

# **2012 Outlook and Long Term Financial Plan Update**

**Budget Committee**

**February 10, 2011**

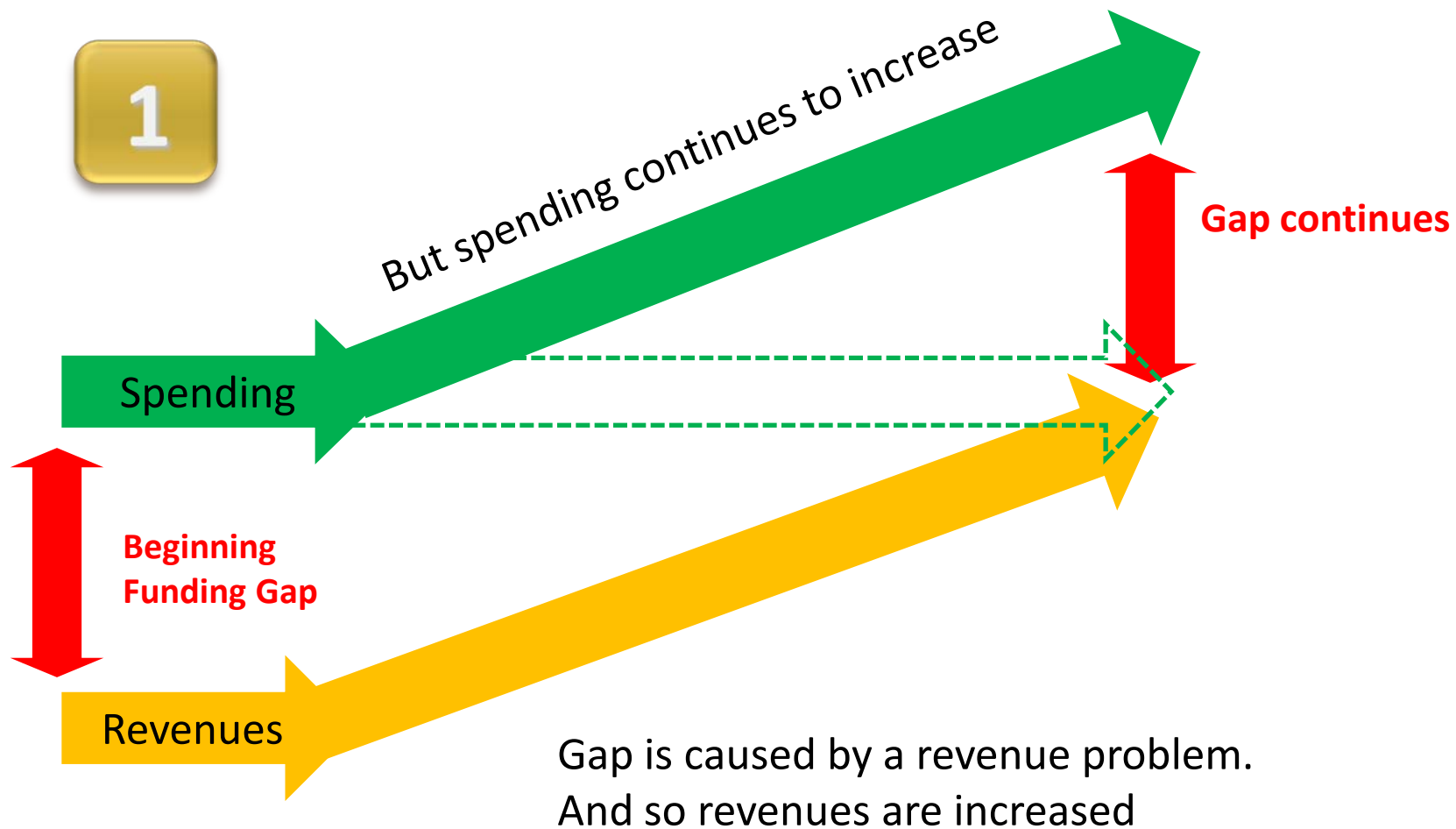
# Outline

1. Perspective on the Long Term Funding Gap
2. 2012 Operating Outlook
3. Long Term Financial Plan
4. Debt Management
5. Action Plan



# 1. Perspective on the Long Term Funding Gap

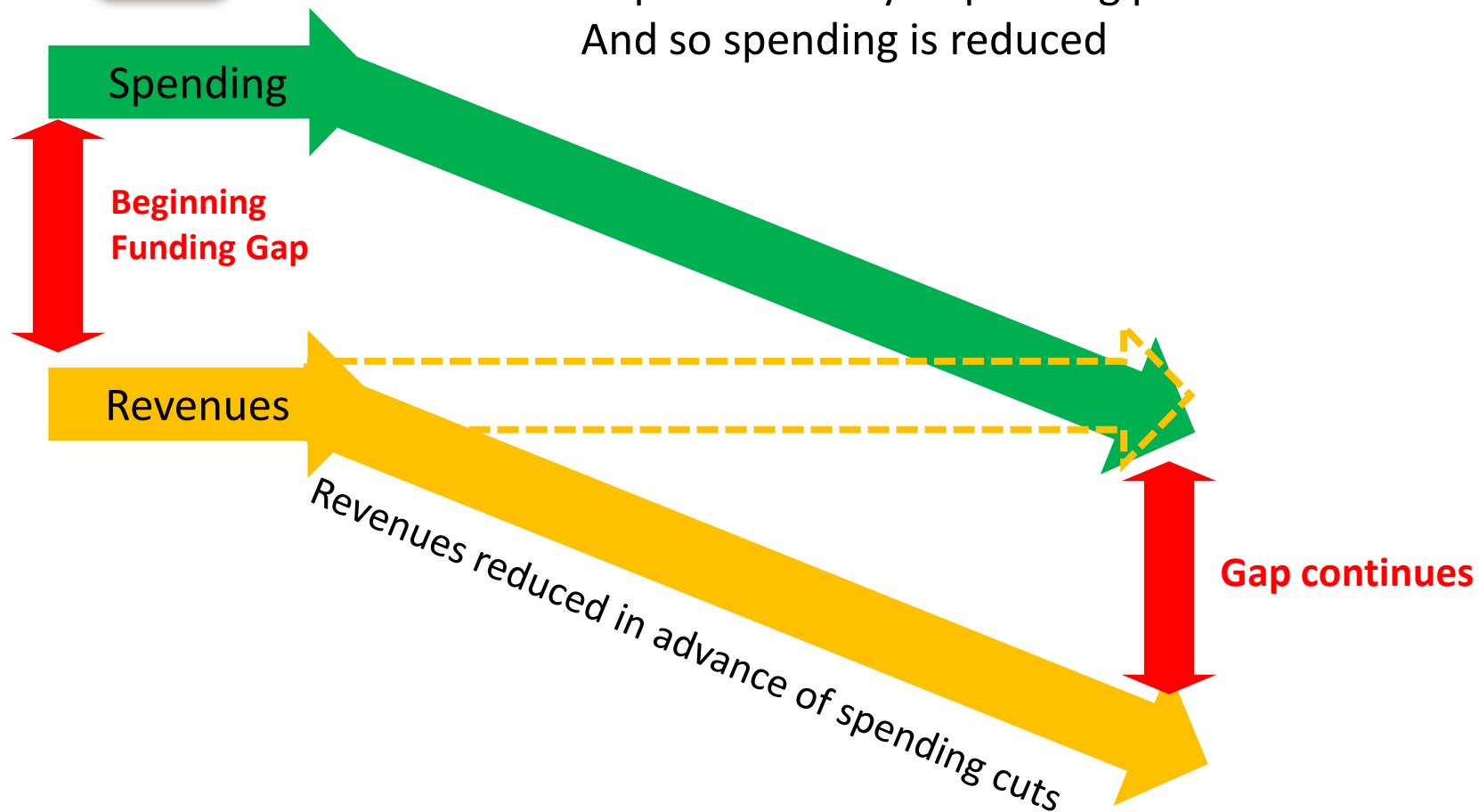
# Toronto's Operating Funding Shortfall



# Toronto's Operating Funding Shortfall

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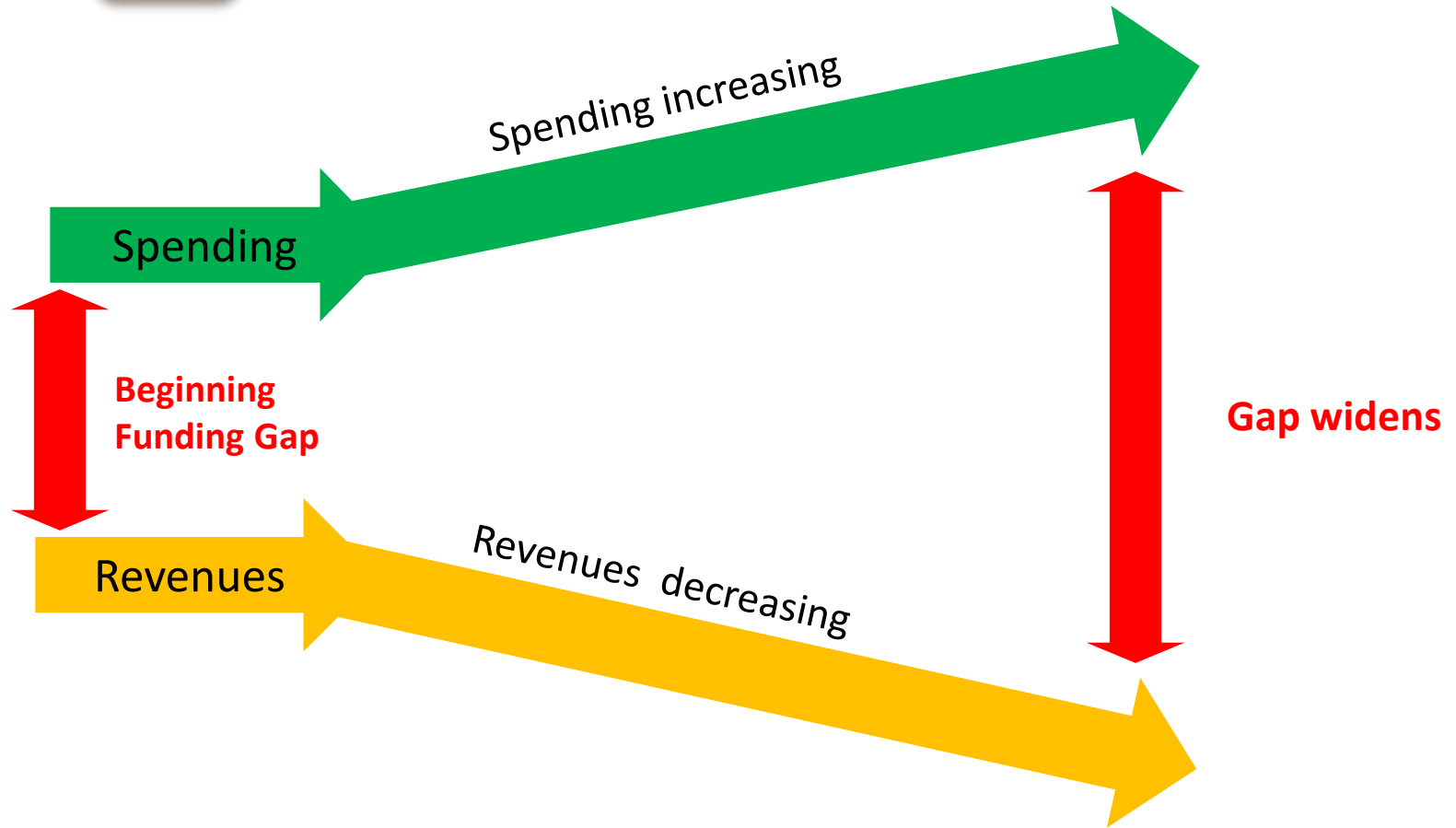
Gap is caused by a spending problem.  
And so spending is reduced



# Toronto's Operating Funding Shortfall

3

Worst Case Scenario



# Toronto's Operating Funding Shortfall

4

The City has both spending and revenue problems.



This was the recommended strategy in the previous Long-Term Fiscal Plan

The background features a low-angle shot of a modern, curved glass skyscraper on the left. Overlaid on this is a dark blue field containing several large, semi-transparent blue gears of various sizes, arranged in a way that suggests a complex mechanical or industrial process.

## 2. 2012 Operating Outlook

# Toronto 2011 Economic Outlook

- Recovery from the 2009 recession is well underway:
  - The Infrastructure Stimulus spending benefited the construction sector, improved consumer spending and strengthened the job market
- 2011 economic forecasts for the Toronto region indicate:
  - GDP growth: 3.0% (3.5% in 2012)
  - Unemployment rate: 8.1% (7.1% in 2012)
  - Housing starts: 29,200 units (34,900 in 2012)
  - CPI: 2.3% (2.1% in 2012)
  - Interest rate: 10 year bonds 4.5% (5.0% 2012); 30 year 5% (5.5% 2012)
- TTC 2011 forecast ridership increase - 25 million riders
- Ontario Works 2011 average monthly caseload to decrease by 4,000 cases

# 2012 Operating Outlook

- The Operating Outlook Pressure is the incremental cost of providing 2011 services and service levels in the subsequent year
- Drivers of the outlook pressure include:
  - Cost of living adjustments
  - Inflationary impact on expenditures and user fees
  - Annualized costs, savings and revenues of prior year initiatives implemented part-year
  - Termination of non recurring or one time revenues and/or expenditures

# 2012 Operating Outlook Assumptions

- Same level of service as in 2011
- 2.1% general inflation
- COLA based on same assumptions as in 2011
- No change in OW caseload
- TTC Ridership increase from 487 million to 502 million
- TTC fare increase - 10 cents
- Moderate change in assessment growth
- Projected bank rate increase in last quarter of 2011
- MLTT volume and price increase

# 2011 & 2012 Outlook Pressures

|  | <b>\$ Million</b>             |             |
|--|-------------------------------|-------------|
|  | <b>2011</b>                   | <b>2012</b> |
|  | <b>Adjusted<br/>to Actual</b> | <b>Feb.</b> |
| <b>City One-Time Funding</b>                           |                               |             |
| Prior Year Surplus                                     | 277                           | 346         |
| Reserve Draws  | 66                            | 14          |
| <b>Total Unsustainable Balancing Strategies</b>        | <b>343</b>                    | <b>360</b>  |
| <b>Expenditure Increases</b>                           |                               |             |
| Cost of Living and Progression Pay                     | 124                           | 138         |
| Fringe Benefit Liabilities - Contribution Requirements | -                             | 78          |
| Inflation - Material Supplies and Services             | 58                            | 50          |
| Capital Financing                                      | 23                            | 55          |
| Contribution to Reserves - Liabilities                 | -                             | 10          |
| Hydro Note - Interest Change                           | 22                            | -           |
| Operating Impact of Capital                            | 11                            | 16          |
| PVT Elimination  | 50                            | -           |
| Other Base Change                                      | 75                            | 67          |
| <b>Total Expenditure Increases</b>                     | <b>363</b>                    | <b>414</b>  |
| <b>Outlook Pressure Before Revenue Increases</b>       | <b>706</b>                    | <b>774</b>  |

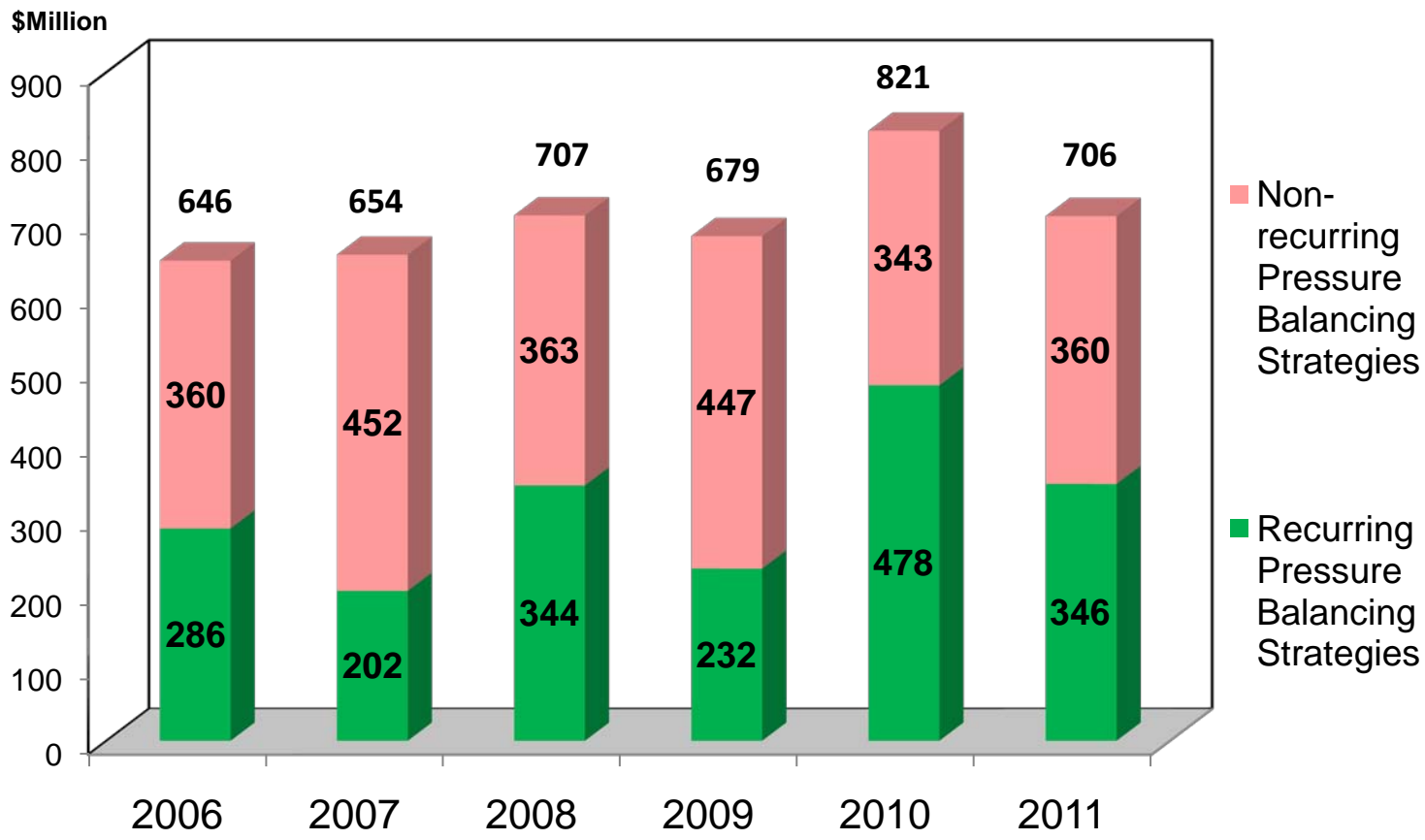
# 2011 and 2012 Outlook Pressures

|                             | \$ Million  |            |
|-----------------------------|-------------|------------|
|                             | 2011        | 2012       |
|                             | Adjusted to | Feb.       |
|                             | Actuals     | Actuals    |
| <b>Opening Pressure</b>     | <b>706</b>  | <b>774</b> |
| Surplus                     | (346)       |            |
| Provincial Upload - ODSP/OW | (63)        | -          |
| MLTT                        | (50)        | (25)       |
| TTC fare increase           | -           | (30)       |
| Other Revenue               | (145)       | (46)       |
| Total Revenue               | (258)       | (101)      |
| Cost Reduction              | (57)        | ?          |
| Assessment Growth           | (45)        | (30)       |
|                             | (102)       | (30)       |
| Total Balancing Strategy    | (706)       | (131)      |
| <b>Remaining Pressure</b>   | <b>0</b>    | <b>643</b> |

# 2012 Outlook Pressure

|   | <u>\$Millions</u> |            |
|---|-------------------|------------|
| 2012 Outlook Remaining Pressure per above |                   | 643        |
| Additional potential offsets:             |                   |            |
| Prior year surplus (based on average)     | (50)              |            |
| Hydro & Enwave dividends & Other          | (15)              |            |
| Property tax increase at inflation        | (47)              | (113)      |
|   |                   | <u>530</u> |
| Remaining Pressure                        |                   | <u>530</u> |
| Cost reduction                            |                   | ?          |
| Excess surplus                            |                   | ?          |
| Provincial Assistance for TTC Operating   |                   | ?          |

# 2006 - 2011 Operating Budget Mitigating Strategies



# Conclusion

- 2012 Outlook Pressure is attributed to the following:
  - Non-recurring balancing strategies
  - Inflationary adjustments and other direct payroll cost
  - Impact of capital
- Strategies to balance the 2012 Budget:
  - Major cost reduction
  - Increase predictable, sustainable revenue sources
  - Provincial assistance for TTC Operating



# 3. Long Term Financial Plan Update

# City's Long Term Financial Plan Vision



# What We Mean by Sustainable

- Assets should be maintained in a state of good repair
- Assets no longer used should be sold, and proceeds used for re-investment or debt reduction
- New assets should be acquired only when necessary and affordable
- Debt should be held to a manageable level, used only for long-lasting assets
- Appropriate funds should be set aside for future obligations
- Future trends should be planned for

# What We Mean by Affordable

- Property taxes should be predictable, affordable and competitive with 905 -- continue re-balancing of non-residential and residential taxes
- User fees should be competitive with 905
- Subsidies to residents and businesses should be transparent
- Necessary increases in taxes and fees should be in line with inflation and appropriate cost recovery
- Income support programs should be funded through income or consumption based revenues, not property taxes
- Provincial cost sharing should recognize the benefit that some City services accrue beyond the City's borders

# What We Mean by Well Managed

- The City should be operating efficiently and can demonstrate that it is
- Programs should be continually reviewed to ensure they are effective and relevant, and changed when they are not

# Financial Progress – 2005 Plan

## Major Financial Issues

| Identified in the Long Term Fiscal Plan 2005  | Current Status (2011)   | Score | Last Year |
|---|---|-------|-----------|
| <b>Well-managed (Expenditures):</b> <ul style="list-style-type: none"> <li>City has a higher cost structure for some services than other municipalities in GTA</li> <li>Demands for growth not adequately funded</li> <li>Variability in certain program expenditures from year to year, e.g. economic downturns</li> </ul> | Costs “restrained”  |       |           |
|   | Growths in expenditure and revenue being balanced   |       |           |
|   | Social Services & Court Security upload. Restoration of full 50% funding on Ontario Works administration costs                    |       |           |
| <b>Affordable (Revenues):</b> <ul style="list-style-type: none"> <li>Business taxes not competitive</li> <li>Inadequate revenue sources to fund responsibilities</li> <li>Improper funding of Provincial cost-shared programs</li> </ul>  | Improving business competitiveness  |       |           |
|   | Revenues diversified  |       |           |
|   | User Fees enhanced  |       |           |
|   | Provincial 50% TTC Operating Funding  |       |           |
|   | Share of HST  |       |           |
| <b>Sustainable (Assets &amp; Liabilities):</b> <ul style="list-style-type: none"> <li>Investment in ageing infrastructure lagging</li> <li>Employee benefits and other liabilities not adequately funded</li> </ul>   | <ul style="list-style-type: none"> <li>10 year capital plan</li> <li>More than 60% to be spent on State of Good Repair</li> </ul> |       |           |
|   | Debt increase mitigated   |       |           |
|   | Sick Pay liability partially capped, but some liabilities still growing   |       |           |

### Legend:

|  |                                  |  |             |
|--|----------------------------------|--|-------------|
|  | Improving or compares favourably |  | No progress |
|  | Stabilizing or work in progress  |  |             |

# Current Financial Position

| Strengths  | Areas of Concern   |
|--|--|
| 1. City has very high credit rating (AA+, one level below maximum AAA)   |  |
| <ul style="list-style-type: none"> <li>• Modest level of debt</li> </ul>   | <ul style="list-style-type: none"> <li>• Current level of debt insufficient to fund TTC growing capital program</li> </ul>   |
| <ul style="list-style-type: none"> <li>• High reserve levels for capital</li> </ul>  | <ul style="list-style-type: none"> <li>• No/low reserves for financial resilience, e.g. stabilization reserves</li> </ul>  |
| <ul style="list-style-type: none"> <li>• Strong and balanced economy                             <ul style="list-style-type: none"> <li>○ Financial services</li> <li>○ Knowledge industries, e.g. I&amp;T</li> <li>○ Culture</li> </ul> </li> </ul> | <ul style="list-style-type: none"> <li>• Unemployment rate has not returned to pre-recessionary level</li> <li>• Industrial assessment and jobs declining</li> </ul> |
| <ul style="list-style-type: none"> <li>• Stable political environment</li> </ul>   | <ul style="list-style-type: none"> <li>• Imminent Provincial and Federal elections</li> </ul>  |
| <ul style="list-style-type: none"> <li>• Well established financial planning/management</li> </ul>   | <ul style="list-style-type: none"> <li>• Future enhancements being implemented</li> </ul>  |
| 2. Residential property tax rates among lowest in Province   | Business property tax rates higher than 905 and most other large North American cities   |
| 3. Revenue base more diversified than average  | <ul style="list-style-type: none"> <li>• Recent loss of Personal Vehicle Tax</li> <li>• User fee cost recovery levels need review</li> </ul>                         |

# Balance between Expenditure and Revenue Growth

## Average Annual Operating Pressures (\$M)

|   | Steady State * | Impact Above & Beyond | Projected    |
|---|----------------|-----------------------|--------------|
| <b>Operating Pressures:</b>                   |                |                       |              |
| Salaries and Benefits                         | 101            | 39                    | 140          |
| Non Salary Costs                              | 64             | 0                     | 64           |
| Capital Financing, Asset & Liability Funding  | 8              | 51                    | 59           |
| Annualization & Other Base Changes            | -              | 29                    | 29           |
| Phase-out of One-time Revenue Offsets         | -              | 92                    | 92           |
| <b>Total pressures</b>                        | <b>173</b>     | <b>211</b>            | <b>384</b>   |
| <b>Offsets:</b>                               |                |                       |              |
| Property Tax Increase                         | (71)           |                       | (71)         |
| Cost of Business Tax Relief                   | -              | 26                    | 26           |
| Net Property Tax Increase                     | (71)           | 26                    | (45)         |
| Assessment Growth                             | (32)           |                       | (32)         |
| User Fee Increase                             | (38)           |                       | (38)         |
| Municipal Land Transfer Tax & Sign Tax        | (17)           | (7)                   | (24)         |
| Investment & Dividend Income & Other          | (15)           | (7)                   | (22)         |
| Provincial Upload                             | -              | (21)                  | (21)         |
| One-time Revenue Offsets                      | -              | (57)                  | (57)         |
| <b>Total Offsets</b>                          | <b>(173)</b>   | <b>(66)</b>           | <b>(239)</b> |
| <b>Net Annual Average Operating Pressures</b> | <b>0</b>       | <b>145</b>            | <b>145</b>   |

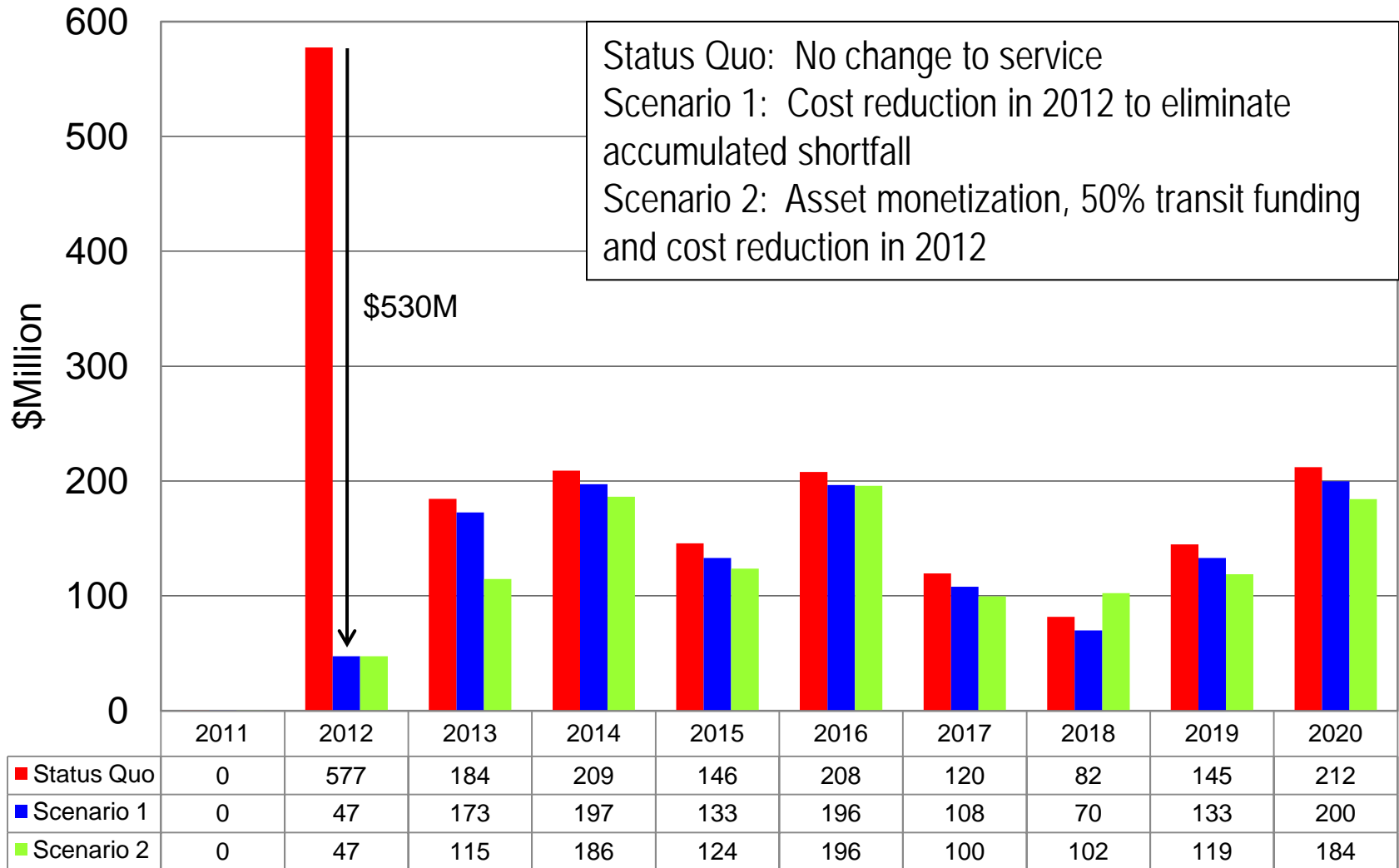
# Result of Annual Shortfall

- Inability to permanently address shortfall has led to increasing use of one-time revenues to balance the operating budget = accumulated shortfall
- This becomes a funding pressure in next year

# Financial Forecasts

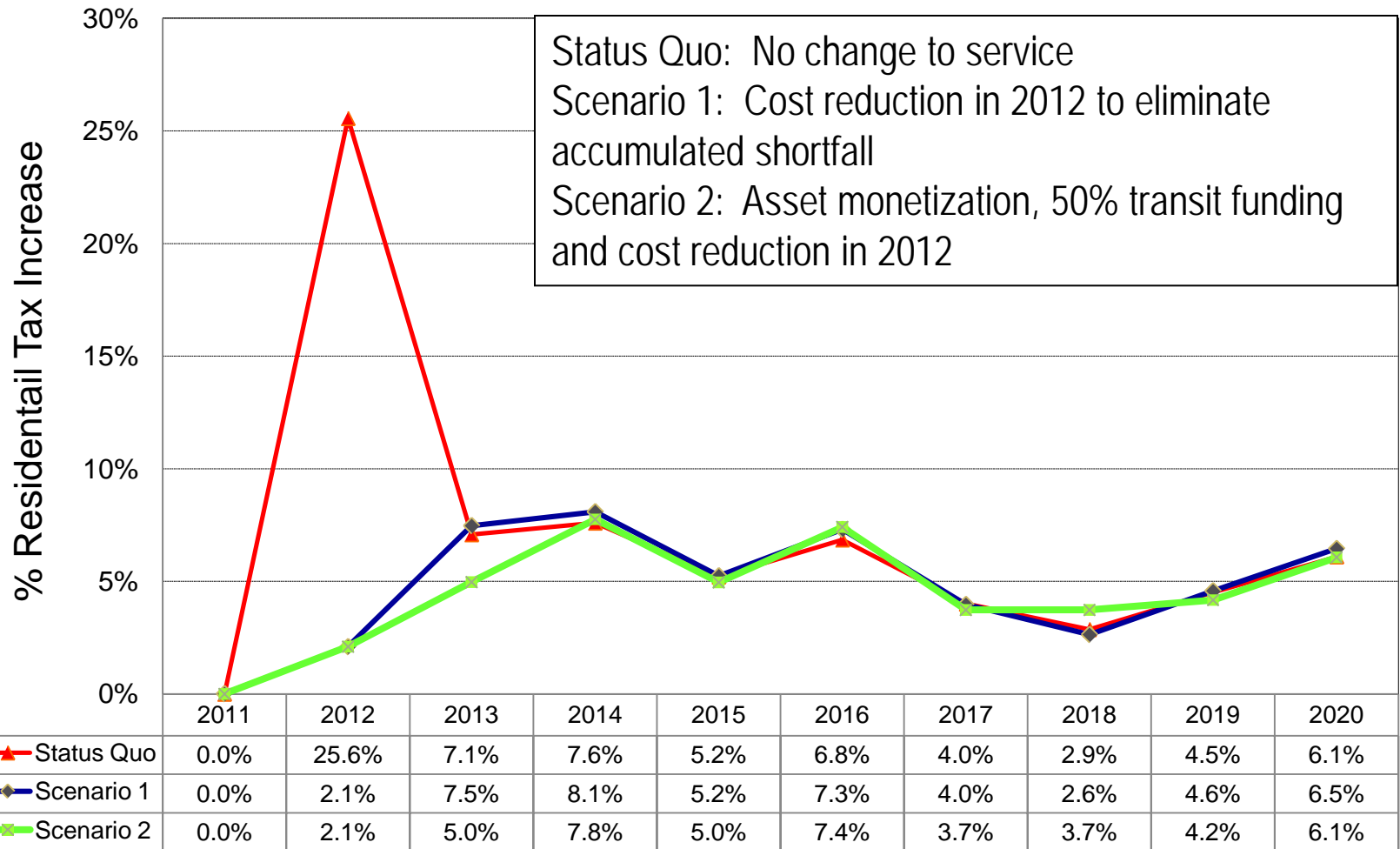
- 10 year forecasts prepared to show impacts on property tax from possible cost increases, impacts of capital and revenues
- 3 scenarios:
  - Status quo – no service expansions or reductions
  - Scenario 1 – \$530m Cost Reduction in 2012 required to keep tax increase at inflation
  - Scenario 2:
    - Asset Monetization over 2 years applied to debt reduction
    - Sustainable provincial funding (50% transit operating funding & maintaining the Federal subsidy for social housing)
    - Cost reduction in 2012 to keep tax increase at inflation

# Remaining Annual Operating Pressures



# Property Tax Scenarios

if all remaining pressures funded by property taxes



# Constraints

- Limits to service efficiencies
- Limits to assets that can be sold for debt reduction
- Service reductions impacts
- Constraints on provincial, federal governments to provide their share of the solutions
- The need to take a long term view, e.g. avoid deferring maintenance, funding liabilities

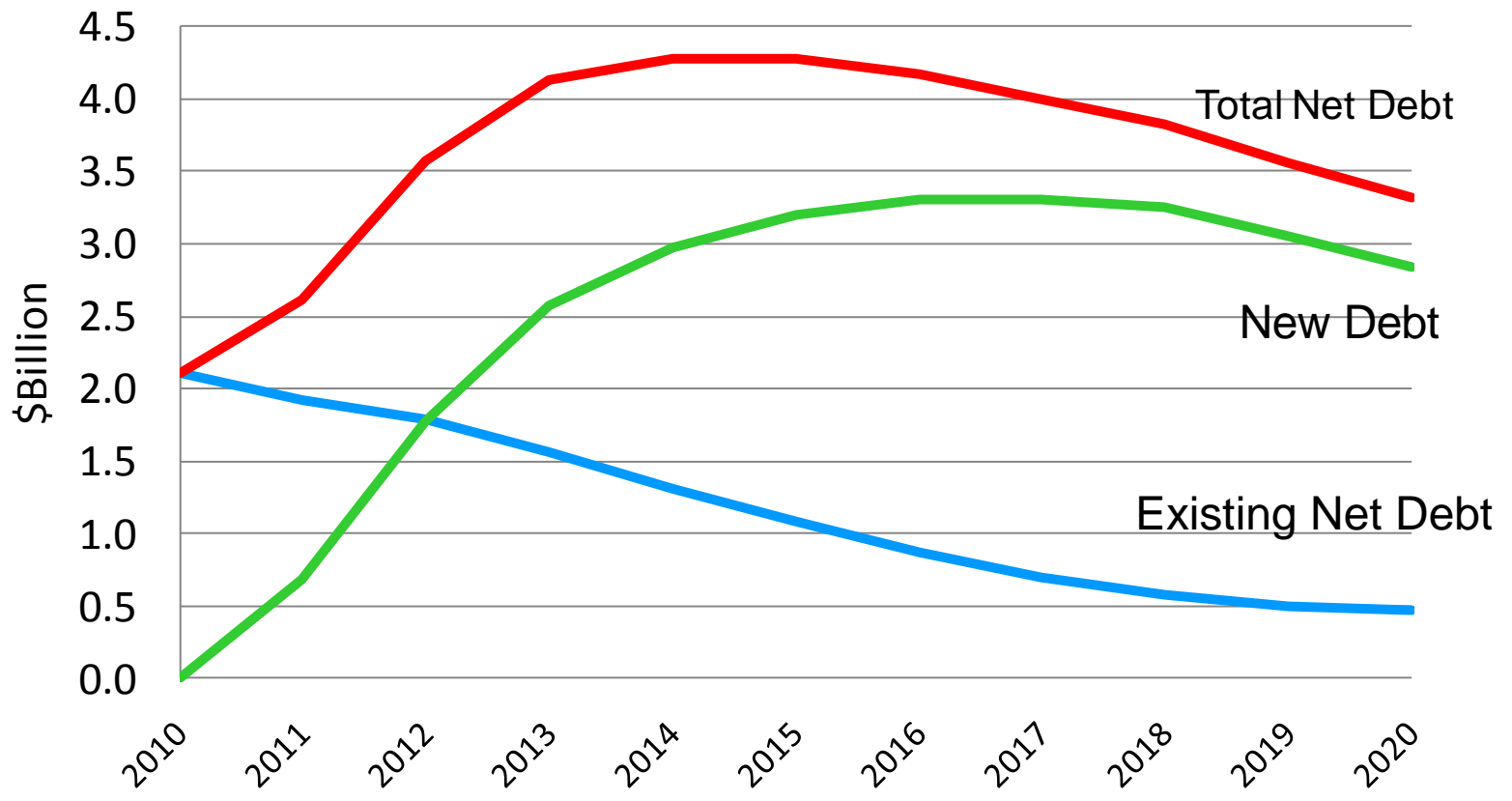
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# 4. Debt Management

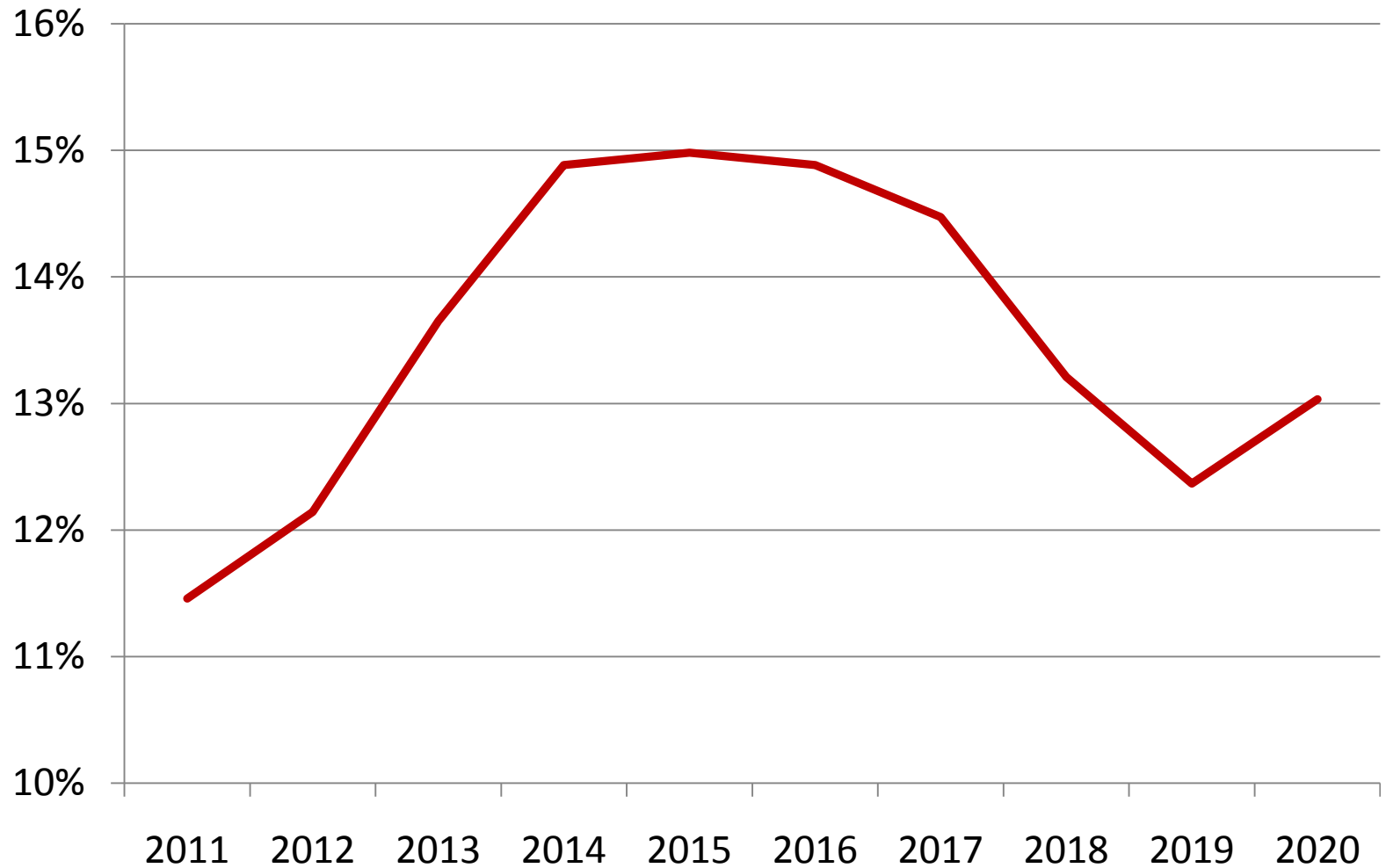
# Debt Background

- Debt can only be issued for capital
- Debt service payments are part of operating budget: include both interest and principal
- Two kinds of debt
  - Sinking fund: principal is paid into City's funds
  - Serial/amortizing: principal payments to debtholders
- Interest rates are fixed for term of debt
- Debt is not callable, i.e. must hold to end of term
- Terms range from 1 – 30 years with most as 10 year: term cannot exceed life of asset being funded

# Comparison of Existing and New Debt



# Debt Charges as % of Tax Levy



# Debt Breakdown

|  | 2009           | 2010           | 2011           |
|--|----------------|----------------|----------------|
|  | \$Million      |                |                |
| Gross Tax-Supported Debt   | \$3,300        | \$3,660        | \$4,360        |
| Less: Projected Sinking Fund Book Value including Monetization Funds | (1,032)        | (1,550)        | (1,750)        |
| <b>Net Tax-Supported Debt</b>  | <b>\$2,268</b> | <b>\$2,110</b> | <b>\$2,610</b> |

# Unmet Capital Needs

- The 2011-2020 Capital Budget is manageable except for TTC

| TTC                       | 2011 – 2020 Capital Plan \$Billions |              |                               |
|---------------------------|-------------------------------------|--------------|-------------------------------|
|                           | Requested                           | Recommended  | Requested but Not Recommended |
| <b>Gross Expenditures</b> | <b>7.59</b>                         | <b>3.44</b>  | <b>4.16</b>                   |
| <b>Funding Sources:</b>   |                                     |              |                               |
| Provincial Subsidy        | 1.32                                | 0.79         | 0.54                          |
| Federal Subsidy           | 1.59                                | 0.54         | 1.05                          |
| Other                     | 0.28                                | 0.04         | 0.19                          |
| <b>Total Funding:</b>     | <b>3.20</b>                         | <b>1.42</b>  | <b>1.78</b>                   |
| Required Debt:            | 4.39                                | 2.02         | 2.38                          |
| Debt Target               | 2.13                                | 2.13         | 0.11                          |
| <b>Debt Shortfall</b>     | <b>2.26</b>                         | <b>-0.11</b> | <b>2.26</b>                   |

# Emerging Capital Needs

|                                   | <u>\$Billion</u> |
|-----------------------------------|------------------|
| • TTC                             |                  |
| – Unmet capital needs (per above) | 4.16             |
| – Other emerging needs            | 4.40             |
| • Lawrence Heights                | 0.24             |
| • Long Term Care                  | 0.22             |
| • Facilities                      | 0.17             |
| • Other                           | 0.49             |

# Unmet Capital Needs (Cont.d)

- Meeting this need will require:
  - new approaches
  - rationalization of some affected assets
  - new funding sources

# Monetization of Assets

- Staff will report following budget approval on process for identifying, quantifying and recommending monetization of specific assets
- Some key candidates are City owned subsidiaries:
  - Toronto Hydro (maximum 10% after which provincial taxes make sale uneconomic)
  - Enwave
  - Toronto Parking Authority
- Council adopted motion in 2010 removing Toronto Hydro from consideration



# 5. Action Plan

# Action Plan

- Short-Term: City Initiatives:
  - Service level review (Divisions & ABCs)
  - Detailed service efficiency review (Divisions & ABCs)
  - Comprehensive user fee policy
  - Procurement Policy & Practice review
  - Asset Monetization review
- Medium/Long-Term: Funding relationship with other orders of Government
  - 50% TTC operating funding
  - Social Housing upload/ National Housing Strategy
  - Sharing of HST

