



TORONTO
BOARD OF TRADE

Paradigm Shift

City of Toronto 2012 Operating Budget

**Toronto Board of Trade
Consultation Submission**

January 2012

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Executive Summary

The Toronto Board of Trade (the “Board”) is pleased to see that the 2012 City of Toronto Operating Budget is making strides toward addressing a concerning structural deficit. Without these actions, the Board projected that the City’s structural deficit would grow to \$823-million by 2020.

The Board considers the new **sustainable fiscal framework** embraced in the Operating Budget to be **nothing short of a paradigm shift**, wherein proposed expenditures and revenues are largely aligned, thereby steering the City finances toward a sustainable long-term fiscal outlook.

We strongly believe the 2012 Budget should reflect a vision of where the city is heading. Through extensive research and consultation, the Board has found that Torontonians share the following priorities:

- A globally competitive economic environment;
- Efficient, effective, modern public transit;
- Well-maintained public infrastructure;
- Efforts to improve opportunities and quality of life in every corner of the City; and
- A sustainable fiscal framework for City finances.

The Board is pleased to see the City is engaged in extensive independent reviews of its core services, service efficiency and user-fee revenue, and look forward to considering all of the cost efficiency recommendations when they become available. We believe that embracing zero-sum budgeting principles is the most important factor in following through successfully on this paradigm shift. In particular, the City’s Operating Budget must:

- Ensure every additional dollar spent on services or programs is available either through efficiencies or sustainable revenues; and
- Protect, and when necessary, enhance sustainable revenue streams of taxes and user fees.

The Toronto Board of Trade has long identified several threats to the City’s programs and services posed by unsustainable fiscal practices. These included:

- A reliance on unsustainable revenue, especially from reserve and capital funds, to balance its operating budget, creating a structural deficit;
- An eight-year trend that saw expenditures grow at twice the rate of revenues;
- Growing labour costs expanding at an unsustainable rate and driving the City’s overall expenditure growth; and
- A propensity to seek emergency funds from the provincial government as an interim measure for a shortfall in the operating budget.

The Toronto Board of Trade established a path toward fiscal sustainability in its *VoteToronto2010* campaign during the 2010 Municipal Election. At its heart were three “must-dos” the City needed to act on to begin to eliminate the structural deficit and protect City services and programs.

Executive Summary (continued)

The Board is pleased to report the City has made progress to varying degrees in acting on these three crucial elements in its 2012 Operating Budget. Specifically, the three “must dos” called for:

1. Implementing a multi-year operating budget;
2. Reforming the City’s labour model to bend down expenditures; and
3. Reducing the debt and applying the savings toward infrastructure and public transit improvements.

Priority Recommendations

In keeping with our shared vision of achieving a sustainable fiscal model along with enhancing competitiveness, improving quality of life and protecting the prosperity of all Torontonians, the Toronto Board of Trade is pleased to submit several recommendations toward improving the 2012 Operating Budget. These include:

1. Maintaining current TTC service levels:

- Restore \$14-million in service reductions proposed for TTC routes;
- Explore longer-term measures like fare reform and better TTC governance structures.

2. Improving our regional transportation network:

- Support and enhance our regional transportation network, specifically the elements proposed by Metrolinx;
- Clarify how TTC expenditures in the Operating Budget will affect capital projects;

3. Controlling labour costs:

- Pursue savings through upcoming labour negotiations, outsourcing opportunities, and other creative measures;

4. Strengthening regional economic development:

- Integrate investment promotion and economic development programs across the region along with an aggressive initiative to support an economic cluster strategy;
- Establish a dialogue on business tax reform in the context of ensuring taxes in Toronto are competitive with those in neighbouring regions;

5. Enhancing social cohesion and economic inclusion in priority neighbourhoods:

- Restore \$4.7-million in proposed cuts to the widely supported Community Partnership and Investment;

Executive Summary (continued)

6. Increasing sustainable revenue:

- Increase property taxes by 3 per cent and TTC fares by 15 cents in 2012;
- Boosting revenue according to this fair and reasonable framework would easily pay for other recommendations;

7. Implementing multi-year operating budgets as soon as possible:

- Establish certainty and stability in the budget process in 2013 while eliminating the reliance on one-time measures, such as surpluses, to fund operating costs;

8. Pursuing asset sales and other monetization opportunities:

- Support TTC capital requirements necessary to operate routes slated for service reductions with asset sales;
- Forward all windfall revenue from future asset sales toward capital investment or debt reduction.

Introduction

The Toronto Board of Trade and its 10,000 members representing over 250,000 business professionals are deeply committed to helping the City of Toronto overcome its fiscal difficulties so that we can get on with the necessary work of building a great city to live, work, grow a business, and raise a family.

The Board is proud of its role as a proactive leader in setting policy goals for the City of Toronto based on the shared vision of building a globally competitive environment for business, improving our aging public infrastructure, enhancing social cohesion and economic inclusion, and most importantly establishing a sustainable fiscal framework for City finances.

The past decade has been a challenging period for our city and all who love it. The Greater Toronto Area has grown by at least 12 per cent to nearly six million people, but our regional transportation infrastructure has not kept up to effectively handle this growth. Since 2002, the City's spending has increased twice as fast as its sustainable revenue stream, with labour costs driving that spending growth. But the most worrisome trend over the last decade, in our opinion, has been the City's increasing dependency on reserve funds and one-time cash injections from Queen's Park to balance its operating budget.

The Board is pleased to see that the City of Toronto has made important strides in its drive to build a sustainable fiscal foundation. The 2012 Operating Budget represents nothing short of a paradigm shift in terms of establishing a sustainable fiscal framework. The City has finally turned the page on the dangerous practice of financing its programs and services by using crucial funds intended to build infrastructure to secure our prosperity.

With this budget, the City has sent a strong message that it intends to support the necessary programs and services that make Toronto great through sustainable, predictable revenue streams: If the money is not there, the City will raise it through taxes or user fees, or spending reductions will be necessary.

We are under no illusions that following through on this paradigm shift will be challenging and force the Mayor, City Councillors, and officials to make difficult choices. Toronto's business community and innovation leaders are prepared to do our part to secure a sustainable fiscal foundation for the City. We believe everyone has a role to play.

The Toronto Board of Trade is pleased to participate in this important debate. Our extensive research, consultation and communications efforts to date have found that Torontonians share the following priorities: a globally competitive environment to attract the next generation of game-changing entrepreneurs; efficient, effective, modern public transit; well-maintained public infrastructure; efforts to improve opportunities and quality of life in every corner of the City; and a sustainable fiscal framework for our City finances.

In 3½ years, Toronto will welcome the best athletes of the Western Hemisphere for the 2015 Pan-American Games, the biggest event in our city's history. The new direction the City of Toronto is taking with the 2012 Operating Budget will have a direct impact in making the Games a truly great moment.

This submission will summarize our own extensive efforts to build a consensus on a policy framework to support the City's sustainable fiscal future, and offer broad recommendations on how to improve the 2012 Operating Budget in order to achieve the fiscal and program objectives we all share.

In order to achieve these objectives, the City must embrace zero-sum budgeting principles, which we believe is the essence of this paradigm shift toward a sustainable budget framework. This means that for every additional dollar spent, that dollar must be available either through efficiencies or sustainable revenues. It also means that programs and services must have an ongoing and predictable revenue stream.

As you will see, the Board recognizes that increasing tax and user-fee revenue should rightly be on the table when it comes to securing a sustainable fiscal future. If a revenue stream is reduced or eliminated by the City, then it must replace that stream with sustainable revenues from other streams or new streams, or make the tough decision to reduce programs or services.

The City and its elected officials are under intense pressure to sustain current service levels and programs. The Board realizes that difficult choices need to be made if Toronto is to return to a sustainable fiscal framework. Our hope is that these recommendations will identify our City's most vital priorities and provide a pathway for getting operating expenses in line with sustainable revenue.

Our Legacy of Leadership

The Toronto Board of Trade has stated repeatedly that the City needs to closely examine how it spends in terms of getting value for its wide array of programs and services. The Board is encouraged by the results of 2011's independent Core Services Review, and supports ongoing efforts to identify inefficiencies in order to protect the programs and services that are vital to our future prosperity.

The Board is proud to have played a leadership role in helping the City re-calibrate its fiscal framework, which is the first and most important step in protecting these programs and services.

We have worked diligently to build a consensus approach to Toronto's fiscal challenges. Our policy groundwork and conclusions on the City's fiscal health has been consistent for nearly a decade. We've employed a wide variety of analytical tools and approaches, and consulted an expansive number of stakeholders and experts.

The premise of all of our recommendations can be found in our groundbreaking discussion paper, *VoteToronto2010: Framework for a Better City*, which presented our vision for the future of Toronto during the 2010 Municipal Election campaign. In addition, our recommendations to establish a sustainable fiscal framework were thoroughly outlined in our 2010 discussion papers:

- *The Growing Chasm*, which identified the long-term dangers of unsustainable spending practices;
- *Bridging the Chasm: Fixing the City's Finances*, which analyzed solutions to the City's fiscal challenges;
- *Taming the (Municipal Budget) Beast*, which analyzed how other municipalities addressed similar fiscal challenges;
- *Pushing the Boundaries*, which expanded on proposed fiscal solutions; and

- *Bending the Expenditure Curve*, which analyzed the City's prospects for strengthening its fiscal position for the future.

Our recommendations for the City of Toronto for the 2012 Operating Budget are based on a thorough and wide-ranging effort to find and build consensus throughout the broader community we share. These recommendations were shaped as a result of extensive consultations throughout the fall. This includes an extended meeting of the Board's Municipal Performance Committee Meeting on October 18; a half-day Budget Forum led by the Board on October 26; and a morning strategy session at an expanded meeting of the Board's Municipal Performance Committee November 29. Most recently, on December 7, the Board of Trade's President and CEO, Carol Wilding, gave an oral deputation to the City's Budget Committee to briefly summarize the Board's views and recommendations on the City's 2012 Operating Budget.

In addition to the 2012 Operating Budget and past capital and operating budgets, Board members, staff and community partners closely examined the results of the City's Core Services Review in its deliberations. We would also like to consider the entire findings of two other important studies, the User Fee Review and the Service Efficiency Review, but they were unavailable in their entirety at the time of writing. The City has proposed \$355-million in savings resulting from these reviews. The Board looks forward to reviewing the precise details of these proposed savings to understand their impact on the new fiscal framework and our shared priorities.

Context: Where Are We Now?

Our extensive analysis and discussions have determined the following facts in which the 2012 Operating Budget must be viewed.

For most of the past decade, the City has relied on unsustainable revenue to balance its operating budget, creating a structural deficit: This "growing chasm" has been created by expenditures outpacing sustainable revenue. The shortfall has been funded either by one-time injections of funds from other levels of government, or by the City dipping into reserve funds. Between 2002 and 2010, gross expenditures grew by an average of 5.9 per cent a year, while *sustainable* revenue such as property taxes grew by 2.9 per cent. Without the actions taken in this year's Operating Budget, the Board's most recent analysis as of October 2011 projects that the City's structural deficit will grow to \$833-million by 2020. This structural deficit has directly affected the City's ability to fund transportation infrastructure, public transit improvements and other capital projects needed to maintain Toronto's competitive advantage and prosperity. If the City does not address this structural deficit, it is on track to grow to \$823-million by 2020.

The City of Toronto's labour costs are growing at an unsustainable rate and are the biggest factor in the City's problematic operating expenditure growth: Between 2002 and 2010, salaries, wages and employee benefits grew by an average of 6.5 per cent annually, from \$2.9-billion a year to \$4.8-billion. The Board strongly feels that, in addition to controlling wage increases in upcoming contract negotiations, the City should examine a host of other creative solutions to reduce labour costs, such as contracting out more services.

The City of Toronto possesses the necessary tools to establish a sustainable fiscal framework: Throughout the 1990s, a number of programs and their costs were downloaded on municipal

governments through Ontario from senior levels of governments. In addition, the amalgamation of five municipalities into the current City of Toronto brought many costs and hardships. But in the Board's view, the City's fiscal capacity has been largely "made whole" again by a variety of measures, including federal and provincial gas tax sharing, transferring public health programs to other levels of government, the federal GST rebate, and new tools provided by the City of Toronto Act. This is not to say we consider the uploading process to be complete. The Board believes the provincial government should play a more active role in funding social cohesion and community development initiatives in areas such as affordable housing,

The City of Toronto cannot rely on one-time funding from other levels of government or diverting money from surplus or reserve funds: The provincial and federal governments are now carrying serious deficits of their own after extensive stimulus initiatives following the recession of 2008-09. It is simply not tenable to demand funding from senior levels of government to finance programs and services, as the City has done in previous years. The Board believes Ottawa and/or Queen's Park can have a role in a *sustainable, multi-year arrangement* for such crucial priorities as the TTC that affects the broader regional and national economy. But the City must not rely on one-time transfers for to support its operating budget. As we have noted, this is an unsustainable practice that puts the future of current programs and services in jeopardy.

Our Approach: Where Do We Go Following the Paradigm Shift?

With this new fiscal framework in mind, the Toronto Board of Trade established a path to fiscal sustainability initially unveiled in its *VoteToronto2010* campaign. Some adjustments have been made since this was first released during the 2010 Municipal Election to account for shifting economic development priorities, but our approach remains essentially intact.

The path to fiscal sustainability rests on achieving three essential goals – **three "must-dos"** – that we believe will ultimately reverse the trend of the growing structural deficit, the greatest threat to City services and programs. They are:

- Implementing a **multi-year operating budget** that will resolve the uncertainty that currently accompanies City budget deliberations;
- Reform the City's **labour model in a way that will bend down expenditures** through lowering wage increases in collective agreements and implementing competitive bidding for delivery of some services; and
- Reducing debt and **applying savings in debt-servicing costs toward infrastructure improvements and public transit expansion.**

The Board is pleased to acknowledge that the City of Toronto is well on its way to achieving all three of these objectives to varying degrees. More work still must be done, and success will take a few years of discipline and determined effort. But this Operating Budget, as we have mentioned, serves as a paradigm shift – a decisive departure from the past practice of borrowing against our future to fund current operations -- that will ultimately resolve the structural deficit chasm that has held Toronto back from investing protecting our legacy of prosperity.

This paradigm shift means that operating expenses need to be supported by sustainable revenue streams – not one-time cash injections – or be subject to reductions. The Board also wants to emphasize the impact of revenue decreases. If a stable, sustainable source of funding is reduced, the City should also be prepared to find efficiencies in the programs and services to the same degree.

One such revenue stream is the Municipal Land Transfer Tax which raises a significant amount of funds that are used to maintain Toronto's array of programs and services. If, as the Mayor suggests, the MLTT is to be phased out by 2014, the City would need to find a stable, sustainable source of revenue to replace it, or about \$288-million in 2012. While not impossible, it would not be easy to replace such a large element of the City's revenue mix within the context of the recent paradigm shift to a sustainable fiscal framework.

The 2012 Operating Budget, however, has made considerable progress toward securing a sustainable fiscal future, and can boast of the following achievements in relation to our "must dos:"

- ✓ The budget serves as a launching pad for multi-year budgets that we understand will begin in 2013. This is an essential element to provide certainty for City staff and taxpayers, and leave behind the frustrating year-after-year debates over what programs the City will maintain or cut;
- ✓ The budget largely reverses the trend of funding the City's operating responsibilities by accepting one-time funding support from other levels of government, or by diverting funds from capital budgets and reserves. One-time injections from unsustainable sources have been reduced to \$83-million in 2012 from \$346-million a year earlier;
- ✓ The budget contains, in earnest, some necessary steps to get the City's structural deficit under control by targeting labour expenditures. The Toronto Board of Trade is encouraged by the City's decision to defer the hiring of Police/Fire/EMS staff in 2012 and reduce the City payroll by 2,338 positions. We believe further savings are available through collective bargaining agreements, outsourcing opportunities, and other creative measures;

We also want to emphasize that this budget ought to be more than a financial document. It should be part of a vision of where City Council wants to take Toronto in the next decade. Shrinking the structural deficit is an important part of that debate, but there are other priorities that need to be identified as foundations for a healthy, vibrant city. In that sense, the 2012 Operating Budget is less clear, and would benefit from further discussion.

2012 Operating Budget Priority Recommendations

The Toronto Board of Trade recommends highlighting eight elements in the 2012 Operating Budget that we believe are essential to improving the competitiveness of the Toronto Region, enhancing the quality of life and protecting the prosperity of all Torontonians:

- 1. Maintaining current TTC service levels** – Though \$14-million in service reductions have been proposed in the 2012 Operating Budget, a recent commission meeting indicated these may not be necessary, and could be possibly reversed through updated revenue/ridership projections. The Board is pleased to hear this, as we believe that our transit network and capacity is in need of expansion:
 - The Board supports restoring \$14-million in proposed service reductions to the TTC to maintain our investment in public transit to achieve our shared goal of making Toronto more competitive in the global economy.
 - Over the longer term, the TTC should investigate an array of measures to ease pressure on service. This could include a combination of fare reform (including a range of fares based on zones) and better governance structures to reduce the influence of political considerations from within the TTC’s decision-making bodies.

- 2. Improving our regional transportation network** - The Board is supportive of Metrolinx regional transportation vision, known as *The Big Move*, which will enhance our transportation and transit infrastructure in conjunction with the broader needs of the Greater Toronto Region. While this is a capital investment program through 2030 that does not directly affect the 2012 Operating Budget, the Board is highly supportive of applying cost savings resulting from the paradigm shift of fiscal sustainability toward capital projects that support transportation infrastructure.
 - The Board is concerned about possible reductions to the transportation capital budget as a result of the proposed TTC service efficiencies mentioned above. It appears this would mean that if the \$14-million TTC service reduction is restored, it would necessitate a further spending increase in the capital budget – as much as \$100-million - - that is currently unaccounted for. We believe that the City needs to clarify how public transit expenditures in the 2012 Operating Budget will affect capital projects, particularly in transportation. Our position is clear: the City cannot reduce new transit infrastructure without risking our future prosperity.

- 3. Controlling labour costs** -- The Toronto Board of Trade strongly feels that labour costs need to be brought under control in order to strengthen the City’s newly minted sustainable fiscal framework, and that not enough effort has been invested in this crucial element to date. The 2012 Budget calls for hiring delays for Police/Fire/EMS staff and staff reductions totaling 2,338 positions. As this item makes up approximately 47 per cent of all operating costs, we believe that more savings can be found.
 - The Board strongly urges the City to find further savings through upcoming labour contract negotiations and outsourcing opportunities, and not be afraid to pursue creative solutions. The Board sees a direct relationship between controlling labour costs and maintaining necessary programs for social cohesion and economic inclusion.

4. Strengthening regional economic development – Toronto’s business community does not operate in a vacuum. We are part of an integrated network of innovation labs, manufacturing facilities and supply chains throughout the Golden Horseshoe. The Toronto Board of Trade believes that the City’s economic development programming should reflect that through integrated investment promotion programs and an aggressive move toward identifying and supporting an economic cluster strategy. These elements were strongly endorsed by City Council and business leaders this summer with the release of the groundbreaking *Toronto Prosperity Initiative: Establishing the Path to Growth*. We recommend that the City take the first steps in implementing these initiatives in 2012.

- The Board strongly feels that economic development within the operating budget is not receiving the attention it deserves. Specifically, the Board would like the budget to reflect a concerted effort to integrate the City’s economic development governance and promotion duties into a regional economic development initiative with neighbouring municipalities. The Board received much positive feedback on its call for a regional economic development strategy, including a cluster initiative for emerging high-growth sectors, during its Vote Ontario 2011 campaign this fall.
- The City ought to engage in a thorough debate on tax reform with Toronto’s business community. Specifically, the Toronto Board of Trade would like to ensure that business taxes in Toronto become competitive with those in York, Peel, Halton and Durham Regions. The City needs to look at business taxes through the lens of how competitive they are with our neighbours.

5. Enhancing social cohesion and economic inclusion in Toronto’s priority neighbourhoods - The Toronto Board of Trade realizes that our city has been through a shaky economic period, and that prosperity is still elusive in many neighbourhoods. We strongly support City programs that promote youth training, skills upgrading, health and wellness, and community safety, and urge City Council to look closely at the widespread benefits these programs have beyond their dollar value in the operating budget.

- The City must make social cohesion and economic inclusion a primary part of its vision through this Budget. In particular, the Board feels this can be addressed by reconsidering the \$4.7-million reduction to the Community Partnership and Investment Program (CPIP), which has a deeply felt positive impact in Toronto’s 13 priority neighbourhoods. The CPIP initiatives have helped create at least 2,000 jobs in the City’s 13 “priority neighbourhoods,” and have mobilized over 90,000 volunteers to support them, according to the United Way. It must also be noted that other Canadian cities like Calgary and Winnipeg spend two or three times what Toronto spends, per capita, on similar community grants.

6. Utilizing increased sustainable revenue streams to achieve these shared objectives

- The Board realizes that increasing revenue in a reasonable, fair fashion – and without compromising our competitive advantage within Southern Ontario – is necessary within a sustainable fiscal framework. Therefore, we are proposing a 3-per-cent property tax increase and a 15-cent TTC fare increase as responsible measures to address the structural deficit and protect the services that are vital to our city’s prosperity and civic health.
- Our forecasts indicate that a property tax increase of 3 per cent instead of 2.5 per cent would increase net revenue by an additional \$11-million in 2012. Similarly, a TTC fare increase of 15 cents instead of 10 cents would boost net revenue by an additional \$15-million. Both measures would bring in enough additional sustainable revenue -- \$26-million – to pay for other recommendations.

7. Implementing multi-year operating budgets as soon as possible – This is one of the three “must-dos” outlined in the Board’s key steps toward a sustainable fiscal framework. We are encouraged that the City is planning on acting on this important measure **to establish certainty and stability in the budget process in 2013**. In addition, the City must eliminate its past reliance on one-time transfers to fund operating costs.

- The 2012 Operating Budget calls for \$83-million to be used from the 2011 surplus to balance this year’s budget. We view this as an unsustainable practice that will only increase the City’s structural deficit. Although this one-time transfer is significantly less than those of recent years, the Board strongly recommends that the reliance on surpluses and other one-time measures be reduced to zero in the 2013 Operating Budget.

8. Pursuing asset sales to fund non-operating costs such as debt reduction - The Board endorses the City’s plan to undertake more asset sales, as long as they have strategic value supporting the long-term vision for the City. While details of this initiative are sparse due to ongoing reviews, we urge the City to make sure that all proceeds of future asset sales are not used to fund operating expenses.

- The Board recommends that the TTC aggressively pursue asset sales or similar monetization opportunities in order to bolster its capital budget. Specifically, this will be necessary to maintain necessary infrastructure to support the restoration of \$14-million in TTC service cuts noted above. This does not mean the Board wants to see asset sales funding operations. This recommendation simply recognizes the fact that capital investment is necessary to maintain the TTC’s capacity to operate routes.
- The Board recommends that all windfall revenue from future asset sales be directed toward debt reduction or capital improvements.