

**MIRANET's Municipal Finance Subcommittee**  
**Presentation**  
**to Mississauga Budget Committee**  
**January 17, 2011**

**Re: 2011-2014 Business Plan and Budget**

Introduction *(by Chris Mackie)*

Good morning Madam Mayor and members of Budget Committee. We should like to offer congratulations to the three new faces on the Committee, namely Councillor Tovey, Councillor Fonseca and Councillor Starr.

Peter Walton and I represent MIRANET's Municipal Finance Committee. In this role we attempt, between us, to attend all of the meetings of Budget Committee and report back to MIRANET on significant developments, such as the proposed budget and tax increase for 2011. We would like to acknowledge the success of the Open House held last week. MIRANET feels that it was well-hosted by Staff and very well attended. We hope that it will become an annual event. Also we were pleased to see yourself Madam Mayor and several councillors in attendance.

Now turning to our presentation, which is a critique of staff's proposed 8.0% tax increase for 2011. We consider such a high tax increase to be unacceptable to the majority of City property owners. It may be the highest tax increase proposed in the City's history. We also note that the Business Plan proposes a tax increase of 30.1% over the three years 2011 – 2013. Such an increase, if implemented, will cause real financial hardship to some households.

We are also disappointed that Finance staff have endorsed so few of the recommendations made in our deputation of last January 2010. Consequently, we shall begin with a brief review of the seven recommendations that we previously presented.

The first overhead provides a road map of today's presentation:

- Issues presented in January 2010
- Consensus economic outlook for Ontario
- Appropriate target for the 2011 tax increase
- MIRANET's proposed revisions to the 2011 Operating Budget
- Miscellaneous items
- Conclusions and Recommendations

I should note that we have not attempted to review the Capital Budget, but will request a further deputation when we have had the opportunity to analyse it.

I anticipate that our presentation will take about 15 minutes. Thereafter we will be happy to answer any questions or discussion that you might wish to raise.

### Review of MIRANET's January 2010 Deputation

In our January 2010 presentation we made recommendations with regard to a number of aspects of the 2010 Budget and the City's Budget process which, we believe, would improve the quality of the Budget.

The changes we recommended were as follows: changes to the Budget process itself; adoption of a target for the size of the tax increase which would be consistent with the inflation forecast; a more pro-active approach to finding sources of funding to supplement municipal taxes; a more aggressive approach to limiting the size of wage and salary increases for unionized and non-union staff alike; a revamping of the infrastructure levy to better match spending with funds accumulation; and finally recommendations about the monitoring of Strategic Plan items as they are incorporated into the Operating Budget.

We also recommended the establishment of a Public Review Panel composed of representatives from the business community, the Mississauga Board of Trade, ratepayer associations and other stakeholders.

Of the recommendations we made, we note that the recommendation to improve the Budget process has been adopted by the introduction of a new four-year Business Plan process. The infrastructure levy process has also

been modified to balance the levy with the issuance of debt to fund the renewal of infrastructure over a ten-year time frame.

The City has not adopted any of the other measures we recommended, although it has implemented a Budget Open House to provide information to the public this year.

### Consensus Economic Outlook for Ontario – 2011

In our previous presentation, we noted that tax increases in excess of inflation, as measured by the Consumer Price Index (CPI), are unsustainable in the long run. We recommended that Budget Committee set a target for the prospective tax increase based upon the forecast inflation rate for the budget year. The first step is to review forecasts of inflation for the 12-month period. The tax increase should not be related to the past or historic rate of inflation. Since economic forecasting is far from an exact science, we recommended that a consensus forecast be adopted.

We have reviewed recent forecasts for the Ontario economy from five of the major commercial Canadian banks. Selected data is shown on the accompanying table. Most of the data is very recent, the one exception being the forecast obtained from CIBC released in September 2010. For the purpose of the Budget, we are particularly interested in the forecast unemployment rate and the inflation rate.

The unemployment rate forecast for Ontario is in the mid-range compared to the other provinces, at approximately 8.3%. The unemployment rate for the Region of Peel has been consistently higher. As of September 30, 2010 it stood at 11.6%, slightly higher than for the corresponding period in 2009 when it was 11.4%.

For the forecast inflation data, there are 4 data points. Scotia Bank provides only a national and not a provincial forecast for the CPI. We rejected the highest and lowest data points as outliers, resulting in an average inflation forecast of 2.2 % for 2011. We recommend that you adopt this as the inflation rate forecast for the Budget.

## Tax Increase Target for 2011

Having established a forecast for the inflation rate, we recommend that Budget Committee set an appropriate target for the 2011 tax increase. This is not necessarily the same as the forecast inflation rate, but should be related to it.

MIRANET recommends that in addition to the rate of inflation an additional 0.5% increase be allowed to accommodate new services and growth. We support the City imposing an infrastructure tax levy of 1.0%, which was withdrawn by both the City and the Region of Peel for 2010. Therefore we recommend that you adopt a target of 3.7 % in total, comprising the forecast of inflation, the infrastructure levy and an allowance for new services. This is less than half the increase of 8.0 % proposed by Finance staff.

Can this target be achieved? Yes, with some tough decisions.

## MIRANET's Proposed Revisions to the 2011 Operating Budget

One of the major drivers of the increase in the operating budget is wages and salaries. City Finance Director Ms. Elliott-Spencer identified that a 3.0% wage increase in 2011 results in an increase in labour costs of 4.2 %. We note that staff continue to live in a 3.0% universe in which, regardless of the economic conditions it is expected that every Municipal employee will receive a 3.0% annual increase. It is time this entitlement stopped. Given that municipal employees enjoy high job security, and did not see their wages decline during the 2008-2009 recession, we challenge you to slow this entitlement. We propose that total salaries, wages and benefits should be allowed to increase by no more than 2.0 % in 2011.

Specifically we believe this can be achieved by the following:

- A freeze on new hiring in 2011
- Non-union staff salary increase be limited to 1.0%
- Reduction of the employee headcount across the City by 1.0 % through attrition
- Maintain freeze on senior management salaries unless tax increase target for 2011 of 3.7% or better is achieved.

Our second recommendation is that each Commissioner should be required to reduce his or her departmental budgets such that there is no increase in the non-labour operating costs for 2011. When we met with Ms. Elliott-Spencer in July, we were told that the leadership team had directed a 3.0% reduction in departmental budgets for 2011. Inexplicably this initiative was dropped, apparently because it resulted in some service level reductions. As far as we know, Budget Committee was not advised as to what those service reductions might be.

As a reference point, we note that the federal government has directed that any public service salary increases be absorbed in existing department budgets that will not increase in fiscal 2011.

Now let's turn to the figures. You will recollect that at page 22 of her presentation, Ms. Elliott-Spencer showed an increase of 4.5 % as the net impact of delivering existing services. We have recast this table based upon a maximum increase of 2.0% in wages and salaries and 0.5% increase in other operating expenses. We have assumed that revenues will be reduced, as suggested by staff, to \$250,177,000. The overall impact of our changes, before allowing for the 1.3% increase in assessment growth, is an overall increase in the tax rate of 1.83% to maintain existing services, in place of the 5.8% proposed by staff.

If growth-related services costing \$3,252,000 are allowed, but new services costing \$5,369,000 (page 44) are reduced by half, and the balance phased in over the next three years, then the net tax increase, including an infrastructure levy, is reduced to 3.53 % as shown in the accompanying table. These changes comprise our recommended revisions to the 2011 Operating Budget.

Staff may advise you that there is insufficient time to rework the budget. We question that. In our meeting with Peel's Commissioner of Finance in July, we were advised that although the Region likes to have its Budget finalized in January, it is not necessary to have it completed before the end of March. As you know, new tax bills do not come into effect until July 1, 2011.

We hope you will give careful consideration to our recommendations and direct staff accordingly.

## Miscellaneous Items

There are a number of items we would like to draw your attention to, that don't readily fall into any of the topics we have discussed.

- 1.** The four year business plan: we commend Budget Committee and Staff for the adoption of a four year planning cycle coinciding with the four year election cycle. We think this cycle helps the Committee understand the implications of its decision-making for the coming year and provides some context for discretionary initiatives.
- 2.** Open House: we are disappointed that the City did not adopt our recommendations to establish an advisory panel to provide feedback on the draft Budget. An Open House may be useful but suffers from a lack of participation by the full Budget Committee. We continue to recommend the creation of an advisory Review Panel.
- 3.** Tax increase smoothing: we recommend that the smoothing of year over year tax increases be adopted to assist taxpayers better plan their expenditures on municipal taxes. The operating reserves are available to implement this process.
- 4.** Consulting fees: we have inquired of the Finance Department how much the City is spending on consultants. It is our perception that the fees for consultants are not being closely monitored and controlled. The Finance Department has informed us that it does not know the aggregate amount being spent on consultants and doesn't have the resources to develop the information. We strongly recommend that this situation be rectified immediately.
- 5.** Costs of the Judicial Inquiry: the costs of the Inquiry are being funded from the Operating Reserve Fund and no provision has been made in the 2011 Operating Budget to replace partially or wholly the monies withdrawn from the Fund for this purpose. We would like to know over what period the City plans to replace these funds in the Operating Reserve Fund.
- 6.** We recommend that the City strengthen the internal audit function since it is apparent that not all City expenditures can be accounted for by Staff. We recommend that the internal auditor report to City Council and not the City Manager.

## Conclusions and Recommendations

MIRANET has reached the following conclusions with regard to the City's 2011 Operating Budget:

- 1.** The staff proposal to raise property taxes by 8.0% in 2011 is unacceptable to most Mississauga ratepayers, especially as it is the first proposed instalment of a 30.1% increase over the next three years.
- 2.** MIRANET is recommending that a tax increase of approximately 3.5 % and no more than 3.7 % be approved for 2011. This is the increase that MIRANET considers to be reasonable, responsible and fair to the ratepayers of Mississauga.
- 3.** At its first meeting on June 15, 2010 regarding the 2011 budget, Budget Committee declined to set an explicit target for the tax increase. This was in spite of the strong recommendation from MIRANET in its January 2010 deputation that the City should start the budget process by establishing such a target. The absence of a target for 2011 provided an open and unconstrained framework within which City Staff then brought forward the proposed 8% increase.
- 4.** Since wages and benefits have a disproportionately large impact on the City's cost base, the City should make a much greater effort than it has in the past to constrain increases in these elements so that the cost of existing services grows at an affordable rate close to the forecast rate of inflation.
- 5.** MIRANET continues to advocate for an Advisory Review Panel composed of business and community leaders to provide feedback on the preliminary Budget plans. While the Open House gives staff an opportunity to promote the Budget, it does not replace the more disciplined and analytical approach expected of a Review Panel meeting on a regular basis.
- 6.** Finally, we recommend that provision be made to amortize and recover the costs of the Judicial Inquiry over the four year Business Plan. We do not consider that these costs should linger longer than is necessary. While we understand that initially they are paid from the Operating Reserve Fund, that fund will need to be replenished. The costs of the Inquiry and their recovery from taxpayers should be acknowledged and transparent.

Those are our respectful recommendations. We hope the Committee will give them serious consideration. Thank you Madam Mayor and members of committee for your interest in our presentation.

*See tables below.*

## Consensus Economic Outlook for Ontario – 2011

	GDP Growth %	Consumer Price Index %	Unemployment Rate %
CIBC	3.4/1.7	2.2/1.9	8.8/8.9
RBC	3.3/3.1	2.5/2.6	8.0/7.8
TD Economics	3.0/2.4	2.4/2.3	8.7/8.2
Scotia	3.2/2.1	-/2.0*	8.7/8.4
BMO	3.3/2.6	2.4/2.1	8.7/8.2

\* Data for Canadian economy only

### Data Sources

CIBC: World Markets, Economic Insights, September 30, 2010-12-28

RBC: Economic Forecast Detail – Canada, December 2010-12-28

TD: Provincial Economic Forecast, December 17, 2010

Scotia: Global Forecast Update, December 7, 2010-12-28

BMO: Provincial Economic Outlook, December 23, 2010

## Consensus Economic Outlook for Ontario – 2011

	GDP Growth %	Consumer Price Index %	Unemployment Rate %
CIBC	1.7	1.9	8.9
RBC	3.1	2.6	7.8
TD Economics	2.4	2.3	8.2
Scotia	2.1	2.0*	8.4
BMO	2.6	2.1	8.2

\* Data for Canadian economy only

### Data Sources

CIBC: World Markets, Economic Insights, September 30, 2010-12-28

RBC: Economic Forecast Detail – Canada, December 2010-12-28

TD: Provincial Economic Forecast, December 17, 2010

Scotia: Global Forecast Update, December 7, 2010-12-28

BMO: Provincial Economic Outlook, December 23, 2010

### Revised 2011 Costs (\$000) to Deliver Existing Services

	2010 Budget	% Change	Increase	Efficiency & Program Red.	2011 Cost	% Change from 2010
Labour	379,183	2.0	7,584	(1,294)	385,473	1.65
Other Costs	169,880	0.5	849	(3,353)	167,376	(1.47)
Total	549,063		8,433	(4,647)	552,849	0.69
Revenue	(251,832)		1,737	( 82)	(250,177)	0.66
Net	297,231				302,672	1.83

Revised 2011 Costs (\$000) to Deliver Existing Services  
plus Growth and New Services

	2010 Budget	% Change	Increase	Efficiency & Program Red.	2011 Cost	% Change from 2010
Labour	379,183	2.0	7,584	(1,294)	385,473	1.65
Other Costs	169,880	0.5	849	(3,353)	167,376	(1.47)
Total	549,063		8,433	(4,647)	552,849	0.69
Revenue	(251,832)		1,737	( 82)	(250,177)	0.66
Net	297,231				302,672	1.83
New Services (50% of 5,369, p.44)					2,685	
Growth Initiatives (3,252, p 47)					3,252	
Net Operating Budget					308,609	3.83
Less Assessment Growth						1.30
Net Impact on tax rate						2.53
Infrastructure Levy						1.00
<b>Tax Increase</b>						<b>3.53</b>