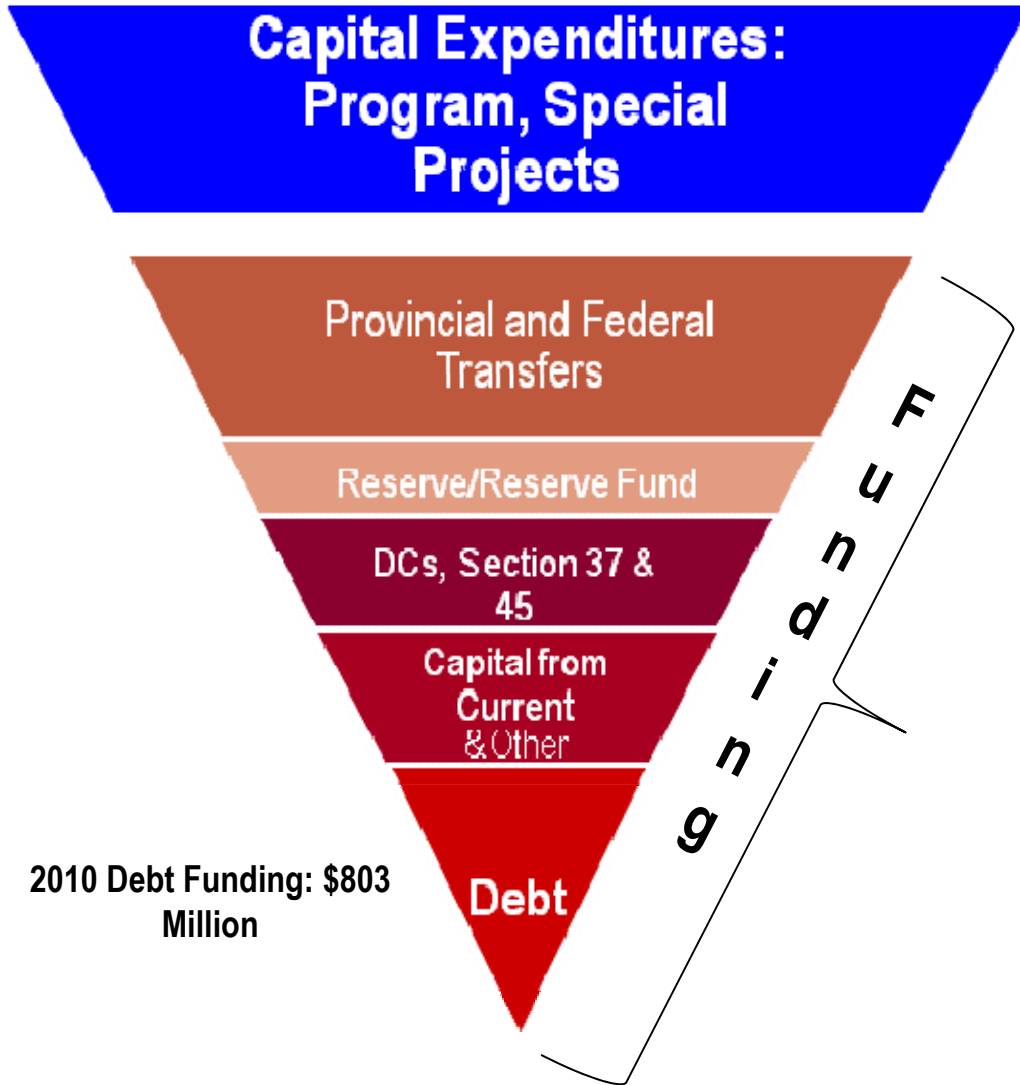
Financial Overview

- Capital

Capital Budget and Plan

- Annually, the City adopts a 10-year capital plan with the first year being the Capital Budget
- The 10-year capital plan sets out expenditures for tangible and long-term physical improvements or additions of a fixed or permanent nature such as new roads, sewer main replacement or a new fire station
- Approval of a capital project in one year may have future impacts which must be considered when approving future years' capital budgets
- Funding for capital projects are mainly from debentures, provincial and federal transfers, reserves, water and sewer fees, and capital transfers from current (operating) budget (CFC)
- Debt principal repayment and interest charges are funded through the operating budget
- Key to managing the impact of the capital budget on the operating budget is issuance of debt targets for 10 year term of the capital plan
- No new debt is issued during the year, in-year debt pressures must be funded by reallocations

How Capital Expenditures Are Funded



2010 Debt Funding: \$803 Million

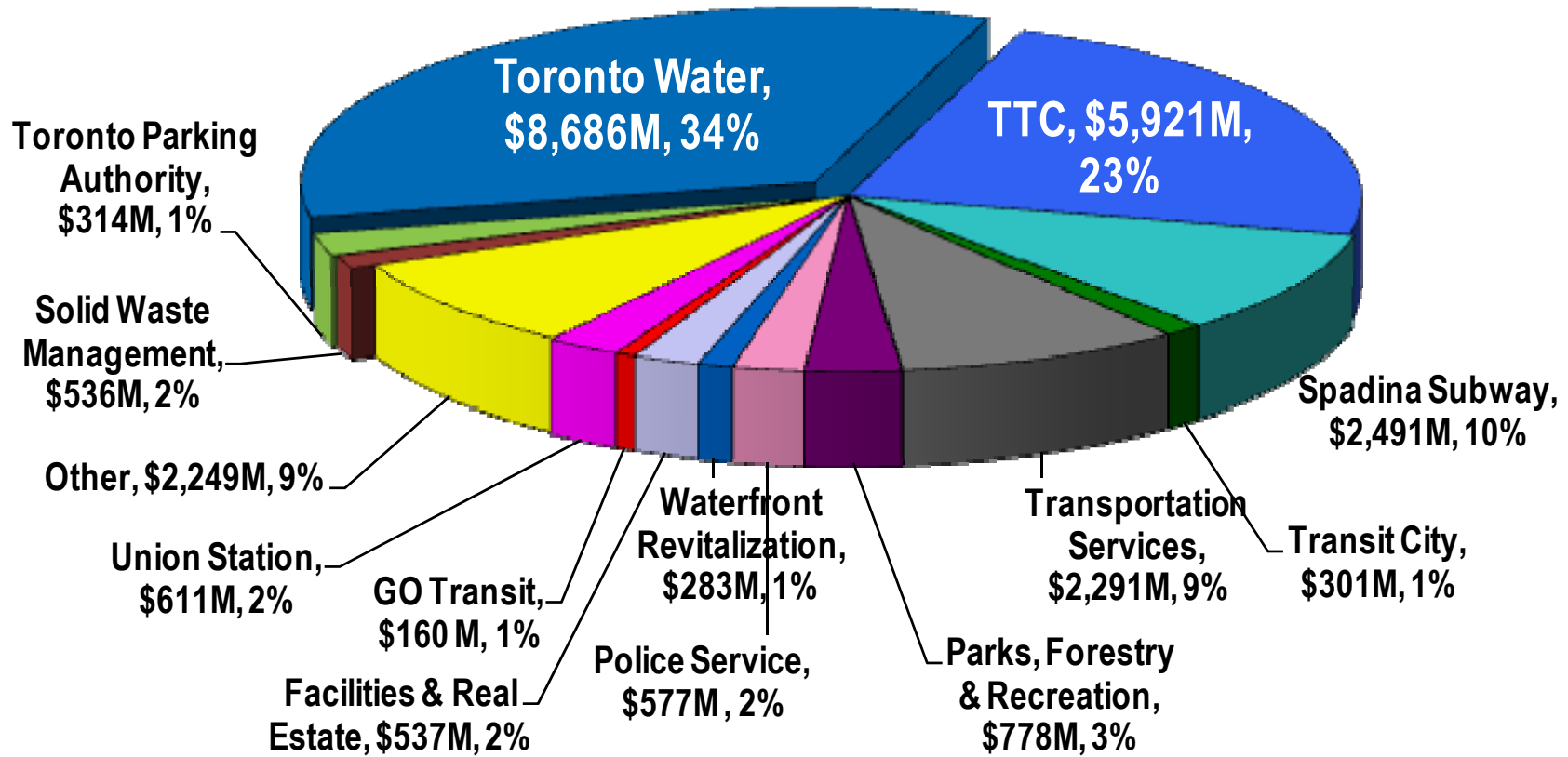
2010 Gross Expenditures: \$2.431 Billion

- City can acquire debt only to fund capital expenditures
- Debt is funding source of last resort
- Debt funds 33% of the 2010 Capital Budget

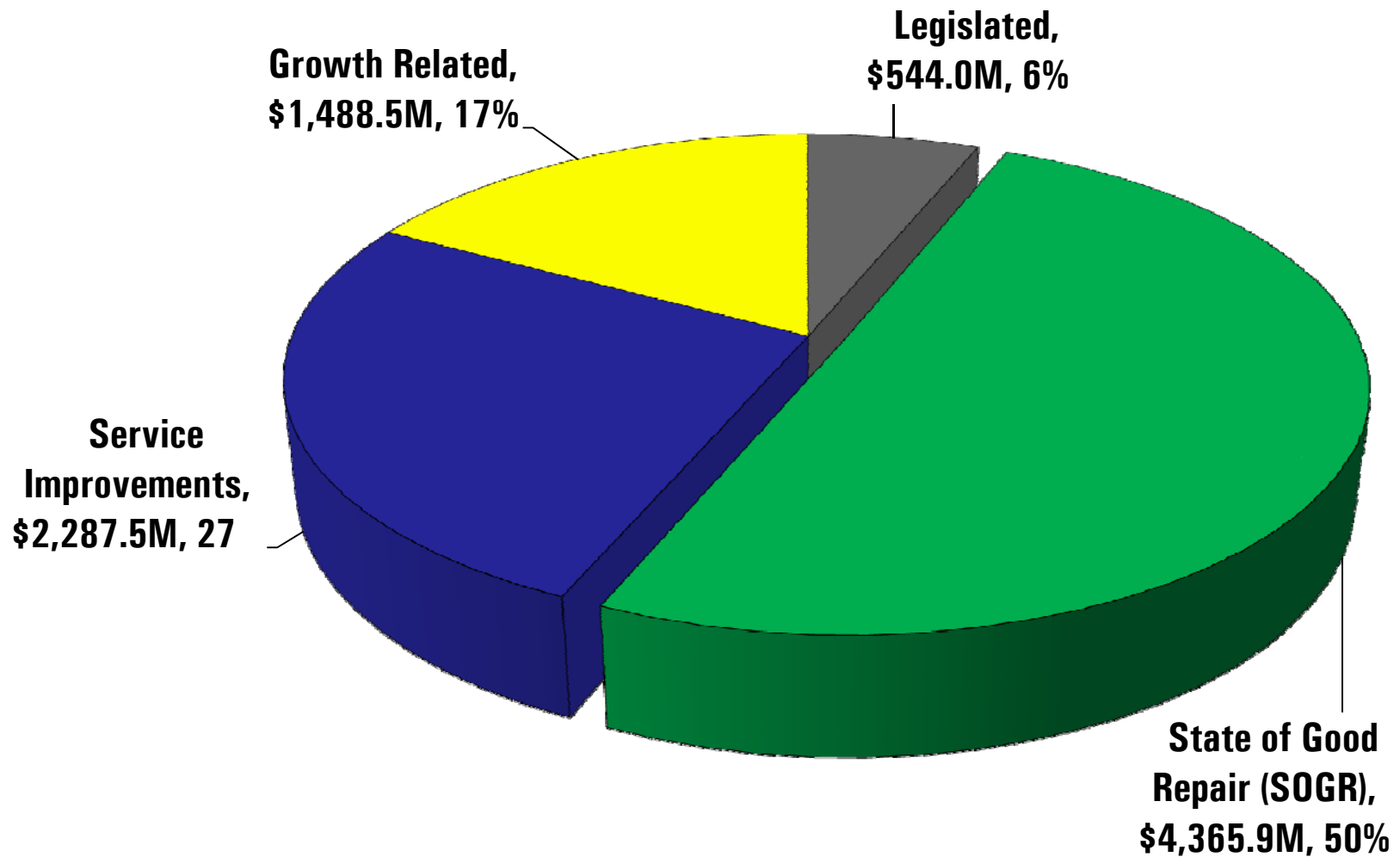
2010 TAX LEVY CAPITAL BUDGET			
\$ Million	Budget	Debt	Debt as % of Gross
City Operations	936	401	43%
Agencies Excl. TTCs	177	71	40%
Toronto Transit Commission	1,317	331	25%
Total City Programs and Agencies	2,431	803	33%

\$1 Gross ≠ \$1 Debt

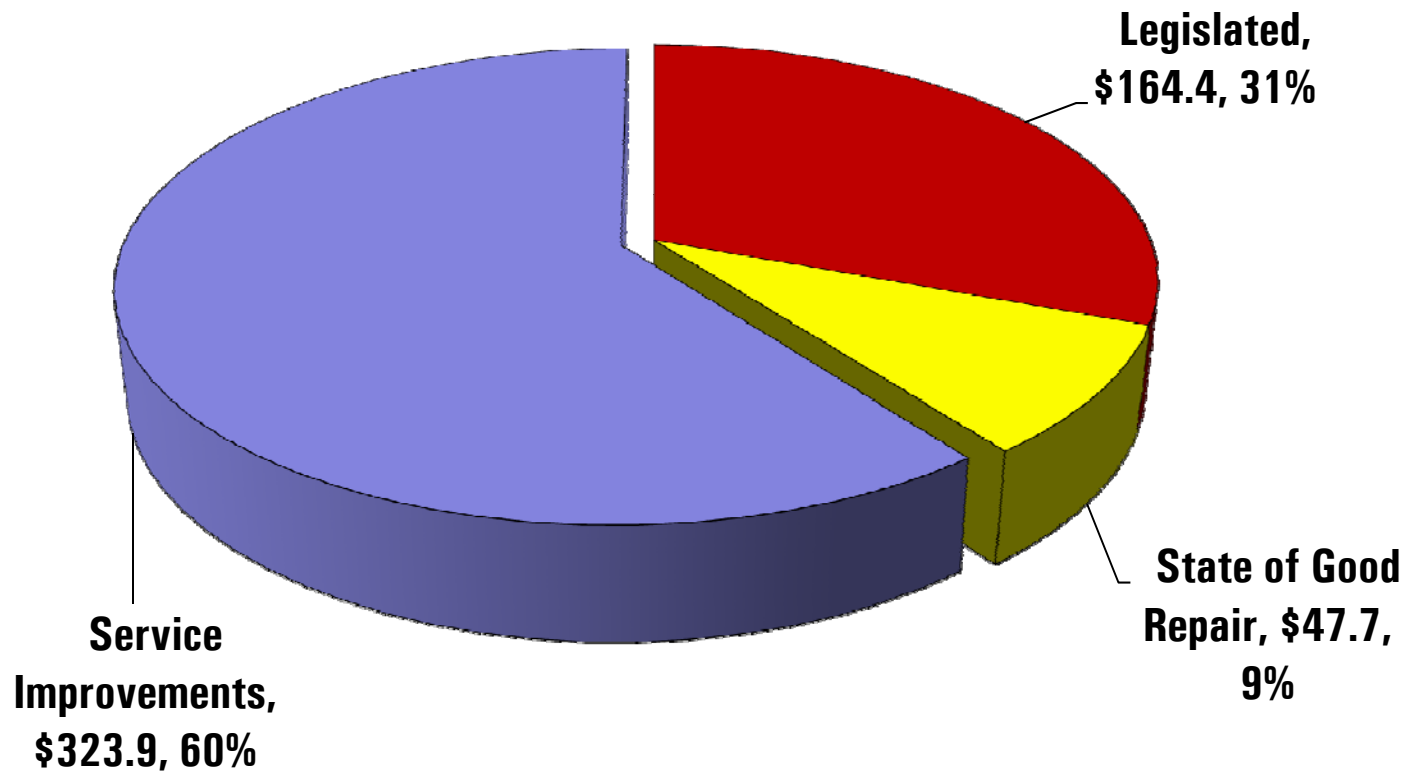
43% of the 2010 to 2019 Capital Budget & Plan of \$25.736B allocated to Transit and Transportation



50% of the 2010 to 2019 Toronto Water Capital Budget and Plan of \$8.656 Billion is allocated to SOGR



60% of the 2010 - 2019 SWM Capital Budget & Plan of \$536 Million is allocated to Service Improvements



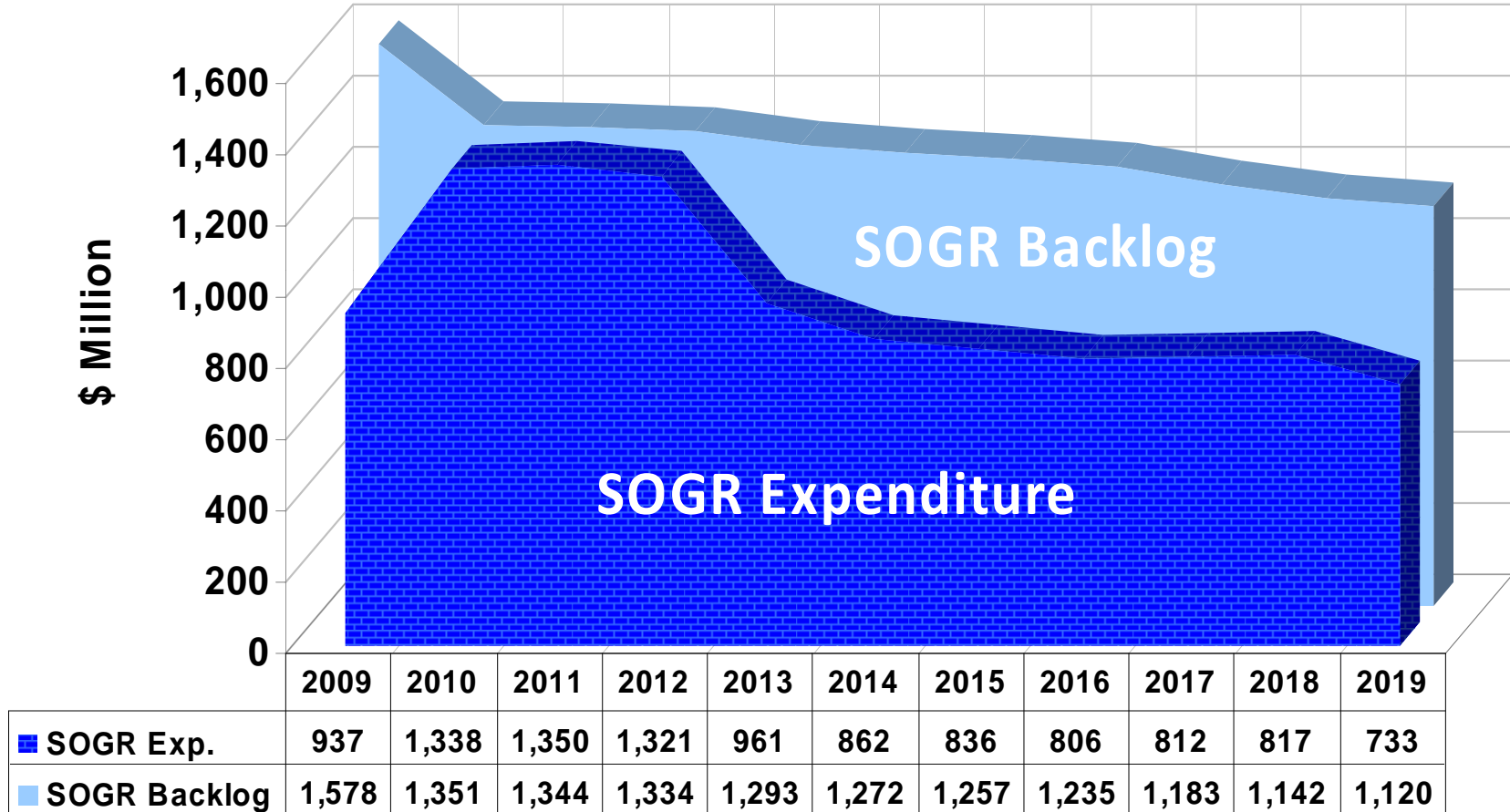
2010 – 2019 Tax Supported Capital Plan - by Category and Funding Source

\$ Million	2010 - 2014							2015 - 2019		2010 - 2019	
	2010	2011	2012	2013	2014	Total	%	Total	%	Total	%
Expenditures:											
Health & Safety	36	26	29	30	30	151	1.4%	128	2.5%	279	1.7%
Legislated	52	80	65	46	39	282	2.6%	166	3.2%	448	2.8%
State of Good Repair	1,338	1,349	1,319	960	860	5,826	52.7%	3,995	77.6%	9,821	60.6%
Service Improv.	309	302	231	177	133	1,152	10.4%	421	8.2%	1,573	9.7%
Growth Related	695	796	897	678	574	3,640	32.9%	439	8.5%	4,079	25.2%
Total Expenditures	2,431	2,552	2,541	1,891	1,636	11,051	100.0%	5,148	100.0%	16,199	100.0%
Funded by:											
Provincial	378	515	526	357	298	2,074	18.8%	815	15.8%	2,889	17.8%
Federal	378	391	378	330	295	1,772	16.0%	654	12.7%	2,426	15.0%
Reserve	96	147	110	131	95	579	5.2%	472	9.2%	1,051	6.5%
Reserve Fund	84	75	67	16	18	260	2.4%	88	1.7%	348	2.1%
Capital from Current	165	182	200	220	242	1,009	9.1%	1,589	30.9%	2,598	16.0%
Development Charges	72	46	52	38	32	240	2.2%	144	2.8%	384	2.4%
Other	455	279	281	244	255	1,514	13.7%	280	5.4%	1,794	11.1%
Debt	803	917	927	555	401	3,603	32.6%	1,106	21.5%	4,709	29.1%
Total Funding	2,431	2,552	2,541	1,891	1,636	11,051	100.0%	5,148	100.0%	16,199	100.0%

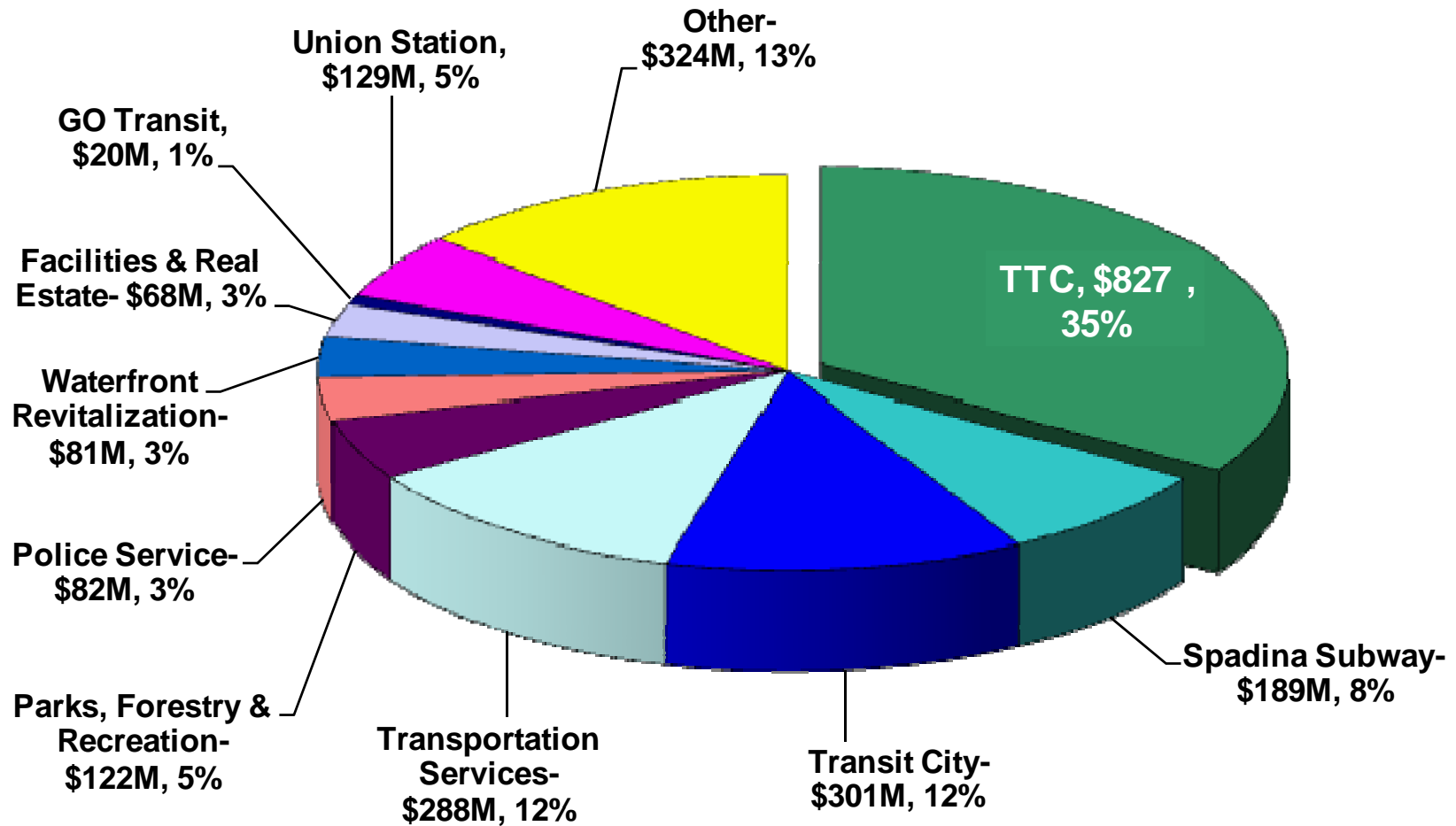
2010 Capital Budget by Project Status

	2010	2011	2012	2013	2014	Total 2010 to 2014	Total 2015 to 2019	Total 2010 to 2019
Tax Supported								
Previously Approved Projects	1,507.2	1,112.5	512.5	275.1	272.2	3,679.5	585.4	4,264.9
Change in Scope	(88.6)	(156.8)	(70.5)	(48.9)	(26.4)	(391.2)	(80.1)	(471.4)
New - Stand Alone Project	226.4	177.1	128.4	58.4	30.1	620.4	8.2	628.7
New On-Going	785.7	1,268.5	1,772.8	1,370.8	1,114.1	6,311.9	2,913.3	9,225.2
New Future Year		150.6	198.2	235.8	246.1	830.7	1,721.5	2,552.2
Total - Tax Supported Programs	2,430.7	2,551.9	2,541.3	1,891.2	1,636.0	11,051.2	5,148.3	16,199.5

SOGR Backlog Begins to Decrease in 2010

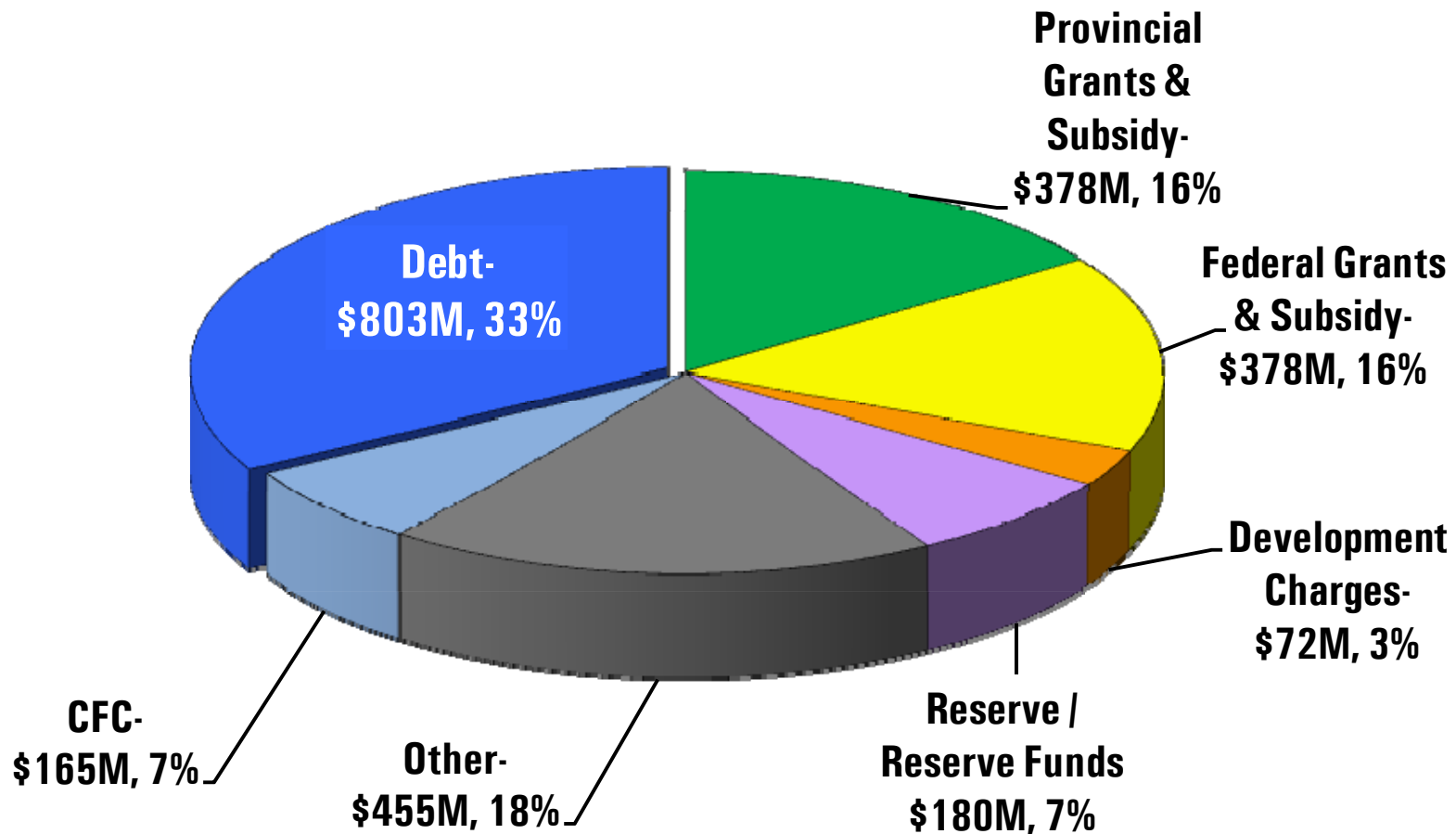


67% of 2010 Tax Supported Capital Budget of \$2.431B Allocated to Transit and Transportation

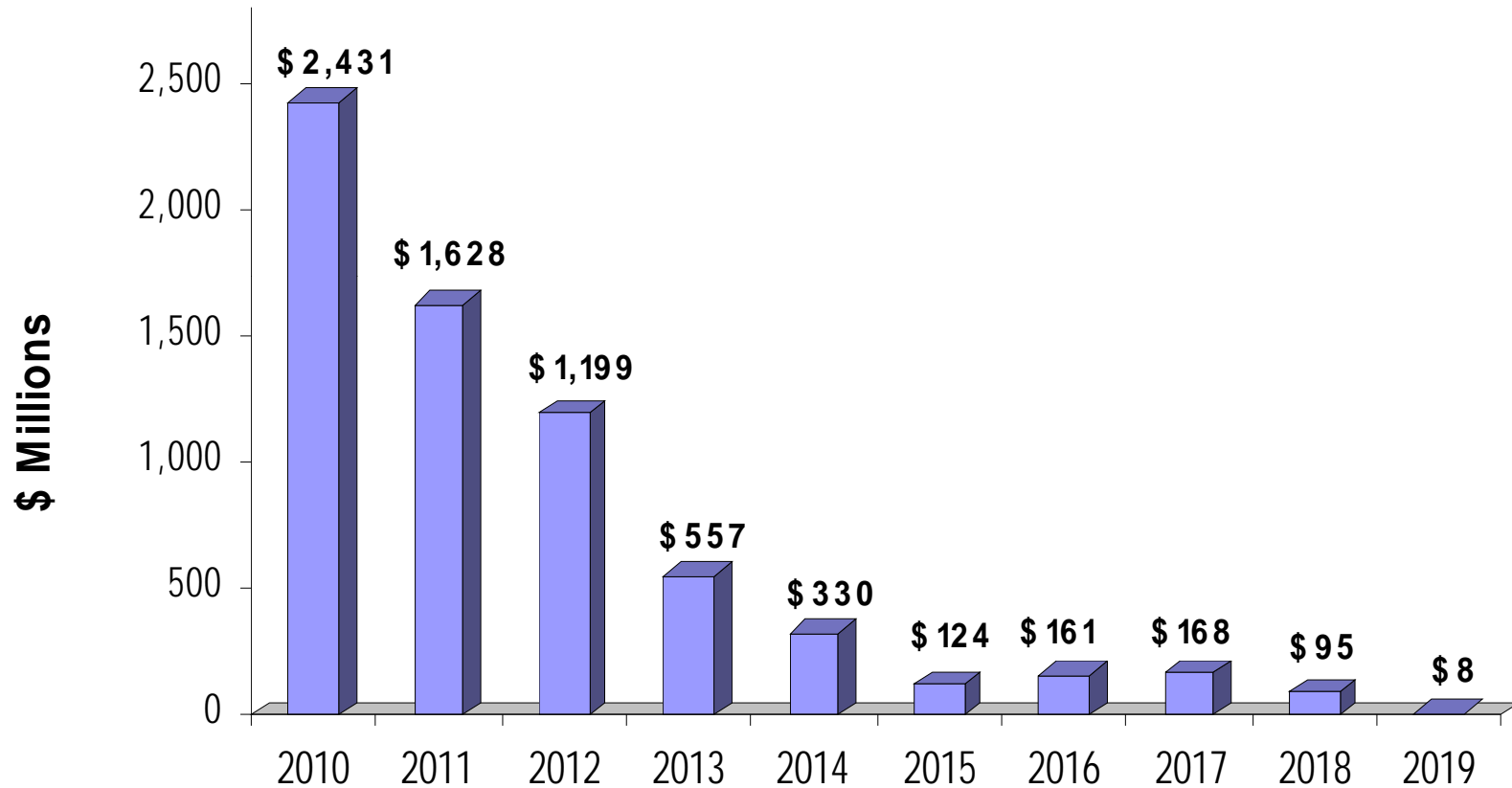


2010 Tax Supported Capital Budget Financing

\$2.431 Billion



Approval of the 2010 Capital Budget of \$2.431 Billion commits \$4.270 billion in future years



2010 Approved Capital Budget - Summary

The 2010 - 2019 Capital Plan:

- Provided significant investment in capital infrastructure to reduce SOGR backlog
- Funded targeted investment in planned growth projects in accordance with the Mayor and Council's priorities
- Met approved debt guidelines

Financial Overview - Operating

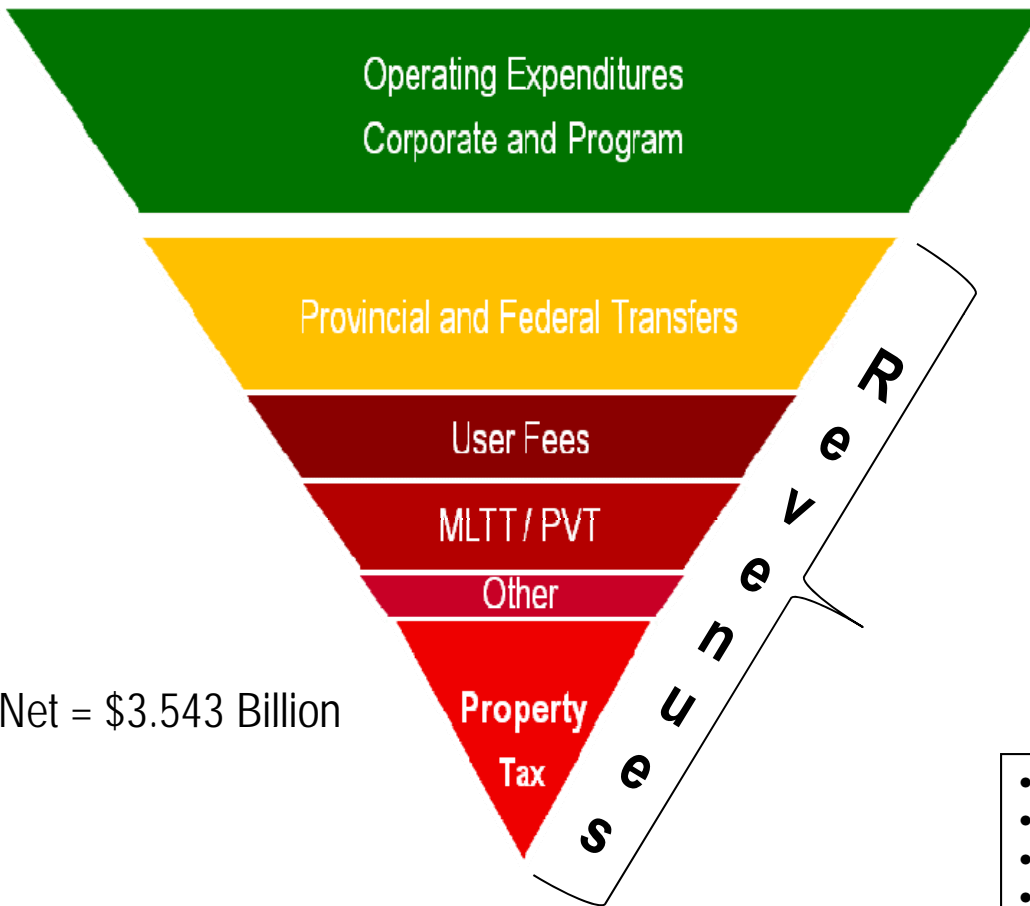
Operating Budget

- Annually, the City adopts a balanced operating budget that sets out the expenditure and revenue plan for the year
- The operating budget must be **balanced**, which means that the amount of budgeted expenditures is equal to or less than the amount of budgeted revenues – no borrowing to meet shortfall
- Operating expenditures are incurred to deliver services and service levels that recur year after year
- In developing the operating budget any surplus from prior years must be included as revenues
- No contingency fund is provided
 - ✓ emergent issues must be funded by way of reallocations

Operating Budget

- The operating budget is based on modified cash accounting:
 - ✓ No budget for depreciation
 - ✓ Debt principal payments treated as expense
 - ✓ No budget for increases in employment future benefit liabilities
 - ✓ Reserve contributions treated as expenses
 - ✓ Reserve draws treated as revenues

How The Tax Supported Operating Expenditures Are Funded



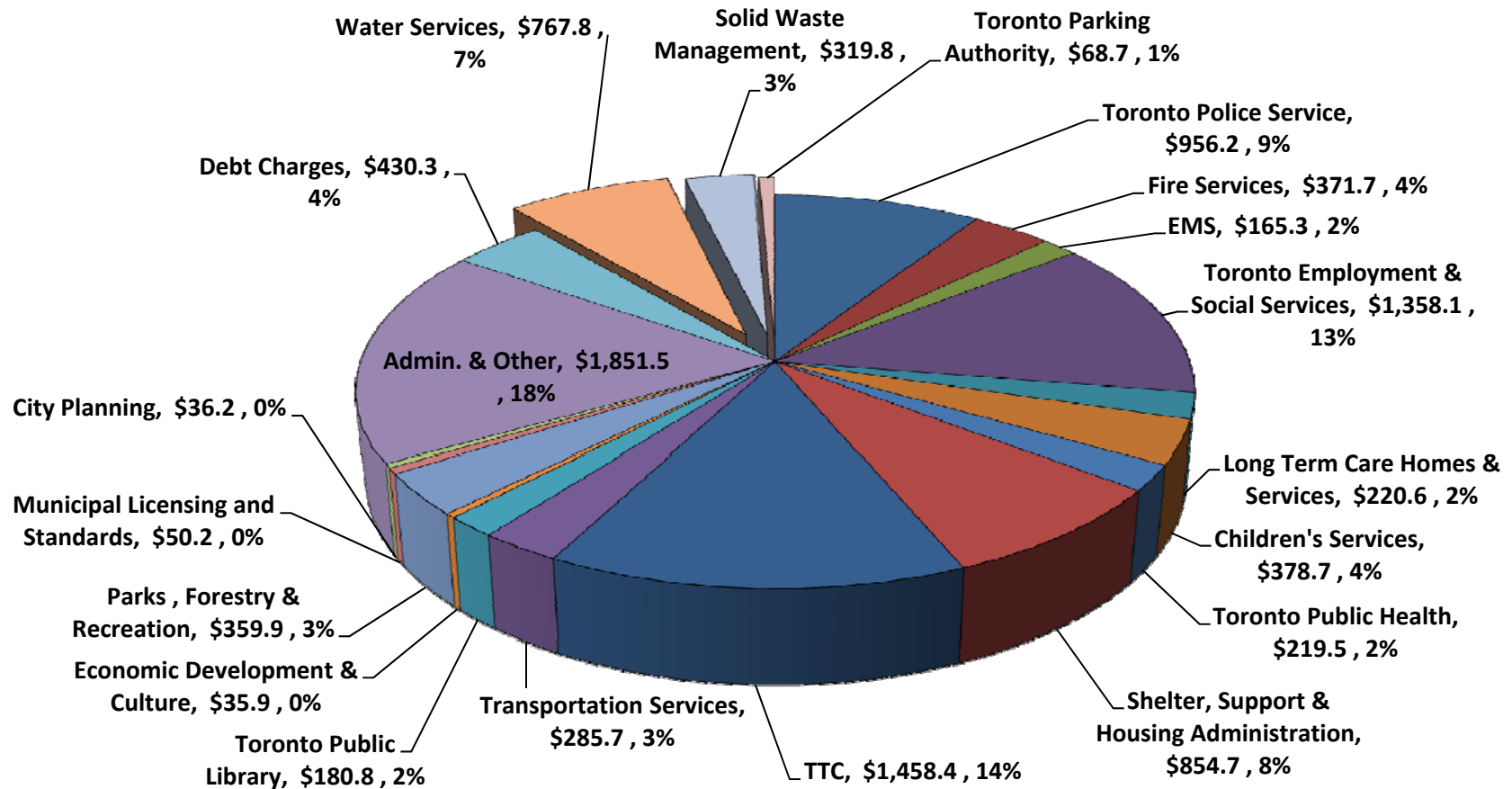
Gross = \$9.214 Billion

Net = \$3.543 Billion

\$1 Gross Expenditure ≠ \$1 Property Tax

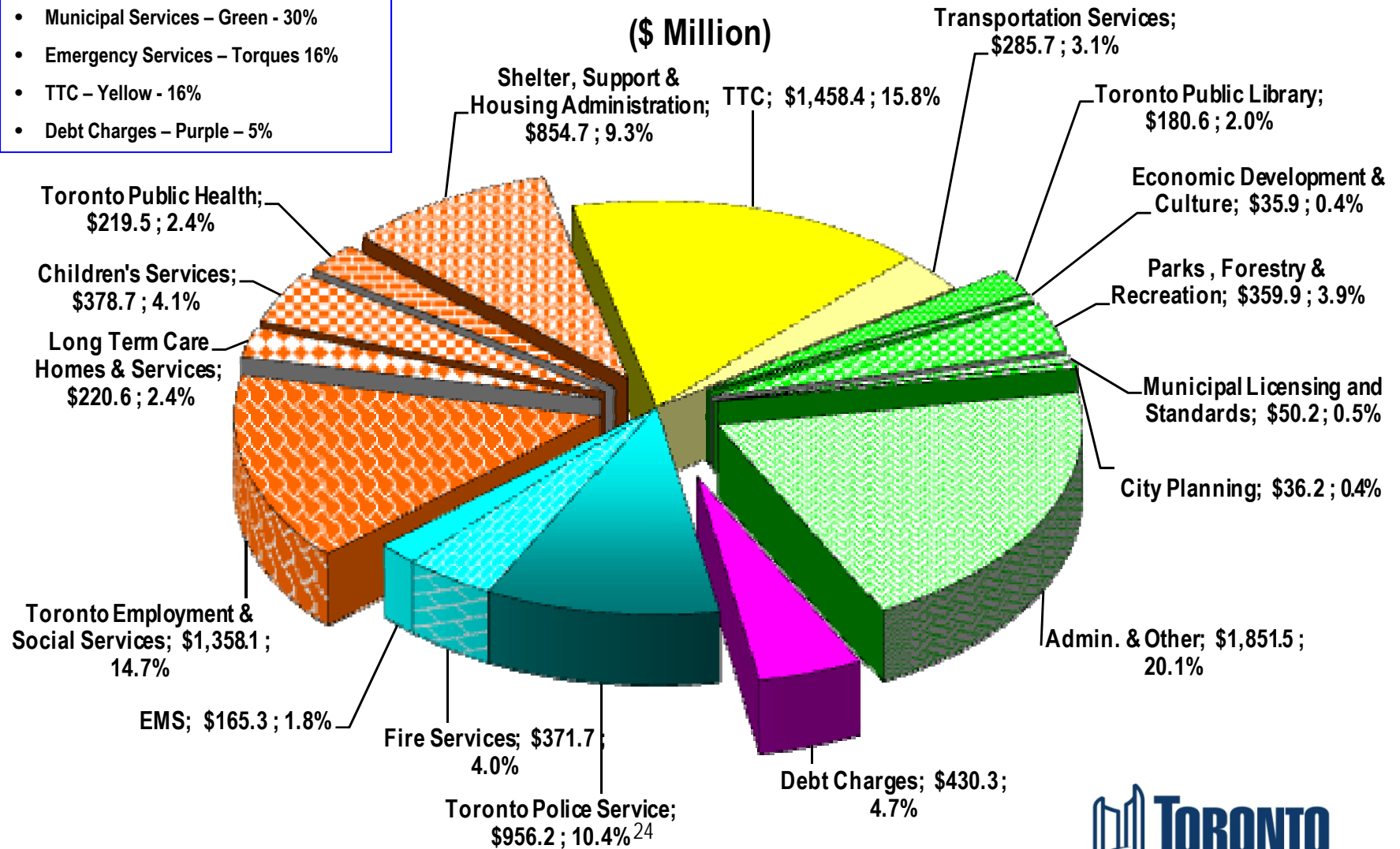
- Gross Budget = Total Expenditures
- Net Budget = Property Tax Funding
- Property Tax Funding is the funding of last resort
- \$1 Gross Expenditure is funded by \$0.38 Property Tax

2010 Tax and Rate Operating Budget - \$10.370 Billion

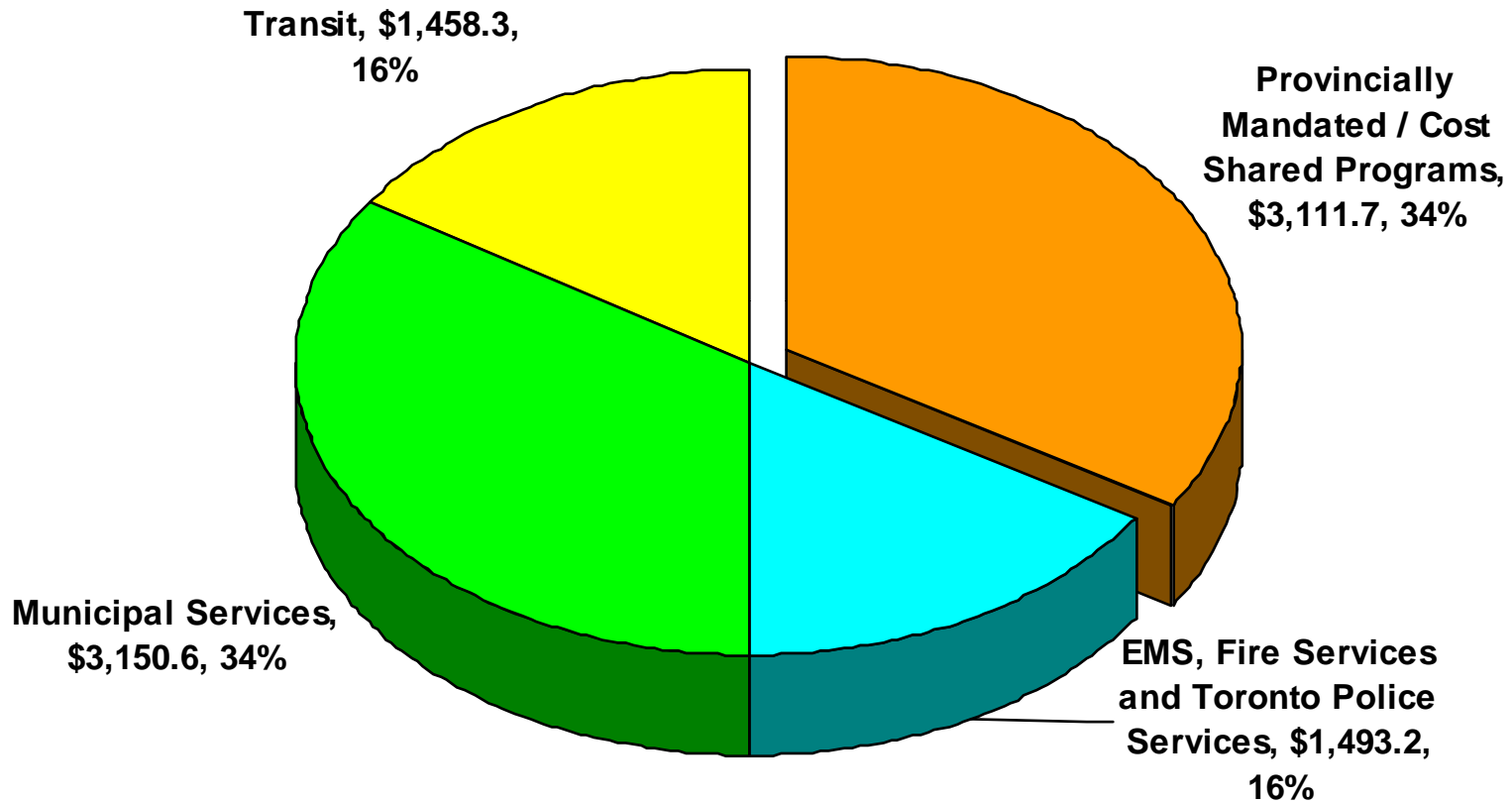


Where the Tax Supported \$9.214B Expenditures Go

- Distribution**
- Provincially Mandated – Orange 33%
 - Municipal Services – Green - 30%
 - Emergency Services – Torques 16%
 - TTC – Yellow - 16%
 - Debt Charges – Purple – 5%

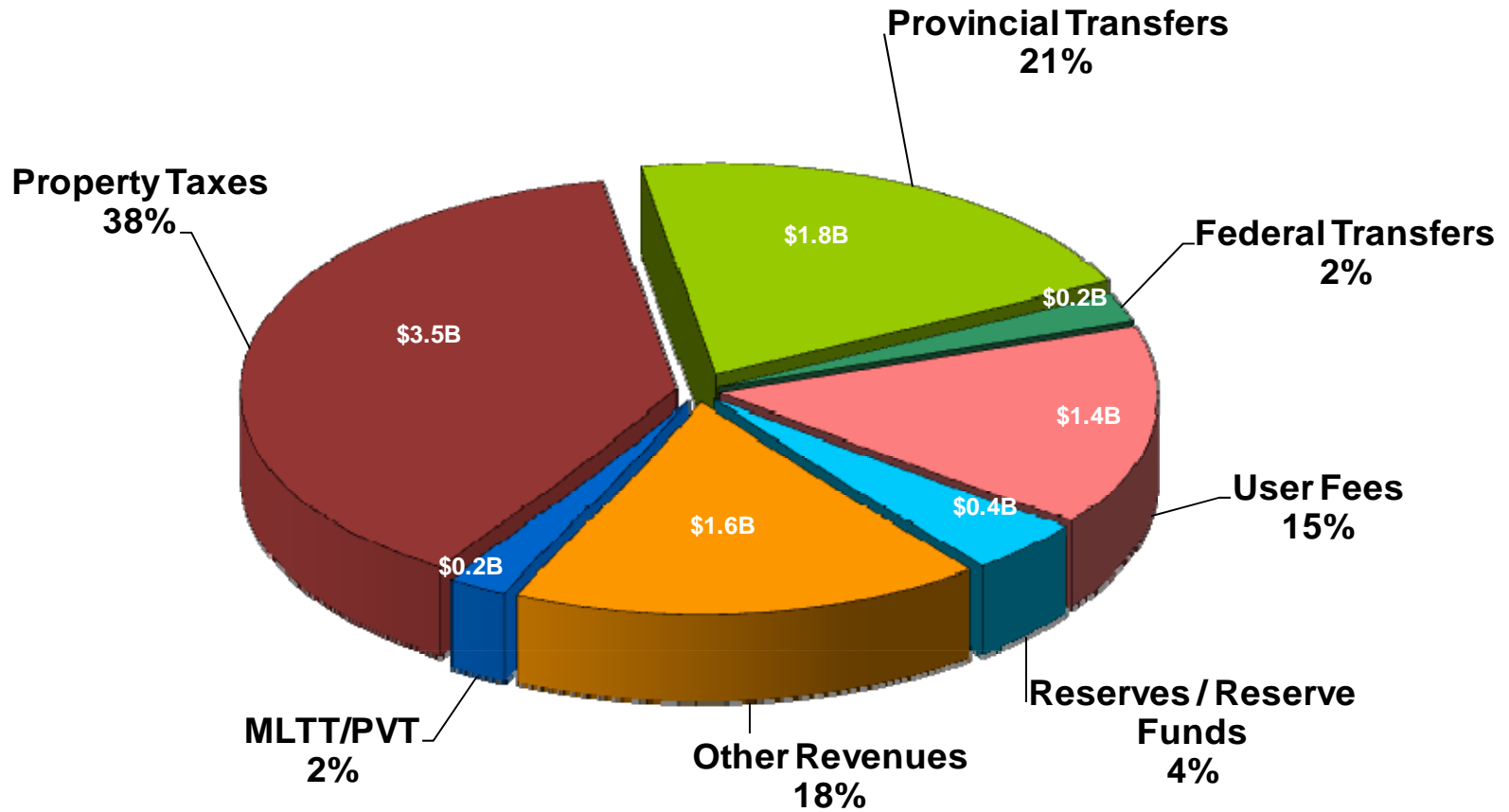


2010 Tax Supported Operating Expenditure Budget of \$9.214 Billion – by Category

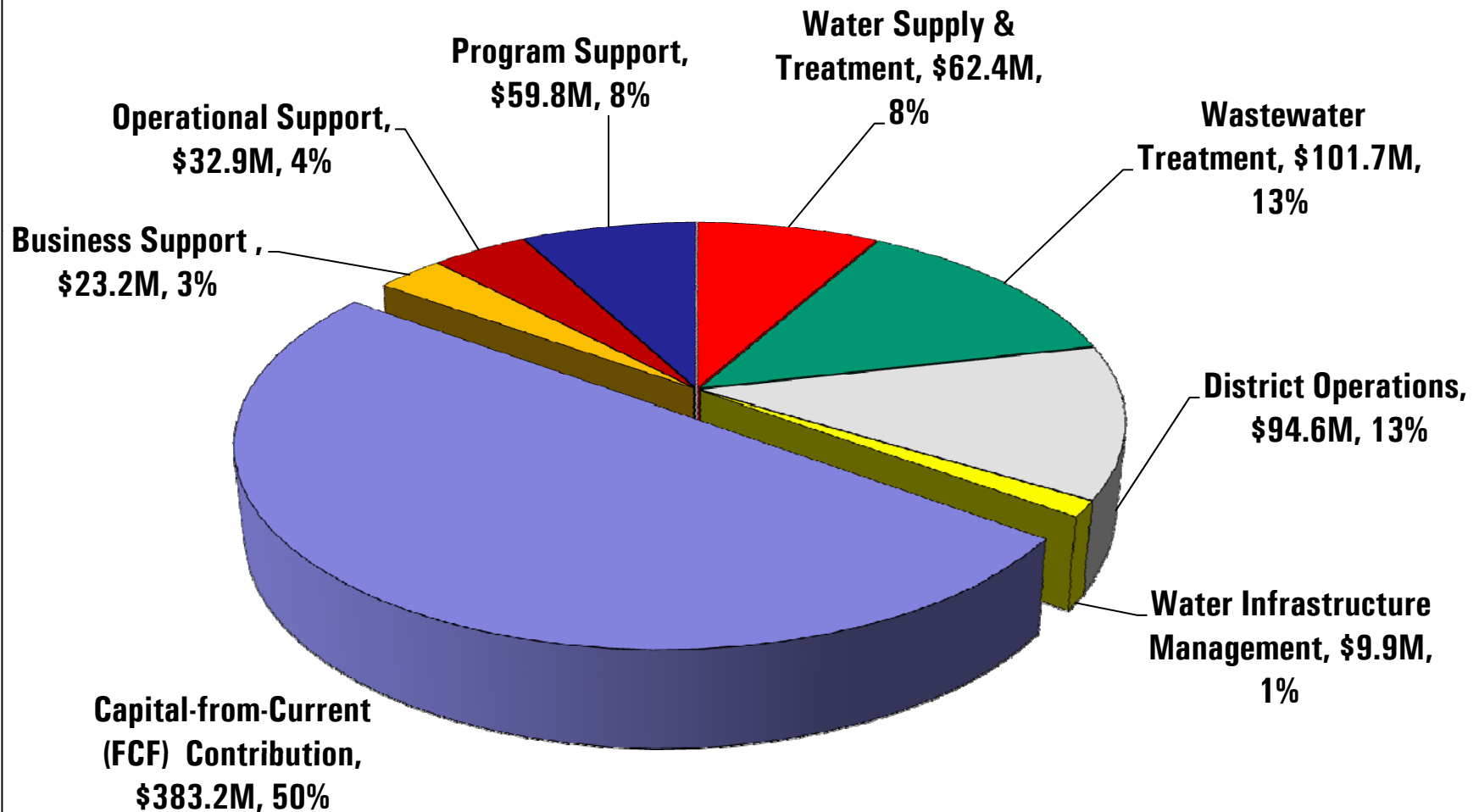


Where The Money Comes From

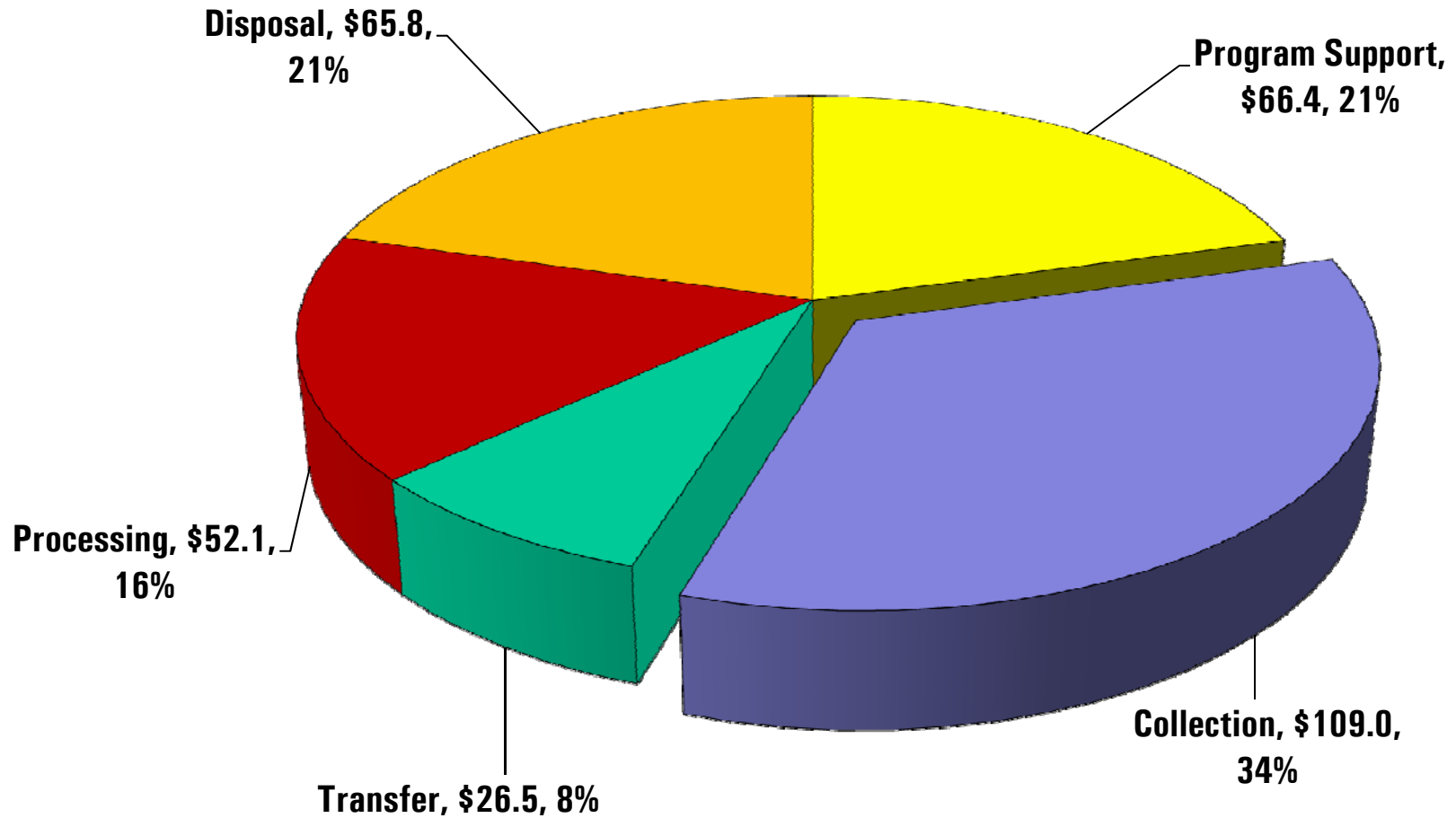
-38% of the 2010 Budget of \$9.214B Funded by Property Taxes



50% of the 2010 Toronto Water Operating Budget of \$767.8 Million is allocated to Reserve / CFC Contribution for Capital Works



34% of the 2010 Solid Waste Management Operating Budget of \$319.8 Million is allocated to Collection



2010 Tax Supported Operating Budget – by Category

In \$000s	Gross Expenditures	Net Expenditures	% Funded by Property Tax
Provincially Mandated/Cost Shared Programs	3,111.7	749.5	24%
Transit	1,458.4	512.5	35%
Police, Fire, and EMS	1,493.2	1,315.2	88%
Municipal Services	1,299.2	721.1	56%
Capital & Corporate Financing	615.5	585.0	95%
Other Corporate Expenditures	658.1	520.9	79%
Corporate Revenues	12.9	(1,146.7)	-
Governance and Internal Services	564.9	277.0	49%
Total	9,213.9	3,534.5	38%

2010 OPERATING BUDGET - NET EXPENDITURE

(\$000s)	2009 Approved Budget	2010 Approved Base Budget	2010 Approved New / Enhanced	2010 Approved Total Budget	Change from 2009 Over (Under)	
					\$	%
Citizen Centred Services "A"	1,049,389	1,068,711	(625)	1,068,086	18,697	1.8%
Citizen Centred Services "B"	597,602	597,103	(6,950)	590,154	(7,448)	(1.2%)
Internal Services	154,972	153,031	1,165	154,196	(777)	(0.5%)
City Manager	37,647	37,079	0	37,079	(568)	(1.5%)
Other City Programs	76,827	78,997	(14)	78,983	2,156	2.8%
Accountability Offices	6,744	6,611	137	6,748	4	0.1%
Total City Operations	1,923,180	1,941,532	(6,287)	1,935,245	12,065	0.6%
Agencies, Boards and Commissions	1,561,855	1,630,766	9,274	1,640,039	78,185	5.0%
Corporate Accounts	(46,747)	(40,427)	(381)	(40,808)	5,939	12.7%
Net Operating Budget	3,438,288	3,531,871	2,606	3,534,477	96,189	2.8%
Assessment Growth				(33,150)	(33,150)	n/a%
Net Operating Budget After Assessment Growth	3,438,288	3,531,871	2,606	3,501,327	63,039	1.8%

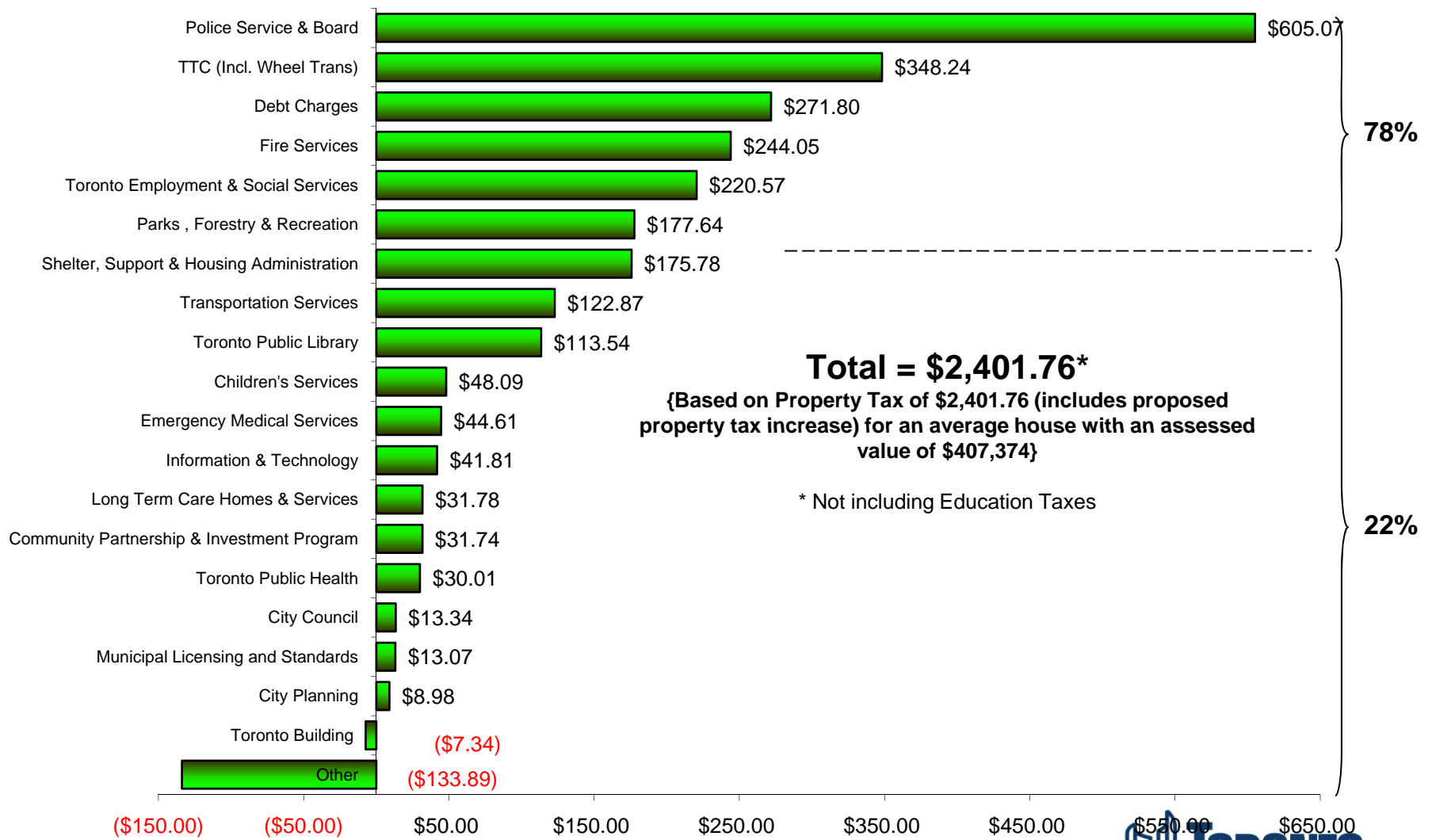
2010 Operating Budget By Cost Element Group

in \$Millions	2009 Budget	2010 Budget		Change from 2009 Approved Budget	
	\$	\$	% of Total	\$	%
Gross Expenditures:					
Salaries and Benefits	4,142.0	4,378.2	47.5%	236.2	5.7%
Materials and Supplies	495.6	517.7	5.6%	22.1	4.5%
Equipment	44.9	45.5	0.5%	0.6	1.3%
Services & Rents	1,295.7	1,309.6	14.2%	13.9	1.1%
Contributions and Transfers	2,624.2	2,712.4	29.4%	88.2	3.4%
Other Expenditures (includes IDCs)	306.0	250.3	2.7%	(55.7)	(18.2%)
Total Gross Expenditures	8,908.4	9,213.7	100.0%	305.3	3.4%
Funded by:					
Provincial Transfers	1,860.2	1,849.3	20%	(10.9)	(0.6%)
Federal Transfers	198.8	194.6	2%	(4.2)	(2.1%)
User Fees, Permits & Donations	1,297.2	1,350.4	15%	53.2	4.1%
Reserves/Reserve Funds	540.0	430.0	5%	(110.0)	(20.4%)
Municipal Land Transfer Tax	165.3	175.6	2%	10.3	6.2%
Personal Vehicle Tax & Third Party Sign Tax	46.4	57.4	1%	11.0	23.7%
Other Revenues (includes IDRs)	1,362.2	1,621.9	18%	259.7	19.1%
Total Non Tax Revenues	5,470.1	5,679.2	62%	209.1	3.8%
Net Budget - Property Tax Revenues	3,438.3	3,534.5	38%	96.2	2.8%

2010 Council Approved Positions - Municipal Services Only 36.5%

	2010 Budget			
	Salaries & Benefits \$Million	% of Total	Approved Position	% of Total
Provincially Mandated / Cost Shared Programs	711.3	15.4%	8,633.5	16.4%
Transit	1,057.5	22.9%	12,596.0	23.9%
EMS & Fire Services	478.8	10.4%	4,397.8	8.3%
Toronto Police Service	849.8	18.4%	7,877.0	14.9%
Sub-Total	3,097.4	67.0%	33,504.3	63.5%
Municipal Services	1,523.9	33.0%	19,287.0	36.5%
TOTAL	4,621.3	100.0%	52,791.3	100.0%

How Your Tax Dollar Will Work For You In 2010



2010 Approved Operating Budget - Summary

- A balanced 2010 Operating Budget
- Property tax increase kept to 1.8% on total tax base (2.9% Res, 0.967% Business)
- Service reduction impacts kept to a minimum
- Expenditure increase directed to:
 - Protecting key services:
 - Emergency Services – Fire, Police, EMS
 - Maintaining TTC Service Levels
 - Children Services, Recreation, Social Services
 - 311 Customer Service Strategy
 - Increased pay-as-you go funding for capital program (debt principal & interest payments reduced)
- Funding the ongoing impact of the recession – Ontario Works

2011 Outlook

- as at October 18

	<u>\$Millions</u>
	<u>Apr.</u>
	<u>2010</u>
2010 One Time Funding	
Portion of 2009 \$354 Million Surplus Applied to 2010 Budget	276
Reserve Draws	67
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Total 2010 One Time Funding	343
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2011 Expenditure Increase:	
Cost of Living Allowance and Progression Pay	107
Inflation - Material and Supplies	25
Impact of Capital	11
Capital Financing - CFC Increase and Debt Service	46
Hydro Note Sale - Interest Revenue Loss	30
Annualization and Other Base and Revenue Change	57
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	276
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Total Before Revenue Increase	619
2011 Revenue Increase:	
Provincial Uploads (ODSP & OW)	(84)
Personal Vehicle and Land Transfer Taxes	(16)
Other Revenues	(16)
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2011 Outlook Pressure	503
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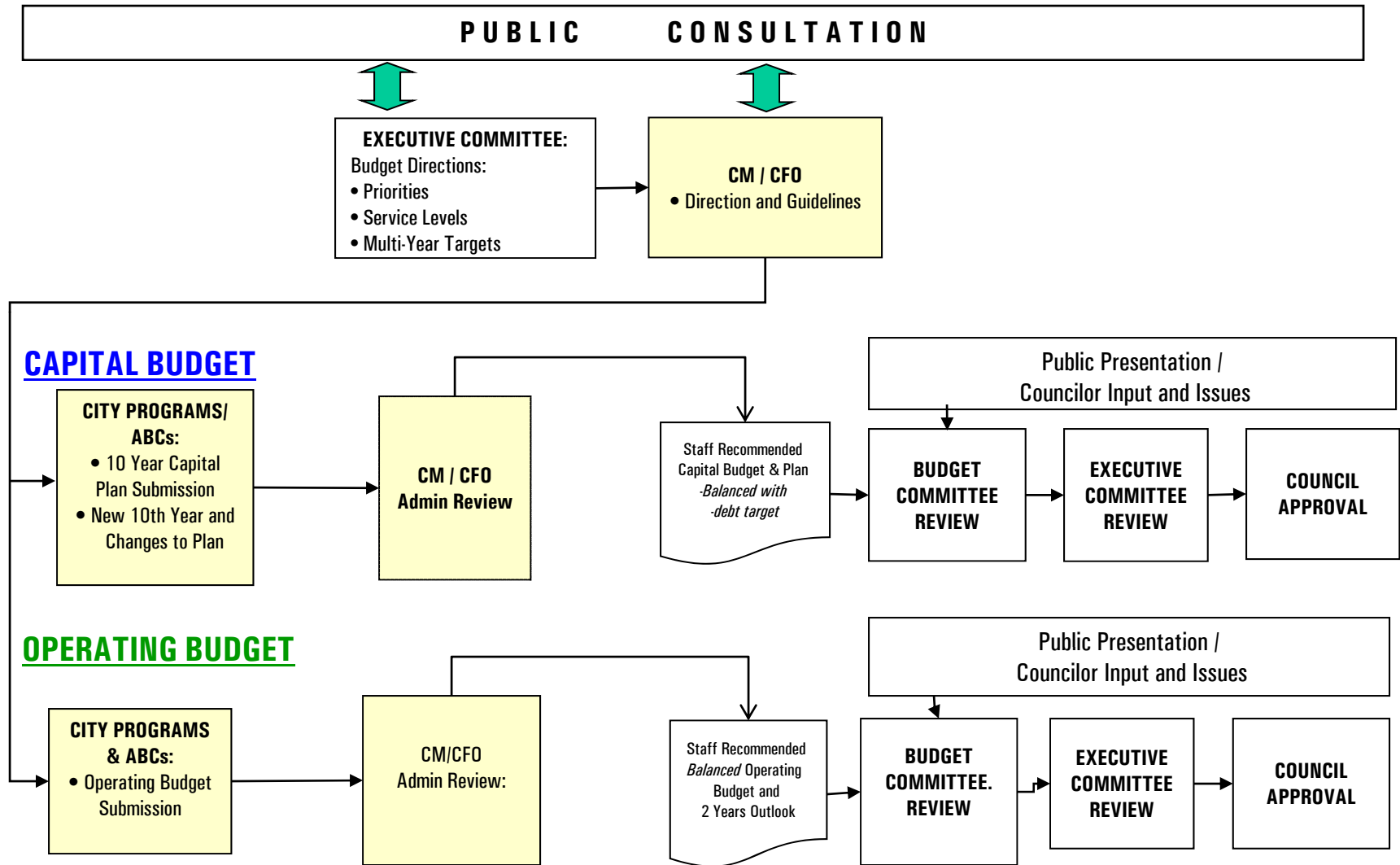
2010 Projected Year-End Operating Surplus

	<u>\$ Millions</u>
Land Transfer Tax	90
TTC Ridership	59
Supplementary Tax	40
Investment Earnings	30
Debt Charges	26
Ontario Works	21
Hiring Slow-down	21
Winter Maintenance Costs	18
Solid Waste Rebate Program	11
Vacancy Rebate Program	(10)
Tax Deficiencies	(8)
Street and Expressway Lighting Services	(6)
Court Services	(5)
Emergency Medical Services	(4)
Projected Y/E Operating Surplus	<u>281</u>

2011 Budget Process

- How it Works
- Budget Documents

2011 Budget Process



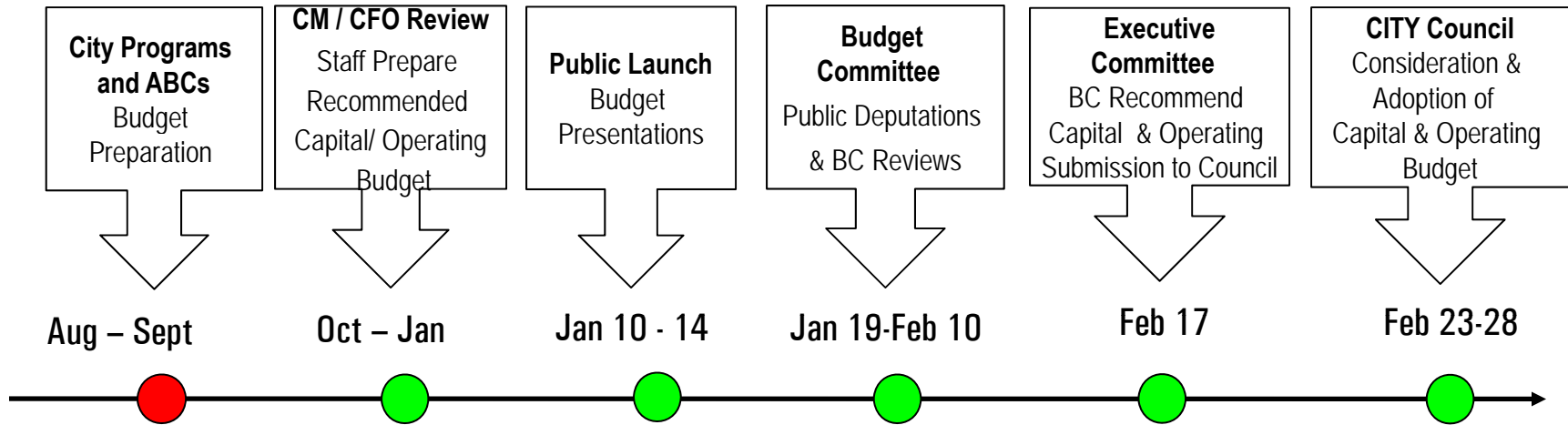
Mayor's 2011 Budget Directions

- Achieve a balanced budget with no unfunded "gaps"
- Is not greater than the approved 2010 Operating Budget
- Produces a zero percent residential property tax increase, and
- Includes no major service cuts

2011 CM / CFO Directions - Operating

- Achieve the 2011 operating budget reduction target of 5% of the 2009 Net Operating Budget (5% of \$3.4 billion or \$170 million)
- Review all services for efficiencies, changes in service levels/standards, and in particular, service effectiveness and relevance
- Continue to control expenditures through cost saving measures to create surplus
- Focus on implementing existing priorities within the base budget
- Do not introduce any new initiatives for 2011
- Increase existing user fees by the City of Toronto rate of inflation

2011 Budget Timelines



2011 Budget Process

- The 2011 Budget Process begins with the Mayor and Executive Committee providing direction to staff
- **Budget Committee Briefing Session** – December 14 – 15
 - Orientation on the budget process
- **Budget Development** – December 16 – January 10
 - Staff finalize 2011 Capital and Operating Budget
 - Prepare Budget Analyst Notes and Briefing Notes
- **Public Budget Launch / BC Hearings** – January 10
 - CM / CFO present 2011 Staff Budget to Budget Committee
 - Division / Agency Heads Presentations
 - Council Input
 - Committee members request for additional information / Briefing Notes

2011 Budget Process

- **Public Deputations** – January 19 – 20
 - Public Input
- **Budget Committee Wrap-up** – January 24 and 25
 - Final Decisions
- **Budget Committee Final Review** – February 10
 - Corporate Capital and Operating Report
- **Executive Committee Review** – February 17
 - Recommend Capital and Operating Budget to City Council
- **Council Review and Approval** – February 23 – 28
 - One day for Solid Waste Management and Toronto Water
 - One day for the Tax Capital Budget and Plan
 - Two Days for Tax Operating Budget

Budget Documents

Analyst Notes

- Distributed to all members of Council, Unions, media and are posted on the City's website
- Analyst Notes are issued on the day of the Public Launch:
 - Present Staff Recommended Capital and Operating Budgets for each City Program and Agency
 - Provide financial and non-financial information to support decision making during the budget process
 - Highlight Projects / Key Services and Final Changes for each City Program and Agency

Capital Analyst Notes – Key sections Include:

- Recommendations for Council Approval
- 2010 Performance
- 2011-2020 Staff Recommended Capital Budget and Plan
- Issues for Discussion
- Appendices
 - ✓ Capital Projects for 2011 Budget and 2012 – 2020 Plan

Budget Documents – Analyst Notes

- **Operating Analyst Notes** – Key sections include:
 - Recommendations for Council Approval
 - Service overview and plan
 - 2010 performance
 - 2011 recommended base budget
 - Recommended new/enhanced service priority actions (if applicable)
 - Issues for discussion
 - Appendices:
 - ✓ Summary of Service Changes

Budget Documents – Budget Briefing Notes

- Provides information on specific issues/topics to councillors and the public during the review of the budget
- Briefing notes are not decision making documents; they are provided for information purposes only and do not include recommendations
- Corporate briefing notes provided to Councillors on an annual basis include:
 - Approved positions; Economic factors; User fee rates
- Councillors may request specific briefing notes during the budget process; these briefing notes are distributed to all Councillors
- Key sections of the Briefing Notes include:
 - Issue/background
 - Key points
 - Contacts

Budget Documents

Wrap-up Notes

- Summarizes the review of the Budget Process in a single document
- Provides Committees and Council with up-to-date information for decision making
- Captures financial and non financial information in a systematic manner

Budget Documents

Corporate Report

- Provides overall view of the City's budget.
- Key sections of this report include:
 - Summary;
 - Recommendations
 - Financial impact of the recommended budget
 - The economic environment
 - How the budget was balanced
 - Service and project highlights
 - Future years financial outlook
 - Appendices

Role of Budget Committee

Role of Budget Committee

- Budget Committee is a special committee of the Executive Committee (EC)
- Budget Committee's mandate includes, but is not limited to:
 - Co-ordinating the preparation of the capital and operating estimates while the annual capital and operating budgets are being prepared
 - Making recommendations on the capital and operating budgets for EC consideration
 - Reviewing matters that may have a significant impact on current and future budgets, upon request from the Executive Committee
- The Budget Committee supports the Executive Committee to fulfill its role which includes, but is not limited to, making recommendations on the financial integrity of the City including:
 - Council's strategic policy and priorities,
 - Financial Planning and Budgeting
 - Fiscal policies including revenue and tax policies

Role of Budget Committee

Budget Process

- Undertake detailed reviews of individual City Program and ABC budgets to ensure that Executive Committee's directions were met
- On behalf of the Executive Committee, hold formal meetings / hearings:
 - receive public deputations and input from Councillors on matters and issues of interest
 - where warranted, make changes to the staff recommended budget
- Recommend a balanced budget to the Executive Committee that:
 - Demonstrates strategic alignment of resources to Council priorities
 - highlights expected results and outcomes
 - incorporates strategies adopted to resolve the structural deficit problem

Role of Budget Committee

In-Year:

- Evaluate / monitor in-year budget adjustments from variance reports:
 - Reserves
 - Operating
 - Capital
- Review Standing Committee reports with budget impacts
- Ensure the budget adjustments recommended for Council approval do not impact the Tax Levy Budget and/or debt approved by Council
- Assess and make recommendations on reports with future year financial implications
- Address emerging financial issues

Budget Policies

Operating Budget Policies

Annual Budget:

- City Council must adopt a budget which includes estimates of all sums required during the year to pay for:
 - debt falling due during that year
 - amounts required for sinking funds or retirement funds, and
 - amounts required for agencies, boards and commission
- CoTA does not empower Council to delegate its authority to adopt the annual budget

Balanced Budget - operating and capital budget must be balanced; that is, estimated revenues must at least be equal to, or in excess of estimated expenditures

Diversified Revenue Sources - are encouraged to protect against short-term revenue fluctuations and uncertainty

Operating Budget Policies (Continued)

User Fees and Charges – generally imposed to recover the full cost of City services when they **provide a direct or special benefit** to an individual or an identifiable group or business

User fees are set to recover the full cost of providing the services, except where:

- full cost recovery **conflicts with a City's policy objective** on community access to services, promotion of specified goals or regulatory practices
- the **cost of collecting specific user fees is not efficient** or constitute a significant portion of the user fee revenue for the service

User fees are reviewed and adjusted annually as part of the budget development process

Approve all Operating and Capital Positions in the Operating Budget

Capital Budget Policies

Capital Expenditure:

- costs to acquire, construct, develop or rehabilitate a City owned or controlled capital asset
- Rehabilitation / betterments are capital when they:
 - materially increase the physical output or service capacity
 - lower operating costs
 - extend the useful life; and/or,
 - improve the quality of output of a capital asset.

Capital Budget Policies (Continued)

Debt Financing – debt should be used to fund capital expenditures where no other funding source is available.

- As a general rule, projects funded with debt must have a useful life that is at least equal to the term of the debenture

Debt Service Ratio:

- Debt service costs shall not exceed 15% of the tax levy
- Budgeted debt service charges incurred due to debt issuance will be included in the annual operating budget.

Capital From Current (CFC) Funding should be used to finance capital projects that are of a major maintenance nature and will be completed in one year

Capital Budget Policies

Carry-Forward Funding:

- City Programs and Agencies are allowed to carry-forward unspent funds for capital projects / sub-projects for a period of one year subsequent to the year of original approval
- Carry-forward funding requests for projects approved in the previous fiscal year will not form part of the budget year debt affordability targets
- Council approval to carry forward the unspent amount must be obtained in order to establish spending authority
- Carry-forward of unspent funds that were approved more than one year prior will be treated as new and will form part of the budget year debt affordability targets

Financial Control By-Law

Financial Control By-law

- Purpose

Basis for financial management within the City of Toronto:

- Council has sole authority for approving capital/operating budgets, unless otherwise specified
- Applies to all divisions
- Outlines purpose/process for interim operating budget, operating budget and capital budget
- Outlines spending authority for operating/capital budgets

Financial Control By-law - Purpose Continued....

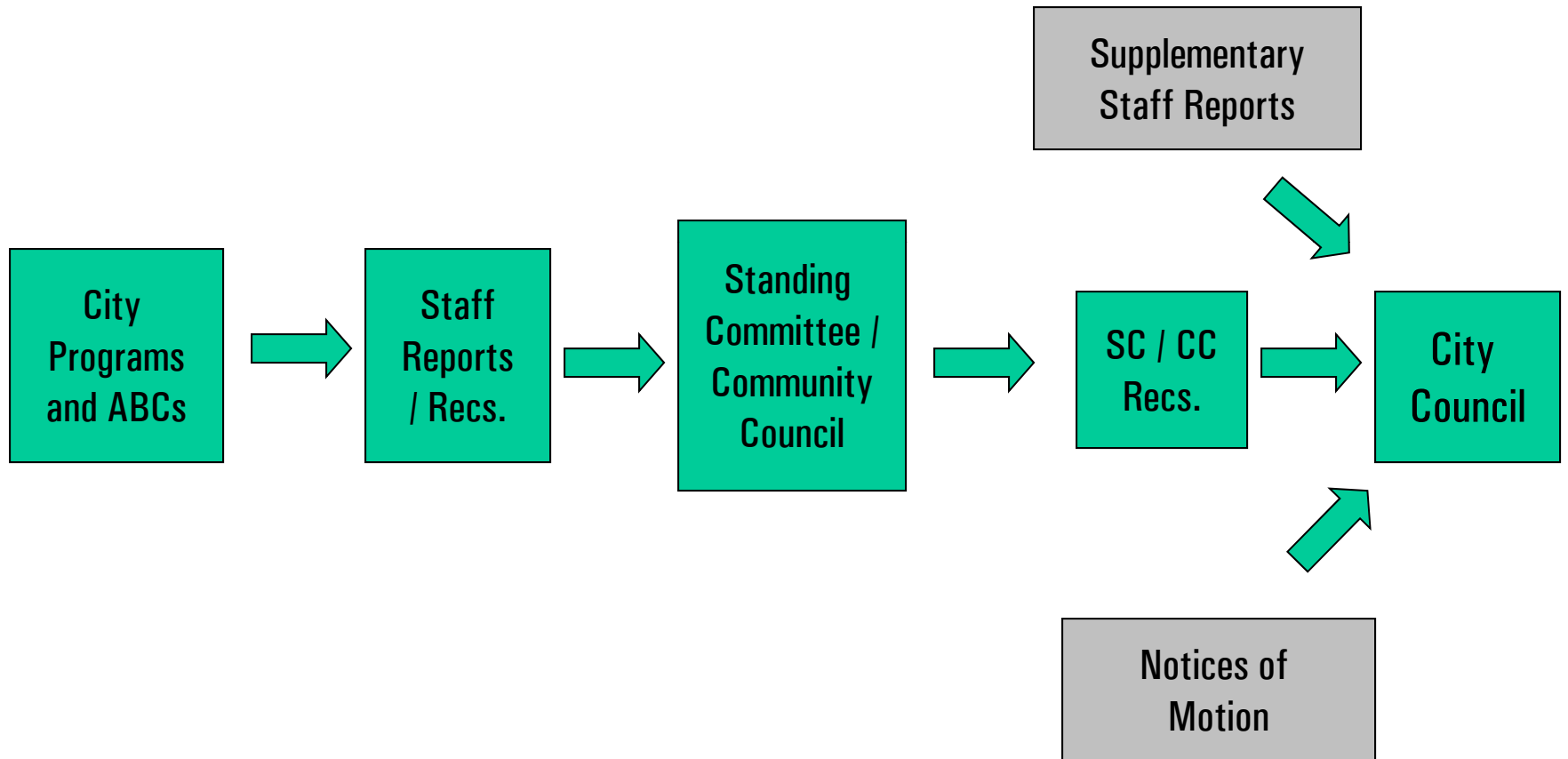
Financial Control By-law clearly defines:

- Approvals Required
- Financial Reporting Responsibilities
- Spending Authorities
- Petty Cash, Deposits with CFO
- Authority to Pay Certain Accounts
- Reserves and Reserve Funds
- Contingency Funds
- Authority for Write-Offs
- Financial Protocols

Financial Protocols

- All reports with financial implications to be reviewed by the Financial Planning Division (FPD) on behalf of the CFO and to be signed off by the CFO.
- CFO to submit a companion report if he does not concur.
- All Standing Committee (SC) and Community Council (CC) recommendations to be reviewed by the CFO with a fiscal impact statement prior to Council's consideration.
- All Notices of Motions to be accompanied by a fiscal impact statement reviewed by the CFO prior to Council's consideration.

Process/Procedure to Support Financial Protocols



Financial Protocols

- Reporting Financial Information

- The following information must be included in the report under “Financial Implications”:
 - Current year impacts
 - Future year impacts
 - Corporate impacts
 - Identification of sustainable funding sources
 - Resultant budget adjustments
 - Impact on reserves/reserve funds; current and future liabilities
 - Impact on staffing levels; and,
 - Consistency with Council strategic directions and fiscal priorities

