CAPITAL FINANCING AND DEBT

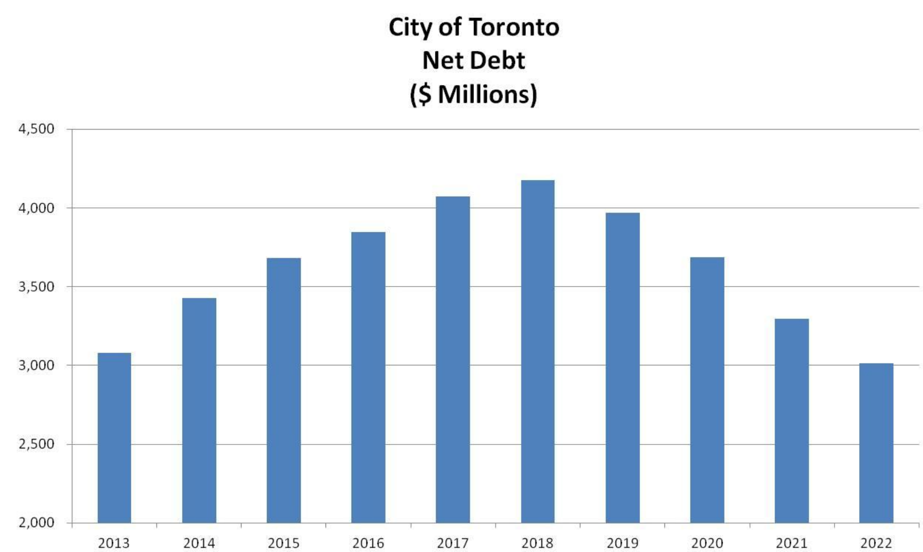
The City borrows money to finance capital expenditures. It cannot borrow to finance operating expenditures under the City of Toronto Act. The goal for capital financing is to maximize all funding from external sources, including federal and provincial governments, development charges, donations and reserve funding, before using City's own revenue sources, namely operating contribution and issuance of debt. Toronto has enjoyed relatively low debt levels; however, in light of the growing capital infrastructure needs, there is a sizeable and growing gap between future capital expenditure needs and ongoing sustainable revenue sources. The City does not have the fiscal capacity for necessary growth related expenditures, e.g. TTC, Transportation, etc. For the next ten years, the TTC is projected to make up the majority of the new debt required to fund the City's capital requirements, most of which is for new infrastructure and enhancement projects rather than state-of-good-repair projects.

The City has implemented a framework for developing multi-year capital and operating budgets, and ensured that limited resources are aligned to priorities to maximize the benefits for Toronto's residents.

The City in 2010 refinanced parts of its current and future debt by paying down existing debt, and borrowed funds for selected projects on 30-year terms as opposed to the usual 10-year term. The 30-year debt was used to finance long-term assets and more closely match the life span of the infrastructure being built or purchased, e.g. subway tunnels and subway cars.

As well, the City used the proceeds of a Toronto Hydro promissory note that it held, to pay down approximately $600 million of existing debt by prepaying the City's sinking fund.

Even with the above-noted actions, estimates showed that the City's net long-term outstanding debt would increase from $2.9 billion at the end of 2012 to peak at nearly 4.2 billion in 2018, and decrease to $3.0 billion by 2022 as shown in the chart below.

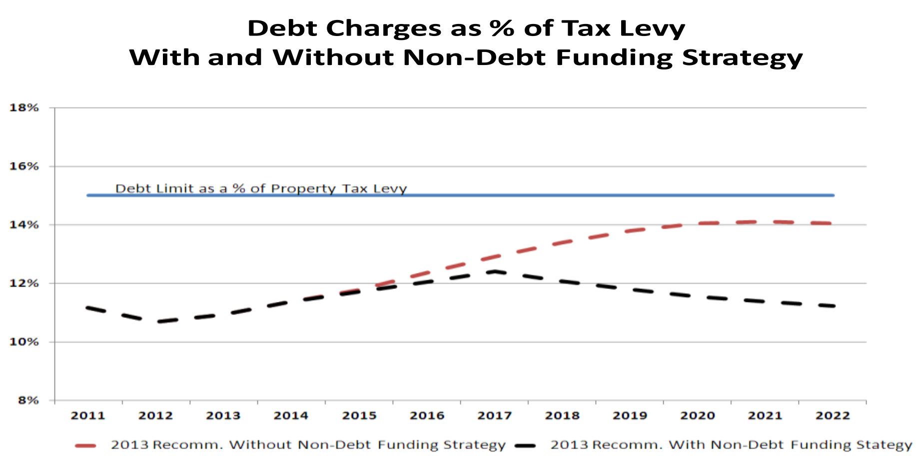


City Council previously approved a debt service limit such that the debt service cost (annual principal and interest payments) should not exceed 15 per cent of property tax revenues in a given year. This limit means that at least 85 cents on each tax dollar raised is available for operating purposes.

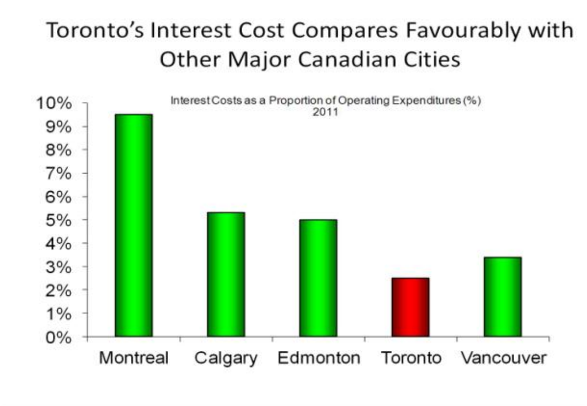
As indicated in the table below, the 2013-2022 Tax-Supported Capital Budget and Plan required an additional $1.451 billion in new non-debt funding to address TTC and Transportation Services' capital needs. Financing requirements are needed to fund both projects that have been approved as part of the 2012 – 2021 Capital Budget and Plan and new/increased capital projects that are included in the 2013 – 2022 Capital Budget and Plan.

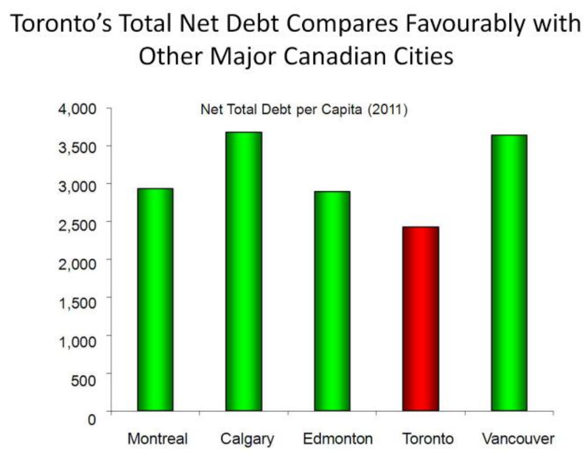
2013 & Future Year Funding Requirements												
Description ($ Millions)	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**Total**
Current Shortfall - 2012 TTC Capital				41	125	80						**246**
2013 TTC Capital			42	48	70	85	114	116	60			**534**
2013 Transportation Capital		15	64	65	68	78	78	69	77	78	79	**671**
Total	**0**	**15**	**106**	**154**	**263**	**242**	**192**	**185**	**137**	**78**	**79**	**1,451**

As shown in the chart below, with the addition of the non-debt funding expected from proceeds from the use of prior year surplus operating funds, the monetization of City assets, continued contributions for transit and transportation infrastructure from the Federal and Provincial Governments, and an anticipated increase in available development charge funding, the buffer between the forecasted debt charges and the 15% limit is much wider than it would be if the additional transportation and transit funding needs were to have come from issuing new debt.



Overall, the City's debt burden is relatively modest and its net total debt per capita compared favourably to other major Canadian municipalities. Interest costs as a percentage of total operating expenditures also compared favourably with the other major Canadian municipalities, as illustrated in the charts to follow:





Source: DBRS Canadian Municipal government Fact Sheet January 18, 2013