
Budget Committee

Date

November 30, December 1 and December 2, 2015

Time

9:00 AM (November 30 & December 1, 2015)

1:00 PM (December 2, 2015, subject to the completion of the General Committee meeting)

Location

Council Chamber, 2nd Floor, Civic Centre, 300 City Centre Drive, Mississauga, ON L5B3C1

Members

Mayor Bonnie Crombie	(Chair)
Councillor Jim Tovey	Ward 1
Councillor Karen Ras	Ward 2
Councillor Chris Fonseca	Ward 3
Councillor John Kovac	Ward 4
Councillor Carolyn Parrish	Ward 5
Councillor Ron Starr	Ward 6
Councillor Nando Iannicca	Ward 7
Councillor Matt Mahoney	Ward 8
Councillor Pat Saito	Ward 9
Councillor Sue McFadden	Ward 10
Councillor George Carlson	Ward 11

Contact

Sacha Smith, Legislative Coordinator, Legislative Services

905-615-3200 ext. 4516/ Email sacha.smith@mississauga.ca

Find it online

<http://www.mississauga.ca/portal/cityhall/budgetcommittee>

Budget Committee		11/30, 12/01 and 12/02/2015	2
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1. CALL TO ORDER

2. APPROVAL OF THE AGENDA

3. DECLARATIONS OF CONFLICT OF INTEREST

4. DEPUTATIONS

4.1 Chris Mackie, resident with respect to MiWay.

4.2 Dragan Stojkovic, resident with respect to MiWay.

4.3 David Fisher, resident with respect to MiWay.

5. PUBLIC QUESTION PERIOD – 15 Minute Limit

(Budget Committee may grant permission to a person who is present at Budget Committee and wishes to address a matter on the Agenda. Persons addressing Budget Committee will ask their question; the time limit is 5 minutes for each question, as public question period total limit is 15 minutes.)

6. MATTERS TO BE CONSIDERED

6.1 Service Area Presentations

- Mississauga Library
- Parks & Forestry
- Facilities and Property Management
- Information Technology
- Roads,
- MiWay

6.2 Other Service Area Presentations

- Arts and Culture
- Environment

* NOTE: the Service Area Presentations can be viewed online at
<http://www.mississauga.ca/portal/cityhall/generalcommittee>

Budget Committee		11/30, 12/01 and 12/02/2015	3
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6.3 2016 Conversion of Full-Time Contract Staff to Permanent Status

Corporate Report dated October 28, 2015 from the Commissioner of Corporate Services and Chief Financial Officer with respect to the 2016 conversion of full-time contract staff to permanent status.

RECOMMENDATION

That the nine full-time contract positions identified in Appendix 1 of the Corporate Report dated October 29, 2015 from the Commissioner of Corporate Services and Chief Financial Officer entitled 2016 Conversion of Full-Time Contract Positions to Permanent Status, be converted to full-time permanent positions at a cost of \$132,929 as incorporated in the recommended 2016 Operating Budget.

6.4 Update on Service Review Report

Corporate Report dated November 20, 2015 from the City Manager and Chief Administrative Officer with respect to an update on a service review.

RECOMMENDATION

That the report dated November 20, 2015 from the City Manager and Chief Administrative Officer regarding the report entitled "Update on Service Review Report" be received and that staff be provided with direction.

6.5 Municipal Act Reporting Requirements Under Ontario Regulation 284/09

Corporate Report dated November 20, 2015 from the Commissioner of Corporate Services and Chief Financial Officer with respect to the Municipal Act Reporting Requirements under Ontario Regulation 284/09.

RECOMMENDATION

That the report dated November 20, 2015 entitled "Municipal Act Reporting Requirements Under Ontario Regulation 284/09" from the Commissioner of Corporate Services and Chief Financial Officer be received for information.

Budget Committee		11/30, 12/01 and 12/02/2015	4
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8. CLOSED SESSION

(Pursuant to Subsection 239 (2) of the *Municipal Act, 2001*)

Labour relations or employee negotiations – 2016 Total Compensation

9. ADJOURNMENT

City of Mississauga
Corporate Report



Date: October 28, 2015	Originator's files:
To: Chair and Members of Budget Committee From: Gary Kent, Commissioner of Corporate Services and Chief Financial Officer	Meeting date: 2015/11/23 <div style="border: 1px solid black; padding: 2px; text-align: center;"> BUDGET COMMITTEE NOV 30 2015 </div>

Subject

2016 Conversion of Full-Time Contract Staff to Permanent Status

Recommendation

That the nine full-time contract positions identified in Appendix 1 of the Corporate Report dated October 29, 2015 from the Commissioner of Corporate Services and Chief Financial Officer entitled 2016 Conversion of Full-Time Contract Positions to Permanent Status, be converted to full-time permanent positions at a cost of \$132,929 as incorporated in the recommended 2016 Operating Budget.

Background

This report is traditionally presented to Budget Committee with the budget. It provides a listing of contract positions from all service areas, which are recommended to be converted to permanent status due to the ongoing need for the service provided by these positions. Note that these contract positions are previously funded from the Operating Budget and do not require a budget request, just this corporate report. Conversions of contract positions previously funded from the capital budget are requested through Budget Requests by the service area.

Comments

There are nine full-time contract positions that are recommended for conversion to full-time permanent status. The positions have existed for several years and are required to maintain current service levels. A list of the affected positions and justifications for each conversion is provided in the attached Appendix 1.

Staff in contract positions that are renewed, such that they accumulate service with the City, have the same right to Employment Standards and Common Law notice of termination and severance as those in permanent positions.

6.3a

Budget Committee		October 28, 2015	2
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The contract positions are filled with well qualified employees but as the positions are not permanent, the incumbents do not receive benefits. By converting these positions to permanent status, service levels will be maintained by qualified skilled individuals and internal equity will be maintained between long service contract employees in the positions and permanent staff. These positions are included in the full-time equivalent (FTE) staff numbers presented in the recommended 2016 Operating Budget.

Financial Impact

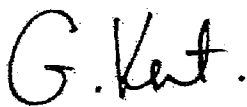
The cost of converting these nine contract positions to permanent status is \$132,929 which reflects additional salary and benefit costs, impacting the 2016 Operating Budget. Operating budget impacts resulting from the conversions are included the service area budgets.

Conclusion

The City has nine full-time contract positions being recommended for conversion to full-time permanent status due to the ongoing continued need for the service provided by these positions. Converting the positions to permanent status will provide consistency in service levels by attracting and retaining qualified skilled individuals, as well as ensuring internal equity amongst employees.

Attachments

Appendix 1: 2016 Conversion of Staff Recommendation



Gary Kent, Commissioner of Corporate Services and Chief Financial Officer

Prepared by: Ann Wong, Manager, Business Planning and Budget

2016 Recommended Full-Time Contract Position Conversions to Permanent Status

Service Area	Type of Position	FTE	Budget Impact	FTE Conversion Justification
Arts & Culture	Events Assistant	1	\$11,489	Due to a 20% increase in event days on Celebration Square and public demand to expand year-round winter programming (as outlined in the new Strategic Plan for Celebration Square), additional staffing resources are required to meet this demand. The conversion of the part time Contract Events Assistant position at Celebration Square to a full time B grade Events Assistant position will help manage the increased demand. This contract position has been in place since 2011.
Recreation	Coordinator, Customer Service and Administration - Hershey	1	\$19,189	The part-time City staff at the Guest Services desk handle over \$2.5 million annually in league registrations and multi-sport drop-in, plus fitness membership transactions. The position should be converted to full-time due to the magnitude of cash handling at the centre and to ensure continuity from a systems and business process perspective.
Recreation	Account Executive - Sponsorship and Corporate Development	1	\$20,645	The Account Executive position has been a contract position for over 8 years. The City has two Account Executives, one contract and one full-time; this causes inequity which is difficult for management to explain. Sponsorship is a competitive job market, and in order to attract and retain quality talent (such as the incumbent) it is imperative that this position be converted to full-time.
Facilities & Property Management	Business Analyst - Capital Planning & Asset Management	1	\$5,200	In concert with the guiding principle of Value for Money, the Business Analyst position is responsible for, among other duties, business planning, project feasibility, budget analysis and project improvement strategies. As Mississauga grows, the need to create more value with fewer resources and better key processes must remain at the forefront. As the city continues to focus on continuous improvement, the Business Analyst will help guide the City towards more efficient, streamlined and effective decisions. The conversion to full time will help strengthen the city's commitment to these strategic principles.
Facilities & Property Management	Project Manager - Facilities Development & Accessibility	1	\$7,700	As the city's infrastructure continues to the age, the complexity and cost of life cycle maintenance increases. The city's life cycle budget needs are expected to continue to rise over the next 10 years and competent management of these issues is required to bring the best value for money to the taxpayers. The conversion to full will help a project management group currently working at its capacity and encourage a consistent, long term project management solution to long term infrastructure and life cycle maintenance challenges.
Facilities & Property Management	Energy Management Coordinator	1	\$13,000	Energy Management is a focus as the City engages in its commitment to being a green leader, and as electricity and water prices continue to rise. The city also faces increased responsibilities as a result of the Green Energy Act. This position administers the Citywide energy audit and will be required to justify and implement the energy audit recommendations to help eliminate energy waste and inefficiencies. With the conversion, the City of Mississauga will be able to attract and retain superior talent in an increasingly competitive energy management employment market.
Roads	CUPE: 2 Instrument Persons and 1 Inspector	3	\$55,706	These three (3) positions have existed on contract basis for 10 years and increases in workload cannot be accommodated by existing permanent staff. Increased volume of utility cuts results in the need for a full time permanent inspector. The volume of utility cuts is expected to continue or potentially increase as the infrastructure in the City ages. The workload in surveys has increase significantly over the ten years requiring the hiring of two (2) full time survey instrument persons to accommodate the workload. Much of the work is recoverable from capital projects and work for others. The volume of work is not anticipated to decrease.
Total		9	\$132,929	

City of Mississauga Corporate Report



Date: November 20, 2015 To: Chair and Members of Budget Committee From: Janice Baker, FCPA, FCA, City Manager and Chief Administrative Officer	Originator's files:
	Meeting date: 2015/11/30

Subject

Update On Service Review Report

Recommendation

That the Report dated November 20, 2015 from the City Manager and Chief Administrative Officer regarding the report entitled "Update on Service Review Report" be received and that staff be provided with direction.

Report Highlights

- The Core Service Review Corporate Report dated April 21, 2015 was referred to Budget Committee for further discussion.
- During 2016, staff will continue to refine the Lean program, and implement processes that will enhance the objectives of improving service delivery and reducing cost. Results will be reported to Council

Background

During the February 4, 2015 General Committee discussion, Council directed staff to return with a report outlining the method with which an independent, external service review could be conducted at the City of Mississauga, that would explore efficiency opportunities, examine best practices and recommend ideas to save costs and generate revenue. Staff prepared the requested report and presented the findings to General Committee on May 20, 2015 (Appendix 1). As a result of those discussions, General Committee referred the report to the Budget Committee for further review.

Present Status

The City of Mississauga has a long history of examining our services to ensure that they are being delivered efficiently and effectively, and consequently creating value for money. In the recent past, the City has undertaken a City Services Review (2004), initiated an Efficiency, Effectiveness, and Economy "E3" Program (2007-2013) and conducted a number of continuous improvement initiatives within the various departments and divisions, all with the goal of ensuring our services continue to deliver value for money. In addition, to these programs, since 2009 city staff have committed to reducing their respective budgets by 1% every year, which has resulted in cumulative savings in excess of \$40 million. Similarly, other continuous improvement initiatives continue to underpin the Corporation's efforts towards effectiveness such as the Project Management Support Office, Performance Measurement, and new initiatives centered on delivering services efficiently and effectively. While there is always opportunity for improvement and necessity to examine one's processes, the starting point at the City of Mississauga is one where services and processes consistently undergo scrutiny.

Comments

As outlined in the April 21, 2015 report, service reviews examine the level of service provided by the City and make recommendations that adjust or eliminate services to achieve specific costing targets. At the conclusion of a service review Council is asked to make decisions with respect to adjusting service levels or eliminating services. To deliver value for money, the implemented service review recommendations must generate savings greater than the cost of doing the service review. Costs and a potential approach to a Service Review are outlined in the previously submitted General Committee report, attached as Appendix 1 to this report.

In the fall of 2013, the City launched a pilot implementation of the Lean continuous improvement methodology to complement and expand on current continuous improvement initiatives underway at that time. The Lean methodology involves listening to our customers, engaging staff who are doing the work, and measuring our progress in order to improve the efficiency of our services. Over the last two years, small teams have completed numerous process reviews that resulted in efficiencies borne through improved customer service, reduced costs or labour savings (Appendix 2).

The pilot has demonstrated that Lean reviews increase customer satisfaction, employee engagement, and increase both the efficiency and capacity of staff to complete their duties, while simultaneously reducing costs. After reviewing the results of the Lean pilot, staff are recommending that the Lean program be established as a permanent program within the Business Improvement section of the Corporate Performance & Innovation division. The Lean deployment has been led by staff seconded from their regular jobs. The staffing and funding required to transition Lean from a pilot program (currently funded through labour gapping) to a permanent program is included in the Strategic Policy Business plan for consideration during the 2016 budget approval process. The budget requested will enable continued deployment of the Lean program at the current pace following the current methodology. In doing so, momentum created to date through communication, workshops, and training will be sustained, and the "Lean culture" will continue to embed itself within the Corporation. The Lean Budget request establishes a solid and sustainable foundation for continuing reviews through this continuous improvement method, and a prudent approach to achieving improved service and service delivery efficiency.

In addition to the conversion of the pilot program to a permanent program, staff will continue to assess expanding the Lean program and determine if more aggressive cost reductions are achievable.

6.4b

At the conclusion of these assessments, staff will report back to Council how those opportunities will be pursued. Reporting to Council periodically on the status and successes of the Lean program will be incorporated into Lean reporting out process.

Financial Impact

The chart below outlines the cost to conduct the two options outlined in the body of this report. The costs for the external core services review do not include, potential additional costs associated with implementation of any recommendations.

	Conversion of Lean from Pilot to Permanent Program	External Core Services Review
Total	\$281,000 (annual cost)	\$1,500,000 (estimated one-time cost)

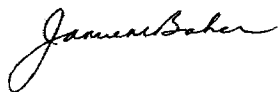
Conclusion

As stated above, there are a number of initiatives currently underway within the City of Mississauga that continue to deliver improvements to customers/residents, while also resulting in more effective and efficient service delivery within the City. One such program is the Lean program. Lean is a proven methodology that delivers improved customer experiences, decreases costs, and increases employee engagement. Lean is an incremental approach to improvement (used worldwide throughout various industries and companies) that allows the City to determine the speed, depth and breadth of reviews undertaken. Council's objectives of improving customer service and reducing costs are being met through the current continuous improvement agenda, and converting Lean from a pilot program to a permanent program as proposed in the 2016 Budget. Over the past 10 years, staff have consistently found ways to reduce cost and improve service, and there is no reason to believe that this will not be the case moving forward.

Attachments

Appendix 1: Corporate Report - Core Service Review

Appendix 2: Lean Results



Janice Baker, FCPA, FCA, City Manager and Chief Administrative Officer

Prepared by: Derek Boyce, Director, Corporate Performance & Innovation

6.4c

APPENDIX 1



Corporate Report

Clerk's Files

Originator's
Files

DATE: April 21, 2015

TO: Chair and Members of General Committee
Meeting Date: May 20, 2015

FROM: Janice M. Baker, FCPA, FCA
City Manager and Chief Administrative Officer

SUBJECT: Core Service Review

General Committee

MAY 20 2015

- RECOMMENDATION:**
1. That Council receive for information the report "Core Services Review" dated April 21, 2015 from the City Manager/CAO and provide direction on conducting a Core Service Review, and;
 2. That should Council wish to proceed with an external review, that the item be referred to the 2016 budget process.

**REPORT
HIGHLIGHTS:**

- The City has regularly reviewed its services using a variety of methods such as the City Services Review Project, Service Area Operational Review, 1% Budget Reduction Program, and Continuous Improvement Programs including Project Management, Innovation, Lean and Performance Management.
- Analysis of service reviews performed by other municipalities identifies that service reviews can typically be categorized as 3 types: Type 1 (Service Identification), Type 2 (Service Evaluation), and Type 3 (Cost/Revenue Analysis). As great variation can exist within each type, the cost and time estimated for individual reviews can fluctuate greatly.
- As the City has many initiatives to continuously review and improve services, information on a two-phased service review model (consistent with a Type 3 service review category) is detailed in this report to provide information on service performance analysis through a service-level assessment.

BACKGROUND: During the February 4, 2015 General Committee discussion, Council directed staff to return with a report that outlined the method with which an independent, external service review could be conducted at the City of Mississauga, that would explore efficiency opportunities, examine best practices and recommend ideas to save costs or generate revenue.

COMMENTS: **Service Reviews Conducted at the City**

The City of Mississauga has a long history of reviewing services to ensure the most efficient processes and practices are used, opportunities for new revenues are leveraged, and effective management controls are in place to get the best value from budgeted resources.

City services are regularly scrutinized, and staff are constantly challenged to manage expenditures carefully while taking advantage of every practical opportunity to reduce costs and increase revenues. As a result of this work, the City has been able to effectively contain the costs of responding to the public demand for new and expanded services for many years. Over the years, the City has actively assessed service performance through a variety of approaches and programs. Detailed below are service review programs implemented at the City to proactively search for opportunities to reduce costs, improve efficiency, and improve resident satisfaction.

City Services Review Project (2003-2004)

Initiated in February 2003, the City Services Review Project evaluated all City services with a focus of identifying cost saving or revenue generating opportunities and ensuring the optimal use of resources. Lasting over 18 months, a team of dedicated internal resources developed and implemented a sophisticated and detailed review framework to ensure successful project outcomes. The project was divided into two phases.

Phase I of this initiative produced a summary of published service review efforts conducted in the public sector and developed a service review framework that defined the terms and conceptual process of the review, created a data capture method, completed an initial inventory of City services, and developed a project plan to execute a city-wide services review. Utilizing the developed framework, each Divisional Director guided their teams to identify opportunities for consideration.

Phase II inventoried and reviewed all services and service levels identified in the City including all inputs, processes based on capital and current budgets, and sources of funding. Each service review entailed categorizing the service in terms of primary and secondary functions to

identify the cost per service category. Linkages with key external and internal partners, clients and stakeholders, and linkages to other City services were identified to understand the connections and impacts any service changes would have on each area or group. Each review also identified key outcomes and the strategic benefit provided by the service. Through detailed analysis, the strategic benefit of each service's outcome was determined, including the identifying the amount of labour required to achieve the strategic benefit. Overall, this allowed calculating the cost of the service considering labour cost, operating cost, and revenue sources. Phase II also identified how the service was delivered including in-house delivery, outsourcing and delivery under contract by other agency. Lastly, service adjustment options were considered including eliminating all or part of the service, reducing service-level, opportunities for new or additional revenue generation, options for efficiency, and identification of service pressures.

The review identified over 215 services were identified to be in operation at the City of Mississauga and over 700 potential service adjustment options including service level reductions, eliminations of certain aspects of services, efficiency improvements, opportunities for new revenues, as well as service pressures. In 2005, if implemented, these options would have represented \$19.3 M in potential cost savings and revenue opportunities. For 2006-2008, further service adjustment options of \$23.7 M were identified.

In May 2004, these options were shared with Council. More than 200 options were presented as options to reduce the tax rate. These were prioritized by degree of impact and divided into four categories: Recommended Adjustments for 2005 budget, priority level 1 (moderate impact), priority level 2 (more severe impact) and priority level 3 (most severe impact). The impacts of the Recommended Adjustment options was projected to reduce the 2005 forecasted tax rate from 12.6% to 9.7% (reduction of 2.9%), and the implementation of priority 1, 2 and 3 would further reduce the 2005 tax rate by 2.1%, 1.3%, and 3.9% respectively.

In 2005, Council directed staff to implement selected options presented to reduce service-levels or realize revenue generating opportunities. This represented cost and process savings of approximately \$5.8 M in 2005 when fully implemented. Many recommendations have been successfully implemented including opening sports complex, non-resident library card fees charges, energy conservation measures including Summer Saver Program at City facilities, and energy cost recovery from sports clubs, affiliated tenants and special events. Of those options

implemented by Council, many of them with service-level reductions were re-instated in subsequent years. These include re-opening Sheridan branch library, re-opening large library branches on Mondays, re-instating senior's fees at Lakeview Golf Course and community programs.

Service Area Operational Review Program (2005 to 2013)

Another recommendation from the City Services Review Project included transitioning the service review project into a permanent program to continuously review service operations and performance across the organization. In 2005, the City Manager's Office began reviews of services to identify opportunities to improve performance and long-term sustainability of City services. Many areas of the organization have been reviewed with the assistance and support of our internal Management Consulting group to identify the most efficient staffing levels, organizational structure and work processes. Examples include reviews in the following areas: Communications, City Clerk's Office, Central Stores, Print Shop, Records Management, Call Centre Consolidation, Fire Prevention, Transit Maintenance, Winter Maintenance, Traffic Management Centre, Capital Budgeting Process, IT Business Case Process, Disability Management Program, Municipal Election processes, and staffing in the Mayor's Office.

In 2007, a more formalized service review program was developed called the Efficiency, Effectiveness and Economy (e3) Program. Based on best practices, benchmarking and innovative business models, the impartial recommendations and strategies provided by a team of internal Management Consultants identified cost saving, future growth and revenue opportunities, as well as defining efficient and effective structures and processes. Under this program, 9 service areas were reviewed including Street Lighting, Corporate Security, Corporate Fleet Management, Development of Green Space, Land Use Policy, Materiel Management, Finance, Animal Services and Information Technology. These reviews identified over 120 recommendations to ensure the corporation and the community receives the best value from these services, and 90 of these have been implemented. Examples include identifying best value model for the City's street lighting service, improving pet licensing compliance and revenue capture, optimizing cashback from the PCard program, optimizing fleet maintenance and effectively optimizing the use of current technology investments. A sample of the recommendations and actual savings is detailed in the table below:

6.49

Street Lighting Maintenance Contract	\$536,100
Corporate Fleet Green Fleet Program	\$10,000
PCard Cash Back	\$247,000
Pet Licensing Revenue	\$293,000

Other Internal and External Reviews (Ongoing)

External consulting firms have been used by the organization to provide an objective review, identifying cost savings, best practices and the most cost effective methods for service delivery. Examples of external consulting reviews in the past include: the review of Departmental Administrative Services (Finance, HR & IT), Community Center Maintenance Operations Review, Service Delivery Model Review for Emergency Services, IT Business Application Simplification, Infrastructure Asset Management Process for Roadway Rehabilitation, Transit Financial Planning Model, BRT Project Management and Risk Identification, Electricity Procurement Model, Corporate-Wide Energy Audit, Counter Services Strategy, Traffic ITS Strategy, and a Fees and Charges Review for Development Applications.

Additional reviews have also been performed internally by staff in key areas. Examples of internally conducted reviews in the past few years include: Winter Maintenance Contract Review, Bid Posting and Distribution process review, and recreational program and rental pricing study. A detailed list of reviews conducted internally is listed in Appendix 1.

Continuous Improvement Programs

Throughout the years, we have implemented programs to continuously measure and improve service performance and delivery. Listed below are a variety of programs at the City that actively examine services on an ongoing basis to explore and identify opportunities to improve efficiencies.

- **City Manager's Leadership Conference**

Recognizing that developing leaders across the organization improves performance and productivity while encouraging innovative solutions to service delivery, in 2007, the City Manager's Office introduced the annual Leadership Conference. The Leadership Conference provides an opportunity to bring staff in leadership positions together to formally exchange ideas and learnings and continuously build skill and knowledge to improve current performance and identify future opportunities. This

forum is a deliberate effort to assemble a large number of leaders at formalized training sessions to build consistency in skills, which would have otherwise been difficult to achieve. Over the years, the Leadership Conference has been focused on many themes including 'be the change you want to see' and effective change management; innovation tools and techniques; and developing 'people' leadership including communication and collaboration skills.

- **1% Budget Reduction Program**

In 2009, we added a new component to the budgeting process requiring all Divisions to annually evaluate efficiencies in their respective areas by identifying annual opportunities to reduce their budget by 1%. These savings have been communicated with Council during the annual budgeting process and have resulted in a cumulative savings amount of \$40.1M since 2009, including \$6.2 M in savings for 2015. (Appendix 2).

- **Project Management Support Office**

As the result of Internal Audit recommendations, the Project Management Support Office (PMSO) was created in 2010. This office focuses on supporting and promoting project management best practices to all staff; ultimately enabling staff to deliver projects efficiently, effectively and providing the highest level of service, and quality of project delivery.

Since its inception the office has developed templates that allow staff to manage projects in a consistent manner. Annually, the PMSO provides 20 days of in classroom training attended by 130 staff giving staff the opportunity to learn best practices. Additionally the number of certified Project Management Professionals has grown from 16 in 2011 to 52 in 2015, and the PMSO also hosts the Community of Practice meetings that allow project staff to learn from their peers. As a result project management knowledge and administration has improved drastically resulting in more efficient and effective project delivery and better on time, on budget performance.

- **Innovation**

In 2010, a Business and Innovation Coach was established to provide a concerted and intentional effort to grow and support a culture of innovation across the organization. The goal is to help drive innovative change in the organization by: inspiring fresh thinking and perspective, stimulating innovation, facilitating strategic decision making, and creating opportunities for cross-departmental collaboration.

The annual work plan includes: researching innovation tools and best practices; regular in-service training sessions with the 24 Innovation Coaches-at-large to practise and hone their skills; hosting bi-monthly Innovation Community of Practice meetings, allowing staff to share new ideas and methods; and frequently facilitating sessions to generate solutions to pressing issues. Some examples of Corporate innovation and its results include the Planning and Building Customer Service Centre; an improved Corporate Business Planning Process; improvements to 311 and citizen self-service; and instilling effective public engagement processes for Inspiration Port Credit and Inspiration Lakeview.

- **Strategic Decision Advice Program**

In 2013, the e3 Program was retired in order to provide more support to the Leadership Team and operating departments with identifying opportunities to improve City services. This is achieved by providing impartial and independent recommendations, defining efficient and effective processes based on best practices, and identifying cost saving, future growth and revenue opportunities. City services are continuously examined to identify opportunities to improve performance and long-term sustainability.

A variety of approaches can be applied to perform individual evaluations including service and operational reviews, business process reengineering, strategic advice on high priority initiatives, and development of business cases and feasibility studies. Many areas of the organization have been reviewed to identify the most efficient staffing levels, organizational structure and work processes. Examples include: Whistleblower Process; Emergency Flood Response Plan; Planning and Building notices and public comments review; Corporate Communication service level review to elected officials; IMS Support Model; and Customer Service Strategy.

- **Lean Deployment Program**

In 2013, the City adopted the Lean continuous improvement methodology. Lean helps improve the efficiency of business processes by listening to customers, engaging staff who perform the work, and measuring our progress. To date three process reviews have been completed and fourteen reviews are in progress. The results so far include: achieving a consistent service level for residential infill site plan applications; reduced disposal fees, and an improved service-level for collection of parks waste and recycling material; and reduced lead time for getting new Library materials on the shelves.

Feedback on Lean shows that not only is this a very effective tool for improving productivity, but because front line staff are brought to the table, there is a very high level of staff engagement and buy in with the results. As a result, we believe Lean has the potential to drive ongoing saving and customer service improvements that will be sustainable over time, and we will be investing more in the program in the future.

- **Performance Measures**

The City has always used performance measures as a tool, but we believe with some additional effort, we can do more in this area. Some of our metrics are reported out in the annual Business Plan. The Performance Measures Blueprint is a roadmap to enhance our culture surrounding performance measurement. It provides management with the right metrics to enhance decision making, improve customer service and demonstrate the value delivered by the organization. Launched in the fall of 2014, through partnerships and facilitated dialogue with staff, the Blueprint will build on measures already in place, identify new or better measures and build a sustainable performance measurement culture with staff in all areas across the Corporation. Library and Transit Divisions are currently in the process of updating their performance measures.

Service Reviews Conducted at Other Municipalities

Types of Service Reviews

Following the analysis of service reviews at other municipalities, including City of Hamilton, City of Toronto and City of Calgary, it was determined that service reviews can generally be categorized into three main types:

- ***Type 1: Service Identification***

Services are identified and categorized based on legislated vs discretionary requirements, current costs, and current service levels. The objective of this type of review is to document the types of services currently provided.

- ***Type 2: Service Evaluation***

Building on Type 1, benchmarking analysis is completed for the service to identify appropriate service-levels, and to identify gaps in services. The objective of this type of review is to provide recommendations on areas within a service that can be enhanced or reduced.

- ***Type 3: Cost/Revenue Analysis***

Building on Type 2, opportunities identified in Type 2 are examined to reduce costs or improve revenue capture while maintaining desired service-levels. The objective of this type of service review is to perform

an in-depth service analysis including processes and operational analysis to determine the most cost-effective model to achieve the desired service-level.

These definitions of service review types are intended as a guide, as great variation can exist within each type of review performed at different municipalities including the depth of the review performed, services included/excluded, and internal vs external resource allocation. These variations define the cost and expected timeline of each respective review.

Service Review Benchmarking

A number of Cities have used external consultants to support a review of City Services. Other municipalities have used external consulting firms to set up evaluation frameworks and in some cases public engagement processes, at considerable expense and investment of staff time. For the most part, these reviews have identified options for service reduction that have been considered by City Council in the past. The results have been very similar to the City of Mississauga's City Services Review program undertaken in 2003-2004.

Extensive research and benchmarking was performed to understand how other municipalities have structured their service reviews and their outcomes. Many municipalities have completed their service reviews, and although some recommendations have started to be implemented, others are pending, while others will need to be further explored by additional funding for studies prior to being considered for implementation. The expected costs and timeframe upon completion will vary widely due to the scope and depth of the reviews, and the number of recommendations explored in greater. Some examples of service review structures at comparable municipalities are detailed below.

The City of Hamilton contracted external consultants to conduct a three phase service review in 2010 focused on service evaluation (Type 2). The objective of phase 1 was to confirm and profile city services by providing description, audience, legislated vs discretionary, service objectives, accountability, outputs, costs and performance measures. The consultants categorized services based on the list of services provided by the city. As indicated in the June 13, 2011 report from the City of Hamilton to the Chair and Members General Issues Committee, this phase was completed in 4 months at a cost of \$350,000. Phase 2 objectives included ranking and prioritizing service delivery opportunities for improvement, reduction or elimination; and Phase 3 was focused on performing deep service reviews for services identified for greatest improvements. It was estimated in the same report that the last two

phases could cost an additional \$10M upon completion. Phase 2 resulted in identifying 34 opportunities for further exploration to reduce costs and/or improve services. Of these, staff were directed to suggest up to 10 priority opportunities for the development of business cases. Council approved the two opportunities proposed by staff for further exploration (Information Systems Governance Project and Fleet-related opportunities). The remaining opportunities plan to be addressed through continuous improvement initiatives and the business planning process.

The City of Toronto engaged external consultants to conduct a three phase service review in 2011 focused on efficiency and revenue analysis (Type 3). This service review was part of a broader review program launched by Council to address a \$774 M budget gap. The objective of the review was to identify which services the City currently provides, what services they should be providing and their appropriate service levels. Phase 1 detailed the services offered including description of service, and service objectives. Phase 1 was completed in 2 months at a cost of \$350,000. Phase 2 focused on exploring opportunities to improve efficiency of each service; while Phase 3 focused on performing a user fee analysis to improve revenue capture to cover costs. The consultants identified 105 City services plus 50 services provided by agencies, boards and commissions of the City. The review identified 69 options for the City to consider that would eliminate, divest or reduce service levels to generate budget savings, as well as 119 opportunities for further reviews.

As identified in the December 16, 2014 City of Toronto Auditor's Generals Report titled, "Service Efficiency Consultants Studies – Extent of Value for Money from Studies Has Not Been Clearly Demonstrated", 22 of the 119 Service Efficiency Studies were awarded between 2011 and 2013 ranging \$47,146 to \$460,800 each (exclusive of taxes and HST recoveries). The total cost for Phase 2 and part of Phase 3 was over \$3M. The report identifies the average cost per study to be approximately \$160,000, costing the remaining Service Efficiency Services to exceed \$15M. Appendix 3 details the cost per Service Efficiency Study conducted at the City of Toronto.

It should be noted that our Commissioner of Corporate Services and Treasurer reviewed the service review recommendations from the Toronto Service Review (report to Mississauga Council dated October 7, 2011 titled "Toronto Service Review"), to determine if any opportunities could be applied to the City. It was concluded that "many of the services proposed for elimination or service level reduction for the City of Toronto are not provided by Mississauga at present (e.g. Windrow removal) or Mississauga's service levels are already at or below the reduced service levels proposed for

Toronto. Many of the opportunities being considered by Toronto have been considered by Council in the past, such as reducing library hours, and reducing winter maintenance service levels. Additionally a number of the opportunities being considered in Toronto deal with centralization of services for efficiencies or outsourcing - the City of Mississauga is already much more centralized than Toronto and we currently outsource a larger proportion of our service delivery." At the time, Council received the report for information.

The City of Calgary contracted external consultants to conduct business unit reviews in 2012 to establish appropriate service costing (similar to Type 3). This structure uses a "zero-based" approach where the budget starts at zero, and based on analysis of essential vs non-essential service requirements, the budget is built with consideration to keep each service requirement in-house, keep and outsource or eliminate, with the intent that all City business units will undergo a similar review. Each review lasted approximately 16 months costing \$250,000 per review. Five reviews have been completed to date including Fleet, Fire, Parks, Roads and Water Service.

Designing a Service Review Model for the City

Overall, City staff continue to be committed to seeking out cost saving measures and incorporating innovative ideas to deliver services more efficiently as they have done in the past. Opportunities for additional cost savings in City operations are certainly possible. However, as learned from other municipal service reviews, the City's continuous examination of City services for efficiency improvements and new revenue opportunities may limit new options with the potential for significant and immediate budget reductions without affecting service levels. The following outlines a methodology for discussion purposes only of a two-phase review; however, any methodology would be confirmed through a request for proposal (RFP) process where proponents would have the opportunity to suggest an alternate approach.

Phase 1: Service Identification and Service-Level Confirmation

By identifying and profiling all City services, a comprehensive service catalogue will be developed. For each service, the catalogue will provide a service description, identify the service as mandatory/legislated or discretionary, identify the primary client group, identify key service objectives or deliverables, identify the established or legislated service-level, and provide a financial trend of revenue and expenditures for the service.

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In addition a service-level analysis should be performed on each service to confirm the appropriate service-level recommended. By dividing the services into two parts (mandatory/legislated services and discretionary services) service-level recommendations can be recognized.

For mandatory/legislated services, service-level analysis can determine if the service meets or exceeds the legislated service level based on benchmarking analysis to provide recommendations to maintain or reduce service-level and the expected cost and community impacts.

For discretionary services, recommendation of the appropriate cost-effective service-level, including discontinuation of service, can be determined based on an assessment of community needs, benchmarking analysis and assessment of the impact of changes to the service-level to the organization and community.

In a city the size of Mississauga, this phase could last approximately 8-12 months with an estimated cost of approximately \$1,300,000-\$2,500,000. This phase would provide Council with an independent assessment of the services currently provided, identifying potential cost savings from services where the service-level can be reduced and discretionary services that can be discontinued.

Phase 2: Service Review for Identified Services

In cases where service-level reductions have been recommended, an in-depth operational service review can be performed on selected services according to the priorities identified by Council. This phase focuses on aligning the service to meet the recommended service level. The most cost effective way to deliver the service should be identified including assessing direct delivery, partnership and outsourcing options. By systematically reviewing internal operations including processes, work practices and technology, opportunities can be identified to meet the desired service-level by providing recommendations to improve the effectiveness and efficiency of the service as well as identifying any opportunities for cost savings and/or increased revenue generation.

It is expected that this phase will last approximately 6-10 months per service review, with an estimated cost of approximately \$200,000-\$400,000 per service review.

Project Governance

Should Council wish to proceed, a project of this size and scope will require

strong project governance. A Steering Committee consisting of the City Manager, Mayor and 2-3 Members of Council would be required to support and oversee a project of this nature.

**FINANCIAL
IMPACT:**

The following chart demonstrates the estimated costs and project duration for each phase based on similar deliverables at benchmarked municipalities. Should Council wish to proceed, the issue should be referred to the 2016 operating budget, to identify a source of funding for this project.

Estimated Costs and Project Duration		
Phase 1	\$1,300,000 - \$2,500,000	8 - 12 months
Phase 2	\$200,000 - \$400,000 per review	6 to 8 months per review

Consulting costs and time based on benchmarking information does not include staff or Council time and costs.

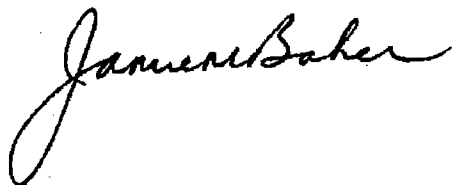
As a closing comment, I would point out that there are some significant projects already committed to for the balance of 2015 including the launch of the LRT project pending funding, the completion of the storm water rate project, and the Pam Am games. These are over and above normal day to day service delivery and capital project construction. Therefore, any launch of a service review should be undertaken in 2016 at the earliest.

CONCLUSION:

Recognizing the ongoing financial challenges facing the organization, and the importance of improving the efficiency and long-term sustainability of City services, the City of Mississauga has consistently and continuously reviewed its services and service delivery methods. Various reviews under the City Services Review Project, Service Area Operational Review Program and various continuous improvement programs within the individual Departments have identified cost saving and revenue generating opportunities that deliver value for the corporation and the community. Additionally, annually, through a mandated review of all services, City staff have cumulatively saved \$40.1 M since 2009.

With the various continuous improvement initiatives already implemented and ongoing at the City, in order for a service review to warrant the necessary resources, time, effort and dollars, it would have to generate significant savings in excess of current continuous improvement initiatives to be deemed successful.

ATTACHMENTS Appendix 1: Reviews Conducted Internally by City Departments
Appendix 2: 1% Budget Reduction Program Savings
Appendix 3: City of Toronto Consultant Costs for Service Efficiency
Studies Resulting as Recommendations of the Core Service
Review



Janice M. Baker, FCPA, FCA
City Manager and Chief Administrative Officer

*Prepared By: Derek Boyce, Director, Corporate Performance and Innovation
Division*

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Appendix 1: Reviews Conducted Internally by City Departments

Year Savings First Realized	Description of Service Review	Annual Cost Savings or Process Improvement Savings *
2004	Voice & Data Communication Contract Review (cumulative YTD \$19M)	\$1,800,000
2005	Review of Direct Inward Dial (DID) Process	\$65,000
2006	Right Sizing Corporate Fleet	\$135
2008	Consolidation of Service Points – Central Library	\$612,000
2009	Transit Route Rationalization and Performance Analysis	\$1,343
2010	Energy Savings Review**	\$1,600,000 (cumulative)
2011	Winter Maintenance Contract Review	\$1,571
2011	Daytime Cleaning Process	\$170,000
2011	Work Order Automation	\$31,500
2011	New Pricing Model - Recreation Programs	\$360,000
2011	Lease Changes and New Revenue - Library	\$129,000
2011	Consolidated Service Delivery	\$135,000
2011	Reduce Utility Budget for Recreation & Parks	\$600,000
2011	Review of Tax Payment Processing	\$110,000
2011	Bid Posting Distribution Process	\$70,000
2011	Job Evaluation Maintenance Process Review	\$25,579
2012	Organizational Review - Parks & Forestry	\$272,000
2012	New Cemetery Staffing Model	\$63,000
2012	Organizational Review - Recreation	\$303,000
2012	Hershey Operating Agreement	\$80,000
2012	Library Lease Reduction - Meadowvale & Cooksville	\$179,000
2013	Reduce Part Time Hours - Recreation	\$104,000
2014	Overtime Reduction - Fire & Emergency Services	\$50,000
2014	Vehicle Rental to Purchasing - Parks & Forestry	\$220,000
2014	Sports Field Liner Technology - Parks & Forestry	\$50,000

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Year Savings First Realized	Description of Service Review	Annual Cost Savings or Process Improvement Savings *
2014	Self-check out - Library	\$259,000
2013	Labour reduction	\$354,000
2013	Review of Green Power (Bullfrog) Contract	\$170,000
2014	Building Maintenance and Service Contract Review	\$133,000
2014	Reduce Part Time Hours - Recreation	\$221,000
2014	Material Savings - Recreation	\$40,000
2014	Tax Bill Printing Process	\$5,500
2014	Network Replacement Contract Review (over 10 years)	\$2,000,000
2014	Annual Cellular Contract Review	\$165,000
2014	Recruitment Services Review	\$86,979
2015	Organizational Review - Parks & Forestry	\$68,700
2015	Program Efficiencies - Mississauga Celebration Square & Meadowvale Theatre	\$62,000
2015	Self-check out - Library	\$262,000
2015	Central Stores Review	\$60,000
2015	Review of Multi-Function Copier Contract	\$430,000
2015	Personal Information Change Form (PIC) Automation	\$3,998
2015	PMP Administration Process Review	\$18,497
Total		\$9,771,802

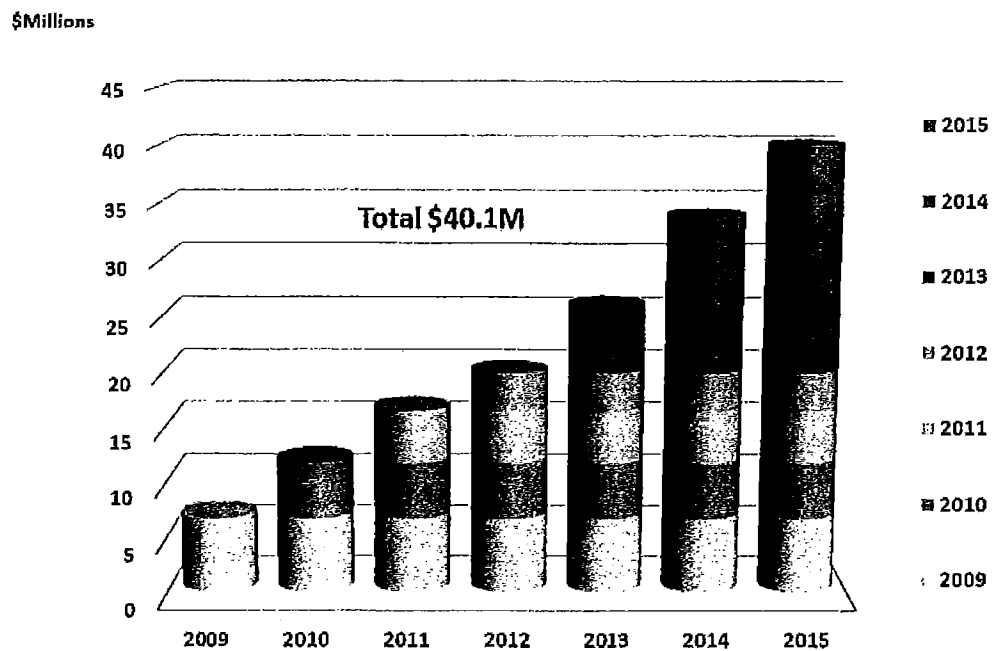
* Process Improvement Savings do not necessarily represent budget reductions as these savings may have been reinvested into other parts of the service. In certain years, some of the savings identified may have been used towards the 1% Budget Reduction.

** Cumulative and compounding savings year over year based on strictly consumption reductions and weather corrected data.

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Appendix 2: 1% Budget Reduction Program Savings

Efficiencies 2009-2015



2015 budget

MISSISSAUGA

Appendix 3: City of Toronto Consultant Costs for Service Efficiency Studies Resulting as Recommendations of the Core Service Review

Page 26 of the December 16, 2014 report from the City of Toronto titled "Auditor General's Report: Service Efficiency Consultants Studies – Extent of Value for Money from Studies has not been clearly demonstrated".

EXHIBIT 1

Consultant Costs for Service Efficiency Studies

#	Year Awarded	Study	Consulting Firm	Final Cost ¹
1	2011	Fleet Services	Western Management Consultants	\$202,228
2	2011	Facilities Management & Real Estate	KPMG	\$214,920
3	2011	Solid Waste Mgmt	Ernst and Young	\$142,934
4	2011	Toronto Public Library	DPRA	\$97,368
5	2011	Toronto Police Services	Ernst and Young	\$249,865
6	2011	TTC	Accenture	\$280,747
7	2011	Environment & Energy Offices	KPMG	\$52,750
8	2011	Transportation Services	KPMG	\$225,100
9	2011	Shelter Support & Housing Administration	MCC Workplace Solutions	\$47,146
10	2011	Corporate Communications	Western Management Consultants	\$60,000
11	2011	Parks, Forestry & Recreation	DPRA	\$125,335
12	2012	Museums	Lord Cultural Resources	\$90,000
13	2012	Toronto EMS-Toronto Fire Services Review / RFP Fairness Consultant	POMAX Inc / P1 Consulting	\$378,802
14	2012	Long-Term Care Homes & Services	DPRA	\$128,281
15	2012	Children's Services	Deloitte	\$110,000
16	2012	Shared Services	KPMG	\$460,800
17	2012	Court Services	Sierra Systems	\$104,235
18	2012	Counter Services	Deloitte	\$80,000
19	2012	City Planning	MNP LLP	\$90,000
20	2012	311 Toronto	Deloitte	\$90,000
21	2013	Business Process Review of Staff Recruitment Process	Western Management Consultants	\$71,974
22	2013	SAP Governance Review	Ernst and Young	\$159,975
			Total Expenditures	\$3,462,460

Source: City Manager's Office

¹ Exclusive of taxes and HST recoveries

Project	Material Cost Savings	Labour Capacity Savings	Other Benefits
Facilities Security Access	\$505	\$41,000	<ul style="list-style-type: none"> • Reduced processing time from 7 days to 5 days • Removed staff travel time • Switched to electronic form saving paper • Lessons learned applied to Transit security access resulting in additional improvements
Parks Waste Management	\$69,750	\$78,682	<ul style="list-style-type: none"> • 25% reduction in citizen calls to 311 • Service levels increased by 15% • Reduced waste disposal fees by leveraging Region of Peel free drop off locations • Reduced summer part time labour by two positions
Residential Infill Site Plan Application		\$75,000	<ul style="list-style-type: none"> • Reduced process time from 39 days to 24 days • Reduced the average resubmissions from 4 to 3 times • Improved application package and the preliminary meeting content to provide more information up front and provide answers to common questions
Central Library 's New Material Cataloguing Process		\$22,800	<ul style="list-style-type: none"> • New material on the shelf 92% faster • Started with 4.5 month backlog and reduced the backlog to 1.5 weeks • Freed 630 sq. feet of space • Customers not waiting for new materials, circulation is up 1.9% • Freed equipment for material handling have been redistributed to other libraries
Fire Plans Examination within the building plan examination		\$10,925	<ul style="list-style-type: none"> • Reduced processing time from 27 to 24 days • Reduced the number of resubmissions from 14 to 4, allowing staff to work on reducing the backlog of plan reviews • Enhanced customer experience, communication and opportunity for customer service feedback • Adherence to legislated standard
Summer Camp Hiring		\$10,598	<ul style="list-style-type: none"> • Reduced overall processing time by 31 days • Improved applicant experience and process clarity

LEAN RESULTS

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Appendix 2

			<ul style="list-style-type: none"> Lessons learned will be shared with the other part-time hiring campaigns
Compliance Resolution for Complaints		\$22,886	<ul style="list-style-type: none"> Reduced number of visits to a site Reduced processing time by 40% Addressed and completed all backlogs Established service level agreements
Mississauga Celebration Square Waste Reduction Program		\$12,000	<ul style="list-style-type: none"> 97% of surveyed visitors found waste disposal at the square easier 93% reduction in contamination of recyclables and organics during major events Increased Parks staff service hours at the square by 24% without the addition of staff Lessons learned are being applied to current projects and piloted for all parks
School Zone Parking Enforcement			<ul style="list-style-type: none"> Increased service level from 8 visits to 10 visits per school over the school year 20% cycle time reduction in visiting 210 schools, Standardized operations to enhanced safety, presence and communications with schools
Property Tax Vacancy Rebate		\$29,900	<ul style="list-style-type: none"> Improved application form to eliminate common submission errors Simplified process so fewer staff are handling each file allowing consistent customer service Completed same number of applications with 700 hours less labour

City of Mississauga

Corporate Report



Date: November 20, 2015	Originator's files:
To: Chair and Members of Budget Committee From: Gary Kent, Commissioner of Corporate Services and Chief Financial Officer	Meeting date: 2015/11/30

Subject

Municipal Act Reporting Requirements Under Ontario Regulation 284/09

Recommendation

That the report dated November 20, 2015 entitled "Municipal Act Reporting Requirements Under Ontario Regulation 284/09" from the Commissioner of Corporate Services and Chief Financial Officer be received for information.

Report Highlights

- In accordance with Ontario Regulation 284/09 an annual report must be presented to Council which outlines the estimated expenses that have been included in the financial statements but excluded from the budget, and the impact of these differences on the accumulated surplus. The report should also include an analysis of the estimated impact on the future tangible capital asset funding requirements.
- If the amortization and post-employment benefits expenses were not included in the City's financial statements, similar to the City's budget, the accumulated surplus at the end of the year would be \$133.4 million higher.
- If the City was required to incorporate the amortization and post-employment benefits expenses into the 2016 Budget, an additional budget increase of 31% would be required.

Background

The Municipal Act requires that municipalities prepare balanced budgets which include all the annual expenses of the municipality. The implementation of Public Sector Accounting Board (PSAB) 3150 requires the recording of the cost of tangible capital assets and related annual amortization expense on municipal financial statements. With the implementation of tangible capital asset accounting, amortization becomes an annual expense of a municipality. The Province however recognized that the requirement to include amortization expense in municipal budgets

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could have significant impacts on many municipalities' tax levies. For most municipalities the amount being raised through property taxes to fund capital asset renewal is much lower than their respective annual amortization expense.

In recognition of this concern, Ontario Regulation 284/09 was introduced to allow municipalities to exclude amortization, post-employment benefits, and landfill closure expenses from their annual budgets, but requires formal reporting to advise Council of the impact of not including these items.

The legislation requires that staff prepare an annual report prior to adopting the budget to Council which:

- identifies the expenses that have been included in the financial statements but excluded from the budget;
- identifies the impact of these differences on the City's accumulated surplus; and
- analyzes the impact of excluding these expenses from the budget on future capital asset funding requirements.

Accumulated surplus represents the net worth or equity which has been built up by the City since its inception, and primarily reflects the historical value of all its assets. It is similar to Shareholder's Equity in a private sector corporation's financial statements. The annual surplus from a financial reporting perspective is not the same as the operating surplus that arises out of the Operating Budget accounts. It does not represent cash available to offset any future tax rate increases, rather it represents the change in equity of the City for the year.

This report is required to be prepared and adopted at the time the budget is approved.

Comments

The City has not made provisions in the 2016 Budget for either post-employment benefits expenses or amortization. These expenses however are included in the financial statements.

Post-Employment Benefits Expense and Impact on Accumulated Surplus

The City's financial statements include liabilities and expenses relating to post-employment benefits. This liability recognizes the present value of future expenses the City may face for post-employment benefits. Actuarial valuation reviews for post-employment benefits are provided by Nexus Actuarial Consultants and are used in estimating the liability for financial reporting purposes. These valuations are conducted every three years and updated every year in between. Based on the most recent actuarial valuation the liability is \$59.2 million for 2015, and \$61.6 million for 2016, an increase of \$2.4 million. The City's budget only includes estimated expenditures based on expected cash payments to be made during the year related to these benefit provisions – the 2016 Budget for these cash payments is \$2.8 million. The 2016 budget does not reflect the change in the post-employment benefits liability of \$2.4 million. If this increase was not included in the City's financial statements, the accumulated surplus would be \$2.4 million higher.

Amortization Expense and Impact on Accumulated Surplus

The amortization expense represents the value of tangible capital assets consumed or used during a fiscal year based on the assets' expected useful life. PSAB requires amortization to be based on historical costs, and the City's policy is to calculate amortization on a straight-line basis over the useful life of the asset.

The estimated annual amortization expense is \$131 million. If amortization expenses were excluded from the City's financial statements, accumulated surplus as shown on the Consolidated Statement of Operations would increase. However this exclusion ignores the cost of utilizing the City's infrastructure which will ultimately need to be replaced. Amortization expense is an indication of the minimum amount that the City should be allocating annually for future asset replacement.

Impact on Future Infrastructure Funding

The City does not include the estimated amortization expense of \$131 million in the budget. The amortization expense represents the minimum amount that should be put aside each year to replace infrastructure in the future.

The estimated annual amortization expense is based on the City's original cost to acquire an asset, not the actual cost to replace the asset in the future. The estimated annual amortization based on asset replacement costs is \$403 million.

The City's infrastructure gap is defined as the difference between the estimated annual replacement cost of all the city's existing assets and the sum of the transfer to capital for the replacement of the City's existing assets and funding available to finance the capital program. Amortization adjusted for estimated replacement costs would be \$403 million.

Based on estimated replacement costs, the City is only providing for 14 per cent of the replacement value of assets used each year, resulting in a real annual infrastructure gap of \$348 million. The infrastructure gap is being managed by increasing tax-based funding through a Capital Infrastructure and Debt Repayment Levy. This levy is composed of an annual transfer from the operating budget and debt charges for the debt issued to fund the capital program.

Estimated amortization based on historical costs would be \$131 million, making the gap between what is funded and what is needed \$88 million.

If the City was required to incorporate increases in post-employment benefits liabilities and amortization based on historical costs into the 2016 Budget, an additional budget increase of 31% would be required to fund the \$133.4 million post-employment benefits expense and amortization.

Financial Impact

There is no financial impact. This report outlines the implications on the 2016 budget if amortization and post-retirement benefits were to be included.

Conclusion

The City is required to prepare and adopt a report by resolution of Council prior to approving the budget which identifies the changes in accumulated surplus if amortization and post-employment benefit expenses were excluded from the budget. If these expenses were not included in the City's

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Budget Committee		November 20, 2015	4
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financial statements, the City's 2016 accumulated surplus would be \$133.4 million higher.

If the City were required to incorporate the amortization and post-employment benefits expense into the 2016 Budget, an additional 31% tax rate increase would be required.

Attachments

Appendix: N/A

G. Kent.

Gary Kent, Commissioner of Corporate Services and Chief Financial Officer

Prepared by: Carolyn Paton, Manager, Strategic Financial Initiatives