



**STAFF REPORT
ACTION REQUIRED**

2016 – 2025 Budget Committee Recommended Tax Supported Capital Budget and Plan

Date:	February 4, 2016
To:	Executive Committee
From:	City Manager Deputy City Manager & Chief Financial Officer
Wards:	All
Reference Number:	P:\2016\Internal Services\Fp\Ec16002Fp

SUMMARY

This report presents the City of Toronto's 2016 - 2025 Budget Committee (BC) Recommended Tax Supported Capital Budget and Plan and recommends approval of 2016 Capital Budget and future year cash flow commitments for new capital projects. The 2016 Budget Committee Recommended Capital Budget totals \$3.008 billion (including 2015 carry forward funding of \$767.749 million) requiring \$879 million in debt funding and future year cash flow commitments of \$9.587 billion. Furthermore, this report requests approval of the 2017 - 2025 Capital Plan of \$9.138 billion, which will form the basis for developing future capital budgets, in accordance with the City's multi-year financial planning and budgeting policies and practices.

The 2016 - 2025 Capital Budget and Plan tries to satisfy Council's strategic priorities, balances the City's priority for state of good repair (SOGR) capital work and growth needs to address service gaps and focuses on prioritizing capital projects based on requirements, benefits and funding capacity. It places priority on the most urgent projects that protect the health and safety of citizens, meets legislated requirements, and those that maintain the City's infrastructure in a state of good repair. The 10 year Capital Budget and Plan allocates \$13.187 billion or 63% to SOGR projects and \$6.829 billion or 33% to service improvement and growth related projects.

Despite the significant capital investments being made in this Capital Plan, the City is facing particularly challenging issues with an aging infrastructure while planning for a

growing population and address unmet service needs. The City has identify unfunded capital investments valued at \$22.337 billion. While not all of the identified unmet capital projects are ready to be implemented immediately and there is opportunity for other funding sources, it is apparent that the City lacks sufficient revenues to fund all of the City's unmet capital requirements on its own over the next ten to twenty years.

In preparation of the 2016 - 2025 BC Recommended Tax Supported Capital Budget and Plan, staff undertook a detailed review of capital requirements to ensure the City's highest needs are addressed within the approved debt affordability framework. However, there are still projects that must eventually be built (George Street Revitalization, AODA improvement and Long Term Care Revitalization) that must be done, but fall outside of the budget due to lack of funding.

In 2017 and beyond, the City needs to set priorities for capital work and assess revenue options in order to address unmet capital needs. The options may include, but not be limited to development financing, tax incremental financing, higher debt, capital levies, asset sales, road tolls and other new revenues. In addition, the City can revisit the self-imposed 15% limit on the debt service cost to tax levy ratio as part of the Long Term Fiscal Plan.

In order to manage debt, the 10 year Capital Budget and Plan continues to implement the non-debt capital funding strategies that include the annual 10% increase in Capital from Current (CFC) funding; Surplus Management Policy that allocates 75% of operating budget surplus allocated to capital financing; utilizing the proceeds from the monetization of the City's marketable assets; maximizing Development Charges funding; and new Provincial and Federal funding to offset future capital plan pressures.

RECOMMENDATIONS

The Budget Committee recommends the following to Executive Committee for recommendation to City Council:

1. City Council approve the 2016 Budget Committee Recommended Capital Budget for Tax Supported Programs and Agencies of \$3.008 billion and future year commitments of \$9.587 billion, as detailed in Appendix 1, comprised of the following:
 - a. New Cash Flow Funds for:
 - i. new and change in scope projects / sub-projects with a total project cost of \$5.006 billion requiring: 2016 cash flow of \$631.174 million and future year commitments totalling \$4.375 billion, as set out in Appendix 1(ii);

- ii. previously approved projects / sub-projects requiring: 2016 cash flow of \$1.542 billion and future year commitments totalling \$5.213 billion, as set out in Appendix 1(iii);
 - iii. previously approved projects / subprojects with carry forward funding from 2014 and prior years requiring 2016 cash flow of \$66.625 million, which forms part of the affordability debt target and requires Council to reaffirm their commitment; and,
 - b. 2016 cash flow for previously approved projects / sub-projects with carry forward funding from 2015 into 2016 totalling \$767.749 million, as set out in Appendix 1(vi).
2. City Council approve funding sources for the 2016 BC Recommended Tax Supported Capital Budget as outlined in Appendix 1(iv).
 3. City Council approve debt service costs of \$485.516 million in 2016 and debt service costs of \$530.508 million in 2017; \$602.490 million in 2018; \$626.723 million in 2019; \$640.729 million in 2020; and \$3.198 billion in years 2021-2025.
 4. City Council consider incremental operating impacts resulting from approval of the 2016 Budget Committee Recommended Capital Budget of \$3 million in 2016; and incremental costs of \$10 million in 2017; \$8 million in 2018; \$9 million in 2019; \$8 million in 2020; and, \$10 million in 2021 to 2025, for inclusion in the 2016 and future years' operating budgets.
 5. City Council approve the 2016 Capital Budget and 2017 – 2025 Capital Plan for the total amount of \$20.966 billion for City Programs and Agencies as detailed in Appendix 5.
 6. City Council approve the 2015 sinking fund levies of \$242.339 million for the City and \$2.293 million for the Toronto District School Board (TDSB), with the latter to be fully recovered from the TDSB.
 7. City Council, in approving the 2016 - 2025 Capital Budget and Plan, express its intent to ensure that the increase in the need for services attributable to the anticipated development will be met and that any future excess capacity identified will be paid for by development charges or other similar charges.

Financial Impact

The 2016 Recommended Capital Budget of \$3.008 billion is comprised of \$2.240 billion in new cash flow funding and \$767.749 million in carry forward. The 2016 BC Recommended Capital Budget also provides project cost authority totaling \$5.006 billion and spending authority for \$9.587 billion in future year commitments. In addition, the proposed Capital Budget and Plan includes capital estimates of \$9.138 billion that form the base for future capital project; bringing the City's 10 year budget and forecast to total of \$21.733 billion, as outlined in Table 1:

Table 1
2016 - 2025 BC Recommended Capital Budget and Plan

(Millions)	New Project Cost	2016 Budget	2017 - 2025	Total 2016-2025
2016 New / Change in Scope Projects and Future Year Commitments	5,006	631	4,374	5,005
Previously Approved Projects and Future Year Commitments		1,542	5,213	6,755
Capital Plan Estimates			9,138	9,138
2 Year Carry Forward for Reapproval		67		67
Sub-Total		2,240	18,725	20,965
1 Year Carry Forward to 2016		768		768
Total	5,006	3,008	18,725	21,733

Where the Money Goes

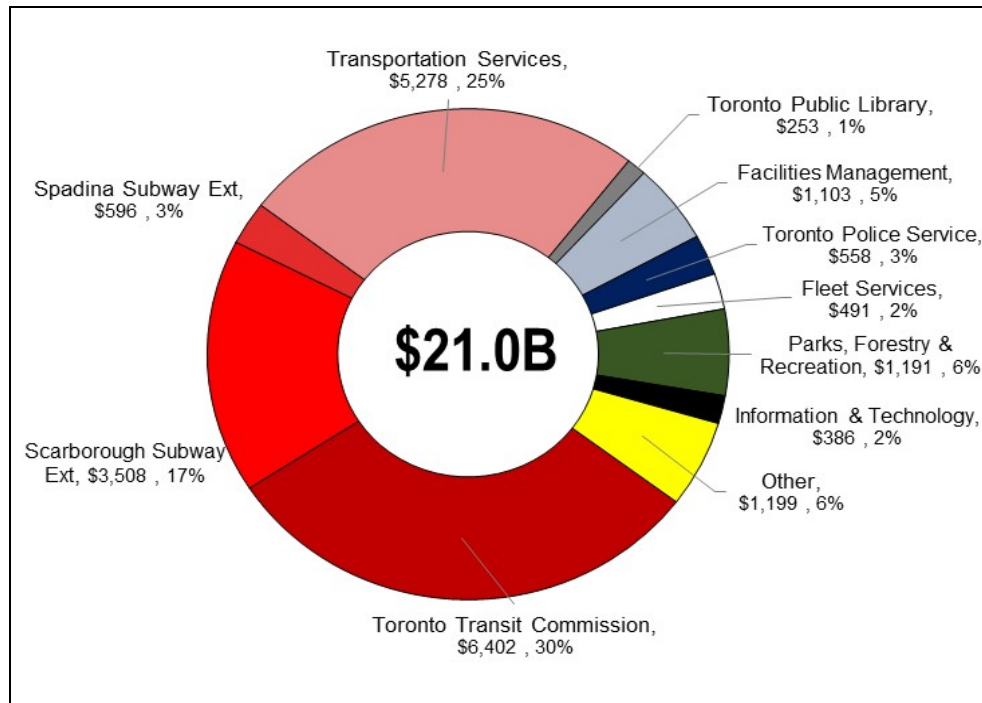
Balancing the extensive capital maintenance needs of the City's massive and aging infrastructure against demands for new investments to satisfy the service requirements of a growing population and emerging priorities within affordable debt limits continues to be a challenge for the City.

The 2016 - 2025 BC Recommended Capital Budget and Plan allocates the majority of funding to Transit and Transportation Services (\$15.783 billion or 75%), with the balance of the 10 year funding allocated as follows:

- Park, Forestry & Recreation - \$1.191 billion (6%);
- Facilities, Real Estate, Environment and Energy - \$1.103 billion (5%); and,
- Toronto Police Services - \$558 million (3%).

The 2016 - 2025 BC Recommended Tax Supported Capital Budget and Plan totals \$20.966 billion (excluding 2015 funding carried forward into 2016). Chart 1 below provides a detailed breakdown of the capital investment by City Program and Agency.

Chart 1
2016 - 2025 Capital Budget and Plan – Where the Money Goes



2016 BC Recommended Capital Budget totaling \$2.240 billion reflects a similar funding allocation as that of the 10 year Capital Plan. The majority of funding, \$1.588 billion or 70% is allocated to Transit and Transportation Services; funding for Parks, Forestry & Recreation accounts for \$153 million or 7% of capital investment; and, \$155 million or 7% is allocated to Facilities Management.

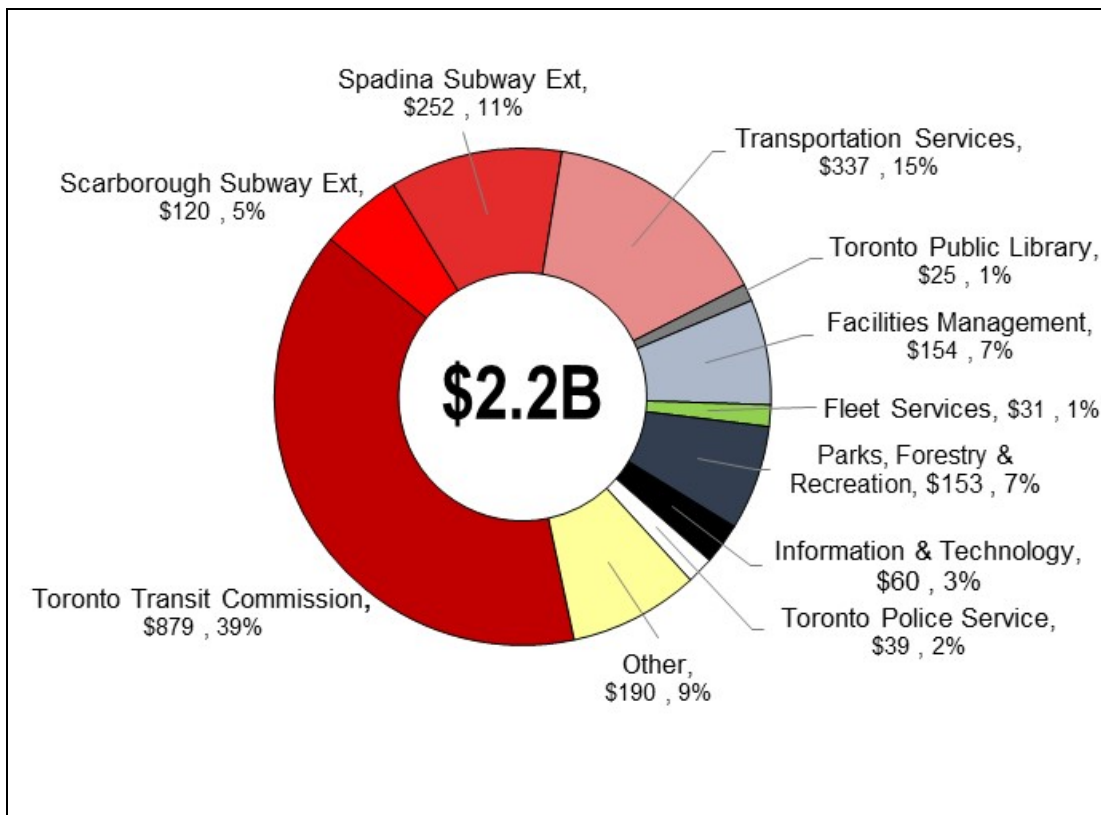
The operating impact arising from the approval of the 2016 – 2025 BC Recommended Capital Budget and Plan on the City's 2016 and future Operating Budgets totals \$10.616 billion comprised of \$48 million incremental impact on programs costs, \$4.532 billion in Capital from Current (CFC) funding, and \$6.084 million in debt service cost over the period of 10 years.

Managing the accumulated SOGR backlog is a key capital strategic priority for the City. This is evident throughout the 10 year capital planning period, as the 2016 - 2025 BC Recommended Capital Budget and Plan allocates \$13.187 billion or 63% of capital

funding to capital works to ensure the City's infrastructure required to deliver services to the public are maintained in a state of good repair. With this sizeable capital investment, the City's SOGR backlog is stabilized with a small increase over the 10 year period. In addition, \$6.829 billion or 33% of funding is allocated to service improvement and growth related projects. However, there are still some service area (Library, Facilities and AODA compliance) which have serious backlog that must be addressed in 2017 and beyond.

2016 BC Recommended Capital Budget allocates \$1.278 billion or 57% of total capital investment to SOGR projects in effort to stabilize the City's SOGR Backlog. In addition, \$847 million or 37.8% of capital expenditures will address service improvements and growth related projects in order to address service needs arising from the City's growth.

Chart 2
2016 Capital Budget - Where the Money Goes



Where the Money Comes From

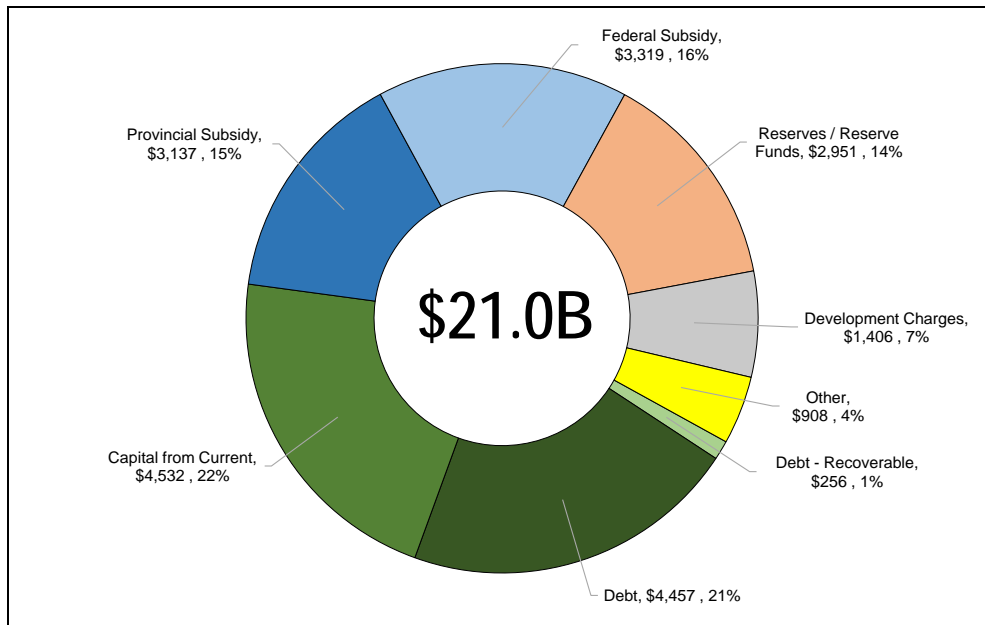
The City's 10 year Tax Supported BC Recommended Capital Budget and Plan is financed from various funding sources, both external and City-owned, with debt being the funding

of last resort. The City's goal is to maximize funding from external sources, including other orders of government; development charges; contributions from other purpose-specific reserves and reserve funds; developer and third party contributions, and donations, prior to utilizing City-owned sources such as Capital from Current funding and the issuance of debt.

The primary financing sources for the 2016 - 2025 BC Recommended Capital Budget and Plan include Federal & Provincial Subsidy in the amount of \$6.456 billion (31%) predominantly allocated to TTC; Reserve & Reserve Funds funding of \$4.357 billion (21%) that reflects funding from the Capital Financing Reserve funded from the non-debt capital financing strategy; and, other funding (including donations, third party funding, recoverable debt) of \$1.164 billion (5%).

Given the City's fiscal priority to increase Capital from Current (CFC) funding by 10% annually CFC will provide a total of \$4.532 billion over the 10 year period. Consequently, the share of debt funding gradually decreases from 40% in 2016 to an average of 21% totaling \$4.457 billion over the 10 year, while CFC funding increases to 22%, thereby achieving the City's target of 50/50 "pay-as-you-go" funding. Additionally, the City's other non-debt financing strategies have also helped to control debt levels maximizing development charge funding and utilizing the Capital Financing strategy's non-debt sources. However, one of the negative consequences of trying to limit the growth in the City debt is that many projects cannot be forwarded within the existing resources.

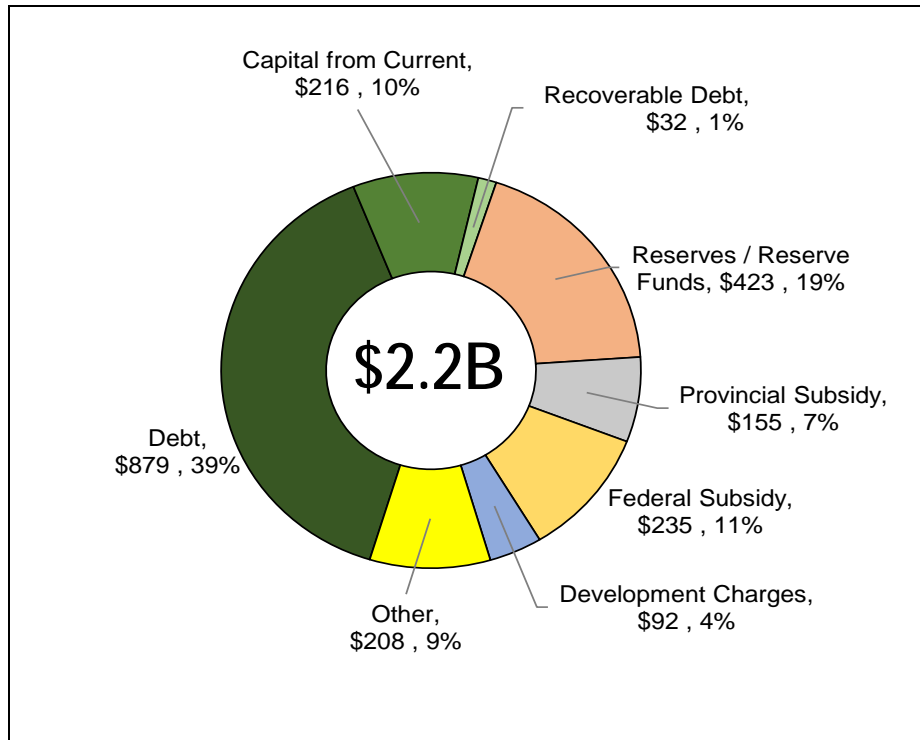
Chart 3
2016 -2025 Capital Budget and Plan - Where the Money Comes From



Capital funding for 2016 BC Recommended Capital Budget is comprised of Federal & Provincial Subsidy in the amount of \$390 million (18%); Reserve & Reserve Funds funding of \$515 million (23%); Debt funding of \$879 million (39%); CFC funding of \$216 million (10%); and, other funding (including donations, third party funding, recoverable debt) of \$240 million (10%).

All non-debt sources of funding have been maximized in 2016. It should be noted that, debt still represents 39% of total required funding for capital work, while CFC accounts only for 10% of funding. Accordingly, the City capital financing strategy seeks to increase the level of capital investment funded from property taxes (i.e. CFC)

Chart 4
2016 Capital Budget - Where the Money Comes From



Authority to Issue Debentures During 2016

The proceeds from the issuance of debentures will be used to finance capital expenditures that have been incurred or committed to projects approved by Council. The authority to borrow up to \$900 million in 2016 has been authorized under By-law No. 75-2015.

Issuance Activity during 2015

The debenture authority approved by Council for 2015 was \$900 million. Due to favorable capital market conditions and timing considerations, debenture issuance in the amount of \$700 million was completed during the year to contribute to financing the City's capital requirements.

The details of the 2015 debenture issuance that were approved by the Debenture Committee are:

<u>Issue Date</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Term</u>
06-Feb-15	\$200,000,000	2.47%	10 years
28-Apr-15	\$200,000,000	2.99%	20 years
06-Nov-15	\$100,000,000	2.65%	10 years
06-Nov-15	\$100,000,000	3.57%	20 years
14-Dec-15	\$100,000,000	3.60%	20 years

Approval of the 2016 Sinking Fund Levies

The City of Toronto Act 2006, sub-section 255 (4) states that, "If in any year an amount is or will be required by law to be raised for a sinking fund or retirement fund of the City, the City Treasurer shall prepare for City Council, before the budget for the year is adopted, a statement of the amount."

This report requests Council's approval for the 2016 sinking fund levies of \$242.339 million for the City and \$2.293 million for the Toronto District School Board (TDSB). Sinking fund levies related to TDSB's sinking fund debt will be fully recovered from the Board.

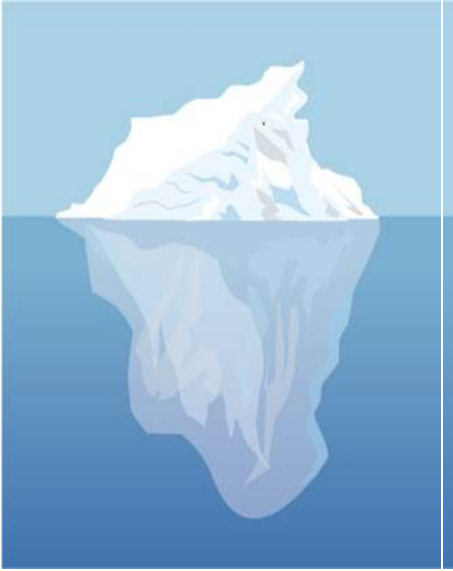
Unmet Needs and Funding Gap

Despite the increasing investment in capital infrastructure being made by the City, capital requirements have not been fully accommodated. While the City is trying to address investments required to ensure that existing City assets are maintained, planning for investments that meet City buildings objectives through revitalisation and service improvement have not been fully funded. To date, the City's capital investments are

limited by debt funding capacity that is approaching the maximum level allowed by self-imposed 15% debt service policy. This results in a swollen unmet capital needs that have to be addressed in the near future.

Even with the approval of the 2016 – 2025 Budget Committee Recommended Capital Budget and Plan of \$20.966 billion, the City still has unmet capital needs valued at \$22.337 billion. The list of capital projects represents known capital works that have been identified by staff or Council for which some work is underway but may not be exhaustive. These unmet needs are mainly driven by state of good repair backlog across the City and future city-building and service improvement initiatives such as the Downtown Relief Line, Smart Track, TTC, and other revitalization projects. Table 2 below summarizes the major components of the above-mentioned “below the line” or unmet needs.

**Table 2
Unmet Needs**



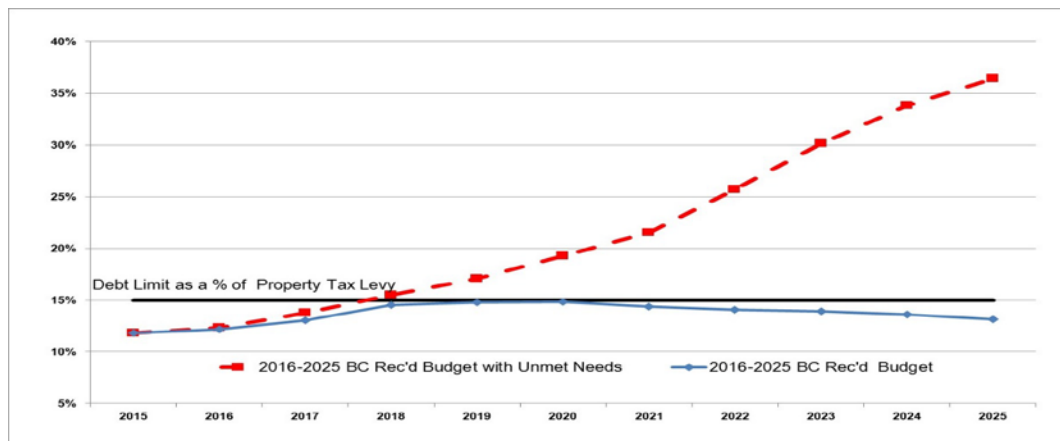
The image shows an iceberg floating in blue water. The tip of the iceberg is above the water line, while the much larger, jagged base is submerged below the surface. A large black curly bracket on the right side of the iceberg points to the submerged portion, which corresponds to the 'Total of Unfunded Capital Projects' in the table to its right.

(\$ Million)	
TCHC State of Good Repair Backlog (Province/Federal Share of \$2.6 Billion Requirement)	1,728
SOGR Backlog City Programs/Agencies	1,663
Toronto Transit Commission – Board Approved Unfunded Projects	2,679
Toronto Transit Commission – Future Capital Needs	2,233
George Street Revitalization	480
Long Term Care Home Services-Capital Renewal Strategy	246
Facilities AODA Compliance	192
Other Programs – Transportation Services, Fire Services, Facilities, I&T, Exhibition Place, Toronto & Region Conservation Authority, Toronto Public Health, Toronto Public Library, Sony Centre.	1,282
SmartTrack (City share)	2,600
Downtown Relief Line (Pape to St. Andrew Option)	4,100
Waterfront Transit (East Bayfront to Long Branch GO)	1,059
Lower Don Flood Protection *	975
Port Lands – Land Servicing *	150
Waterfront Public Realm Initiatives including north-south connections & additional ports	350
Unfunded Projects from Environmental Assessments – Value of Projects over 2016-2025 period likely to move forward	2,000 (low end)
TCHC Revitalization – Principal repayment for Regent Park & some SOGR projects	200
TCHC Revitalization – Additional funding for planned projects (Regent Park, Lawrence Heights, Alexandra Park, Leslie-Nymark, Allenbury Gardens, Railway Lands, 250 Davenport & Don Summerville)	400
Total of Unfunded Capital Projects	22,337

Note: * Represent gross costs. Federal and Provincial funding expected. City Share currently funded from development Charges and other sources.

Without any other funding sources, if all the \$22.337 billion unmet needs are funded by the City's debt, the debt service cost as a percentage of the total tax levy – the financial policy the City uses to manage its financial risks - would soar to well above the City's self-imposed limit of 15 per cent as shown in Chart 5 below.

Chart 5
Debt Service Cost Impact with Unmet Needs



The debt service costs in the chart above would require an additional 65% residential property tax increase over the next 10 years. Evidently, the City cannot solely rely on debt issuance to solve the existing funding gap.

While not all of the identified unmet capital projects are ready to be implemented immediately and uncertainty remains about their final scope and ultimate funding sources, it is apparent that the City lacks sufficient revenues to fund all of the City's unmet capital requirements on its own over the next ten to twenty years.

In order to address the unmet capital requirements, the City needs to set priorities for capital work and evaluate revenue options. The options may include, but not be limited to development financing, tax incremental financing, higher debt, capital levies, asset sales, road tolls and other new revenues. In addition, the City can revisit the measurement and policy regarding the 15% limit on the debt service cost to tax levy ratio as part of the Long Term Fiscal Plan.

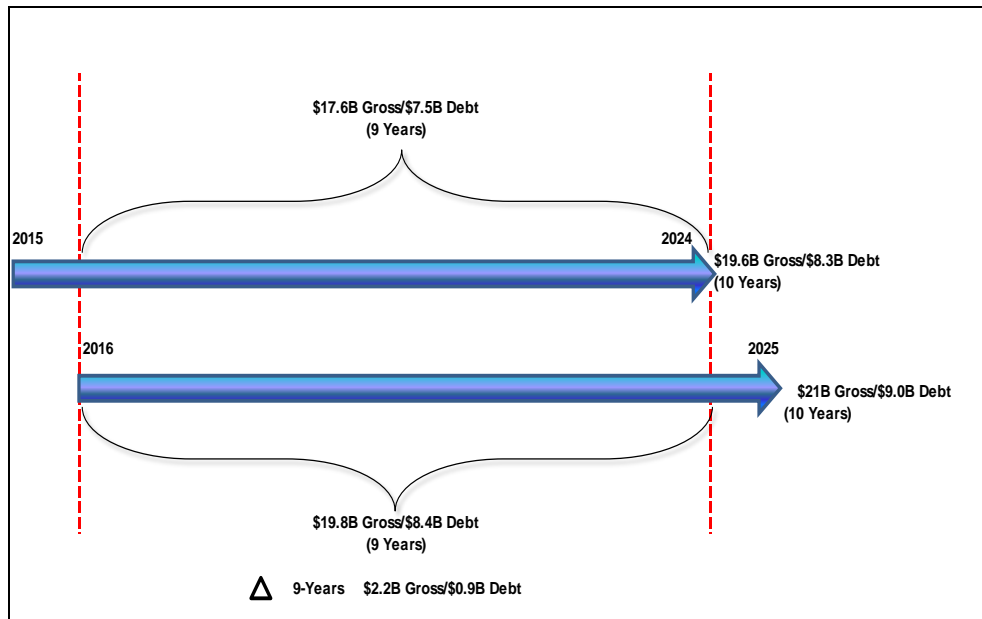
COMMENTS

2016 – 2025 BC Recommended Tax Supported Capital Budget and Plan

The 2016 - 2025 BC Recommended Tax Supported Capital Budget and Plan totals \$20.966 billion (excluding 2015 funding carried forward into 2016). Of the total capital investment, \$8.988 billion will be funded by debt/CFC, which are ultimately funded by property taxes.

Compared to the 2015-2024 Council Approved Capital Budget and Plan, the 2016-2025 BC Recommended Capital Budget and Plan increases capital expenditures for the common 9 years of the Plan by \$2.208 billion and increase debt funding by \$937 million. The majority of this additional funding is required to fully fund the rehabilitation of the F. G. Gardiner Expressway. \$1.334 billion has been added to accelerate repairs that could further accelerate the work by up to 6 years.

Chart 6
9 YR Comparison



10 Year Capital Plan by Category

The City's capital works during the 2016 - 2025 Capital Plan period is focused on SOGR projects, while satisfying the City's need to improve services and address growth with in current funding constrains, as noted in Table 3 below. This table also provides details of capital funding by funding source in each of the 10 years.

Table 3
2016 - 2025 Tax Supported Capital Budget and Plan
- by Category and Financing Source

	2016 - 2020						2021 - 2025		2016 - 2025		
	2016	2017	2018	2019	2020	Total	%	Total	%	Total	%
Expenditures:											
Health and Safety	33	35	22	16	22	127	1.1%	100	1.1%	227	1.1%
Legislated	83	96	100	85	71	436	3.6%	286	3.2%	722	3.4%
State of Good Repair	1,278	1,627	1,410	1,361	1,003	6,678	55.6%	6,509	72.7%	13,187	62.9%
Service Improvement and Enhancement	337	387	228	118	67	1,137	9.5%	264	2.9%	1,401	6.7%
Growth Related	510	731	538	965	885	3,629	30.2%	1,799	20.1%	5,428	25.9%
Total Expenditures	2,240	2,876	2,299	2,545	2,047	12,007	100%	8,959	100%	20,966	100%
Funded By:											
Provincial	155	279	298	598	518	1,848	15.4%	1,289	14.4%	3,137	15.0%
Federal	235	265	223	331	321	1,374	11.4%	1,945	21.7%	3,319	15.8%
Reserves	308	431	314	285	225	1,563	13.0%	1,036	11.6%	2,599	12.4%
Reserve Funds	115	99	40	21	18	293	2.4%	59	0.7%	352	1.7%
Debt - Rec	32	72	38	25	18	185	1.5%	71	0.8%	256	1.2%
Development Charges	92	212	213	191	178	885	7.4%	521	5.8%	1,406	6.7%
Other	208	247	118	59	51	682	5.7%	225	2.5%	908	4.3%
Capital from Current	216	292	352	387	426	1,673	13.9%	2,859	31.9%	4,532	21.6%
Debt	879	980	703	649	292	3,504	29.2%	953	10.6%	4,457	21.3%
Total Funding	2,240	2,876	2,299	2,545	2,047	12,007	100%	8,959	100%	20,966	100%

Note: "Reserves" primarily reflects funding from the Capital Financing Reserve funded by future operating budget surpluses; and proceeds from monetization of City assets and investments. "Other" includes cash donations and third party contributions.

It should be noted that:

- SOGR funding represents 63% of the total capital investment in the 2016 – 2025 BC Recommended Capital Budget and Plan and it is mainly driven by SOGR needs in TTC and Transportation.
- Over the 10 year period, 32.6% is dedicated to Service Improvements and Growth Related capital projects. The majority of funding is allocated to Parks, Forestry and Recreation, Facilities Management and Transportation.
- Provincial and Federal funding represent 30.8% of capital financing in the 10 year period mainly distributed to Facilities Management, TTC and Transportation for cost sharing expenditures.
- Reserve/Reserve Fund funding represents 20.8% of capital funding, mainly contributed from the Capital Financing Reserve owing to the City's non-debt financing strategy.

- Over the 10 year period, the 2016 - 2025 BC Recommended Capital Budget and Plan achieves the City's goal for 50% debt and "pay-as-you-go" or Capital from Current (CFC) funding as part of its non-debt strategy.

2016 BC Recommended Capital Budget Including Carry Forward Funding

In accordance with the City's Carry Forward Funding Policy, financing to continue work on 2015 projects that were not completed as planned requires Council approval to carry forward the unspent cash flow and re-budget the funding balance. A capital project with carry forward funding is a previously approved project for which approved capital work was not completed on schedule and the associated cash flow budget was not fully spent and / or committed in the year of approval. In these situations, the unspent amount, or a portion thereof, will be required to complete the project and is carried forward to the following year and added to the new cash flow estimates without impacting debt borrowing levels.

Including 2015 carry forward funding of \$767.749 million the 2016 BC Recommended Capital Budget for Tax Supported Programs/Agencies is \$3.008 billion.

2016 BC Recommended Capital Budget and Future Year Commitments

Approval of the 2016 BC Recommended Capital Budget of \$2.240 billion (excluding 2015 funding carried forward into 2016) will commit the City to future year cash flow funding of \$2.497 billion in 2017; \$1.654 billion in 2018; \$1.779 billion in 2019; \$1.256 billion in 2020; and \$2.402 billion from 2021 to 2025 for recommended new capital projects, approved capital projects with change in scope and for previously approved projects currently under way.

The future year commitments are primarily attributable to Transit and Transportation as a result of the multi-year F.G. Gardiner project, road and bridge rehabilitation, and transit fleet and subway extension projects. Facilities Management, Park, Forestry & Recreation and Toronto Public Library are also the major contributors to the future year commitments, as they have many multi-year, multi-phased facility projects.

Please note that program recommendation #50 and #59 for the 2016 – 2025 BC Recommended Capital Budget and Plan for Financial Services and Information and Technology respectively, as outlined in Appendix 5 of the report, has been corrected based on technical reallocations between project statuses which will result in no overall financial impact on the City's 2016 Capital Budget and 2017 – 2025 Capital Plan.

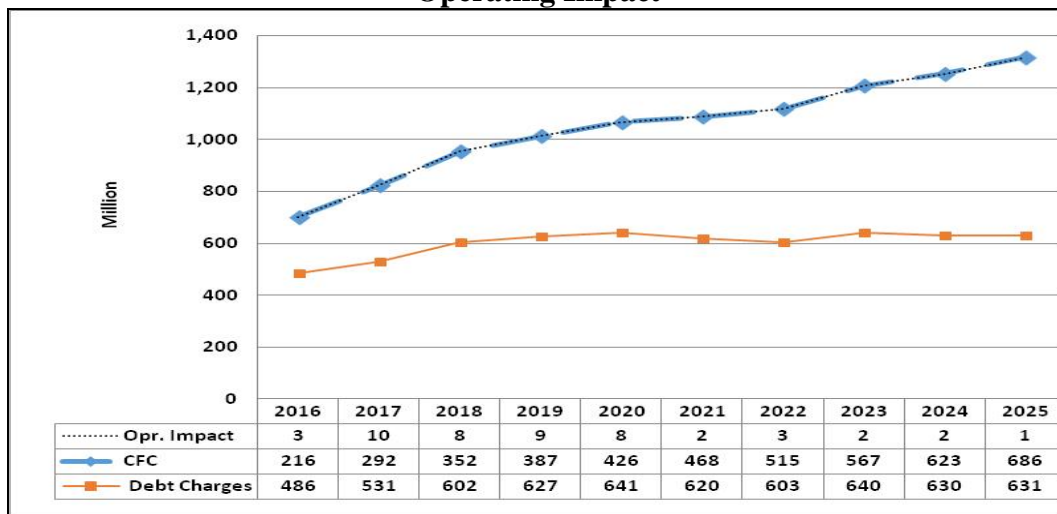
Incremental Operating Impacts

As part of the annual Capital Budget process, the incremental cost impact on the Operating Budget from completed capital projects over their useful life is estimated and evaluated. The objective of this evaluation is to ensure that all operating cost increases associated with the completion of capital projects are planned, accurate and affordable. Similarly, incremental operating savings or revenues arising from the completion of capital projects are also captured. Capital projects will impact the Operating Budget in the following ways:

- Principal repayment and interest payments on debt issued to finance the capital plan (i.e. debt service costs);
- Direct contributions from the operating fund to finance pay-as-you-go capital projects thereby reducing the annual borrowing requirements;
- Increased operating costs including on-going maintenance and programming costs for new infrastructure and rehabilitated or expanded facilities; cost to sustain new technology; and / or,
- Efficiency savings from capital investments that reduce operating costs.

The operating impact arising from the approval of the 2016 - 2025 BC Recommended Capital Budget and Plan on the City's 2016 and future years operating budgets, totals \$10.616 billion over the 10 year period. It is comprised of incremental impact on program cost of \$48 million, debt service charges totalling \$6.084 billion, while contribution from current funding for capital works over 10 year period accounts for \$4.532 billion.

**Chart 7
Operating Impact**



What is Being Built - Project Highlights

Listed below are key capital initiatives to be delivered by the 2016 - 2025 BC Recommended Capital Budget and Plan. These capital investments contribute toward fulfilling the City's priorities and ensure that assets used to deliver services to the public are reliable by maintaining them in a state of good repair, balanced with key investments that advance the City building objectives to address service demands and growth.

Transit and Transportation

A major priority of Council is to make Toronto a City that moves people by transit, roadways, and cycling infrastructure and reduce traffic congestion whereby maintaining infrastructure in a state of good repair. The 2016 – 2025 BC Recommended Capital Budget and Plan includes projects that will:

- Repair approximately 1,000 km of roads, 50 km of expressways, 600 km of sidewalks and 150 bridges - \$4.219 billion;
- Expand cycling infrastructure that includes a network of 842 km of cycle tracks, bike lanes, trails and signed routes - \$89.7 million;
- Minimize traffic congestion - \$335.8 million; and,
- Expand the transit system to manage ridership growth - McNicoll Bus Garage Facility (\$174.758 million), implementation of the PRESTO fare collection system (\$43.662 million) and address the state of good repair maintenance work over the 10 year (\$1.673 billion).

Emergency Services

Public safety and responsive emergency services are a major priority for the citizens of Toronto. To this end, the 2016 – 2025 BC Recommended Capital Budget and Plan includes projects that will:

- Construct new fire stations (Chaplin, Station D in Downsview, Station A, Highway 27) or renovate and repurpose existing (North West District EMS Multi-Function Station, Fire Station #424 at Runnymede Road) - \$25 million;
- Enhance the Computer Aided Dispatch and the Emergency Communication Systems - \$1.9 million;
- Purchase 150 thermal imaging cameras and bunker suits, replace training equipment and purchase specialized fire trucks - \$8.5 million; and,
- Rehabilitate and upgrade Police facilities to support service delivery - \$28 million.

Public Places

The City is investing in public spaces that are developed and maintained for the use and enjoyment by the general public. The 2016 – 2025 BC Recommended Capital Budget and Plan includes projects that will:

- Continue existing and begin new service improvement projects (Union Station Revitalization St. Lawrence Market North Redevelopment, Toronto Strong Neighbourhoods Strategy and Wellesley Place Employment and Social Service) - \$274.9 million;
- Address state of good repair backlog for City owned buildings (\$524.054 million);
- Address Environmental Stewardship initiatives (Sustainable Energy Program projects, Yonge-York Mills Channel, Black Creek Channel, Sheppard and Malvern Channels in response to adverse weather storms, Tommy Thompson Park, Ashbridges Bay and Keating channel dredging) - \$168.9 million;
- Plan and develop the City's waterfront (precinct implementation in the West Don Lands and East Bayfront, Fort York Pedestrian and Cycle Bridge, Under Gardiner project, Lower Don Flood Protection project) - \$44 million;
- Continue working with BIA's to improve streetscapes and commercial facades - \$6.4 million; and,
- Invest in arts, culture and heritage - \$15.836 million.

Community Programs and Services

The City offers community programs and services that improve the quality of life of all its citizens and ensure opportunity for all. The 2016 – 2025 BC Recommended Capital Budget and Plan funds projects that will:

- Invest in state of good repair of Parks, Forestry & Recreation's facilities and assets, upgrade playgrounds city-wide and develop parks - \$693.4 million;
- Design and construct 2 ferry boats - \$20.775 million;
- Provide new community centres (York Community Centre, Bessarion Community Centre; Railway Lands/Block 31 Community Centre; Western North York Community Centre; North East Scarborough Community Centre; and 40 Wabash/Parkdale Community Centre) - \$233.5 million;
- Begin new, continue existing and plan work for future construction as well as address urgent, AODA and growing state of good repair needs for Toronto Public Libraries (TPL) - \$50.7 million;
- Continue to replace, develop and implement new technologies through the Technology Asset Management Program and the Virtual Branch Services - \$10.2 million;
- Complete construction on 4 Child Care Centres with 235 spaces - \$13.3 million;
- Continue development of the Customer Service Improvement project to enhance online service for families and child care operators - \$2.4 million;

- Complete construction of Kipling Acres Phase II, a 145 bed facility and continue the capital maintenance plan to address state of good repair and health and safety requirements at 10 long-term care homes - \$19.8 million; and,
- Begin the needs analysis, risk assessment and specification development for the Electronic Healthcare Record System - \$2.2 million.

Managing the City's Growth

City Planning helps to guide and manage the City's growth, and the effects on the social, economic and natural environment while striving to enhance the quality of life for Toronto's diverse residential and business communities. The 2016 – 2025 BC Recommended Capital Budget and Plan funds projects that will:

- Implement the Civic Improvement Places Program - \$28.9 million; and,
- Complete various growth-related studies (Avenue Studies; Transportation and Transit Planning Studies; Local Area Studies; and, Heritage Conservation District Studies) - \$23.9 million.

Access to City Staff and Services

Residents will be provided with direct and simple access to City staff and services. The 2016 – 2025 BC Recommended Capital Budget and Plan includes projects that will:

- Continue the City-wide enterprise projects that will provide the fundamental building blocks for a robust information management infrastructure and enables the public to access City information easily, provide new channels for booking city services and facilities online and develop an account management tool with payment module that will enable the public to register and pay for City Services - \$13.9 million;
- Maintain the technology solution in a state of good repair to ensure continuity of the 311 Contact Centre operations - \$18.882 million; and,
- Study and assess possible service integration opportunities - \$1.8 million.

Transforming City Government

The City is investing in various initiatives that require significant resources and change management capacity to transform business services or capabilities and drive value-added outcomes for service and information delivery and integration. The 2016 – 2025 BC Recommended Capital Budget and Plan includes projects that will:

- Transform the business through enterprise Time Attendance & Scheduling and Payroll initiatives with modernized and common systems in staff scheduling and payroll processes - \$9.603 million;
- Transform the business with IT Foundation initiatives for workforce mobility, collaboration and business intelligence/data analytics capabilities - \$15.662 million;

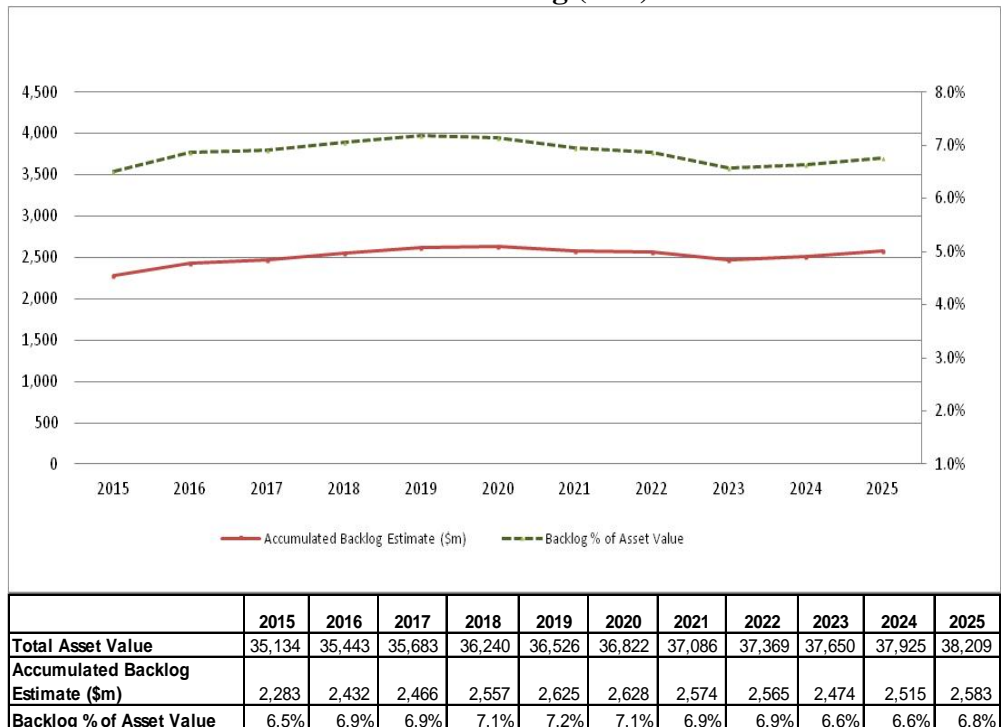
- Transform the business with Online Service Delivery initiatives for www.toronto.ca to enhance access to services and establish a more customer-centric design - \$6.762 million; and,
- Transform Supply Chain Management business process enterprise-wide to improve the overall quality and timeliness of the City's procurement process and agreements - \$6.075 million.

State of Good Repair (SOGR) Backlog

The 2016 – 2025 BC Recommended Tax Supported Capital Budget and Plan includes \$13.187 billion or 63% funding devoted to State of Good Repair projects. This capital investment will stabilize SOGR backlog over the 10 year planning period, from 6.9% as a percentage of total asset value in 2016 to 6.8% of total asset value in 2025.

However, the SOGR backlog will increase for certain Programs as greater emphasis is being placed on completing condition assessments as a part of an effort to improve asset lifecycle management and more accurately identify and represent SOGR needs in the City's portfolio. The results from the condition assessments are more precisely identifying accumulated SOGR backlog estimates and estimates are being revised.

**Chart 8
SOGR Backlog (Tax)**



The primary programs that have a SOGR backlog are: Transportation Services, Facilities Real Estate, Environmental and Energy (FREEE), Toronto Transit Commission (TTC), Toronto and Region Conservation Authority (TRCA), Toronto Public Library (TPL), and Parks, Forestry & Recreation (PF&R) which make up \$2.009 billion 87.9% of the \$2.283 billion SOGR backlog at the end of 2015.

Over the 10 year period, these key Programs with SOGR backlog make up \$2.401 billion or almost 93% of the \$2.583 billion SOGR backlog by the end of 2025, as summarized in Table 5 below.

**Table 4
SOGR Backlog by Program – Summary**

\$ Million	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Transportation Services	1,011	1,065	1,120	1,174	1,174	1,163	1,147	1,127	1,071	1,128	1,197
Facilities Management, Real Estate & Environment	418	390	370	366	428	425	417	449	447	456	473
Toronto Transit Commission	0	0	0	52	114	167	211	251	282	309	346
Toronto & Region Conservation Authority	231	228	220	211	200	191	180	173	165	152	141
Toronto Public Library	37	44	53	60	64	77	82	88	93	109	123
Parks, Forestry & Recreation	311	442	453	456	414	386	330	280	225	173	121
Other	274	264	249	238	230	219	207	198	192	189	182
Total SOGR Backlog	2,283	2,432	2,466	2,557	2,625	2,628	2,574	2,565	2,474	2,515	2,583
Total Asset Value (end of year)	35,134	35,443	35,683	36,240	36,526	36,822	37,086	37,369	37,650	37,925	38,209
SOGR as % Asset Value	6.50%	6.86%	6.91%	7.06%	7.19%	7.14%	6.94%	6.86%	6.57%	6.63%	6.76%

Overall, estimates indicate that the current accumulated Tax Supported SOGR backlog is stabilized with marginal changes in the backlog for Transportation Service and FREEE, but more significant increases for TTC and Library.

Increased strategic investments made in the last few years in Park, Forestry & Recreation, TRCA and other Programs' SOGR Backlogs have resulted in the SOGR Backlog decreasing for these City Programs and Agencies. Going forward, focus will be placed on addressing key areas such as AODA requirements in Facility Managements and Toronto Library backlog.

Capital Financing

To fund the Capital Budget and Plan, debt is used as the funding of last resort after all other funding sources have been maximized first. In order to ensure that the Capital Budget and Plan is affordable, the City issues debt targets to City Programs and Agencies by year based on previously approved debt and the 15% debt servicing limit.

Table 5 below compares the 2016 - 2025 BC Recommended Capital Budget and Plan's gross expenditures and debt requirement to the City's debt target by Cluster and Agency, highlighting the Capital Budget and Plan for TTC.

Table 5
10 Year Capital Budget & Plan

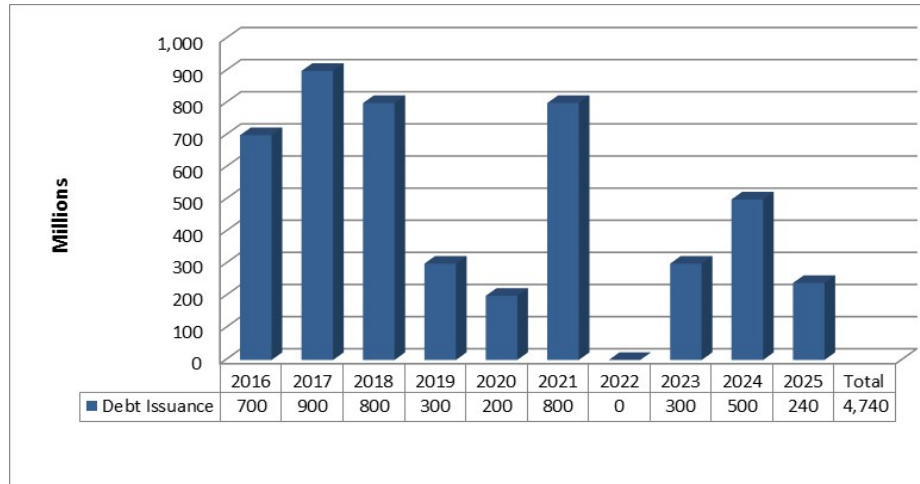
Programs (\$000)	2016				2016 - 2020				2016 - 2025			
	BC Recommended		Debt Target	Over/ (Under)	BC Recommended		Debt Target	Over/ (Under)	BC Recommended		Debt Target	Over/ (Under)
	Gross	Debt/CFC			Gross	Debt/CFC			Gross	Debt/CFC		
Citizen Centred Services -	229,220	105,806	112,436	(6,630)	1,047,253	525,132	527,427	(2,295)	1,639,881	987,304	987,349	(45)
Citizen Centred Services -	383,395	263,984	297,079	(33,095)	1,859,023	1,305,970	1,580,673	(274,703)	5,512,174	3,463,530	2,940,256	523,274
Internal Services	271,108	136,002	149,588	(13,586)	1,209,228	516,656	500,770	15,886	2,081,459	984,620	918,731	65,889
Other City Programs	5,135	3,160	15,719	(12,559)	15,522	7,117	15,705	(8,588)	46,197	34,317	28,305	6,012
Total - City Operations	888,858	508,952	574,822	(65,870)	4,131,026	2,354,875	2,624,575	(269,700)	9,279,711	5,469,771	4,874,641	595,130
Agencies	99,723	61,237	64,417	(3,180)	595,525	329,017	335,495	(6,478)	1,180,030	627,779	616,292	11,487
Total - Tax Supported before TTC	988,581	570,189	639,239	(69,050)	4,726,551	2,683,892	2,960,070	(276,178)	10,459,741	6,097,550	5,490,933	606,617
TTC	1,251,624	525,290	583,261	(57,971)	7,275,276	2,492,873	2,358,764	134,109	10,505,860	2,891,072	2,838,267	52,805
Total - Tax Supported Programs	2,240,205	1,095,479	1,222,500	(127,021)	12,001,827	5,176,765	5,318,834	(142,069)	20,965,601	8,988,622	8,329,200	659,422

During the 2016 Budget process, Financial Planning staff commenced detailed review of capital projects based on project readiness and capacity to deliver and assessed projects based on needs and benefits. As a result of these actions, cash flow funding has been adjusted over each of the 10 years, projects have been reprioritized, and estimates have been revised and timing adjusted. Consequently, capital funding requirements in 2016 are below the debt target. This trend continues for the first 5 years of the 10 year Capital Plan, however, debt has increased during the last 5 years, bringing the total 10 year capital requirements above the prescribed debt target by \$659.422 million. Increased debt requirement to reflect the hybrid option is mainly driven by TTC projects and Rehabilitation of F. G. Gardiner Expressway project.

Debt Issuance

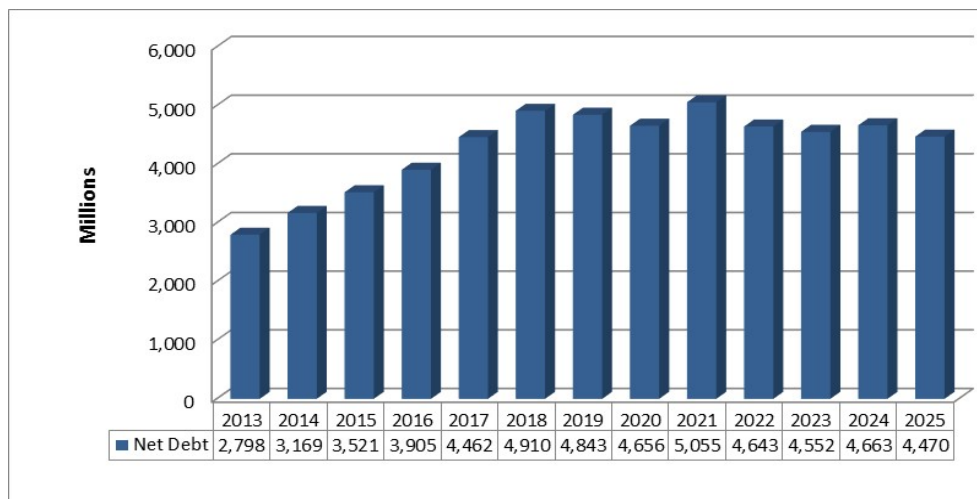
To accommodate the capital investments outlined in 2016 - 2025 BC Recommended Capital budget and Plan, City will need to issue \$4.740 billion in debt that will be repaid through the property tax levy. Chart 9 below shows debt issuance annually during this 10 year period.

**Chart 9
2016 - 2025 Debt Issuance**



As a result of the debt issuance, the City's outstanding debt will total \$4.470 billion at the end of the 2025 as outlined in Chart 10 below:

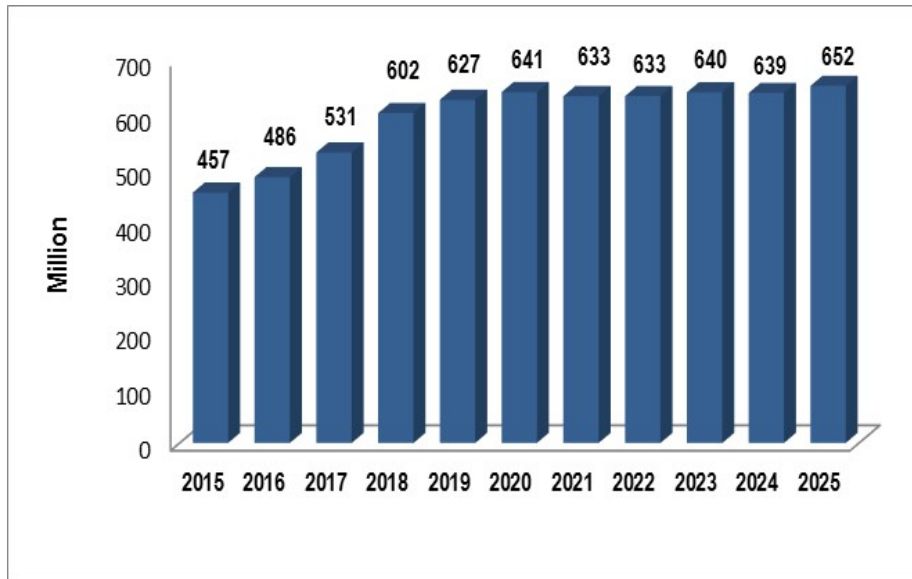
**Chart 10
2013 -2025 Outstanding Debt**



Debt Service Charges

To meet its borrowing obligations, the City budgets debt service charges in its Operating Budget to repay both the principal and interest cost associated with its debt issuance for capital projects. In 2016, the debt service charge is budgeted at \$486 million, and planned to increase to \$652 million in 2025 as shown in Chart 11 below, based on the 2016 – 2025 BC Recommended Capital Budget and Plan.

Chart 11
2015 - 2025 Debt Charges

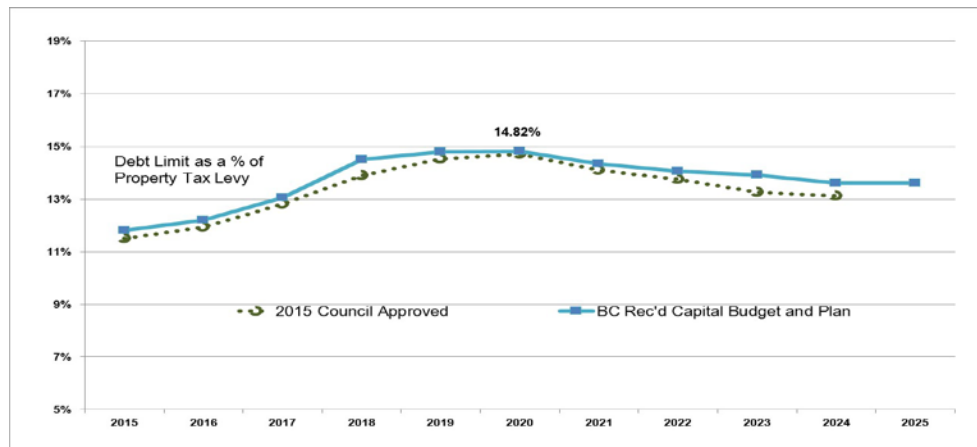


At its meeting of February 23 and 24, 2011 (EX3.3), Council adopted a maximum limit of 15% of debt service charges as a percentage of property taxes (debt service ratio). This budget has been prepared on the limit which was established by Council in 2006.

The debt service charge ratio resulting from the 2016 – 2025 BC Recommended Capital Budget and Plan will be set at 12.19% in 2016 and gradually increase to a peak level of 14.82% in 2020 before declining to 13.60% in 2025. Chart 12 below shows the impact of the recommended debt levels in the 10 year Capital Plan against the City's 155 debt servicing ration guideline.

It should be noted that trend also includes the objective of reducing the City's unfinanced debt from \$781.805 million in 2015 to \$201.673 million by the end of 2025.

Chart 12
Debt Service Cost Compared to 15% Guideline



Non-Debt Capital Financing

Capital Financing Strategy for Priority Projects

In 2012, the City established a capital financing strategy to be applied against emerging capital needs to mitigate City-wide debt requirements. These funds are to be applied in a strategic manner against capital projects that meet prescribed criteria such as useful life or type of capital asset, enabling the City to keep the debt service cost ratio below the threshold of 15% of property tax funding. This strategy ensures that the capital projects are properly funded, the City's debt is minimized, and that the City is protected from adverse economic risks.

A major funding source of this strategy is the operating surplus. The Surplus Management policy approved by Council in 2004 states that the surplus be applied in priority order to the following:

- a) Capital Financing Reserve (at least 75% of the surplus); and,

- b) The remainder to fund any underfunded liabilities and/or reserve funds as determined by the Deputy City Manager & Chief Financial Officer.

75% of Operating surplus, proceeds from the monetization of the City asset, dividends from Build Toronto and other City Agencies and a budgeted amount of Municipal Land Transfer Tax revenue beyond the base revenue level taken into City's Operating Budget will go into the Capital Financing Reserve to fund capital projects.

As indicated in Table 6 below, it is projected that from 2012 to 2025, an estimated \$2.366 billion will be generated from this strategy and used to fund \$2.342 billion in capital projects including \$1.34 billion for TTC, \$898 million for Transportation and \$124 million for other Programs. It should be noted that at the end of 2015, the City has secured \$1.085 billion by utilizing this strategy.

**Table 6
Capital Financing Strategy**

Capital Financing Strategy - Reserve XQ0011															
Description (\$ Millions)	2012 - 2015 Secured Revenue				Future Year Capital Financing Strategy Revenue Estimates										
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	Total
Enwave	167														167
Enwave Dividend	11														11
TPLC Dividend	40														40
Prior Year Operating Surplus	214	186	126	155	92	50	50	50	50	50	50	50	50	50	1,223
MLTT (Above Operating Budget)				40	40	25	15								120
DC Increases								30	30	30	30	30			150
Future Years BT Dividend	20		10	15	25	25	25	25	25	25	25	25	25	25	295
Future Years Fed/Prov								50	50	50	50	50			250
TPA One-Time				67	9										77
Other	1	3													4
Bank Tower Surplus		30													30
Total:	453	219	136	277	166	100	90	155	155	155	155	155	75	75	2,366

Past, Current & Future Year Funding Requirements															
Description (\$ Millions)	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	Total
TTC Capital	45	60	252	228	147	196	130	116	60						1,234
TTC TYSSE (2015 In-Year)					39	51									90
Transportation Capital		15	61	61	48	65	45	44	42	42	42	316	59	59	898
FREEE Capital (St. Lawrence N.)						8	8								15
Other Program Draws			37	7	10	17	4		1						76
Loss of Pooling Compensation (2014 Surplus)				30											30
Total	45	75	350	325	245	337	188	159	102	42	42	316	59	59	2,342

Available Capital Financing Strategy Funding (Based on Current Capital Requirements & Future Year Revenue Estimates)															
Description (\$ Millions)	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	Total
Estimated Reserve Opening Balance	\$27	\$435	\$579	\$367	\$320	\$241	\$4	(\$93)	(\$98)	(\$45)	\$68	\$182	\$21	\$37	
Annual Funding Requirements	(\$45)	(\$75)	(\$350)	(\$325)	(\$245)	(\$337)	(\$188)	(\$159)	(\$102)	(\$42)	(\$42)	(\$316)	(\$59)	(\$59)	(\$2,342)
Annual Revenue Estimates	\$453	\$219	\$136	\$277	\$166	\$100	\$90	\$155	\$155	\$155	\$155	\$155	\$75	\$75	\$2,366
Estimated Reserve Closing Balance	\$435	\$579	\$366	\$320	\$241	\$4	(\$93)	(\$98)	(\$45)	\$68	\$182	\$21	\$37	\$53	
Advance Financing Requirements							93	5							98

Capital from Current Funding

Capital from current (CFC) is a provision of tax funding that is transferred from the Current/Operating Fund to the Capital Fund in order to finance capital projects on a pay as you go basis. This financing option reduces reliance on debt issuance and provides a financing mechanism for ongoing capital needs of assets that have a shorter life cycle. The Financial Planning Division allocates CFC funding for capital projects that satisfy one or more of the prescribed eligibility criteria.

As outlined in Table 7 below, CFC funding is growing by approximately 10% annually over the next 10 year period. The City's goal is to achieve a 50/50 split of "pay-as-you-go" funding and debt. Based on 2016 – 2025 Capital Plan's requirements, the target will be achieved by 2025. Should debt levels increase beyond what is planned for the 2025, then CFC will have to grow in proportion to debt levels.

**Table 7
Capital from Current Funding**

(\$000s)	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
CFC	216,379	292,228	351,720	386,913	425,624	468,206	515,047	566,572	623,249	685,594

Maximizing Development Charge Funding

Development Charge funding has been utilized to the extent permissible in the 2016 – 2025 BC Recommended Capital Budget and Plan in order to mitigate the reliance on debt and other funding. Development Charge funding is directed to growth-related eligible capital projects, as required under the Development Charges By-Law. Based on current rates and development forecasts, development charge funding included in the 2016 – 2025 BC Recommended Capital Budget and Plan provides \$1.325 billion in funding over the 10 year planning period.

The Development Charge funding is primarily utilized for the following Programs:

- Toronto Transit Commission (\$712.686 million);
- Parks, Forestry and Recreation (\$228.733 million);
- City Planning (\$21.353 million);
- Transportation Services (\$208.563 million);
- Waterfront Revitalization Initiative (\$46.598 million);
- Toronto Police Services (\$56.148 million); and,
- Toronto Public Library (\$67.961 million).

Future Year Challenges

The 2016 – 2025 BC Recommended Capital Budget and Plan focuses on infrastructure rehabilitation. It places priority on projects that protect the health and safety of citizens, meet legislated requirements, and those that maintain the City’s infrastructure in a state of good repair to support cost-effective service delivery. However, due to funding constraints, not all capital needs have been met.

The 2016 - 2025 BC Recommended Capital Budget and Plan, addresses the increasing demand in Capital needs in both state of good repair and service improvement needs and stabilizes increases in SOGR backlog in many areas, but not all.

The City's unmet needs are growing rapidly driven by the City's aging infrastructure while investing in projects to meet service demands and population growth. The identified total unmet needs are valued at \$22.337 billion. Capital funding is constrained by self-imposed debt cost limit of 15 per cent of property tax levy and is insufficient to fund these unmet needs.

In 2017 and beyond, the City needs to set priorities for capital work and assess revenue options in order to address unmet capital needs. The revenue options may include development financing, tax incremental financing, higher debt, capital levies, asset sales, road tolls and other new revenues. In addition, the City can revisit the self-imposed 15% limit on the debt service cost to tax levy ratio as part of the Long Term Fiscal Plan.

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ATTACHMENTS

2016 BC Recommended Capital Budget and Future Year Commitments by Program and Funding Source

- Appendix 1 – Including 2015 Carry Forward Funding
 - 1(i) – Excluding 2015 Carry Forward Funding
 - 1(ii) – New and Change in Scope
 - 1(iii) – Previously Approved

2016 BC Recommended Capital Budget by Program and Funding Source

- Appendix 1(iv) - Including 2015 Carry Forward Funding
- 1(v) - Excluding 2015 Carry Forward Funding
- 1(vi) - 2015 Carry Forward

2016 – 2025 BC Recommended Capital Budget and Plan

- Appendix 2 - by Category and Funding Source
 - 2(i) - by Program and Category

2016 – 2025 BC Recommended Capital Budget and Plan by Program

- Appendix 3 - by Year, Excluding 2015 Carry Forward Funding

2016 -2025 BC Recommended Capital Budget and Plan by Program and Funding Source

- Appendix 4 - Total 10 years, Excluding 2015 Carry Forward Funding
 - 4(i) - First 5 Years, Excluding 2015 Carry Forward Funding
 - 4(ii) - Last 5 Years, Excluding 2015 Carry Forward Funding
- Appendix 5 **Program Recommendations**