



Long Term Fiscal Plan Update

Presentation to Budget Committee

March 12, 2010



Outline

1. Progress on Council's 2005 Plan
2. City's Structural Funding Shortfall
3. Asset Monetization
4. The Road to Fiscal Stability
5. 2011 Outlook & Balancing Strategy
6. Summary

1. 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





Implementation of Long-Term Fiscal Plan

- Council has taken many steps to implement recommendations of plan:
 - On-going cost restraint and service rationalization
 - Containing sick pay costs and salary increases
 - Diversification of revenues
 - Business competitiveness strategies
 - Debt restructuring and increased capital contributions from operating
 - Enhanced funding of liabilities, e.g. insurance and employee benefits
- Improved funding of provincial cost shared programs

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 Has Made Significant Progress

- Expenditures:
 - On-going cost restraint and service reviews, including recently approved moderated wage increases
- Revenues:
 - Full GST rebate: \$50M
 - New Taxes (MLTT, PVT): \$218M annually
 - Capital funding from other orders of government e.g.
 - Share of Gas tax (\$320M/yr)
 - Transit City (\$9B)
 - Economic Stimulus Project funding - \$460M over 2009 to 2011
 - Phased upload of Social Services and Court Security costs (\$350M by 2018)

City Has Made Significant Progress

(cont'd)

- Provincial uploads - completed:
 - Restoration of full 50% funding on OW administration costs
 - Public Health: 75% funding up from 50%
- Provincial uploads – being phased in:
 - Social Services
 - Court Security
- One-time transit funding 2006-2009:
 - Ranged from \$58M to \$238M

City Has Made Significant Progress

(cont'd)

- **Assets**

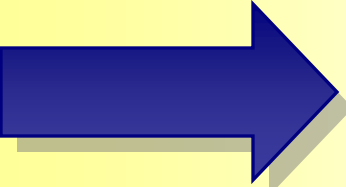
- Sale of Toronto Hydro Telecom – funded social housing renewal
- Creation of Build Toronto
- Public Interest Partnerships (P3) e.g.
 - Union Station, Street Furniture, Ricoh Centre, BMO Field, Lakeshore Lions Arena
- Naming rights
 - Sony Centre, All-Stream Conference Centre, Direct Energy Centre, Scotia Bank Nuit Blanche
 - Corporate policy being developed

- **Liabilities**

- Elimination of sick leave plan for major employee groups
- Additional funding for employee benefits, insurance

Moving Towards Fiscal Sustainability

The City has a plan to maintain 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

2. 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

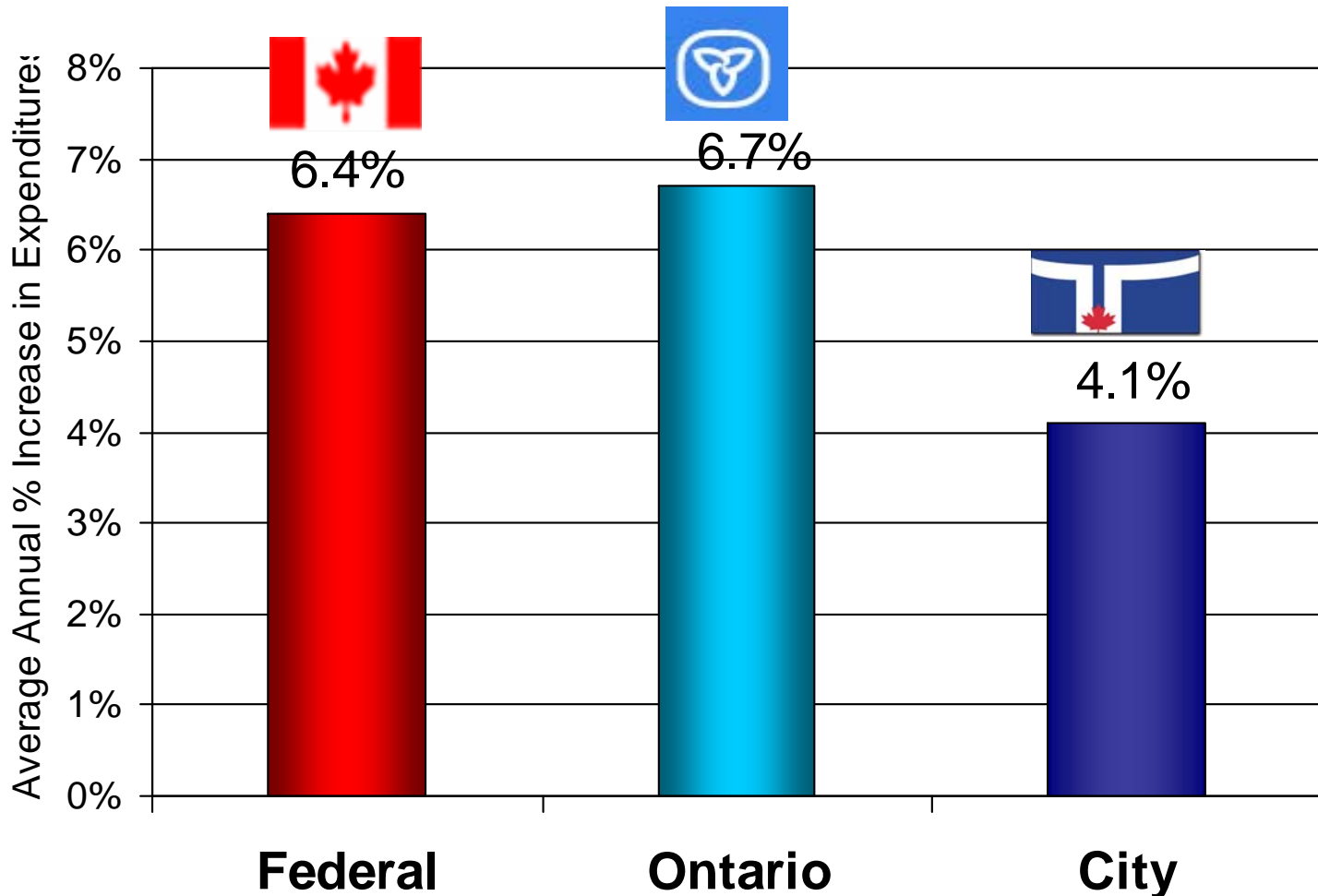
- Expenditures:
 - City absorbing cost pressures from population growth
 - Modest enhancement to services, e.g. Transit Ridership Growth Strategy
 - Need to fund capital repair of ageing infrastructure and growing liabilities, e.g. employee benefits
- Revenues:
 - Cost of business tax relief to enhance 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



Change in Government Expenditures Federal / Province/ City

1998 to 2010

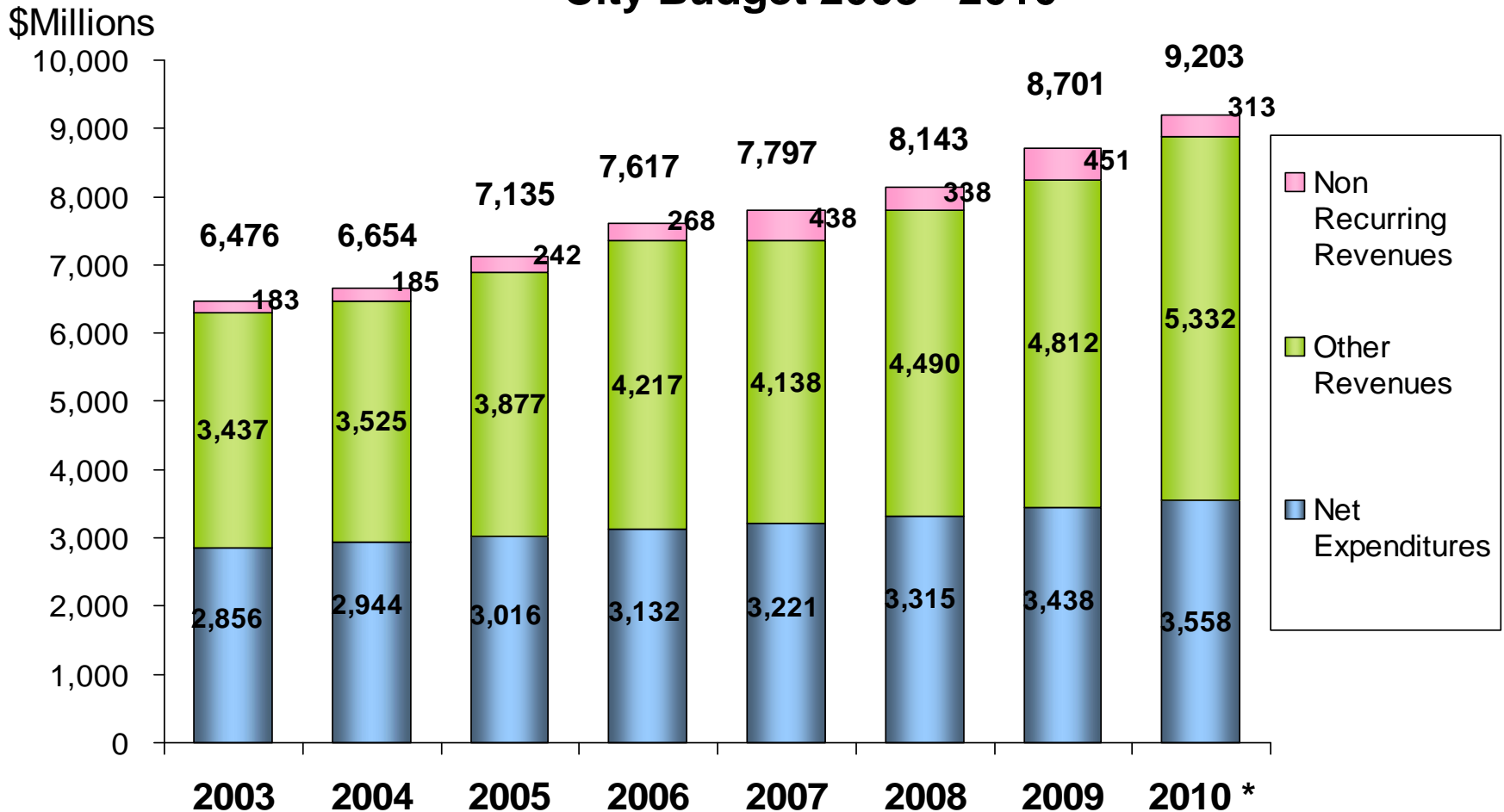


Excluding debt charges

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

Spending History - Gross Expenditure and Funding Sources

City Budget 2003 - 2010



* Staff Recommended

3. 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 Corporate Ownership

- The financial benefits from ownership come from:
 - Increased values over time (equity growth)
 - Annual or periodic returns from dividends
- Returns from monetizing must be compared with those returns

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

4. 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
---------------------------	--------

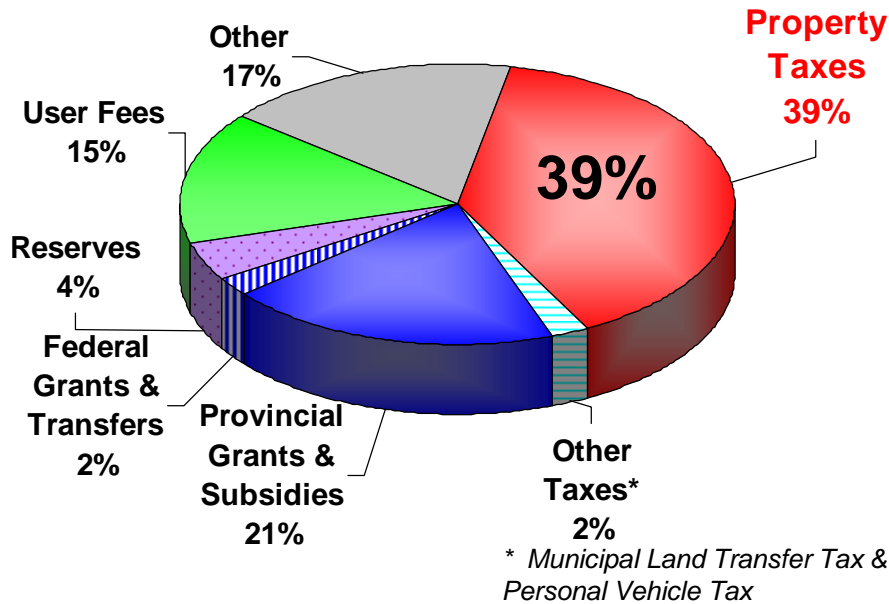
The Case for Sharing Sales Tax

- 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

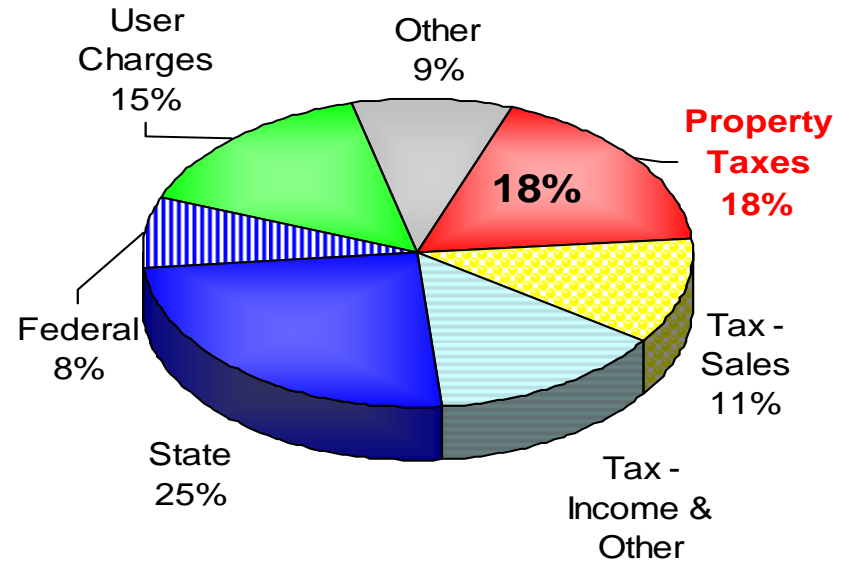
US Cities Have More Diversified Revenue Base

Toronto



Staff Recommended 2010 Operating Budget

Top 35 US Cities (by Population)



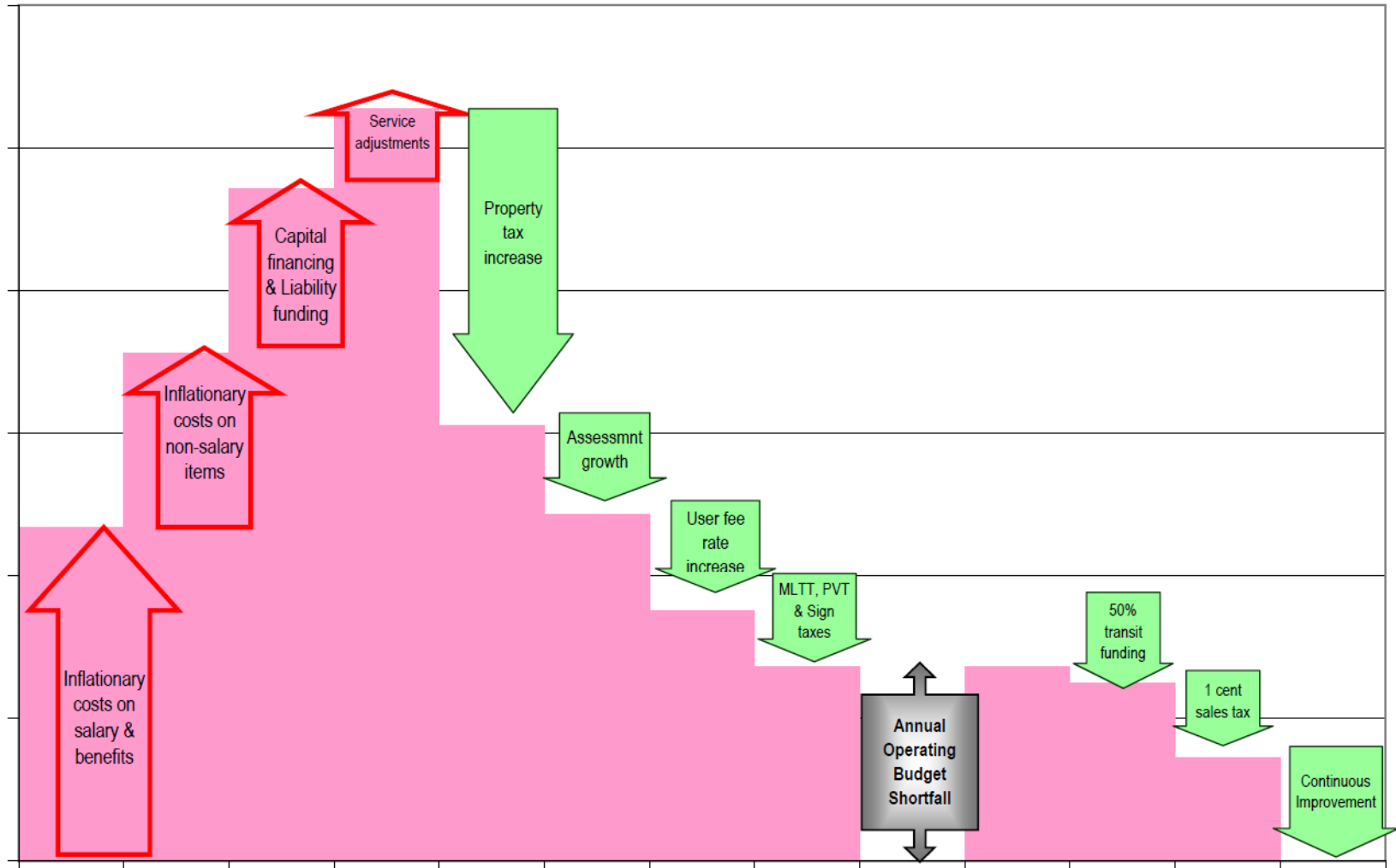
U.S. Census Bureau, Statistical Abstract of the United States 2008 (2004 data)

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

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 beginning 2012, proceeds used to pay down debt

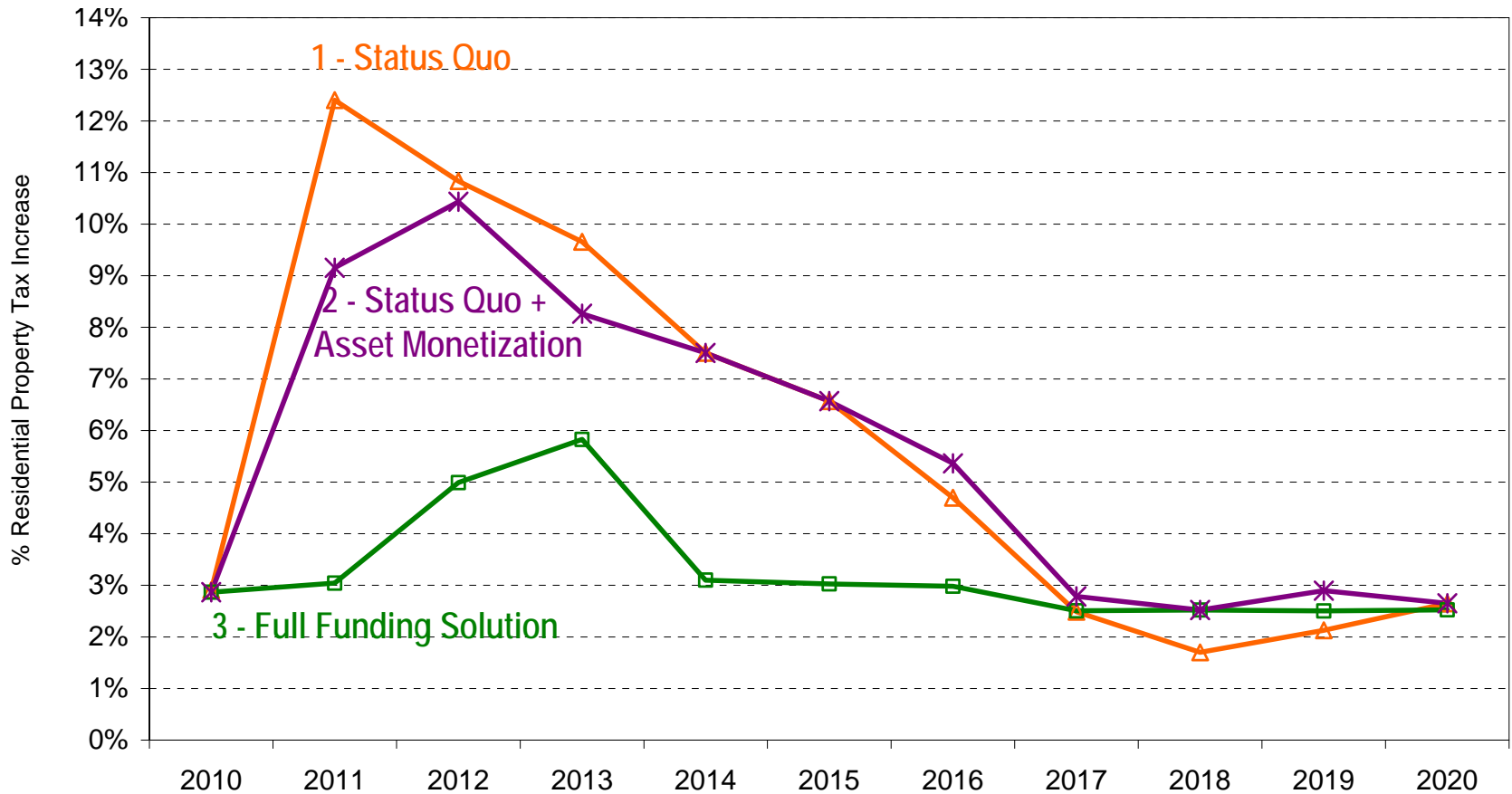
3 - Full Funding Solution:

- 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

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

5. 2011 Outlook & 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		250
Reserve Draws		<u>63</u>
Total 2010 Unsustainable Balancing Strategies		313
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	42	
Hydro Note Monetization - Interest	30	
Annualization and Other Base and Revenue Change	<u>57</u>	<u>272</u>
		585
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>469</u>
Add: Use of additional 2009 surplus to lower the proposed 2010 residential tax increase to 2.9% (per Mayor's recommendation)		<u>24</u>
2011 Outlook Pressure		<u>493</u>

2009 Surplus (Unaudited)

	<u>\$Million</u>
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	<u>263.5</u>
Total Preliminary 2009 Surplus	<u><u>354.8</u></u>

Application of 2009 Surplus

	\$Million	
Total Preliminary 2009 Surplus		355
Applied to Reserve Funds (Exhibition Place Conference Centre & Social Assistance Stabilization)	(3)	
Applied to 2010 Operating Budget	(250)	(253)
Remaining Surplus to be Contributed to Property Tax Stabilization Reserve		102
Recommended Application of Reserve Fund:		
Additional funds applied to 2010 Operating Budget to lower the proposed tax increase to 2.9% (per Mayor's recommendation)		(24)
Other *		(3)
Remaining Funds to be applied to 2011 Operating Budget (per Mayor's recommendation)		75

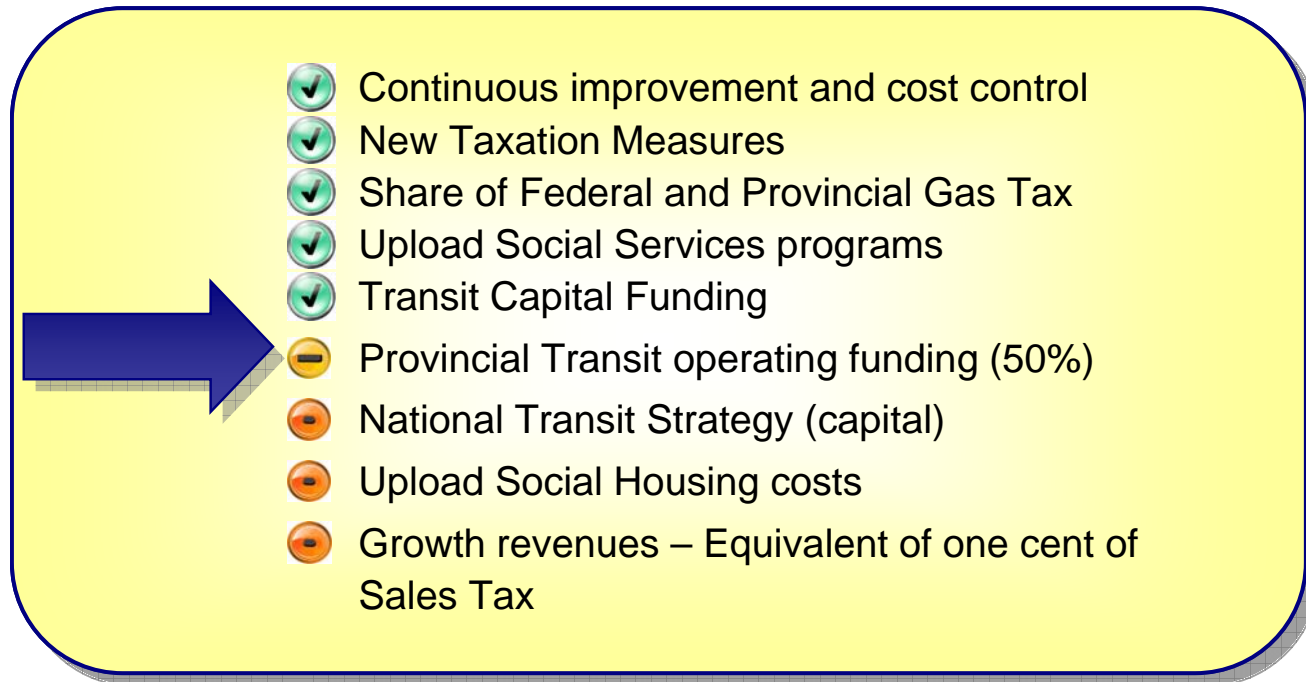
* Further adjustments to the 2010 Operating Budget or contribution to specific reserves

2011 Budget Balancing Strategy

	<u>\$Millions</u>	
2011 Opening Pressure		493
Application of additional 2009 surplus (per Mayor's recommendation)	(75)	
Resumption of Provincial 50% TTC Operating	(256)	
Tax Increase, Assessment Growth & Service Efficiencies	(162)	(493)
	<hr/>	<hr/>
		0
		<hr/> <hr/>

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

- If the above plan is not met, the City will have to:
 - Monetize assets, which provides bridge financing until a longer term solution is found, **AND**
 - Implement significant service adjustments

