TORONTO

BN # 8 – Dec 11
Josie La Vita
Director

Joe Pennachetti
City Manager

Financial Planning
City Hall, 7th Floor, East Tower
100 Queen St. West
Toronto, ON M5H 2N2

Tel: (416) 397-4229
Fax: (416) 397-4465
jlavita@toronto.ca
www.toronto.ca

2013 CAPITAL BUDGET BRIEFING NOTE
Capital Financing Strategy

Issue/Background:

- Budget Committee, at its meeting of December 3, 2012, requested the City Manager to provide a briefing note that states the "best guess" surplus year by year and all other sources of the $1.189 Billion "Financing Strategy" described in slide 27 of the capital presentation by the City Manager on November 29, 2012.

- As indicated in the table below, the Recommended Tax Supported Capital Budget and Plan requires $1.451 billion in reserve funding to address TTC and Transportation Services' capital needs. Financing requirements are needed to fund both projects that have been approved as part of the 2012 – 2021 Capital Budget and Plan and new/increased capital projects that are recommended in the 2013 – 2022 Capital Budget and Plan.

Current Capital Financing Strategy Revenues												
Description ($ Millions)	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**Total**
Enwave	168											**168**
2011 Surplus	215											**215**
TPLC Dividend	40											**40**
Enwave Dividend	11											**11**
BT Dividend	20											**20**
Total:	**454**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**454**
TTC 2012 Budget Requirement	**45**	**60**	**210**	**180**	**125**	**80**						**700**
TTC Remaining 2012 Capital Shortfall included in 2013 Capital Financing Strategy	**0**	**0**	**0**	**(41)**	**(125)**	**(80)**						**(246)**

2013 & Future Year Funding Requirements												
Description ($ Millions)	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**Total**
Current Shortfall - 2012 TTC Capital				41	125	80						**246**
2013 TTC Capital			42	48	70	85	114	116	60			**534**
2013 Transportation Capital		15	64	65	68	78	78	69	77	78	79	**671**
Total	**0**	**15**	**106**	**154**	**263**	**242**	**192**	**185**	**137**	**78**	**79**	**1,451**

- During the 2013 Capital Budget process City staff reviewed alternative funding methods to address the Transportation Services and TTC capital needs, including debenture financing.

- Notwithstanding the useful life of the required capital assets, the addition of $1.451 billion in debenture financing was not recommended as this approach would result in a $128 million in incremental operating budget impact by 2022 (when all debt is issued) for debt servicing and repayment, utilizing a blended 10-year/30-year repayment scenario.

- This would add considerable pressure to be addressed in future year operating budgets, with an increase to the City's debt charges as a % of the property tax levy which will near the 15% limit without capacity to safeguard against potential increased debenture rates or to address emerging capital priorities.

Key Points:

- As indicated in the table below, it is anticipated that contributions to the Capital Financing Reserve of $1.451 billion over a 10-year period will be provided from proceeds from the use of prior year surplus operating funds in accordance with the City's surplus management policy, the monetization of City assets, continued contributions for Transit and Transportation infrastructure from the Federal and Provincial government and an anticipated increase in Development Charge funding following completion of the 2013 Development Charge By-Law review.

Future Year Capital Financing Strategy Revenue Estimates											
Description ($ Millions)	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**Total**
Prior Year Operating Surplus	105	50	50	50	50	50	50	50	50	50	**555**
DC Increases		10	20	20	20	20	25	25	25	25	**190**
Future Years BT Dividend	25	25	35	35	45	50	50	50	50	50	**415**
Future Years Fed/Prov						50	50	50	50	50	**250**
TPA One-Time				41							**41**
Total:	**130**	**85**	**105**	**146**	**115**	**170**	**175**	**175**	**175**	**175**	**1,451**

- The $1.451 billion in contributions to the Capital Financing Reserve (described below) will be utilized to reduce projected debt financing in the 10-Year Capital Plan.

- ***Prior Year Operating Surplus ($555 million from 2013 to 2022)***

  - It is anticipated that prior year operating budget surpluses will generate $555 million in proceeds over a 10-year period for contribution to the Capital Financing Reserve. An estimated contribution of $105 million in 2013 (from 2012) is in line with preliminary updated year-end variance projections, factoring in reductions for other requirements.

  - The use of prior year operating surplus in 2013 and future years is in accordance with the City's Surplus Management Policy, which states that any operating surplus realized at year-end will be disposed of in priority order to (i) the Capital Financing Reserve Fund (at least 75 % of the additional surplus); and (ii) to fund any under-funded liabilities, and/or reserves/reserve funds.

  - At its meeting of January 17, 2012, City Council approved the following within EX14.1 *2012 Capital and Operating Budgets*

    2. City Council re-confirm its operating budget surplus distribution policy which states that the surplus be distributed in priority order to:

       i) the Capital Finance Reserve Fund (at least 75% of the surplus); and

ii) the remainder to fund any underfunded liabilities and/or reserves/reserve funds, as determined by the Deputy City Manager and Chief Financial Officer;

- ***Development Charge Increases ($190 million from 2014 to 2022)***

  - Staff have initiated the development charge background study, which is required to introduce a new 2013 Development Charge By-law, which is expected in the summer of 2013.

  - In 2014, following approval of the 2013 Development Charge By-law, it is anticipated that additional DC revenues of $190 million from 2014 to 2022 can fund TTC and Transportation Services' capital financing requirements.

  - This incremental increase in DC funding above future year forecasts is based on:

    - Expected increased DC eligibility for TTC and Transportation Services' growth related projects under the new By-law; and

    - Potential increased DC rates and/or reduced residential relief under the new By-law.

  - It should be noted that anticipated future year development charge revenue forecasts are safeguarded against a potential development downturn as the 2011 DC revenues were $130 million; 2012 revenues are $118 million as of October 26th, while 2013 DC revenues are forecast at $90 million.

- ***Future Years Build Toronto Dividend ($415 million from 2013 - 2022)***

  - It is anticipated that Build Toronto dividends of $25 million in 2013 ramping up to $50 million annually by 2018 can be expected based on initial proceeds and forecasted increases in returns.

- ***Future Years Federal/Provincial Funding Programs ($250 million beginning in 2018)***

  - As part of the City's participation in Federal and Provincial long term infrastructure funding programs, it is expected that beginning in 2018 new Federal and Provincial funding agreements for transportation and transit infrastructure will be implemented with estimated annual contributions of $50 million.

- ***Toronto Parking Authority One-Time ($41 million in 2016)***

  - The Toronto Parking Authority recently finalized a joint venture agreement for the redevelopment of the Yorkville garage, which will generate $41 million (City Share) by year-end 2015 through the sale of air-right, resulting in a contribution into the capital financing reserve in 2016.

- The table below highlights the annual funding requirements as compared to annual revenue estimates. While it is anticipated that $1.451 billion in revenues can be generated over a 10-year period, advanced financing would be required from 2016 – 2019, which would be recovered from 2020 – 2022, assuming a 100% spend rate in each year of the 10-year planning period.

Available Capital Financing Strategy Funding (Based on Current Capital Requirements & Future Year Revenue Estimates)											
Description ($ Millions)	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**Total**
Estimated Reserve Opening Balance	0	115	94	45	(72)	(199)	(221)	(231)	(193)	(96)	
Annual Funding Requirements	(15)	(106)	(154)	(263)	(242)	(192)	(185)	(137)	(78)	(79)	(1,451)
Annual Revenue Estimates	130	85	105	146	115	170	175	175	175	175	1,451
Estimated Reserve Closing Balance	**115**	**94**	**45**	**(72)**	**(199)**	**(221)**	**(231)**	**(193)**	**(96)**	**0**	
Advance Financing Requirements				**72**	**127**	**22**	**10**				**231**

- The 10-Year Recommended Tax Supported Capital Budget and Plan of $15.3 billion includes $1.2 billion in additional investments for Transportation Services and TTC capital needs, utilizing the approved capital financing strategy to address these added requirements, mitigating the impact on the City-wide projected 10-year debt requirements.

- The capital financing strategy is applied against emerging capital needs to mitigate City-wide debt requirements. The 2013 Capital Budget process did not afford staff the opportunity to apply these funds in a strategic manner against capital projects that met prescribed criteria such as useful life or type of capital asset.

- In 2013, in preparation for the 2014 Capital Budget process, the capital financing strategy will be refined to best match the application of both debt and financing from the Capital Financing Reserve within the 2014 – 2023 Capital Plan against established capital funding criteria, ensuring the full utilization of available debt funding for capital assets, when appropriate.

Prepared by: Stephen Conforti, Manager, Financial Planning Division,
(416) 397-0958, sconfor@toronto.ca

Further information: Josie La Vita, Director, Financial Planning Division,
(416) 397-4229, jlavita@toronto.ca

Date: December 12, 2012