

Presentation on EX20.1, EX20.2, and EX20.3
("LTFD Update," "Revenue Strategy," and "Asset
Optimization" Reports)

Outline

Long-Term Financial Direction Update

- Criteria and basis for advice
- Core Challenges
- Update on Long-Term Financial Plan

Immediate and Longer-Term Revenue Strategy

- 2017 and 2018 Recommendations
- Longer-Term Options

Asset Optimization

- Toronto Hydro Corporation and Toronto Parking Authority - Recommendations

Criteria and basis for advice

Financial and policy risk minimization, reflecting the need for annual balanced budgets

Consistency between short-term decision making and long-term aspirations

Best estimations available given the considerable uncertainties

Maintaining or enhancing the fiscal resilience of the City of Toronto and its agencies in order to support sustainable public services

Major Fiscal Factors

2017 and
2018
Operating
Budgets

2017 pressure
after savings and
2016 MLTT growth

10-Year
Capital
Budget and
Plan

Including
incremental costs of
SmartTrack, TTC,
Gardiner, Portlands

Long-Term
Capital
Overhang

~\$33B in
unfunded capital
projects, and growing

Asset
Optimization

Direct impact on
short- and long-term

Long-Term
Expense
Management

Continued focus
on value-for-money

Long-Term
Revenue
Management

Range of options

Steps toward creating the Long-Term Plan



1) What city do we want?

- Address the mismatch between expectations and means

2) Must address the major fiscal challenges

- As listed on the previous slide

3) Need to understand and define our costs

- Dependent on Council's direction for the size of public sector footprint
- Challenges with agency governance

Progress

- Public consultations
 - Phase 1: November and December – Guiding Principles, and Expenditure, Revenue, and Asset Options
 - Phase 2: Winter / Spring 2017 – Governance and Financial Management
- Business Transformation and Service Modernization
 - Chief Transformation Officer
 - Excellence Toronto
 - City-Wide Real Estate Review
 - Office Modernization Program
- Customer Service Strategy
- Enterprise-Wide Risk Management
- Agency Review
- Contracting Out and Alternative Service Delivery
- Open Data and Open Government
- Shared Services Project
- Procurement Transformation
- Time and Attendance Transformation
- Contract Management
- Toronto Police Service Transformational Task Force

Revenue Framework

Revenue Options	Authorized under Existing Legislation	Requiring Major Provincial Policy Change
A. Taxes on Real Property	<ul style="list-style-type: none"> Property Tax Municipal Land Transfer Tax (match Provincial policies) Parking Levy 	<ul style="list-style-type: none"> Graduated residential property tax rates
B. Specialty Taxes	<ul style="list-style-type: none"> Alcoholic Beverage Tax¹ Personal Vehicle Tax Third Party Sign Tax² 	<ul style="list-style-type: none"> Parking Sales Tax Hotel Tax Municipal Income Tax Municipal Sales Tax
C. User Fees	<ul style="list-style-type: none"> TTC Fares and Other Fees Road Pricing / Expressway Tolls³ 	<ul style="list-style-type: none"> None

1. Requires Provincial regulatory changes to enable collection

2. Third Party Sign Tax will be the subject of a future report by the Chief Building Official and Executive Director, Toronto Building in consultation with the Deputy City Manager & Chief Financial Officer, to be tabled at the April 5, 2017 Planning and Growth Management Committee meeting

3. Requires Provincial regulatory changes

Prohibited Taxes

Prohibited taxes
under the City of
Toronto Act,
2006

Income tax and sales tax*

Capital tax (corporate)

Tax on lodging (hotel tax)

Tax on the supply of natural gas or artificial gas

Tax on natural resources

Tax on the use of a highway/roadway rights of way

Tax on a person's wealth, including an inheritance tax

Poll tax

Tax on machinery and equipment

* some sales taxes are excluded from this prohibition (tobacco, alcohol, amusement)

2017/2018 Revenue Strategy Recommendations

Council refer the following revenue options to the Budget Committee 2017 process:

A dedicated property tax levy for capital;

Raising the commercial property tax rates by 50% of the residential rate increase;

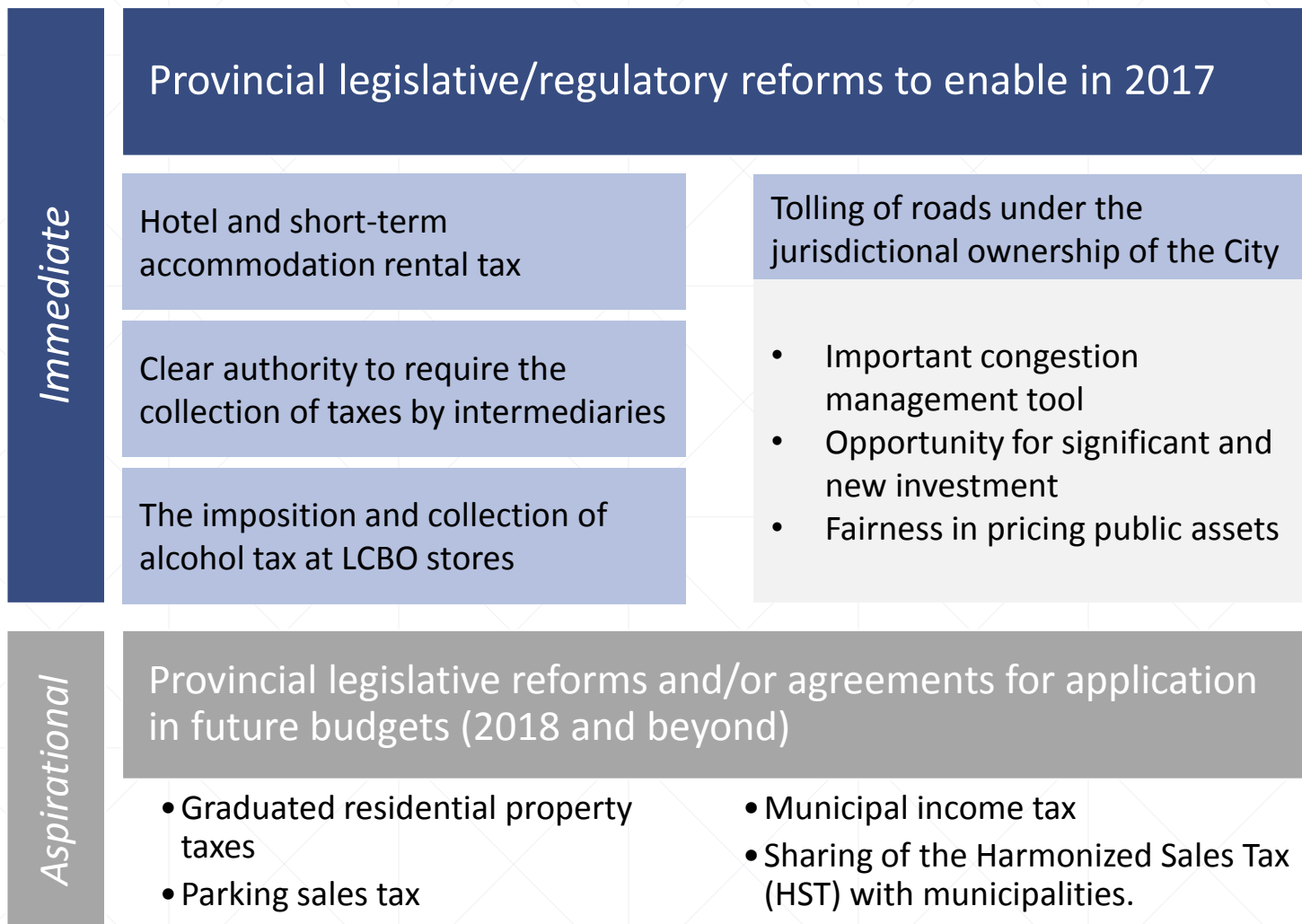
Harmonizing the Municipal Land Transfer Tax (MLTT) rates with the Ontario Land Transfer Tax (LTT) rates and rebates

Harmonizing the MLTT first-time home buyers rebate with the LTT, and new rebate eligibility limit based on price

An above inflationary increase to the Third Party Sign Tax.

Council consider the re-introduction of the personal vehicle tax of \$120/vehicle annually

Key Revenue Options



Revenue Options

High	Medium	Low

		Scores					
Revenue Options	Assumed rates	Incidence / Fairness	Efficiency	Policy Fit	Minimizing Negative Economic Impacts	Revenue Quality	Legislative Authority
Taxes on Real Property							
Municipal Land Transfer Tax	Match provincial rules (rates & FTHB rebate)						
Parking Levy	\$6.75/m ² to \$20.25/m ² /year						
Property Tax							
Specialty Taxes							
Permitted under Current Legislative Authority (COTA)							
Motor Vehicle Registration Tax	\$120/year						
Alcoholic Beverage Tax	1%– 10%						
Entertainment & Amusement Tax	1% - 10%						
Tobacco Tax	1%– 10%						

Revenue Options (continued)

Revenue Options	Assumed rates	Scores					
		Incidence / Fairness	Efficiency	Policy Fit	Minimizing Negative Economic Impacts	Revenue Quality	Legislative Authority
Specialty Taxes							
Requiring Major Provincial Policy Change							
Development Levy	2% – 10%	Red	Yellow	Red	Red	Red	Red
Hotel Tax	2% – 14%	Yellow	Yellow	Yellow	Yellow	Red	Red
Parking Sales Tax	5% – 20%	Yellow	Yellow	Yellow	Yellow	Yellow	Red
Municipal Business Income Tax *	0.5% – 2%	Yellow	Yellow	Red	Red	Green	Red
Municipal Personal Income Tax *	1%	Green	Yellow	Yellow	Yellow	Green	Red
Municipal Sales Tax *	0.5% – 2%	Green	Yellow	Yellow	Yellow	Green	Red
Car Rental Tax	TBD	Red	Yellow	Red	Red	Red	Red
Uber Registration Fee	TBD	Red	Yellow	Yellow	Yellow	Red	Red
Carbon Tax	TBD	Yellow	Yellow	Green	Red	Red	Red
Fees							
Expressway Tolls	TBD	Yellow	Red	Green	Yellow	Green	Yellow

Expressway Tolling

- Study on benefits and impacts currently underway; further assessment expected in staff report to Executive Committee in 2017
- Recovers costs from non-residents who make up about 40% of expressway trips, therefore expands City's tax base
- Could reduce travel times and increase public transit usage
- Would result in increased travel time and vehicle volumes on some local roads
- Requires provincial regulatory change under the COTA
- Can be implemented as early as 2019/20 depending on phasing
- Could help address the Long-Term Financial Plan funding gap, particularly transit and transportation capital costs

Expressway Tolling Preliminary Financial Estimates

Type of Cost	Preliminary Estimate (2016\$)	Notes
One-time Implementation Costs	\$100-150 million	For gantries similar to 407, costs depend on technology chosen
Ongoing Operating Costs	\$50 to \$70 million annually	Incident management

Assumed Toll Rate Per Trip (2016\$)	Potential Net Annual Revenues (2016\$)	Notes
\$1.40	n/a (Cost recovery)	Break-even scenario
Under \$2.00	\$166 million	
\$3.90	\$272 million	Comparable to public transit and 407
\$5.20	\$336 million	

Asset Optimization

Deloitte retained to undertake analysis of the City's investments, and to recommend viable options for the city's consideration

- Toronto Hydro Corporation
- Toronto Parking Authority

Separate City-Wide Real Estate review is currently underway, in accordance with Council direction of July 2016.

THC Board communicated capital shortfall, and curtailed dividend expectations

Toronto Hydro Corporation

- Study of Toronto Hydro Corporation
 - Confirmed that Toronto Hydro Corporation
 - Is facing an equity shortfall as a result of the demands of its \$2.5 billion capital expenditure program
 - This precipitated recent dividend cut to \$25 million starting in 2017 (vs. \$60m City budget)
 - Serious issue with credit rating, regulatory implications
 - Direct City Investment of up to \$250 million in Toronto Hydro would
 - Remedy its equity shortfall
 - Restore dividends to the City to 50% of net income in 2017
 - Create conditions for a potential future increase in the dividend rate
- Study found that on balance ownership retention (vs. equity sale to raise capital funding) provides highest value for City

Toronto Parking Authority

- Currently provides City with 75% of its net income (annually)
- Study of TPA determined:
 - Makes sense to retain ownership of TPA, given the interconnectivity with the City and its operations
 - TPA revenues could be enhanced by ensuring parking rates reflect the market
 - Potential to increase City's share of TPA income (already being undertaken by City Financial Planning Division as part of Budget 2017)
 - Review TPA off-street parking lots to determine where highest and best use is not as a parking lot, and consider those assets for sale, with cash back to the City. (Currently being reviewed as part of City-Wide Real Estate).

Thank you

Appendix

Ontario Land Transfer Tax Revenues

Tax revenue decreased once in every 5 years on average

