

CITY OF TORONTO

2010 Budget Committee Recommended Operating Budget

April 7, 2010



Agenda

1. Executive Summary
2. 2010 Operating Budget Overview
 - ✓ 2010 Recommended Operating Budget
 - ✓ City Services
 - ✓ 2010 Property Tax Rates
3. 2011 Outlook
4. Long Term Fiscal Plan

Executive Summary

- The 2010 Operating Budget is balanced
- Property tax increase kept to 1.8% on total tax base (2.9% Res, 0.967% Business)
- Service reduction impacts kept to a minimum
- Expenditure increase directed to:
 - Protecting key services:
 - ✓ Emergency Services – Fire, Police, EMS
 - ✓ Maintaining TTC Service Levels
 - ✓ Children Services, Recreation, Social Services
 - ✓ 311 Customer Service Strategy
 - ✓ Increased pay-as-you go funding for capital program (debt principal & interest payments reduced)
 - Funding the ongoing impact of the recession – Ontario Works
- Conclude a Toronto-Ontario partnership agreement on permanent, sustainable transit operating funding by December 1, 2010. Funding to commence in fiscal 2011

City's Economic Environment

Recession Impacts

- Ontario Works caseload continues to grow – job recovery very slow
- Upload of Ontario Works Costs to the Province begins
- Modest reduction in TTC ridership projected
- Planning & Building Fees down
- MLTT experiencing modest growth
- Low interest rates will moderate the cost of new debt but also the returns from investment income
- General inflation remains very low

Wage Settlements:

- New labour agreements for Locals 416 and 79 result in moderate wage increases of 2%
- Non union wage increase 1%
- TTC and Police wage and benefit increases above 3%

Actions Taken

- Cost reductions, service efficiencies and service changes
- TTC fare & user fee increases and new user fees
- Debt principal payments reduced by capital refinancing strategy approved in Capital Plan
- Significant 2009 surplus generated by:
 - ⇒ Spending restraint
 - ⇒ labour disruption savings
 - ⇒ Increased Toronto Parking Authority & MLTT revenues
 - ⇒ In-year Tax Assessment Growth



2010 Operating Budget Overview

2010 Outlook - as of May 2009

	<u>\$Millions</u>	
2009 Unsustainable Budget Balancing Strategies:		
Province - Transit Debt Service Costs		238
City One-Time		
Reserve Draws - City Programs (\$47M and Closed Capital Accounts (\$92M)	139	
Prior Year Surplus	74	213
Total 2009 Unsustainable Balancing Strategies		<u>451</u>
2010 Expenditure Increase Estimates:		
Cost of Living Allowance and Progression Pay	115	
Inflation - Material and Supplies	54	
Impact of Capital	5	
Capital Financing - CFC Increase and Debt Service	72	
Annualization and Other Base and Revenue Change	124	370
		<u>821</u>
2010 Pressure Forecast		<u><u>821</u></u>

City Manager's Four Point Plan – May 2009

1. **2009 cost constraint – Target \$100 million Surplus**
 - Hiring slow down
 - Constrain discretionary spending
2. **Service review process – reduction targets of \$170 million in each of 2010 and 2011**
3. **Maximize corporate asset values to pay down debt**
4. **Permanent Provincial funding:**
 - Full cost sharing on social services administrative costs
 - Return to permanent, predictable transit operating funding

Service Review Process -- Targets

- Goal: to reduce the City budget by 10% or \$340 million over 2 years
 - All City Programs and ABCs to contribute
 - Reduction options must be sustainable, permanent
- Lessons learned from labour disruption to be incorporated (with respect to efficiency while protecting service levels)
- Strategies to achieve the reduction targets to include:
 - Efficiencies
 - Revenue
 - Service Changes
 - Service Rationalization

2010 Balancing Strategies

	\$Millions
2010 Beginning Pressure - May 2009	821
 Sustainable Strategies	
Cost Reductions, Service Efficiencies, and Service Changes	(167)
User Fee Increases and New Fees	(12)
TTC Fare Increase	(50)
MLTT and PVT Revenue Increase	(12)
Interest and Investment Income, Parking Authority and Third Party Sign Tax	(22) (263)
Provincial Upload - ODSP/OW, COA Cap elimination	(119) (119)
Total Sustainable Strategies	(382) (382)
 Pressure Before Unsustainable Strategies and Property Tax Increase	
	439 439

2010 Balancing Strategies (cont'd)

	<u>\$Millions</u>	
Pressure Before Unsustainable Strategies and Property Tax Increase		439
Unsustainable Strategies		
Prior Year Surplus Applied to 2010 Budget:		
Labour disruption savings	(31)	
Prior Year Surplus Applied to TTC Operations in the Absence of Toronto-Ontario Partnership Agreement on Transit Funding	(245)	(276)
Reserve Draws - Provincial Mandated Programs		(67)
Total Unsustainable Strategies		(343)
Adjusted Pressure Before Property Tax Increase		96
Assessment Growth	(33)	
Property Tax Increases (2.9% Res; 0.967% Bus.)	(63)	
Total Property Tax Increase		(96)
		(0)

2009 Surplus (Unaudited)

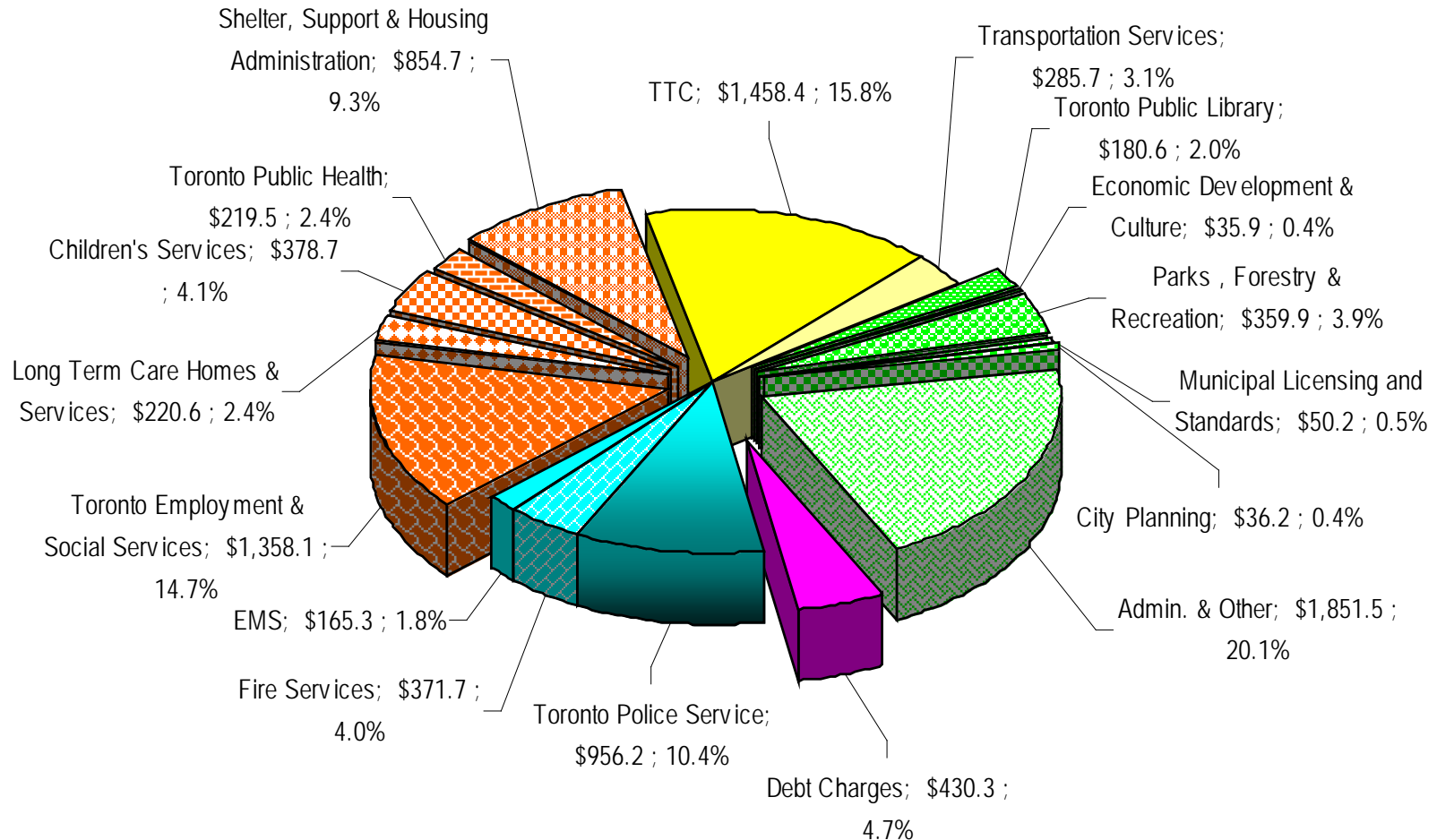
	\$Million
City Operations	87.1
Agencies, Boards, and Commissions	4.2
Corporate Accounts:	
Interest and Investment Earnings	69.6
Tax Deficiencies	53.4
Solid Waste Management Rebates	29.6
Supplementary Taxes	29.1
Payment In Lieu of Taxes & Others	24.6
MLTT and PVT	23.2
Dividend from Parking Authority	20.0
Parking Tag Enforcement	14.0
Subtotal Corporate Accounts	263.5
Total Preliminary 2009 Surplus	354.8

Application of 2009 Surplus

	<u>\$Million</u>
Total Preliminary 2009 Surplus	355
Applied to Reserve Funds (Exhibition Place Conference Centre & Social Assistance Stabilization)	(3)
Applied to 2010 Operating Budget	(250) (253)
	102
Additional funds applied to 2010 Operating Budget to lower the proposed tax increase to 2.9% Res; 0.967 Non Res.	(24)
Other Budget Committee Adjustments	(2)
Remaining Funds to be applied to 2011 Operating Budget (per Mayor's recommendation)	76

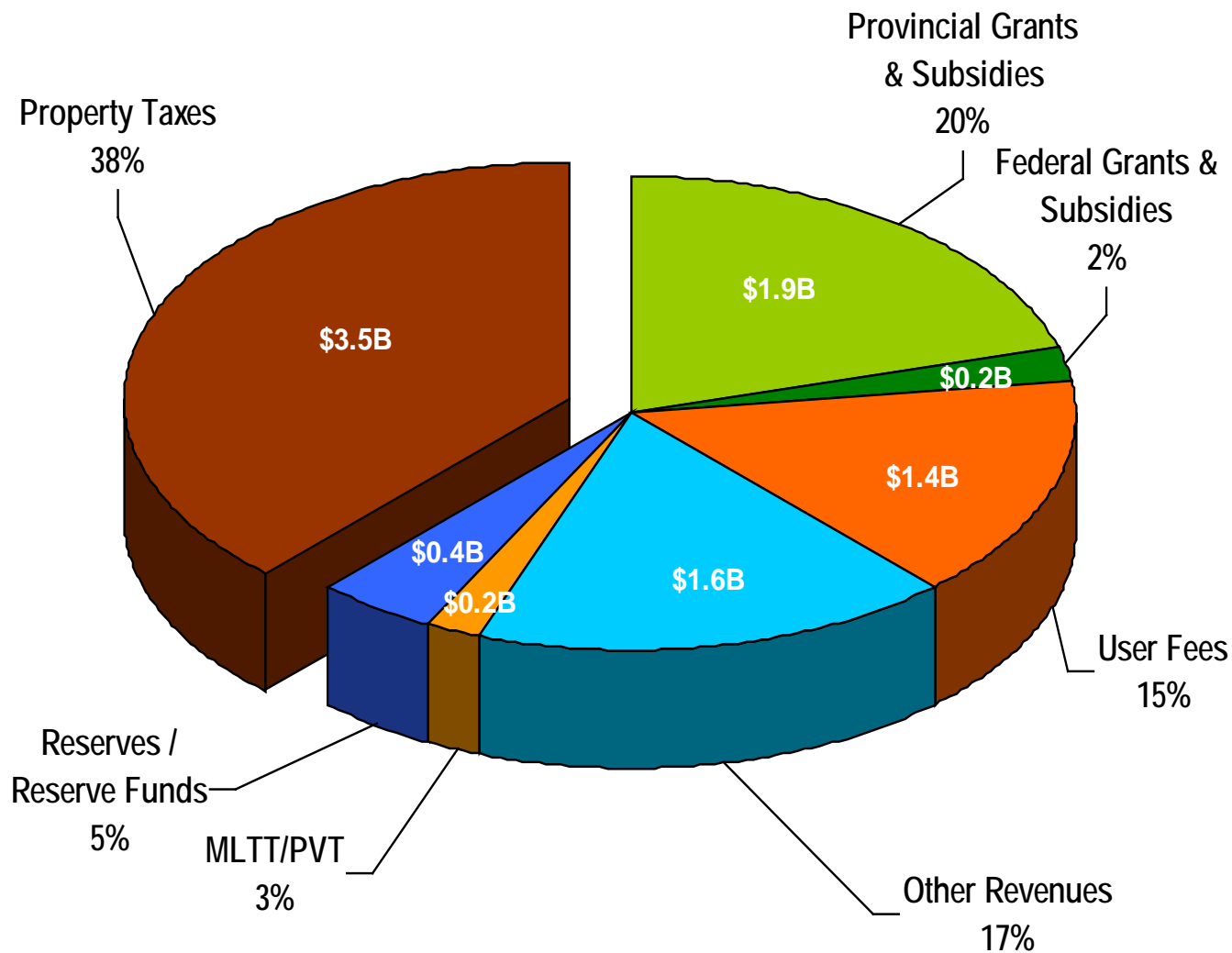
Where the Proposed \$9.214B Expenditure Goes

(\$ Million)



Where The Money Comes From

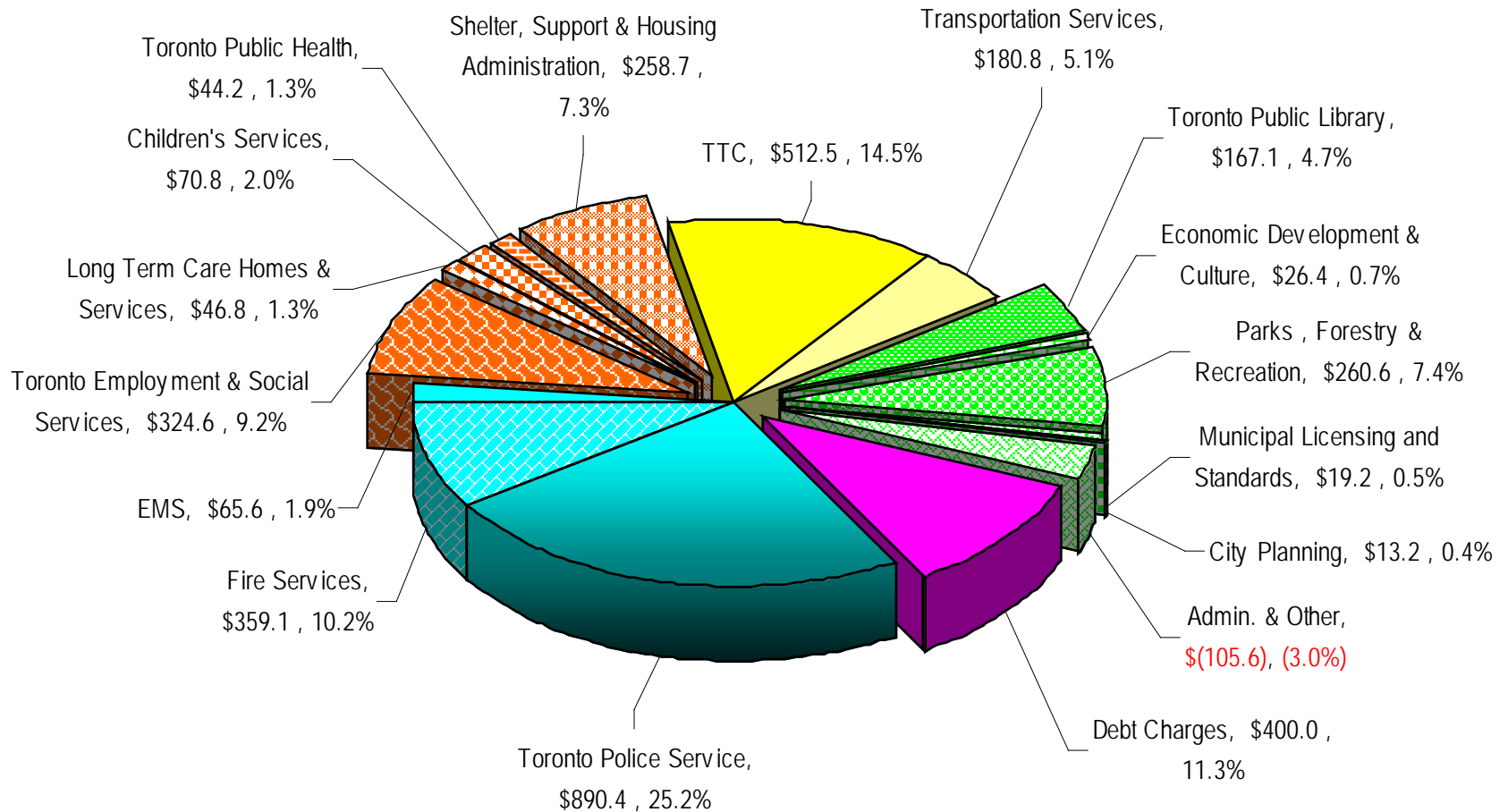
-- 38% of the 2010 Budget of \$9.214B Funded by Property Taxes



Where the Proposed \$3.534B Property Taxes Go

-- 73% to Emergency Services, TTC and Provincially Mandated Health and Social Services

(\$ Million)



BC Rec'd 2010 Net Operating Budget Totals \$3.534 Billion

(\$000s)	2009 Approved Net Budget	2010 Rec'd Net Budget	Change from 2009 Over (Under)	
			\$	%
Citizen Centred Services "A"	1,049,389	1,067,298	17,909	1.7%
Citizen Centred Services "B"	597,602	590,154	(7,448)	(1.2%)
Internal Services	154,972	154,196	(777)	(0.5%)
City Manager	37,647	37,079	(568)	(1.5%)
Other City Programs	76,827	78,983	2,156	2.8%
Accountability Offices	6,744	6,748	4	0.1%
Total City Operations	1,923,180	1,934,457	11,277	0.6%
Agencies, Boards and Commissions	1,561,855	1,640,039	78,185	5.0%
Corporate Accounts:				
Community Partnership and Investment Program	45,230	46,702	1,472	3.3%
Capital & Corporate Financing	602,918	585,037	(17,881)	(3.0%)
Provincial Funding TTC	(238,000)	0	238,000	100.0%
Non-Program Expenditures	484,132	474,177	(9,954)	(2.1%)
Non-Program Revenues	(941,027)	(1,145,936)	(204,910)	(21.8%)
Net Operating Budget	3,438,288	3,534,477	96,189	2.8%
Assessment Growth		(33,150)	(33,150)	n/a
Operating Budget	3,438,288	3,501,327	63,039	1.8%

City Services

City Supports Residents and Businesses

- City provides more than 40 major services and programs that support Toronto's position as the economic engine of Canada.
- Services 24/7
- Improved customer service centre with 311, on line/phone
 - One contact centre - 70 per cent of calls resolved on first contact
 - 311,716 calls answered as of February 7
- High standard of living and quality of life
- Latest Ontario Municipal Benchmarking Initiative (OMBI) report shows we compare favourably to other municipalities.

Service Delivery Responds to Community Needs

TORONTO HELPS

- Toronto Helps program provides Property Tax Assistance Programs to eligible seniors and persons with disabilities.
- Increased flexibility for Toronto Rent Bank Loans
- Homemakers and Nurses Services Program (LTC) additional services
- Toronto Helps program responds to recession
 - New Metro Hall Employment Services, the new Y Café and expansion of the YMCA Hospitality Training Program

Supports to Residents

- Children's Services:
 - More than 940 child care centres and 21 home child care agencies provide 52,816 licensed child care spots
 - 24,000 children are able to access a licensed space with the help of a child care fee subsidy
- Shelter, Support and Housing Administration
 - Funding for 93,500 social housing units
 - Emergency shelter services through 9 City Shelters and 48 Community facilities
- Long Term Care Homes and Services
 - Operates 10 Long-Term Homes, serving more than 2,566 residents
 - Homemakers and Nurses Services provide more than 115,000 visits each year
 - Accreditation Recognition

Supports to Residents

- Employment and Social Services:
 - Assists more than 240,000 people (1 in 10 Torontonians)
 - 2010 average case load 105,000
 - More than 85,000 visits to 15 employment centres
 - More than 21,500 clients found employment in 2009
- Parks, Forestry and Recreation:
 - 1,504 parks and 8,045 hectares of green space maintained
 - More than 4 million City-owned trees on streets, parks, ravines
 - More than 60,000 recreation programs city-wide
 - Approximately 8 million participant visits (excluding permit participant visits) to sites and facilities
 - After-School Recreation Program expanded and fees reduced

Affordable Housing

- Housing Opportunities Toronto (HOT):
- 4355 new rental units approved since 2006
- New Rental and Ownership Homes
- Residential Rehabilitation Assistance Program
- Over \$300M dedicated to SOGR

Economic Competitiveness

- Prosperity Agenda
 - Vision for growing the city's long-term prosperity and position Toronto as a leading global city of the 21st century with culture of partnerships
- Toronto has reduced business taxes by \$243 m since 2006
- Frozen development charges for two years
- Build Toronto
- Invest Toronto
- Gold Star Service: 61 projects, 22,000 jobs and \$2.4 billion of investment
- Economic Development assists with attracting more than \$500 million annual construction activity and more than \$600 million in film production

Community Safety

- Maintaining front line emergency staffing levels to ensure health and safety of Toronto residents and businesses.

Police

- Average deployed strength of 5,546 officers
- Respond to 877,000 calls

Fire

- 2,790 fire fighters respond to 142,000 calls with 277,000 vehicle responses
- Respond to 8300 fires and 2300 rescue calls

EMS

- 265,000 service requests
- 180,000 patients to hospitals

Community Safety

- Investment in 13 priority neighbourhoods
- Overall rate of crime is declining
- Making a safe City safer – Community Safety Plan
- Over \$100m in partnered programming
- New partners through Toronto Office of Partnerships
- Increased access to recreation
- Over 2000 youth job opportunities

Plan/Design/Build

- Design Review Panel
- Toronto Planning:
 - 3,927 development approval applications
 - 8,000 linear metres of streetscape enhancements
- Toronto Building:
 - 28,734 building permits issued with a construction value of \$5.5 billion
 - 3,551 Residential Fastrack Building Permits issued
 - 160,000 building inspections conducted
- Multi-Residential Apartment Buildings (MRAB)

Environmental Leadership

- Live Green Toronto – one stop resource for living green
- Toronto's Sustainable Energy Strategy adopted by Council on November 30, 2009.
- Home Energy Assistance Toronto (HEAT)
- New Bylaw tracks toxic chemicals
- Toronto launches green building initiatives (Toronto Green Standard, Green Roof Bylaw)
- Toronto most sustainable large city in Canada according to Corporate Knights Magazine
- City of Toronto received Pollution Prevention Award by the Canadian Council of Ministers of the Environment for its efforts to green its own operations

New Environmental Programs and Services

- Target 70 per cent waste diversion
- Mayor's Tower Renewal
- Climate Change Adaptation
- Fleet replacement –
 - 2004-2007 - 282 green vehicles, reducing CO2 emissions by 5000 tons
 - 2008-2011 - 520 more green vehicles, reducing CO2 emissions by a further 15,000 tons
- Deep lake water cooling – world's largest system

Transit

- Maintain current service standards (all service runs 6 am to 1 am Monday to Friday) to meet ridership of 462 million riders.
- Enhance the Subway System Cleanliness / Appearance Initiative to improve the appearance of the subway.
- Continue implementation of Health and Safety Initiative and Work Safe – Home Safe to reduce the number of lost-time injuries by as much as 60%.
- Hire additional Route Supervisors to manage service issues.

City Awards and Recognition

- ✓ Streets to Homes - IPAC Gold Award
- ✓ On-Line Scheduling at Courts - Multiple Merit Awards at the 2009 Ontario & Toronto Excellence Awards
- ✓ WEB Access to Your Services (WAYS) - Multiple Diamond Awards at the 2009 Service Ontario & Toronto Innovation Awards
- ✓ Electronic Patient Care Reporting System – Multiple Diamond Awards at the 2009 Ontario Excellence Awards & Toronto Awards
- ✓ Wychwood Car Barns - Best of Show Award/Ontario Association of Architects
- ✓ Nuit Blanche - Best Art Event/NOW Magazine's Critics' Pick
- ✓ "City Within A Park" Celebrating 175 Years - Winner of Three Awards at Canada Blooms 2009 Awards
- ✓ Many awards of excellence earned including prestigious GFOA Award for Excellence in Government Finance - 2006 Long-term Fiscal Plan & 2007 Budget Book; GFOA awards for 2007 and 2008 Financial Annual Reports

2010 Property Tax Rates And Implementing 'Enhancing Toronto's Business Climate'

City-Wide, Re-assessment is Revenue Neutral

2010 Municipal Taxes (pre levy increase)

\$3.47 B

=

\$3.47 B

Before

After

Reassessment

CVA Changes 2001 - Present

Class:	2001 (Jun30/99)	2003 (Jun30/01)	2004 (Jun30/03)	2006 (Jan1/05)	2009 -2012 CVA (Jan1/08)		
					Jan 1/08 Full Value	2009 Phased In	2010 Phased In
Residential	19.8%	14.7%	14.4%	11.4%	22.0%	5.4%	5.2%
Multi-Residential	41.1%	15.1%	16.9%	8.2%	9.3%	1.7%	2.4%
Commercial	38.9%	15.2%	4.4%	11.9%	36.9%	9.0%	8.2%
Industrial	16.1%	37.0%	9.3%	12.1%	41.9%	10.4%	9.5%
All Classes	24.7%	15.2 %	12.6%	11.2%	23.8%	5.8%	5.6%

Residential Property Value Changes

	2010 Phased-In CVA	2012 Full CVA
Single Family Detached	515,474	569,879
Townhome	377,586	417,227
Semi-Detached	371,837	411,065
Duplex	453,818	505,907
Condominium	259,914	278,789
All Residential Property Types	407,374	447,679

Projected Tax Ratios

	Historic	Actual		Projected			
	2005	2009	2010 (vs 3.38 target)	2011	2012	2013 (vs. 2015 target)	2017 (vs. 2020 target)
Commercial	3.75	3.46	3.27	3.21	3.10	3.00	2.50
Industrial	4.21	3.56	3.37				
Multi-Residential	3.71	3.46	3.32				
Small Business	n/a	3.28	3.10				

2010 CVA and Levy Related Tax Impacts and Recommended Tax Ratios 2.9% Res

Property Class	Average CVA Impact	Average Enhancing Toronto's Business Climate Adjustment	Budgetary Levy Impact	Average Total Impact
Residential	-0.71%	0.71%	2.90%	2.90%
Multi-Residential	-3.35%	0.62%	0.97%	-1.76%
Commercial Residual Band 1 (Small Business)	-1.76%	-2.27%	0.97%	-3.07%
Commercial Residual Band 2 (blended)	2.58%	-1.38%	0.97%	2.17%
Commercial General	1.73%	-0.59%	0.97%	2.10%
Industrial	3.11%	-2.39%	0.97%	1.69%
City Average	0.00%	0.00%	1.82%	1.82%

2010 Municipal Tax Impacts

Tax Class	CVA (Sample)	2009 Muni. Tax	2010 Final Municipal Tax	Net Municipal Change	
Residential	407,374 (average)	\$2,334	\$2,402	\$67.69	2.90%
Multi-Residential (Apartments)	100,000	\$2,037	\$2,002	(\$36)	-1.76%
Small Businesses Band 1	1,000,000	\$19,690	\$19,087	(\$603)	-3.07%
Residual Commercial Band 2 (Blended)	1,000,000	\$19,950	\$20,383	\$433	2.17%
Commercial General	1,000,000	\$20,160	\$20,583	\$423	2.10%
Industrial	1,000,000	\$20,752	\$21,103	\$351	1.69%

2010 Operating Budget – Tax Impacts

Residential	2.90%	2/3	\$44.2 Million
Non Residential	0.97%	1/3	<u>\$18.8 Million</u>
Total	1.82%		<u><u>\$63 Million</u></u>

Average Residential 2010 CVA = \$407,374; \$68 Impact

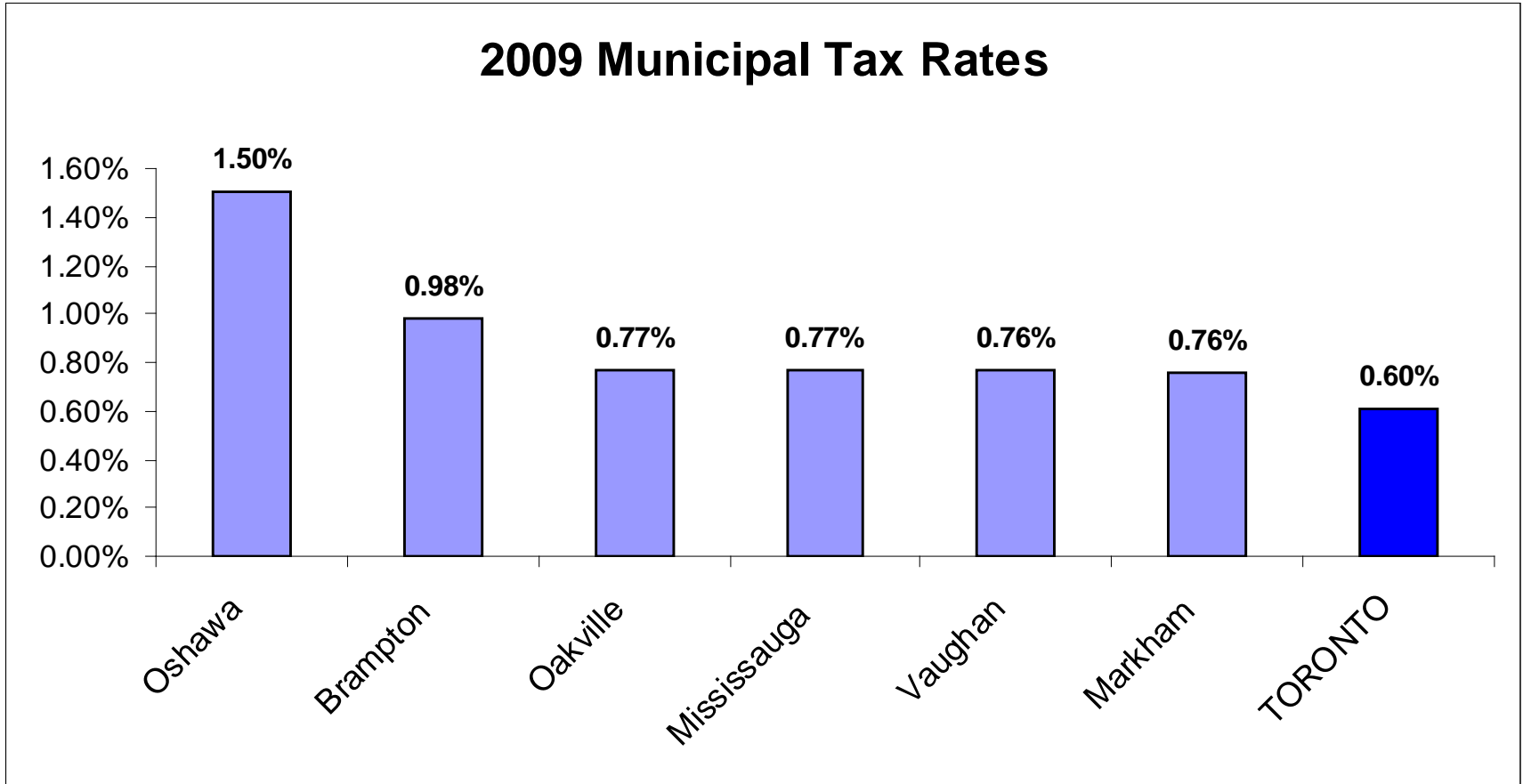
Toronto Helps - Seniors and Persons with a Disability

	Tax Increase Deferral Program	Tax Increase Cancellation Program
Seniors	<ul style="list-style-type: none"> - aged 50 years or older - household income \$50,000 or less 	<ul style="list-style-type: none"> - aged 65 years or older - household income \$36,000 or less or in receipt of the GIS - property CVA less than \$525,000 (\$575,000 – 2011-2012)
Disabled Persons	<ul style="list-style-type: none"> - receiving support from one or more specified disability programs - household income \$50,000 or less 	<ul style="list-style-type: none"> - receiving support from one or more specified disability programs - household income \$36,000 or less - property CVA less than \$525,000 (\$575,000 – 2011-2012)

• Water rebate for low income seniors and persons with a disability

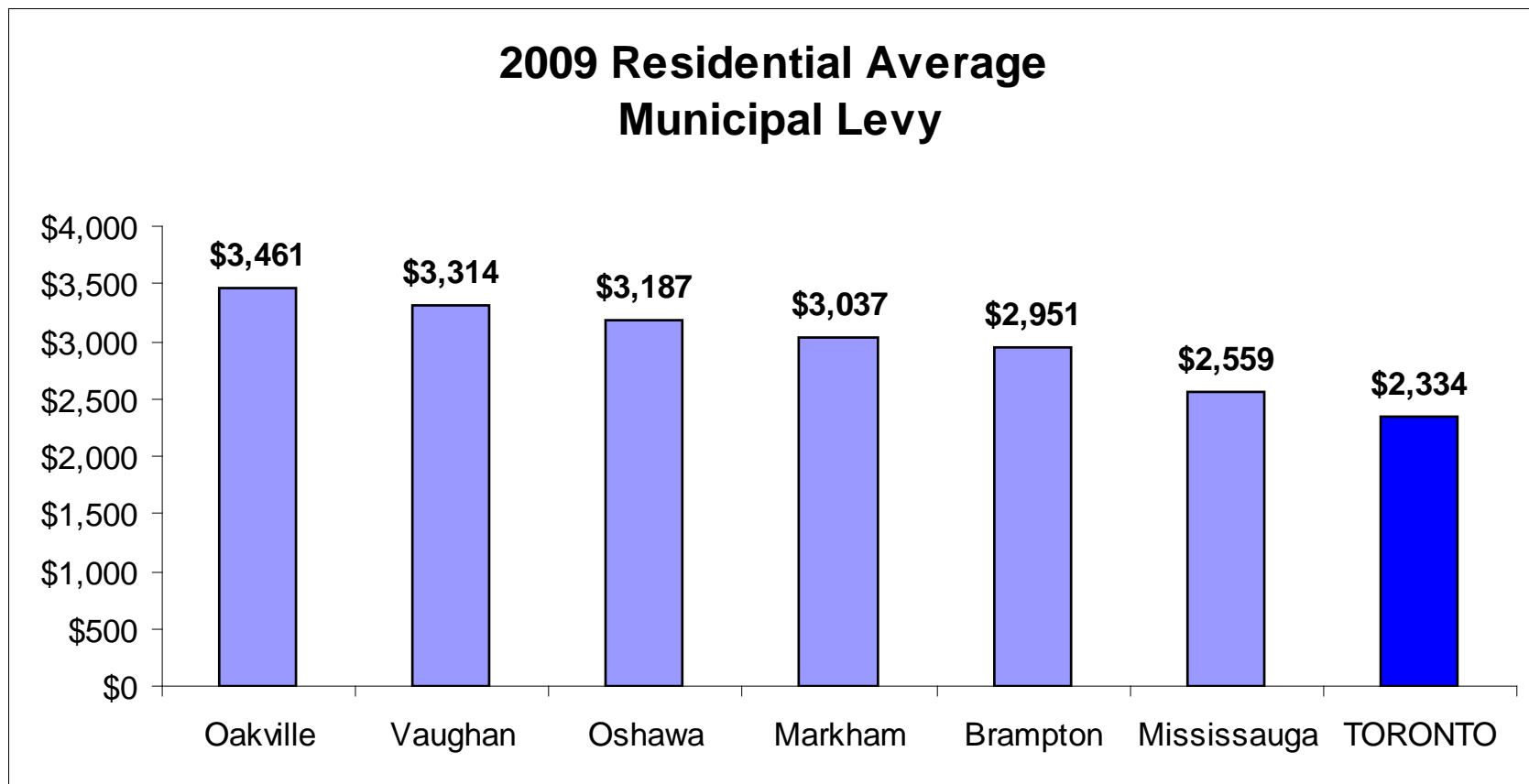
2009 Municipal Residential Tax Rates Toronto vs. Surrounding Cities

2009 Municipal Tax Rates



Education Residential Rate = 0.252% for all Municipalities

2009 Municipal Residential Taxes (average for all property types) Toronto vs. Surrounding Cities



Toronto Helps - Business

- Reducing Business Property Tax ahead of schedule:
 - Plan to reduce Business Property Tax ratios to 3.0 times residential taxes by 2013(vs 2015 target), and 2.5 times by 2017 (vs 2020 target)
 - Reduce Small Business Tax ratios to 2.5 times by 2013 (vs 2015 original target)
- Property Tax Rebates for vacant Commercial and Industrial Properties (2010 - \$20M), and Registered Charity Rebates (2010 - \$6.7M)
- Reduction in Business Education Tax Rates to be phased in by 2014
- Development Charges (DC) exemption for some businesses and freeze on residential
- Water Rate Structure Review:
 - New lower water rates for industrial & manufacturing sector:
 - 30% reduction over domestic rate

Toronto Helps - Business

- Agenda for Prosperity approved in 2008
- Financial incentives for new developments:
 - Tax Increment Equivalent Grants (TIEG) for Employment Lands
 - ✓ Targeted to specific economic sectors
 - ✓ Intended to enhance job creation in the City & growth in assessment base
 - ✓ “Woodbine Live!” transformation project incentives – create 9,000 jobs in 3 priority neighbourhoods; \$1 billion investment
 - ✓ Brownfield Remediation Grant
 - Better Buildings Partnership (BBP)
 - Energy Reduction Loan
 - Heritage Incentives (Capital Grant; Tax Rebate Program)

Business Tax Relief

Year	2006	2007	2008	2009	2010	
	Council Enhancing Toronto's Business Climate policy for one-third of increase to non-residential					
			Council Policy Accelerated Small Business Tax Reduction			
Residential Tax Increase	3.00%	3.80%	3.39%	4.00%	2.90%	
Business Tax Increase	1.00%	1.27%	1.13%	1.33%	0.97%	Cumulative
Business Tax Relief (\$ M in forgone tax increase revenue)	\$ 36.7	\$ 47.0	\$ 42.5	\$ 51.1	\$ 37.6	\$ 215.0
Additional Small Business Relief			\$ 8.3	\$ 4.9	\$ 14.5	\$ 27.7
						\$ 242.7



2011 Outlook and Balancing Strategy

2011 Outlook

	<u>\$Millions</u>	
2010 Unsustainable Strategies:		
Prior Year Surplus Applied to TTC Operations in the Absence of Toronto-Ontario Partnership Agreement on Transit Funding		276
Reserve Draws		<u>67</u>
Total 2010 Unsustainable Balancing Strategies		343
2011 Expenditure Increase:		
Cost of Living Allowance and Progression Pay	107	
Inflation - Material and Supplies	25	
Impact of Capital	11	
Capital Financing - CFC Increase and Debt Service	46	
Hydro Note Monetization - Interest	30	
Annualization and Other Base and Revenue Change	<u>57</u>	<u>276</u>
		619
2011 Revenue Increase:		
Provincial Uploads (ODSP & OW)	(84)	
Personal Vehicle and Land Transfer Taxes	(16)	
Other Revenues	<u>(16)</u>	<u>(116)</u>
2011 Outlook Pressure		<u><u>503</u></u>

2011 Budget Balancing Strategy

	<u>\$Millions</u>	
2011 Opening Pressure		503
Application of additional 2009 surplus (per Mayor's recommendation)	(76)	
Resumption of Provincial 50% TTC Operating	(256)	
Tax Increase, Assessment Growth & Service Efficiencies	(171)	(503)
		0
		0

Long Term Fiscal Plan Update

Progress on Council's 2005 Plan

Long-Term Fiscal Plan (LTFP)

- Approved unanimously by Council in 2005
- An integral part of the City's actions on fiscal sustainability
 - Emphasizes the balancing of revenues, expenditures, and assets/liabilities
 - Recommended 25 financial strategies, 17 fiscal principles & 5 financial policies



Core Objectives

- Predictable and sustainable service funding – to allow for multi-year budgets
- Shift cost shared programs to provincial income tax funding
- Affordable property taxes and fees
- Maintain capital assets in good state of repair
- Stabilize liabilities



LTFP Scorecard

Major Financial Issues

Identified in the LTFP 2005	Current Status (2010)	Score
Expenditures: <ul style="list-style-type: none"> City has a higher cost structure than other municipalities in GTA Demands for growth not adequately funded Variability in certain program expenditures from year to year, e.g. economic downturns 	Costs "restrained"	
	Expenditures growing faster than revenue	
	Social Services & Court Security upload. Restoration of full 50% funding on Ontario Works administration costs	
Revenues: <ul style="list-style-type: none"> Business taxes not competitive Inadequate revenue sources to fund responsibilities Improper funding of Provincial cost-shared programs 	Improving business competitiveness	
	Revenues diversified	
	User Fees enhanced	
	Provincial 50% TTC Operating Funding (Agreement with Province by Dec 2010)	
	Share of Sales Tax	
Assets & Liabilities: <ul style="list-style-type: none"> Investment in ageing infrastructure lagging Employee benefits and other liabilities not adequately funded 	<ul style="list-style-type: none"> 10 year capital plan More than 60% to be spent on State of Good Repair 	
	Debt increase mitigated	
	Sick Pay liability partially capped, but some liabilities still growing	

Legend:	
Improving or compares favourably	Little or no progress
Stabilizing or work in progress	Deteriorating



City's Structural Funding Shortfall

City's Structural Operating Funding Shortfall

Two Components:

- Funding shortfall due to downloaded programs
 - One-time funding results in cumulative pressures
- Annual funding shortfall

Provincial Services Delivered by City

Income redistributive programs supported by property tax base:

- Ontario Works
- Social Housing

Provincial downloading

- Province discontinued 50% transit operating funding
- Court Security

Annual Operating Shortfall

- Expenditures:
 - City absorbing cost pressures from population growth
 - Modest enhancement to services, e.g. Transit Ridership Growth Strategy
 - Need to fund capital repair of ageing infrastructure and growing liabilities, e.g. employee benefits
- Revenues:
 - Cost of business tax relief to enhance jobs
 - Main revenue source – property tax – does not grow with the economy
- On average, net shortfall ranges between \$75M and \$100M

Provincial Sales Tax Revenues Grew Without Rate Increases: 2003-2009

No change in
PST -- 8%

Sales Tax



Ontario Government

Provincial Sales Tax revenues increased by 22%



Property Tax



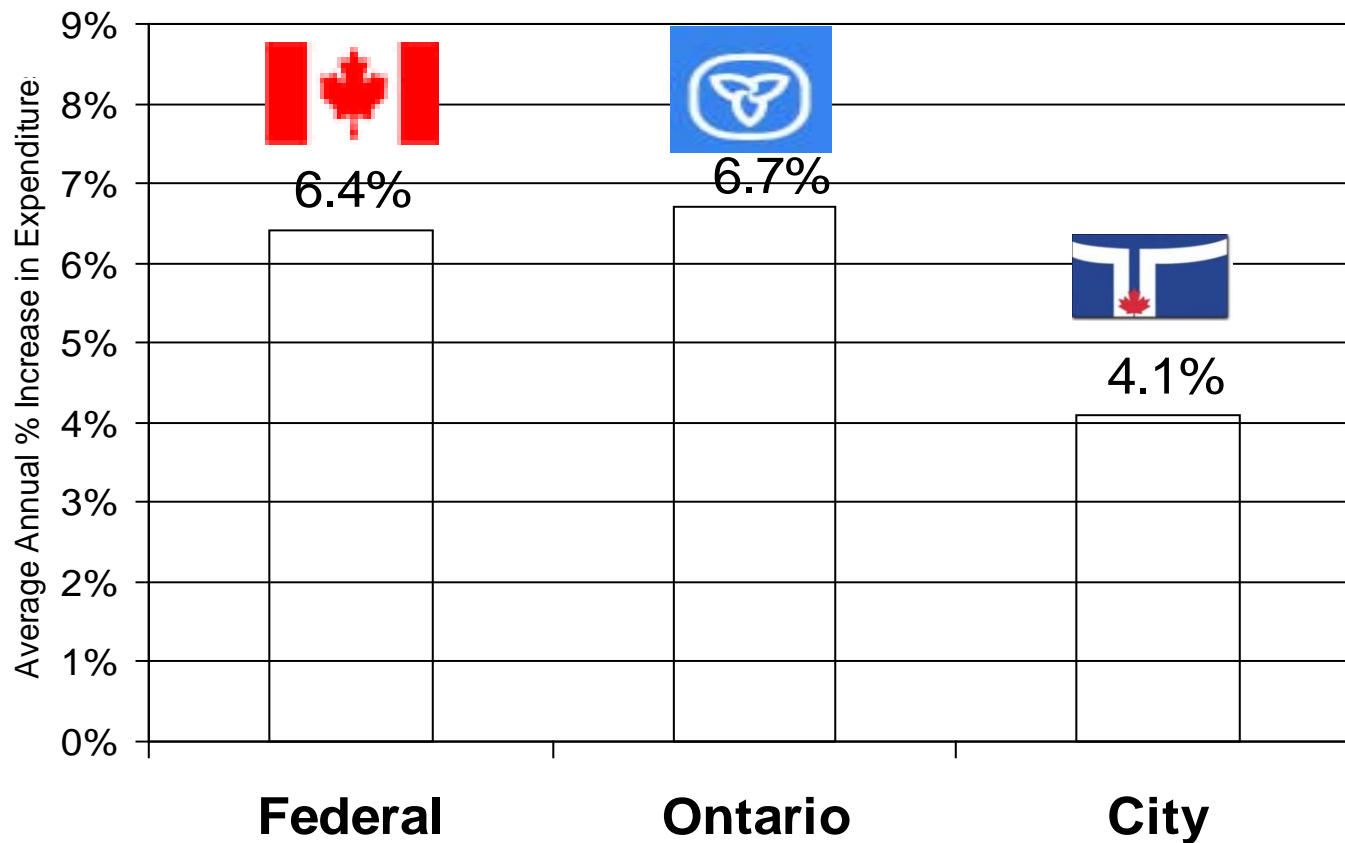
City of Toronto

Taxes grew by 6% from assessment growth only. Tax rate increases of 14% meant tax revenues increased by 20%.



Change in Government Expenditures Federal / Province/ City

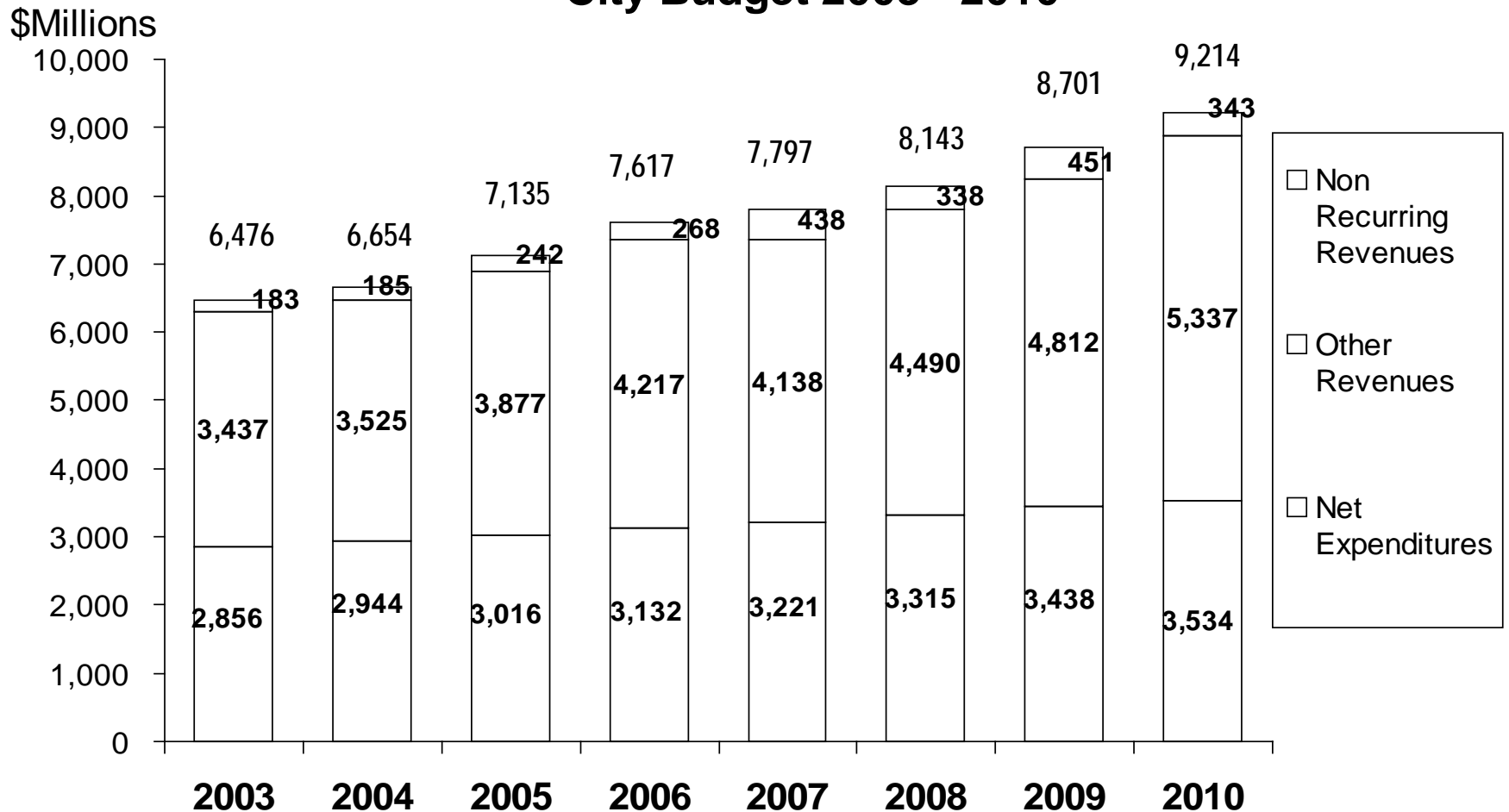
1998 to 2010



Excluding debt charges
City: Operating only, 2010: Staff Rec'd Op Budget

Spending History - Gross Expenditure and Funding Sources

City Budget 2003 - 2010





Asset Monetization

Monetization of City Assets

- “Monetization” refers to converting assets into cash
- The City does not have a short term cash crunch which is often root cause of private companies selling assets
- Instead, Toronto’s primary needs are for sustained ongoing revenues to match its expenditures

Monetization of City Assets

- Appropriate Use of Proceeds
 - Asset monetization can and should be used to generate cash to reduce debt
 - The early monetization of the Toronto Hydro promissory note was a clear example
 - Generating cash can provide bridge financing by lowering debt charges to allow time for long term financial strategies to be implemented

Benefits of City's Companies

- Enwave (43% City owned)
 - No dividend policy; assumption is that value of company will increase as it expands
- Toronto Hydro (100% City owned)
 - Equity value has increased since incorporation in 1999
 - City receives annual dividends at greater of 50% of net income or \$25 million – goes to operating budget
- Toronto Parking Authority (100% City owned)
 - City receives annual dividends (2010: \$49M) – goes to operating budget

Objectives of Asset Monetization

- City does not traditionally own corporate assets purely for investment returns
- Public policy objectives are important, e.g.
 - Enwave – environmental improvements and enhancements to downtown competitiveness
 - Toronto Hydro – traditionally a public utility like Water, with environmental responsibilities
 - Toronto Parking Authority – providing short-term parking as an integrated component of Toronto’s transportation system

Asset Monetization Considerations

- In assessing whether to monetize an asset, City must consider
 - Public policy objectives of the company
 - The potential market
 - Sale structure - partial or outright
 - Type of sale structure
 - ✓ Selling equity stake in public auction (initial public offering or “IPO”)
 - ✓ Partnership with another entity
 - ✓ Selling the rights to the assets for a period of time “concession agreement”
- There are often income and other tax considerations that may make a sale uneconomic under certain conditions
 - e.g. transfer and departure taxes on sale of electricity assets

Next Steps – Asset Monetization

- Staff have taken preliminary steps to examine:
 - Assets that are possible candidates
 - Financial and tax considerations
 - Options for allocation of proceeds
- Report will be submitted Executive Committee in May/June to further examine options



The Road to Fiscal Stability

Key Actions for Long Term Sustainability

Expenditures

- Continued action on:
 - Efficiencies
 - Salary and benefit restraint
 - Rationalization of selected services

Assets and Liabilities

- Maximize corporate asset values and pay down debt
- Continue to increase capital from current financing
- Further actions to reduce unfunded liabilities

Key Actions for Long Term Sustainability (cont'd)

Revenues

- Continued actions to grow tax base:
 - Improved business competitiveness
 - Population growth/Official Plan
- Multi-year strategies for User Fees
- Seeking sustainable permanent new revenues
 - 50% transit operating funding
 - Upload of Social Housing costs/ National Housing Strategy
 - Share of sales tax revenues (1 ¢ of 13% HST)

The Case for Transit Operating Funding

- Effective transit contributes to Provincial objectives
 - Intensification (offsets demand for Provincial highways, GO transit)
 - Economic growth
 - Clean air
- Full cost should not be borne on local tax base
 - Per capita transit use and resulting operating burden varies significantly between municipalities
 - Serves riders, businesses from outside local tax base

50% of 2010 Staff Recommended Net Budget	\$256M
--	--------

U.S. Transit Systems Receive Half of their Operating Subsidies from Senior Governments

Government Subsidies for Transit Systems *	Federal & State Funds	Local Funds
U.S. Transit Systems serving population > 2 million ⁽¹⁾	51%	49%
Toronto TTC ⁽²⁾	0%	100%

(1) 2007 U.S. National Transit Database

(2) 2008 Annual Report

* Sources of operating revenues excluding fare & other revenues

The Case for Social Housing Funding

- Funding responsibilities transferred to City in 1998
- Social Housing is one of several income support programs
- The Province has re-established the principle through Social Services upload that income support programs should not be funded from the property tax base
- Competitive Disadvantage:
 - Ontario has the highest property tax per capita and is the only jurisdiction in Canada to fund Social Housing from property taxes
- The Province should take back the funding responsibility for Social Housing

2011 Budget Outlook (Net)	\$230M
---------------------------	--------

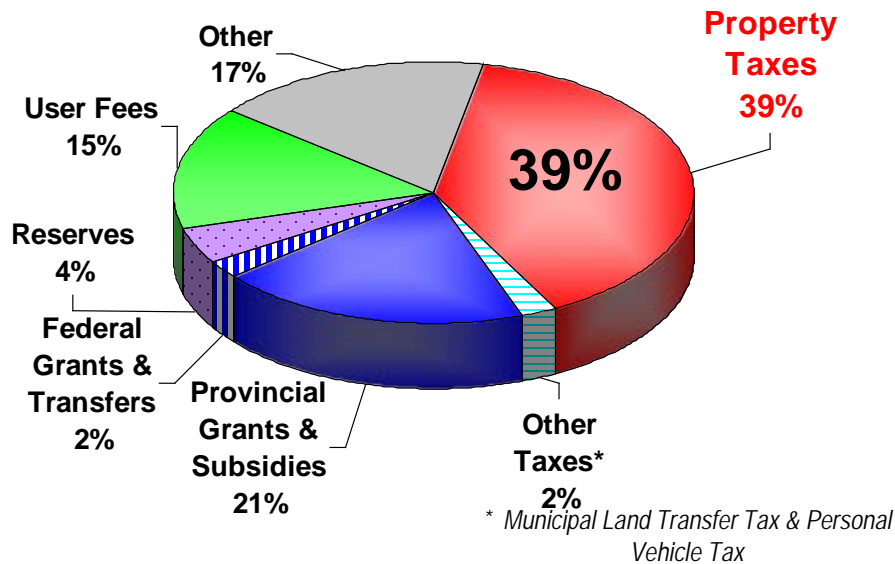
The Case for Sharing Sales Tax

- Toronto's economic health anchors the entire region – Province benefits via income and sales tax revenue
- Participation in economic/tax growth would motivate greater focus on City's broad economic development role
- Local City sales tax rate is not solution for integrated GTA economy - would distort market, harm City businesses near borders
- Toronto competes with large US cities that have access to income and sales tax - risks relative decline without comparable revenue base

Estimated City's Share	\$500M
Annual Growth	\$25M/year

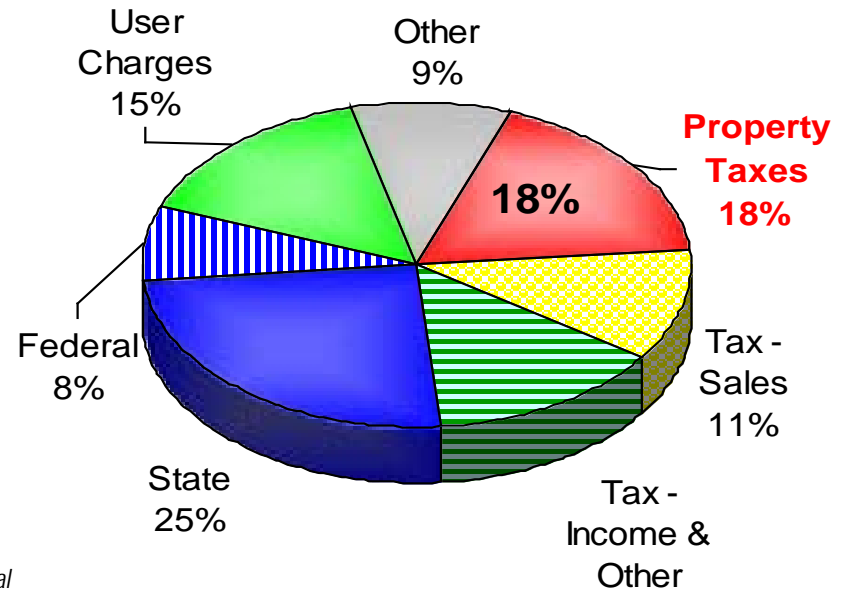
US Cities Have More Diversified Revenue Base

Toronto



Staff Recommended 2010 Operating Budget

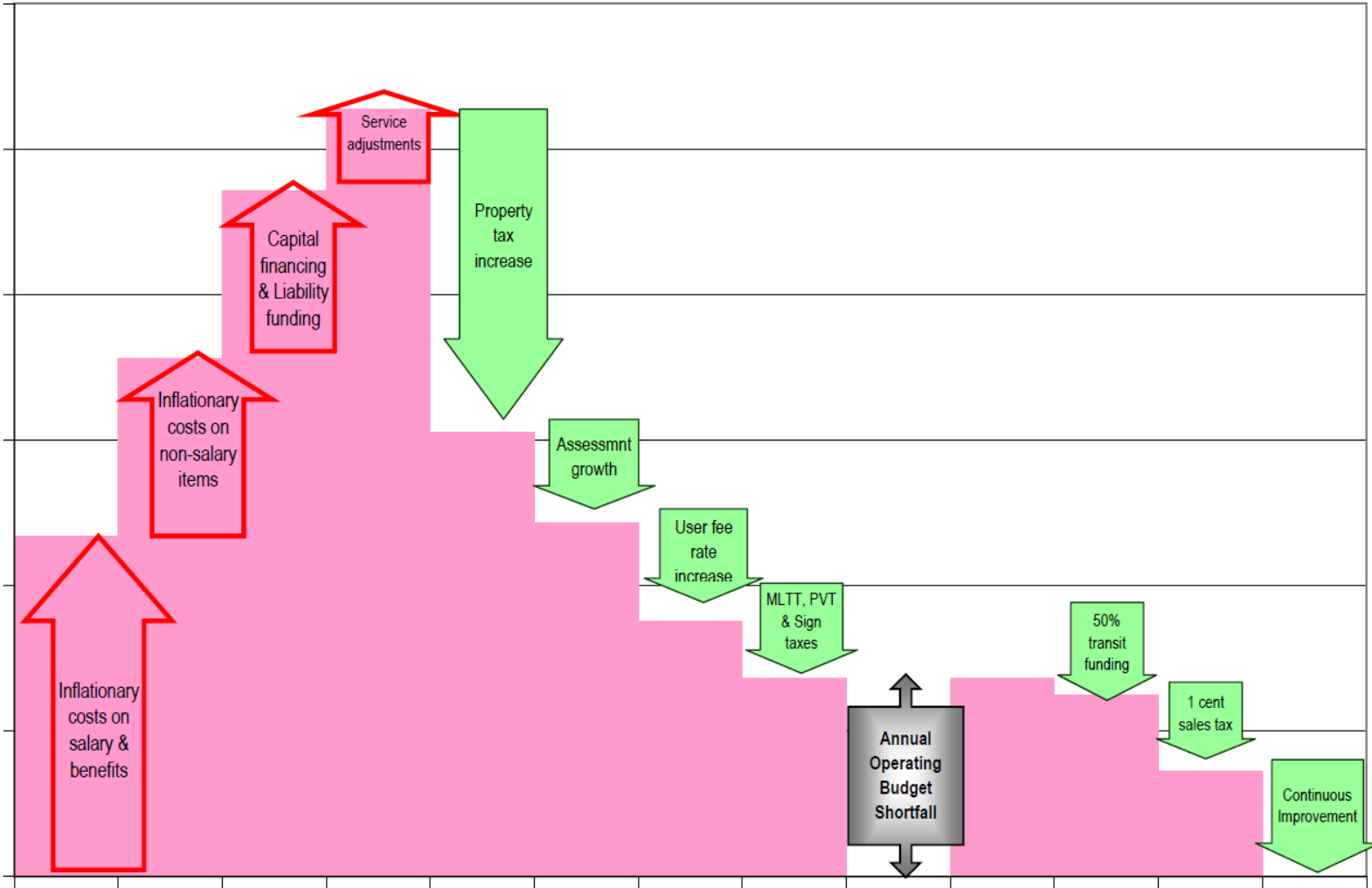
Top 35 US Cities
(by Population)



U.S. Census Bureau, Statistical Abstract of the United States 2008 (2004 data)

Eliminating Annual Operating Budget Pressure

\$Millions



Scenarios to Eliminate Budget Pressures

1 - Status Quo:

- Inflationary increases on expenditures, revenues
- Incorporates impacts from approved capital budget and plan plus modest funding of liabilities

2 - Status Quo + Asset Monetization:

- Asset monetization of \$700 million (for illustration) beginning 2012, proceeds used to pay down debt

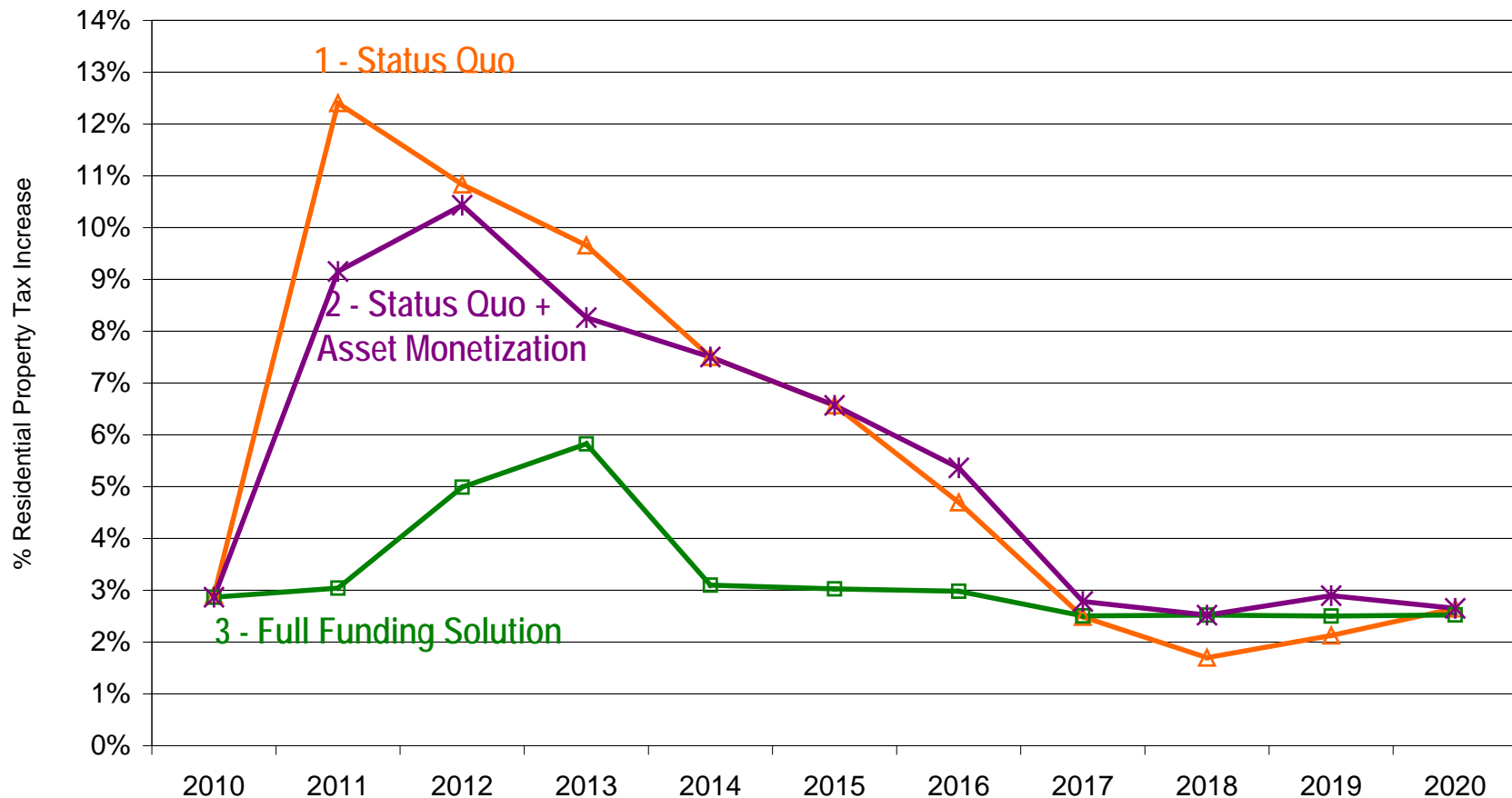
3 - Full Funding Solution:

- Permanent Provincial 50% TTC operating funding beginning 2011
- Phase-in of Social Housing (2012 – 2014)
- Phase-in of 1¢ of Sales Tax revenue (2015 - 2017)
- Modest service investments and enhanced funding of liabilities

Property Tax Used to Balance Remaining Shortfalls in All Scenarios

Annual % Property Tax Increase

Residential



1 - Status Quo — Excess 2009 Surplus of \$75M applied to 2011. No other funding available

2 - Status Quo + Asset Monetization — No Provincial Cost-Sharing or Share of Sales Tax.

3 - Full Funding Solution — Permanent Provincial 50% Transit Funding, Upload of Social Housing Costs, Share of Sales Tax, Modest Service Investments & Enhanced Funding of Liabilities



City's Fiscal Vision

	Current (2010)	Vision (2020)
Expenditures	<ul style="list-style-type: none"> • Salary costs grow at faster than inflation (arbitration) • Non-salary costs grow at above inflation • Limited service expansion 	<ul style="list-style-type: none"> • Salary & non-salary costs grow at inflation • Service expansion as new revenues allow
Assets & liabilities	<ul style="list-style-type: none"> • Rebuilding asset base • Unfunded liabilities increasing 	<ul style="list-style-type: none"> • Assets rationalized & stabilized • Unfunded liabilities minimized
Property Tax	<ul style="list-style-type: none"> • Over reliance on property tax base • Competitive Business tax being phased in 	<ul style="list-style-type: none"> • Business tax competitive • Access to full tax base
User Fees	<ul style="list-style-type: none"> • Grow at inflation • Partial full cost-recovery • Some exemptions 	<ul style="list-style-type: none"> • Grow at inflation • Enhanced use • Appropriate exemptions
Funding from other orders of government	<ul style="list-style-type: none"> • Unpredictable & ad hoc (transit) • Partial responsibility for funding social services • Some cost-shared programs not fully funded at 50% 	<ul style="list-style-type: none"> • Stable & permanent partnership funding • 50% Transit operating funding • Provincial social programs uploaded • National Housing and Transit Strategies
Revenues that grow with economy	<ul style="list-style-type: none"> • Limited (MLTT/ PVT only 2% of budget) • Gas tax 	<ul style="list-style-type: none"> • Share of sales tax revenues with other orders of government • Gas tax

If Plan Not Met

The City would then require:

- Monetization of City assets

- AND -

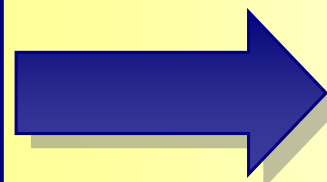
- Significant service adjustments

Emerging Risks Not Included in Forecast

- Federal government funding step-outs:
 - Children's Services
 - Social Housing (\$200 Million cumulative annual by 2020)
- City/Provincial share of Transit City operating costs
- Longer term impacts of ageing and diversifying population
- Public Sector pension solvency rules

6. Summary

The City's plan to move towards long-term fiscal sustainability



- ✓ Continuous improvement and cost control
- ✓ New Taxation Measures
- ✓ Share of Federal and Provincial Gas Tax
- ✓ Upload Social Services programs
- ✓ Transit Capital Funding
- Provincial Transit operating funding (50%)
- National Transit Strategy (capital)
- Upload Social Housing costs
- Growth revenues – Equivalent of one cent of Sales Tax

