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July 8, 2014

**To:** Mayor Rob Ford and Members of Council

**From:** Joseph P. Pennachetti, City Manager  
Roberto Rossini, Deputy City Manager and Chief Financial Officer

**Re:** **EX43.28 - TTC Request to Retain Operating Surplus**

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On the agenda of today's Council meeting, City Council will be considering item EX43.28 Operating Variance Report for the Year Ended December 31, 2013.

The Toronto Transit Commission (TTC) has also submitted a supplementary report *EX43.28a Request from the Toronto Transit Commission to Retain Its 2013 Operating Surplus* requesting that Council approve that the TTC retain \$47.7 million in 2013 operating surplus for the purpose of avoiding a fare increase for 2015.

When considering these items it is important to note the **City's Surplus Management Policy**. At its meeting of January 17, 2012, City Council approved the following within *EX14.1 2012 Capital and Operating Budgets*:

- City Council re-confirm its operating budget surplus distribution policy which states that the surplus be distributed in priority order to:
  - the Capital Finance Reserve Fund (at least 75% of the surplus); and
  - the remainder to fund any underfunded liabilities and/or reserves/reserve funds, as determined by the Deputy City Manager and Chief Financial Officer;

The City has made great strides over the last few years to reduce the reliance on one-time unsustainable funding sources such as prior year surplus to fund operating expenses. In doing so, the City has been able to direct prior year surplus to the Capital Financing Reserve to fund capital priorities with a majority of these funds for transit capital expenditures to reduce debt financing.



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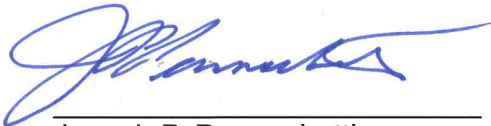
The Capital Financing Reserve provides funding over a 10-year period that totals over \$2 billion, of which \$1.234 billion or 62% is attributed to TTC approved capital projects, including \$252 million in funding required for 2014.

Attached to this letter is the supplementary report before you at Council, *EX43.28b Multi-Year Impact of the Toronto Transit Commission's Request to Retain 2013 Operating Surplus*, which identifies the multi-year financial impact on both the TTC's Operating Budget and 10-Year Capital Plan, arising from the Toronto Transit Commission's request that Council approve that the TTC retain \$47.7 million in 2013 operating surplus.

It is imperative that the City maintain its Surplus Management Policy, ensuring one-time surplus is not used to fund ongoing operating expenditures, while also allowing the City to address major capital work through the Capital Financing Strategy.

Importantly it must be emphasized that by following the City's Surplus Management Policy the TTC would receive almost \$89 million of the 2014 surplus as opposed to just the \$47.7 million in the TTC Board's motion.

In conclusion, staff feel strongly that this key fiscal sustainability policy must be followed in 2014 and beyond. Any revisions to this policy will have significant debt management implications and possible credit rating impact on the City.



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Joseph P. Pennachetti



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Roberto Rossini

Attachment