2012 Outlook
and
Long Term Financial Plan Update

Budget Committee

February 10, 2011

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Outline

1. Perspective on the Long Term Funding Gap
2. 2012 Operating Outlook
3. Long Term Financial Plan
4. Debt Management
5. Action Plan

1. Perspective on the Long Term Funding Gap

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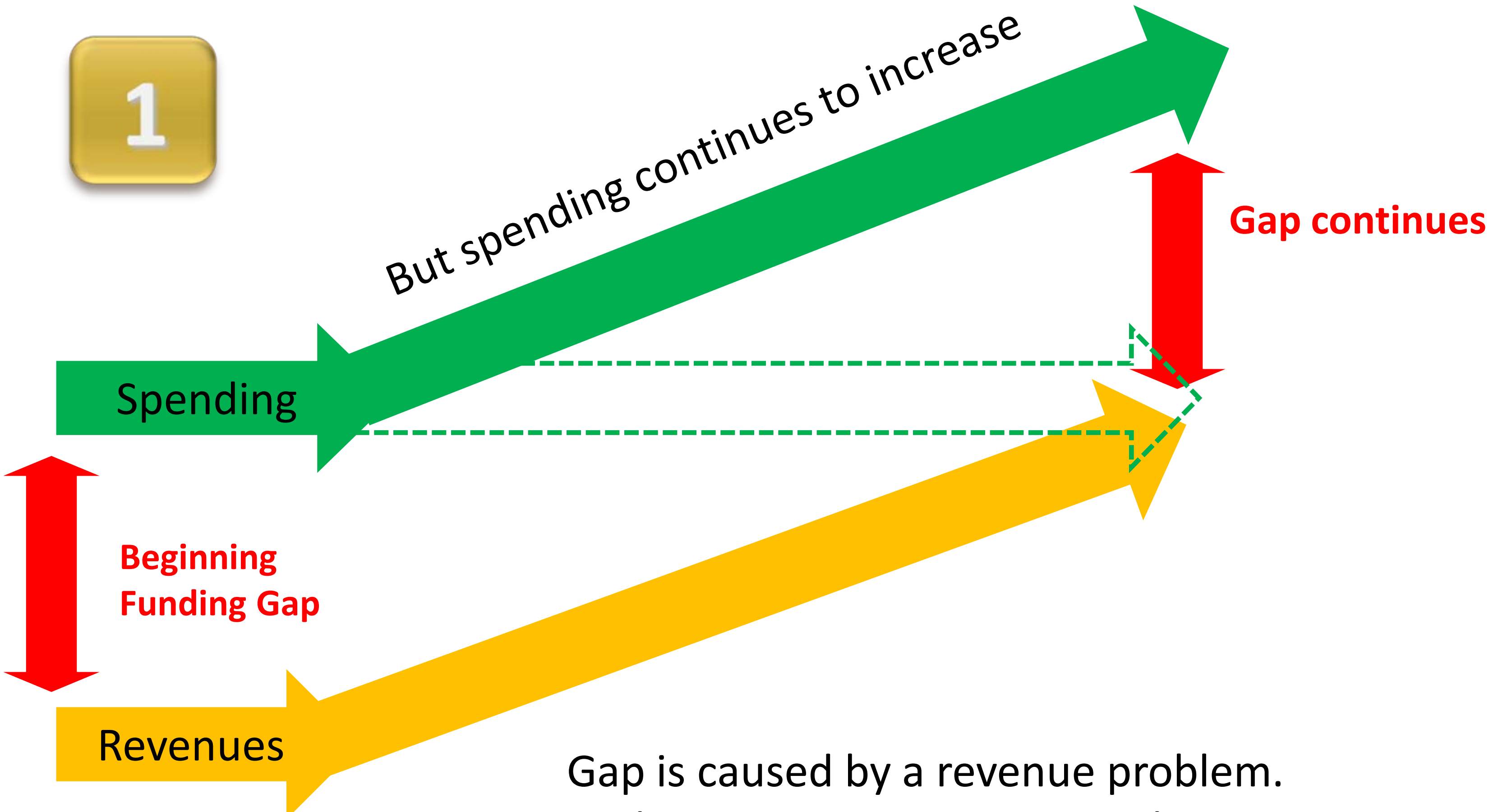
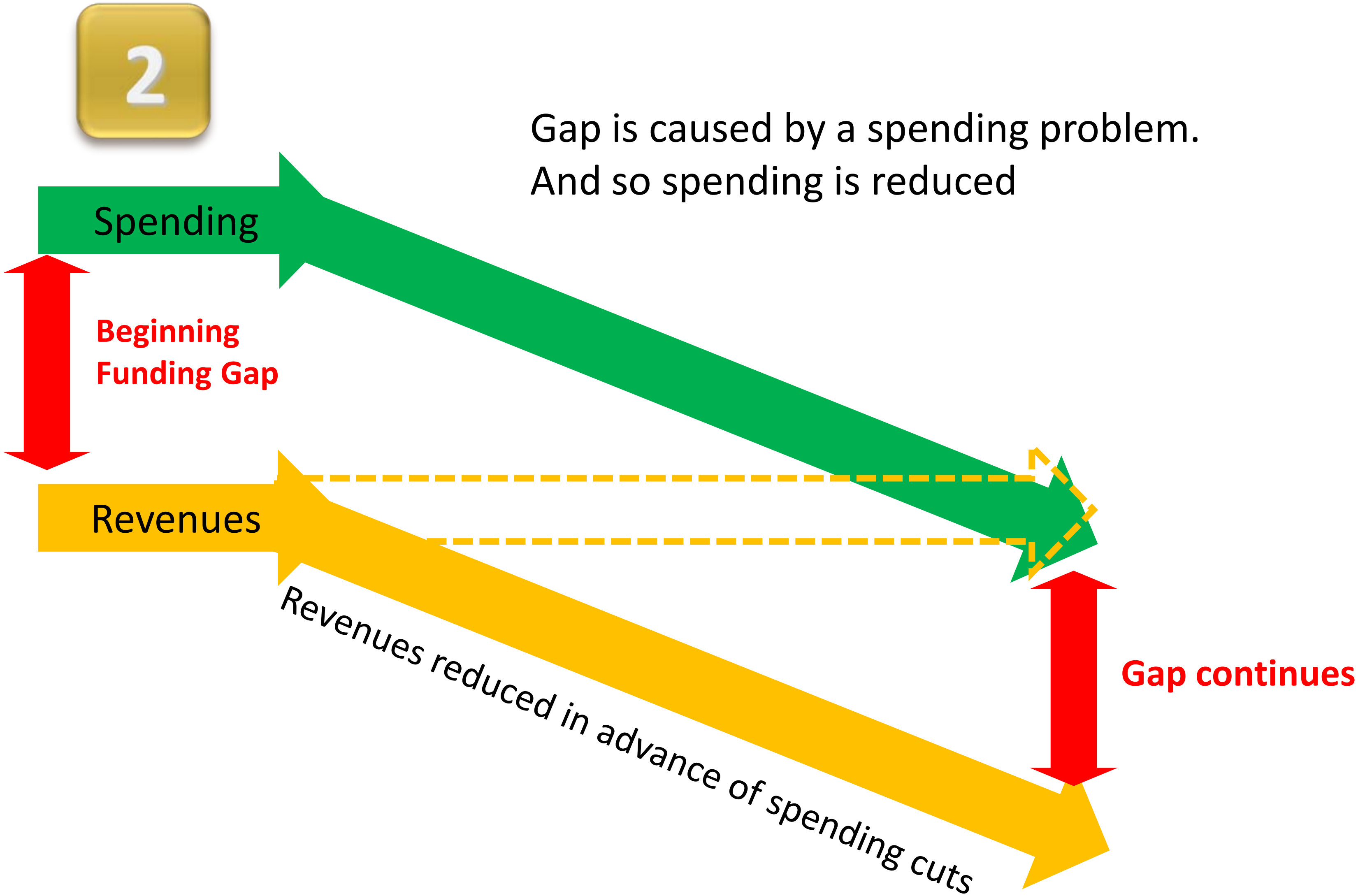
Toronto's Operating Funding Shortfall



Gap is caused by a revenue problem.
And so revenues are increased

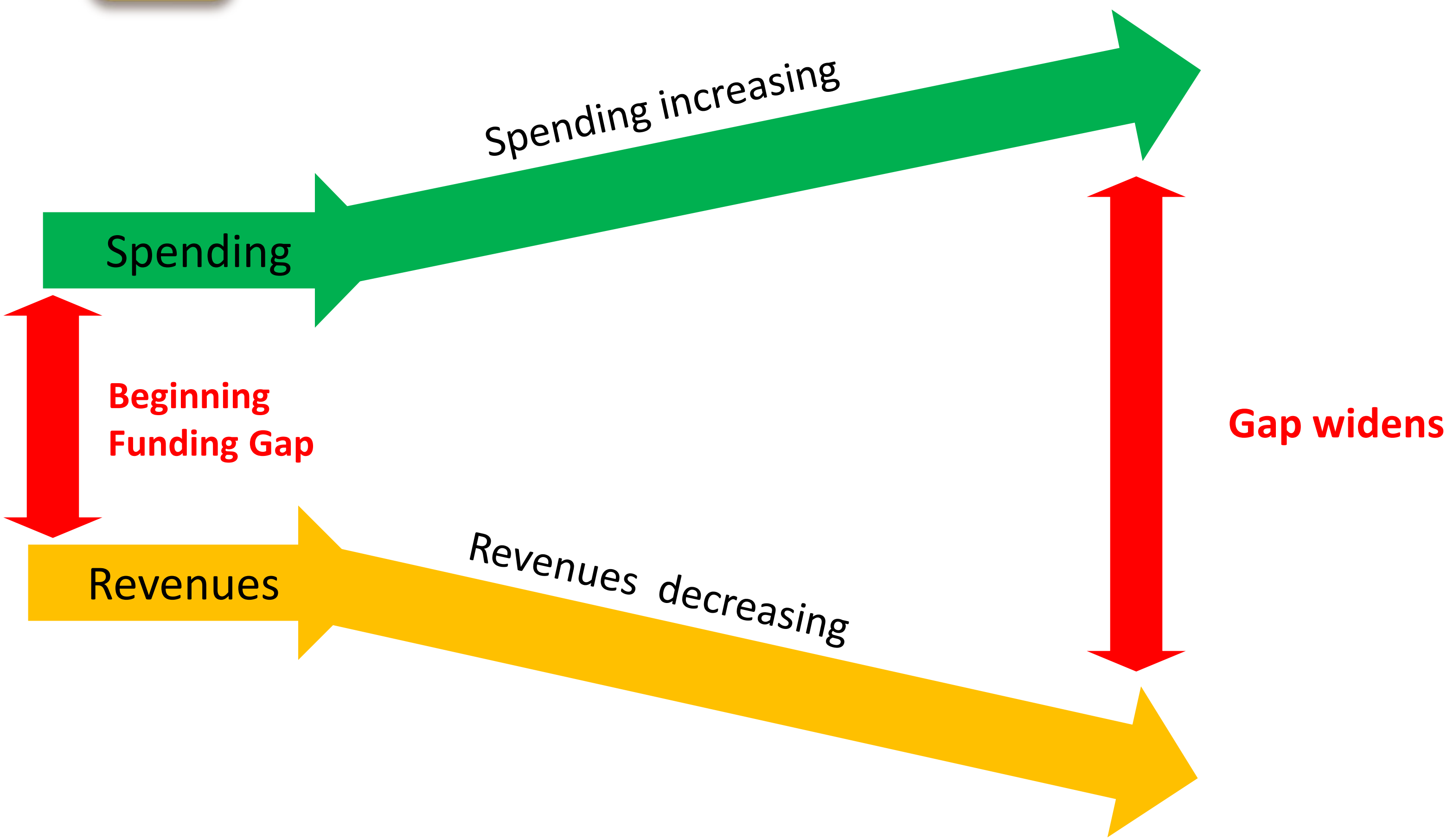
Toronto's Operating Funding Shortfall

Gap is caused by a spending problem.
And so spending is reduced



Toronto's Operating Funding Shortfall

3 Worst Case Scenario



Toronto's Operating Funding Shortfall

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The City has both spending and revenue problems.

This was the recommended strategy in the previous Long-Term Fiscal Plan

2. 2012 Operating Outlook

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Toronto 2011 Economic Outlook

- Recovery from the 2009 recession is well underway:
  - The Infrastructure Stimulus spending benefited the construction sector, improved consumer spending and strengthened the job market
- 2011 economic forecasts for the Toronto region indicate:
  - GDP growth: 3.0% (3.5% in 2012)
  - Unemployment rate: 8.1% (7.1% in 2012)
  - Housing starts: 29,200 units (34,900 in 2012)
  - CPI: 2.3% (2.1% in 2012)
  - Interest rate: 10 year bonds 4.5% (5.0% 2012); 30 year 5% (5.5% 2012)
- TTC 2011 forecast ridership increase - 25 million riders
- Ontario Works 2011 average monthly caseload to decrease by 4,000 cases

2012 Operating Outlook

- The Operating Outlook Pressure is the incremental cost of providing 2011 services and service levels in the subsequent year
- Drivers of the outlook pressure include:
  - Cost of living adjustments
  - Inflationary impact on expenditures and user fees
  - Annualized costs, savings and revenues of prior year initiatives implemented part-year
  - Termination of non recurring or one time revenues and/or expenditures

2012 Operating Outlook Assumptions

- Same level of service as in 2011
- 2.1% general inflation
- COLA based on same assumptions as in 2011
- No change in OW caseload
- TTC Ridership increase from 487 million to 502 million
- TTC fare increase - 10 cents
- Moderate change in assessment growth
- Projected bank rate increase in last quarter of 2011
- MLTT volume and price increase

2011 & 2012 Outlook Pressures

	$ Million	
	2011 Adjusted to Actual	2012 Feb.
City One-Time Funding		
Prior Year Surplus	277	346
Reserve Draws	66	14
Total Unsustainable Balancing Strategies	**343**	**360**
Expenditure Increases		
Cost of Living and Progression Pay	124	138
Fringe Benefit Liabilities - Contribution Requirements	-	78
Inflation - Material Supplies and Services	58	50
Capital Financing	23	55
Contribution to Reserves - Liabilities	-	10
Hydro Note - Interest Change	22	-
Operating Impact of Capital	11	16
PVT Elimination	50	-
Other Base Change	75	67
Total Expenditure Increases	**363**	**414**
Outlook Pressure Before Revenue Increases	**706**	**774**

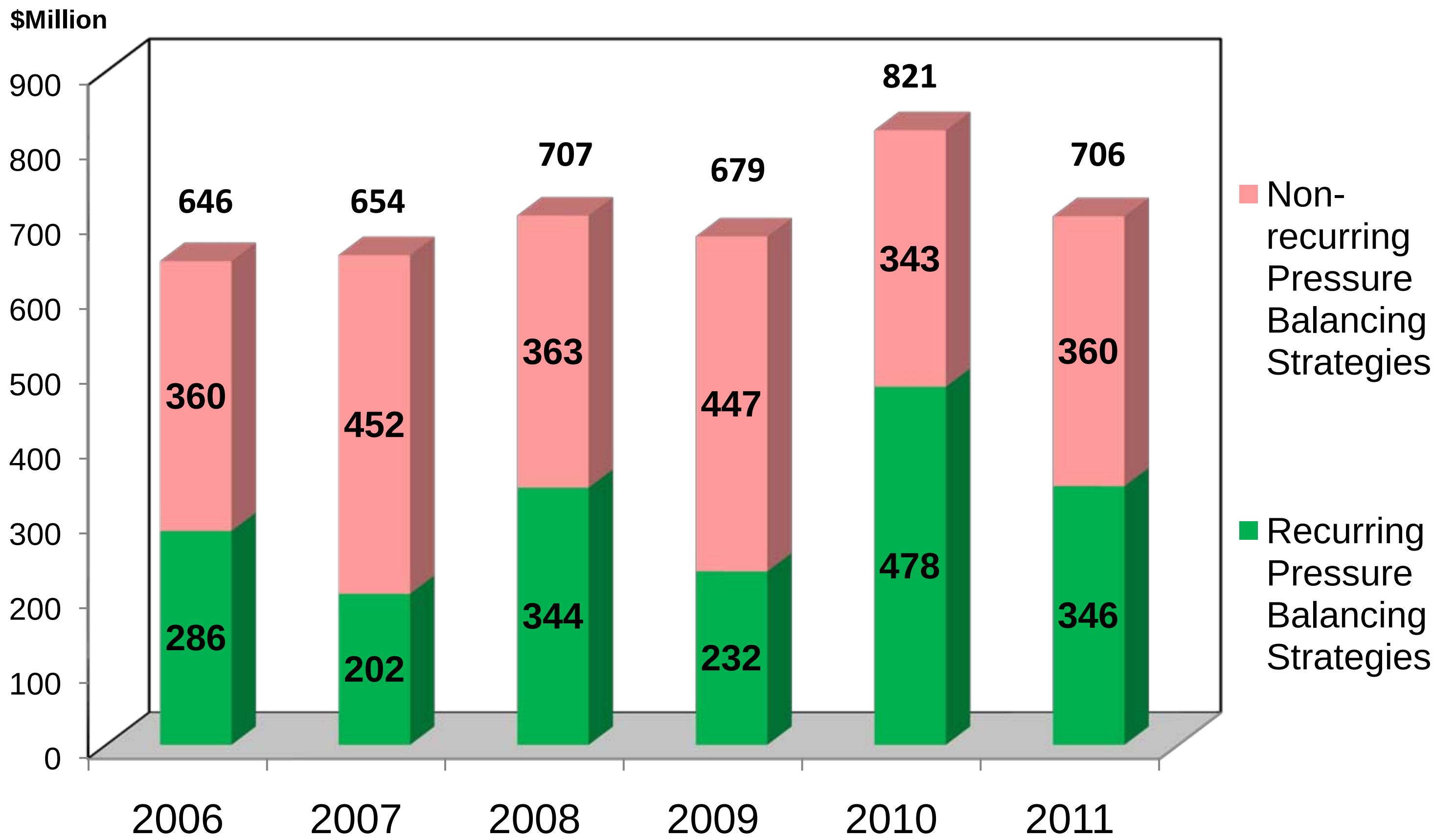
2011 and 2012 Outlook Pressures

	$ Million	
	2011 Adjusted to Actuals	2012 Feb.
Opening Pressure	**706**	**774**
Surplus	(346)	
Provincial Upload - ODSP/OW	(63)	-
MLTT	(50)	(25)
TTC fare increase	-	(30)
Other Revenue	(145)	(46)
Total Revenue	(258)	(101)
Cost Reduction	(57)	?
Assessment Growth	(45)	(30)
	(102)	(30)
Total Balancing Strategy	(706)	(131)
Remaining Pressure	**0**	**643**

2012 Outlook Pressure

		$Millions
2012 Outlook Remaining Pressure per above		643
Additional potential offsets:		
Prior year surplus (based on average)	(50)	
Hydro & Enwave dividends & Other	(15)	
Property tax increase at inflation	(47)	(113)
Remaining Pressure		**530**
Cost reduction		?
Excess surplus		?
Provincial Assistance for TTC Operating		?

2006 - 2011 Operating Budget Mitigating Strategies



Conclusion

- 2012 Outlook Pressure is attributed to the following:
  - Non-recurring balancing strategies
  - Inflationary adjustments and other direct payroll cost
  - Impact of capital
- Strategies to balance the 2012 Budget:
  - Major cost reduction
  - Increase predictable, sustainable revenue sources
  - Provincial assistance for TTC Operating

3. Long Term Financial Plan Update

City's Long Term Financial Plan Vision

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What We Mean by Sustainable

- Assets should be maintained in a state of good repair
- Assets no longer used should be sold, and proceeds used for re-investment or debt reduction
- New assets should be acquired only when necessary and affordable
- Debt should be held to a manageable level, used only for long-lasting assets
- Appropriate funds should be set aside for future obligations
- Future trends should be planned for

What We Mean by Affordable

- Property taxes should be predictable, affordable and competitive with 905 -- continue re-balancing of non-residential and residential taxes
- User fees should be competitive with 905
- Subsidies to residents and businesses should be transparent
- Necessary increases in taxes and fees should be in line with inflation and appropriate cost recovery
- Income support programs should be funded through income or consumption based revenues, not property taxes
- Provincial cost sharing should recognize the benefit that some City services accrue beyond the City's borders

What We Mean by Well Managed

- The City should be operating efficiently and can demonstrate that it is
- Programs should be continually reviewed to ensure they are effective and relevant, and changed when they are not

Financial Progress – 2005 Plan

Major Financial Issues

Identified in the Long Term Fiscal Plan 2005	Current Status (2011)	Score	Last Year
Well-managed (Expenditures): • City has a higher cost structure for some services than other municipalities in GTA	Costs "restrained"	✓	
• Demands for growth not adequately funded	Growths in expenditure and revenue being balanced	–	
• Variability in certain program expenditures from year to year, e.g. economic downturns	Social Services & Court Security upload. Restoration of full 50% funding on Ontario Works administration costs	✓	
Affordable (Revenues):	Improving business competitiveness	✓	
• Business taxes not competitive	Revenues diversified	–	✓
• Inadequate revenue sources to fund responsibilities	User Fees enhanced	–	✓
• Improper funding of Provincial cost-shared programs	Provincial 50% TTC Operating Funding	✗	–
	Share of HST	✗	
Sustainable (Assets & Liabilities): • Investment in ageing infrastructure lagging	• 10 year capital plan • More than 60% to be spent on State of Good Repair	✓	
• Employee benefits and other liabilities not adequately funded	Debt increase mitigated	–	✓
	Sick Pay liability partially capped, but some liabilities still growing	–	

Legend:

✓ Improving or compares favourably	✗ No progress
– Stabilizing or work in progress	

Current Financial Position

Strengths	Areas of Concern
1. City has very high credit rating (AA+, one level below maximum AAA)	
• Modest level of debt	• Current level of debt insufficient to fund TTC growing capital program
• High reserve levels for capital	• No/low reserves for financial resilience, e.g. stabilization reserves
• Strong and balanced economy o Financial services o Knowledge industries, e.g. I&T o Culture	• Unemployment rate has not returned to pre-recessionary level • Industrial assessment and jobs declining
• Stable political environment	• Imminent Provincial and Federal elections
• Well established financial planning/management	• Future enhancements being implemented
2. Residential property tax rates among lowest in Province	Business property tax rates higher than 905 and most other large North American cities
3. Revenue base more diversified than average	• Recent loss of Personal Vehicle Tax • User fee cost recovery levels need review

Balance between Expenditure and Revenue Growth

	Average Annual Operating Pressures ($M)		
	Steady State *	Impact Above & Beyond	Projected
Operating Pressures:			
Salaries and Benefits	101	39	140
Non Salary Costs	64	0	64
Capital Financing, Asset & Liability Funding	8	51	59
Annualization & Other Base Changes	-	29	29
Phase-out of One-time Revenue Offsets	-	92	92
Total pressures	**173**	**211**	**384**
Offsets:			
Property Tax Increase	(71)		(71)
Cost of Business Tax Relief	-	26	26
Net Property Tax Increase	(71)	26	(45)
Assessment Growth	(32)		(32)
User Fee Increase	(38)		(38)
Municipal Land Transfer Tax & Sign Tax	(17)	(7)	(24)
Investment & Dividend Income & Other	(15)	(7)	(22)
Provincial Upload	-	(21)	(21)
One-time Revenue Offsets	-	(57)	(57)
Total Offsets	**(173)**	**(66)**	**(239)**
Net Annual Average Operating Pressures	**0**	**145**	**145**

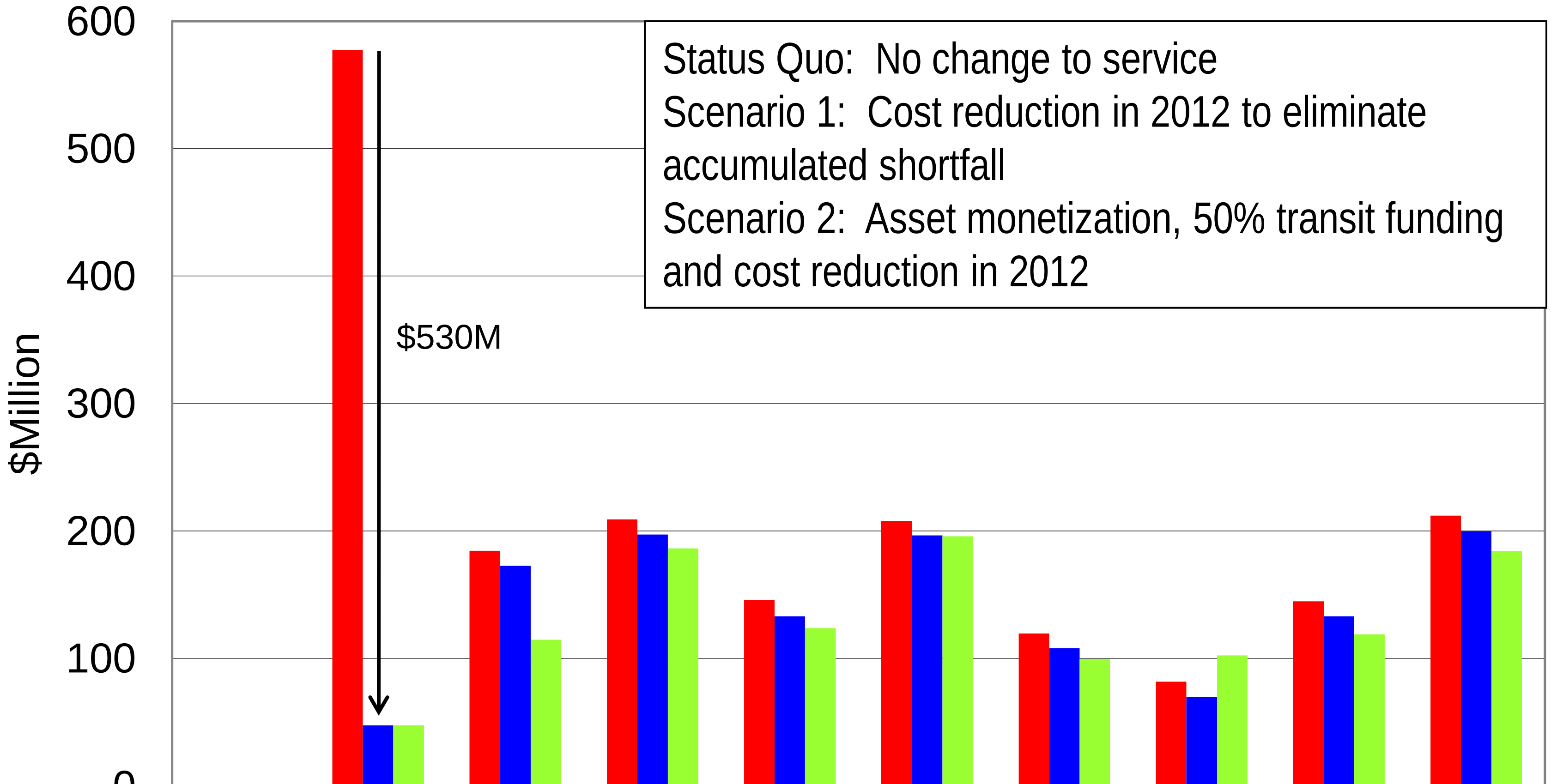
Result of Annual Shortfall

- Inability to permanently address shortfall has led to increasing use of one-time revenues to balance the operating budget = accumulated shortfall
- This becomes a funding pressure in next year

Financial Forecasts

- 10 year forecasts prepared to show impacts on property tax from possible cost increases, impacts of capital and revenues
- 3 scenarios:
  - Status quo – no service expansions or reductions
  - Scenario 1 – $530m Cost Reduction in 2012 required to keep tax increase at inflation
  - Scenario 2:
    - Asset Monetization over 2 years applied to debt reduction
    - Sustainable provincial funding (50% transit operating funding & maintaining the Federal subsidy for social housing)
    - Cost reduction in 2012 to keep tax increase at inflation

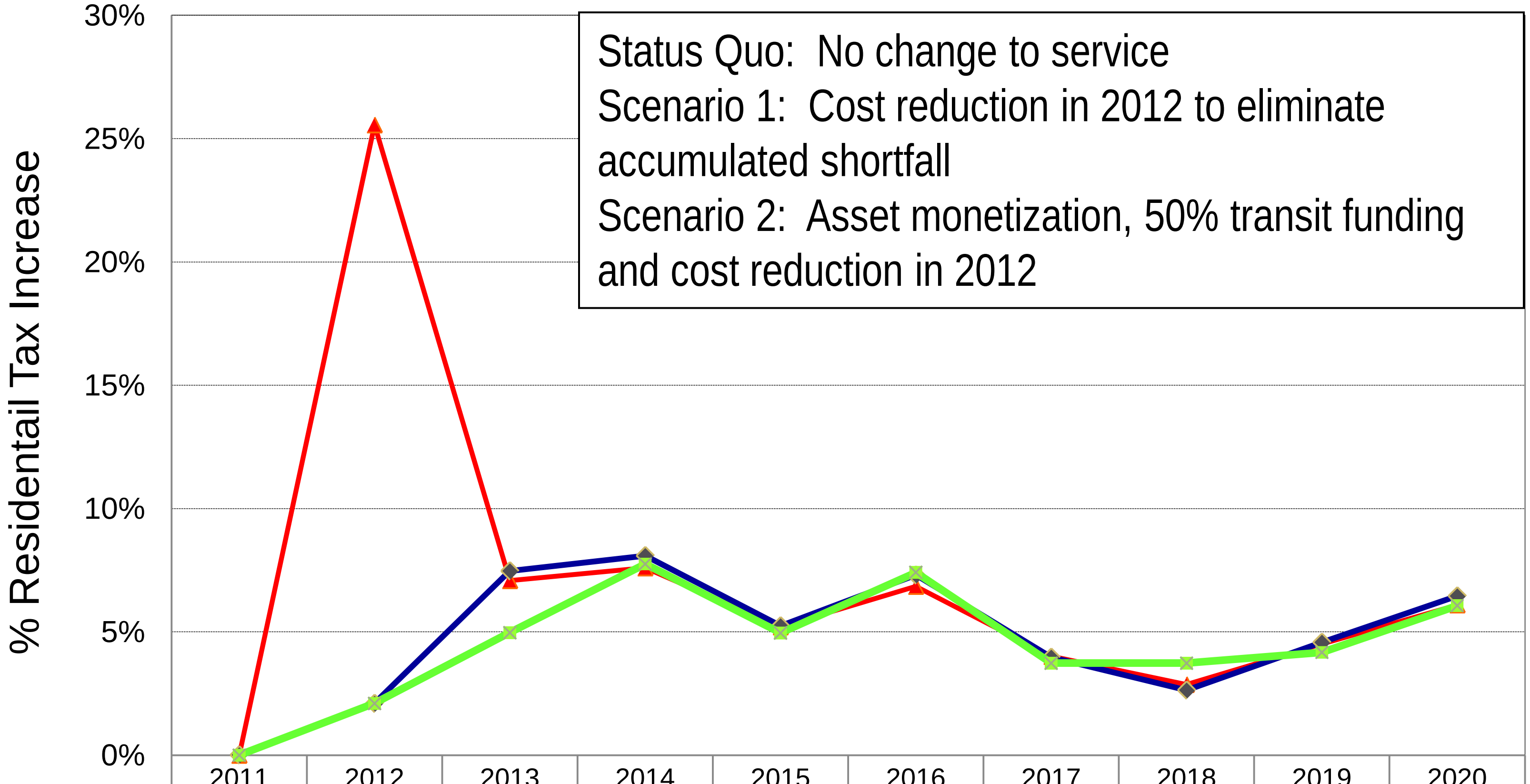
Remaining Annual Operating Pressures



	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Status Quo	0	577	184	209	146	208	120	82	145	212
Scenario 1	0	47	173	197	133	196	108	70	133	200
Scenario 2	0	47	115	186	124	196	100	102	119	184

Property Tax Scenarios

if all remaining pressures funded by property taxes



	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Status Quo	0.0%	25.6%	7.1%	7.6%	5.2%	6.8%	4.0%	2.9%	4.5%	6.1%
Scenario 1	0.0%	2.1%	7.5%	8.1%	5.2%	7.3%	4.0%	2.6%	4.6%	6.5%
Scenario 2	0.0%	2.1%	5.0%	7.8%	5.0%	7.4%	3.7%	3.7%	4.2%	6.1%

Constraints

- Limits to service efficiencies
- Limits to assets that can be sold for debt reduction
- Service reductions impacts
- Constraints on provincial, federal governments to provide their share of the solutions
- The need to take a long term view, e.g. avoid deferring maintenance, funding liabilities

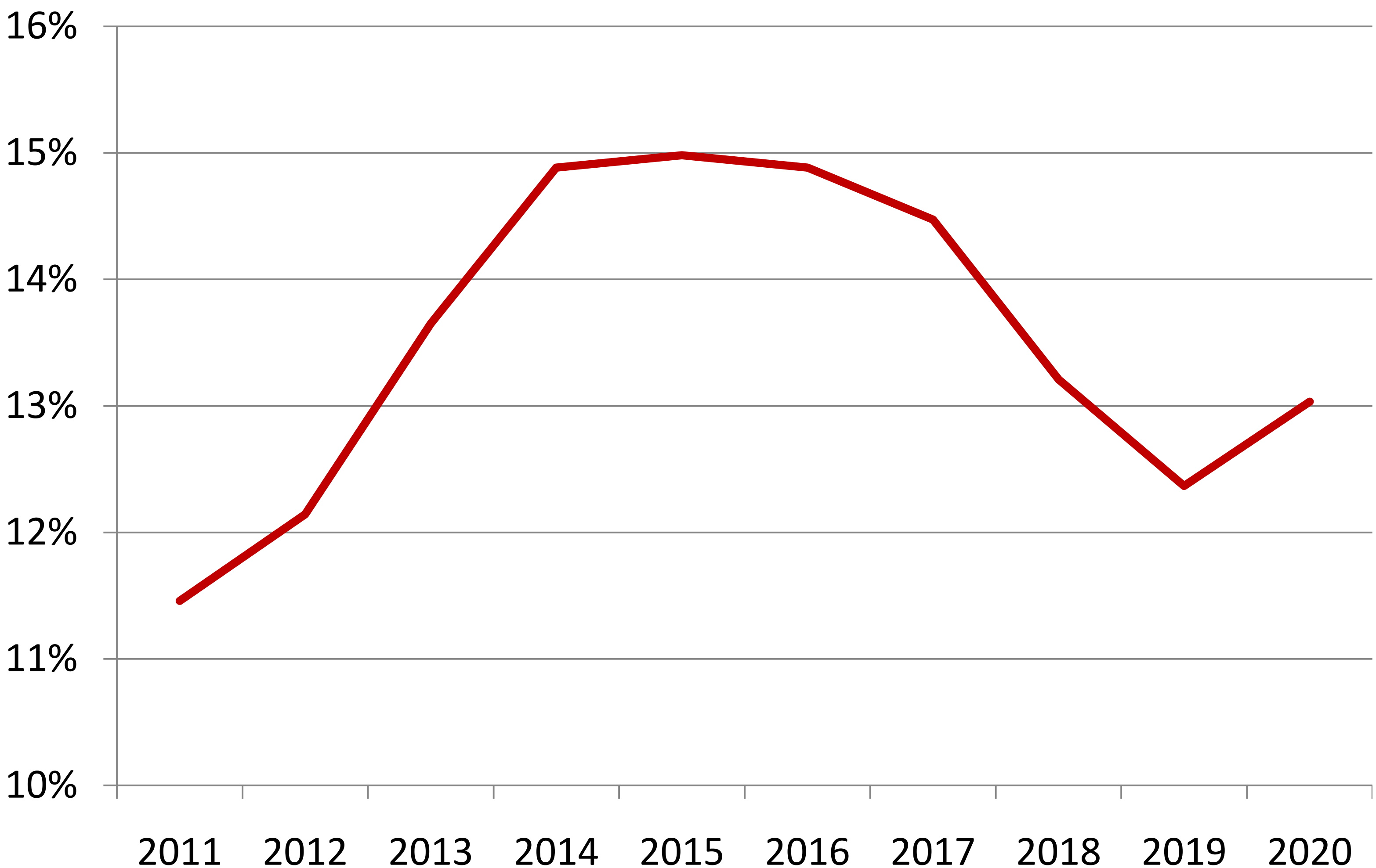
4. Debt Management

Debt Background

- Debt can only be issued for capital
- Debt service payments are part of operating budget: include both interest and principal
- Two kinds of debt
  - Sinking fund: principal is paid into City's funds
  - Serial/amortizing: principal payments to debtholders
- Interest rates are fixed for term of debt
- Debt is not callable, i.e. must hold to end of term
- Terms range from 1 – 30 years with most as 10 year: term cannot exceed life of asset being funded

Comparison of Existing and New Debt

Debt Charges as % of Tax Levy



Debt Breakdown

	2009	2010	2011
	$Million		
Gross Tax-Supported Debt	$3,300	$3,660	$4,360
Less: Projected Sinking Fund Book Value including Monetization Funds	(1,032)	(1,550)	(1,750)
Net Tax-Supported Debt	**$2,268**	**$2,110**	**$2,610**

2012 Outlook & Long Term Financial Plan Update

Unmet Capital Needs

- The 2011-2020 Capital Budget is manageable except for TTC

TTC	**2011 – 2020 Capital Plan $Billions**		
	Requested	**Recommended**	**Requested but Not Recommended**
Gross Expenditures	**7.59**	**3.44**	**4.16**
Funding Sources:			
Provincial Subsidy	1.32	0.79	0.54
Federal Subsidy	1.59	0.54	1.05
Other	0.28	0.04	0.19
Total Funding:	**3.20**	**1.42**	**1.78**
Required Debt:	4.39	2.02	2.38
Debt Target	2.13	2.13	0.11
Debt Shortfall	**2.26**	**-0.11**	**2.26**

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Emerging Capital Needs

	$Billion
• TTC	
– Unmet capital needs (per above)	4.16
– Other emerging needs	4.40
• Lawrence Heights	0.24
• Long Term Care	0.22
• Facilities	0.17
• Other	0.49

Unmet Capital Needs (Cont.d)

- Meeting this need will require:
  - new approaches
  - rationalization of some affected assets
  - new funding sources

Monetization of Assets

- Staff will report following budget approval on process for identifying, quantifying and recommending monetization of specific assets
- Some key candidates are City owned subsidiaries:
  - Toronto Hydro (maximum 10% after which provincial taxes make sale uneconomic)
  - Enwave
  - Toronto Parking Authority
- Council adopted motion in 2010 removing Toronto Hydro from consideration

5. Action Plan

Action Plan

- Short-Term: City Initiatives:
  - Service level review (Divisions & ABCs)
  - Detailed service efficiency review (Divisions & ABCs)
  - Comprehensive user fee policy
  - Procurement Policy & Practice review
  - Asset Monetization review

- Medium/Long-Term: Funding relationship with other orders of Government
  - 50% TTC operating funding
  - Social Housing upload/ National Housing Strategy
  - Sharing of HST

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