

# **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

# 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"> <li>Property Tax</li> <li>Municipal Land Transfer Tax (match Provincial policies)</li> <li>Parking Levy</li> </ul>	<ul style="list-style-type: none"> <li>Graduated residential property tax rates</li> </ul>
B. Specialty Taxes	<ul style="list-style-type: none"> <li>Alcoholic Beverage Tax<sup>1</sup></li> <li>Personal Vehicle Tax</li> <li>Third Party Sign Tax<sup>2</sup></li> </ul>	<ul style="list-style-type: none"> <li>Parking Sales Tax</li> <li>Hotel Tax</li> <li>Municipal Income Tax</li> <li>Municipal Sales Tax</li> </ul>
C. User Fees	<ul style="list-style-type: none"> <li>TTC Fares and Other Fees</li> <li>Road Pricing / Expressway Tolls<sup>3</sup></li> </ul>	<ul style="list-style-type: none"> <li>None</li> </ul>

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;

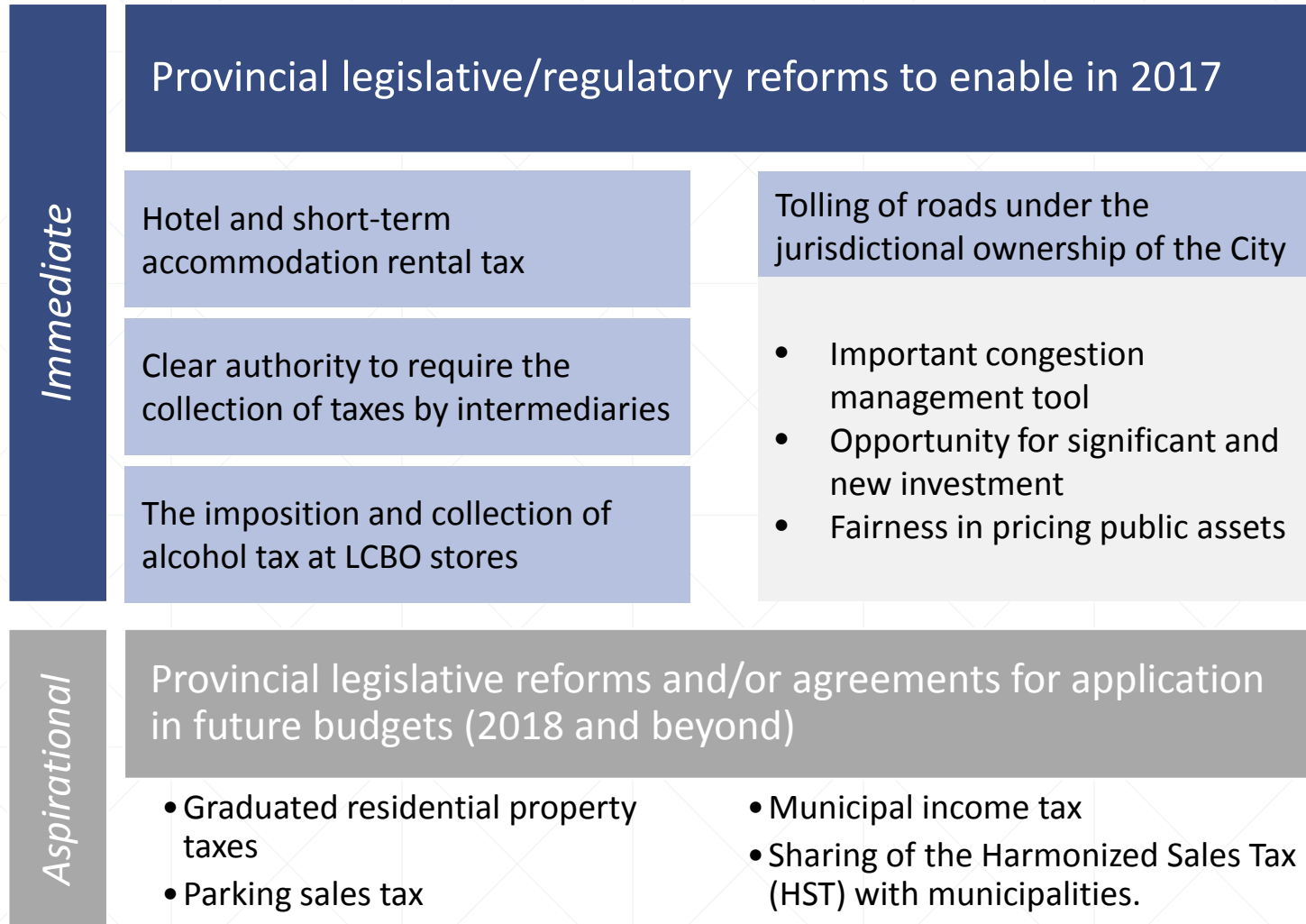
Harmonizing the Municipal Land Transfer Tax (MLTT) rates with the Ontario Land Transfer Tax (LTT) rates and rebates

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
<b>Taxes on Real Property</b>							
Municipal Land Transfer Tax	Match provincial rules (rates & FTHB rebate)						
Parking Levy	\$6.75/m <sup>2</sup> to \$20.25/m <sup>2</sup> /year						
Property Tax							
<b>Specialty Taxes</b>							
<b>Permitted under Current Legislative Authority (COTA)</b>							
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
<b>Specialty Taxes</b>							
<b>Requiring Major Provincial Policy Change</b>							
Development Levy	2% – 10%						
Hotel Tax	2% – 14%						
Parking Sales Tax	5% – 20%						
Municipal Business Income Tax *	0.5% – 2%						
Municipal Personal Income Tax *	1%						
Municipal Sales Tax *	0.5% – 2%						
Car Rental Tax	TBD						
Uber Registration Fee	TBD						
Carbon Tax	TBD						
<b>Fees</b>							
Expressway Tolls	TBD						

# 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

