



**STAFF REPORT
ACTION REQUIRED**

**Multi-Year Impact of the TTC's Request to Retain 2013
Operating Surplus**

Date:	June 16, 2014
To:	Executive Committee
From:	Deputy City Manager and Chief Financial Officer
Wards:	All
Reference Number:	P:\2014\Internal Services\Fp\Ec14016Fp (AFS #19874)

SUMMARY

The purpose of this report is to identify the multi-year financial impact on both the TTC's Operating Budget and 10-Year Capital Plan, arising from the Toronto Transit Commission's (TTC) request from their meeting of May 28, 2014 that Council approve that the TTC retain \$47.7 million in 2013 operating surplus for the purpose of avoiding a fare increase for 2015.

This report will also clarify the use of City-wide operating surplus, with the City's Surplus Management Policy stating that at least 75 percent of the City-wide surplus is to be allocated the Capital Financing Reserve. Given a 2013 net favourable variance of \$168.1 million, 75 percent or \$126.1 million will be directed to the Capital Financing Reserve. This reserve predominately funds TTC capital projects as part of the Capital Financing Strategy, with \$252 million budgeted to fund TTC capital projects in 2014 alone.

In addition, it is proposed that \$10.8 million of the 2013 surplus is to be used to fund TTC accident claim liabilities.

Accordingly, more than the entire 2013 TTC surplus of \$47.7 million is already being re-invested back into the TTC.

RECOMMENDATIONS

The Deputy City Manager and Chief Financial Officer recommends that City Council:

1. Receive this report for information.

Financial Impact

There are no financial impacts arising from the recommendation of this report, however Council approval of the TTC's request to retain \$47.7 million in 2013 operating surplus for the purpose of avoiding a fare increase for 2015 would have the following impact:

\$47.7 million in One-Time Operating Funding for 2015

An additional \$47.7 million in one-time funding would be available for the TTC for the purposing of avoiding a fare increase as part of the 2015 Operating Budget. However, the use of these one-time funds would create a \$47.7 million pressure in the following year (2016) that when also accounting for annual inflationary increase, would need to be offset through a combination of service efficiencies; service reductions; fare increases above the rate of inflation; and/or additional property tax increases.

Impact on the City's Contribution to the TTC's Long-Term Liabilities Reserve Fund

The TTC carries a long-term liability for unsettled accident claims to be funded by the City. The balance of this liability as at December 31, 2013 was \$156.4 million, with the unfunded portion of the long-term liability for unsettled accident claims (2009-2013) totaling \$44.6 million. To ensure funding for the accident claims and to reduce the unfunded portion, \$10.812 million of the TTC's operating surplus will be transferred to the newly created Long-Term Liabilities Reserve Fund.

If the TTC were to retain \$47.7 million in 2013 operating surplus, the City would no longer be in the position to direct \$10.8 million in surplus towards the long-term liability for unsettled accident claims, which would result in additional future year operating pressure to ensure adequate funding is in place for settled accident claims.

Impact on the Capital Financing Strategy and TTC Capital Projects

In accordance with the City's Surplus Management Policy, at least 75 percent of the City-wide surplus is to be allocated to the Capital Financing Reserve. Based on this policy, a total of \$527 million will be contributed to this reserve from 2011 to 2013 favourable operating variances, including \$126 million of the 2013 surplus.

The surplus directed to the Capital Financing Reserve is then used as part of the Capital Financing Strategy as a non-debt funding source for TTC and Transportation Services approved capital projects. Capital Financing Reserve funding over a 10-year period 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.

If the TTC were to retain \$47.7 million in 2013 operating surplus, a reduction to the TTC's 2014 – 2023 Capital Budget and Plan of \$36.9 million would be required in either the year 2014 or 2015 to ensure funding is available for the approved Capital Program.

The Deputy City Manager and Chief Financial Officer has reviewed this report and agrees with the financial impact information.

ISSUE BACKGROUND

At its meeting of May 28, 2014, the Toronto Transit Commission considered a report entitled, *Draft Consolidated Financial Statements of Toronto Transit Commission for the Year Ended December 31, 2013*. This report was amended to include the following motion:

That the Board request Council to approval for the TTC to retain \$47.7 million surplus for next year's budgeting purposes to avoid a fare increase for 2015.

The link to the TTC report can be found below:

[http://www.ttc.ca/About the TTC/Commission reports and information/Commission meetings/2014/May 28/Supplementary Reports/Draft Consolidated Fin Stmtsof TTC for Year Ended Decv31 2013.pdf](http://www.ttc.ca/About%20the%20TTC/Commission%20reports%20and%20information/Commission%20meetings/2014/May%2028/Supplementary%20Reports/Draft%20Consolidated%20Fin%20Stmtof%20TTC%20for%20Year%20Ended%20Decv31%202013.pdf)

COMMENTS

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. Operating Budget policies note that the use of one time revenues to fund ongoing expenditures should be restricted to extraordinary situations, which must be approved by Council on a case-by-case basis. One-time revenues should be more appropriately used for purposes such as early debt retirement, capital expenditures, and one-time expenditures.

The use of \$47.7 million in 2013 operating surplus to avoid 2015 fare increases would rely on unsustainable funding that will cause additional operating pressure in 2016 above and beyond annual inflationary increases. As a result, this approach would not only impact the amount of funding available for the TTC's approved Capital Program, but it would also require staff to propose additional service efficiencies; service reductions; fare increases above the rate of inflation; and/or additional property tax increases as part of the 2016 Operating Budget.

The 2013 TTC operating surplus will be reviewed for 2015 reduction opportunities. Of the \$47.7 million in 2013 operating surplus, any savings or additional revenues that could be expected to repeat in future years (ongoing variance vs. one-time savings) and have not already been accounted for in the 2014 Operating Budget could be presented as reduction options as part of the 2015 Budget process to offset inflationary pressures that drive the need for fare increases

CONTACT

Josie La Vita
Director, Financial Planning
Phone: 416-397-4229
Fax: 416-397-4465
E-mail: jlavita@toronto.ca

Stephen Conforti
Manager, Financial Planning
Phone: 416-397-0958
Fax: 416-392-3649
E-mail: sconfor@toronto.ca

SIGNATURE

Roberto Rossini
Deputy City Manager and Chief Financial Officer