July 12, 2004

To: Ad Hoc Committee on the Development of Long-term Fiscal Plan

From: Chief Financial Officer & Treasurer

Subject: Capital Financing Strategy, 2004

Purpose:

To present a consolidated strategy for financing capital expenditures, inclusive of the utilization of capital from current to enhance the fiscal sustainability and credit worthiness of the City of Toronto.

Financial Implications and Impact Statement:

Adoption of the recommended strategies will help manage the City's debt levels and support the City's credit rating, through reduced reliance on debt and increased provision for capital from current financing, subject to the annual budgeting process.

Based on the 2004 capital expenditure forecast constrained in accordance with the assumptions in this report, including the achievement of 2/3 capital subsidy for TTC from the federal and provincial governments in 2005 and beyond; projected development charge revenue consistent with the new development charge by-law; and an annual increase of $10 million in capital from current contributions, the City's total tax-supported net debt from $1.9 billion in 2004 to $2.2 billion in 2009.

This report recommends establishing certain targets for capital from current (CFC), debt and debt service to ensure the City is doing all it can to mitigate these pressures. However, the projected debt and debts service levels can only be obtained through significant expenditure constraints and new funding measures.

Recommendations:

It is recommended that:

(1) the capital program be constrained so that it can be funded without the issuance of new debt except to fund requirements of the transportation and transit programs;

(2) in order to maintain progress toward sustainable funding of the capital program, a $10 million minimum annual increase to Capital from Current contributions be approved in principle;

(3) the Chief Financial Officer and Treasurer continue to allocate Capital from Current to projects in accordance with statutory and administrative capital policies, so that CFC is allocated first to fully fund projects with shorter asset life;

(4) the target limit of debt service charges as a percentage of the net property tax levy of 10% previously approved by Council be established as a benchmark for evaluating capital budget expenditure levels;

(5) Council reaffirm its policy direction to apply all returns on the City's investments in Toronto Hydro Corporation to fund City's capital program requirements; and

(6) the appropriate City officials be authorized and directed to take the necessary action to give effect thereto, and that leave be granted for the introduction of any necessary bills received in Council to give effect thereto.

Background:

A. Previous Council Decisions Respecting Capital Financing Plan

Since amalgamation, Council has considered and adopted various capital financing reports including policies and principles for funding capital [a summary of Council-approved capital financing policies to date is provided in Appendix 'A', along with proposed new policies]. Some examples of approved capital financing policies include:

(i) Explore alternative sources of capital financing, including the implementation of a City-wide development charges regime;

(ii) Fund capital maintenance and rehabilitation projects to the greatest extent possible from capital from current;

(iii) Limit debt charges for tax-supported (capital) programs to 10 percent of the municipal property tax levy;

(iv) As a guideline, future capital programs would limit average borrowing to a maximum of $110 million for tax-supported programs, excluding the impact of TTC downloading and borrowing for the Sheppard Subway; and

(v) All proceeds of the debt and dividends from Toronto Hydro be used toward the existing City capital obligations and not be used to increase City operating expenses.

Comments:

A. Overview of Guiding Principles and Factors for Tax-supported Capital Expenditure Planning and Financing

Introduction

Like all Ontario municipalities, the City can borrow money only for capital purposes, aside from temporary borrowing for cash flow purposes within a fiscal year. Debt charges, consisting of payments of principal and interest, are funded from the operating budget and currently make up less than 10 percent (8.3 %) of the City's 2004 property tax supported costs. The City uses debt along with other methods of capital financing, such as contributions from the operating budget ("capital from current"), reserves, and federal and provincial governments subsidies to finance the City's capital projects. Capital projects have a multi-year useful life and are typically debt financed up to a 10-year period.

Principles and Factors

- *Long-term Strategic Capital Planning*

  The City's ongoing multi-year capital planning process is governed generally by principles contained in the Corporate Strategic Plan, including the policies outlined in this report. Council, through its annual capital budget review process, identifies various levels of capital needs, classified by categories of state of good repair, health and safety, legislative requirements, development /growth related projects and service improvement projects. Within each category, the capital projects are prioritized based on urgency and cost-benefit implications.

- *Determination of 'New Debt'*

  In concert with the establishment of long-term capital needs, the City annually reviews and updates sustainable funding sources and new/additional debt requirements through the budget process. The 'sustainable funding sources' represent a bundle of sources of capital funding, including capital from current, reserve funds, federal and provincial government contributions, returns on the City's investment in Toronto Hydro, and baseline debt. Baseline debt refers to replacement of average annual maturities of previously issued debt. As a portion of existing debt is retired each year, it creates room for more debt without impacting debt charges. The amount of debt financing in excess of the baseline debt is 'new

debt'. If the total capital expenditures exceed the sustainable funding level, then new debt is required, which increases operating budgets for debt service.

- *Debenture Financing Parameters for the Capital Program*

  Each year, the Province sets through regulation the "Annual Repayment Limit", the maximum exposure that a municipality may have to debt and financial obligations in the following year. It is based on the prior year's financial information return, and is set as 25% of a municipality's "net revenue fund revenue". Although, the City's debt as a percent of the provincial limit has been rising, these limits have not been particularly relevant to budget discussions in Toronto in the past because the limits were so far beyond the expenditure intentions of the City. Instead, the primary focus has been on the annual operating budget impacts from increased capital borrowing requirements and the associated impact on the City's credit rating. However, the provincial ratio continues to be monitored each year to ensure compliance.

  Term of debt (e.g. 10 years) must not exceed the useful life of the asset being financed, and should be selected with regard for the market (yield curve) vs. term of debt and total cost of retiring the debt.

  'Debt service costs to municipal tax base' ratio limits or targets may be established by the City. As noted earlier, Council approved in 1998 the establishment of an interim limit of debt charges to 10 percent of the municipal property tax base. The 2004 ratio is 8.3%.

  The City's reliance on debt financing as compared to competing municipal jurisdictions is a measure of the fiscal capacity or flexibility to undertake additional debt financed expenditures. Based on available data, the City is already at a competitive disadvantage in the GTA in terms of debt related fiscal capacity measures, such as debt per capita, debt per property assessment values, and debt charges per capita.

  Alternatives to increased debt financing, such as reducing capital spending, increasing capital from current, and generating new revenues (including potential new revenues from the provincial and federal government) should be exhausted before issuance of new debentures.

B. Fiscal Environment

In April 2004, City Council approved a tax supported capital budget of $908million and a tax supported operating budget of $6.6 billion.

The 2004 Capital Budget is funded from a $201 million increase in new debt, based on the assumption of combined Provincial and Federal Government funding of $140 million via a proposed five year tripartite transit capital funding agreement. However, actual federal and provincial funding in respect of 2004 expenditures are now expected to be limited to less than $50 million for the TTC, adding another $94 million in new debt requirements. The anticipated revised 2004 debt financing of $295 million will increase the operating budget debt service

burden by about $45 million per year, beginning as early as 2005. In addition, a variety of expenditures were deferred to reduce the 2004 debt requirements, including some $55 million in planned TTC 2004 capital expenditures, and a $235 million backlog in the Transportation program.

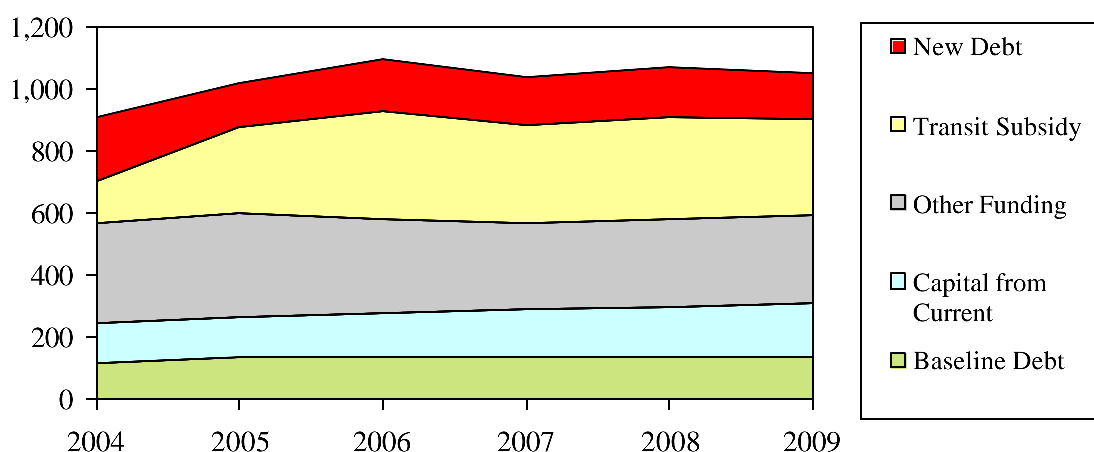
Offsetting these expenditure pressures is the new Provincial gas tax initiative, which is expected to result in new revenues for the City in 2005 to assist in funding the backlog of capital requirements.

Although in recent years the financial pressures for the City's capital projects have been partially relieved by certain one-time funding sources such as the OMERS contribution and pension holiday and provincial loan, this funding approach is not sustainable. Discussions with the federal and provincial governments for new infrastructure funding and sustainable revenue sources must continue, without which reductions in service levels and/or property tax increases will be required.

- Constrained Capital Expenditure Forecasts Remains Above Affordability Level

The City's constrained capital expenditure forecasts (2004-2009) remain above the level of affordability defined as available funding, including baseline debt, before new debt and federal/provincial government subsidies. The result is a requirement for net new debt as illustrated by the chart below, and concomitant debt service increases each year:

2004 Capital Budget & Forecast
by Funding Source
$ millions



- Increasing Debt Levels

As of December 31, 2003 the City's total tax-supported gross debt was $2.1 billion and net debt after sinking fund provision was $1.5 billion.

Constrained Scenario:

The 2004 capital expenditure forecast is constrained in accordance with the assumptions in this report, including the achievement of 2/3 capital subsidy for TTC from the federal and provincial governments in 2005 and beyond, and projected development charge revenue consistent with the new development charge by-law, and an annual increase of $10 million in capital from current contributions. Based on these enhanced revenue assumptions, the City's total tax-supported net debt is projected to increase from $1.9 billion in 2004 to $2.2 billion in 2009.

Unconstrained Scenario:

However, if the 2004 capital expenditure forecast remains unconstrained at the request levels, CFC increasing each year at inflation rate, and assuming availability of committed funding (i.e. federal and provincial governments providing a combined subsidy of $140 million per year for TTC capital) but not the uncommitted subsidy (i.e. the additional federal/provincial subsidy to top up combined federal/provincial share to 2/3rd. of TTC capital needs); projected development charge revenue consistent with the new development charge by-law, the City's total tax-supported net debt would increase from $1.9 billion in 2004 to $3.9 billion in 2009.

- Increasing Debt Charges as a Percentage of Fixed Total Property Tax Base

As new debt is issued each year, debt service charges grow. Under the projected funding provisions as noted above and assuming the 2004 total property tax base of $2.94 billion unchanged to 2009, debt charges as a percentage of total property tax are projected to increase as follows:

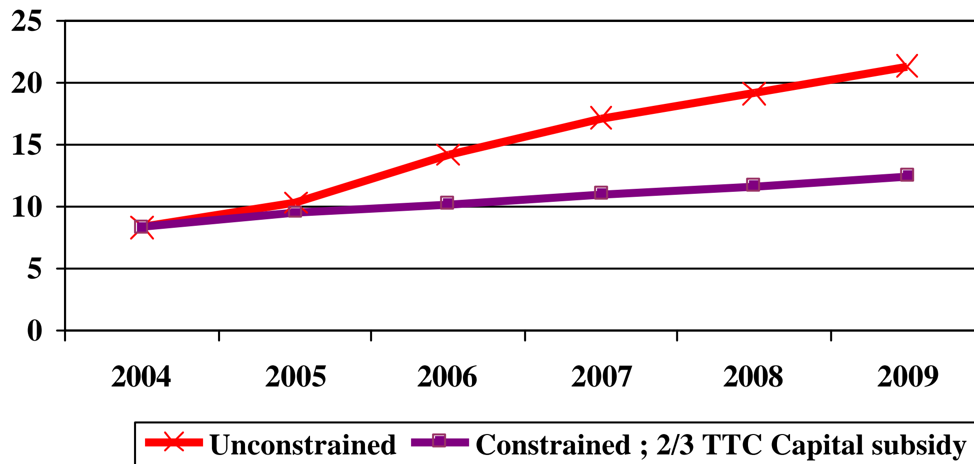
Constrained Scenario:

The debt charges as a percentage of total property tax base would increase from 8.3% in 2004 to 12.4% in 2009 if capital expenditure deferral or constraint measures are incorporated. As a result, the 10% threshold level established by Council in February 1998 will be exceeded in 2006.

Unconstrained Scenario:

The debt charges as a percentage of total property tax are projected to increase from 8.3% in 2004 to 21.3% in 2009. As a result, the 10% threshold level will be exceeded in 2005.

Tax-supported Debt Charges as a percent of Fixed Total Property Tax ($2.94 B)
2004 - 2009



Comparative Debt Service Levels

Toronto presently has a higher proportion of its total debt service costs to total property taxes ratio compared to other municipalities (with combined upper and lower tier municipalities in other regions), particularly within the GTA jurisdictions.

2002 Total Debt Service Costs,
Comparative Burden as a Portion of Tax Levy
Selected Jurisdictions

Jurisdiction	Debt Service Charges for Capital Projects ($M)	Debt Service Charges as a % of Property Taxes
Windsor	30.9	13.1%
London	28.6	9.3%
Ottawa-Carleton	92.1	9.2%
Toronto	**257.5**	**9.0%**
Hamilton	37.9	7.9%
Halton	26.4	7.0%
York	44.3	6.3%
Waterloo	23.1	5.7%
Durham	20.9	4.3%
Peel	5.5	0.6%

Source: Ministry of Municipal Affairs and Housing, MARS database

In the long run, debt financing costs a municipality about 50% more than current financing, reducing its capacity to deal with other operating service priorities, and is consequently avoided when possible particularly for funding rehabilitation and replacement related expenditures.

- Pressure on Credit Rating

Currently, the City contracts with three credit rating agencies, Dominion Bond Rating Service (DBRS), Moody's Investors Service (MIS), and Standard and Poors (S&P). These ratings provide an independent verification of the City's overall financial health, which is used by the City's investors, including the international financial community, as a measure of the organization's ability to repay its debt.

Summary of Current Credit Ratings

Agency	Date	Credit Rating
Dominion Bond Rating Service	February 2004	AA
Moody's Investors Service	January 2004	Aa1
Standard and Poors	January 2003	AA

These ratings have dropped in two levels since 1996, when all agencies rated Toronto (former Metro) at AAA.

Long-term solutions are required for the City to maintain reasonable debt levels based upon affordability and to protect and enhance its credit rating. As noted earlier, the City's total tax-supported debt is expected to increase between 2004 and 2009 unless forecasted capital expenditures are deferred or constraint measures incorporated, and/or capital from current is further increased, and/or alternative/ sustainable revenues are generated. Any increased debt-loads will have an adverse impact on City's current credit ratings.

The City is and will continue to be a significant issuer of debenture debt in Canadian financial markets. The maintenance of a high quality credit rating is essential to ensure that the City's ability to access the most cost-effective capital markets will continue.

C. City Actions

- Fiscal Initiatives

At its meeting held on December 4-6, 2001 Council adopted recommendations, as part of the strategic plan, embodied in Clause 1, Report No. 16 of the Policy and Finance Committee, titled "Fiscal Sustainability Principles", including the following principles related to capital financing:

- Infrastructure should be evaluated for replacement when it is no longer cost-effective to maintain in a state of good repair,
- Borrowing should occur only for assets that have a long-term useful life,
- Debt repayment periods should not exceed the useful life of the assets,
- The cost of servicing new debt should not negatively affect the City's credit rating,

- Capital infrastructure should be funded through the least expensive financing strategy, and
- Investment in new infrastructure should be based on analysis of shifts in demographic growth and existing, unmet needs.

Further, at its meeting held on April 23-27 and April 30-May 2, 2001 Council adopted recommendations embodied in Clause 1, Report No. 5 of the Policy and Finance Committee, titled "Recommended 2001-2005 Tax Supported Capital Plan Debt and Debt Service Impact", including the following:

- Any surplus in the City's Sinking Fund accounts that is released in 2001 and future years be applied to the capital program to reduce borrowing.

Since amalgamation in 1998, the City has demonstrated its fiscal stewardship during a period of difficult economic times and significant organizational and operational changes. The City's budgets incorporated a balance between the provision of services and affordability. Toronto is continuing to exercise restraints, streamline its operations and incorporate budget reductions. In addition, available one-time funding (e.g. OMERS exemption) has been applied whenever possible to reduce new capital borrowing, as have the ongoing proceeds from the City's ownership in Toronto Hydro Corporation. These actions have all been positively received by the credit rating agencies and have helped the City manage its debt and, by extension, the debt charges in the operating budget.

- Discussions with the Federal and Provincial Governments

At its meeting held on April 23-27 and April 30-May 2, 2001 Council adopted recommendations embodied in Clause 1, Report No. 5 of the Policy and Finance Committee, titled "Recommended 2001-2005 Tax Supported Capital Plan Debt and Debt Service Impact", including the following:

> "Council again request that the federal and provincial governments provide the City with sustained ongoing funding to support the City's capital program and help maintain the competitiveness and financial sustainability of Toronto."

Insufficiency of funding continues to hamper Toronto's ability to manage its aging infrastructure, maintain adequate services, and address its property tax competitiveness. The City is continuing its efforts to obtain sustainable funding/revenue tools, results of which have started to show by way of the multi-year Federal and Provincial funding for TTC capital, Federal 100% municipal GST rebate, Federally supported FCM green municipal infrastructure funds, and Provincial and Federal fuel tax sharing commitments. Private sector sponsored reports such as those from the TD Bank and the Toronto Board of Trade have also supported the City's request for long term sustainable revenue sources from federal and provincial governments.

In addition to issues of funding adequacy, uncertainty regarding future years' funding is also a concern. In recent years, Federal and Provincial municipal capital funding has tended to come through one-time announcements and short-term programs, rather sustainable policies. The

resulting uncertainty about future funding contributes to the fiscal condition of municipalities, hampers long term planning, undermines municipal credit ratings, and contributes to an unhealthy competition between municipalities for special treatment. Provincial and Federal announcements regarding fuel tax sharing and the proposed tripartite 5-year transit capital funding agreement both help to reduce uncertainty with respect to the flow of funds in the future.

- Capital from Current Funding

At its meeting held on February 4, 1998 Council adopted recommendations embodied in Clause 8, Report No. 2 of the Strategic Policies and Priorities Committee, titled "1998 Capital Works Program – Preliminary Targets and Status Report on Outstanding Debt of the City of Toronto", including the following:

- Maintain capital from current funding at approximately $100 million with a view to increasing this level where possible;
- Fund capital maintenance and rehabilitation projects to the greatest extent possible from capital from current.

The City applies contributions from the operating budget (CFC: capital from current) to fund its capital program. The 2004 budget for CFC is $124.2 million. Public sector accounting rules are expected to change in the future to require the City to recognize asset depreciation as a potentially much larger operating expense in place of a CFC provision. In preparation, and in order to preclude any erosion in the current level of CFC, it is recommended that the CFC contribution be increased each year by at least $10 million, approximately corresponding to a 1% increase on the residential tax base.

Ultimately, it is desirable for capital from current to be sufficient to fund all base capital expenditures after reserves, subsidies and third party recoveries, so that the debt capacity of the City can be used for growth and enhancement related initiatives that benefit taxpayers during the debt repayment term. In this way, the maintenance of existing assets would be funded from the current tax base rather than passed on to future taxpayers. For this state to be reached and maintained, a significant increase in revenue will be required. The proposed direction is in line with the Council-approved principle of financing capital projects requiring replacement from capital-from-current.

As shown in the chart below, the recommended CFC policy would result in an average annual increase of $10 million during 2005 to 2009, but would not narrow the funding gap as expenditures are also subject to inflationary pressures.

2004 – 2009 Capital Shortfall

$ Million	2004	2005	2006	2007	2008	2009
Constrained Gross Expenditure*	908	1,022	1,097	1,040	1,073	1,054
Less:						
Fed/Prov Gov't Funding	140	282	346	312	326	305
CFC Including $10 million annual increase	124	134	144	154	164	174
Other Funding	443	465	434	418	420	422
Equals:						
Capital Shortfall (new debt)	201	141	173	156	163	153

* assumes capital expenditures constrained so that new debt is issued for TTC only.
**assumes City obtains 2/3 capital subsidy for transit starting in 2005.

- Baseline Debt Forecast

As discussed previously, baseline debt refers to replacement of average annual maturities of previously issued debt. As a portion of existing debt is retired each year, it creates room for more debt without impacting debt charges. The amount of debt financing in excess of the baseline debt is 'new debt'.

The average annual reduction in debt service costs through scheduled debt maturities over the next ten years is sufficient to permit debt issuance of approximately $135 million each year without impact on the operating budget, assuming current interest rates.

- City's Policy on Management of Surplus

At its meeting held on October 3-5, 6, 10-12, 2000 Council adopted recommendations embodied in Clause 8, Report No. 12 of the Policy and Finance Committee, titled "Policy on Management of Surplus", including the following:

> The Chief Financial Officer and Treasurer was authorized to apply any operating additional surplus, in priority order to:
>
> (a) Fund the Tax Rate Stabilization Reserve Fund (if below its target),
> (b) Capital Financing Reserve Fund (at least 10 percent of the additional surplus), and
> (c) The remainder to fund any unfunded liabilities, or otherwise proven inadequacy in a reserve or reserve fund on the basis of highest risk of immediate property tax impact as determined by the Chief Financial Officer and Treasurer.

Council adopted the above noted policy but amended the Policy and Finance Committee Report to provide that 'a target level for the funding of reserves not be established until the 2001 Operating Budget process' and implementation of the policy be referred to the 2001 Operating

Budget process. As a result of consideration of the 2001 Operating Budget, this policy was not implemented.

The Chief Financial Officer and Treasurer is reporting separately on the issue of surplus management to reinstate the policy and enhance its impact on capital financing requirements. The report will recommend that in the future all surplus be allocated to capital financing and underfunded liabilities/reserves, except in 2004 when all surplus will be directed to capital reserves.

- City's Current Practice of Setting Debenture Financing Terms

There are no recommended changes to the current practice of using shorter-term debt (usually up to 10 years) and to selectively use longer-term debt. Extending the term for new issues marginally reduces annual debt service charges on new issues, but results in significantly higher costs to the City over the longer-term and higher debt levels.

D. Role of Toronto Hydro Investment

At its meeting held on June 9-11, 1999 Council adopted recommendations embodied in Clause 1, Report No. 10 of the Strategic Policies and Priorities Committee, titled "Incorporation of Toronto Hydro Corporation", including the following:

> "…all proceeds of the debt and dividends from Toronto Hydro be used toward the existing City capital obligations and not be used to increase City operating expenses".

At its meeting on April 19-27, 2004 City Council made a policy exception for fiscal 2004 only by approving the use of the City's $67 million annual interest revenues from debt investment and $25 million in unbudgeted dividend revenues to fund a portion of the City's 2004 operating budget.

- Nature and Benefits of Holdings

Toronto Hydro Corporation (THC) is wholly owned by the City of Toronto. The City also holds the majority of the THC's long-term debt in the form of a $980 million promissory note with an interest rate of 6.8%, resulting in yearly interest payments to the City of $67 million which has been utilized for capital financing. In addition, the Shareholder Direction relating to THC sets a dividend policy (currently under review) of the greater of $20 million per annum, or 40% of the net income of the Toronto Hydro distribution subsidiary.

Council has directed staff to review the shareholder direction, particularly the dividend policy. A report is expected in the Fall.

In fiscal 2005 it is expected that implementation of the Provincial gas tax allocation to municipalities will enable the City to return to the policy of using Toronto Hydro Corporation (THC) proceeds to defray debt associated with capital costs.

Conclusions:

Since amalgamation of the City, Council has established several policies regarding capital financing. These policies have been instrumental in managing the City's sizeable capital program since 1998.

Nevertheless, the City's capital budgets have been consistently above the level of affordability, resulting in a requirement for new debt each year. Based on the projections of capital expenditures and funding provisions (i.e. constrained capital expenditures, CFC increasing by $10 million each year, 2/3rds capital subsidy for TTC; development charges in keeping with the anticipated 2004 by-law; and, Toronto Hydro Corporation investment returns contributed to capital), the City's total tax-supported net debt is projected to increase from $1.9 billion to $2.2 billion by 2009.

Increases to the City's debt load must be monitored carefully and utilized prudently as they could have an adverse impact on the City's credit rating, and related debt service costs would consume an increasing proportion of the operating budget, reducing other Council service priorities.

This report recommends that, in addition to continued efforts to secure stable new sources of capital funding, new debt be limited to requirements for transit and transportation programs, Council reaffirm its policy to apply returns on the City's investment in Toronto Hydro Corporation to capital, and that capital from current funding be increased by a minimum of $10 million each year.

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List of Attachment:

Appendix A – Capital Financing Strategy, 2004: Current and Proposed Policies

Appendix 'A'

Capital Financing Strategy, 2004: Current and Proposed Policies

Council-approved Current Policies	Status
1. "…the interim Capital Management Guidelines as outlined in this report be used in the capital budget process:	
(i) limit debt charges for tax supported programs to 10 percent of the municipal property tax levy;	Recommendation 4 in report requests Council to reaffirm.
(ii) the capital budget should include items with a useful life greater than the standard term of debenture borrowing – 10 years;	No change. Principle in place.
(iii) Maintain capital from current funding at approximately $100 million with a view to increasing this level where possible;	Recommendation 2 in report requests Council approval for annual $10 million increase in CFC.
(iv) Fund capital maintenance and rehabilitation projects to the greatest extent possible from capital from current;	No change
(v) Explore alternative sources of capital financing, including the implementation of a City-wide development charges regime;"	New development charges approved. Other federal/provincial sources being pursued.
[Council meeting of February 4, 1998, Clause 8, Report #2 of the Strategic Policies and Priorities Committee, titled "1998 Capital Works Program – Preliminary Targets and Status Report on Outstanding Debt of the City of Toronto"]	
2. "A Capital Financing Stabilization Reserve be established to minimize fluctuations in future operating budgets due to changes in debt charges.	No change.
As a guideline, future capital programs would limit average borrowing to a maximum of $110 million for tax-	Amount of debt that can be issued without operating impact is updated to $135 million.

supported programs, excluding the impact of TTC downloading and borrowing for the Sheppard Subway. Proceeds from major asset sales be applied to reduce borrowing each year, unless Council specifies that a portion of these proceeds be used to fund major rehabilitation and maintenance projects." [Council meeting of April 29-30, 1998; Clause 1, Report #6 of the Strategic Policies and Priorities Committee, titled "Proposed Capital Financing Management Plan and Other Capital Funding Issues"]	No change. Additionally, return on investment in the City's holdings in Toronto Hydro be utilized to fund City's capital program requirements.
3. "Any surplus in the City's Sinking Fund accounts that is released in 2001 and future years be applied to the capital program to reduce borrowing. Council again request that the federal and provincial governments provide the City with sustained ongoing funding to support the City's capital program and help maintain the competitiveness and financial sustainability of Toronto." [Council meeting on April 23-27 and April 30 – May 2, 2001; Clause 1, Report #5 of the Policy and Finance Committee, titled "Recommended 2001-2005 Tax Supported Capital Plan Debt and Debt Service Impact"]	See Surplus Management report. No change
4. "Infrastructure should be evaluated for replacement when it is no longer cost-effective to maintain in a state of good repair. Borrowing should occur only for assets that have a long-term useful life. Debt repayment periods should not exceed	No change No change No change [10 years unless major capital

the useful life of the assets. The cost of servicing new debt should not negatively affect the City's credit rating. Capital infrastructure should be funded through the least expensive financing strategy. Investment in new infrastructure should be based on analysis of shifts in demographic growth and existing, unmet needs." [Council meeting on December 4-6, 2001, Clause 1, Report #16 of the Policy and Finance Committee, titled "Fiscal Sustainability Principles"]	project with greater-than-$50 million investment, with greater-than-30 years life] No change No change No change. Recommendation 2 requests that Council endorse the principle that given limited resources 'base' capital program expenditures have priority over growth or service improvement capital projects.
5. "Chief Financial Officer and Treasurer is authorized to apply any operating additional surplus, in priority order to: (a) Fund the Tax Rate Stabilization Reserve Fund (if below its target); (b) Capital Financing Reserve Fund (at least 10 percent of the additional surplus); and (c) The remainder to fund any unfunded liabilities, or otherwise proven inadequacy in a reserve or reserve fund on the basis of highest risk of immediate property tax impact as determined by the Chief Financial Officer and Treasurer." [Council meeting on October 3-5, 6, 10-12, 2000; Clause 8, Report #12 of the Policy and Finance Committee, titled "Policy on Management of Surplus"]	See Surplus Management report.
6. Hydro proceeds to capital: "…all proceeds of the debt and dividends from Toronto Hydro be used toward the existing City capital obligations and not be	No change. Recommendation 5 in this report requests Council to reaffirm THC funding for the City's capital program

used to increase City operating expenses". [Council meeting on June 9-11, 1999; Clause 1, Report #10 of the Strategic Policies and Priorities Committee, titled "incorporation of Toronto Hydro Corporation"]	