

Mississauga Residents' Associations Network (MIRANET)

Deputation

2012 OPERATING & CAPITAL BUDGETS CITY OF MISSISSAUGA

Presented to the
Budget Committee of Council
January 25, 2012

Introduction

MIRANET has always seen the Budget as the practical expression of the City's priorities and intention to implement the Strategic Plan. It is the most important document in the City, yet possibly the least understood.

At MIRANET, we have made an effort over the last three years to become informed about the Budget process and its context (Region) and content.

Last Monday, at the second meeting of Council's new Governance Committee, there was considerable discussion of what a 'reasonably well-informed' person is, in law and by general definition. We at MIRANET consider ourselves 'reasonably well-informed' on the Budget by general definition. Given the background preparation it has taken to make this simple statement, we acknowledge that there are relatively few citizens in our City who can say the same.

This brings us to the issue of 'citizen oversight' of the Budget process, and the suggestion from some quarters that there has been no opportunity for this, or that there is none. In our view the City has afforded ample time at the public Budget Committee meetings, at the series of seven Budget Town Halls exploring the various service sectors and the annual Budget Open House in January. All that is required of citizens is to show up.

And as always, MIRANET has been submitting detailed questions about the City's finances and the 2012 Budget documents since last year and has continued to learn from the answers which are always returned by Finance staff.

City Staff and members of Council have consistently stated that residents do not want to see any cuts in services. We asked about the rationale for this statement at the recent Budget Open House, and were informed of a survey which took place in 2005 and the ongoing interactions which Councillors have with their constituents. **We would recommend that a more thorough survey of residents be conducted to assure that the programs currently being funded are aligned with the priorities of today's tighter budget constraints.** We also have the example of the pilot project in Ward 3 for bi-weekly garbage pickup by the Region of Peel.

We appreciate this opportunity, in this forum, to give MIRANET's perceptions of the Budget process and provide comment on the 2012 Budget review. We hope that some of our comments will be helpful.

First we wish to thank Ms. Patti Elliott-Spencer (Director of Finance), and her staff, for the responses to our written questions. All of the staff we encounter at Budget meetings are courteous and helpful.

That said, there are issues we wish to address, one of which is the City has an issue with controlling costs and it needs to be thriftier. We have some suggestions for your consideration.

Here are the topics we intend to address:

1. Proposed 2012 Tax Increase
 2. The Budget Process
 3. Why Debt Now?
 4. The LED Project
 5. Staffing Costs and Salaries
 6. Mississauga Transit
 7. Consultants' Fees
 8. Additional Municipal Revenue
- Summary of Recommendations

1. Proposed 2012 Tax Increase

The City is severely limited in its ability to raise revenue outside of the regressive property tax. For the present, user fees are the major option. We support the City raising these gradually towards 100 percent cost recovery, where possible, and as outlined in the ongoing Pricing Study. At the same time we support access to City facilities for low-income groups through the Active Assist program and maintaining accessibility for programs of wide community benefit.

Last year MIRANET proposed a formula to establish a threshold tax increase that we considered justifiable. It consists of the forecast increase in the CPI (Consumer Price Index), based upon a consensus economic forecast that we introduced, plus 1.0% for the infrastructure levy, plus 0.5% for new items. Applying this formula using the CPI forecast of 1.4% presented by Staff, the expected target tax increase for 2012 is 2.9%. The City's Operating Budget increase far exceeds this at **7.4%**. The combined Region and City property tax increase of 2.8% is achieved because \$14.2 million in social program costs will be uploaded to the Province. Without it, the Region's increase would be 3.0% and the combined property tax increase 3.6%. This too exceeds our threshold.

The property tax increase for 2012 is sheltering behind the uploading of Regional social costs and the buoyant assessment growth forecast for the Region of Peel.

While the City sees an opportunity to benefit from the uploading of social programs, such programs remain to be funded by taxpayers through their provincial taxes. The same taxpayer pays both. Uploading of social costs from the Region to the Province is **not** a reason for the City to spend more money.

A further increase of **9.7** percent in the tax supported City operating budget is projected for 2013. **The City needs to get its spending under control now.** The largest component in the City budget is labour and staff costs, which comprise **69%** of the operating costs. We shall address this issue later in the presentation.

2. The Budget Process

As in previous presentations we find much that could be improved in the Budget review process. This commenced last June with the first presentation by Finance staff. The proposed increase of 10.8 percent to the tax supported Operating Budget was unrealistic. Unfortunately, Budget Committee gave no direction to staff and did not appear engaged in that meeting. The budget process really commenced in September 2011 when staff identified issues and cost overruns in the Transit and Planning Departments.

We believe the Budget process is flawed and should be improved. Each department's budget is based upon the previous year's budget. Increases are added for staff costs, annualization of the previous year's decisions plus projected cost increases. Occasionally minor savings are identified. The process is incremental and is designed to increase departmental budgets. Only the Legislative Services Division show an overall reduction from 2011, resulting from revenues of \$9.6 million exceeding expenditures of \$6.9 million.

MIRANET is dismayed that the only reduction approved by Budget Committee last week was the cancellation of one staff position, the Living Green director, at a saving of \$168,000. We note that part of this is back in today's report from staff.

For a gross Operating budget of \$617 million, taxpayers could reasonably expect a savings of at least 1.0%, or thereabouts to be found. Is Budget Committee adequately safeguarding the taxpayers' interest?

The four options presented by staff as ways of reducing the budget are political non-starters: eliminating some fire services, reducing library hours, closing a community centre and reducing snow removal. We believe these suggestions were unhelpful to the Budget process. These originally appeared at page 33 of the *Budget Overview* document.

http://www.mississauga.ca/file/COM/2011budgetagenda_december12deputation.pdf

Finance staff should commence preparation of next year's budget using a zero based budget approach so that all programs and staff costs are justified, not just the incremental changes.

We urge you, Budget Committee, to spend more time on the Budget review process and not rush through it in two days. This is not the way to run a Corporation with assets of \$7.0 billion and an annual operating budget of \$617 million.

In our opinion, too much latitude is extended to staff for the preparation of the budget without direction from you, our elected representatives. Staff determine the schedule for its presentation, propose their own salary increase and appear to make policy decisions. Platitudes such as “Deliver Value for Money through Continuous Improvement” are not reflected in the year-by-year escalation of departmental budgets.

We suggest that last week’s intensive two-day review sessions of department budgets be avoided in future, and that all department reviews occur during morning sessions to avoid the fatigue factor. The review of some budgets was cursory. Please become more engaged and analytical in questioning staff presenters.

3. Why Debt Now?

We have issues with the proposed \$21.0 million debt financing for 2012. This was announced to the press in November before it was brought to Budget Committee for consideration. Budget Committee had not yet established the 2012 Capital Budget and so announcing the need for debt financing is surely an example of putting the financial cart before the horse. The City’s **Debt Management Policy** was not approved and released until December 7 2011. http://www.mississauga.ca/file/COM/Debt_Management_Policy_.pdf

MIRANET is not taking issue with the City employing debt as an appropriate financing tool for certain classes of assets. Such assets should have a service life at least as long as the term of the debt. While we support debt financing for installation of the new LED lights, we do not support it for road resurfacing which might only last five years. Any resident with a mortgage understands the need to borrow to finance the long-term advantage of home ownership. The present era of low interest rates makes it enticing to borrow, but why borrow unnecessarily?

MIRANET does not share the view expressed by some that debt should be avoided at all cost. We do question why the City would embark upon debt financing of \$21 million in 2012, with \$132.0 million presently in the Capital Reserve fund. To make the point, we are now going to refer to Staff’s figures. These originally appeared at page 41 of the *Budget Overview* document. http://www.mississauga.ca/file/COM/2011budgetagenda_december12deputation.pdf

The proposed Capital Budget of \$156.3 million is partly financed by withdrawing \$84.4 million from the Capital Reserve fund as shown in the pie chart presented by staff. That figure consists of \$27.5 million from the 2012 infrastructure levy, at 2.0 %, resulting in a reduction of \$56.9 million to the Capital Reserve fund, leaving it with a balance of \$75.1 million. Why can’t a further withdrawal of \$21.0 million be made to offset the need for debt in 2012? Apparently because Council adopted a debt funding policy that raises the Capital Reserve liquidity from \$60 million to \$100 million. That was undertaken to set the stage for this year’s capital borrowing. The new policy and the borrowing could have been delayed by twelve months.

Of course it is only a temporary delay, since the 10 year Capital Budget anticipates further debt borrowing of \$80.0 million in 2013 and further annual borrowing for the duration of the 10 year Capital Budget. Debt need not be detrimental to the City’s financial health. Suggestions that debt should be avoided and capital asset investment funded from the Operating Budget are unrealistic.

We do have an issue with staff adding projects to the 10-year Capital Budget, \$345 M of which is presently unfunded. All project additions to the ten-year Capital Budget should receive the explicit approval of Budget Committee.

4. The LED Project

A recent addition to the 2012 Capital Budget is the proposed replacement of all the City's streetlights with LED lights at a cost of \$35.0 million spread over two years. The project is estimated to have a payback period of 8-9 years and is appropriately considered part of the City's Green initiative.

MIRANET is concerned that the City might turn to Enersource, which already has a contract for maintaining the existing street lighting known as the **Streetlighting Services Agreement**. You will recall that the existing 5-year contract was the subject of a critical Audit report filed with Audit Committee in September, 2011. That report indicated the contract, effective January 1, 2009 for five years had been sole sourced. This, we understand is contrary to the City's procurement policy.

Subsequent problems developed when Enersource sub-contracted part of the work without identifying the sub-contractor, the details of the work performed, or the cost for that work. Enersource passed on the costs in its invoices to the City with no further explanation. Further, the employee in the Transportation and Works Department monitoring the contract was unable to acquire further information from Enersource.

Given this performance, MIRANET is concerned that Enersource might be considered to undertake the LED project. The Commissioner of Transportation & Works assured me that an RFP will be issued. The contract should only be awarded to Enersource if it proves to be the low cost bidder compatible with the quality standards required of the contract and undertakes **not** to sub-contract the work without the City's permission.

MIRANET is surprised and disappointed that with four members of Council sitting on its Board of Directors, Enersource is not more transparent and respectful of its accountability for the expenditure of taxpayers' dollars.

<http://www.enersource.com/about-enersource/Pages/our-board-of-directors.aspx>

5. Staffing Costs and Salaries

The largest component in the City budget is labour and staff costs, which comprise **69%** of the operating costs. Lack of control here will significantly hamper the City's ability to ever deliver on its Strategic Plan.

MIRANET has reviewed the list of City employees receiving wages and/or salaries of more than \$100,000 in 2010, the latest year for which this information is available. This is popularly known as the **Sunshine List**. There were some surprises.

<http://www.fin.gov.on.ca/en/publications/salarydisclosure/2011/munic11a.html>

The City had **20** positions identified as **Directors**, receiving salaries in the range of \$148,842 to \$176,515 per annum, plus minor taxable benefits. These salaries were presumably increased by a further 2.0 percent as part of the salary adjustment for 2011.

Twelve **transit operators** received between \$100,000 and \$115,374 in 2010. It is recognized that such earnings result from substantial overtime. Given the high level of absenteeism among transit operators we learned about at this time last year, we question whether this situation has improved in 2011?

The salaries paid within the **Fire Department** are almost beyond our comprehension. We are told these result from previous arbitration awards. There were 109 Fire Captains listed, earning between \$102,351 and \$113,860 per annum. There were 13 District Fire Chiefs earning between \$111,235 and \$130,888 per annum. Even a Fire Communications officer received \$111,366. This might be an emergency call centre position. We understand that all of these positions fall within the bargaining unit, so that further increases of 3.0 percent were probably received during 2011.

At the Budget Open House, we were informed that **19%** of the 2012 Budget increase is due to fire services. We note that a report is attached to today's Agenda regarding overtime in the Fire Department.

We counted **376** positions which in 2010 received in excess of **\$100,000**. This is over 10.0 percent of the full time work force recently estimated by the City Manager as 3,600. Being "an employer of choice" certainly comes with a significant cost to taxpayers. We wonder if being just 'a good employer' might not save the City a bundle on its payroll?

We doubt that the average taxpayer in Mississauga has any idea of the excessive salaries paid to some City employees.

In 2011 non-unionized staff received a salary increase of 2.0 percent, and we understand that the same is proposed for 2012. After approval of the 2011 Operating Budget, MIRANET subsequently learned that **merit increases** payable in 2011 were cancelled. This was not an initiative proposed by MIRANET.

We consider merit increases to be a strong incentive for staff to perform productively within the salary band established for their positions. Withholding merit increases might *appear* as the way to reduce staff costs; we believe the broader structural issue of staff costs needs to be addressed through a culture of improved productivity and reduction in absolute staff numbers to accomplish defined goals.

We do however recommend **freezing the pay levels** for staff for 2012. Applied to the non-union staff (52%), we estimate this would save the City approximately **\$3.0 million**. At a time of poor economic outlook when so many in the private sector have either lost jobs or seen their salaries and wages reduced, the City should enforce restraint of its payroll. Hundreds of job losses were announced in Mississauga earlier this month. As of Q3, 2011, the unemployment rate in the Region of Peel was 8.4 percent, compared to the national average of 7.6 percent.

We urge you to negotiate **zero percent increases** in the outstanding labour contracts. The hiring of an additional 18 drivers for Mississauga Transit in 2011 to overcome the **absenteeism** problem set a very poor precedent. Is absenteeism being addressed in the new collective agreement which is still under negotiation?

Council has previously urged the Provincial Government to freeze **all** public service salaries for a two-year period, asking them to include municipal employees, school boards, all government agencies, hospitals, and essential services such as fire and police. But only provincial employees were included in the existing freeze.

We know that Council has also called for an end to provincially mandated **arbitration** of municipal sector contracts, which has the effect of driving up settlements.

The continued escalation of public service union salaries and benefits, and parallel non-union staff increases, which this Council calls "uncontrollable", is driving the expanding increase in the municipal budget. It cannot continue indefinitely, and is already hampering the City's ability to ever deliver on its Strategic Plan. We consider these staff costs are controllable. To say otherwise is to say the City has no control over its own Payroll.

6. Mississauga Transit

The operating costs of Mississauga Transit are increasing faster than its revenue. As of last September the farebox revenue to cost ratio was reported to be a disappointing 0.46. We believe the present operating model needs to be adjusted.

Last February, at the suggestion of Budget Committee, Miranet's Municipal Finance Subcommittee met with Transit Director Geoff Miranoff for two hours to discuss initiatives that we thought might improve the revenue to cost ratio. We think two of the recommendations that came out of that meeting bear repeating. They were that underperforming routes should be reviewed and cancelled if necessary, and that express bus service justifies a premium fare.

There are too many routes with too few passengers. Mississauga Transit should put more of its resources **now** in serving arterial routes passing through higher density areas, which generally serve the locations that people travel to for employment, to shop or for entertainment.

The existing model of having feeder routes passing through single-family neighbourhoods, with few to no passengers, is adding unnecessary costs to the system. **Let us build an excellent arterial system**; we note that service was increased on some major arteries in 2011. We are aware that improving cycling infrastructure in the vicinity of local transit nodes is already a priority.

That said, it is recognized that in 2011 staff reviewed several routes and recommended service reductions to 2 routes and the elimination of 6 routes, for an annual saving of \$841,550. More such savings need to be identified.

7. Consultants' Fees

Referring to Staff's response to our question #4 on consulting fees for 2010, 2011 & 2012, the \$6.0 million average for each of 2010 and 2011, or 1.0% of the gross Operating Budget is not excessive. However, we are still waiting for further clarification showing **all** consultant costs incurred and expensed during 2010 and 2011, including the BRT and other major ongoing projects. MIRANET is concerned that not all of the current consultant costs have been identified. We understand that the consultant costs for 2012 will be confirmed towards the end of this year, but **what is the 2012 budget for consultant's costs?**

Looking specifically at consulting costs for the proposed Hurontario LRT, we question how the City intends to recover costs for the environmental assessment and the phase 1 route alignment study if the project fails to receive federal and provincial government funding.

There is some confusion around these costs. The response to our question #6, indicates that \$6.0M were incurred in 2011 and will be again for 2012. In the capital budget for Mississauga Transit, we see further costs of **\$7.3 M** forecast post 2014 for detailed route alignment studies. All this for a project not yet funded? (*p41 of the Transit unfunded capital budget*)

The Mayor has explained that the project has a high priority on the Metrolinx funding schedule but with the provincial deficit stalled at \$16.0 billion, we cannot see this project proceeding in the foreseeable future. A change of government might result in even more restrictive capital subsidies to municipalities. We hope this won't happen, but the risk remains. What risk management strategies exist to minimize these consulting costs if the project does not proceed?

MIRANET urges the City to be prudent and seek further assurances from the Provincial government that the LRT will be funded, before spending more taxpayer's money, once the EA is completed. Indeed such an environmental assessment study might well need to be revised by the time funding becomes available.

We also note that the new GO transit line to the airport, being completed in preparation for the Pan-Am Games in 2015, does not have a single station in Mississauga, outside of the airport. Since Mississauga hosts the airport with its attendant issues of land use constraints, noise and pollution, we regret this omission.

8. Additional Municipal Revenue

At the December 12, 2011 Budget Committee meeting, the Mayor requested MIRANET to consider additional powers of taxation that MIRANET would support. At our January 4 MIRANET meeting, we reviewed six possible sources of additional revenue including a land transfer tax, municipal income tax (which would require provincial approval), motor vehicle registration tax, municipal sales tax, a bicycle registration fee and further user fees and cost recovery.

The consensus among MIRANET representatives was that **the City must address and reduce its costs before any additional sources of tax revenue are explored**. We consider the 2011 Pricing Study in regard to Recreation and Parks programs a good model for ultimate cost recovery elsewhere in the City.

<http://www.mississauga.ca/portal/residents/pricingstudy>

Two years ago, and again last year, MIRANET proposed that the City establish a Budget Review Committee comprised of informed stakeholders, to meet with Finance staff and interested members of Council to discuss budget related issues, such as the question of additional tax initiatives which has just been raised. MIRANET would be glad to participate.

We will continue to pursue this recommendation, and a related recommendation for a Budget Chief, through the City's newly created Governance Committee.

Summary of Recommendations

The following is a list of our major recommendations:

1. City spending should be bought under control,
2. Staff should use a zero based method for preparing the 2013 budget
3. Schedule department budget reviews over several days,
4. The LED street lighting project requires an RFP
5. Enersource to be more accountable and transparent to Mississauga taxpayers
6. All additions to the ten-year Capital Budget should receive the explicit approval of Budget Committee
7. Staff salaries should be frozen for 2012, but maintain merit increases for eligible staff at less than the ceiling for their salary band
8. Mississauga Transit – reduce feeder routes; concentrate on arterial routes
9. Seek assurance concerning the LRT before spending more money once the EA is completed, and seek to minimize the City's financial exposure
10. Establish a Budget Review Panel of informed stakeholders

With that, we thank you for your patient attention. We shall be glad to answer any questions or respond to any rebuttal you may have. We always learn more from such discussions.

Chris Mackie, Chair, MIRANET Municipal Finance Subcommittee
Dorothy Tomiuk, MIRANET Spokesperson