

Analyst Briefing Notes

Budget Committee

(January 28, 2008)

2008 OPERATING BUDGET

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January 28, 2008

2008 OPERATING BUDGET**Executive Summary**

- The 2007 projected year-end net expenditure of \$46.669 million is \$2.240 million or 5.0% above the 2007 Approved Operating Budget of \$44.429 million net, as at September 30th, 2007.
 - The Toronto Parking Authority is forecasting an increase in year-end gross expenditures of \$1.409 million or 2.4% compared to the 2007 Approved Operating Budget of \$57.805 million, as at September 30th, 2007. The unfavourable variance is attributed primarily to higher than anticipated rental charges for numerous carparks throughout the City which are reflective of higher gross revenue. In addition, credit card processing; ticket; wireless communication; and, service contract costs are all anticipated to increase as a result of higher than forecasted parking revenues.
 - The Authority is reporting that year-end gross revenue will exceed the 2007 Approved Operating Budget by approximately \$3.649 million or 3.6%. The increase primarily results from the improvement in off-street parking facilities along Bloor Street from Yonge to Avenue Road and at major facilities near the Lakeshore from Bay to Jarvis Streets and Council approved on-street user fee increases in May 2007.
 - The City's share of the 2007 year-end net revenue is projected to increase to \$34.509 million. This represents an increase of \$1.445 million or 4.4% compared to the 2007 Approved Operating Budget net revenue estimate of \$33.064 million.
 - The Toronto Parking Authority is forecasting no changes to the 2007 approved staffing complement of 297.8 positions by year-end.
- The 3-Year Operating Budget will advance the strategic direction of the Authority which includes:
 - Continued focus on satisfying short-term parking shortfalls while increasing net profits.
 - Continued expansion and promotion of the corporate convenience card. The card is marketed to corporate customers who have sales people or technicians in the field. It is a private label credit card that is accepted in all Toronto Parking Authority equipment to pay for parking.
 - Continued conversion of on-street meters to pay-and-display technology in areas where a reasonable payback is obtainable.
 - Continued focus on opportunities to satisfy urgent parking needs in areas that have identified parking shortfalls. Particular attention has been placed on St. Clair Avenue between Yonge Street and Gunns Road for additional off-street spaces to replace spaces that will be lost on-street due to the Toronto Transit Commission street car right-of-way.

Table 1: 2008 Recommended Budget

(In \$000s)	2007		2008 Recommended Operating Budget			Change - 2008 Recommended from 2007 Approved Budget		FY Incremental Outlook	
	2007 Approved Budget	2007 Projected Actual	2008 Base	2008 New/ Enhanced	2008 Operating Budget			2009	2010
	\$	\$	\$	\$	\$	\$	%	\$	\$
GROSS EXP.	57,804.7	59,214.0	63,398.2	100.0	63,498.2	5,693.5	9.8	979.0	560.0
REVENUE	102,234.1	105,883.3	113,115.4	0.0	113,115.4	10,881.3	10.6	0.0	0.0
NET REVENUE	(44,429.4)	(46,669.3)	(49,717.2)	100.0	(49,617.2)	(5,187.8)	11.7	979.0	560.0
Approved Positions	297.8	297.8	297.0	2.0	299.0	1.2	0.4	0.0	0.0

- The 2008 Recommended Operating Budget of \$49.617 million net revenue is comprised of funding for base expenditures of \$63.398 million and new/enhanced service priorities of \$0.100 million and revenues of \$113.115 million. This represents a \$5.188 million or 11.7% increase over the 2007 Approved Operating Budget net revenue of \$44.429 million.
 - The 2009 and 2010 Outlook maintains the 2008 level of service while managing the cost-of-living-allowance (COLA) and merit/step increments for union and non-union staff.
 - Incremental operating revenue generated from user fees is \$0.867 million in 2009 and \$1.110 million in 2010. Incremental operating revenue from user fees is generated in the year following completion of parking facilities.
- The 2008 Recommended Operating Budget provides funding for key cost drivers which include the following:
 - Wage increases for union and non-union staff associated with off-street and on-street parking operations results in an increase of \$0.330 million in salaries and benefits.
 - Depreciation is higher as more locations/lots are opened and pay-and-display machines are expanded on-street. Depreciation is forecasted to increase by \$1.812 million.
 - Material and supplies are forecasted to increase by \$0.757 million. The increase is a combination of 3 major costs which are all influenced by higher parking volumes:
 - Credit card processing costs increase in response to higher gross revenue and a higher proportion paid from credit sales compared to cash. This is due in part to the conversion of many locations to “credit in/out” technology.
 - Ticket costs increase in relation to higher usage.
 - Service costs for automated equipment increase in response to the addition of more units and pricing increases.
 - Just over \$0.500 million of the increase is a one-time expense to meet mandated credit card industry standards for credit card security plus related software licenses and upgrades to enhance the Authority’s data center.

- Services and rents are forecasted to increase from higher gross revenues. A portion of profits is paid to property owners for rent. The increase in service and rents is projected to be \$1.712 million.
- Property taxes are projected to grow as a result of new off-street parking facilities and a provisional rate increase of 1%. The increase is forecasted at \$1.084 million.
- The Toronto Parking Authority is facing a number of service delivery challenges due to the following:
 - The Authority's business model includes maximizing financial returns while supplying off-street and on-street parking. Earning profits adds an additional layer of complexity that separates the Authority from many other City Programs; Agencies; Boards; and, Commissions in delivering services.
 - Elimination of off-street parking facilities that no longer sustain profit margins.
 - Acquiring land for new locations in an environment of high priced land.
 - Operating in a technological business environment of increasing complexity and costs.
 - Operating in an increasingly regulated payment processing environment.
- The 2008 Recommended Operating Budget includes funding for the following strategic priorities:
 - \$0.050 million to strengthen the Authority's support for local Business Improvement Areas.
 - \$0.050 million in funding to advance the Tree Advocacy Planting Program. The program seeks to leave a legacy of trees for future generations by planting trees along city streets; arterial roads; neighbourhood parks; and, in ravines.
- The 2008 Recommended Operating Budget will enable the Toronto Parking Authority to increase 2007 service levels and gain operational efficiencies through the continued expansion of parking technology. The increased adoption of new and emerging technology will allow the Authority to provide better service to customers and control operating costs more effectively, thereby increasing their net revenue contributions to the City's general reserves.
- The Toronto Parking Authority operates approximately 20,000 off-street spaces in 180 facilities including 22 parking garages, as well as 18,000 on-street spaces controlled by pay-and-display technology or single spaced meters. In addition, the Authority manages on behalf of the Toronto Transit Commission, 14,000 spaces at their park-and-ride facilities and parking areas on behalf of the Parks, Forestry and Recreation Program serving the waterfront parks during the summer season. The Toronto Parking Authority is the largest municipal parking operator in North America.

Recommendations

The City Manager and Chief Financial Officer recommend that:

1. the 2008 Recommended Operating Budget for the Toronto Parking Authority of \$63.498 million gross and \$49.617 million net, comprised of the following services, be approved:

<u>Service:</u>	Gross <u>(\$000s)</u>	Net <u>(\$000s)</u>
On-Street Parking	13,134.2	(30,392.6)
Off-Street Parking	<u>50,364.0</u>	<u>(19,224.6)</u>
Total Program Budget	<u><u>63,498.2</u></u>	<u><u>(49,617.2)</u></u>

Section A: 2007 Budget Variance Analysis

Table 2: 2007 Budget Variance Review

	2006 Actuals	2007 Approved Budget	2007 Projected Actuals*	2007 Appvd. Budget vs Projected Actuals Variance	
(In \$000s)	\$	\$	\$	\$	%
GROSS EXP.	56,495.6	57,804.7	59,214.0	1,409.3	2.4
REVENUE	100,302.0	102,234.1	105,883.3	3,649.2	3.6
NET REVENUE	(43,806.4)	(44,429.4)	(46,669.3)	(2,239.9)	5.0
Approved Positions	294.9	297.8	297.8	0.0	0.0

Note: *Projections based on the 2007 Third Quarter Operating Budget Variance Report

2007 Experience

Gross Expenditures: The 2007 year-end gross expenditure projection of \$59.214 million is over budget by \$1.409 million or 2.4% compared to the 2007 Approved Operating Budget of \$57.805 million, as at September 30th, 2007. The increase is primarily due to higher than anticipated rental charges for numerous carparks throughout the City in response to higher gross revenues. In addition, credit card processing; ticket; wireless communication; and, service contract costs are all anticipated to increase from higher than forecasted gross revenue.

Revenue: The Authority is reporting that year-end gross revenue will exceed the 2007 Approved Operating Budget by approximately \$3.649 million or 3.6%, as reported in the 2007 3rd Quarter Operating Budget Variance Report. The increase primarily results from the improvement in off-street parking facilities along Bloor Street from Yonge to Avenue Road and at major facilities near the Lakeshore from Bay to Jarvis Streets and Council approved on-street user fee increases.

Net Revenues: Given the above, the Authority is forecasting an increase in year-end net revenue of \$2.240 million or 5.0% above the budgeted amount of \$44.429 million. This favourable variance is due to higher than forecasted gross revenues, as noted above.

Approved Positions: The Authority is anticipating no change to the approved complement of 297.8 positions by year-end.

Impact of 2007 Operating Variance on the 2008 Recommended Budget

The City's share of the 2007 year-end net revenue is projected to increase to \$34.509 million. This represents an increase of \$1.445 million or 4.4% compared to the 2007 Approved Operating Budget share of \$33.064 million. The strong growth in net revenues will continue as reflected in the 2008 Recommend Operating Budget.

Section B: 2008 Operating Budget Overview

3-Year Operating Budget Overview

The Toronto Parking Authority is a self-sustaining public corporation owned by the City of Toronto. The Authority contributes net income to the City's general revenues while successfully meeting its mandate of providing safe; attractive; self sustaining; conveniently located; and, competitively priced off-street and on-street public parking as an integral component of Toronto's transportation system. Considered as a leader in the use of parking technology, the Authority has been successful in ensuring that businesses in areas served throughout the City continue to grow and their neighbourhoods remain vibrant.

The Toronto Parking Authority operates approximately 20,000 off-street spaces in 180 facilities including 22 parking garages, as well as 18,000 on-street spaces controlled by pay-and-display technology or single spaced meters. In addition, the Authority manages on behalf of the Toronto Transit Commission, 14,000 spaces at their park-and-ride facilities and parking areas on behalf of the Parks, Forestry and Recreation Program serving the waterfront parks during the summer season. The Toronto Parking Authority is the largest municipal parking operator in North America.

Over the next 3 years, operating budget funding will advance the Authority's strategic direction which includes:

- Continued focus on satisfying short-term parking shortfalls while increasing net profits.
- Continued expansion and promotion of the corporate convenience card. The card is marketed to corporate customers who have sales people or technicians in the field. It is a private label credit card that is accepted in all Toronto Parking Authority equipment to pay for off-street and on-street parking.
- Examination of additional automation opportunities.
- Continued conversion of on-street meters to pay-and-display technology in areas where a reasonable payback is obtainable.
- Continued focus on opportunities to satisfy urgent parking needs in areas that have identified parking shortfalls. Particular attention has been placed on St. Clair Avenue between Yonge Street and Gunns Road for additional off-street spaces to replace spaces that will be lost on-street due to the Toronto Transit Commission street car right-of-way.

The 2009 and 2010 Outlook forecast continued growth in the Authority's net revenue. The 2009 Outlook net revenue of \$49.960 million reflects a projected increase of 12% or \$5.531 million compared to the approved 2007 Operating Budget net revenues of \$44.429 million. The 2010 Outlook is forecasting a \$5.521 million increase in net revenues, as compared to the approved 2007 Operating Budget. The projected growth in net revenue will be generated from the continued implementation of solar powered pay-and-display machines; adoption of the corporate convenience card; increased automation opportunities; Council approved user fee increases; and, new off-street

parking facilities. The continued expansion of new and emerging technologies has allowed the Authority to provide better service to customers and to control costs more effectively, thereby increasing profitability.

Challenges and Issues

The Toronto Parking Authority is facing a number of service delivery challenges due to the following:

- The Authority's business model includes maximizing financial returns while supplying off-street and on-street parking. Earning profits adds an additional layer of complexity that separates the Authority from many other City Programs; Agencies; Boards; and, Commissions in delivering services.
- Elimination of off-street parking facilities that no longer sustain profit margins.
- Acquiring property for new locations in an environment of high priced land.
- Operating in a technology based business environment of increasing complexity and costs.
- Operating in an increasingly regulated payment processing environment.

Strategic Priorities

The 2008 Recommended Operating Budget directly advances the following strategic priorities of Council's policy agenda:

Work with Business Improvement Associations (BIAs) to Create Teams to Improve the Look and Feel of Our Retail Strips by Strengthening Enforcement of the City's Property Standards.

The Authority works very closely with the local Business Improvement Areas and their umbrella organization, the Association of Business Improvement Areas, through funding; attendance at meetings; participation in event planning; and, consultation on proposed operational changes to parking facilities and rates. The Authority's 2008 Recommended Operating Budget includes funding of \$0.050 million to strengthen their support with the City's local Business Improvement Areas.

Make Toronto Greener by Improving the Tree Management and Care Program to Feed, Care for, Save or Replace Existing Street Trees in Our City. The City will Experiment with New Ways to Plant and Water the Trees that Line Our Neighbourhoods.

In response to continuing urbanization, Council approved the Tree Advocacy Planting Program for Toronto in 2000. The program seeks to leave a legacy of trees for future generations by initiating tree planting along city streets; arterial roads; neighbourhood parks; and, in ravines. For the past 7 years, the Authority has supported this program with \$0.350 million in total funding. The Toronto Parking Authority's 2008 Recommended Operating Budget includes \$0.050 million in funding to advance the Tree Advocacy Planting Program.

Section C: 2008 Recommended Base Budget

Table 3: 2008 Recommended Base Budget

(In \$000s)	2007 Approved Budget	2008 Recommended Base	Change 2008 Recommended Base vs. 2007 Approved Budget		FY Incremental Outlook	
					2009	2010
	\$	\$	\$	%	\$	\$
GROSS EXP.	57,804.7	63,398.2	5,593.5	9.7	979.0	560.0
REVENUE	102,234.1	113,115.4	10,881.3	10.6	0.0	0.0
NET REVENUE	(44,429.4)	(49,717.2)	(5,287.8)	11.9	979.0	560.0
Approved Positions	297.8	297.0	(0.8)	(0.3)	0.0	0.0

2008 Recommended Base Budget

The Toronto Parking Authority is self-sustaining and does not impact the municipal tax levy. The City does not set a guideline for the Toronto Parking Authority since the Authority funds its capital and operating budgets from retained earnings; reserves; and/or, selling air rights.

Gross Expenditures: The 2008 Recommended Base Budget gross expenditures of \$63.398 million reflect an increase of \$5.594 million or 9.7% compared to the 2007 Approved Operating Budget of \$57.805 million. A large proportion of the increase is driven by the projected growth in off-street and on-street parking usage, as outlined below.

Revenues: The 2008 Recommended Base Budget revenues of \$113.115 million are \$10.881 million or 10.6% higher than the 2007 Approved Operating Budget of \$102.234 million. The factors contributing to the projected growth in revenue includes the following:

- Off-Street revenues are forecasted to increase by approximately \$4.497 million resulting from the re-commencement of paid parking at parks locations; increase in the number of larger parking garages in the City core; and, addition of more spaces in the Distillery District.
- On-Street revenues are projected to increase by \$5.527 million, which results from the full implementation of Council approved rate structure changes in conjunction with a major upgrade of credit card readers and firmware.
- Sundry revenues are forecasted to increase by \$0.858 million resulting from rent for leasing operations; investment income; and, billboard/pillar advertising.

Net Revenues: The 2008 Recommended Base Budget net revenue is projected to grow from \$44.429 million in 2007 to \$49.717 million in 2008, reflecting an increase of \$5.288 million or

11.9%. As noted above, the increase in net revenues will be primarily attributed to gross revenue growth from off-street and on-street parking facilities throughout the City.

2008 Key Cost Drivers and Reduction Strategies

The 2008 Recommended Base Budget represents an increase of \$5.594 million or 9.7% compared to the 2007 Approved Operating Budget of \$57.805 million. The 2008 Recommended Base Budget key cost drivers include the following:

- Wage increases for union and non-union staff associated with off-street and on-street parking operations results in an increase of \$0.330 million in salaries and benefits.
- Depreciation is higher as more locations/lots are opened and pay-and-display machines are expanded on-street. Depreciation is forecasted to increase by \$1.812 million.
- Material and supplies are forecasted to increase by \$0.757 million. The increase is a combination of 3 major costs which are all influenced by higher parking volumes:
 - Credit card processing costs increase in response to higher gross revenue and a higher proportion paid from credit sales compared to cash. This is due in part to the conversion of many locations to “credit in/out” technology.
 - Ticket costs increase in relation to higher usage.
 - Service costs for automated equipment increase in response to the addition of more units and pricing increases.
 - Just over \$0.500 million of the increase is a one-time expense to meet mandated credit card industry standards for credit card security plus related software licenses and upgrades to enhance the Authority’s data center.
- Services and rents are forecasted to increase from higher gross revenues. A portion of profits is paid to property owners for rent. The increase in service and rents is projected to be \$1.712 million.
- Property taxes are projected to grow as a result of new off-street parking facilities and a provisional rate increase of 1%. The increase is forecasted at \$1.084 million.

2009 and 2010 Outlook: Net Incremental Impact

The 2009 and 2010 Outlook maintains the 2008 level of service while managing the cost of living allowance (COLA) and merit/step increments for union and non-union staff.

Incremental operating revenue generated from user fees is \$0.867 million in 2009 and \$1.110 million in 2010. Incremental operating revenue from user fees is generated in the year following completion of parking facilities.

Section D: 2008 Recommended Service Priorities

Table 4: Summary of 2008 New / Enhanced Service Priorities (In \$000s)

Description	2008 Recommended		Rec. New Positions	Net Incremental Impact	
	Gross Exp.	Net Exp.		2009	2010
	\$	\$		\$	\$
(a) Enhanced Service Priorities - Council Approved:					
(b) Enhanced Service Priorities - Program Initiated:					
Assistant Network Administrator	55.0	55.0	1.0		
Night Maintainer	45.0	45.0	1.0		
Sub-Total Enhanced Services	100.0	100.0	2.0		
(a) New Service Priorities - Council Approved:					
(b) New Service Priorities - Program Initiated:					
Sub-Total New Services					
Total Enhanced/New Services	100.0	100.0	2.0		

Recommended Enhanced Services – Program Initiated:

Assistant Network Administrator

This enhanced service level priority includes the increase of 1 permanent position at a cost of \$0.055 million gross effective April 15, 2008. The costs of the new position will be fully annualized in 2008. This is a new permanent position.

The Assistant Network Technician will assist in managing the Authority's computer network for carparks and credit card processing. The position is largely in response to the Authority's projected increase in revenue and the conversion of car parks to fully automated facilities within the next several years. In addition, the position will provide support for the conversion of the Toronto Transit Commission's parking equipment.

Night Maintainer

This enhanced service level priority includes the increase of 1 permanent position at a cost of \$0.045 million gross effective April 15, 2008. The costs of the new position will be fully annualized in 2008. This is a new permanent position and will increase the full-time equivalent complement by 1 position or 0.03% compared to the 2007 number of 297.8.

The Night Maintainer will provide cleaning services and act as an attendant during the night shift at 24 hour off-street parking garages. The Authority has had difficulty in recruiting and maintaining student labour for this position. The costs for the new position are partially off-set by reduced student wage costs of \$0.030 million in the base budget.

Appendix 1

Summary of Recommended Base Budget Changes From 2007 Approved Budget

(In \$000s)	Summary of 2008 Base Budget Adjustments				Net Incremental Outlook	
	Approved Positions	Gross Expenditures	Revenues	Net	2009	2010
		\$	\$	\$	\$	\$
2007 Council Approved Operating Budget	297.8	57,804.7	102,234.1	(44,429.4)	0.0	0.0
In-year approvals and technical adjustments						
Corporate adjustments						
2007 Approved Operating Budget	297.8	57,804.7	102,234.1	(44,429.4)	0.0	0.0
Prior year impacts		74.0		74.0		
Zero base items						
Economic factors		309.0		309.0	979.0	560.0
Adjusted Base Budget	297.8	58,187.7	102,234.1	(44,046.4)	979.0	560.0
Other base changes	(0.8)	5,210.5		5,210.5		
Base revenue changes			10,881.3	(10,881.3)		
Recommended Service Level Adjustments:						
Service efficiencies						
Revenue adjustments						
Minor service impact						
Major service impact						
Total Recommended Base Adjustments	(0.8)	5,210.5	10,881.3	(5,670.8)	0.0	0.0
2008 Recommended Base Budget	297.0	63,398.2	113,115.4	(49,717.2)	979.0	560.0

Appendix 3

Summary of 2008 Recommended New / Enhanced Service Priorities