



**TORONTO**  
**BOARD OF TRADE**

## **Bending the Expenditure Curve:**

### **City of Toronto 2010 Operating Budget Deputation Backgrounder**

**February 2010**

# **Bending the Expenditure Curve:**

## **2010 Budget Deputation Backgrounder**

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## Executive Summary

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The 2010 Operating Budget has some welcome advances over previous years: the inclusion of a 2011 outlook; \$172-million in unidentified cost efficiencies; and a budget that's been balanced without the need for one-time funds from the Province. Unfortunately, the 2010 Operating Budget does not represent a significant shift from the City's recent fiscal trends to deviate much from the projection in *The Growing Chasm*.

By any definition, Toronto has a structural deficit. Over the past number of years, Toronto has received significant new revenues, yet the City's operating budget difficulties have not diminished; indeed, they have grown. This outcome reflects that the City has a spending problem. To address Toronto's structural operating deficit requires finding efficiencies in City expenditures, thereby "bending down" the trajectory of the City's expenditure curve.

### ***The Structural Deficit Impedes our Region's Growth***

By continually struggling to bridge our structural deficit, rather than putting in place a plan to address it, Toronto is unable to move forward. For example, the Toronto Board of Trade (the Board) is the leading advocate for expansion of our regional transit system. But the City's recently passed Capital Budget envisions not proceeding on the construction of four of the Transit City lines until 2020 at the earliest and only the lines that have been funded by the provincial and federal governments will be built in the medium-term. Similarly, the City's structural operating deficit impedes the City's ability to address pressing social issues, such as poverty and immigrant integration, as there are not sufficient funds to invest in these programs. The City highlights this difficulty in slide 6 of its 2010 Operating Budget presentation: under the title "Challenges Remain," the final bullet notes "No funds for service enhancement."

As articulated in *From World-Class to World Leader: An Action Plan for the Toronto Region*, the Board – representing 10,000 member organizations and connecting more than 200,000 business professionals and influencers – has an ambitious vision for the Toronto region. Together, we can achieve this vision. But we cannot do so if we are continually struggling with a structural deficit.

### ***The 2010 Operating Budget***

As indicated above, there are some welcome improvements over previous years in the 2010 Operating Budget. The Board believes these changes, though, represent 'tinkering around the edges' when transformational change is needed. As a result, **the City has forecast an unsustainable deficit of \$469-million in 2011, largely in line with the \$465-million projection in *The Growing Chasm*.**

The City's \$9.203-billion operating budget represents about a **5.7% increase** over 2009's \$8.7-billion budget. This is in line with the 5.9% year-over-year trend identified in *The Growing Chasm*. To balance this budget, the City has relied on a **3.5% increase in revenue from property taxes** (based on a 4% increase on residential properties, 1.33% increase on non-residential properties and 1% assessment growth). The increase in property taxes is also consistent with the year-over-year trend identified in *The Growing Chasm* (when the growth in the assessment base is factored in, the City's growth in revenues actually exceeds that forecast in *The Growing Chasm*).

The 2010 budget pressure totaled \$821-million, **about a 21% year-over-year increase over 2009's** \$679-million and a substantial increase from previous years. The 2007 identified budget pressure of \$548-million increased 12% to \$615-million in 2008 and a further 10% in 2009 to reach \$679-million. The information provided by the City indicates that 2011's budget pressure could continue this growth trend: the City has identified **budget pressure** (to be bridged from both sustainable and unsustainable revenue sources) **of \$585-million in 2011** which, in the absence of successfully negotiating a cost-sharing agreement with the Province regarding TTC operations, will stand at **approximately \$850-million**.

The recommendations contained in this submission are directed toward finding efficiencies in expenditures. We encourage all candidates in the municipal election to embrace these recommendations.

### ***A transparent and accountable public process***

1. *Conduct budget deliberations with greater transparency, accountability and public participation.*

Following the resolution of this past summer's municipal workers' strike, the Board called on the Mayor to immediately begin broad-based consultations on the City's budget. While this year's budget consultation process has improved somewhat over previous years, it still falls well short of the consultations requested by the Board.

Even more critically, this **consultation process ends before all of the relevant documents are released publicly**. The update to the City's long-term fiscal plan (the first since 2005) won't come out until March 12 and the report on final 2010 property tax rates won't come out until April 7, about two weeks after the Budget Committee wraps up its deliberations. The timing of the release of these documents means that **the Budget Committee will not see the final tax rates proposed in this year's operating budget**. The Board believes the public needs to have a greater opportunity to participate in this process, armed with all relevant information.

### ***Actions to take now to contain expenditures***

2. *Introduce multi-year operating budgets. Use these multi-year budgets as the basis for establishing an articulated plan to return the City to a sustainable fiscal position.*

This recommendation has been **put forward by both the Board and the Mayor's Independent Fiscal Review Panel**. Establishing a plan to return the City to a sustainable fiscal position cannot be done when budgets are planned only one year at a time. Producing such a plan will better position the City to negotiate further cost-sharing arrangements with senior levels of government.

As part of its VoteToronto2010.com campaign and following on the work undertaken in *The Growing Chasm*, the Board will be issuing its full suite of recommended short-term and long-term measures to achieve fiscal sustainability. In this submission, the Board offers **some of our shorter-term solutions**.

- 3. Look for efficiencies in expenditures first before new revenue sources to contain the structural operating deficit.*

In recent years, the City has requested, and in most cases received, new and/or greater sources of revenue. These include the new taxes and levies under the *City of Toronto Act*, but also uploading of social services costs by the Province, a 100% GST rebate and other increased transfers from senior levels of government. In total, with the addition of the revenues that only Toronto has received (under the *City of Toronto Act*), **the fiscal capacity of Toronto has been improved by over \$900-million over 2003.**

Despite this increased fiscal capacity, the City remains in a structural deficit. Now the City contends, without any evidence to support the contention, **a cost-sharing agreement with the Province for TTC operating costs** is the final piece needed to achieve stability. Using the model employed in *The Growing Chasm*, the Board has included the impact of such an agreement into a new projection to determine its ultimate impact on the City's finances. With such an agreement in place, the City's **unsustainable operating deficit is still over \$900-million by 2019.**

Clearly, the City's structural deficit will not be bridged unless action is taken with respect to expenditures. We need to bend down the City's expenditure curve – to bring down the annual increase in budgetary expenditures to a more sustainable level. The Board's recommendations centre on this goal.

- 4. Announce and enforce an immediate hiring freeze and a discretionary spending freeze.*

The Board calls on the City to demonstrate its commitment to achieving fiscal sustainability and to tackling the structural deficit through the **announcement and enforcement of a hiring freeze and a spending freeze.** In many North American jurisdictions, such as Atlanta, Phoenix and Boston, a hiring freeze and a discretionary spending freeze is one of the first actions taken to control their budgets. In fact, many North American jurisdictions – including Calgary, Vancouver and Montreal – that are facing budget crunches have gone further and laid off employees as a way to manage their expenses.

Efficiencies can be found, but it is important for the City's leadership to clearly signal the need for restraint. The announcement and strict enforcement of a hiring and discretionary spending freeze would go a long way to achieving this.

- 5. Establish a short-to-mid-term plan for achieving fiscal sustainability by 2014.*

Around the globe, the **recognized approach to bringing a structural deficit under control** is to set a timeline in which to do it, as well as the process to achieve this, which will include a target to be reached. Such an approach has been used federally in Canada, as well as in Britain and elsewhere.

The Board recommends that the City **commit to get itself to a fiscally sustainable position by the end of the next term of Council in 2014**. To reach this target will require containing expenditure growth and setting an amount of efficiencies to be achieved in each of the years leading up to 2014. During this short-term process, the City will need to examine the programs and services it delivers – including through the Agencies, Board, Commissions and Corporations (ABCCs) – to assess what the City should be in the business of doing. The City should also consider monetizing some of its assets for capital programs and to pay down debt.

***Mid-term measures to get Toronto back to fiscal sustainability***

6. *Examine the programs or services that are the City’s main cost drivers for efficiencies that can be achieved. In particular, the cost of the TTC is rising at a rapid rate. For this reason, the Board recommends that City Council direct the Auditor General to undertake a thorough review of the TTC.*

To achieve the City’s target in the established timeline will require addressing the City’s main cost drivers. Despite implementing a **9% fare increase** in January 2010, the **TTC’s budget is increasing 9.1%**, while projecting a **decrease in ridership** for 2010. Additionally, according to City data, the TTC is Toronto’s largest employer, having seen the **number of employees rise almost 20% since 2003**. Further, the TTC’s latest annual report (from 2008) presents a sharp rise in the TTC’s costs:

<b>TTC Operating Statistic</b>	<b>% Increase from 1999-2008</b>	<b>% Increase from 1999-2002</b>	<b>% Increase from 2003-2008</b>
<b>Number of employees</b>	16%	3%	12%
<b>Total kms operated</b>	15%	9%	6%
<b>Operating expense per passenger</b>	44%	13%	17%
<b>Operating expense per km. under operation</b>	48%	11%	27%
<b>Operating subsidy per passenger</b>	119%	26%	55%
<b>Operating subsidy per km. under operation</b>	125%	22%	67%

Adjusting for inflation (including the rise in the cost of inputs such as gasoline) and the rise in employees, the TTC’s productivity increased by 1% between 1999 and 2002, but **declined by 5% from 2003-2008**. The result is that if TTC productivity had remained flat since 2003, rather than declining, the overall cost of operations would have been **approximately \$71-million less**, or approximately 22% of the taxpayer subsidy.

The Board recognizes that there are numerous factors behind this data. That being said, a critical lens needs to be taken to the TTC's operations to ensure that we are operating an efficient system that delivers good value and good service to the community. In particular, the TTC should be benchmarked to other major international transit bodies to ensure this is being achieved. Similarly, innovative solutions for the future, such as automation and new fare collection protocols, need to be sought. Finally, the cost over-runs frequently associated with capital projects needs to be contained, through application of best practices and lessons learned, as well as analysis of the TTC's procurement process. For all of these reasons, the Board calls on Council to **direct the Auditor General to conduct a review of the TTC.**

7. *Implement key outstanding recommendations from the 2008 Mayor's Independent Fiscal Review Panel. Important recommendations that have not yet been put into action include:*
  - a. *CFO to present top-down rolling five-year operating budgets and to have more oversight of the 119 ABCCs and out-of-sequence expenditure requests.*
  - b. *The CFO and staff should undertake a formal review of all assets, asset conditions, and needs, and develop an asset management plan for all major infrastructure assets.*
  - c. *Mayor and Council, through an engaged public, to set out fiscal goals and a plan for achieving these goals, with annual reports to public on progress and explanations of deviations from the plan.*
  - d. *Conduct a core services and a cost optimization review.*
  - e. *Implement a "catch the little things" program.*
  - f. *Review outsourcing and procurement policies and review city-wide shared services departments and those of ABCCs, with a view to consolidating certain key functions and responsibilities.*
  - g. *Reform the planning process.*
  - h. *Link merit pay for City employees to their performance.*
  - i. *Work with the Province and surrounding municipalities to advance regional transportation issues, such as a system-wide, region-wide electronic fare card.*

The Board continues to strongly support the recommendations made in the 2008 Mayor's Fiscal Review Panel. Many of these recommendations reflect the long-standing advice of the Board. The Board also believes that the recommendations in this report offer the City a solid foundation upon which to base its long-term plan to fiscal sustainability.

The City has made progress in implementing several of the report's 69 recommendations. But there remains much work to be done on a number of the recommendations. The Board calls on the City to **fully implement the Review Panel's recommendations** as part of a plan to improve its fiscal position. The Board encourages the **City to report on its progress** in implementing the Review Panel's recommendations.

8. *Develop a comprehensive human resources strategy, as recommended in the 2008 report from the Mayor's Independent Fiscal Review Panel. This strategy should include:*
  - a. *A revised fair wage policy;*
  - b. *Flexible redeployment provisions for injured workers;*
  - c. *The ability to reassign labour resources to increase efficiency in service delivery; and*

- d. *A mandate for the CFO to advise Council on the financial implications of all labour contracts prior to their adoption, having regard to the impact on employee liabilities, budgets and tax rates and the City's ability to pay or manage its debt.*

The Mayor's Independent Fiscal Review Panel highlighted human resources and labour relations as one of the City's "pressures from within" and indicated that these costs need to be at the heart of any fiscal strategy.

The Board recognizes that the recent settlement with City workers is lower than in previous rounds of negotiation. But the Board also notes that the settlement is still more generous than agreements reached with provincial and federal employees around the same time. Public sector entities around the world are re-examining the sustainability of their labour models. As a result of the recession, numerous private and not-for-profit sector organizations have changed their labour model. The Board believes the City should be no different in this regard.

Actions being taken by public actors include reducing wages (as was done in Ireland), creating different tiers of pension plans (as was done in New York) and laying off large numbers of staff (as was done in Chicago, Los Angeles, Atlanta, Boston and Vancouver). Specific rules and rigidities in labour agreements also add to public sector costs and need to be addressed.

The Board calls on the City to, as a start, implement the recommendation of the Mayor's Independent Fiscal Review Panel to develop a comprehensive human resources strategy. In the longer term, the City needs to **consider its overall labour model**.

9. *Be consistent, in letter and in spirit, with the City's 2005 Enhancing Toronto's Business Climate policy. The Board continues to support the property tax competitiveness goal of this City policy.*

The Board has supported, and continues to support, the City's *Enhancing Toronto's Business Climate* policy. The Board believes that any property tax increases on Toronto business – in 2010 and beyond – must be consistent, in letter and in spirit, with this strategy. From 2006 to 2008, the City stayed true to this policy. But in 2009, the tax increase on most commercial and industrial properties was not in line with this policy. In a staff report released on March 20, 2009 – more than one month after public consultations had ended – the total property tax increase on Toronto businesses was revealed to be substantially higher than the amount indicated in the 2009 Operating Budget presentation.

With the additional impact from this tax shift, the **total tax increase for commercial properties was 2.93% in 2009**, not the 1.33% indicated in the 2009 Operating Budget presentation. Likewise, **the total property tax increase for industrial properties was 3.06%**, not 1.33%. The City report hinted that similar tax shifts could occur in each of the next three years (as the new CVA assessments are being phased in over a four-year period). The 2009 commercial tax increase represents the second-highest tax rate increase since the amalgamation of Toronto in 1998.

York Region implemented a similar tax-shift last year, thereby increasing commercial tax burdens. Having consulted with constituent municipalities, York Region has chosen not to implement further

inter-class tax shifts throughout this assessment cycle. This decision, along with spending restraint, will result in average tax increases as low as 1 percent for York businesses this year.

The Board urges the City to **focus on its GTA tax competitiveness**. The implication of the 2009 (and potentially 2010, 2011 and 2012) tax rate increase on the commercial and industrial classes is that the pace toward achieving **a more competitive and level property taxation playing field across the GTA has been dramatically slowed down**. The Board calls on City Council to pass a motion that it will uphold in letter and in spirit the *Enhancing Toronto's Business Climate* policy in order to continue progress toward GTA tax competitiveness.

## Introduction

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The Toronto Board of Trade (the Board) welcomes the opportunity to participate directly in the City's 2010 Operating Budget process. This document provides a fuller explanation of the deputation made by the Board to Council's Budget Committee on March 1, 2010, as well as the rationale and basis for the Board's recommendations to Council.

The Board is Canada's largest chamber of commerce. Founded in 1845, we connect 10,000 member organizations and more than 200,000 business professionals and influencers throughout the region. The Board's mission is to advance the success of our members and the entire Toronto region. The Board strives to be a bold and innovative catalyst for strengthening the economic, social and cultural vitality of the Toronto region. The Board is an authoritative advocate for a strong economic climate, exceptional quality of life and global competitiveness in Toronto.

### *Toronto and the Budget Crunch*

The city of Toronto, and with it the Toronto region, enjoy the economic and social advantages that come with being a great global city: a skilled population; a vibrant business community; cutting-edge research facilities, hospitals and educational institutions; convenient access to transport; and a solid international reputation. These assets have been built and developed over many years as a result of long-term planning and vision. The Board has been a constant partner and city-builder, working with the City and other stakeholders to create a globally competitive Toronto region.

The Board believes that making Toronto globally competitive is a continual goal. In April 2009, the Board launched the inaugural version of *Toronto as a Global City: Scorecard on Prosperity*, our benchmarking study comparing the performance of the Toronto region to 20 other great global cities on the basis of 25 economic and quality-of-life statistical indicators.

Toronto's solid tied-for-fourth-place ranking (with New York, Boston and London) confirmed that the Toronto region enjoys an enviable quality of life, which elevates its standing among global competitors, but that its economic growth is not keeping pace with other cities included in the report. A further cause for concern comes from the fact that the city of Toronto's economic performance was much weaker than the economic growth seen in its surrounding municipalities. Without greater emphasis on a competitive business climate and economic development, Toronto's future prosperity will be in jeopardy.

The Board believes that one of the factors contributing to the city of Toronto's poorer economic results is the state of the City's finances. In our 2009 Operating Budget submission, *Balanced but not Sustainable*, the Board observed that: "The City has achieved a 'balanced' budget for 2009...[b]ut the City has not achieved a structurally balanced budget...It is time for the City to engage in long-term planning and to be open with its citizens and its businesses about our future path forward...Together, we can bring Toronto to [a sustainable fiscal situation]. But it requires a long-term vision and plan. And that process needs to start now."

Unfortunately, the City has not heeded the Board's advice. Rather, as outlined in the section below, the 2010 Operating Budget presents Torontonians with much of the same as in previous years: a budget that is balanced on paper, but relies on unsustainable budgeting to achieve this, thus failing to address Toronto's structural operating deficit. In *The Growing Chasm: An Analysis and Forecast of the City of Toronto's Finances*, the Board highlighted that **between 2002 and 2008, the City's total**

**operating expenditures increased by an annual average of 5.9%.** The 2010 Operating Budget, at \$9.2-billion, represents a **growth of 5.7% over the 2009 Operating Budget.** The City's revenues are not growing at the same pace.

For example, the City's most significant source of revenues, **property taxes, have been growing by an annual average of 2.9%** over the same period. As a result, the City's expenditure curve is rising at a much steeper angle than the City's revenue curve. Given this dynamic, the path to fiscal sustainability lies in "bending down the expenditure curve" – finding efficiencies in the City's expenditures such that the rate of growth in expenditures slows to a pace that is matched by the growth in the City's revenues.

Some contend that the focus should be on the growth of the net operating budget, rather than the gross budget (from which the above numbers are derived). The Board believes that the rapid rise year-over-year in the City's budget "pressure" (discussed further below) – which needs to be bridged through such measures as property tax increases, cost reductions and unsustainable fiscal solutions – shows that the focus on net expenditures, rather than gross expenditures, is misguided.

This contention that the focus should be on the growth in net expenditures is closely tied to the argument frequently cited by the City that the levers of fiscal control are beyond their reach due to provincial legislation. The Board recognizes that a number of pieces of legislation, such as the *Police Services Act*, the *Arbitration Act* and the *Labour Relations Act*, dictate what the City must do in certain instances. To overcome this difficulty, the Board believes the City should lead a review of the legislative reforms that are needed for the City to gain the control needed in key areas of the operating budget over which the City currently does not have control. These identified reforms should then be incorporated into the *City of Toronto Act* as part of a statutory review of the Act.

In the submission that follows, the Board once again provides its policy advice to the City in order to enable all Torontonians – residents and businesses alike – to move beyond annual budget crises and to begin building the Toronto that we all wish to see. As this is an election year, the Board also encourages all candidates to embrace these recommendations.

## ***What is Really Toronto`s Biggest Fiscal Issue***

There are many people who believe that the annual budget crunch is the biggest fiscal issue facing the City. From the Board's perspective, the biggest fiscal issue facing Toronto is what the structural deficit prevents us from doing.

By continually struggling to bridge our structural deficit, rather than putting in place a plan to address it, Toronto is unable to move forward. The 2010 – 2019 Capital Budget and Plan, approved by Council in December 2009, is a reflection of this struggle: despite residents' and businesses' strong desire to see an expansion of our public transit system, the City envisions not proceeding on the construction of four of the Transit City lines (Don Mills, Jane, Waterfront West and Scarborough Malvern) until 2020 at the earliest. Only the lines that have been funded by the provincial and federal governments (Sheppard East, Eglinton Crosstown and Finch West) will be built in the medium-term. Similarly, the City's structural operating budget deficit impedes the City's ability to address pressing social issues, such as poverty and immigrant integration, as there are not sufficient funds to invest in these programs. The City highlights this difficulty in slide 6 of its 2010 Operating Budget presentation: under the title "Challenges Remain," the final bullet notes "No funds for service enhancement."

As articulated in *From World-Class to World Leader: An Action Plan for the Toronto Region*, the Board – has an ambitious vision for the Toronto region. We wish to create a competitive and attractive business climate; to enjoy leading-edge public services and regional transportation; to live in a region that offers opportunities and prosperity to all its residents; and to see Toronto rightly viewed as among the top urban centres in the world.

Together, we can achieve this vision. But we cannot do so if we are continually struggling with a structural deficit. At present, Toronto struggles each year to find a way to simply preserve existing services (at an elevated cost to the previous year). The Board's recommendations are focused on achieving more with less, not with eliminating cherished public services.

With this 2010 Operating Budget, it is clear to the Board that it is up to the mayoral candidates to fix the City's finances through future operating budgets. In November 2009, the Board launched its VoteToronto2010.com municipal election campaign with the release of the discussion paper *Vote Toronto 2010: Framework for a Better City*. The purpose of the Board's VoteToronto2010.com campaign and platform is to frame the debate and develop solutions to the major issues in the upcoming 2010 municipal election.

In this submission, the Board provides the City with some of our advice on how to address the structural operating deficit in the short-term. In the coming weeks as a follow-up to our work in *The Growing Chasm*, the Board will be unveiling its recommended short- and long-term solutions. Action on these solutions will help to bend down the City's expenditure curve, enabling the City to move forward on building the Toronto of the future that we all wish to achieve.

## ***The City's 2010 Operating Budget***

The Board notes that the 2010 Operating Budget contains a number of welcome changes from previous years. Most notably, the City has presented a **fiscal outlook for 2011**. While this falls short of the multi-year operating budgets the Board and the Mayor's Independent Fiscal Review Panel has called for, the Board welcomes this outlook and believes that looking more than one year out should prove useful in creating a plan to return the City to a fiscally sustainable position. Further, the 2010 Operating Budget contains **\$172-million in cost reductions and service efficiencies**. The Board welcomes the City's efforts to contain its costs and believes this needs to become an even greater focus of budgeting efforts. Finally, the City was able to balance its operating budget **without any emergency funds from the Province**.

The Board believes these changes are steps in the right direction. At the same time, though, the Board is concerned that **the 2010 Operating Budget is missing critical data**, particularly with respect to property taxes (as discussed further in recommendation 1 below). In addition, the Board believes that the 2010 Operating Budget represents "tinkering around the edges" when transformational change needs to take place to get the City's budget under control.

The City's 2010 Operating Budget, presented on February 16, is \$9.203-billion. This represents **about a 5.7% increase over 2009** in the size of the budget, which is consistent with the year-over-year trend identified in *The Growing Chasm*. To balance this budget (as set out in further detail below), the City has relied on a 2.5% increase in property taxes (4% on residential and 1.33% on non-residential). This increase in property taxes is also consistent with the year-over-year trend identified in *The Growing Chasm*; when the 1% assessment growth is factored in, the City's growth in property tax revenues in 2010 is actually better than used in *The Growing Chasm* model.

Based on the City's presentation, the **2010 budget pressure totaled \$821-million**. The 2009 Operating Budget's pressure totaled \$679-million, meaning there was **approximately a 21% increase year-over-year** in the budgetary pressure. This is a substantial increase from previous years. For example, in 2007, the identified budget pressure was \$548-million. In 2008, this pressure increased by 12.2% to \$615-million, with another increase of 10.4% in 2009 to arrive at budgetary pressure of \$679-million. The information provided by the City indicates that 2011's budget pressure could continue this growth trend: the City has identified **budget pressure** (to be bridged from both sustainable and unsustainable revenue sources) **of \$585-million in 2011** which, in the absence of successfully negotiating a cost-sharing agreement with the Province regarding TTC operations, will stand at **approximately \$850-million**.

To bridge the 2010 budgetary pressure, the City was able to employ **\$388-million in sustainable strategies**, including \$172-million in cost reductions and service efficiencies, user fee increases, the TTC fare increase and the provincial upload of social services costs. The remaining \$433-million is plugged through property tax increases (netting \$87-million), assessment growth (resulting in \$33-million) and unsustainable strategies (totaling \$313-million). The City does not specify how the \$172-million in cost reductions and service efficiencies were attained.

Regarding the **unsustainable** means employed to bridge the 2010 Operating Budget, the vast majority of funds - **\$219-million – comes from a prior year surplus**. The Board is uncertain how this surplus was achieved and would welcome further information on the surplus and the service efficiencies in the 2010 budget.

It should be noted that, to be able to balance the operating budget and to keep the property tax increase to 2.5%, this meant that other revenues had to increase (in total) by 7.3%. For example, revenues from the municipal land transfer tax and the personal vehicle levy, as well as user fees (principally due to the TTC fare increase) increased by 5.8% over 2009. The catch-all category of "Other revenues" (although it is unclear what is contained in this category) increased by nearly 37% over 2009.

The City's **structural deficit of \$313-million is somewhat below the projection in *The Growing Chasm*** (which was \$382-million for 2010). However, the **City's 2011 outlook shows a structural deficit of \$469-million, which is very close to the \$465-million that was projected in *The Growing Chasm***.

To rein in this structural deficit and return the City to a fiscally sustainable position, it is necessary to "bend down" the growth in the City's expenditure curve. The recommendations that follow are focused on finding efficiencies in the City's expenses to help bridge the City's growing structural deficit chasm.

# 2010 Operating Budget Deputation Recommendations

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## *1. Conduct budget deliberations with greater transparency, accountability and public participation.*

As indicated above, the Board is pleased to participate in the City's budget process. However, the Board is concerned that the process established by the City makes it difficult for the public to effectively participate and requires them to do so without full information. The Board's concerns primarily relate to the **public consultation process** and the **release of critical information by the City**.

As the City rightly notes, municipal finances and budgeting are complicated. For this reason, the Board feels it is inappropriate that the public is only able to provide comment on the operating budget within a very short timeframe. The City's budgets – both operating and capital – are of great interest to Toronto businesses and residents, as evidenced by the extensive media coverage these documents command. The City's budgets impact all Toronto businesses and residents. Yet, their opportunity to participate in the budget process is quite limited.

This past summer, following the resolution of the City workers' strike, the Board made a request to the Mayor to immediately begin public consultations on the 2010 Operating Budget. The Board's request was based on the consultation process observed with the federal and provincial budgets, but also the extensive consultation process that is undertaken by other Canadian municipalities, for example in Vancouver.

The Board recognizes that this year's public consultations represent certain improvements over the 2009 process – for example, this year the public is given 14 days (as opposed to 10 days in 2009 and 10 days for the 2010-2019 Capital Budget and Plan) to consider the operating budget before making a presentation on it and there are approximately 1 ½ days of public hearings (as opposed to 1 day in 2009), including hearings held in the evening – **this year's public consultations do not differ greatly from previous years and certainly do not meet the extensive public discussions requested by the Board**. City Council does not review the operating budget until April 15 & 16; the Board believes the public's opportunity to participate in this process should extend beyond March 2.

From the Board's perspective, a similar concern relates to the information given to the public before they are asked to comment. There are **at least two critical staff reports** – the report on the impact of CVA assessments on property taxes for 2010 and the update on the City's long-term fiscal plan – **that will not be publicly released until well after the period for public comment closes**. In 2009, the staff report regarding the impact of CVA assessments on property taxes was not released until March 20, more than a month after public hearings had ended. This staff report revealed that, as a result of CVA assessments, a tax shift would take place that resulted in the increase in business property taxes more than doubling from the level indicated by the City in its February 8 operating budget presentation. The impact of this late staff report will be further explained in recommendation 9.

The Board believes that **all operating budget information should be made public at the same time and that the public should be invited to provide comment based on this full set of information**. Further, the timing of the staff report regarding the impact on property taxes from CVA assessments is not expected to be released until April 7, more than two weeks after the Budget

Committee has wrapped up its deliberations on the operating budget. This means that the Budget Committee will never get the opportunity to deliberate this budget with full knowledge of the final property tax rates associated with it. The current public consultation process, with substantial information being made public after the consultation period and after much of the media focus on the operating budget has concluded, hampers public officials' accountability and limits public participation and civic engagement. The Board believes that Toronto residents and businesses should have a greater role in the shaping of the City's budget.

***2. Introduce multi-year operating budgets. Use these multi-year budgets as the basis for establishing an articulated plan to return the City to a sustainable fiscal position.***

The Board has long advocated that the City improve its long-term fiscal planning. The 2008 report of the Mayor's Independent Fiscal Review Panel also recommended that the City **introduce 5-year rolling operating budgets**. Multi-year budgeting is a regular feature in many North American jurisdictions. For example, Philadelphia produces 5-year operating budgets.

Closely connected to the call for multi-year operating budgets is the need for a long-term fiscal plan. On prior occasions, the Board has recommended that the City update its long-term fiscal plan (which has not been done since it was introduced in 2005). So, the Board is pleased to see that the City will provide such an update on March 12. The Board is disappointed, though, that this document will not be part of the public consultations on the operating budget.

Since amalgamation, the City has not been able to match on-going expenditures in its tax-supported operating budget with sustainable revenue. In each year, the budget has only come into balance with the infusion of one-time revenue, which only defers pressure into the next budget cycle.

In conjunction with the release of *The Growing Chasm*, the Board is consulting with our members and other stakeholders on what needs to be done to bridge the City's structural deficit and get the City on a path to fiscal sustainability. The City's structural deficit will not be resolved with a single budget; rather, it is a process that will take a number of years. As a result, **the plan for returning the City to a sustainable fiscal position will need to include a long-term strategy and objective, coupled with short-term actions and solutions** that can get the City to the long-term objective. The recommendations contained within this submission focus primarily on some of the short-term actions that can be taken by the City. In the coming weeks and as a follow-up to the Board's work in *The Growing Chasm*, the Board will be releasing its full suite of recommendations, both long-term and short-term, for getting the City to a fiscally sustainable position.

As the Board has made clear on a number of occasions, it is likely that fiscal sustainability will include the negotiation of a predictable, long-term funding agreement with the Province, such as for the sharing of TTC operating expenses. However, the Board believes that such an agreement is only plausible – and, indeed, only likely – in conjunction with a long-term plan by the City to return its finances to a sustainable position.

The City has contended, without producing any support to this claim, that an agreement on TTC operating costs is the final piece necessary to put the City on a sustainable fiscal footing. As discussed more fully below, the Board has re-worked the long-term projection unveiled in *The*

*Growing Chasm* to determine what financial impact a cost-sharing agreement with the Province on TTC operating expenses would have on the projection outlined in the *Growing Chasm*. This result reflects that such an agreement, in the absence of measures to contain expenditures, does not significantly impact the long-term trajectory of the City's structural deficit. The Province, in trying to bring down its historic deficit, is dealing with finding efficiencies and reductions in its costs. It is only appropriate that the City show similar fiscal restraint and accountability in making itself a partner with the Province. Recent reports in the media indicate that this is the message also being delivered by the Premier.

### **3. Look for efficiencies in City expenditures first before new revenue sources to contain the structural operating budget deficit.**

The Board is concerned that the 2010 Operating Budget does not begin to address the City's structural deficit and represents little, if any, departure from the approach taken in previous years. As the Board demonstrated in *The Growing Chasm*, a business-as-usual approach – which the 2010 Operating Budget largely represents – will see the City's structural deficit continue to grow, reaching \$1.2-billion by 2019.

The approach taken in the 2010 Operating Budget brings the City no closer to fiscal sustainability. The 5.7% increase in the size of the 2010 Operating Budget over the 2009 Operating Budget is broadly in line with the 5.9% average annual growth in expenditures that was noted in *The Growing Chasm*. Had the City not found \$172-million in efficiencies to balance the 2010 Operating Budget, this year-over-year increase would have been over 7%.

In recent years, the City has sought, and in almost all cases received, new revenues to bring its operating budget under control. For example, as a result of new powers granted under the *City of Toronto Act*, the City has introduced a municipal land transfer tax and a personal vehicle levy, which garnered the City **\$206-million in 2009** (and according to the 2010 Operating Budget presentation, about 5% more in 2010). In December 2009, the City also passed a **billboard tax** (another new revenue source granted to the City under the *City of Toronto Act*). This new tax is **expected to generate over \$10-million annually** for the City. Initially, these funds were expected to be earmarked for arts & culture funding, but Council has chosen to direct these funds into the City's general revenue stream.

The City has also received a **substantial increase in transfers from senior levels of government**. In 2009, the City received **over \$600-million more than in 2002** from the federal and provincial governments<sup>1</sup> – the **uploading of social service costs** (estimated at \$33-million net in 2010 and growing to \$337-million by 2019), a **100% GST rebate** (representing \$130.3-million from 2004-2007, including \$51-million in the 2009 fiscal year), a **share of provincial gas tax revenues** (representing \$164-million in 2009) and the **federal gas tax** (representing \$163-million in 2009). In total, with the addition of the revenues that only Toronto has received (under the *City of Toronto Act*), **the fiscal capacity of Toronto has been improved by over \$900-million over 2003**.

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<sup>1</sup> In 2002, the City received about \$100-million in transfers from the federal and provincial governments. In 2009, the City received over \$500-million from the Province and \$214-million from the federal government, representing over \$600-million more than the City received from these senior levels of government in 2002.

**In spite of these substantial new sources of revenue, the City remains in a structural deficit position.** The City contends that the final piece needed to address its structural operating deficit is an agreement with the Province regarding the funding of transit operations. The Board contends that **the City cannot reach a fiscally sustainable position until it seeks to bend down the expenditure curve by finding efficiencies.** Until this is done, the City will continually require greater funds to provide the same level of programs and services.

As a way of reflecting the need to find efficiencies in expenditures, rather than new revenues, in order to achieve sustainability, the Board has re-worked the fiscal projection contained in *The Growing Chasm*. Assuming that an agreement is reached with the Province regarding the sharing of transit operation expenses (which is not part of the model used in *The Growing Chasm*), the City's structural deficit does come down. But not by much. With such an agreement in place, the City's unsustainable operating deficit is still **over \$900-million by 2019.**

#### ***4. Immediately announce and enforce a hiring freeze and a discretionary spending freeze.***

The Board believes that the City needs to take immediate action to get itself on a sustainable fiscal path. The primary means to do this is to get the City's escalating expenditures under control. In these circumstances, the Board calls on the City to demonstrate its commitment to achieving fiscal sustainability and to tackling the structural deficit through the announcement and enforcement of a hiring freeze and a spending freeze.

The City's Operating Budget presentation revealed that the 2010 Operating Budget deficit equaled \$821-million. Due to this budgetary pressure, the City Manager's May 2009 four-point plan called for cost constraint through a hiring slow down and constraining discretionary spending. Further, the 2011 outlook shows a structural budget deficit of \$469-million.

The Board believes that **a strong and clear signal needs to be given from the top down that the City is serious about and committed to containing its expenses.** A hiring freeze and a discretionary spending freeze, rather than a hiring slowdown and constraining discretionary spending, would send such a signal. In many North American jurisdictions, such as Atlanta, Phoenix and Boston, **a hiring freeze and a discretionary spending freeze is one of the first actions taken** to control their budgets. In fact, many North American jurisdictions – including Calgary, Vancouver and Montreal – that are facing budget crunches have gone further and laid off employees as a way to manage their expenses.

It is critical that the City not only institute this hiring and discretionary spending freeze, but that the City enforces it. The Board notes that, despite a directive to reduce their budgets by 5%, a number of the City's Agencies, Boards, Commissions and Corporations (ABCCs) presented increased budgets for 2010 and that these budgets were approved. Of particular concern is the fact that some of the largest year-over-year budgetary increases, rather than cuts, are found in the budget for Police and the TTC. As these services are two of the City's largest line items, increasing these budgets has a relatively greater impact on the City's bottom line than cuts to other, smaller programs and services.

Efficiencies can be found, but it is important for the City's leadership to clearly signal the need for restraint. The announcement and strict enforcement of a hiring and discretionary spending freeze would go a long way to achieving this.

**5. Establish a short-to-mid-term plan for achieving fiscal sustainability by 2014.**

With the introduction of five-year rolling operating budgets, as recommended by the Mayor's Independent Fiscal Review Panel and further articulated in recommendation 2 above, the City will be in a position to establish short-term, mid-term and long-term fiscal plans. The Board believes that in the short-to-mid-term, Council's fiscal target should be reaching a truly sustainable fiscal position. With fiscal sustainability achieved, Council should focus in the longer term on how to ensure that fiscal sustainability can be maintained. The Board believes that this **near-to-mid-term target of fiscal sustainability should be the target established for the next term of City Council.**

Around the globe, the recognized approach to bringing a structural deficit under control is to set a timeline in which to do it, as well as the process to achieve this, which will include a target to be reached. Such an approach has been used federally in Canada, as well as in Britain and elsewhere.

**To reach this target will require containing expenditure growth and setting an amount of efficiencies to be achieved in each of the years leading up to 2014.** During this short-term process, the Board recommends that the City undertake a comprehensive review of services, including the ABCCs, to determine where savings can be found in existing programs and services and to determine which programs and services can be provided more effectively and efficiently by the private sector. The City should also consider monetizing some of its assets for capital programs and to pay down debt.

The City's update to its long-term fiscal plan, to be released on March 12, should provide greater information on the City's plans for addressing its fiscal situation and how it will be addressed. In the coming weeks, as a follow-up to our work in *The Growing Chasm*, the Board will be putting forward our full suite of short-term and long-term recommendations for achieving fiscal sustainability. Below are some of the measures and actions that the Board recommends be undertaken in the next term of Council.

**6. Examine the programs or services that are the City's main cost drivers for efficiencies that can be achieved. In particular, the cost of the TTC is rising at a rapid rate. For this reason, the Board recommends that City Council direct the Auditor General to undertake a thorough review of the TTC.**

To achieve the City's target in the established timeline will require addressing the City's main cost drivers.

In *The Growing Chasm*, the Board identified the main cost drivers among City programs and services. Three such programs and services, the TTC, Fire and Police, were noted as exhibiting substantial growth in their expenditures. This was of particular concern because these services are the main ones that are funded from property tax revenues. Over the period 2002-2008, almost all of the City's growth in full-time funded positions came from these three services.

Aside from the customer service issues that have recently come to the fore, the Board is concerned by the cost trends being seen at the TTC. In January 2010, the TTC instituted a **fare increase of approximately 9%** (from \$2.75 to \$3), which is **expected to raise \$50-million in 2010**. Even with this fare increase, though, the Board notes that the **amount of the TTC's operating costs covered by the City will increase by 9.1% in 2010** (8.3% for Wheel-Trans operations). At the same time that the TTC's operating costs to the rider and the taxpayer are going up at such substantial rates, the City indicates that it **expects a reduction in TTC ridership**.

Further, the 2010 Operating Budget presentation notes that **additional route supervisors are going to be hired to manage service issues**. The number to be hired in 2010 is not specified, but will add to the **508 people the TTC hired in 2009** (of these, 222 were drivers). These additional full-time employees will add to the cost of TTC operations into the future as a result of the TTC's unionized environment. According to the City's Toronto Business Directory 2008 (the most recent version available), the **TTC is the largest employer in the city of Toronto**, ahead of the major banks and other large employers, such as the University of Toronto. The TTC's total number of employees now stands at about 12,500, an **increase of almost 20% from the number of employees in 2003**.

Data derived from the TTC's 2008 Annual Report (the most recent version available) present a similar picture of ever-increasing costs without providing a similar increase in service and coverage:

<b>TTC Operating Statistic</b>	<b>% Increase from 1999-2008</b>	<b>% Increase from 1999-2002</b>	<b>% Increase from 2003-2008</b>
<b>Number of employees</b>	16%	3%	12%
<b>Total kms operated</b>	15%	9%	6%
<b>Operating expense per passenger</b>	44%	13%	17%
<b>Operating expense per km. under operation</b>	48%	11%	27%
<b>Operating subsidy per passenger</b>	119%	26%	55%
<b>Operating subsidy per km. under operation</b>	125%	22%	67%

This data paints a picture of a system experiencing a sharp decline in productivity, resulting in escalating costs relative to the service provided. Adjusting for inflation (including the rise in the cost of inputs such as gasoline) and the rise in employees, the **TTC's productivity increased by 1% between 1999 and 2002, but declined by 5% from 2003-2008**. This drop in productivity is costly: had the TTC's productivity remained constant from 2003, rather than declining, the **overall cost of operations in 2008 would have been approximately \$71-million less**, or approximately equivalent to 22% of the taxpayer subsidy in 2010.

The Board recognizes that there are numerous factors behind this data. For example, the TTC has hired more security personnel following a fire in 1999. That being said, a critical lens needs to be taken to the TTC's operations to ensure that we are operating an efficient system that delivers good

value and good service to the community. In particular, the TTC should be benchmarked to other major international transit bodies to ensure this is being achieved. Similarly, innovative solutions for the future, such as automation and new fare collection protocols, need to be sought. Finally, the cost over-runs frequently associated with capital projects needs to be contained, through application of best practices and lessons learned, as well as analysis of the TTC's procurement process.

The Board is calling on **Council to direct the Auditor General to conduct a review of the TTC.** Based on the Board's research, the Auditor General has investigated certain aspects of the TTC on prior occasions, but has not in recent memory reviewed the Commission as a whole. The Board believes this review should be undertaken immediately to get an impartial assessment of the TTC's accounting.

- 7. Implement key outstanding recommendations from the 2008 Mayor's Independent Fiscal Review Panel. Important recommendations that have not yet been put into action include:**
- a. CFO to present top-down rolling five-year operating budgets and to have more oversight of the 119 ABCCs and out-of-sequence expenditure requests.**
  - b. The CFO and staff should undertake a formal review of all assets, asset conditions, and needs, and develop an asset management plan for all major infrastructure assets.**
  - c. Mayor and Council, through an engaged public, to set out fiscal goals and a plan for achieving these goals, with annual reports to public on progress and explanations of deviations from the plan.**
  - d. Conduct a core services and a cost optimization review.**
  - e. Implement a "catch the little things" program.**
  - f. Track the full cost of providing all municipal services and, where appropriate seek to recover the cost of the services through user fees.**
  - g. Review outsourcing and procurement policies and review city-wide shared services departments and those of ABCCs, with a view to consolidating certain key functions and responsibilities.**
  - h. Reform the planning process.**
  - i. Link merit pay for City employees to their performance.**
  - j. Monetize capital assets.**
  - k. Work with the Province and surrounding municipalities to advance regional transportation issues, such as a system-wide, region-wide electronic fare card.**

The Board continues to strongly support the recommendations made in the 2008 Mayor's Fiscal Review Panel. Many of these recommendations reflect the long-standing advice of the Board. The Board also believes that the recommendations in this report offer the City a solid foundation upon which to base its long-term plan to fiscal sustainability.

The City has made progress in implementing several of the report's 69 recommendations. But there remains much work to be done on a number of the recommendations. The Board calls on the City to **fully implement the Review Panel's recommendations** as part of a plan to improve its fiscal position.

A key area of gap comes in outcome-oriented recommendations. Particularly, the Board urges the City to act on recommendations that would strengthen the Mayor's and CFO's oversight of the budget process, notably as it pertains to the operations of ABCCs. In 2004, Council authorized the development of an integrated Financial Planning, Analysis and Reporting System (FPARS), which will not be operational until the 2011 budget cycle. Even with the Review Panel's numerous recommendations in this area, implementation of the integrated FPARS system is not being accelerated. So, the City is making progress, but not nearly as quickly as needed and with no apparent sense of urgency, despite the best possible independent advice.

The Board notes that, in general, the Review Panel's recommended actions to be taken by the City focused on expenditure reductions and cost efficiencies. The Board encourages the **City to report on its progress on the Review Panel's recommendations.**

While every dollar saved matters, the City must look to find long-term solutions. Delaying hiring decisions, postponing maintenance projects and putting off the replacement of equipment is not a sustainable long-term solution. Tinkering around the edges will not suffice. The City must comprehensively review finances and must work to implement transformative solutions that will have long-term and permanent impact. It must set and achieve targets and efficiencies. If the City hopes to convince other orders of government to increase their support for Toronto, the City must first demonstrate that it has taken accountability for things within its control and that it has achieved maximum efficiencies and value for taxpayer dollar.

Consistent with the Review Panel's recommendations, the Board believes the City must **reach final agreement with the Province to adopt and implement the PRESTO fare collection system.** The benefits of the move to a smartcard system – such as significant enhancements to customer service and convenience and increased employee safety and security – have been recognized by the TTC since at least June 2007, when the Commission made a commitment to move toward such a system. As the TTC has recognized, **adopting the PRESTO system will be a much more cost-effective smartcard solution than a TTC owned and operated smartcard system.** The contingent nature of funds from the federal and provincial governments for TTC capital projects greatly enhances the financial prudence for the TTC of joining the PRESTO system. Without this senior government funding, the many needed TTC expansion projects, such as the Spadina Subway extension, will not be able to take place.

The Board notes that the TTC's participation in the PRESTO system, as approved at the Commission's November 17, 2009 meeting, is subject to the development of agreements that address key TTC principles and business needs. The Board believes these agreements can be reached and encourages all parties to conclude such agreements as quickly as possible, and certainly no later than June 30, 2010. If agreement is not reached by this date, the Board is concerned that the October 2010 municipal election could delay a final agreement and further postpone the TTC's full participation in the PRESTO system, to the detriment of the Commission and its customers.

- 8. Develop a comprehensive human resources strategy, as recommended in the 2008 report from the Mayor's Independent Fiscal Review Panel. This strategy should include:**
- a. A revised fair wage policy;**
  - b. Flexible redeployment provisions for injured workers;**
  - c. The ability to reassign labour resources to increase efficiency in service delivery; and**

**d. Mandate the CFO to advise Council on the financial implications of all labour contracts prior to their adoption, having regard to the impact on employee liabilities, budgets and tax rates and the City's ability to pay or manage its debt.**

The Mayor's Independent Fiscal Review Panel highlighted human resources and labour relations as one of the City's "pressures from within." Nearly 50% of all City spending goes to wages and benefits for City employees, including those at the City's ABCCs. As a result, the efficient handling of human resource and labour relations issues should lie "at the core of any overall fiscal strategy for the City"<sup>2</sup> and are central to any serious attempt at overall expenditure reduction.

The current level of year-on-year increases due to compensation cannot be maintained. As shown in *The Growing Chasm*, **between 2002 and 2008, wages, salaries and benefits increased on average by 6.5 per cent per year**, while growth in full-time funded positions grew by an average of only 1.5 per cent a year. This means that the **cost per employee is rising at an annual average rate of 5%** or about 2 ½ times the rate of inflation.

The Board acknowledges that the settlement reached with municipal workers in the summer of 2009 represents a lower rate of wage increase than in previous contracts. The Board notes, though, that the settlement reached in July 2009 is still richer than the recent agreements reached with provincial and federal unions, particularly those agreements reached after the global recession had hit. For example, the OPSEU agreement reached in March 2009, the PSAC agreement reached in November 2008 and the LCBO and OPSEU agreements reached in June 2009 all contained wage increases lower than the ones contained in the City settlement.<sup>3</sup>

The Review Panel noted that progress in this area requires that both **the City and the unions work together to achieve a fiscally sustainable outcome**. Despite the Review Panel's commentary that human resources, labour relations and the related cost "must become a major priority for the City,"<sup>4</sup> the City has shown little appetite to confront this issue. The Board recognizes that the City is not in a position to re-open existing collective agreements. But the City can insist on restraint in future negotiations. Within existing agreements, it can seek greater flexibility in staffing and benefits under the rubric of "continuous improvement." Creative managers could also be rewarded for promoting innovative workplace solutions and by linking merit pay to performance.

One of the six themes around which the Review Panel made its recommendations was for the City to invest in a high performance flexible workforce, with a comprehensive human resources strategy being a key component of this theme.<sup>5</sup> Six specific recommendations emanated from this need to develop a comprehensive strategy.

The Board calls on the City to **implement the Review Panel's recommendations to develop a comprehensive human resources strategy**. It is clear that until the City addresses the budgetary pressures that labour costs present on an annual basis, sustainable municipal finances will be

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<sup>2</sup> Mayor's Independent Fiscal Review Panel, *Blueprint for Fiscal Stability and Economic Prosperity – A Call to Action* (February 2008), pg. 46.

<sup>3</sup> This information comes from a staff report presented to City Council on July 31, 2009 as part of the deliberations on ratification of the agreement, <[www.toronto.ca/legdocs/mmis/2009/cc/bgrd/backgroundfile-22639.pdf](http://www.toronto.ca/legdocs/mmis/2009/cc/bgrd/backgroundfile-22639.pdf)> (accessed February 25, 2010).

<sup>4</sup> Mayor's Independent Fiscal Review Panel, pg. 49.

<sup>5</sup> *Ibid.*, pg. 76-77.

difficult, if not impossible, to achieve. As the Review Panel noted, “[i]t is too expensive – on every front – to ignore this reality.”<sup>6</sup>

Many public entities are currently being confronted with the unsustainable nature of their wages and benefits packages. In many instances, these public actors are taking action by, for example, reducing wages (as was done in Ireland), creating different tiers of pension plans (as was done in New York) and laying off large numbers of staff (as was done in Chicago, Los Angeles, Atlanta, Boston and Vancouver). Specific rules and rigidities in labour agreements also add to public sector costs and need to be addressed.

Many of the benefits received by public sector workers are not available to those in the private sector, who ultimately are paying for these benefits. These practices are unsustainable, as reflected by the **City’s \$2.59-billion unfunded liability** (as of 2008), which does not include the substantial unfunded liability the TTC faces. Put simply, the **labour model is broken and needs to be confronted**. This past recession has impacted the private and the not-for-profit sectors, with the frequent result that they have changed their labour models. It is time for the public sector to become part of this solution.

Finally, the Board acknowledges that the City has various obligations mandated by the Province. But the Board believes there are a number of options and opportunities for the City to take action to reduce labour costs it can control.

With regard to the fair wage policy, the *Ontario Labour Relations Act* identifies Toronto as a ‘construction’ employer. By way of this legislation, where applicable, the City can only use union labourers certified by the Province. The City must compensate these labourers at rates set by the Province. The Board believes the **City should have a greater role in determining to whom it can award work, and at what rate they should compensate them**.

**9. *Be consistent, in letter and in spirit, with the City’s 2005 Enhancing Toronto’s Business Climate policy. The Board continues to support the property tax competitiveness goal of this City policy.***

The 2010 Operating Budget proposes a 2.5% overall property tax increase, which translates to a 4% increase on residential ratepayers and a 1.33% on non-residential ratepayers. This proposed increase is consistent with the City’s 2005 *Enhancing Toronto’s Business Climate* policy, which limits property tax increases on industrial and commercial properties to 1/3 the increase on residential properties.<sup>7</sup>

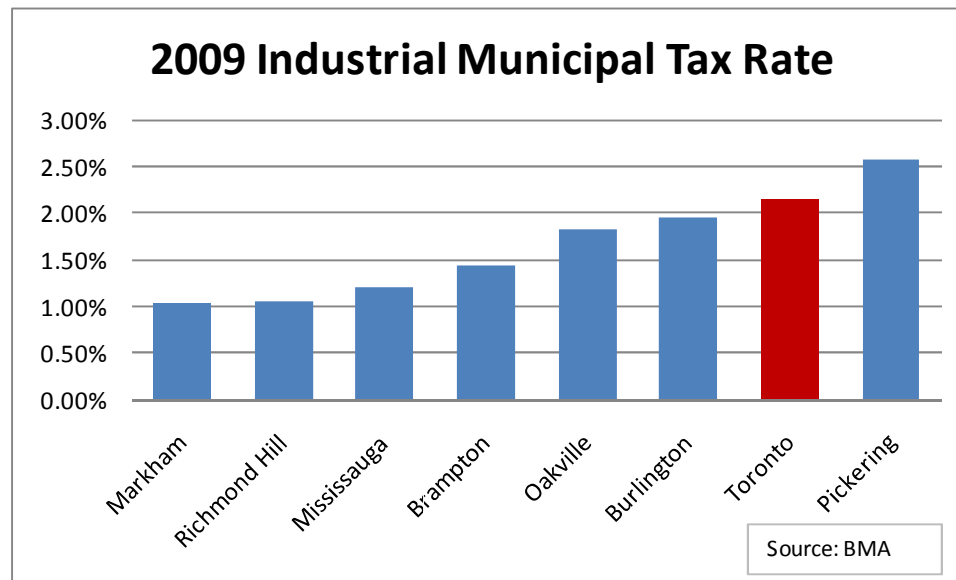
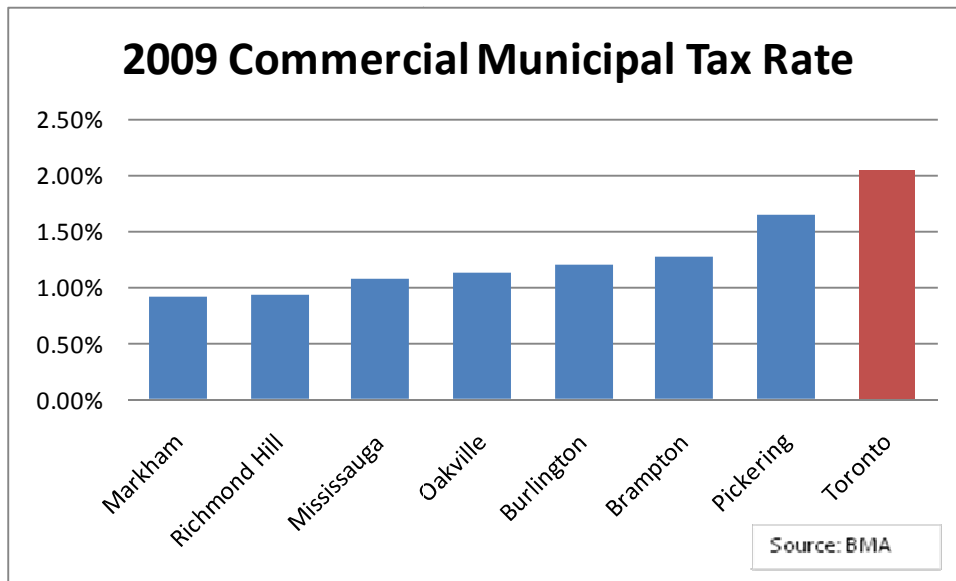
The City introduced the *Enhancing Toronto’s Business Climate* policy in recognition that commercial and industrial properties in Toronto are taxed at a much higher rate than residential properties in

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<sup>6</sup> *Ibid.*, pg. 49.

<sup>7</sup> By provincial law, property tax increases on commercial and industrial properties in Toronto are capped at one-half of the increase on residential properties. As a result of the 2005 City of Toronto policy, the City has voluntarily chosen to limit business property tax increases to 1/3 the rate of residential property tax increases.

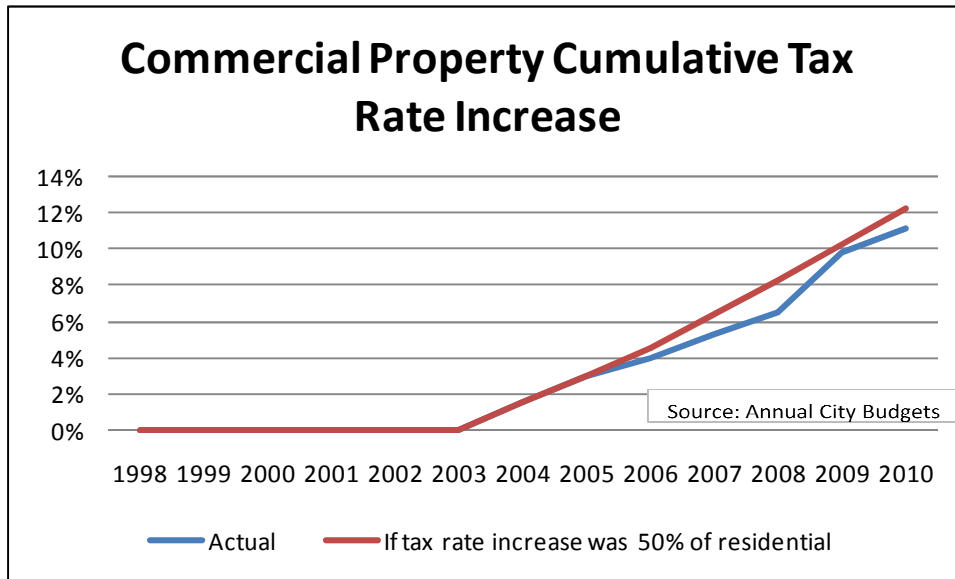
Toronto and at a much higher rate than commercial and industrial properties in other GTA municipalities. The City recognized in its 2005 report that a high business property tax rate was making Toronto a less attractive jurisdiction in which to do business, ultimately impeding economic development and job growth.



The Board has supported, and continues to support, the City's *Enhancing Toronto's Business Climate* policy. The Board believes that property tax increases on Toronto business – in 2010 and beyond – must be consistent, in letter and in spirit, with this strategy. From 2005 to 2008, the City stayed true to this policy.

In 2009, the City also indicated that commercial and industrial property taxes would be increased at 1/3 the rate of the residential property tax increase, or 1.33%. However, **in a staff report released on March 20, 2009 – more than one month after public consultations had ended – the total property tax increase on Toronto businesses was revealed to be substantially higher than the amount indicated in the 2009 Operating Budget presentation.**

As 2009 marked the first year of new CVA assessments, the City unveiled in this March 20 report the tax shifting to take place as a result of the CVA assessments. With the additional impact from this tax shift, **the total tax increase for commercial properties was 2.93% in 2009**, not the 1.33% indicated in the 2009 Operating Budget presentation. Likewise, **the total property tax increase for industrial properties was 3.06%**, not 1.33%. The City report hinted that similar tax shifts could occur in each of the next three years (as the new CVA assessments are being phased in over a four-year period). The 2009 business property tax increase represents the second-highest tax rate increase since the amalgamation of Toronto in 1998. In fact, as demonstrated in the graph below, the 2009 business property tax increase essentially wiped out any advantage Toronto businesses have experienced under the City's *Enhancing Toronto's Business Climate* policy.



The City linked the tax shifts to new CVA assessments. These assessment changes do not require tax shifts between classes. Rather, they permit tax shifts between classes. Within the provincial policy framework, local councils decide whether inter-class tax shifting should occur. Where a council decides to avoid shifts, reassessment alters tax burdens within classes, but not between classes. At the class level, reassessment is revenue neutral.

In 2009, as indicated above, Toronto opted for inter-class tax shifting – with an outcome adverse to most commercial and industrial properties. The City’s March 20 report notes that even larger tax shifts could have been implemented. This point is accurate, but it is equally true that the City could have moderated shifting further, or entirely avoided it. The same options are open to the City this year. Although assessment shifts are ongoing (assessment increases are phased in through 2012), tax shifting is decided one year at a time.

York Region provides an illustrative example. In 2009, York Region also implemented a tax shift that was adverse to commercial and industrial properties. However, the regional council implemented this shift pending a policy review, with local municipalities’ input being a significant factor in this decision.

**In 2010, York Region council has chosen to halt inter-class tax shifting**, at least so far as upper-tier taxes are concerned. It should be noted that upper-tier taxes are well over half (64.3%) the municipal tax total in York Region. This decision, along with spending restraint, will result in average tax increases as low as 1 percent for York businesses this year.

The Board urges the City to focus on its GTA tax competitiveness. **The implication of the 2009 (and potentially 2010, 2011 and 2012) tax rate increase on the commercial and industrial classes is that the pace toward achieving a more competitive and level property taxation playing field across the GTA has been dramatically slowed down.** The Board calls on City Council to **pass a motion that it will uphold in letter and in spirit the *Enhancing Toronto's Business Climate* policy** in order to continue progress toward GTA tax competitiveness.

## Conclusion

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The Board recently published its projection for the City's operating budget if a business-as-usual approach were taken to the City's finances. *The Growing Chasm* projects that the City's structural deficit could grow to \$1.2-billion by 2019 if corrective action is not taken.

Unfortunately, the 2010 Operating Budget continues Toronto on the same fiscal path. The City's own 2011 outlook shows a deficit of \$469-million, which is almost identical to the \$465-million forecast in *The Growing Chasm*.

The Board – representing 10,000 member organizations and connecting more than 200,000 business professionals and influencers – wants to get Toronto on a sustainable fiscal path so that we can move on to achieving our collective aspirations for the Toronto region. To do this, we need to overcome the structural deficit. And the Board believes that reducing our costs – bending down the trajectory of the City's expenditure curve – is the way to achieve this target.

The Board re-iterates its belief that, together, we can bring Toronto on to a sustainable fiscal path. It requires our collective and co-operative efforts, as well as a long-term plan and vision. But most of all, we need to begin our path to sustainability immediately.