EX31.2

REPORT FOR ACTION

Budget Committee Recommended Tax Supported 2018 Operating Budget and 2018 - 2027 Capital Budget and Plan

Date: February 5, 2018
To: Executive Committee
From: City Manager and Acting Chief Financial Officer
Wards: All

SUMMARY

This report presents the City of Toronto's Budget Committee (BC) Recommended Tax Supported 2018 Operating Budget and 2018 - 2027 Capital Budget and Plan. The report seeks City Council approval for service budgets and associated service levels, and staffing detailed therein; the 2018 Capital Budget and future year cash flow commitments and planned estimates over the 2018 to 2027 capital planning period.

The 2018 Operating Budget, as recommended by Budget Committee, is $11.089 billion gross and $4.176 billion net, representing an increase of $389.3 million or 3.6% in gross expenditures and $129.8 million or 3.2% in net expenditures over the 2017 Council Approved Operating Budget. The $129.8 million net increase is offset by assessment growth and a residential property tax rate increase of 2.1%.

The City's services and service levels funded by the 2018 BC Recommended Budget require a staff complement of 52,581.7 positions (49,029.4 operating and 3,552.3 capital). This represents an overall net increase of 426.4 positions (an increase of 66.8 base positions to deliver existing service levels and 359.6 new positions for new/enhanced service investments), or a 0.8% increase when compared to the 2017 Council Approved Staff Complement.

The 2018 BC Recommended Capital Budget totals $3.837 billion (including 2017 carry forward funding of $0.843 billion) requiring $1.333 billion in debt funding and resultant future year cash flow commitments of $7.485 billion. Furthermore, this report requests approval of the 2019 - 2027 Capital Plan of $15.487 billion, which will form the basis for developing future capital budgets and plans, in accordance with the City's multi-year financial planning and budgeting policies and practices.

In May 2017, City Council approved a 0% Operating target reduction for all City Programs, Agencies, and Accountability Offices to address budget pressures forecasted for 2018. In terms of the 10-Year Capital Budget and Plan, City Council directed staff to undertake a review of cash flow spending to better match project activities and timing given the average 65% spending rate being experienced across the City and implement a stage-gating review process for major capital projects. Should any debt capacity be made available, priority would be given to funding capital projects that would address high-needs social infrastructure, critical State of Good Repair (SOGR), ensure AODA compliance, and other transformation, modernization and innovation projects that would generate financial benefits.

With this direction, the City Manager, the Acting Chief Financial Officer, and the Executive Director of Financial Planning presented an Operating Budget for 2018 with its $510 million opening budget gap closed. The 2018 Preliminary Operating Budget delivered a balanced base budget that: maintained existing service levels without service reductions or a TTC fare increase; included $14.7 million gross and $0.2 net (revenue) in service and capital delivery improvements; and provided a residual $3.725 million in unallocated tax funding to be used towards funding a list of new and enhanced service priorities valued at $95.1 million gross and $41.3 million net for Budget Committee's consideration.

The 2018 Preliminary Operating Budget was balanced with expenditure reductions of $175.4 million made possible with most City Programs and Agencies achieving the 0% reduction target except where costs driven by external factors or previous City Council decisions were significant and fixed (shelter demand, opening of new subway extension, debt servicing), $49.0 million in one-time bridging strategies, and increased revenues of $285.4 million. This level of increased revenue reflects continued strong revenue growth, most notably from the Municipal Land Transfer Tax (MLTT), with an increase for 2018 based on 2017 experience, assessment growth, and an inflationary residential property tax rate increase of 2.1%.

As a result of realigning cash flow funding to better match project spending, implementing stage-gating for major capital projects, and incorporating the 2 cent increase in Ontario gas tax funding into the 10-year Capital Plan, additional debt capacity was made available to add in new capital projects that met Council's budget direction. A total of $1.084 billion was included in the 2018 - 2027 Preliminary Capital Budget and Plan that will fund Toronto Community Housing Corporation (TCHC)'s state of good repair and inflight revitalization projects for an interim 2 year period and the George Street Revitalization Project, both high needs social infrastructure projects. Projects to ensure AODA compliance and address critical SOGR; modernization and transformation projects, including 3 major capital studies to advance City building objectives were also added to the capital plan.

Budget Committee undertook a detailed review of City Program and Agency expenses, revenue; explored key issues, and considered the unfunded new/enhanced service and capital requests, taking into account public input. Based on these deliberations, Budget Committee, on January 23, 2018 recommended a series of changes that added funding to both the 2018 Preliminary Operating Budget and 2018 - 2027 Preliminary Capital

Plan for new and enhanced service priorities and capital projects that advance several and, in a few cases complete, service strategies and/or infrastructure plans.

In total, BC recommended an increase of $123.5 million gross and $53.0 million net that provides funding to begin, continue or complete several service plans previously approved by City Council. Some of the key priorities funded include Child Care Growth ($48.0 million), Shelter Expansion ($31.0 million) and Transit Fare Equity ($4.8 million) as part of the Poverty Reduction Strategy as well as investments that advance environmental sustainability such as TransformTO ($2.5 million) and Tree Canopy Expansion and Planting ($6.7 million); improve transit and safe mobility such as the 2-hour time based transfer and improve bus overcrowding in TTC ($7.1 million) and introducing Traffic Enforcement Officers ($1.3 million). Funding for these new/enhanced service priorities was made possible primarily through increased revenues from higher that initially planned growth and one-time sources.

Similarly, BC recommended $227.8 million gross and $194.4 million debt be included in the 2018 - 2027 Capital Budget and Plan to fund 4 key capital priorities: a 3-year shelter expansion plan that will add 880 beds with the acquisition 11 new sites; additional funding for the St. Lawrence Market North and Union Station revitalization projects and the acceleration of the City's Vision Zero Road Safety Plan, all to occur within the first 5 years of the capital planning period. Overall, the level of debt borrowing required to fund the 2018 to 2027 Capital Plan will maintain the City's debt servicing ratio to property tax revenue to an average of 14.94% over the 10-year period.

The 2018 - 2027 BC Recommended Capital Budget and Plan delivers funding to meet the City's increasing capital needs for SOGR, service improvement and growth related projects. A total of $13.184 billion is allocated in the 10-Year Capital Plan to specifically address SOGR needs. This level of funding in the recommended Capital Budget and Plan helps stabilize the SOGR backlog in many areas but not all. However, as City Programs and Agencies continue to update the condition of their infrastructure, the need for SOGR funding will also rise while the City continues to identify future projects to address growth and City building objectives.

Based on the approval of the BC Recommended 2018 Operating and Capital Budgets, expenditures are forecasted to increase by $460 million gross in 2019 and $360 million gross in 2020. The expenditure pressures are primarily driven by:

- Reversal of one-time bridging strategies used to balance the 2018 Operating Budget;
- Annualized costs of 2018 new/enhanced service investments;
- Inflationary cost increases to maintain and provide prior year services and service levels, including the cost of living adjustments and additional costs associated with the impact of legislative changes to Bill 148 *'Fair Workplace, Better Jobs Act";*
- Agency expenses, predominantly the Toronto Transit Commission (TTC); and.
- Ongoing debt servicing costs for the City's approved capital works program.

Revenue estimates are based on inflationary-type increases for program fees, including TTC fare as well as for residential property tax rate increases, using current inflationary projections for each of these years; moderate assessment growth, and flat-lined MLTT given that the impact of recent interest rate and regulatory changes on the housing market are not known at this time.

Accounting for these drivers, the forecasted net pressure is anticipated to be $301 million (net) in 2019 and $216 million (net) in 2020. These estimates do not include any additional funding for new service priorities arising from existing or new service strategies and plans.

The BC Recommended 2018 Operating Budget and 2018 - 2027 Capital Budget and Plan have provided increased funding to invest in new service priorities and capital infrastructure that respond to a demand for services that meet a wide and complex set of needs for its residents, businesses and visitors. However to do so, has required the use of one-time funding sources despite significant expenditure reductions and revenue growth which will result in added pressures for 2019. The continued practice of matching MLTT revenue to actual revenue gains in the face of uncertain housing market conditions places a level of risk in the 2018 Operating Budget that, at a minimum may mean the absence of future gains being available to offset future expenses, or at a maximum, may create a further revenue pressure for 2019, thereby widening the gap between expenses and revenues.

Keeping pace with a growing population will require the City to continue investing in the improvement and expansion of services and infrastructure to address these needs while ensuring that current service levels are not eroded and existing assets are reliable.

Achieving fiscal sustainability in the face of these challenges will require the City to consider a combination of strategies that reduce or alter spending with changes to service models and levels; increase stable revenue through policy changes that raise existing revenues or implement new revenue sources or some combination of these strategies.

RECOMMENDATIONS

The Budget Committee recommends the following to Executive Committee for recommendation to City Council:

1. City Council approve the 2018 Budget Committee Recommended Capital Budget for Tax Supported Programs and Agencies of $3.837 billion (including 2017 carry forward funding of $0.843 billion); 2018 cash flow funding of $2.268 billion (including 2-year carry forward funding of $0.072 million) and future year commitments of $5.456 billion for previously approved projects; total project cost authority for new and change in scope projects of $2.755 billion requiring 2018 cash flow of $0.726 million and future year commitments of $2.029 billion; and, 2019-2027 planned capital estimates of $15.487 billion as detailed in Appendices 3.1.1, 3.1.2, 3.1.3, 3.1.4 and 3.1.7.

2. City Council approve funding sources for the 2018 Budget Committee Recommended Tax Supported Capital Budget as outlined in Appendix 3.1.5.

3. City Council approve the Recommendations totalling $26.809 billion in Capital funding for City Programs and Agencies as detailed in Appendix 1.

4. City Council approve the 2018 sinking fund levies of $291.462 million in respect of the City's outstanding debt.

5. City Council, in approving the 2018 - 2027 Capital Budget and Plan, express its intent to ensure that the increase in the need for services attributable to the anticipated development will be met and that any future excess capacity identified will be paid for by development charges or other similar charges.

6. City Council authorize increasing the authority delegated to the Mayor or the Mayor's Alternate and the Chief Financial Officer to enter into agreements on behalf of the City for the sale and issue, of debentures and revenue bonds, and for entering into bank loan agreements, from the current annual limit of $900 million to $950 million for 2018, and to amend City of Toronto Municipal Code Chapter 30, Debentures and other Borrowing, accordingly.

7. City Council approve the 2018 Budget Committee Recommended Tax Supported Operating Budget of $11.158 billion gross and $4.246 billion net including the special levy for the Scarborough Subway Extension and City Building Fund as detailed in Appendices 3.5.1, 3.5.2, and 3.5.3, consisting of:

   a. a Base Budget of $10.952 billion gross and $4.124 billion net to deliver existing services and service levels;

   b. an investment in new and enhanced services priorities of $136.337 million gross and $52.120 million net;

   c. contribution to the Scarborough Transit Reserve Fund from the 2018 Scarborough Subway Extension special levy property tax levy for the Scarborough Subway Extension of $40.699 million gross and net; and

   d. contribution to the City Building Reserve Fund from the dedicated City Building property tax levy for priority transit and housing capital projects of $28.678 million gross and net.

8. City Council approve the Recommendations in Operating Budget for City Programs and Agencies as detailed in Appendix 2.

FINANCIAL IMPACT

Budget Committee Recommended Tax Supported 2018 Operating Budget and 2018 - 2027 Capital Budget and Plan Summary

The 2018 Budget Committee (BC) Recommended Tax Supported Operating Budget is $11.089 billion gross and $4.176 billion net and the 10-year Capital Budget and Plan is $25.966 billion gross and $11.545 billion debt with a 2018 Capital Budget of $2.994 billion gross and $1.333 billion debt (excluding 2017 carry forward funding to 2018) as summarized in Table 1 below.

Table 1: BC Recommended Tax Supported 2018 Operating Budget and 2018 - 2027 Capital Budget and Plan

Total Tax Supported Budget & Plan ($M)	Operating Budget		Capital Budget & Plan			
	2018		2018		2018-2027	
Programs	**Gross**	**Net**	**Gross**	**Debt**	**Gross**	**Debt**
City Operations	5,313	1,993	1,075	547	6,507	3,491
City Agencies	4,030	2,237	1,829	756	15,654	6,623
Corporate & Capital Financing	1,745	(55)	90	30	3,805	1,429
Total Budget Before Special Levy	**11,089**	**4,176**	**2,994**	**1,333**	**25,966**	**11,545**

Note: Above table excludes the special levy for Scarborough Subway Extension and City Building Fund and the 2017 carry forward funding**.**

2018 - 2027 BC Recommended Tax Supported Capital Budget and Plan Overview

When one accounts for 2017 carry forward funding, the 2018 BC Recommended Tax Supported Capital Budget totals $3.837 billion, comprised of 2018 cash flow funding for new and change in scope projects of $726 million that has a total project cost of $2.755 billion and resulting in future year commitments of $2.029 billion; previously approved projects requiring 2018 cash flow funding of $2.268 billion (incl. 2-year carry forward funding of $0.072 million) and future year commitments of $5.456 billion and 2017 carry forward funding of $0.843 billion. In addition, the 2018 BC Recommended Tax Supported Capital Budget and Plan includes planned capital estimates of $15.487 billion that form the base for future capital planning and budgeting, bringing the City's 10-year Capital Budget and Plan to $26.809 billion.

Operating impact of capital projects is a key driver of the annual operating budget pressure. The approval and implementation of the 2018 - 2027 BC Recommended Tax Supported Capital Budget and Plan will add incremental cost of $38.4 million in 2018 and $7.5 million in 2019 to operate and sustain completed capital projects, incremental debt service charges of $40.009 million in 2018 and $45.171 million in 2019, and incremental capital contribution from the operating fund as pay-as-you-go financing for capital projects of $59.5 million in 2018 and $35.2 million in 2019, respectively.

Over the 10 years, it's projected that a total incremental operating cost of $861 million will be added to the operating budget by year 2027 including $65 million from increased operating costs from completed capital projects, $537 million to fund the capital contribution and $259 million from incremental debt service charges based on planned debt funding levels.

The 2018 to 2027 Cash Flow Commitment for New/Change in Scope Projects, Previously Approved, Carry Forward and 2019-2027 Future Capital Plan Estimates are outlined in Table 2 below:

Table 2: 2018 - 2027 BC Recommended Capital Budget and Plan and Incremental Operating Impact

(Millions)	**2018 Budget**	**2019-2027**	**Total 2018 -2027**
2018 New / Change in Scope Projects and Future Year Commitments	726	2,029	2,755
Previously Approved Projects and Future Year Commitments	2,196	5,456	7,652
Capital Plan Estimates		15,487	15,487
2-Year Carry Forward for Re-approval	72		72
Sub-Total	**2,994**	**22,972**	**25,966**
1-Year Carry Forward to 2018	843		843
Total Capital Budget and Plan	**3,837**	**22,972**	**26,809**
Operating Impact	38	27	65
Capital from Current	59	478	537
Debt Service Charge	40	219	259
Total Incremental Operating Impact	**138**	**724**	**861**

2018 BC Recommended Tax Supported Operating Budget Overview

The 2018 BC Recommended Tax Supported Operating Budget is $11.089 billion gross and $4.176 billion net, representing a $389.3 million or 3.6% increase in gross expenditures and a $129.8 million or 3.2% increase in net expenditures over the 2017 Council Approved Operating Budget.

The $129.8 million or 3.2% increase in net expenditures, as shown in Table 3 below, has been funded by a total overall tax rate increase of 1.47% after assessment growth which is below the rate of inflation,. This translates to an equivalent residential property tax rate increase of 2.1% for budgetary purposes in 2018.

Table 3: 2018 BC Recommended Tax Supported Operating Budget

$ Millions	2017 Budget		2018 Budget		Change			
					Gross		Net	
	Gross	Net	Gross	Net	$	%	$	%
City Operations	5,159.6	1,945.7	5,310.0	1,990.2	150.4	2.9%	44.6	2.3%
Agencies	3,985.5	2,199.6	4,033.2	2,240.5	47.7	1.2%	40.8	1.9%
Corporate Accounts	1,554.1	(98.9)	1,745.3	(54.5)	191.2	12.3%	44.4	44.9%
Net Operating Budget	**10,699.3**	**4,046.4**	**11,088.5**	**4,176.2**	**389.3**	**3.6%**	**129.8**	**3.2%**
Scarborough Subway	40.7	40.7	40.7	40.7				
City Building Fund	14.0	14.0	28.7	28.7	14.6	104.2%	14.6	104.2%
Total Net Tax Levy	**10,754.0**	**4,101.2**	**11,157.9**	**4,245.6**	**403.9**	**3.8%**	**144.4**	**3.5%**

The 2018 BC Recommended Tax Supported Operating Budget allocates $136.337 million gross and $52.120 million net to fund new/enhanced service priorities that advance Council approved service and infrastructure strategies and plans, as detailed in Appendix 3.6.1.

The 2018 BC Recommended Tax Supported Operating Budget also provides funding for a total staff complement of 52,581.7 (49,029.4 operating positions and 3,552.3 capital positions) to deliver current and new/enhanced services and service levels, as recommended by BC.

This indicates an overall net increase of 426.4 positions primarily due to base changes of 66.8 positions (an increase of 197.9 positions for capital project delivery, offset by a reduction of 131.1 positions from prior year impact and service efficiencies), and an addition of 359.6 position to deliver new/enhanced service priorities, representing an equivalent 0.8% increase when compared to the 2017 Council Approved Staff Complement.

Please refer to Appendix 3.5.4 for the 2018 BC Recommended Staff Complement details by City Program and Agency.

Property Tax Rate Increase to Fund the 2018 Operating Budget

The 2018 BC Recommended Tax Supported Operating Budget keeps the cost of City services affordable with a residential tax rate increase of 2.1%, reflective of an inflation-level adjustment. This represents a $59.3 annual increase for an average household with a home value assessed at $624,418 for 2018.

In addition, City Council previously approved in 2017 an incremental special tax levy of 0.5% for each of 5 years that will grow to 2.5% by 2021 for the City Building Fund to be dedicated to fund transit and social housing capital expenditures. This incremental levy will add $14 to the average household's tax bill in 2018.

When taking into account City Council tax policy and Current Value Assessment (CVA) policy shifts and other regulatory impacts, the total residential tax rate will be increased by a further 0.31% or $8.7 to a total of 2.91%, resulting in a $82 annual increase for a household with an average assessed home value. The total City of Toronto property tax rate, when taken across all tax classes, will increase by 2.37% as shown in Table 4 below.

Table 4: Budget Tax Increase Including City Building Fund and Current Value Assessment (CVA) Policy Shift

	Residential Tax Increase	Total City Tax Increase
Budget Impact	2.10%	1.47%
City Building Fund	0.50%	0.35%
CVA / Policy / Regulatory Impacts	0.31%	0.54%
Total Impact	**2.91%**	**2.37%**

2019 and 2020 Operating Plans

Looking out two years, the City of Toronto will be challenged with addressing gross expenditure pressures of $460 million in 2019 and $360 million in 2020. The forecasted pressures are primarily driven by costs associated with 2018 decisions such as the reversal of one-time bridging strategies used to balance 2018 Operating Budget and the annualized costs of 2018 new/enhanced service investments. These 2018 decisions result in a $123 million net pressure for 2019 and $49 million for 2020.

Incremental debt servicing costs and operating contribution to capital to finance the City's approved capital works program as well as increased base budget expenses to maintain 2018 services and service levels will have a cumulative cost of $337 million in 2019 and $311 million in 2020.

As outlined in Table 5 below, after accounting for revenue changes, that include an inflationary increase in TTC fares, moderate assessment growth, tax rate increases pegged to inflation, the net expenditure pressure on the tax base is estimated to be $301 million in 2019 and $216 million in 2020. Given uncertain housing market conditions, no increase has been forecasted for the Municipal Land Transfer Tax.

Table 5: 2019 and 2020 Incremental Operating Budget Plan

($ Million)	Incremental 2019	Incremental 2020
Reversal of 2018 Bridging Strategies	52	27
Incremental Cost for 2018 New/Enhanced Priorities	71	22
Total Prior Year Decisions:	**123**	**49**
Operating Impact from Approved Capital Works	82	107
Incremental Operating Costs	255	205
Total Incremental Expense Pressures:	**337**	**311**
Total Gross Pressures	**460**	**360**
Base Revenue Changes	(22)	(10)
Municipal Land Transfer Tax	0	0
TTC Fare Increase (Inflationary)	(20)	(20)
Assessment Growth	(50)	(50)
2.3% / 2.2% Residential Property Tax Increase*	(67)	(64)
Total Revenue Changes	**(159)**	**(144)**
Total Net Pressure	**301**	**216**

* Moody's & Conference Board of Canada forecast

It is important to note that these forecasted estimates do not account for any investment in new/enhanced service priorities and service levels required in the corresponding years.

DECISION HISTORY

At its final wrap-up meeting on January 23, 2018, Budget Committee requested that the Acting Chief Financial Officer submit to Executive Committee at its meeting of February 6, 2018 a corporate staff report outlining the 2018 – 2027 Tax Supported Capital Budget and Plan and the 2018 Tax Supported Operating Budget, as recommended by the Budget Committee.
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2018.BU41.1

At its meeting on December 5 - 8, 2017, City Council approved the 2018 - 2027 Rate Supported Capital Budget and Plan and the 2018 Rate Supported Operating Budget for Toronto Parking Authority (EX29.20), Solid Waste and Management Services and its 2018 Solid Waste Rates and Service Fees (EX29.19), and Toronto Water and its 2018 Water and Wastewater Consumption Rates and Service Fees (EX29.18), effective January 1, 2018.
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2017.EX29.18
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2017.EX29.19
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2017.EX29.20

At its meeting on May 24, 2017, City Council adopted recommendations related to the report entitled "*2018 Budget Process: Budget Directions and Schedule (EX25.18)*" that established the 2018 Budget process including budget targets, directions, and schedule to review and approve the 2018 - 2027 Tax and Rate Supported Capital Budget and Plan and the 2018 Tax and Rate Supported Operating Budget for all City Programs, Agencies and Accountability Offices.
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2017.EX25.18

At its meeting on May 23, 2017, City Council forwarded a supplementary report entitled *"2018 Implementation Costs for Various Approved Service Plans (EX25.18c)"* which includes a summary of 2018 implementation costs for the approved service plans plus the annualized impact of these investments in 2019 as well as multi-year capital requirements for these plans. Some of those initiatives have been already included on the new and enhanced list of priorities for Budget Committee's consideration with other priorities as part of the 2018 Budget process.
https://www.toronto.ca/legdocs/mmis/2017/cc/bgrd/backgroundfile-104105.pdf

BACKGROUND

2017 Budget Implications for 2018

Based on the approval of the 2017 Operating Budget, the 2018 gross expenditures were forecasted to increase by $499 million. With revenues assumed to grow by only $156 million, the tax supported budget pressures were estimated to be $343 million net in 2018.

Prior year decisions, in fact, represented about 25% of the budget pressures for 2018. These 2017 and prior year decisions alone resulted in a $112 million gross expenditure pressure from the reversal of one-time bridging strategies in 2017 for TCHC and TTC ($86 million), the cost of operating the completed capital projects such as Toronto-York Spadina Subway Extension (TYSSE) and the implementation costs for TTC's Presto card ($20 million), and the final phase-in impact of the loss of pooling compensation grants for housing ($8 million), for examples. Some of these pressures were partially offset by the new revenues with part year implementation to reflect full year impact.

When combined with inflationary cost increases for compensation and contracts for City Programs; base operating cost pressures projected for the City's largest Agencies - TTC, Toronto Police base operating pressures as well as the debt servicing and 10% Capital from Current ("pay as you go") increases required to fund the already approved Capital Budget and Plan, gross expenditure pressures were projected to increase by $499 million.

After accounting for the final instalment in the 10-year phased uploading of OW Benefits to the Province and available revenue sources including a planned 2.0% residential property tax rate increase and moderate assessment growth, the net expenditure pressure on the tax base was estimated to be $343 million net for 2018.

With approval of the 2017 - 2026 Capital Budget and Plan, the City's 15% debt service ratio policy was relaxed to an average of 14.84% over the 10-year capital planning period. Despite added capital investments of $5.381 billion in 2017, the City still had over $30 billion in unfunded capital unmet needs which needed to be addressed in 2018 onwards.

Taking into account the forecasted pressures and unfunded service and infrastructure plans, strategies and priorities, there was little additional financial capacity available to invest in new/enhanced service priorities and new capital works in 2018. This forecast and financial position formed the basis for the budget directions and guidelines established for the 2018 Budget process.

2018 Budget Process, Directions and Guidelines

City Council adopted the report entitled "*2018 Budget Process: Budget Directions and Schedule (EX25.18)"* at its meeting on May 24, 2017 that established the 2018 Budget process including budget targets, directions, and schedule for all City Programs, Agencies, and Accountability Offices to follow.

The 2018 Budget process is similar to the 2017 Budget process which is based on principles of good governance and incorporates best and leading financial planning and budgeting practices; namely:

- Service-Based Budgeting;
- Public Education and Engagement;
- Accessible Information;
- Transparent Decision Making; and most recently
- Gender Equity Analyses: The 2018 budget process provided City Council and the public with gender equity information to better understand the implications of proposed changes to the budget to support informed budgetary decision making.

The 2018 Budget process' administrative review stage began, for staff, with budget submissions due in early June 2017, and ended with the Public Launch November 30, 2017. The review by elected officials includes:

- Budget Committee's review of City Programs and Agencies in December 2017;
- Public deputations at the 6 Civic Centres location in January 2018;
- Final budget deliberation and consideration by Budget Committee on January 23, 2018;
- Executive Committee consideration of Budget Committee recommendations on February 6, 2018;
- Final approval of the budget by City Council on February 12, and 13, 2018.

Guidelines and Directions for the 2018 Operating Budget

The 2018 Budget directions and guidelines are shaped by the need to address the City's projected Operating Budget shortfall due to the forecasted budget pressures arising from the approval of the 2017 Operating Budget. As a result, City Council approved a 0% budget reduction target for all City Programs, Agencies and Accountability Offices requiring that *particular emphasis to be placed on efforts to modernize, transform, and innovate City services, service levels, and service delivery processes and to demonstrate their resultant benefits* by leveraging the following strategies:

- modernize, transform and innovate City services;
- review service levels and service delivery processes and to demonstrate their resultant benefits;
- Cross-divisional collaboration and/or dependencies;
- Functional and organizational reviews;
- Vacancy and attrition opportunities;
- Reengineering and/or streamlining of business processes;
- Rationalization of space, technology, equipment and vehicles; and
- Continued implementation of Shared Services.

Given the fiscal situation, there would be little opportunity to fund new/enhanced requests for 2018.

Guidelines and Directions for the 2018 - 2027 Capital Budget and Plan

In the absence of other revenue sources, the 2018 - 2027 Capital Budget and Plan was to be prepared on a status quo basis. This requires that:

- Annual cash flow funding estimates be reviewed to more realistically match cash flow spending to project activities and timing given an average 65% spending rate across the city;

- Priority be placed on completing transit, transportation and social infrastructure projects funded through intergovernmental agreements in order to meet program conditions and deadlines and to mitigate risk to the City; and,

- Capital funding priorities be limited to projects that address:
  - Critical SOGR, including energy retrofits; AODA Compliance; Transformation, Modernization and Innovation projects with financial benefits High-needs social infrastructure.

- A stage gating process be implemented to govern the development and approval process for new major capital projects during the entire project lifecycle based on project complexity with
  a. each of 5 stages requiring Council approval for project advancement and
  b. funding approval be subject to the completion of the prior gate, with procurement and construction approval requiring completion of 30% design for standard design/bid/build project delivery or in the case of an alternative procurement and delivery, 15% to 30% as dictated by the chosen method of procurement; and,
  c. Funding being secured.

Strategies to balance the 2018 Preliminary Operating Budget

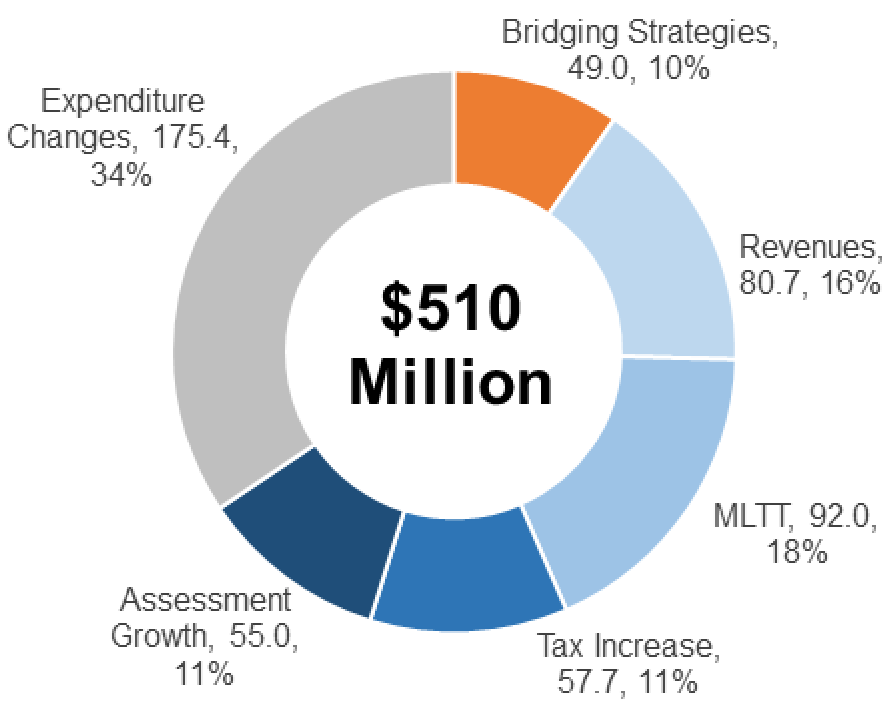
Based on the receipt of actual submissions, the 2018 opening gross expenditure pressure increased slightly to $510.0 million from an initial forecast of $499.0 million (identified in May 2017).

The opening budget pressure of $510.0 million was driven primarily by: prior year decisions for TTC ($24 million), the reversal of one-time measures in 2017 ($92 million); external pressures (arising from increase demand for emergency shelter system and the loss of federal funding ($31 million) and WSIB costs and arbitration award costs in Fire Services ($8 million); Salary and non-salary inflationary costs ($127 million); higher debt servicing and CFC costs ($112 million) and an increased provision for tax deficiencies ($44 million).

Through the strategies and measures identified in the 2018 Budget Directions Report, staff explored and identified all services for base expenditure reductions and efficiency saving opportunities. Most of the City Programs and Agencies were able to find sustainable savings and delivered their respective budgets with a 0% increase over the net 2017 budget, except in areas where costs were driven by external factors such as increased shelter demand and prior year decisions mostly related to operating impacts from completed capital projects such as costs for TTC's Presto implementation and the opening of the TYSSE.

Chart 1 below illustrates the number of actions taken to fully address the overall budget pressure of $510.0 million to achieve a balanced 2018 Preliminary Operating Budget.

Chart 1: Balancing Strategies



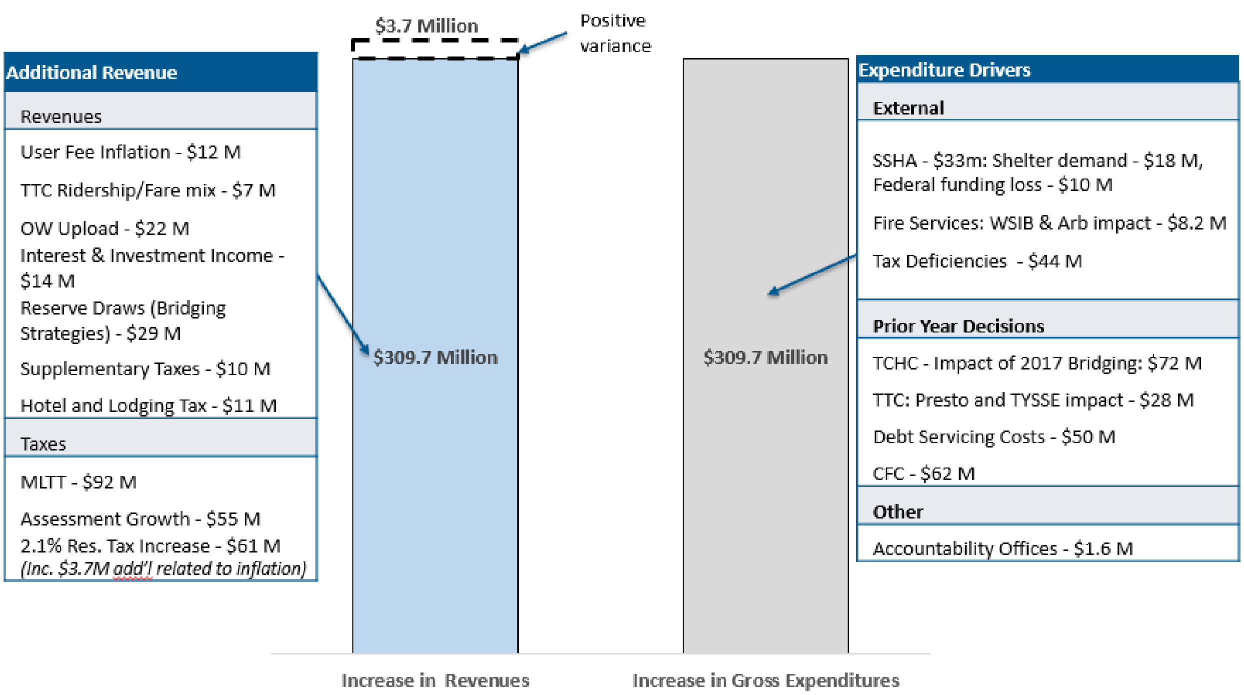
Base expenditure reductions including efficiency savings from City Programs and Agencies totalled $175.4 million, which essentially absorbed base budget cost pressures. The use of one-time bridging strategies of $49.0 million were employed that included expense deferrals of $21 million primarily for TCHC and one-time reserve draws of $28 million for various City Programs and Agencies.

Base revenue increases accounted for $80.7 million, generated from the final year of uploading of social services and court security costs to the Province, TTC ridership growth / fare mix, updated Supplementary Taxes, increased interest and investment income, and annualized revenue from the implementation of a new Hotel and Lodging Tax. The continuation of a practice to match 2018 MLTT revenue to the 2017 actual experience provided $85 million due to a strong real estate market and $7 million in annualized revenue from the harmonization of MLTT rate increases in 2017. TTC fares remained unchanged for 2018.

Finally, a moderate year-over-year assessment growth estimate of $55.0 million combined with an assumed 2.1% residential inflation-level property tax rate increase equivalent to $57.7 million resulted in a balanced base budget and a small positive variance of $3.725 million.

The 2018 Preliminary Operating Budget additional revenues and expenditure drivers are illustrated in Chart 2 below:

Chart 2: 2018 Balanced Preliminary Budget with Year-Over-Year Changes



Strategies to fund the 2018-2027 Preliminary Capital Budget & Plan

As part of the 2018 Capital review process, steps were taken to create investment capacity to address Council directed key priorities and critical unmet needs. In the last few years, a significant portion of added capital investment was prioritized to undertake major capital projects such as transit expansion (SmartTrack, Scarborough Subway Extension) and to reduce the SOGR backlog such as, the Gardiner Expressway Revitalization and matching Federal (PTIF) funding for transit and transportation state of good repair. For 2018, any additional debt capacity would be directed to funding high needs social infrastructure projects; projects that will ensure AODA compliance and meet critical SOGR; and transformation, modernization and innovation projects that result in financial benefits.

As directed by Council, a thorough review of every Program and Agency Capital Plan was undertaken to more realistically match cash flow spending to project activities and timing, especially in the first 5 years of the Capital Plan's timeframe. The realignment of cash flow funding released total debt room of $268 million in the first 5 years. The implementation of stage-gating for major capital projects also was a factor where cash flow estimates were aligned with each stage gate.

Furthermore, the incremental commitment of increasing Gas Tax Funding from the Provincial Government was allocated to release $1.096 billion in planned debt that was made available to fund other Council directed key priorities and unmet needs, as outlined in Table 6 below:

Table 6: Realignment of cash flow creating debt room in early years

($M)	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**10 Yr Total**
Capital Needs - Base Submission	1,039	1,314	1,162	1,089	868	616	1,634	1,339	1,690	611	11,362
Debt Target	1,423	1,295	1,175	1,000	848	631	1,491	1,195	1,677	654	11,389
Over/(Under)	(384)	19	(13)	90	20	(15)	142	144	13	(43)	(27)
Gas Tax Impact on Debt	5	(24)	(65)	(137)	(152)	(119)	(157)	(157)	(157)	(134)	(1,096)
Debt Room Freed up for Unmet Needs	(379)	(5)	(78)	(47)	(132)	(134)	(15)	(13)	(144)	(176)	(1,123)
Unmet Needs Funded	243	147	56	51	48	501	26	3	4	6	1,084
Remaining Debt Room	**(136)**	**141**	**(22)**	**4**	**(84)**	**367**	**12**	**(10)**	**(140)**	**(170)**	**(38)**

The available debt room was allocated to the following key capital priorities such as:

Investing in High-needs Social Infrastructure

- The introduction of a new 2-year interim funding model to fund TCHC's SOGR backlog and inflight revitalization projects to avoid the permanent closure of its units. This is the first year to include TCHC in the City's capital plan as part of the Tenant First Interim Strategy. The City will provide:
  - Direct debt funding of $216.0 million to TCHC in 2018; and
  - Contribution of $63.1 million in 2019 for partnership with the Provincial Government.

- Funding the George Street Revitalization for project management and construction (Phase 3) slated for 2020 – 2023 of $485.8 million;

- $2 million to provide the City's initial contribution to child care growth from 2018 to 2020 for a total of $6 million for the *Anishawabe Child Care Centre* which, when completed will provide 62 new childcare spaces.

Ensuring AODA Compliance

- $202.000 million to various programs over the 10-year period to fund work to ensure AODA compliance in civic and corporate buildings ($192 million) plus AODA audits for various Programs and Agencies to plan capital work that will ensure the City's facilities meet AODA standards as specified by the provincial legislation by 2025.

Funding Major Capital Studies

- $3.000 million for the design and development phase of determining *Future Uses of Old City Hall*;

- $6.400 million for the feasibility of the *Rail Deck Park* to address the shortage of parks in the Downtown area as part of the City's "TOcore: Planning Downtown" study to provide balanced growth and infrastructure provision in the Downtown core; and

- $3.500 million to allow the Toronto Realty Agency to retain consultants to complete a detailed building program, schematic and design development based on the winning design for the new *Etobicoke Community Centre* on the Westwood Theatre Lands (WTL) site.

Addressing Critical SOGR

- $46.662 million for critical SOGR projects such as the *St Lawrence Centre Roof project, Facility Construction project, Structural/Building Envelope project, The Roding Park Refresh Project, Toronto Strong Neighbourhoods Strategy project and Multi-Branch Renovation project of* Toronto Public Library; and

- *$12.530 million gross and $7.000 million* in debt funding for the Glen Road Pedestrian Bridge and York Street Tunnel respectively to address the current state of deterioration and to provide further extension of the PATH system along York Street south of Bremner Boulevard.

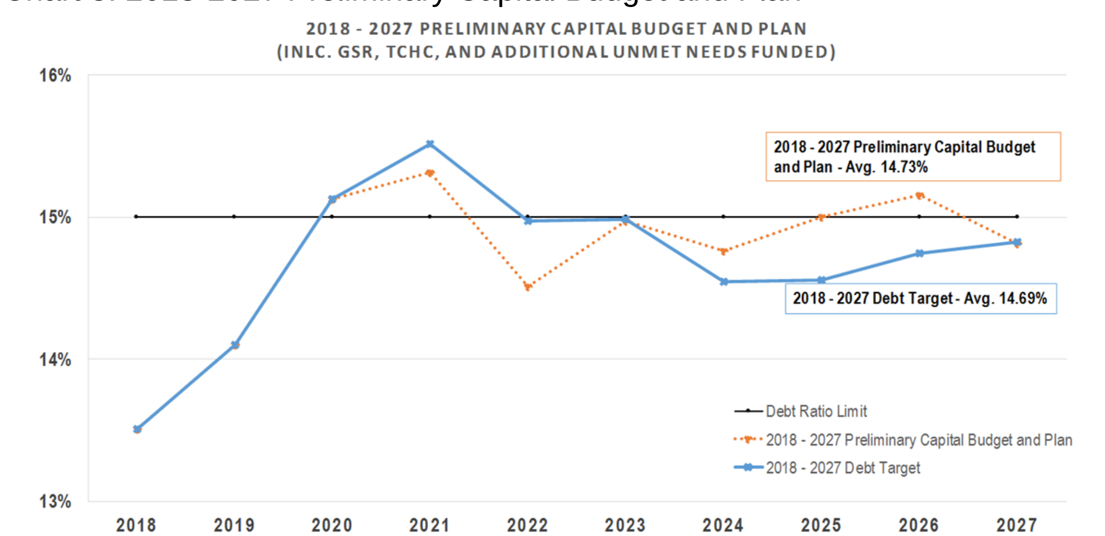
- $2.000 million to address critical waterfront rehabilitation work due to high lake effect flooding; and $35.239 million for *multi-year deep energy retrofit project* to reduce greenhouse gas emissions and combat rising utility costs.

Transformation, Modernization and Innovation

- Capital funding of $42.042 million to support capital works in:
  - Fire Prevention Technology Integration
  - Office modernization as part of the broader *Modernization and Innovation Projects*
  - Information and Technology to support Business Sustainment System, Application Systems and Information Management Infrastructure

As a result of the debt re-alignment and the availability of the additional gas tax, 2018 – 2027 Preliminary Capital Budget and Plan doesn't require additional debt issuance comparing to the debt target set out at the beginning of the year. Subsequently, the debt service cost as percentage of total property levy – a key indicator of the City's debt level - is able to maintain at the current, yet now relaxed level of below 15% on the 10 year average, as illustrated in Chart 3 below:

Chart 3: 2018-2027 Preliminary Capital Budget and Plan



($M)	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	10 Year Total
Incremental Debt Charge	39	41	61	27	(-21)	38	7	29	25	1	**246**
Debt Charge as a % of Tax Levy	13.51%	14.10%	15.12%	15.31%	14.51%	14.97%	14.76%	15.00%	15.15%	14.81%	**14.73%**

COMMENTS

Outcome of Budget Committee Deliberations

The City's Budget Committee has the mandate to review and recommend annually an Operating Budget and Capital Budget and Plan to the Executive Committee for its consideration and recommendation to City Council. In fulfilling this mandate, the Budget Committee's review and decision making process includes a detailed review of the Preliminary Budgets, examining and assessing all City Program, Agency and Accountability Officer expenses, revenues and associated service issues as well as their respective capital plans. The Budget Committee also assesses respective fiscal performance, ensuring the efficient and effective use of City resources as well as the alignment of the budgets with City Council priorities.

Through the middle of December, 2017, Budget Committee completed a detailed review of Program, Agency, and Accountability Officer Budgets, the list of new / enhanced service requests not included in the 2018 Preliminary Operating Budget but provided to the Committee for its consideration along with any emerging unfunded capital and service priorities.

The Committee held public deputation sessions at the six Civic Centre sites to seek public input and considered more detailed information on key issues with a series of Budget Briefing Notes provided by City staff in early January 2018. As a result of its deliberations, BC recommended a number of changes to the 2018 Preliminary Operating Budget and 10-year Capital Plan that prioritized service funding and new and enhanced service requests, capital projects and responded to issues raised during the public deputation sessions.

Budget Committee Recommended Changes

At its meeting on January 23, 2018, BC recommended the addition of $122.836 million gross and $52.353 million net to fund new/enhanced service priorities and $0.671 million gross and net for debt servicing costs associated with the Committee recommended inclusion of new and added funding for key capital projects.

As noted previously, the 2018 Preliminary Operating Budget (when presented by staff November 30, 2017) provided a small positive variance of $3.725 million revenue as a result of an additional 0.1% adjustment in the residential property tax rate increase made to match actual the inflation increase. Together with an additional $5.5 million in vacancy rebate saving offset in the base budget and $1.0 million expenditure reduction, a total of $7.251 million gross and $6.5 million net was available that could offset additional new/enhanced service requests totalling $95.135 million and $41.291 million net not included in the 2018 Preliminary Operating Budget.

In addition to the above, the balance of funding for the increased investment was made possible through a combination of ongoing and one-time revenues, as outlined in Table 7 below.

Table 7: Summary BC Recommended Operating Changes

($000s)	2018 BC Recommended Changes Gross	Net	Position	2019 Incremental Net	2020 Incremental Net
2018 Preliminary Operating Budget Positive Variance Due to Additional 0.1% Inflationary Tax Increase		**(3,725)**			
BC Recommended Expenditure Reductions:					
Vacancy Rebate Reduction to Offset Poverty Reduction and Distressed Retail	(5,500)	(5,500)			
Expenditure Adjustments	(1,751)	(1,000)	(16.0)		
Subtotal BC Recommended Reductions	**(7,251)**	**(6,500)**	**(16.0)**	**-**	**-**
BC Recommended Additions:					
Additional New/Enhanced Service Priorities	122,836	52,353	273.8	64,291	18,408
Additional Debt Charges	671	671		4,548	4,980
Subtotal BC Recommended Additions	**123,507**	**53,024**	**273.8**	**68,839**	**23,388**
Total BC Recommended Reductions & Additions	**116,257**	**46,524**	**257.8**	**68,839**	**23,388**
Total Incremental Costs Before Balancing	**116,257**	**42,799**	**257.8**	**68,839**	**23,388**
BC Recommended Balancing Strategies:					
Revised Assessment Growth Estimate		(13,291)			
Further Increase in MLTT Based on 2017 Actual Experience		(10,000)			
Revised Estimate for Tax Penalty Revenues		(2,200)			
One-Time Dividend from Toronto Parking Authority		(3,420)		3,420	
Contributions from Tax Rate Stabilization Reserve		(13,888)		13,888	
Subtotal BC Recommended Balancing Strategies	**-**	**(42,799)**	**-**	**17,308**	**-**
Total BC Recommended Operating Changes	**116,257**	**(0)**	**257.8**	**86,147**	**23,388**

With the $14.251 million gross and $0.233 net (revenue) of funding already included in the 2018 Preliminary Operating Budget, BC recommended a total of $136.337 million gross and $52.120 million net in new/enhanced service priorities to support City Council approved service plans and priorities.

These recommended expenditure and funding changes will result in an incremental budget pressure of $86.147 million net in 2019 to reflect the full year expenditure costs for the full implementation of the new service priorities and to account for the reversal of one-time revenue sources applied in 2018 that will not be available for 2019.

As noted above, the 2018 Preliminary Operating Budget provided a small positive variance of $3.725 million revenue as a result of additional 0.1% of residential property tax corresponding to inflation increase. Together with the additional $5.5 million in vacancy rebate savings and $1.0 million in expenditure reduction, a total of $7.251 million gross and $6.5 million net was available that could offset additional new/enhanced service requests totalling $95.135 million and $41.291 million net not included in the 2018 Preliminary Operating Budget.

After consideration, BC added $136.337 million gross and $52.120 million net in new/enhanced service priorities to support City Council approved service plans and priorities. As a result of adding these new investments, this will result in incremental budget pressure of $86.147 million net in 2019 to reflect their full year costs as well as the reversal of one-time revenue sources.

On the capital side, BC added $77.792 million gross and $46.401 million debt to the 2018 Capital Budget and $227.759 million gross and $194.368 million debt to the total 10-year Capital Budget and Plan, as summarized in Table 8 in the following section.

Budget Committee Recommended New Investments

As a result of its deliberations, the Budget Committee recommended significant service and capital investments that begin, advance and complete several service and infrastructure strategies and plans.

Table 8: BC Recommended New Investments

	Operating Budget			Capital Budget and Plan			
	2018			2018		2018-2020	
In $ Thousands	**Gross**	**Net**	**Postions**	**Gross**	**Debt**	**Gross**	**Debt**
Funding from Operating Budget:							
Advancing Environmental Sustainability							
Expanding Tree Canopy	*6,727.3*	*0.0*	*2.0*				
TransformTO	*2,546.9*	*2,270.2*	*27.0*				
Advancing Environmental Sustainability - Sub-Total	9,274.2	2,270.2	29.0				
Investing in Arts & Culture	3,250.0	2,000.0	-				
Improving Access, Equity & Diversity	2,696.9	2,696.9	13.0				
Supporting Business & Distressed Retail	1,259.6	927.9	-				
Funding from Operating Budget and Capital Budgets:							
Investing in Poverty Reduction							
Child Care Growth	*48,039.6*	*2,106.8*	*48.4*				
Shelter Expansion	*31,053.0*	*17,434.0*	*35.0*	*43,880.0*	*43,880.0*	*178,560.0*	*178,560.0*
Transit Fare Equity	*4,800.0*	*4,600.0*	-				
Other	*5,936.9*	*5,048.2*	*21.0*				
Investing in Poverty Reduction - Sub-total	89,829.5	29,189.0	104.4	43,880.0	43,880.0	178,560.0	178,560.0
Improving Transit & Safe Mobility							
TTC two hour time based transfers / reduction in bus overcrowding	*2,000.0*	*7,100.0*	-	*5,000.0*		*5,000.0*	
Traffic Enforcement Officers	*1,318.8*	*1,318.8*	*19.0*				
Other (including Union Station Revitalization Project)	*2,676.9*	*1,255.6*	*19.0*	*25,421.0*	*2,521.0*	*38,708.0*	*15,808.0*
Improving Transit & Safe Mobility - Sub-total	5,995.6	9,674.3	38.0	30,421.0	2,521.0	43,708.0	15,808.0
Enhancing Access to Parks & Recrecation	2,223.5	1,774.8	61.4	3,472.0		5,472.0	
Improving Service Delivery, Management & Oversight	21,807.4	3,586.9	113.8	19.0		19.0	
Grand Total	**136,336.7**	**52,119.9**	**359.6**	**77,792.0**	**46,401.0**	**227,759.0**	**194,368.0**

Key investments are described in detail below:

Advancing Environmental Sustainability

- Accelerate the implementation of the prioritized TransformTO short term strategies, at a cost of $2.270 million net in addition to the base budget increase of $0.723 million; and

- Advance the Tree Canopy goals with a focus of maintaining and protecting the City's tree canopy in good condition and increasing tree planting on hard surfaces, totaling $6.727 million gross and $0 net.

Investing in Arts & Culture

- Complete the phase-in of the 4-year Arts and Culture Plan to achieve $25 per capita spending benchmark for arts and culture, for $2 million.

Improving Access, Equity and Diversity

- Establishment of an Indigenous Affairs Office totaling $0.520 million and 4 positions; and

- Create an action plan to confront Anti-Black racism totaling $0.995 million and 5 positions.

Supporting Business and Distressed Retail

- Business and distressed retail supports includes the following: construction mitigation best practices, options and support; provide locate services to BIA's; provide local capacity building for retail areas; conduct a study of current and future state of the City's retail totaling $1.259 million gross and $0.927 million net.

Investing in Poverty Reduction

- Deliver and manage child care growth, including providing an additional 825 childcare space subsidies; support for the new Child and Family Centres Program and the first phase of the City's 20% share of $2.0 million as part of the Child Care Growth Strategy (Phase 1) implementation totalling $48.040 million gross and $2.106 million net;

- In response to increased shelter demand, add new capital funding of $178.560 million to acquire and construct 9 shelter sites and to renovate 2 leased sites over a three year period that will add 880 new permanent shelter beds. Also, operating funding was increased by $17.434 for 2018 to: add 700 respite shelter beds to April 15, 2018 ($10.6 million) and to their extension to December 2018 ($14.026 million) totaling $24.626 million; provide 35 additional positions to provide operational support and oversight for the expansion in the shelter system for $1.750 million; and operate 3 new sites for $1.658 million for a total operating cost of $28.034 million;

- Implement the Tenants First Project fully funded by TCHC reserves for three pilot communities ($3.019 million gross and $0 net); Note: this is in addition to the capital contribution of $216.037 million in 2018 and $63.146 million in 2019 already in the 10-year Capital Plan to fund, on a 2 year basis, TCHC's inflight revitalization projects and state of good repair capital projects that will prevent the permanent closure of units.

- Begin the Transit Fare Equity Program (Phase 1) which provides discounted TTC passes for Ontario Works (OW) and Ontario Disability Support Program (ODSP) recipients who do not receive transportation supports at a cost $4.6 million net in 2018;

- Complete the planned six year phase-in of municipal investments for the student nutrition program in order to reach the municipal investment target of 20% by 2018. This final planned investment of $2.124 million achieves the City's objective to provide municipal core funding to 20 publicly funded schools serving 205,000 children and youth.

- Expand programs at Toronto Public Library totaling $1.264 million for the following: additional Youth Hub locations including staff and programming; enhancement of Sunday hours; and Wi-Fi hotspot lending totaling

Improving Transit and Safe Mobility

- Implement the TTC's recommended two-hour time-based transfer policy on Presto, requiring operating funding of $1.0 million gross and $6.1 million net; and capital funding of $5.000 million to support the *Fare System Project's* implementation of the 2-hour transfer program.

- Implement congestion-fighting measures by introducing Traffic Enforcement Officers ($1.319 million gross and net).

- Provide an additional $22.800 million *for the Union Station Revitalization* project to continue the improvements to this strategic transit hub;

- Accelerate the implementation and expansion of the Vision 0 Road Safety Plan over 3 years by increasing capital funding of $6.303 million for a total investment of $9.948 million;

- Relieve overcrowding on bus routes to 30% above current overcrowding standards for peak and off- peak hours, starting in September 2018 ($1.0 million gross and net); and

Enhancing Access to Parks and Recreation

- Address unmet demand for recreational programs by increasing the number of recreational spaces by 10,000 and accelerating an additional 10,000 spaces for a total of 20,000 new recreational spaces at a cost of $0.786 million.

2018 BC Recommended Operating Budget

The 2018 BC Recommended Operating Budget is $11.089 billion gross and $4.176 billion net, resulting in a $389.272 million or 3.6% increase in gross expenditures and a $129.750 million or 3.2% increase in net expenditures over the 2017 City Council Approved Operating Budget, as detailed in Table 9 below:

Table 9: 2018 BC Recommended Operating Budget by Major Program

Cluster (in $ 000's)	2017 Budget	2018 Base Budget	Change from 2017 Over (Under)		2018 New / Ehn. Budget	2018 BC Rec'd Operating Budget	Change from 2017 Over (Under)	
			$	%			$	%
Gross Expenditures								
City Programs	5,150,264	5,178,331	28,066	0.5%	121,636	5,299,967	149,702	2.9%
Accountability Offices	9,374	10,058	684	7.3%		10,058	684	7.3%
TTC	*1,955,452*	*1,974,477*	*19,025*	*1.0%*	*2,000*	*1,976,477*	*21,025*	*1.1%*
TCHC	*241,700*	*243,795*	*2,095*	*0.9%*	*3,019*	*246,814*	*5,114*	*2.1%*
Toronto Police Service (Inc. Board)	*1,133,716*	*1,139,059*	*5,343*	*0.5%*		*1,139,059*	*5,343*	*0.5%*
Toronto Public Library	*199,103*	*200,093*	*990*	*0.5%*	*1,514*	*201,607*	*2,504*	*1.3%*
Other Agencies	*455,578*	*461,979*	*6,401*	*1.4%*	*7,313*	*469,292*	*13,714*	*3.0%*
Total Agencies	3,985,549	4,019,402	33,853	0.8%	13,846	4,033,248	47,699	1.2%
Capital from Current	*311,814*	*373,374*	*61,560*	*19.7%*		*373,374*	*61,560*	*19.7%*
Debt Charges	*566,377*	*603,871*	*37,494*	*6.6%*		*603,871*	*37,494*	*6.6%*
Non-Program	*675,875*	*767,153*	*91,277*	*13.5%*	*855*	*768,008*	*92,132*	*13.6%*
Total Corporate Accounts	1,554,066	1,744,397	190,331	12.2%	855	1,745,252	191,186	12.3%
Total Gross Expenditures	**10,699,253**	**10,952,188**	**252,935**	**2.4%**	**136,337**	**11,088,525**	**389,272**	**3.6%**
Net Expenditures								
City Programs	1,936,294	1,942,957	6,664	0.3%	37,209	1,980,166	43,873	2.3%
Accountability Offices	9,374	10,058	684	7.3%		10,058	684	7.3%
TTC	*689,524*	*713,166*	*23,642*	*3.4%*	*7,100*	*720,266*	*30,742*	*4.5%*
TCHC	*241,700*	*243,795*	*2,095*	*0.9%*	*3,019*	*246,814*	*5,114*	*2.1%*
Toronto Police Service (Inc. Board)	*998,635*	*998,635*	*0*	*0.0%*		*998,635*	*0*	*0.0%*
Toronto Public Library	*179,108*	*180,769*	*1,661*	*0.9%*	*1,514*	*182,283*	*3,175*	*1.8%*
Other Agencies	*90,672*	*90,046*	*(626)*	*(0.7%)*	*2,423*	*92,469*	*1,797*	*2.0%*
Total Agencies	2,199,638	2,226,411	26,773	1.2%	14,056	2,240,466	40,829	1.9%
Capital from Current	*311,814*	*373,374*	*61,560*	*19.7%*		*373,374*	*61,560*	*19.7%*
Debt Charges	*505,349*	*556,041*	*50,692*	*10.0%*		*556,041*	*50,692*	*10.0%*
Non-Program	*(916,042)*	*(984,785)*	*(68,743)*	*7.5%*	*855*	*(983,930)*	*(67,888)*	*7.4%*
Total Corporate Accounts	(98,879)	(55,370)	43,509	(44.0%)	855	(54,515)	44,364	(44.9%)
Total Net Expenditures	4,046,426	4,124,057	77,630	1.9%	52,120	4,176,177	129,750	3.2%
Assessment Growth		(68,291)	(68,291)			(68,291)	(68,291)	
Inflationary Res Prop Tax Inc		(61,459)	(61,459)			(61,459)	(61,459)	
Net Operating Budget	**4,046,426**	**3,994,307**	**(52,120)**	**(1.3%)**	**52,120**	**4,046,426**	**0**	
Positions	**52,155**	**52,222**	**67**	**0.1%**	**360**	**52,582**	**426**	**0.8%**

On a gross expenditure basis, the base budget for City Programs will increase by 0.5% over the 2017 Approved Operating Budget. Most City Programs were able to meet the budget target with the exception of Programs facing significant external pressures that include: Shelter, Housing, Support and Administration's increase in shelter demand and loss of Federal funding ($33 million); and Fires Service's increase in WSIB costs and arbitration impact ($8.2 million).

On a net basis, City Programs' budgets to deliver existing services will increase by 0.3% driven primarily by: the additional $21.774 million in Provincial revenue that represents the final year of the upload of total OW costs to the Province; an increase in provincial funding for Toronto Paramedic Services of $6.144 million; and savings in Court Services mainly from the discontinuation of the Parking Offence Act system and the expansion of Red Light Camera totaling $4.090 million.

City Agency base operating budgets will increase by slightly higher at 0.8% gross and 1.2% net, mainly due to unavoidable costs associated with the implementation of the Presto card and operating costs associated with the TYSSE ($28 million).

Corporate Accounts will increase by 12.3% or $191 million on a gross basis, reflecting an increase in capital financing costs of $99 million. On a net basis, Corporate Accounts will see an increase of only $44 million with Non Program Revenues after taking into account the adjustment to MLTT to match 2017 experience, increased Interest and Investment Income, and the annualized revenue of the implementation of the Hotel and Short Term Rental Tax ($147 million).

With the addition of BC recommended new and enhanced service investments, the 2018 BC Recommended Operating Budget will have a 3.6% gross and 3.2% net increase over the 2017 Approved Budget.

Staff Complement Changes to Deliver Services and Capital Projects

The City's services and service levels funded by the 2018 BC Recommended Tax Supported Operating Budget require a staff complement of 52,581.7 positions (49,029.4 operating and 3,552.3 capital). Position increases to support direct service delivery total 183.7 positions with 314.8 position required for new/enhanced service investments that is partially offset by a reduction of base positions due to the full implementation of 2017 decisions and new 2018 service efficiencies (decrease of 131.1 positions). An additional 242.7 positions are required to deliver the City's capital program, bringing the overall increase in staff complement to 426.4 positions.

Table 10 below summarizes the overall complement changes as a result of this recommended budget:

Table 10: Summary of 2018 BC Recommended Complement Changes

	Operating	Capital	Total
2017 Approved Complement	**48,845.7**	**3,309.6**	**52,155.3**
Prior Year Impact	(45.1)		(45.1)
Operating Impacts of Capital	17.1		17.1
Other Base Changes	(18.9)		(18.9)
Efficiencies	(84.2)		(84.2)
Delivery of Capital Projects		197.9	197.9
Base Changes	**(131.1)**	**197.9**	**66.8**
New/Enhanced Services	314.8	44.8	359.6
2018 Budget Committee Recommended Complement	**49,029.4**	**3,552.3**	**52,581.7**
Changes from 2017 Approved Complement	**183.7**	**242.7**	**426.4**

For details, please refer to Appendix 3.5.4 for the 2018 BC Recommended Staff Complement by City Program and Agency.

The 2018 BC Recommended Operating Budget of $11.089 billion gross is funded by the following revenue sources, reserves and recoveries as detailed in the following Table 11:

Table 11: Sources of Funding

Funding Sources ($M)	2017	2018	Changes		% of Total
			$	%	
Total Revenues	**10,699.3**	**11,088.5**	**389.3**	**3.6%**	**100.0%**
Province	2,113.6	2,181.7	68.1	3.2%	20%
Federal	169.0	158.6	(10.5)	6.2%	1%
Reserve Draws	511.5	504.5	(7.0)	1.4%	5%
User Fees & Fines	797.0	823.5	26.6	3.3%	7%
TTC Fares	1,246.1	1,238.6	(7.5)	0.6%	11%
Transfers from Capital	169.3	177.4	8.1	4.8%	2%
Investment Income	207.3	232.4	25.1	12.1%	2%
Other (IDC's, Supplementary Tax, etc.)	723.2	777.9	54.7	7.6%	7%
Municipal Land Transfer Tax	715.8	817.7	101.9	14.2%	7%
Total Non-Property Tax Revenue	**6,652.8**	**6,912.3**	**259.5**	**3.9%**	**62%**
Total Property Tax	**4,046.4**	**4,176.2**	**129.8**	**3.2%**	**38%**

- Provincial and Federal funding totals $2.340.2 billion, with 2018 transfers being $57.6 million higher than 2017. This is reflective of the federal and provincial funding received for childcare growth and the final year of the 10-year uploading of OW benefit costs to the Province;

- Transfers from the Capital Budget to fund capital project delivery and reserve draws, amount to $$0.682 billion, representing a minimal increase of $1.2 million;

- User fees, charges and fines total $2.062 billion. TTC fares are unchanged while volumes have declined resulting in decrease in revenue. In total, User Fee and Fines have increased by $26.6 million. Specifically, User fee price changes to

existing user fees and new user fees will generate incremental gross revenues of $5.738 million for 2018 mainly from the following:
  - $4.346 million from rate changes based on inflationary adjustments;
  - $0.485 million from adjustments to current market prices and/or to recover full costs of providing the related user fee services; and
  - $0.907 million from the introduction of new fees.

- Details of all user fee changes are provided in the Budget Briefing Note # 4 entitled "*Changes to Existing User Fees and New User Fees in the 2018 Preliminary Operating Budget*" that was provided to Budget Committee for consideration at its meeting of December 12, 2017. The Budget Briefing Note supplements the public notice for all recommended user fee changes in 2018. https://www.toronto.ca/legdocs/mmis/2017/bu/bgrd/backgroundfile-109911.pdf

- Investment Income is higher by $25.1 million in 2018, primarily due to increased dividends from Toronto Hydro and other long-term fund investments.

- MLTT revenues of $818 million is 26% higher than 2017. The budget has benefited from the additional MLTT revenue of $101.9 million; Increasing MLTT to reflect growth and actual experience is consistent with past practice since 2015.

- Municipal property tax is the funding of last resort and it is important for the City of Toronto to maximize all other revenue sources first. For 2018, property tax revenue totals $4.176 billion, with the recommended 2.1% residential property tax rate increase equivalent to $61.5 million and the revised estimate for 2018 assessment growth of $68.3 million following the return of the final assessment roll.

2018 Property Tax Rate Changes on the Average Household (Municipal Taxes)

The 2018 BC Recommended Operating Budget keeps the cost of City services affordable with an inflation-level residential property tax rate increase of 2.1% and an overall total tax rate increase of 1.47% for budgetary purposes. This represents an increase of $59 for an average household with a home value assessed at $624,418 for 2018. However, it is important to note that the 2.1% residential property tax rate increase does not include the previously approved 0.5% property tax levy or $14 increase to be a dedicated contribution to the City Building Fund for capital transit and housing projects. The property tax levy for the City Building Fund will increase by 0.5% annually for the next 5 years to a total of 2.5% in 2021 as outlined in Table 12 below.

Table 12: Special Levy for City Building Fund

Year	2017	2018	2019	2020	2021
City Building Fund	0.5%	1.0%	1.5%	2.0%	2.5%

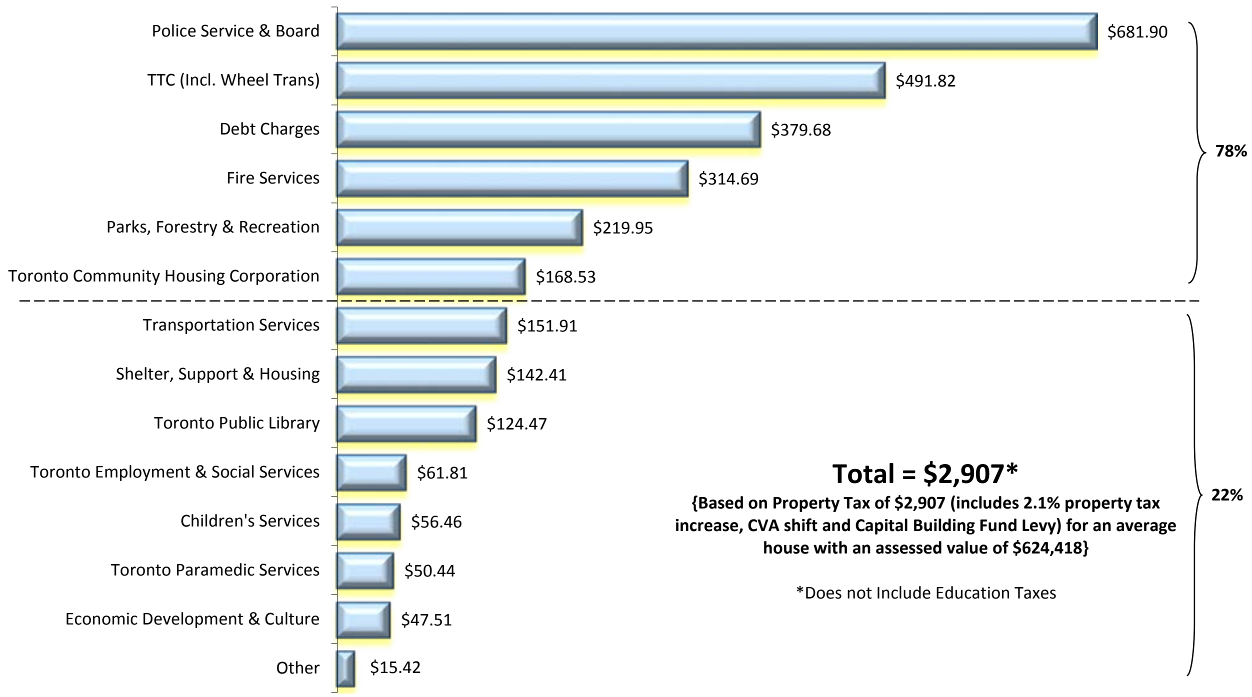
When combining the impact of the CVA policy that shifts 1/2 of the budgetary property tax increase from non-residential to residential from its current policy of shifting one-third, the total residential tax increase is 2.91% or $82 for an average value of home assessed at $624,418 for 2018, as shown in Chart 4 below.

Chart 4: 2018 Property Tax Increase Including City Building Fund and Current Value Assessment (CVA) Policy Shift

	$	%	
2017 Tax	**2,825**		**2017 Average CVA $585,227**
CVA/Regulatory Impact	(8.7)	-0.31%	
Policy Impact	17.4	0.62%	
	2,834	**0.31%**	
Budget Increase	59.3	2.1%	
City Building Fund	14.1	0.5%	
	73.4	2.60%	
Total Impact	**82.1**	**2.91%**	
2018 Tax	**2,907**		**2018 Average CVA $624,418**

Base on the recommended residential property tax rate increase (equivalent to an annual increase of $82 per household), Chart 5 below illustrates what services the average property tax of $2,907 (based on the average home assessed value at $624,418) funds.

Chart 5: Where the 2018 Property Taxes are spent



As outlined above in Chart 3, 78% of the overall City budget is spent on 5 Programs and Debt Servicing costs. Of the total budget, 23% of taxes paid goes to fund the Police Service and Board. Given this, the Toronto Police Services Board has developed various strategies to review its service delivery model and costs. In 2016, the Transformational Task Force recommended a three-year hiring moratorium on hiring for officers and civilians. This moratorium will allow the Service to ensure that it has the right type and number of members for its new service delivery model and the most cost effective management structure to lead and oversee the Service.

With 13% spent on Debt Charges, it is critical that the City manages its debt borrowing as debt repayment must be funded within the City's Operating Budget. The higher these debt servicing costs, the less funding is available for the delivery of City services. The City policy that ensures debt charges at 15% of property taxes over a 10 year period assist in constraining debt costs.

For 2018, the City’s operating subsidy to Toronto Community Housing Corporation (TCHC) has been separated from Shelter, Housing, Support and Administration’s Operating Budget to highlight the City's contribution to TCHC that totals 5.8% of the overall City budget. When translated into a tax bill, this is equivalent to $168.53 for an average household. Critical work has been undertaken to implement an Interim Funding strategy for TCHC following a review of TCHC's operating and capital requirements through the City's financial planning and management processes. Subsequently, a permanent funding formula including operating and capital costs for TCHC will launch in 2020 in conjunction with the City’s Tenants First Strategy.

It should be noted that TTC and Emergency Services, including Toronto Police Service, Toronto Fire Services and Toronto Paramedic Services, account for $1,539 or slightly more than half of the average taxes paid by households.

2018-2027 BC Recommended Tax Supported Capital Budget and Plan

The 2018-2027 BC Recommended Capital Budget, excluding 2017 carry forward funding, totals $2.994 billion in 2018 and $25.966 billion for the 10-year capital planning period. A breakdown of the 10-year Capital Budget and Plan by project category is provided in Table 13 below:

Table 13: City's Capital Investment by project category and funding source

Expenditures ($M)	Capital Plan					2018 - 2022		2023 - 2027		2018 - 2027	
	2018	2019	2020	2021	2022	Total	%	Total	%	Total	%
Health and Safety	31	19	20	18	20	109	1%	110	0.8%	219	1%
Legislated	85	136	154	154	126	655	5%	288	2.2%	943	4%
State of Good Repair	1,668	1,805	1,445	1,309	1,163	7,390	58%	5,794	43.5%	13,184	51%
Service Improvement	564	453	342	181	138	1,678	13%	4,561	34.3%	6,239	24%
Growth Related	647	557	537	466	612	2,819	22%	2,561	19.2%	5,380	21%
Total Expenditures	**2,994**	**2,971**	**2,497**	**2,128**	**2,060**	**12,651**	**100%**	**13,315**	**100%**	**25,966**	**100%**

*Excluding 2017 Carry Forward Funding to 2018

The 2018-2027 BC Recommended Capital Budget and Plan allocates $1.668 billion or 56% of funding in 2018 and 51% of the total funding over 10 years to State of Good Repair projects to ensure the City's infrastructure required to deliver City services to the public are reliable by maintaining them in a state of good repair to meet service outcomes.

Over the 10-year period, 45% of capital funding is dedicated to service improvement and growth related capital projects in order to meet service needs arising from the City's growth, such as Transit and Transportation improvements including SmartTrack, the Scarborough Subway Extension (SSE) as well as other key priority areas such as Port Lands Flood Protection, George Street Revitalization Project (GSR); and expansion plans for Shelter sites; childcare and community centres.

The breakdown of the 2018 and 10-year capital expenditures by Program are outlined in the Chart 6 and Chart 7 below, which demonstrate the service areas the capital funding is invested in for the respective periods.

Chart 6
2018 Capital Budget

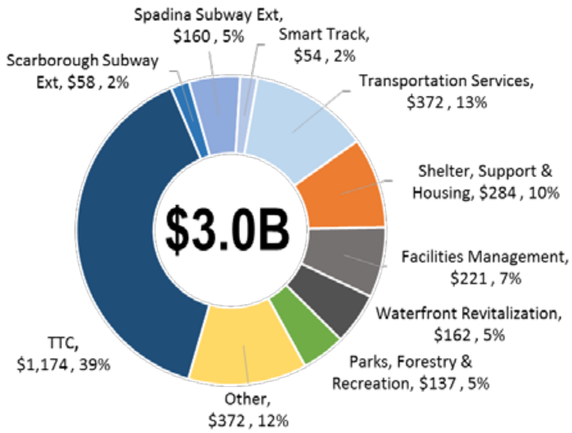
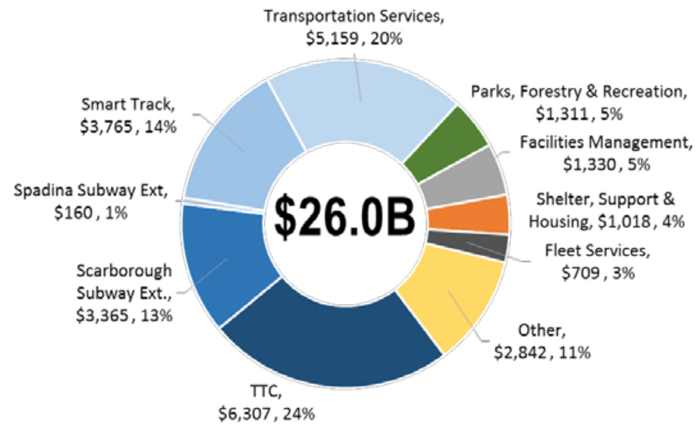


Chart 7
2018-2027 Capital Budget & Plan



As demonstrated in Chart 6 above, $1.818 billion or 75% of the 2018 Capital Budget is dedicated to Transit and Transportation Services to projects such as purchase of buses and streetcars, subway expansion and the Gardiner Expressway Rehabilitation, to name a few. For 2018, a strong focus was placed on funding TCHC capital needs bringing the 2018 Capital Budget for Shelter, Support and Housing Program to $283.932 million representing 10% of City's overall 2018 Capital Budget's expenditures

From a 10-year standpoint, the BC Recommended Capital Budget and Plan continues to focus on Transit and Transportation Services dedicating $18.756 billion or 72% of the 10-year Capital Budget and Plan spending to these areas. In addition to the projects mentioned above, top priority projects such as the George Street Revitalization ($537.537 million), the Shelter Expansion ($178.560 million), Community Centres ($418.454 million) and Port Lands Flood Protection ($411.400 million) projects are also prominent in the 10-year Capital Plan.

SOGR Funding and Backlog

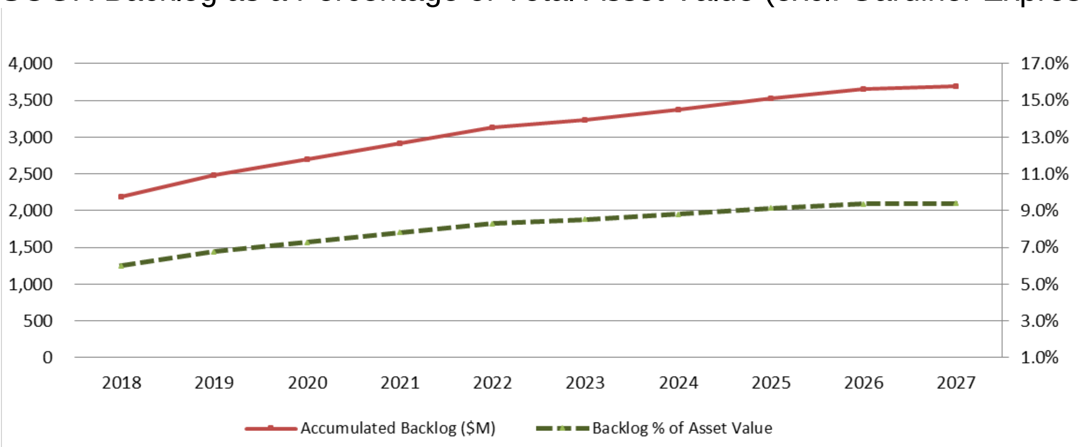
The City's capital program ensures the City's $76 billion in physical assets are maintained in a state of good repair. Managing the accumulated SOGR backlog is a key capital strategic priority for the City and critical to ensuring that limited resources are allocated in a manner that maximizes the utility of the City's capital assets. Despite the City's $13.184 billion investment in SOGR projects in the 10-year Capital Plan, the SOGR backlog is still growing annually.

The City continues to assess the condition of its capital assets, and as a result, these updated conditions plus the fact that some assets will be coming to the end of their useful life, will add to the SOGR backlog that have to be addressed. Work is also underway to implement best practice asset management strategies to undertake effective capital planning that ensures funding is in place to support reliable service delivery. This latter point is particularly important as the Province will be introducing legislation that will require all municipalities to have asset management plans in place, beginning in 2019 with linear assets and over a 4-year period for all asset classes.

The 10-year Capital Budget and Plan will address the backlog in some key areas, such as the elimination of the Gardiner Expressway backlog, however funding is not keeping pace with the growth in SOGR needs, resulting in the backlog in some areas continues to grow.

As demonstrated in Chart 8 below, when one excludes the Gardiner Expressway project from the City’s overall SOGR Backlog estimates, the City's accumulated SOGR backlog is increasing over the 10-year period from $2.192 billion or 6.0% of the total asset value in 2018 to $3.697 billion or 9.4% of the total asset value by 2027:

Chart 8
SOGR Backlog as a Percentage of Total Asset Value (excl. Gardiner Express)



Operating Impact of Capital

The cost of maintaining and operating new infrastructure, rehabilitated or expanded facilities as well as the cost to sustain new technology are some key drivers that impact the City’s operating budget. These cost drivers must be identified for consideration when evaluating capital projects to determine the costs and benefits of capital projects.

As a result, it is projected that BC Recommended 2018 Capital Budget will add a total of $137.9 million to the operating budget in 2018 should the capital project be fully implemented and funding sources be used as identified in the 2018 Capital Budget. This includes the impact of $38.4 million in operating cost, $59.4 million in CFC and $40.0 million in debt service charges. Correspondingly, the BC Recommended 2018 – 2027 Capital Budget and Plan will add a total of $861.5 million in incremental costs to the operating budget by year 2027, as outlined in Table 14 below:

Table 14: 10-year view of incremental Impact on Operating Budget

Incremental Impact on Operating Budget ($M)	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	10-Yr Total
Operating Costs	38.4	7.5	6.6	2.0	3.3	3.2	2.2	0.7	0.7	0.4	64.9
Capital from Current	59.5	35.2	38.7	42.6	46.8	51.5	56.7	62.3	68.6	75.4	537.4
Debt Charges	40.0	45.2	66.4	29.0	(21.0)	37.9	6.5	29.0	25.4	0.7	259.1
Total Operating Impact	137.9	87.9	111.7	73.6	29.2	92.6	65.4	92.0	94.6	76.5	861.5

Capital Financing

Capital projects are financed by various sources. The City's priority is to ensure that it leverage all non-City funding first before it issues debt. Funding allocation decisions are carefully made with the objective of optimizing returns and are in alignment with project priorities. The breakdown of funding sources are summarized in the following table:

Table 15: Funding Sources for Capital Budget and Plan

Expenditures ($M)	Capital Plan					2018 - 2022		2023 - 2027		2018 - 2027	
	2018	2019	2020	2021	2022	Total	%	Total	%	Total	%
Total Expenditures	**2,994**	**2,971**	**2,497**	**2,128**	**2,060**	**12,651**	**100%**	**13,315**	**100%**	**25,966**	**100%**
Funded By:											
Provincial	222	259	304	339	500	1,623	13%	2,508	18.8%	4,131	16%
Federal	470	313	257	294	367	1,702	13%	2,175	16.3%	3,877	15%
Reserves	401	353	216	156	167	1,293	10%	1,151	8.6%	2,444	9%
Reserve Funds	83	92	79	38	17	308	2%	96	0.7%	404	2%
Development Charges	196	163	202	207	166	934	7%	410	3.1%	1,344	5%
Other	108	121	79	66	55	429	3%	852	6.4%	1,280	5%
Capital from Current	352	387	426	468	515	2,148	17%	3,459	26.0%	5,607	22%
Recoverable Debt	180	170	123	26	25	523	4%	417	3.1%	940	4%
Debt	982	1,114	812	536	249	3,692	29%	2,247	16.9%	5,939	23%
Total Funding	**2,994**	**2,971**	**2,497**	**2,128**	**2,060**	**12,651**	**100%**	**13,315**	**100.0%**	**25,966**	**100%**

The primary financing sources for the 2018 - 2027 BC Recommended Capital Budget and Plan include:

- Federal and Provincial subsidies of $0.692 billion (23%) for 2018 and $8.008 billion (31%) for the 10-year period predominately allocated to the Toronto Transit Commission;

- Reserve and reserve funding of $0.484 billion (16%) for 2018 and $2.848 billion (11%) over 10 years that reflects the use of Capital Financing Reserve funding provided from the City's non-debt capital financing strategies which will be described in more detail below;

- Other funding sources include development charges, donations, third party funding and recoverable debt which provide $0.485 billion (16%) for 2018 and $3.565 billion from 2018 to 2027 (14%);

- Debt accounts for $0.982 billion (33%) of the 2018 Capital Budget's funding and $5.939 billion (26%) over the 10 years from 2018 to 2027.

To minimize the debt level and the debt service burden on the operating budget while adding spending capacity to fund unmet capital needs, the City uses non-debt financing strategies, as discussed in the following section.

Non-Debt Capital Financing Strategies

In order to mitigate City-wide debt requirements, the City has established a series of non-debt capital financing strategies that enable the City fund new capital investments from various funding sources. These strategies ensure that the capital projects are properly funded, the City's debt is minimized, and that the City is protected from adverse economic risks. The funding of the non-debt financing strategies are mainly from the following sources:

- ***Capital from Current (CFC)***

CFC funding, is a provision of tax funding that is transferred from the Current / Operating Fund to the Capital Fund in order to finance capital projects on a pay-as-you-go basis. This financing provides a financing mechanism for ongoing capital needs that have a shorter lifecycle. It is strategically increased at a 10% year-over-year growth rate to achieve a 50% debt and "pay-as-you-go" target. CFC funding helps to constraint debt servicing costs at the Council affirmed ratio of15% of the property tax levy.

- ***Allocation of the Operating Surplus***

The City's Surplus Management policy approved by Council in 2004 states that the annual operating surplus be applied in priority order to the following:

  - Capital Financing Reserve (at least 75% of the surplus); and

  - The remainder to fund any underfunded liabilities and / or reserve funds as determined by the Deputy City Manager & Chief Financial Officer.

Based on this policy, 75% of each year's operating surplus is allocated to the Capital Financing Reserve which is a major source of funding for this reserve that is utilized to fund approved major capital projects included in the 10-year Capital Plan.

- ***Dividends and One-time Proceeds***

Another major source of non-debt funding applied to capital comes from proceeds generated from the value of City assets managed by the City's various entities. These proceeds come in the form of annual dividends paid to the City by Build Toronto as well as other one-time dividends from the sale of air rights by the Toronto Parking Authority. In the past, City Council has also directed other one-time proceeds as a contribution to the Capital Financing Reserve such as the sale of Enwave and part of the proceeds from the Bank Tower appeal settlement.

- ***Contribution from the MLTT Revenue***

Starting in 2015, $40 million of Municipal Land Transfer Tax revenue has been budgeted as a contribution to the Capital Financing Reserve as part of the annual budget approved by City Council. This serves as another source of capital funding as well as a buffer on the operating budget should MLTT revenues decline.

The funds contributed to the Capital Financing Reserve from the above sources are applied in a strategic manner against major capital projects. As indicated in Table 16 below, since 2012, over $1.334 billion of funding has been secured in the Capital Financing Reserve and have funded critical capital projects. It is projected that from 2012 to 2026, an estimated total of $2.202 billion is required to fund capital initiatives that are dependent on this strategy, including over $1 billion for TTC, $966 million for Transportation Services, and over $200 million for other Programs such as Waterfront Revitalization, Parks and Information Technology.

Table 16: Capital Financing Reserve

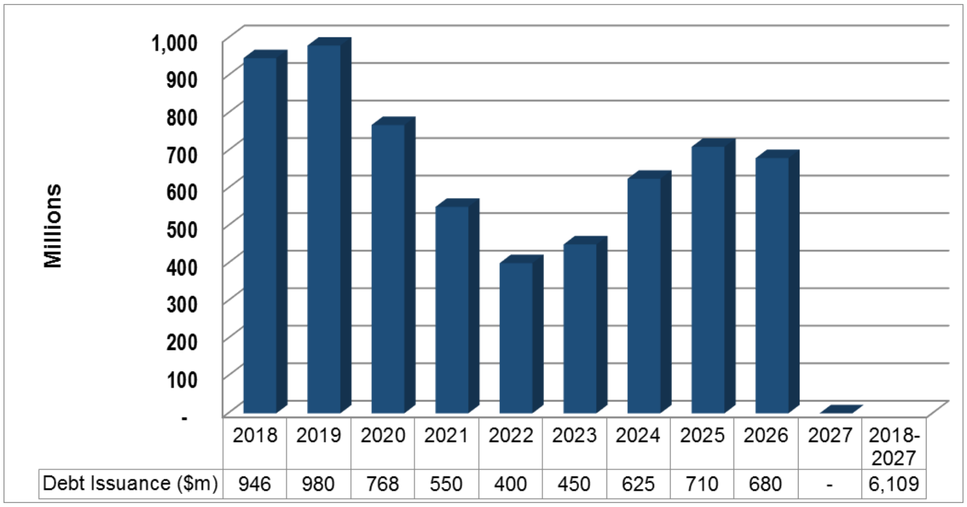
	2012 - 2017 Secured Revenue						Future Year Capital Financing Strategy Revenue Estimates									
Description ($ Millions)	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**Total**
Enwave	167															**167**
Enwave Dividend	11															**11**
TPLC Dividend	40															**40**
Prior Year Operating Surplus	214	186	126	155	98	151	50	50	50	50	50	50	50	50	50	**1,380**
MLTT (Above Operating Budget)				40	40	40	40	40								**200**
DC Increases																**0**
Future Years BT Dividend	20		10	15	15	25	25	25	25	25	25	25	25	25	25	**310**
Future Years Fed/Prov																**0**
TPA One-Time				67	0	0										**67**
Other	1	3														**4**
Bank Tower Surplus		30														**30**
Total:	**453**	**219**	**136**	**277**	**153**	**216**	**115**	**115**	**75**	**75**	**75**	**75**	**75**	**75**	**75**	**2,210**

Past, Current & Future Year Funding Requirements																
Description ($ Millions)	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**Total**
TTC Capital	45	60	252	228	46	50	70	157	38							**945**
TTC TYSSE					39	27	24									**90**
Transportation Capital		15	61	61	48	47	63	45	44	43	43	270	137	30	30	**936**
FREEE Capital (St. Lawrence N.)						8	8								29	**44**
Union Station							23									**23**
Waterfront Revitalization Initiative						0.3	6	15	7							**27**
Eglinton East LRT					2	2										**4**
Other Program Draws			**37**	13	28	6	6	12	1	0.4				0.6		**103**
Loss of Pooling Compensation (2014 Surplus)				**30**												**30**
Total	**45**	**75**	**350**	**331**	**163**	**140**	**200**	**228**	**89**	**43**	**43**	**270**	**137**	**31**	**59**	**2,202**

Debt Issuance

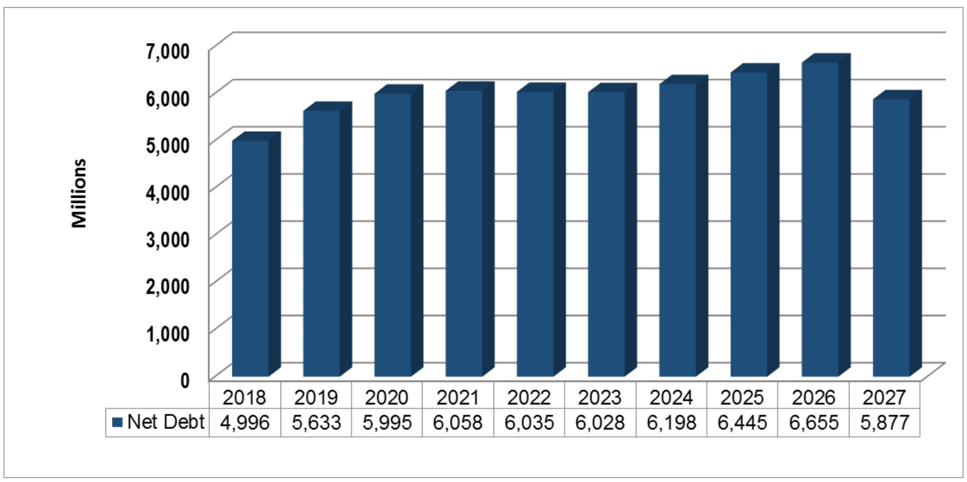
To accommodate the capital investments set out in the 2018 - 2027 BC Recommended Capital Budget and Plan, the City will need to issue $6.109 billion of debt over the next 10-year period that will be repaid through the property tax levy and special dedicated property tax levies for the Scarborough Subway Extension. Chart 9 below shows the estimated debt issuance annually during the 10-year period.

Chart 9: 2018 - 2027 Debt Issuance



As a result of the debt issuance, the City's outstanding net debt will total $5.877 billion at the end of 2027 as outlined in Chart 10:

Chart 10: 2018 - 2027 Outstanding Debt



Authority to Issue Debentures During 2018

The proceeds from the issuance of debentures will be used to finance capital expenditures that have been incurred or committed to projects approved by Council. The authority to borrow up to $900 million in 2018 has been authorized under By-law No. 75-2015.

Issuance Activity during 2017

The debenture authority approved by Council for 2017 was $900 million as outlined in Table 17 below. Due to favourable capital market conditions and timing considerations, debenture issuance in the full amount of $900 million was completed during the year.

Table 17: 2017 debenture issuance details as approved by the Debenture Committee

Issue Date	28-Mar-17	24-May-17	18-Aug-17
Settlement Date	12-Apr-17	07-Jun-17	29-Aug-17
Size	$300 million	$400 million	$200 million
Coupon	3.25%	2.40%	3.50%
Maturity Date	24-Jun-46	07-Jun-27	02-June-36
Term	30 years	10 years	19 years
Issue Yield	3.508%	2.430%	3.27%

Approval of 2018 Sinking Fund Levies

The City of Toronto Act, 2006 (COTA), sub-section 255 (4) states that, "If in any year an amount is or will be required by law to be raised for a sinking fund or retirement fund of the City, the City Treasurer shall prepare for City Council, before the budget for the year is adopted, a statement of the amount."

This report requests Council's approval for the 2018 sinking fund levies of $291.462 million in respect of the City's outstanding debt.

Looking Forward: Challenges and Risks for 2019 and Beyond

The following highlights some of the key challenges and risks the City will have to consider as it develops strategies to meet the complex needs of its growing population while at the same time, address the fiscal gap between expenditures and revenues.

Capital Unmet Needs

Balancing the extensive capital maintenance needs of the City's expansive and aging infrastructure against demands for new investments to satisfy service requirements of a growing population and emerging priorities continues to be a challenge for the City. Despite the continued increase in approved capital investments in response to these requirements, the City has a growing list of unfunded capital needs to ensure current assets are reliable and new assets are provided to meet growth and city building objectives.

Capital unmet needs are capital works that cannot be accommodated within the City's debt affordability targets given the City's 15% debt service ratio policy and are therefore not included in the Capital Budget and Plan. The list of unmet needs is refined on an annual basis, with projects potentially added to the Capital Plan through project prioritization and/or additional secured funding.

The total estimated value of capital unmet needs has risen to over $30 billion over for the next 15 year period. At this time, the list of unmet needs is primarily driven by transit expansion, transportation infrastructure service and area master plans plus the state of good repair backlog for social housing, transit. Libraries, long term care homes and other facilities. It is anticipated that future federal and provincial funding partnership will contribute to addressing those capital needs.

When the capital investment in planned SOGR capital works is less than the annual SOGR need, the unfunded balance is added to the accumulated SOGR backlog. The City tracks the SOGR backlog dollar amount as well as the percentage of the total asset value to monitor the backlog level. When the F.G. Gardiner Rehabilitation project is excluded from these estimates, the City's accumulated SOGR backlog is projected to rise over the next 10 years from $2.192 billion or 6.0% in 2018 to $3.697 billion or 9.4% by 2027 as outlined in Table 18:

Table 18: SOGR Backlog without the F.G. Gardiner Expressway – Summary

Tax Supported Programs (without Gardiner)	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Total Asset Value ($M)	36,488	36,778	37,059	37,366	37,685	38,041	38,369	38,707	39,041	39,389
Accumulated Backlog ($M)	2,192	2,489	2,700	2,918	3,130	3,240	3,377	3,533	3,651	3,697
Backlog % of Asset Value	6.0%	6.8%	7.3%	7.8%	8.3%	8.5%	8.8%	9.1%	9.4%	9.4%

SOGR investments included in the proposed Capital Budget and Plan will reduce the SOGR backlog in some Program areas, but not all, as outlined in Table 19 below. In 2018, the priority for SOGR funding has been placed on dedicating any additional funding capacity to critical social infrastructure, namely Social Housing and Shelters and to ensure the City's compliance with AODA by 2025. For 2019 and beyond, priority will be given to the Programs with increasing accumulated SOGR backlog such as Toronto Public Library (TPL); Facilities Real Estate, Environmental and Energy (FREEE), Parks, Forestry & Recreation (PF&R), and Toronto Transit Commission (TTC).

Table 19: SOGR Backlog by Program – Summary

Program ($M)	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	10 Yr Change
Transportation Services (excl. Gardiner)	766	876	978	1,073	1,170	1,223	1,307	1,375	1,444	1,513	830 ▲
Facilities Management, Real Estate & Environment	328	492	568	650	714	727	718	728	723	670	329 ▲
Parks, Forestry & Recreation	458	466	480	490	507	528	554	584	607	600	146 ▲
Toronto Transit Commission	26	56	101	153	201	244	285	328	376	427	427 ▲
Toronto & Region Conservation Authority	235	225	214	205	194	181	172	165	153	143	(90) ▼
Toronto Public Library	67	70	82	84	92	97	111	129	136	146	86 ▲
Other	313	304	277	264	253	240	231	224	211	197	(131) ▼
Total SOGR Backlog (end of Year)	**2,192**	**2,489**	**2,700**	**2,918**	**3,130**	**3,240**	**3,377**	**3,533**	**3,651**	**3,697**	**1,597** ▲
Total Asset Value (end of year)	**36,488**	**36,778**	**37,059**	**37,366**	**37,685**	**38,041**	**38,369**	**38,707**	**39,041**	**39,389**	
SOGR as % Asset Value	**6.0%**	**6.8%**	**7.3%**	**7.8%**	**8.3%**	**8.5%**	**8.8%**	**9.1%**	**9.4%**	**9.4%**	

As the City continues to perform condition audit of the capital assets and identify additional state of good repair or asset replacement needs, the SOGR Backlog may continue to grow. This will increase the challenge of funding additional unmet needs.

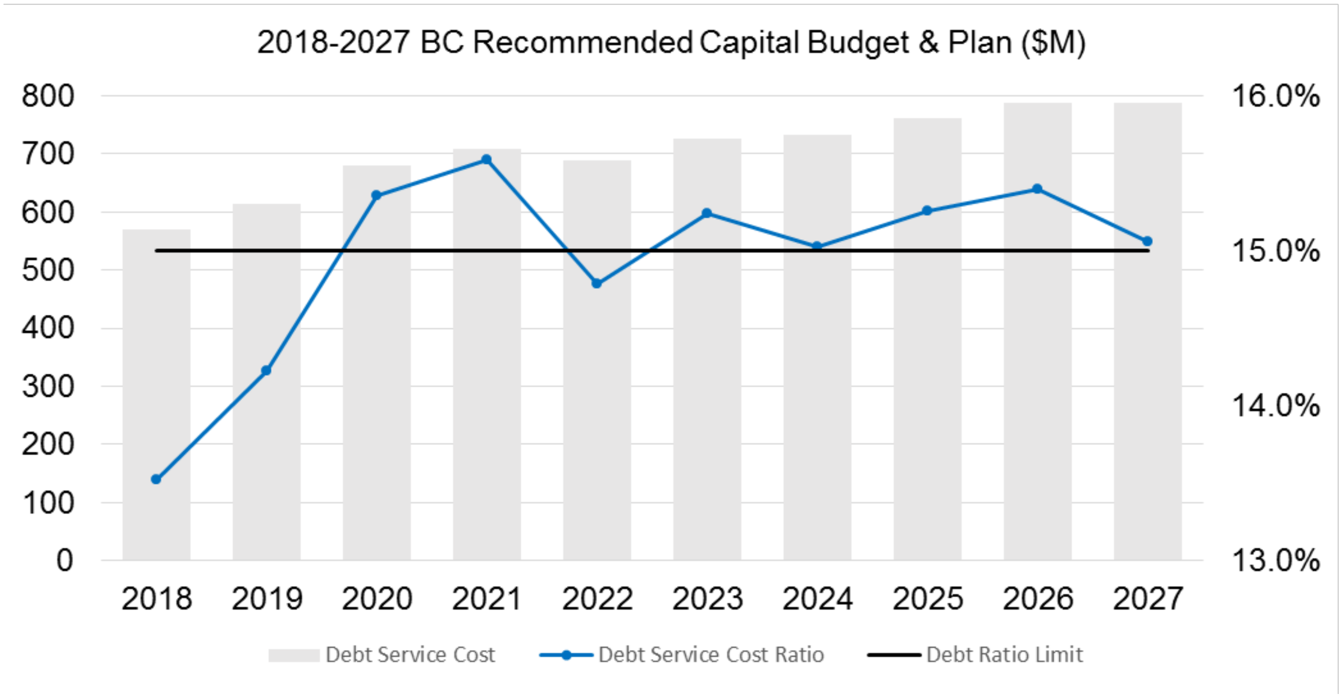
Debt Maximized Against Current Benchmark

To meet its borrowing obligations, the City budgets debt service charges in its Operating Budget to repay both the principal and interest costs associated with its debt issuance for capital projects. In 2018 budget, the debt service charge is $569 million, and is projected to increase to $788 million in 2027 based on the implementation of the 2018 – 2027 BC Recommended Capital Budget and Plan.

Capital spending, which is largely supported through borrowing, is guided by the City's current policy on debt servicing costs and associated affordability concerns in the operating budget. The debt service cost as percentage of total property tax levy (also referred to as the debt ratio) associated with the 2018 – 2027 BC Recommended Capital Budget and Plan will be at 13.52% in 2018 and gradually increase to a peak level of 15.59% in 2021 before declining to 14.78% the following year and rising to 15.40% in 2026.

The debt ratio for 2018-2027 BC Recommended Capital Budget and Plan will average 14.94% over the 10-year capital planning period. While the average remains within the City's current debt service ratio policy, the debt service ratio is projected to exceed 15% of property tax revenue by 2020 as displayed in Chart 11 below. It is also worth noting that the below 15% 10 year average is largely helped by the lower percentage in the first two years (2018 and 2019) of the 10-year Capital Plan. When 2018 and 2019 are phased out, the average debt service cost as % of property tax levy is very likely to exceed 15%. The City will have to consider the debt service ratio limit as part of its debt policy to ensure continued support for capital investment needs while considering the associated operating funding that will be required to service the debt.

Chart 11: 2018-2027 BC Recommended Capital Budget and Plan Debt Servicing Cost & Ratio



Capital Budget Impact on the Operating Budget

Every year, the operating impact from capital budget is a key driver of the annual operating budget pressure. At the beginning of the 2018 Budget process, the total pressure from capital related costs totalled $112 million or about 21% of the operating opening pressure. The approval of capital projects will impact the Operating Budget in the following ways:

- Principal and interest payments on issued debt to finance the capital plan (debt service costs). In 2018, $569 million of debt service costs will be paid from the 2018 Operating Budget, representing a $40 million incremental cost compared to 2017. Over the 10-year period, debt service cost will increase by a total of $259 million by year 2027, should this capital plan be implemented.

- Direct contributions from the operating budget to finance pay-as-you-go capital projects thereby reducing the annual borrowing requirements (Capital from Current). In 2018, the CFC allocation from the Operating Budget to fund capital is $351 million representing a $59.9 million increase from 2017. Over the 10-year period, it' is expected that CFC funding will increase by $537 million by year 2027 to achieve a debt/CFC target ratio of 50%.

- Increased operating costs including on-going maintenance and program costs for new infrastructure and rehabilitated or expanded facilities; cost to sustain new technology; and / or partially offset by efficiency savings from capital investments that reduce operating costs. In 2018, incremental operating impact of completed capital projects is $38 million. By year 2027, the incremental operating impact is expected to total $65 million.

The annual operating impact from approval and implementation of the 2018-2027 BC Recommended Capital Budget and Plan is illustrated in Chart 12 below:

Chart 12: Incremental Operating Impacts

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Ops Impact on Programs	38.4	7.5	6.6	2.0	3.3	3.2	2.2	0.7	0.7	0.4
Debt Charges	40.0	45.2	66.4	29.0	-21.0	37.9	6.5	29.0	25.4	0.7
CFC	59.5	35.2	38.7	42.6	46.8	51.5	56.7	62.3	68.6	75.4

CFC Debt Charges Ops Impact on Programs

As the need for capital investment grows, the cost of servicing the debt and other operating costs will also grow and compete for funding City services.

Unsustainable Balancing Strategies

The 2018 BC Recommended Operating Budget incorporates bridging strategies totalling $75.771 million that includes the deferral of expenses and the use of one-time revenues and reserve contributions. This will result in an equivalent pressure for 2019, thus making the goal of achieving financial sustainability more challenging.

- One-time funding sources of $27.9 million primarily from reserves are being used to fund additional new/enhanced service investments, mainly for increased demand for respite and shelter services over the short-term.

- TCHC's deferral of sinking fund contribution of $18.0 million to retire public debentures until 2020 when a sustainable funding model for TCHC is expected to be established;

- TTC's recommended use of its Stabilization Reserve to reduce its budget pressure by $14.0 million despite the fact that the TTC Stabilization Reserve will be depleted by the end of 2018;

- Funding of $5.821 million to reinstate the occupancy grant funding to the 4 school boards is provided from the Child Care Expansion Reserve Fund as a bridging strategy for 2018 and 2019. The continuation of occupancy grant funding beyond 2019 will be considered as part of the future year budget process after taking into consideration any policy and regulatory changes implemented by the Ministry of Education to improve the Education Funding Formula to include the occupancy cost and provision of security of tenure of early learning and child care space in schools;

- SSHA's recovery of $3.0 million from the Social Housing Federal Reserve to address surge capacity in the shelter system for more winter respite services; and

- TESS's additional recovery of $2.7 million from the Ontario Works Reserve to further offset program pressures.

The City continues to utilize bridging solutions to close the budgetary gap and to fund new/enhanced services in the following year. Funding ongoing expenses with one-time revenue sources adds pressures to the following year and the need to find permanent funding sources for these important services priorities in the future.

Increased Dependence on Municipal Land Transfer Tax

The Municipal Land Transfer Tax (MLTT) has become a more significant funding source and has played a critical role in the City Council's ability to maintain below or at inflation-level property tax rate increases. Since 2015, the annual Operating Budget has relied on revenue gains in the MLTT to balance the budget.

The 2018 BC Recommended Tax Supported Operating Budget includes $818 million in MLTT revenue which represents an increase of $102 million or 14% when compared to the 2017 Budget to reflect actual experience ($95 million) and the full year impact from the rate harmonization from the current Ontario Land Transfer Tax ($7 million). Matching budgeted revenues to prior year actual experience has been practice that has been consistently applied since 2015.

Maximizing MLTT revenues in the Operating Budget helps mitigate property tax rate increases. However, this revenue is cyclical, sensitive to economic conditions. Recent changes to provincial and federal legislation regarding the housing market may impact MLTT revenue performance. $40 million of the total MLTT revenue is budgeted as an annual contribution to the Capital Financing Reserve Fund. In addition to providing much-needed capital funding, it also acts as buffer or hedge in the event of revenue volatility. Given the uncertainty of market conditions, MLTT revenues are forecasted to be flat-lined for 2019 and 2020. In the interim, MLTT results will continue to be monitored very closely

2019 and 2020 Plan

The City of Toronto will continue to face budgetary pressures in the next 2 years. It is projected that the expenditure budget pressure is estimated to be at least $460 million gross in 2019 and $360 million gross in 2020, as shown in Table 20:

Table 20: 2019 and 2020 Incremental Operating Budget Plan

($ Million)	Incremental 2019	Incremental 2020
Expenditure Changes:		
Reversal of One-Time Reserve Draws	46	6
Other One-Time Reductions / Deferrals	6	21
Subtotal: Reversal of 2018 Bridging Strategies	52	27
Annualized Impact of New/Enhanced (incl. TTC)	54	18
Debt Servicing Cost for New/Enhanced	5	5
Annualized Costs of Other Prior Year Decisions	13	(1)
Subtotal: Annualization Cost	71	22
Total Prior Year Decisions	**123**	**49**
Operating Impact of Completed Capital Projects	8	7
Capital From Current	35	39
Debt Charges	39	61
Total Operating Impact from Capital	**82**	**107**
Salary and Benefits	108	114
Additional Bill 148 Impact	20	18
Economic Factors	16	15
Other Base Budget Changes	27	30
Other Non-Program Expenses and Revenues	9	(5)
Toronto Transit Commission (Before Fare Increase)	75	33
Total Incremental Base Pressure	**255**	**205**
Total Pressure before Revenue Changes	**460**	**360**
Revenue Changes:		
Municipal Land Transfer Tax	0	0
Base User Fee Change	(4)	(3)
Hotel & Lodging Tax	(3)	
Interest / Investment Earnings	(4)	(4)
Dividend Income	(10)	(3)
Assessment Growth	(50)	(50)
Total Revenue Changes	**(71)**	**(61)**
Total Net Pressure before Policy Changes	**388**	**300**
Toronto Transit Commission Fare Increase (Inflationary)	(20)	(20)
2.3% / 2.2% Residentail Property Tax Increase*	(67)	(64)
Total Net Pressure after Policy Changes	**301**	**216**

* Moody's & Conference Board of Canada forecast

The pressure is primarily driven by the following key drivers:

- The reversal of one-time bridging measures of $75 million used to reduce and/or offset expenditure increases in the 2018 BC Recommended Operating Budget;

- Incremental costs to reflect the full year implementation for all 2018 new/enhanced service priorities and service levels in the 2019 budget year and beyond;

- Escalating service costs due to contractually obligated increases in inflationary salaries and benefits, contracts, and other expenditures to provide prior year services and service levels;

- Impacts from legislative changes related to Bill 148 *"Fair Workplace, Better Job Act"* resulting in additional costs to pay workers for the first 2 Emergency Leave days which were previously unpaid prior to the introduction of the Act;

- Increased debt servicing costs and Capital from Current funding to finance additional capital works approved in the 2018 - 2027 BC Recommended Capital Budget and Plan; and

- Increasing operating costs for the TTC operating costs, including the first full year implementation of Presto in addition to inflationary increases in (energy, benefits, and material prices). Together, these pressures are estimated to be approximately $75.0 million before fare increases.

The 2019 and 2020 preliminary pressure estimates do not take into account any progress to be made on the City's unfunded capital infrastructure needs as well as any additional investments in new/enhanced service priorities and service levels guided by the many service and infrastructure plans and strategies approved by City Council or any new ones.

These cost pressures will be reduced to $265 million net for 2019 and $182 million net for 2020, to an assumed property tax rate increases at the rate of inflation and continued moderate assessment growth. In addition, these budget pressures are anticipated to be partially offset by an inflationary TTC fare increase in 2019 and 2020.

When all the above factors are considered, the City will continue to experience a structural gap between expenses and revenues. Achieving fiscal sustainability in the face of these challenges will require City Council, with the support of staff, to develop and implement strategies to close the gap with:

- expenditure strategies that lower or alter spending by making changes to service levels or service delivery models and/or the mix of operating and capital spending; or
- revenue strategies that increase stable revenue through policy change by raising existing revenues or implementing new revenue options; or
- A combination of both the expenditure and revenue strategies described above.

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SIGNATURE

Joe Farag, Acting Chief Financial Officer

Peter Wallace, City Manager

ATTACHMENTS

Appendix 1: 2018 – 2027 BC Recommended Tax Supported Capital Budget and Plan Recommendations by City Program and Agency

Appendix 2: 2018 BC Recommended Tax Supported Operating Budget Recommendations by City Program and Agency

Appendix 3: 2018 Capital and Operating Budgets – Detailed Schedules

2018 BC Recommended Capital Budget and Future Year Commitments by Program and Funding Source

Appendix 3.1.1 – Including 2017 Carry Forward Funding
3.1.2 – Excluding 2017 Carry Forward Funding
3.1.3 – New and Change in Scope
3.1.4 – Previously Approved

2018 BC Recommended Capital Budget by Program and Funding Source

Appendix 3.1.5 – Including 2017 Carry Forward Funding
3.1.6 – Excluding 2017 Carry Forward Funding
3.1.7 – 2017 Carry Forward Funding

2018 – 2027 BC Recommended Capital Budget and Plan

Appendix 3.2.1 – by Category and Funding Source
3.2.2 – by Program and Category

2018 – 2027 BC Recommended Capital Budget and Plan by Program

Appendix 3.3.1 – by Year, Excluding 2017 Carry Forward Funding

2018 -2027 BC Recommended Capital Budget and Plan by Program and Funding Source

Appendix 3.4.1 – Total 10 years, Excluding 2017 Carry Forward Funding
3.4.2 – First 5 Years, Excluding 2017 Carry Forward Funding
3.4.3 – Last 5 Years, Excluding 2017 Carry Forward Funding

2018 BC Recommended Operating Budget

Appendix 3.5.1 – 2018 Net Expenditure Budget
3.5.2 – 2018 Gross Expenditure Budget
3.5.3 – 2018 Revenue Budget
3.5.4 – 2018 Staff Complement
3.6.1 – 2018 Total New and Enhanced Service Investments