

*An Assessment*  
*of*  
*City of Toronto's*  
**Financial Condition**

January 31, 2001

# What is Financial Condition\*?

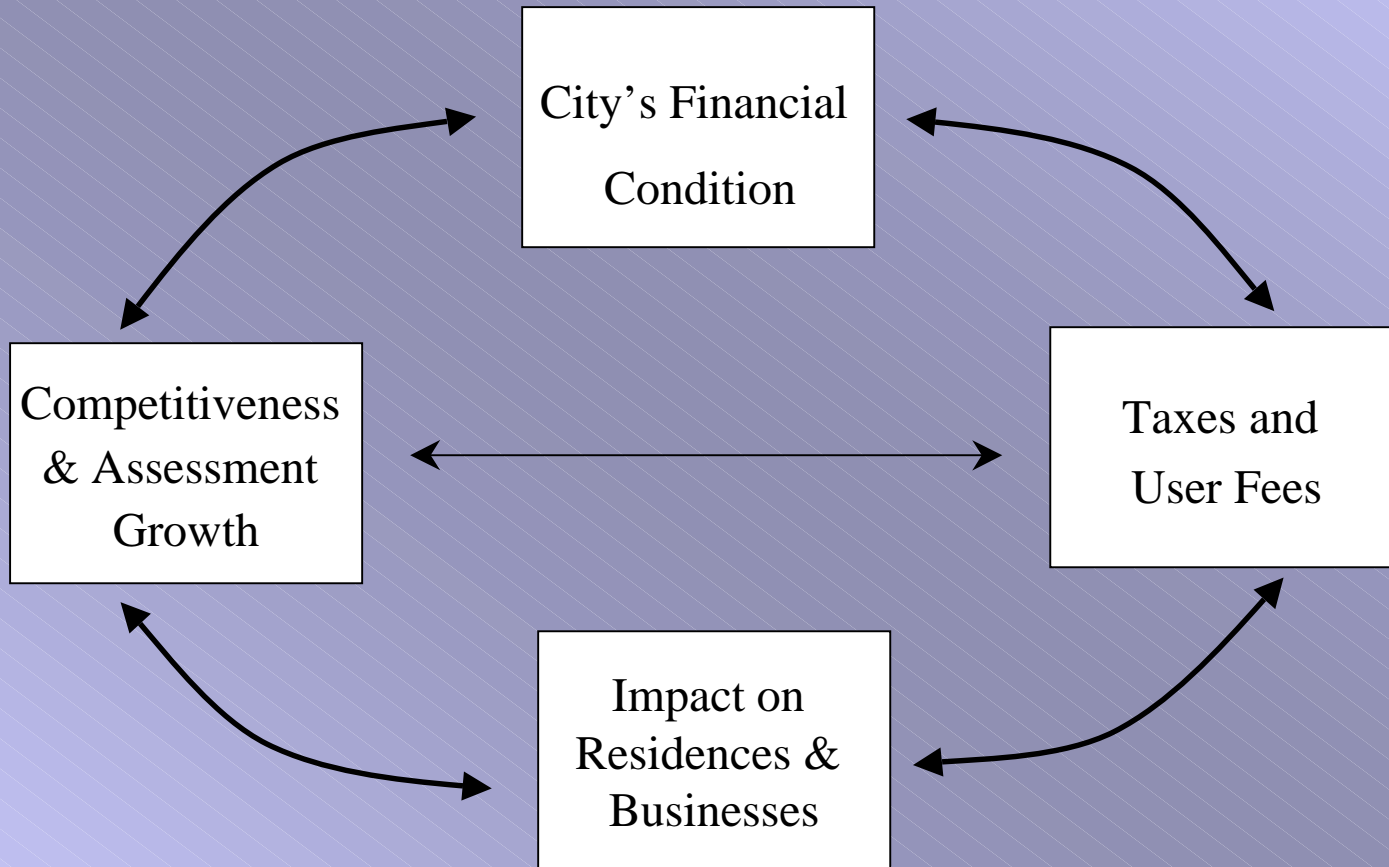
***Vulnerability*** - dependence upon expenditures and revenues not under government's control, e.g. welfare, provincial funding

***Sustainability*** - ability to maintain programs and infrastructure without increasing debt or running down physical and financial assets

***Flexibility*** - ability to fund rising commitments with additional revenues or new debt

\* Source: Canadian Institute of Chartered Accountants

# Financial Linkages



# The City's Balance Sheet

12/31/99

(\$Billions)

Assets      \$ 3.9 B

Liabilities      \$ 2.7 B

Fund Balances      \$ 1.2 B

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Total  
Assets      \$ 3.9 B

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Total Liabilities  
& Fund Balances      \$ 3.9 B

# Assets

12/31/99

	<u>\$Billions</u>
Cash & Investments	\$ 1.6
Receivables (taxes, user charges & other accounts)	1.1
Capital Outlay financed by LT liabilities to be recovered in future years	1.1
Other	0.2
<b>Total Assets</b>	<u><u>\$ 3.9</u></u>

# Liabilities

12/31/99

	<u>\$Billions</u>
Accounts Payable & Accrued Liabilities	\$ 1.2
Net Debt	1.1
Other	<u>0.4</u>
<b>Total Liabilities</b>	<u><u>\$ 2.7</u></u>

# Fund Balance

12/31/99

		<u>\$Billions</u>
Operating Fund	\$	0.1
Capital Fund		-0.1
Reserves & Reserve Funds		1.2
<b>Total Fund Balance</b>	<b>\$</b>	<b>1.2</b>

# Vulnerability

- Senior Government Funding
- Exposure to Revenue Risk
- Exposure to Expenditure Risk
- Credit Rating



# Sustainability

- Level of Tax Write-off
- Debt
- Overall Reserve Levels
- Unfunded Reserves
- Infrastructure Condition
- Receivables
- Subsidiary Investment

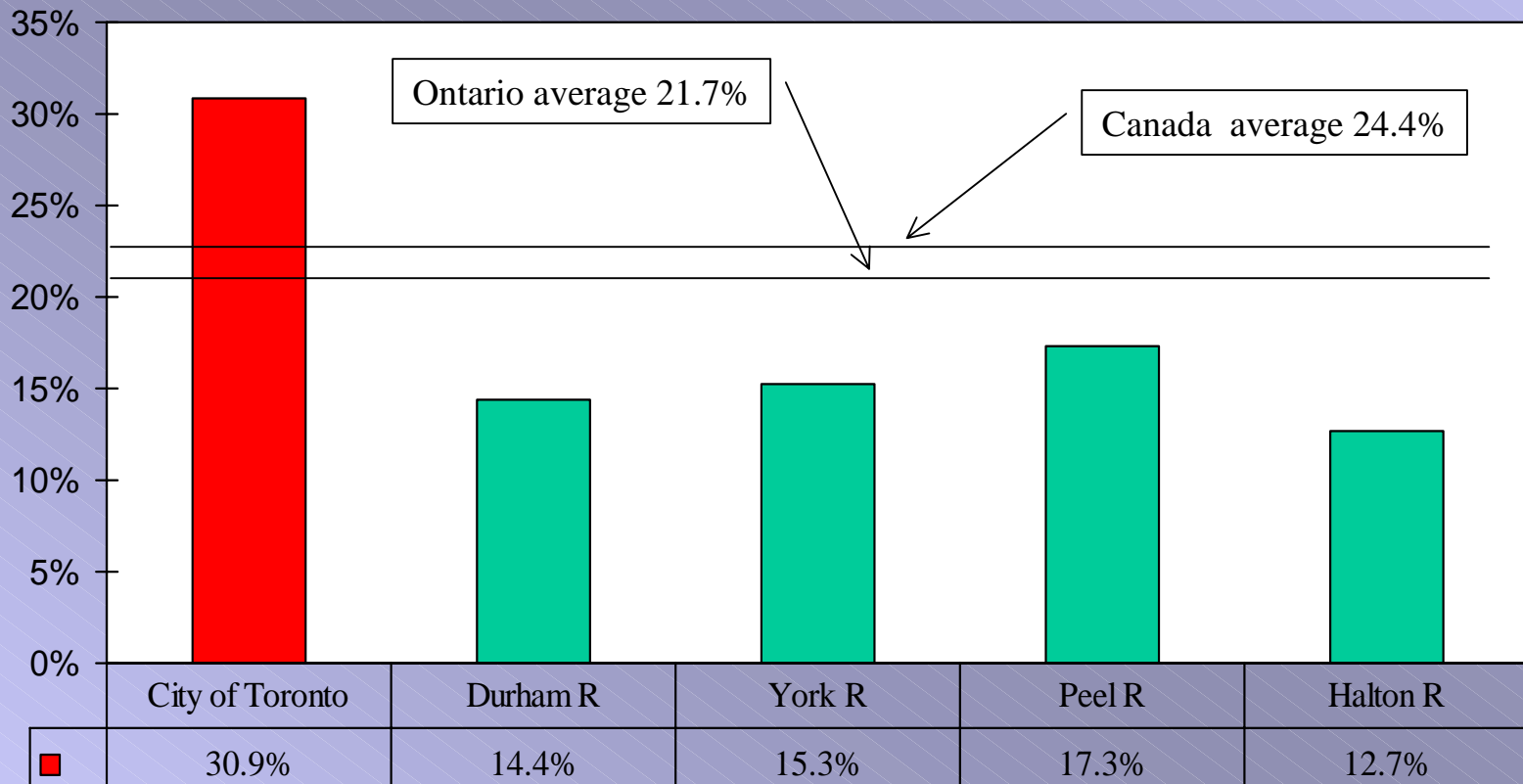
# Flexibility

- Tax Competitiveness
- Assessment Growth
- Use of User Fees

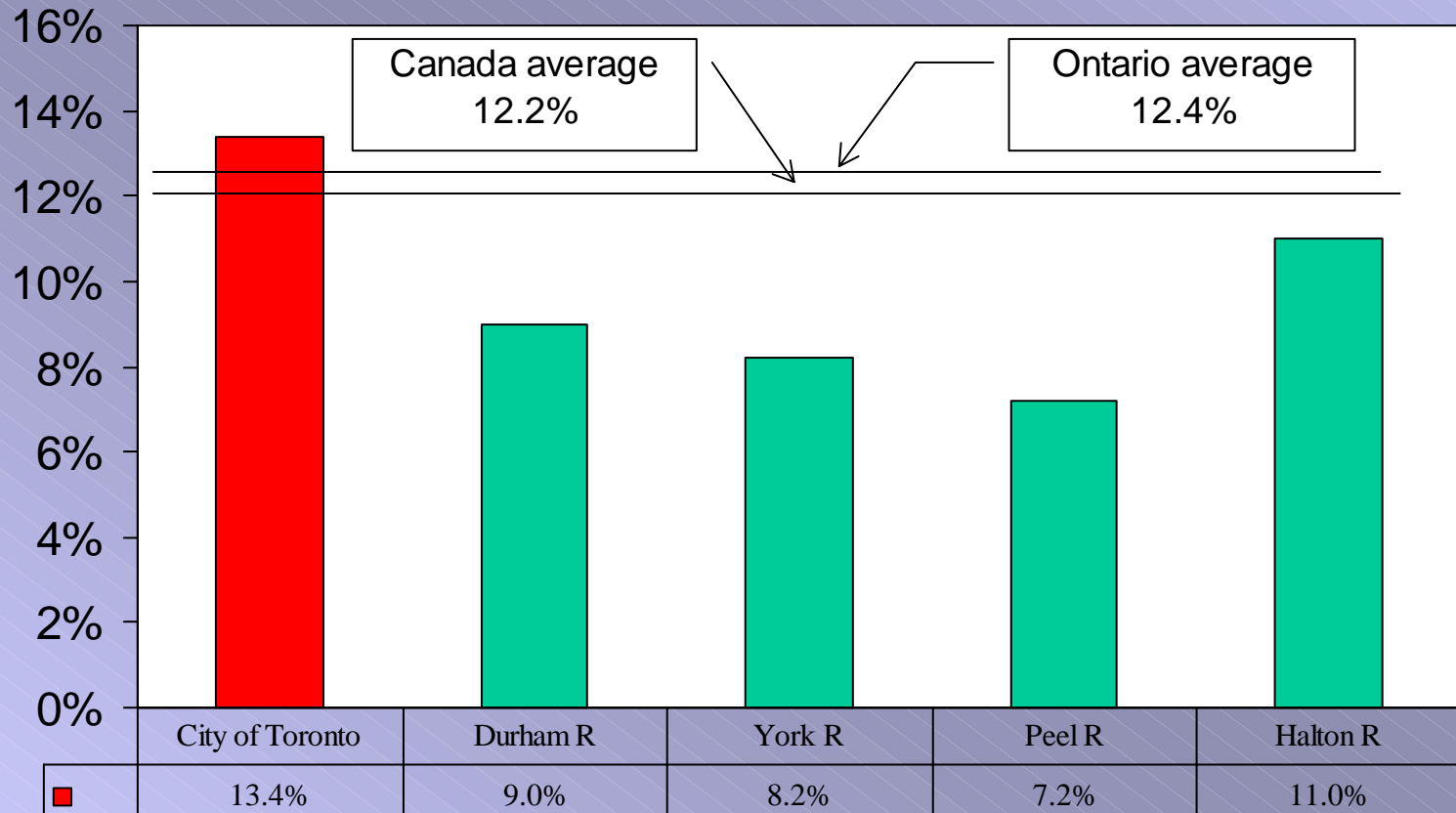
# Vulnerability

- City's unique service demands and demographics places pressures on finances

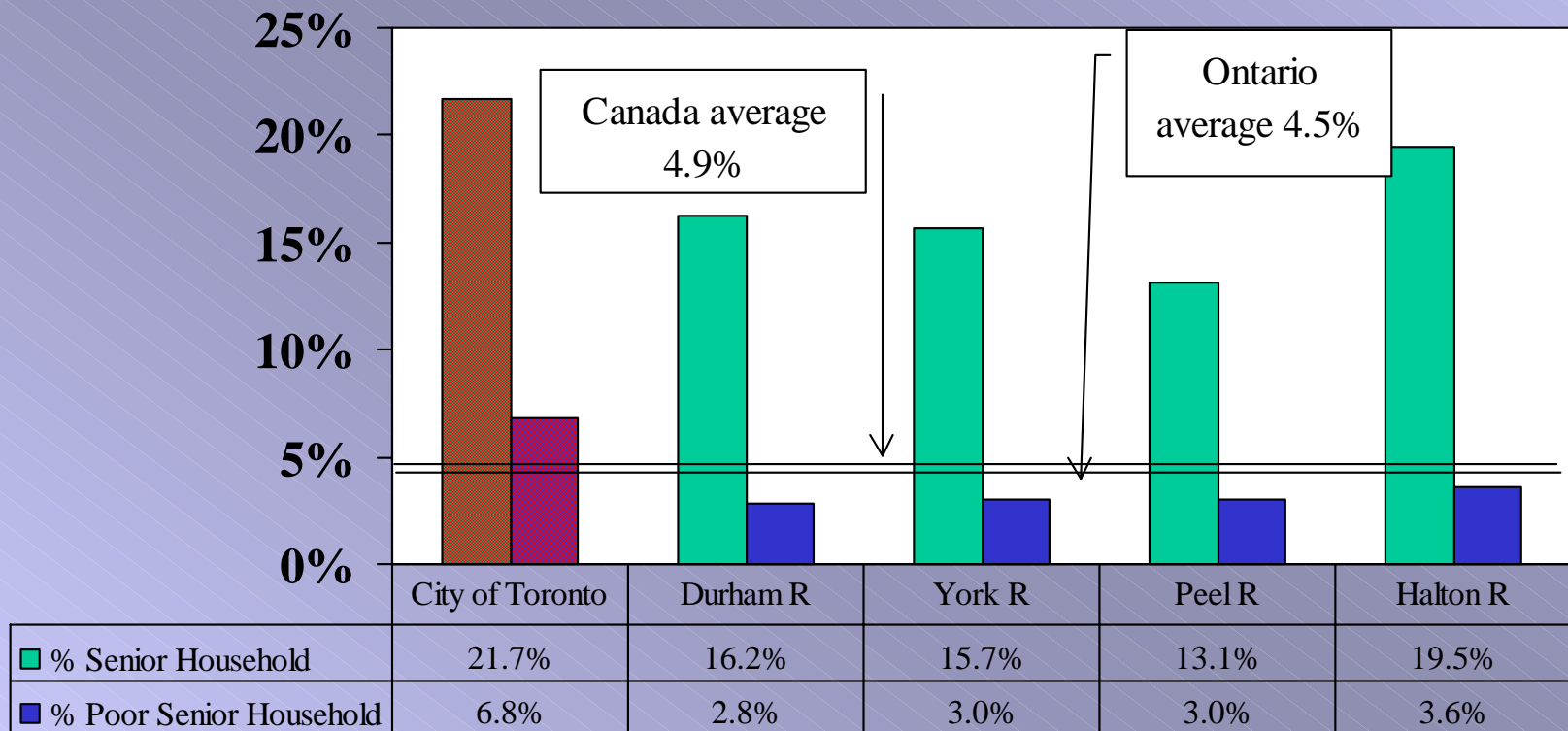
# Toronto has More Poor Households



# Toronto has More Population Over 65



# Toronto has a Much Higher Share of Poor Elderly



# Financial Vulnerability

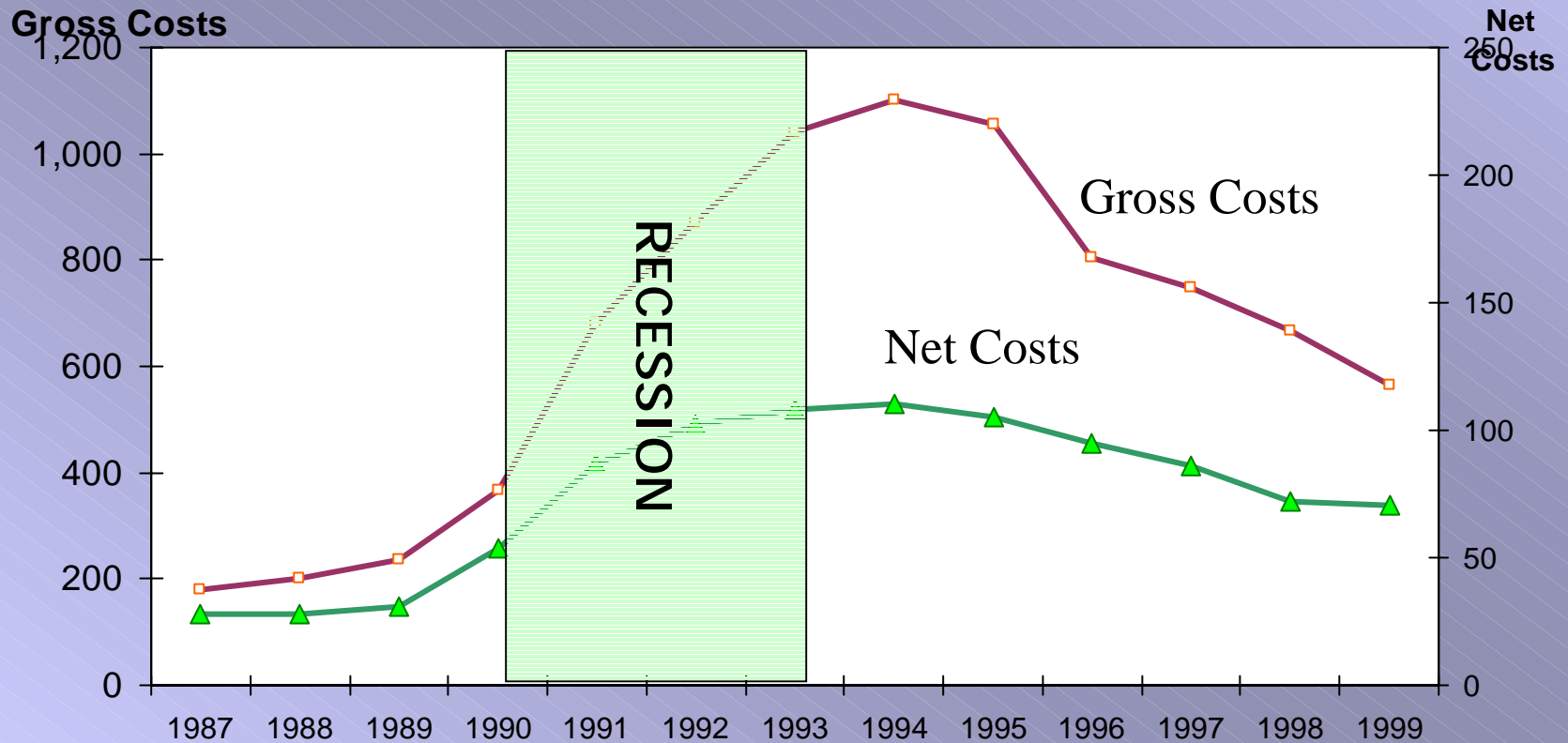
While City does not benefit from economic growth, it is quickly impacted by downturns:

- TTC Ridership
- Welfare
- Other social services
- User fees e.g. building permits, recreational revenues

# City of Toronto

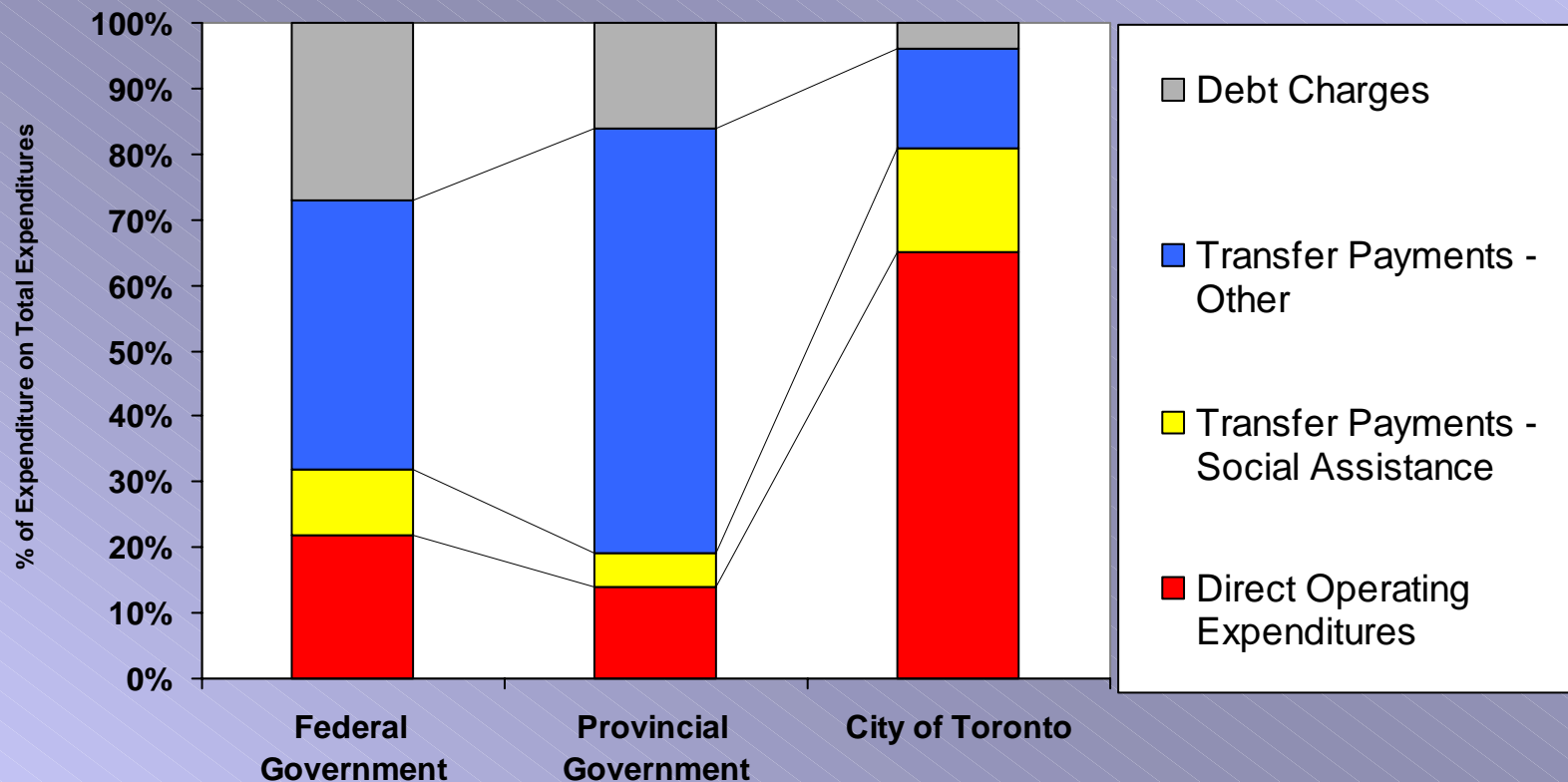
## Social Assistance Costs

(\$Millions)





# City's Expenditures are More Vulnerable than the 2 Senior Levels of Government



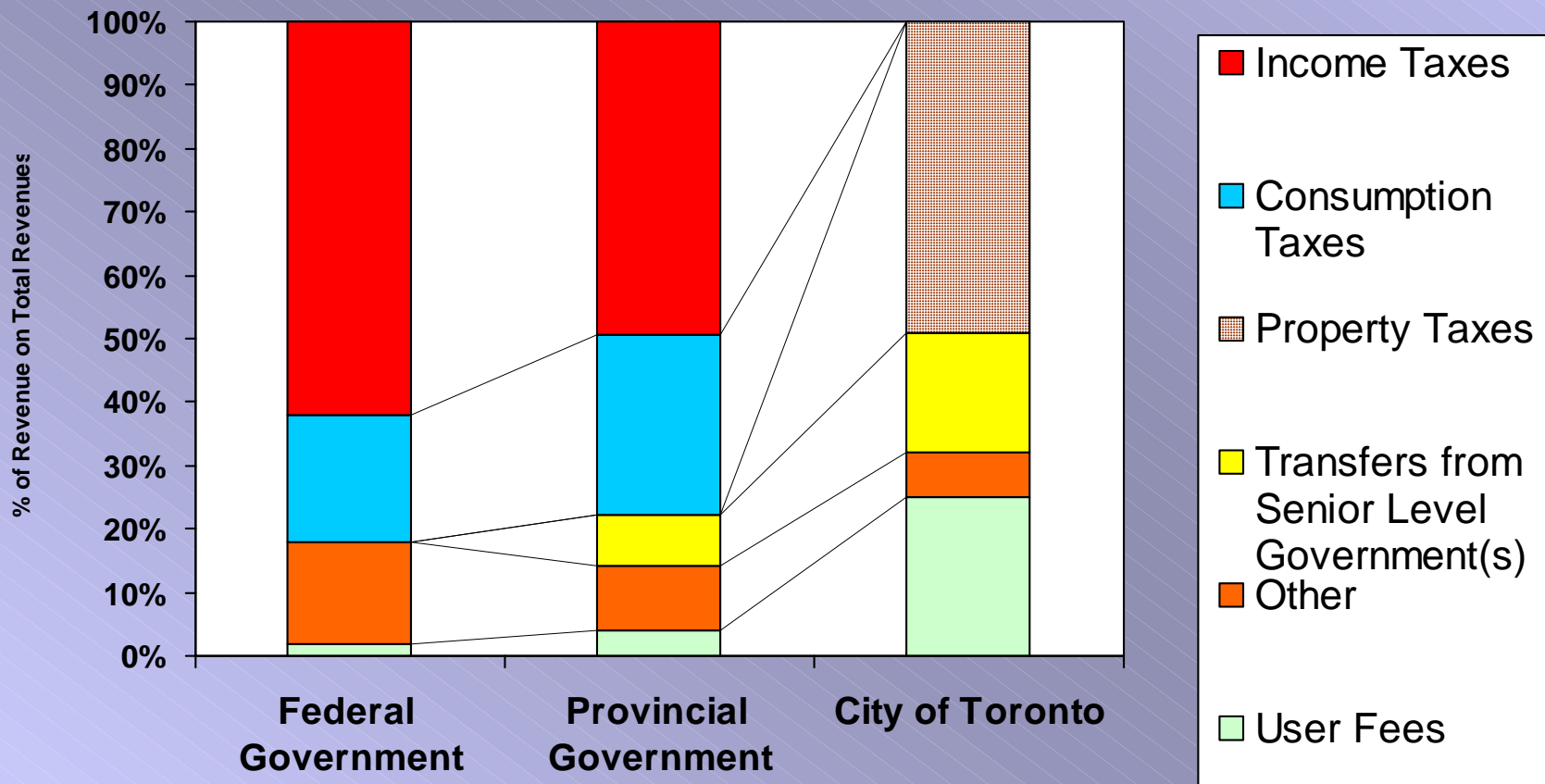
# Revenue Vulnerability

% of revenues from senior governments:

Federal	0%
Province	8%
City *	20%

\* Mostly social assistance payment

# Revenue Structures of the Three Levels of Government



# Sustainability

- To maintain its financial condition, the City must maintain its infrastructure while keeping a healthy balance sheet
  - Infrastructure is aging and has not been kept in a state of good repair
  - Debt levels will rise dramatically
  - Reserves are comparatively low and many are underfunded

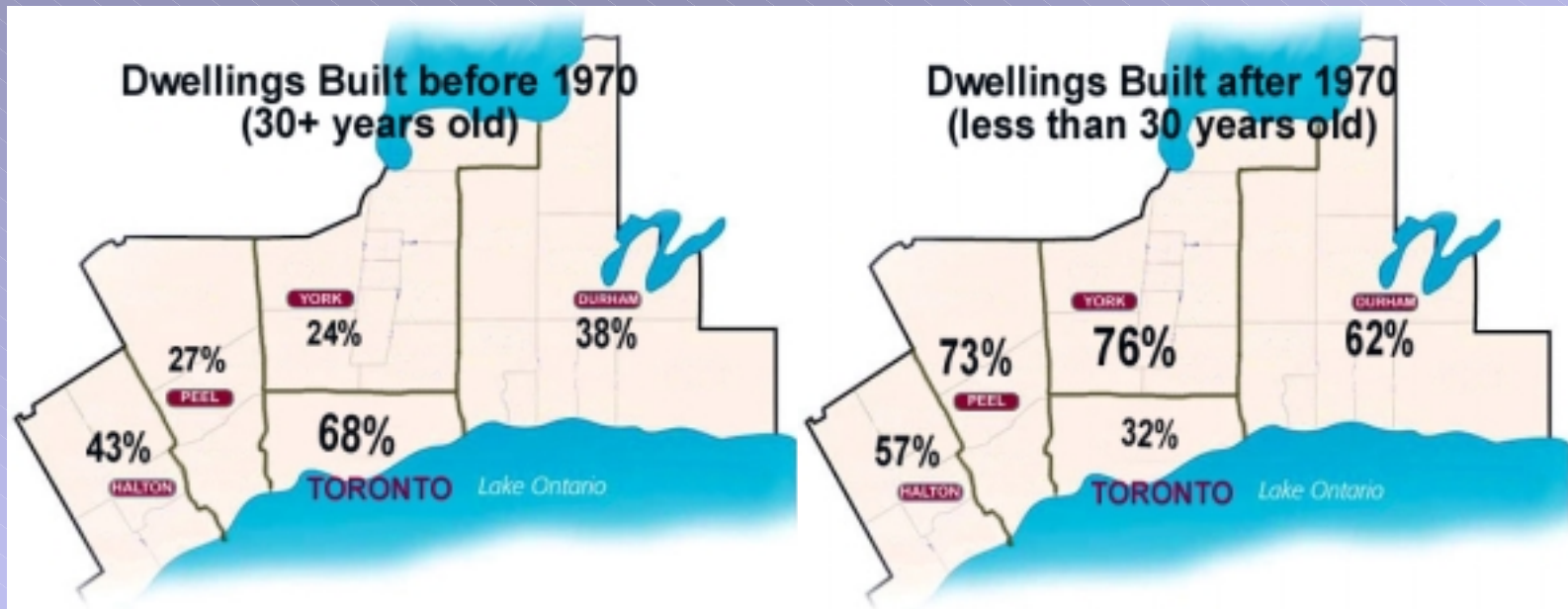
# Infrastructure Condition

- Infrastructure is old
- City does not have adequate funding base to maintain it
- City has unique infrastructure, such as subway lines, the Gardiner elevated expressway and the Don Valley Parkway

# Age of Infrastructure

- Toronto has much older infrastructure than the surrounding areas, without assessment growth or substantial development charge revenue to pay for it

# Toronto's Infrastructure is Much Older than the 905 Area



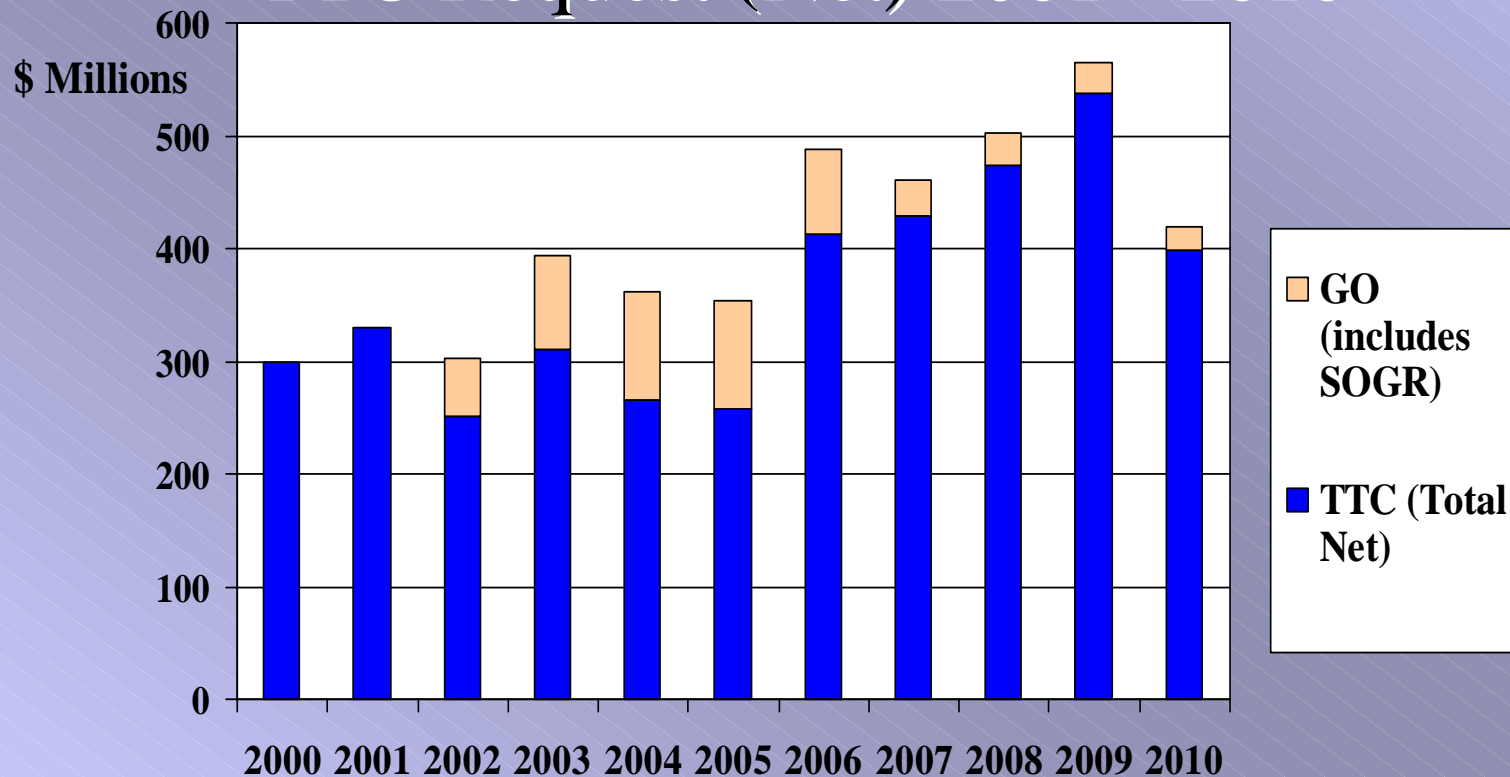
# Infrastructure Expansion

- Toronto will keep growing and demand for services will keep rising
- The City does not have the financial capacity for necessary growth related expenditures, e.g. GO, TTC, Transportation, Housing

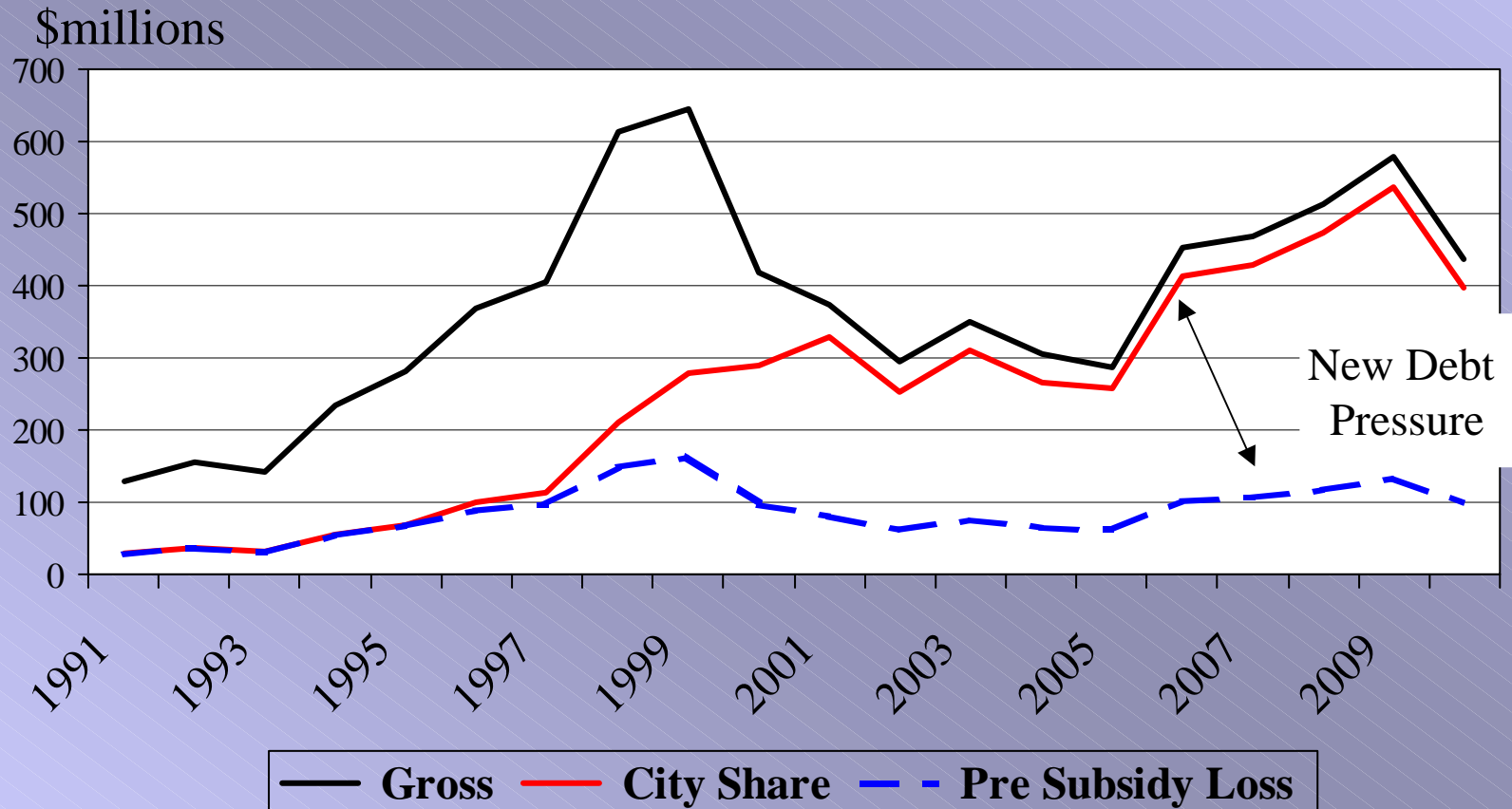


# Capital Target Options

# Local Service Realignment Downloading Forecast for Transit TTC Request (Net) 2001 - 2010

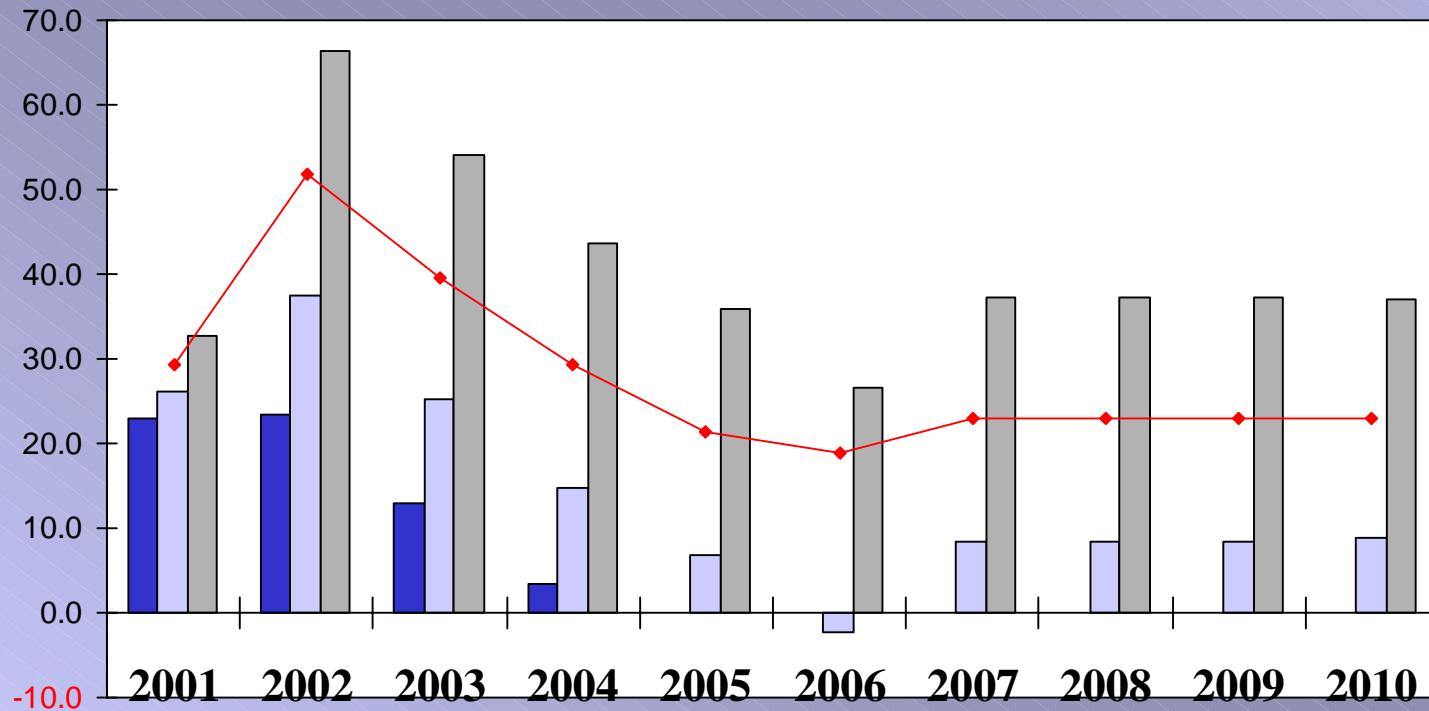


# TTC Capital Funding 1991 to 2010



# Capital Forecast Scenarios Annual Operating Impact

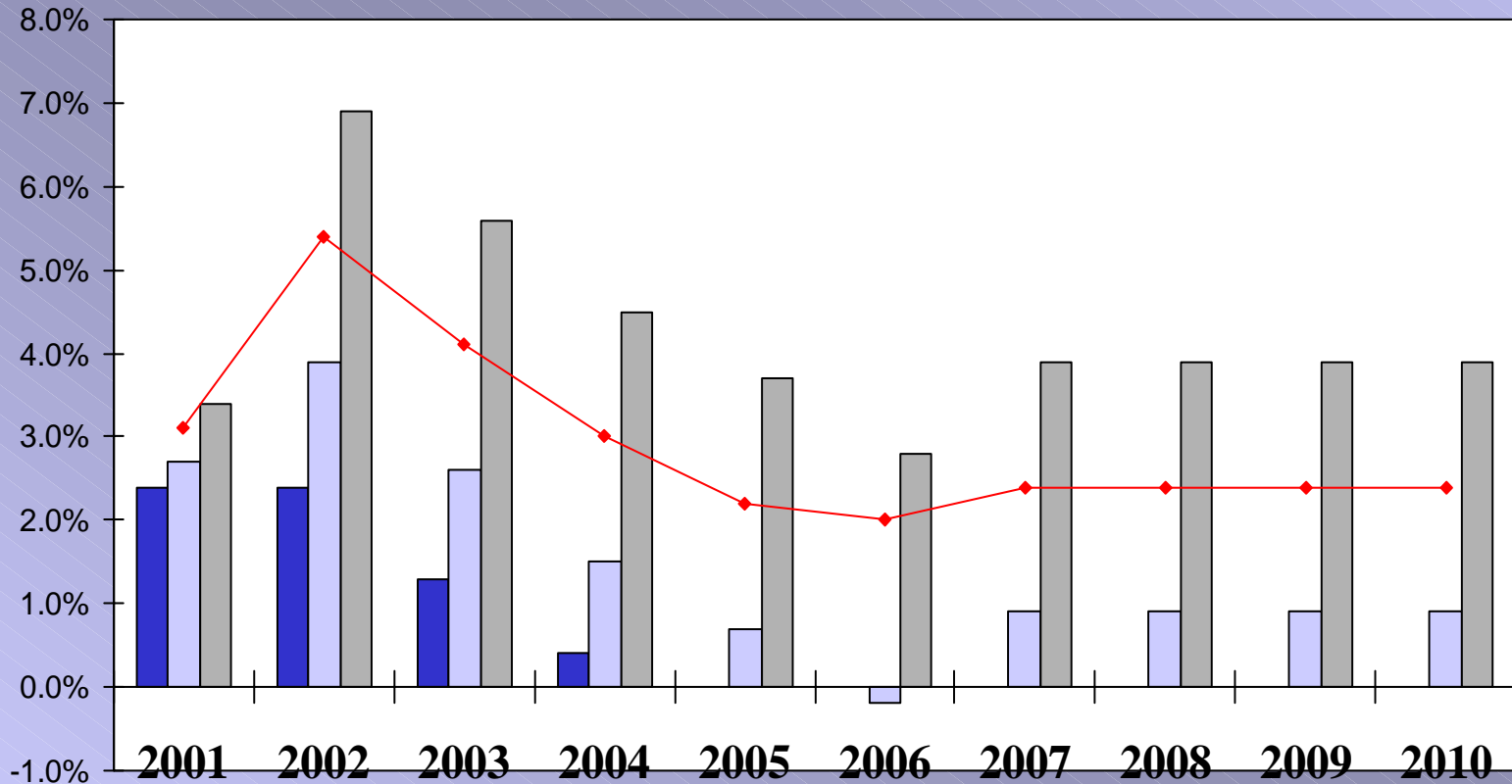
\$millions



# Capital Forecast Scenarios

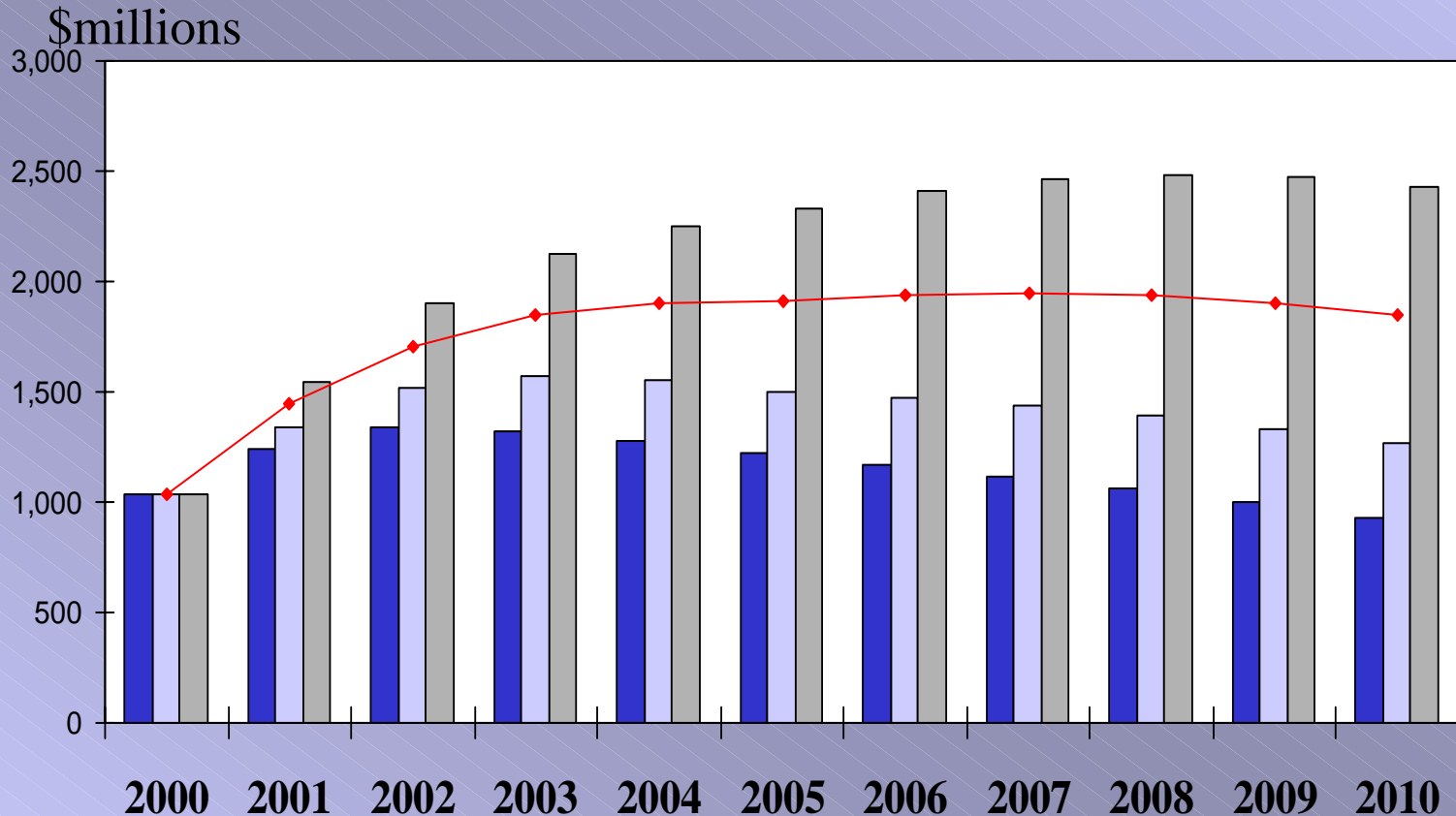
## Tax Impact

### restricted to single residential



# Capital Forecast Scenarios

## Net Debt

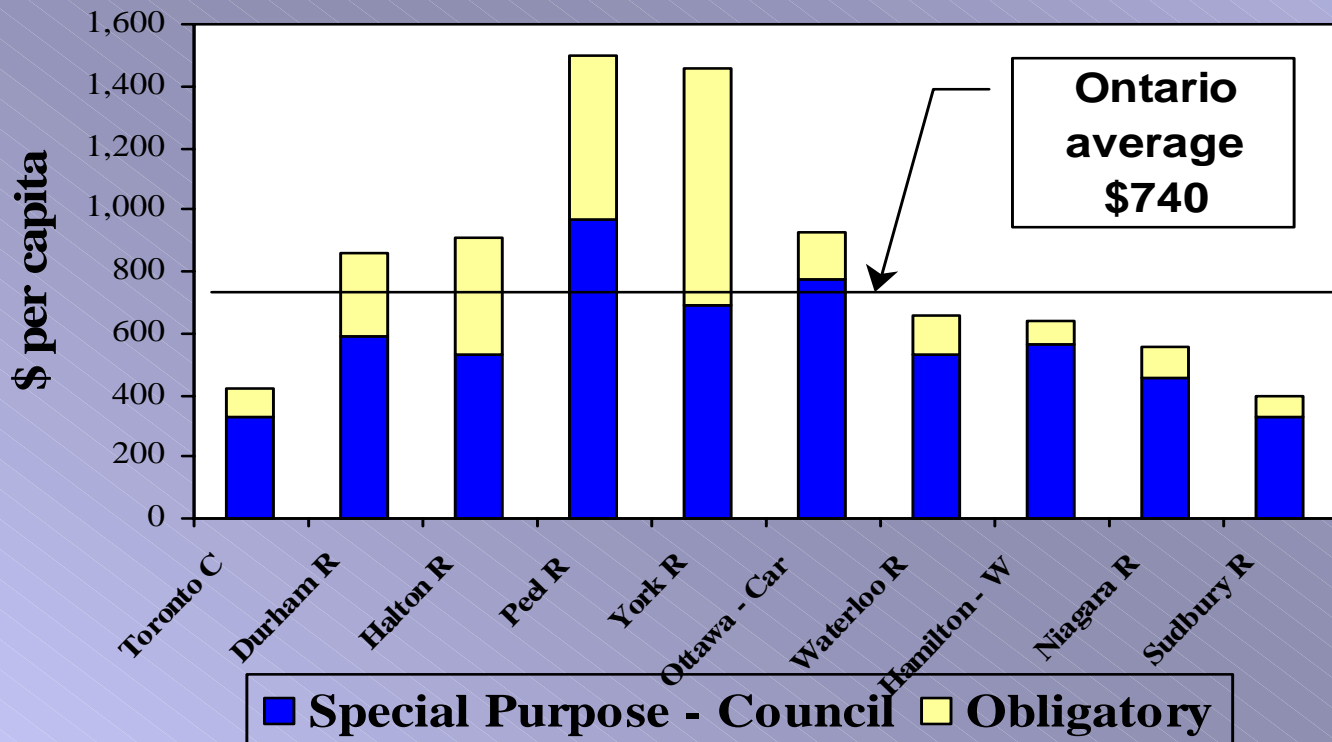


# Reserves - Why the City Needs Them

- Reserves are needed because:
  - Statutory Requirements to keep separate funds, e.g. subdividers' deposits, Child Tax Benefits
  - City not able to deficit finance, so much maintain some degree of “rainy day” funding
  - Allows “smoothing” of funding, e.g. municipal election expenses every 3 years, major equipment purchases
  - Other, e.g. self insurance

# Overall Reserve Levels

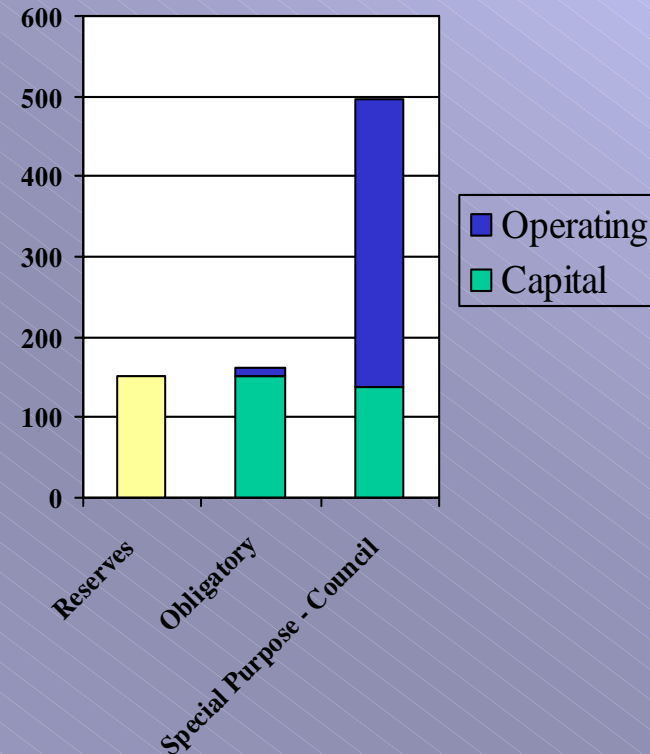
**Reserve per Capita**  
December 31, 1998





# Reserve and Reserve Funds

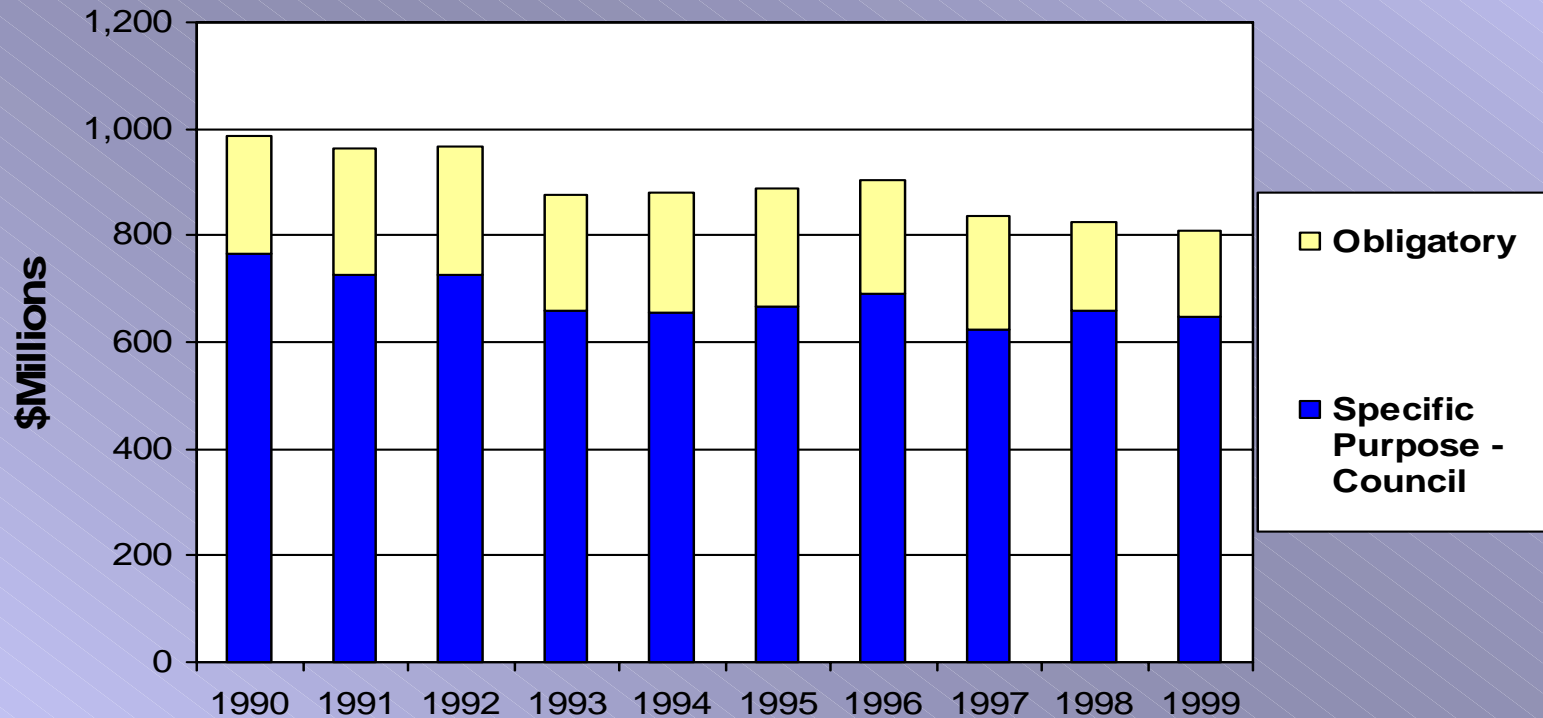
	12/31/99 Balance
	<u>\$Millions</u>
Reserves	152
Reserve Funds	
Obligatory	
Operating	12
Capital	151
Specific Purpose - Council	
Operating	359
Capital	137
	<u>\$ 810</u>



Excludes temporary reserve fund for TTC capital (\$125m), and committed funds for water & sewer(\$274)

# Reserve and Reserve Funds

## December 31 Balances



Excludes one-time TTC capital subsidy & Sheppard in 98 & 99.

Excludes water & sewer in 97,98 & 99 as funds were committed

# Key Questions about Reserves & Reserve Funds

- **Do we have too much in reserves and reserve funds?**

NO. In fact some reserves and reserve funds are underfunded.

- **Can we use reserve funds to fix our operating budget issues?**

NO. It will only aggravate the current inadequate situation and simply result in a deferral of tax increases.

Even if we do, only funds for Specific Purpose - Council can be used and should be used for one-time capital.

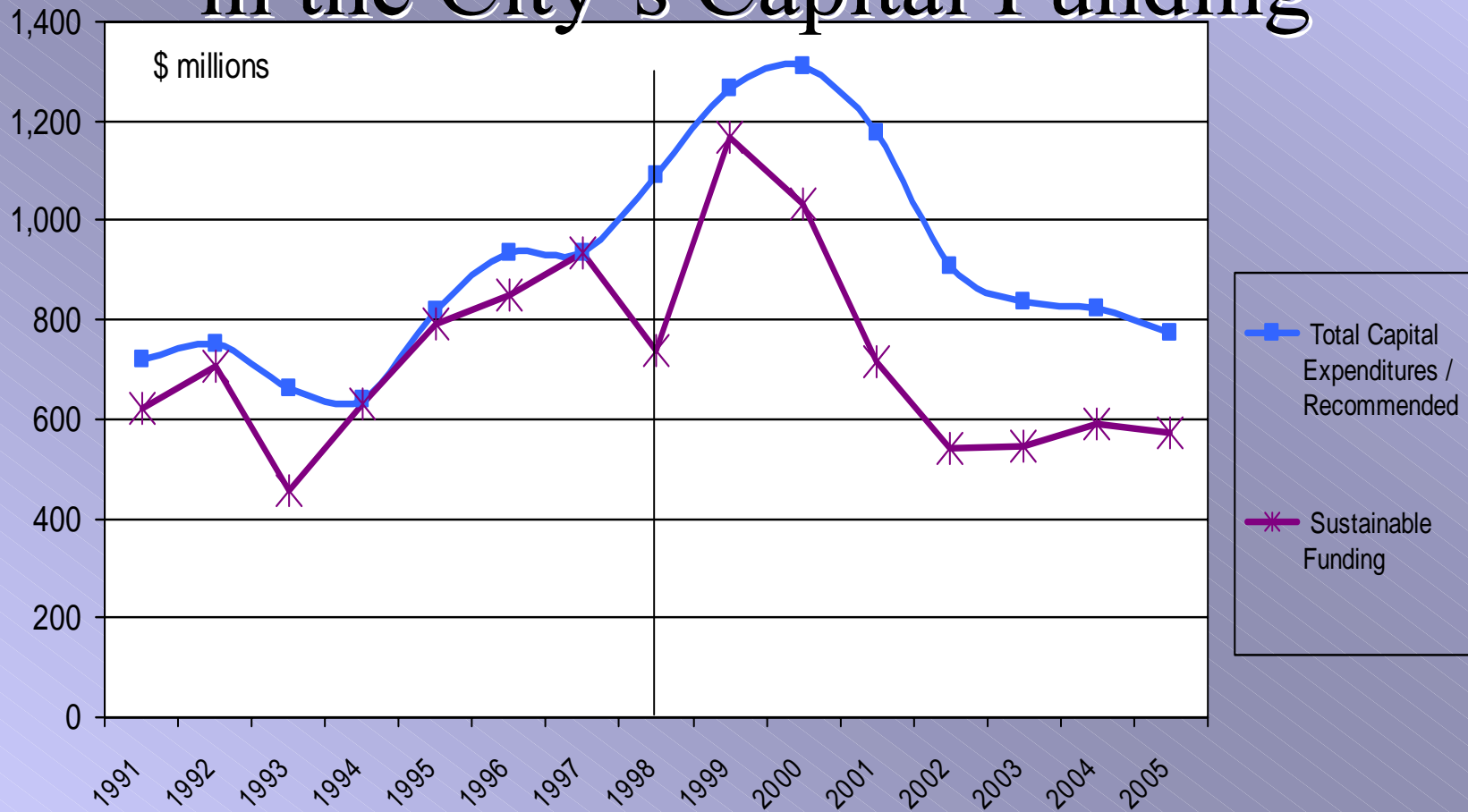
# Reserve Adequacy

<u>Reserve</u>	<u>Underfunded</u> <u>Liability (\$m)</u>
Employee Benefits	650
TTC Capital	400
Social Services Stabilization	326
Vehicle Replacement	21
Weather	20
Insurance	6

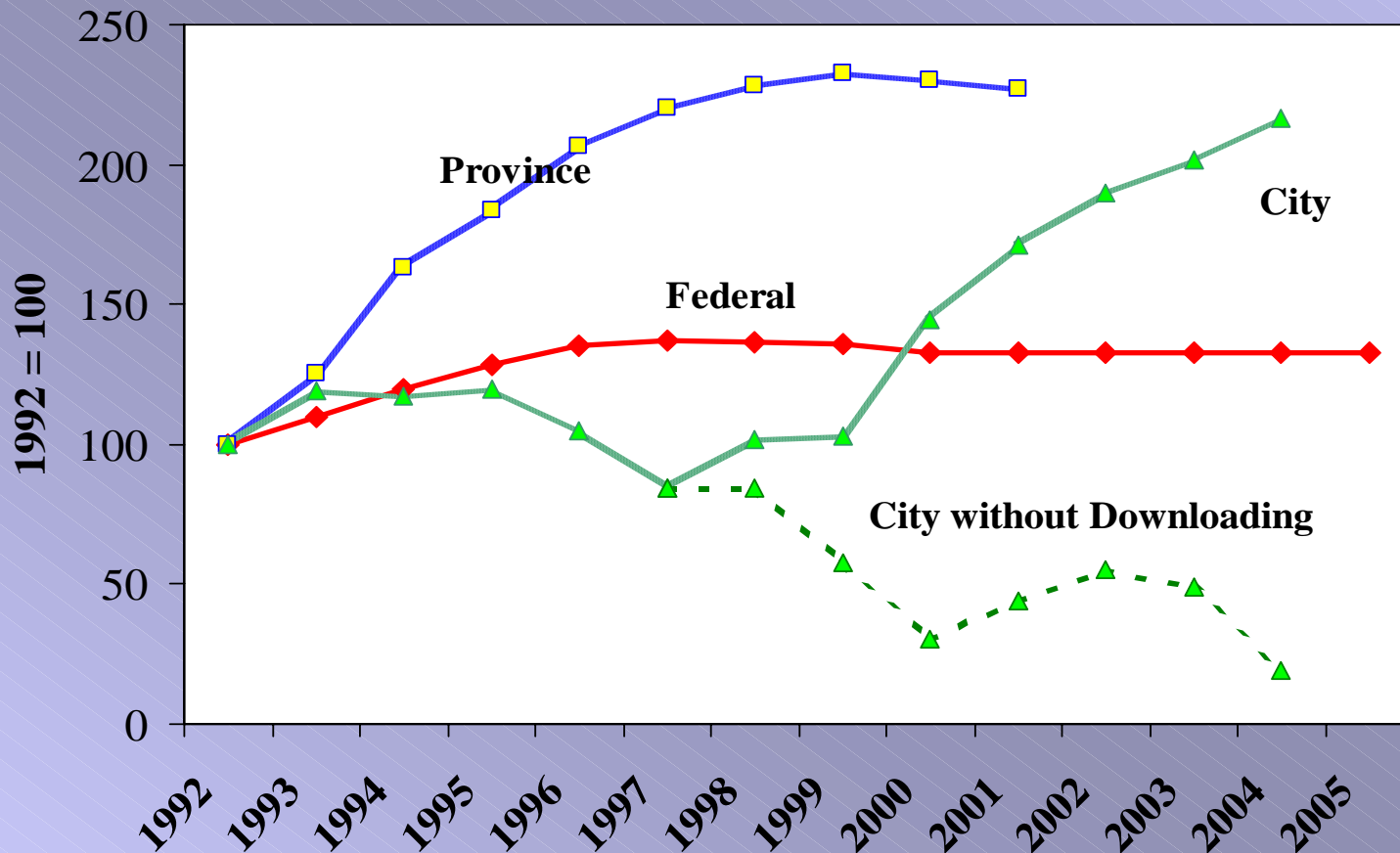
# Toronto's Capital Program is Severely Underfunded

- There is a sizeable gap between ongoing revenue sources and capital expenditure needs - as a result, debt will grow
- Capital program is driven largely by costs of maintaining the City's assets in a state of good repair - to do otherwise will mean premature deterioration of assets worth in excess of \$8.5 billion

# There is a Sizeable and Ongoing Gap in the City's Capital Funding

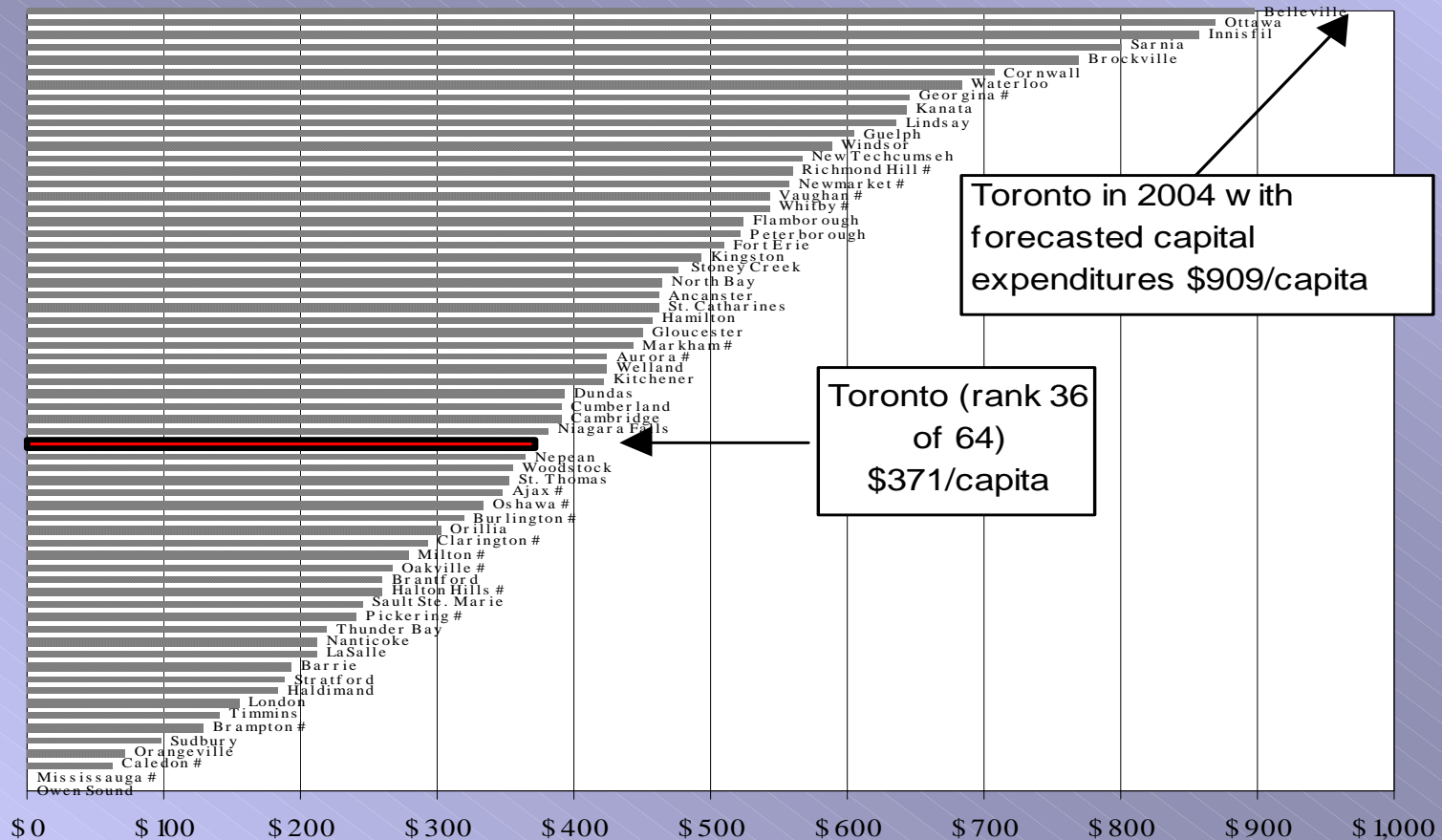


# Debt Levels are Rising



# Debt per Capita

## Ontario Municipalities

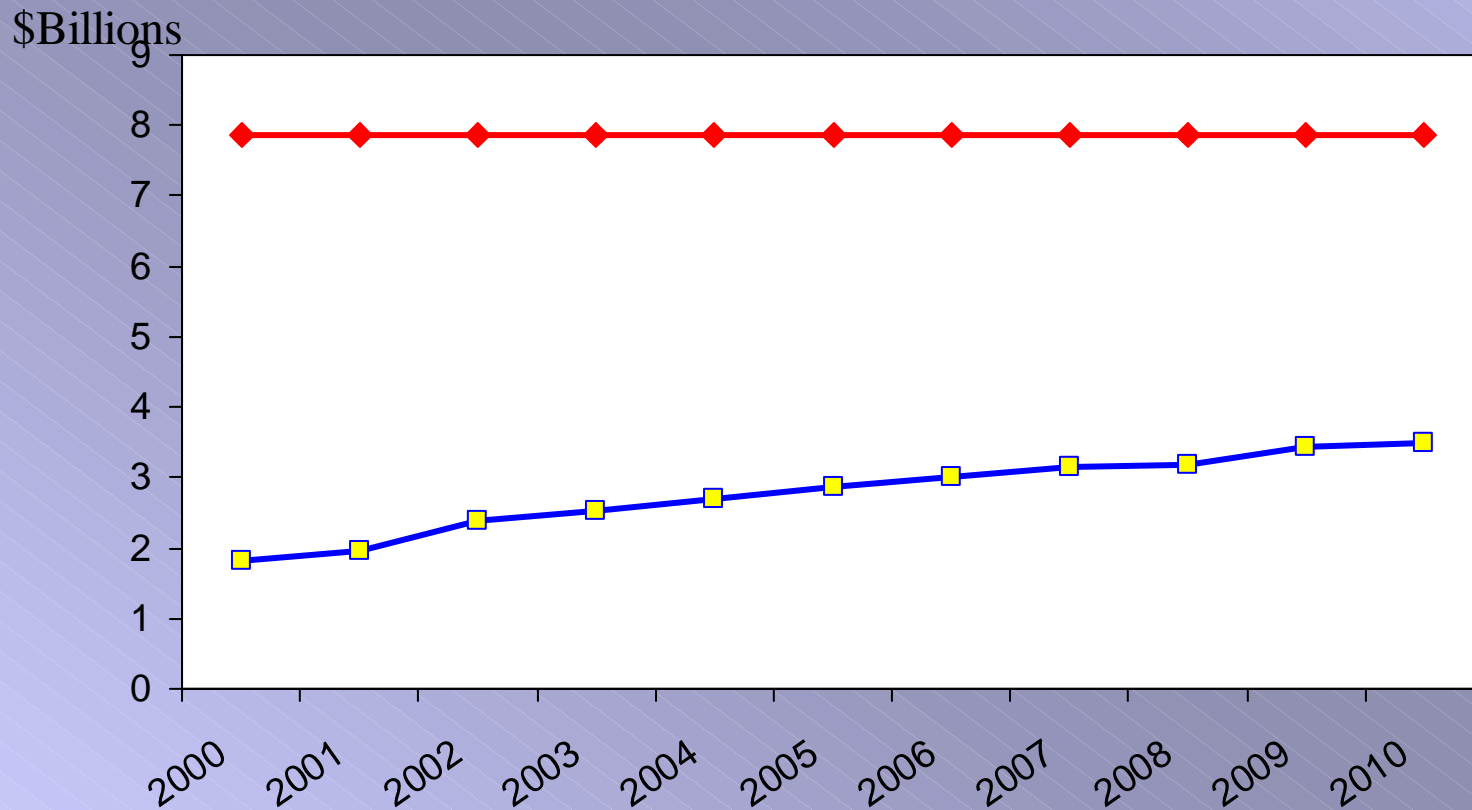




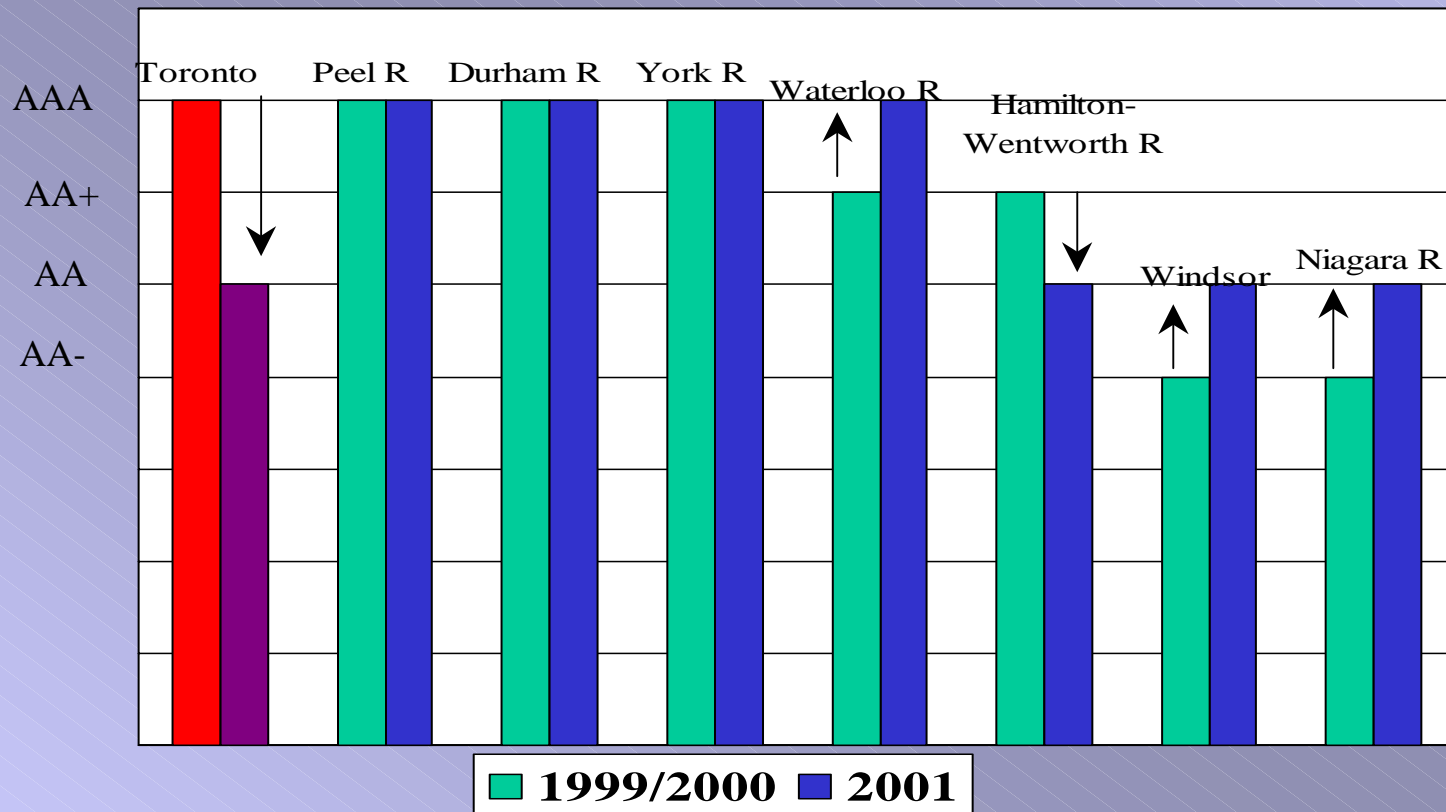
# Provincial Debt Limit

- Traditionally, provincial limit was considered by City to be theoretical cap:
  - next step to bankruptcy
  - only a small handful of municipalities in Province are at the limit
- However, current projections show the City moving ever closer to the limit
  - insufficient funding base
  - part of Provincial “room” absorbed by Housing

# City's Debt is moving closer to the Provincial Debt Limit



# Toronto's Financial Picture is Eroding



# Independent Verification of the City's Financial Condition

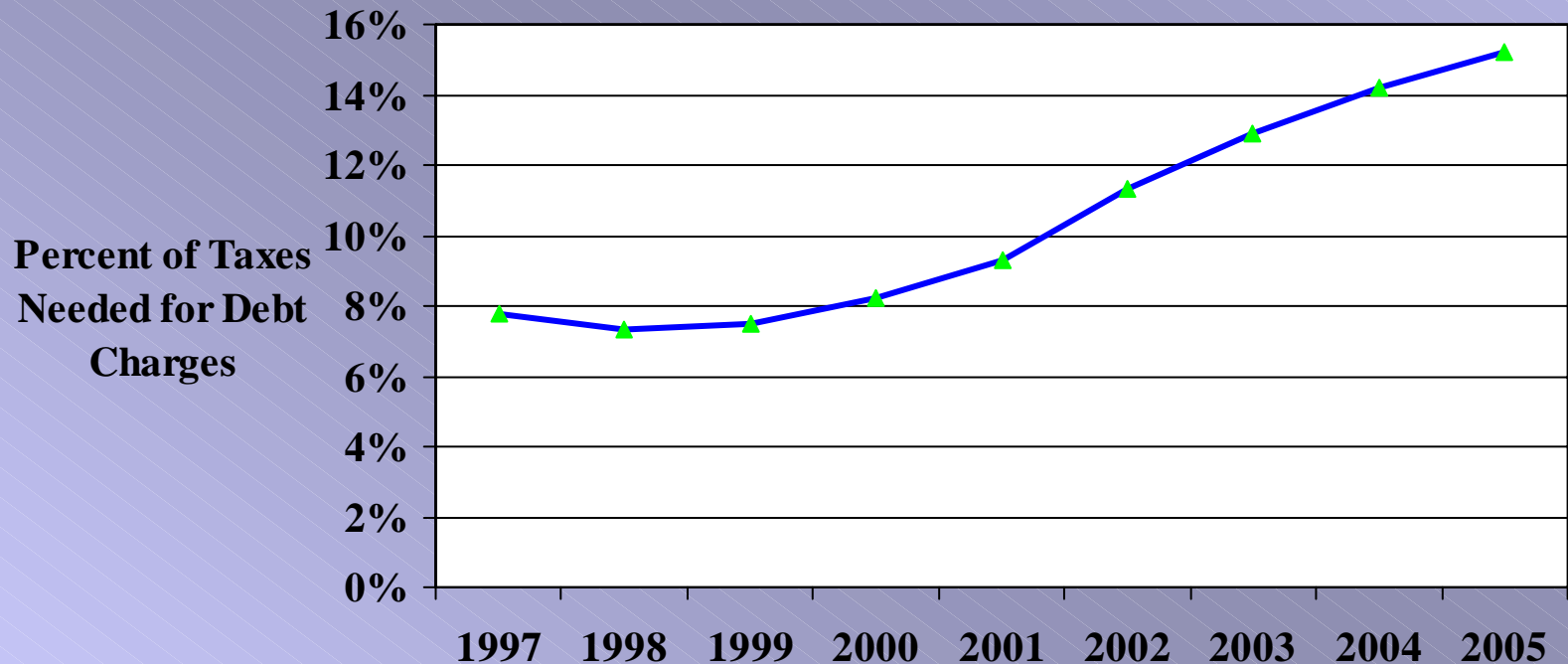
- Dominion Bond Rating Service:
  - “future capital expenditures for infrastructure, including public transit which faces increased needs, will be difficult to manage within Toronto's property tax regime unless the Province and/or federal government provides the City with new sources of revenues”

Jan 2000

# Independent Verification of the City's Financial Condition (cont.d)

- Standard & Poors:
  - “capital budget demands, mainly stemming from growth and from neglected maintenance and necessary improvements in transportation infrastructure, are making increasing demands on the City's budget”  
Jan 30, 2001
- Moody's Investors Services:
  - “more long-term solutions are needed if the City is to maintain its low debt levels while investing sufficiently in its physical plant”

# Revenue Flexibility Will Drop As Debt Charges Consume More of Each Tax Dollar

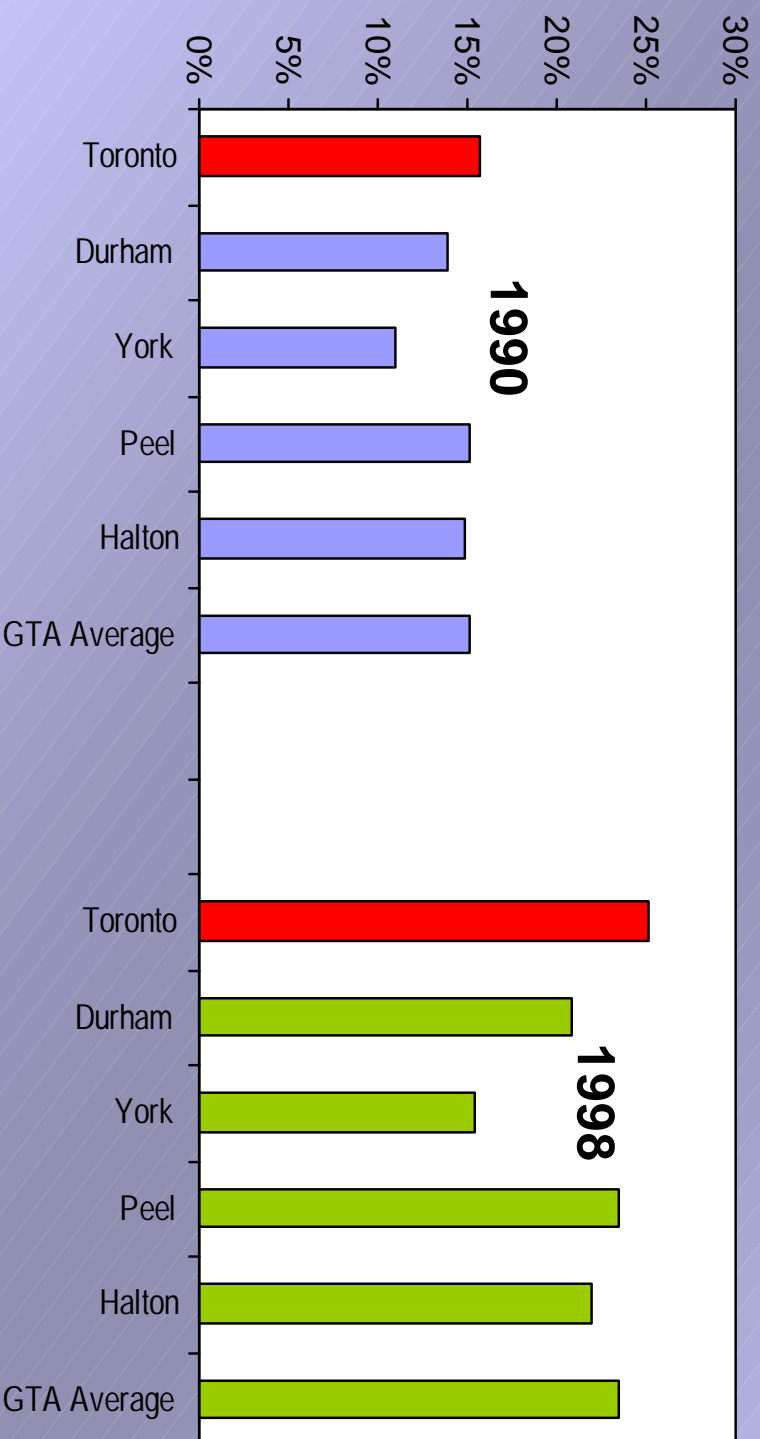


# Revenue Flexibility

- User fees are at levels comparable to other municipalities
- The City's assessment is still below 1992
- Property taxes do not automatically grow with the economy, unlike income and sales taxes available to senior governments
- Senior government funding is below necessary levels in many program areas

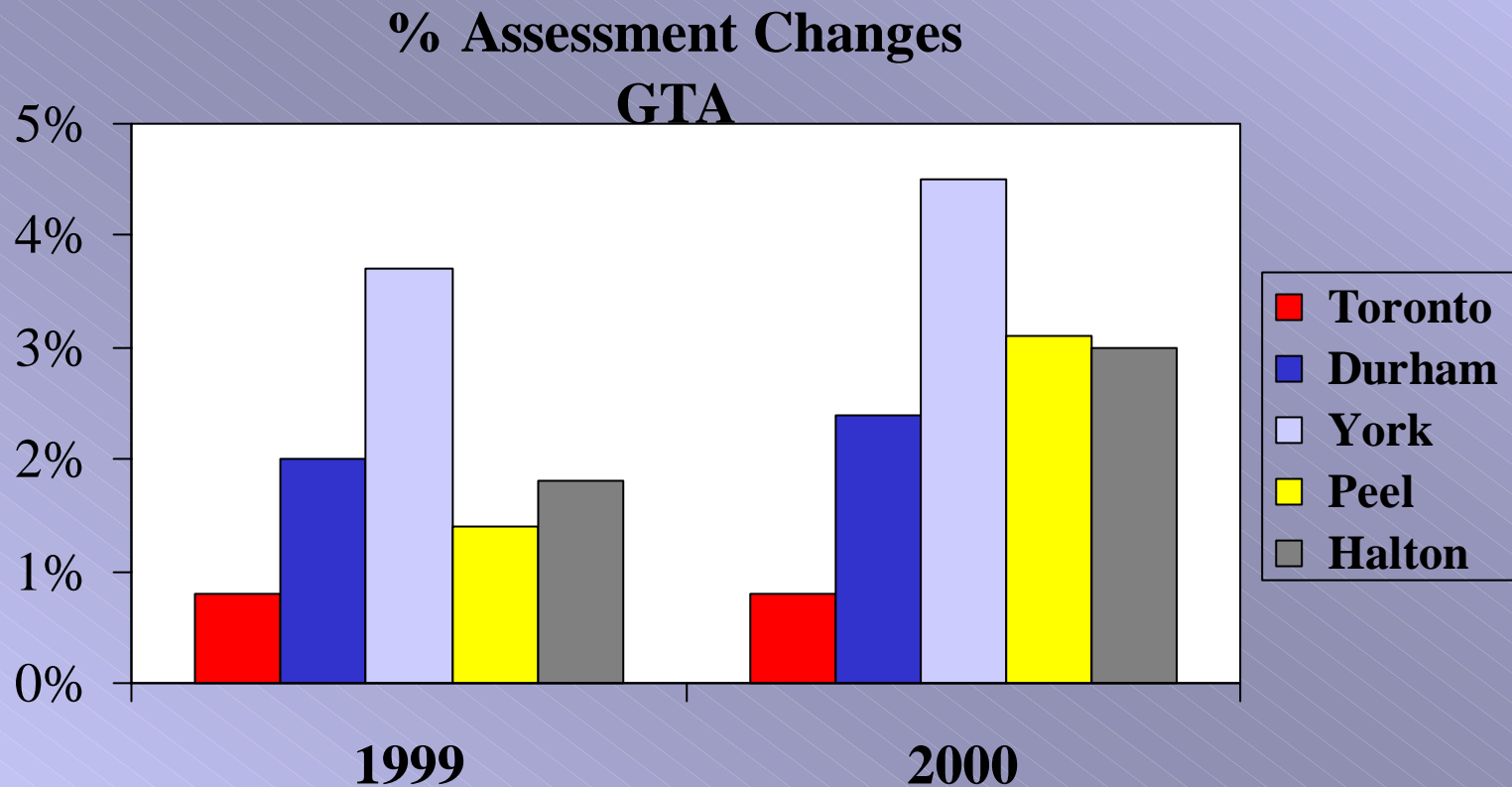
# User Fee Revenues

User Charges as a % of  
Total Revenues

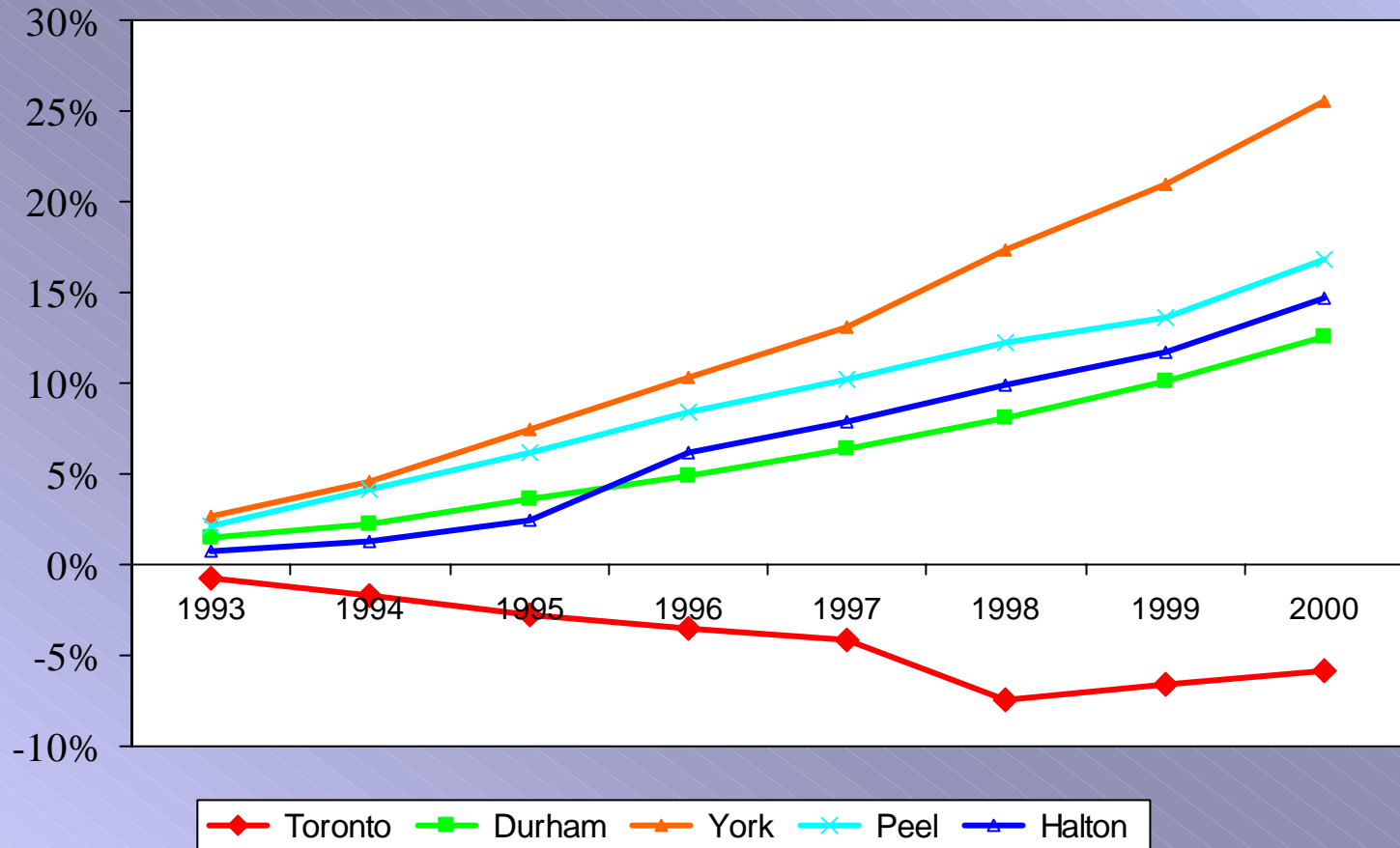




# Assessment Growth

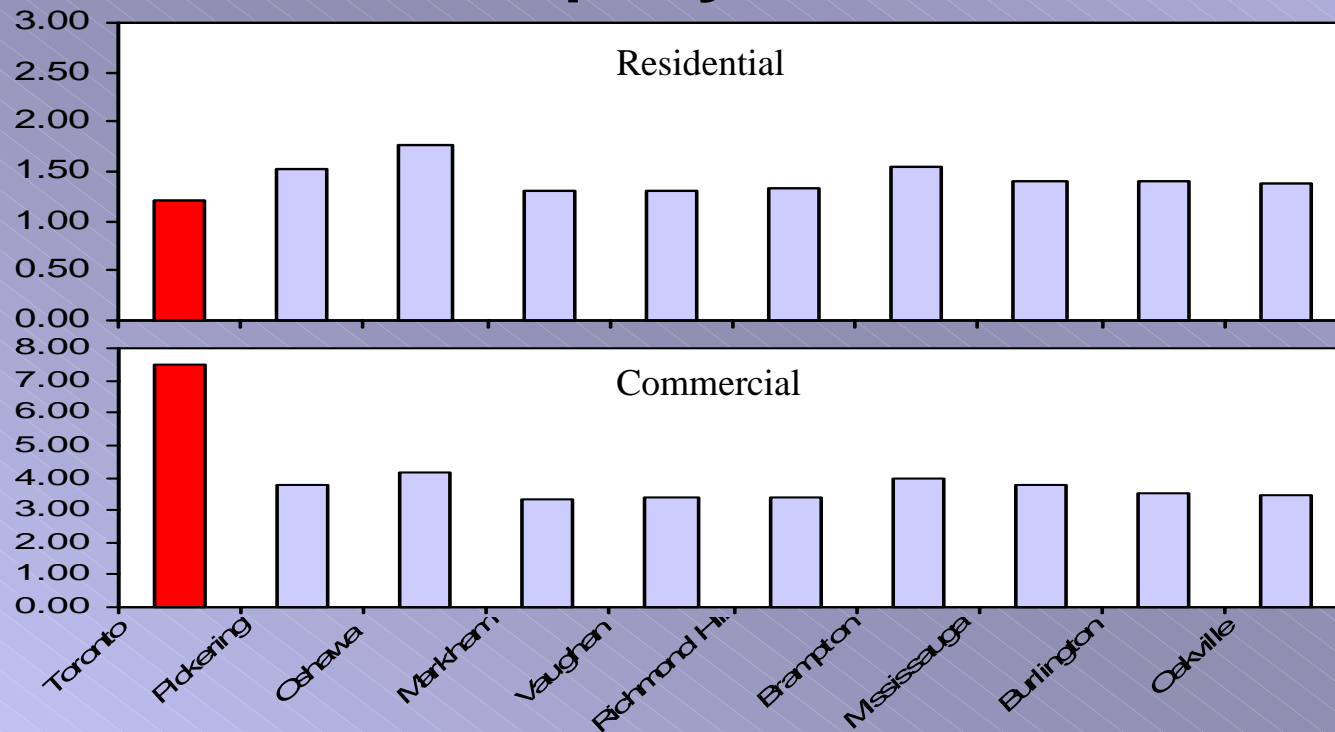


# Unlike the 905's Sizeable Assessment Growth, Toronto is Still Behind 1992



# Tax Competitiveness

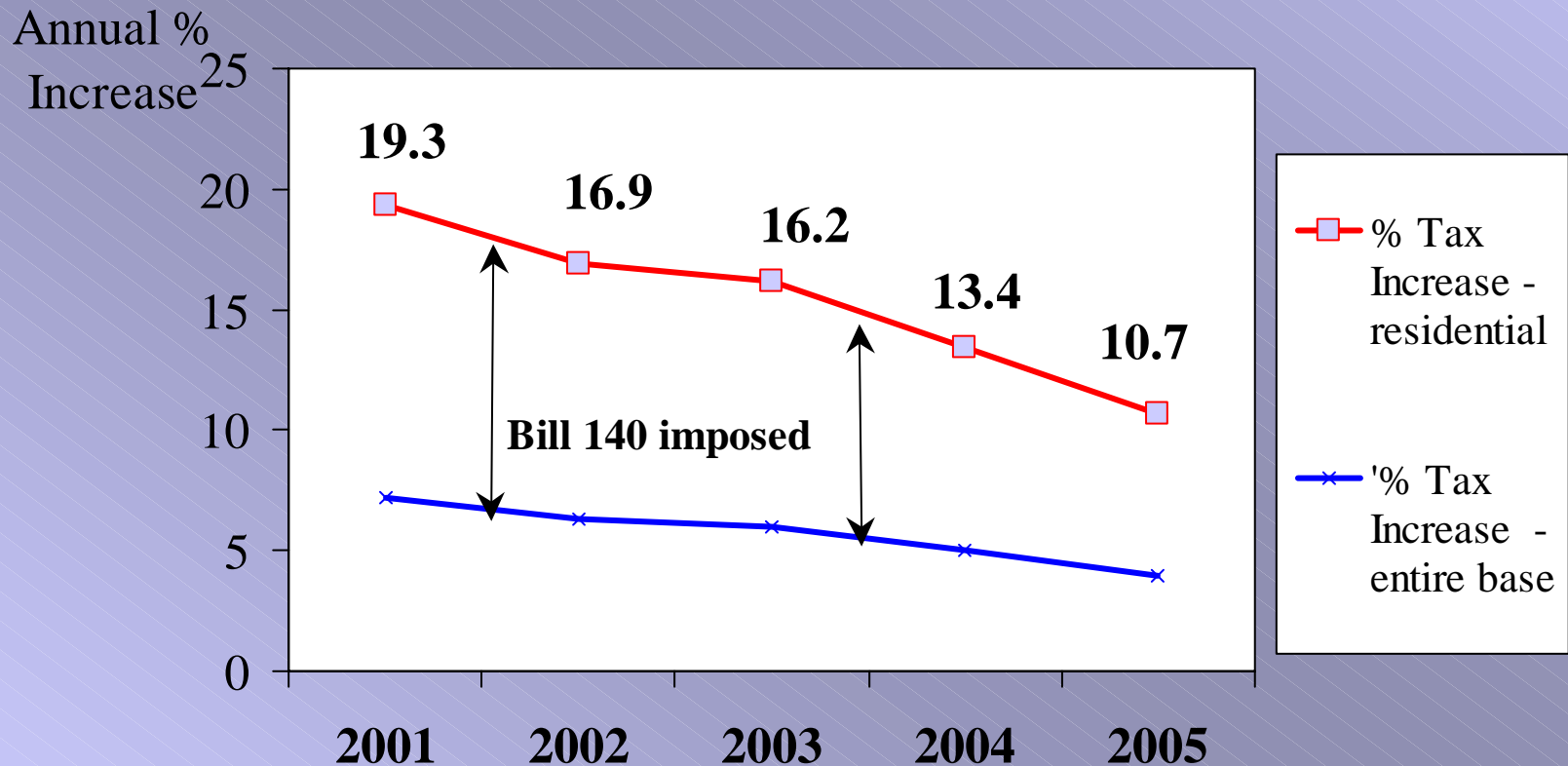
## 1999 Property Tax Rates



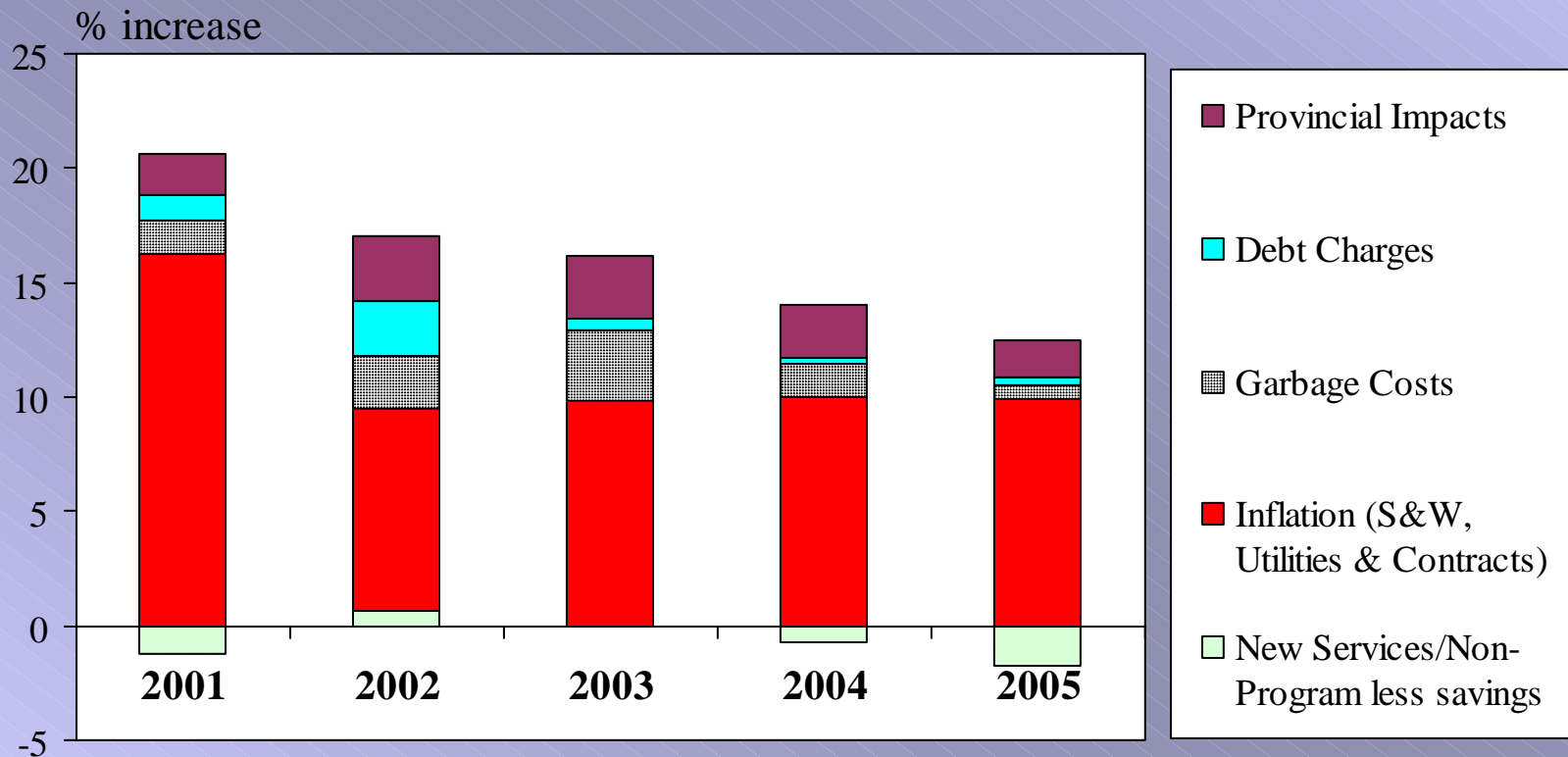
# Tax Competitiveness - Operating Pressures on residential are Large & Sustained

- Debt service – sustained and increasing
- Inflation
  - Salaries and wages
  - Contracted costs
- Garbage Disposal costs - as the Keele Valley capacity moves to higher cost disposal, recycling and other options

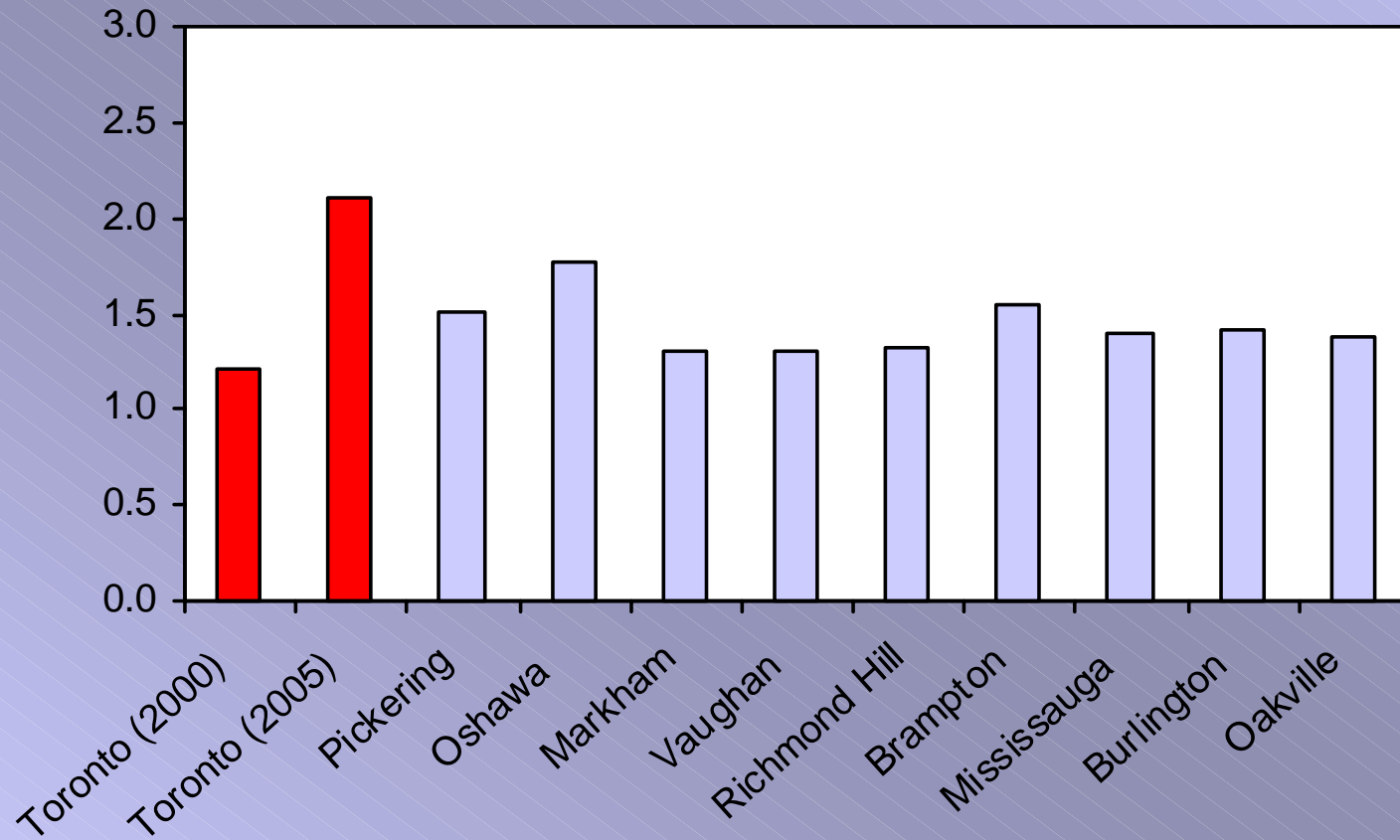
# Taxes are projected to increase in the next 5 years



# Sources of Ongoing Sustained Pressures



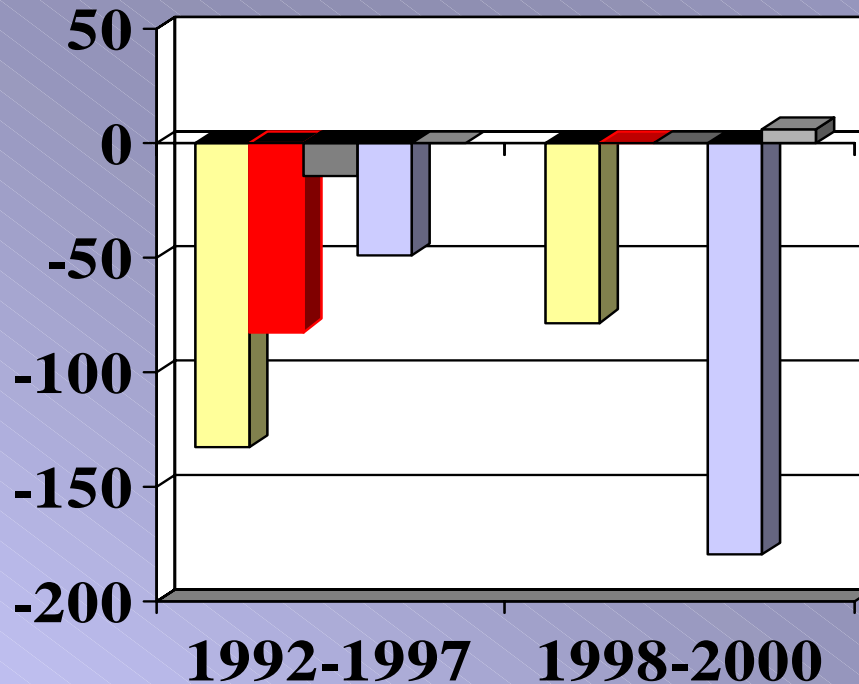
# Residential Tax Rate would Increase by 77% by 2005 if No Corrective Actions are Taken



# Senior Government Funding

## Change in Provincial Support

\$millions

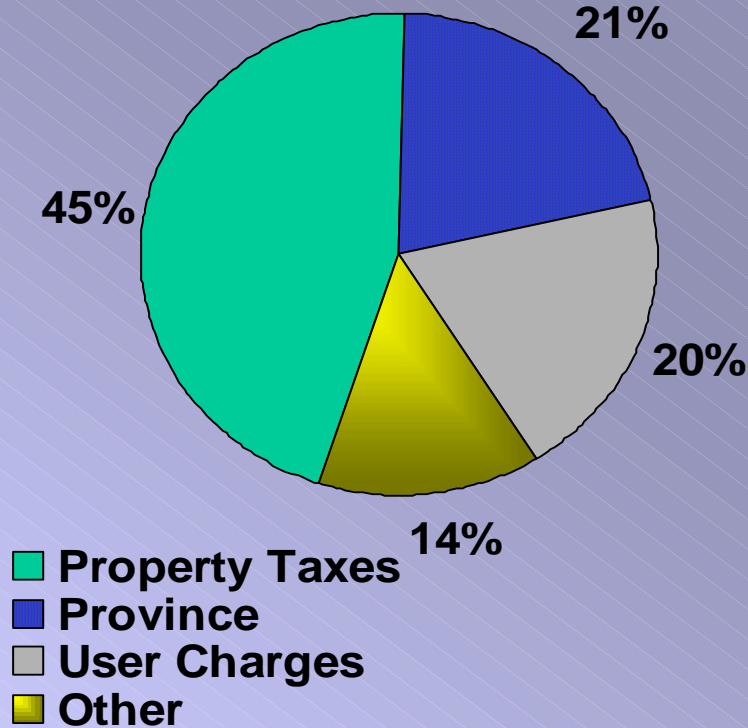


- Unconditional Grants
- Transit & Transportation Operating
- HFA & Ambulance
- Transit/Transportation Capital
- Other

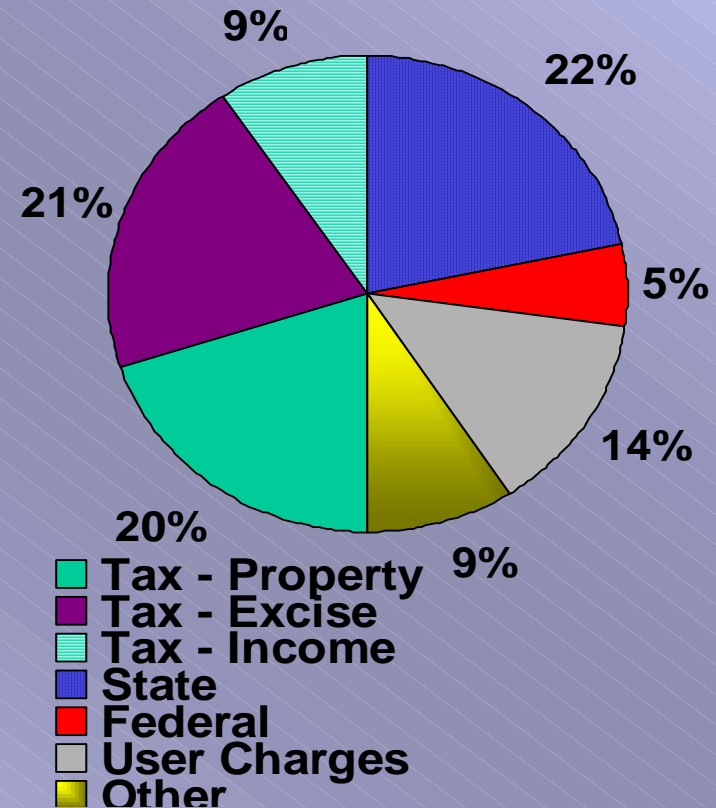


# US Cities have Much More Competitive Revenue Bases

Toronto



Average 50 Largest US Cities

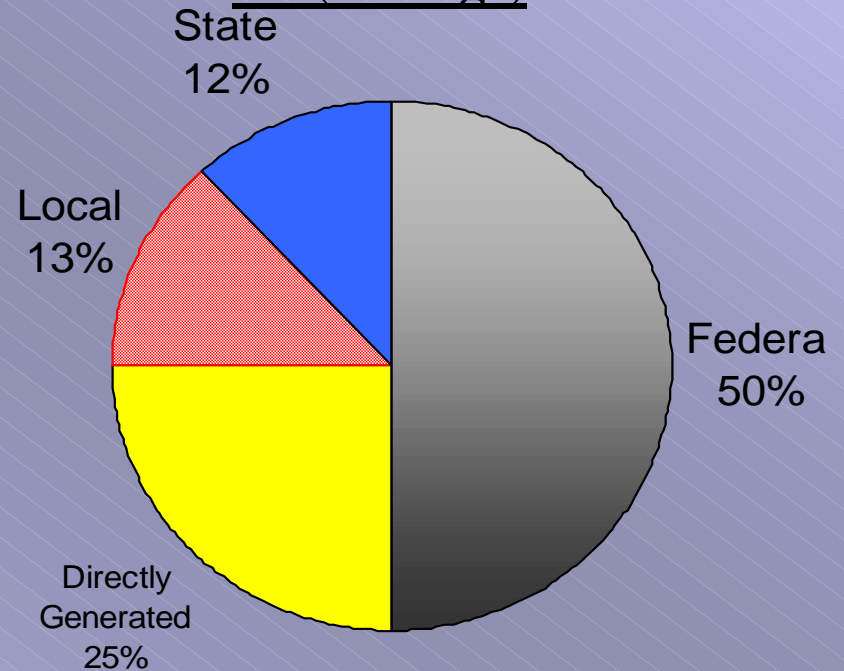


# Transit Capital Funding

Toronto

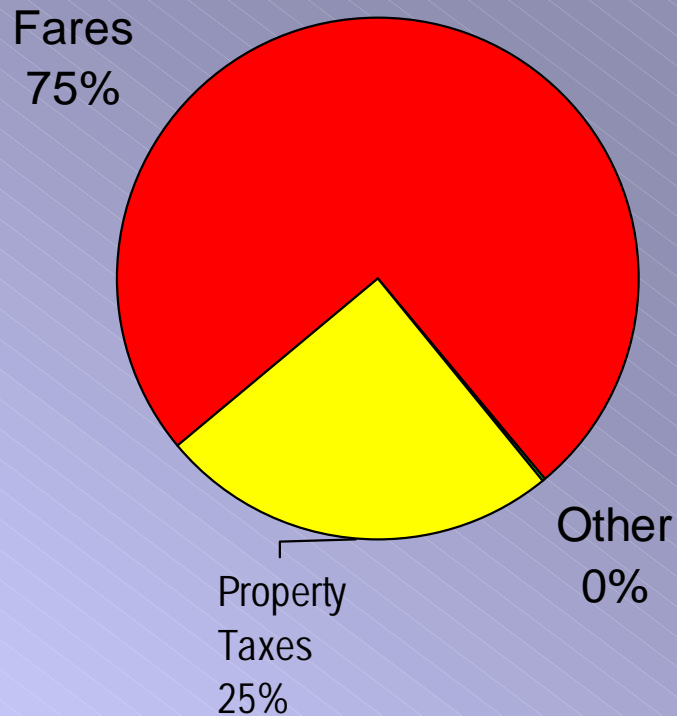


US (average)

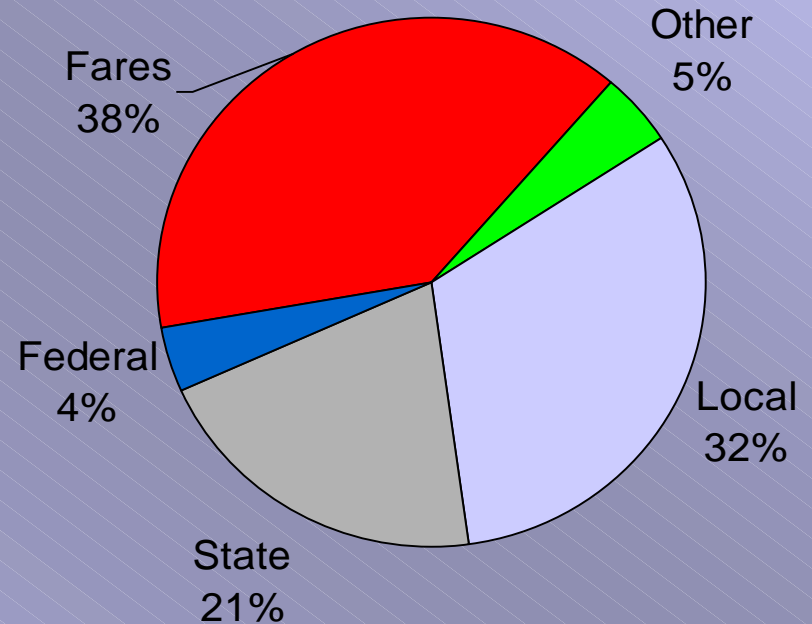


# Transit Operating Funding

Toronto



US (average)



# Is the City Fiscally Sustainable?

- NO
- One or each of the 3 elements (flexibility, sustainability and vulnerability) will erode, at the expense of the others
- Good financial planning may be the first casualty
- Key question: Short term vs long term view of City

# The City's Financial Health

## Where should we be going?

