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

Long-Term Financial Direction Update
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

<table>
<thead>
<tr>
<th>Revenue Options</th>
<th>Authorized under Existing Legislation</th>
<th>Requiring Major Provincial Policy Change</th>
</tr>
</thead>
</table>
| A. Taxes on Real Property | • Property Tax  
• Municipal Land Transfer Tax (match Provincial policies)  
• Parking Levy | • Graduated residential property tax rates |
| B. Specialty Taxes      | • Alcoholic Beverage Tax\(^1\)  
• Personal Vehicle Tax  
• Third Party Sign Tax\(^2\) | • Parking Sales Tax  
• Hotel Tax  
• Municipal Income Tax  
• Municipal Sales Tax |
| C. User Fees            | • TTC Fares and Other Fees  
• Road Pricing / Expressway Tolls\(^3\) | • 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

<table>
<thead>
<tr>
<th>Tax Type</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income tax and sales tax*</td>
<td></td>
</tr>
<tr>
<td>Capital tax (corporate)</td>
<td></td>
</tr>
<tr>
<td>Tax on lodging (hotel tax)</td>
<td></td>
</tr>
<tr>
<td>Tax on the supply of natural gas or artificial gas</td>
<td></td>
</tr>
<tr>
<td>Tax on natural resources</td>
<td></td>
</tr>
<tr>
<td>Tax on the use of a highway/roadway rights of way</td>
<td></td>
</tr>
<tr>
<td>Tax on a person’s wealth, including an inheritance tax</td>
<td></td>
</tr>
<tr>
<td>Poll tax</td>
<td></td>
</tr>
<tr>
<td>Tax on machinery and equipment</td>
<td></td>
</tr>
</tbody>
</table>

* 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

Provincial legislative/regulatory reforms to enable in 2017

- Hotel and short-term accommodation rental tax
- Clear authority to require the collection of taxes by intermediaries
- The imposition and collection of alcohol tax at LCBO stores
- Tolling of roads under the jurisdictional ownership of the City
  - Important congestion management tool
  - Opportunity for significant and new investment
  - Fairness in pricing public assets

Aspirational

- Graduated residential property taxes
- Parking sales tax
- Municipal income tax
- Sharing of the Harmonized Sales Tax (HST) with municipalities.
# Revenue Options

<table>
<thead>
<tr>
<th>Revenue Options</th>
<th>Assumed rates</th>
<th>Incidence / Fairness</th>
<th>Efficiency</th>
<th>Policy Fit</th>
<th>Minimizing Negative Economic Impacts</th>
<th>Revenue Quality</th>
<th>Legislative Authority</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Taxes on Real Property</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Municipal Land Transfer Tax</td>
<td>Match provincial rules (rates &amp; FTHB rebate)</td>
<td>Yellow</td>
<td>Green</td>
<td>Yellow</td>
<td>Red</td>
<td>Green</td>
<td>Green</td>
</tr>
<tr>
<td>Parking Levy</td>
<td>$6.75/m² to $20.25/m²/year</td>
<td>Red</td>
<td>Red</td>
<td>Red</td>
<td>Yellow</td>
<td>Yellow</td>
<td>Yellow</td>
</tr>
<tr>
<td>Property Tax</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Specialty Taxes</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Permitted under Current Legislative Authority (COTA)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Motor Vehicle Registration Tax</td>
<td>$120/year</td>
<td>Yellow</td>
<td>Green</td>
<td>Yellow</td>
<td>Red</td>
<td>Green</td>
<td>Green</td>
</tr>
<tr>
<td>Alcoholic Beverage Tax</td>
<td>1%– 10%</td>
<td>Yellow</td>
<td>Green</td>
<td>Yellow</td>
<td>Red</td>
<td>Green</td>
<td>Green</td>
</tr>
<tr>
<td>Entertainment &amp; Amusement Tax</td>
<td>1% - 10%</td>
<td>Yellow</td>
<td>Green</td>
<td>Yellow</td>
<td>Red</td>
<td>Green</td>
<td>Green</td>
</tr>
<tr>
<td>Tobacco Tax</td>
<td>1% – 10%</td>
<td>Yellow</td>
<td>Green</td>
<td>Yellow</td>
<td>Red</td>
<td>Green</td>
<td>Green</td>
</tr>
</tbody>
</table>

### Immediate and Longer-Term Revenue Strategy

- High
- Medium
- Low
## Revenue Options (continued)

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

<table>
<thead>
<tr>
<th>Type of Cost</th>
<th>Preliminary Estimate (2016$)</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>One-time Implementation Costs</td>
<td>$100-150 million</td>
<td>For gantries similar to 407, costs depend on technology chosen</td>
</tr>
<tr>
<td>Ongoing Operating Costs</td>
<td>$50 to $70 million annually</td>
<td>Incident management</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>$1.40</td>
<td>n/a (Cost recovery)</td>
<td>Break-even scenario</td>
</tr>
<tr>
<td>Under $2.00</td>
<td>$166 million</td>
<td></td>
</tr>
<tr>
<td>$3.90</td>
<td>$272 million</td>
<td>Comparable to public transit and 407</td>
</tr>
<tr>
<td>$5.20</td>
<td>$336 million</td>
<td></td>
</tr>
</tbody>
</table>
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

Ontario Land Transfer Tax Revenue Annual Change %

-22% 72% -4% -13% -12% -8% -17% -26%


Immediate and Longer-Term Revenue Strategy