Re: EX20.1, EX20.2 and EX20.3

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

Executive Committee – December 1, 2016
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

TORONTO
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

<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 Tax¹  
• Personal Vehicle Tax  
• Third Party Sign Tax²                                               | • Parking Sales Tax  
• Hotel Tax  
• Municipal Income Tax  
• Municipal Sales Tax                                                  |
| C. User Fees           | • TTC Fares and Other Fees  
• Road Pricing / Expressway Tolls³                                                                   | • 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>
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</thead>
<tbody>
<tr>
<td>Income tax and sales tax*</td>
</tr>
<tr>
<td>Capital tax (corporate)</td>
</tr>
<tr>
<td>Tax on lodging (hotel tax)</td>
</tr>
<tr>
<td>Tax on the supply of natural gas or artificial gas</td>
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<tr>
<td>Tax on natural resources</td>
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<tr>
<td>Tax on the use of a highway/roadway rights of way</td>
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<tr>
<td>Tax on a person’s wealth, including an inheritance tax</td>
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<tr>
<td>Poll tax</td>
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<tr>
<td>Tax on machinery and equipment</td>
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</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

<table>
<thead>
<tr>
<th>Immediate</th>
<th>Aspirational</th>
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<tbody>
<tr>
<td><strong>Provincial legislative/regulatory reforms to enable in 2017</strong></td>
<td><strong>Provincial legislative reforms and/or agreements for application in future budgets (2018 and beyond)</strong></td>
</tr>
</tbody>
</table>
| Hotel and short-term accommodation rental tax | • Graduated residential property taxes  
• Parking sales tax |
| Clear authority to require the collection of taxes by intermediaries | • Municipal income tax  
• Sharing of the Harmonized Sales Tax (HST) with municipalities. |
| 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 |
### 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>
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<tbody>
<tr>
<td><strong>Taxes on Real Property</strong></td>
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<tr>
<td>Municipal Land Transfer Tax</td>
<td>Match provincial rules (rates &amp; FTHB rebate)</td>
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<tr>
<td>Parking Levy</td>
<td>$6.75/m² to $20.25/m²/year</td>
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<td>Property Tax</td>
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<td><strong>Specialty Taxes</strong></td>
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<tr>
<td>Permitted under Current Legislative Authority (COTA)</td>
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<tr>
<td>Motor Vehicle Registration Tax</td>
<td>$120/year</td>
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<tr>
<td>Alcoholic Beverage Tax</td>
<td>1%- 10%</td>
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<tr>
<td>Entertainment &amp; Amusement Tax</td>
<td>1%- 10%</td>
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<tr>
<td>Tobacco Tax</td>
<td>1%- 10%</td>
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### Revenue Options (continued)

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

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<tr>
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</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>
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<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>
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

Ontario Land Transfer Tax Revenue
Annual Change %

 Immediate and Longer-Term Revenue Strategy