TORONTO

Fact Sheet

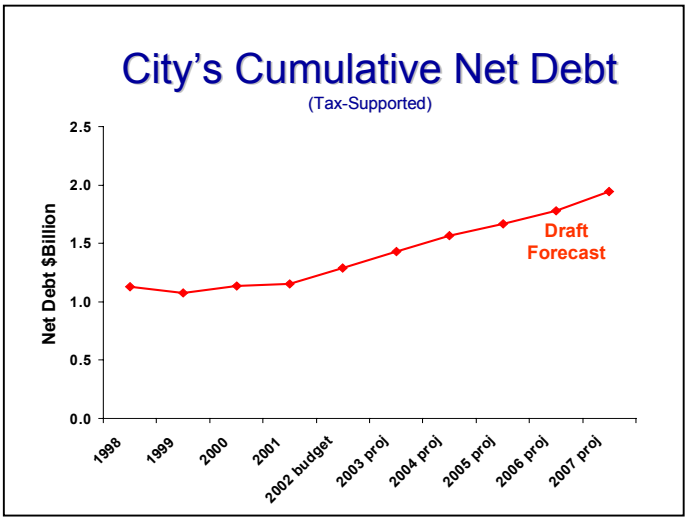
January 21, 2003

Understanding the City's Debt

A municipal capital program is a multi-year plan provided annually to Council identifying funding sources for capital assets. The draft forecast for 2003 – 2007 will be considered by Council in the coming weeks.

There are several ways a municipality can pay for its capital program, such as contributions from the current operating budget and reserves/reserve funds. Additional unfunded capital funding needs can be met through the issuance of debt. Ontario municipalities can borrow money for capital purposes (e.g. roads, bridges, equipment, transit, and facilities). Debt can only be used to pay for capital projects that are approved by City Council. The total debt must be within limits established by the Province. Debt charges, consisting of principal and interest plus capital leases and mortgage payments, are funded from the operating budget. Under Provincial Regulation, they cannot exceed 25 per cent of the City's revenues, generally defined as property taxes plus user fees. Unlike the provincial or federal governments, cities cannot borrow to fund operating needs such as salaries.

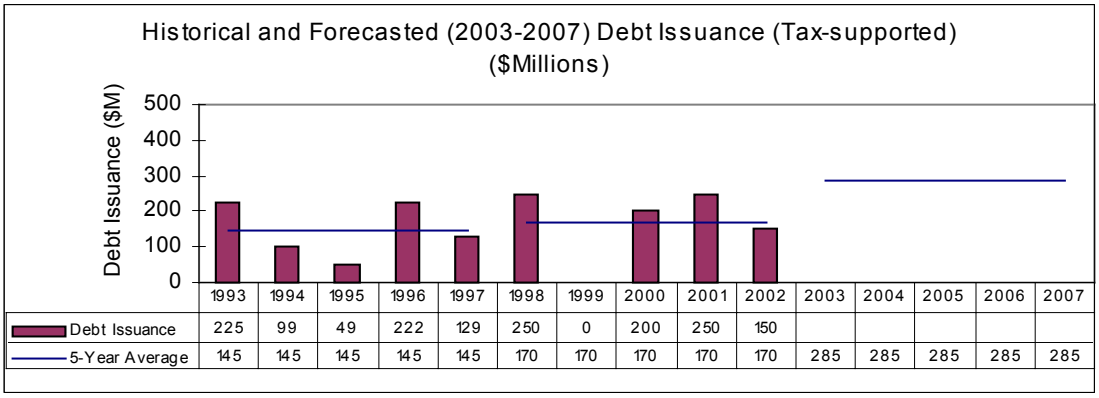
The City of Toronto has physical infrastructure which is older than in the surrounding suburbs. The City's capital needs will increase in future as the infrastructure requires on-going maintenance or replacement. At the current level of funding, the debt level will grow.



As of December 31, 2001 the City's total debt was $1.2 billion (net of the accumulated value of sinking funds). The net debt will increase by 70% by 2007 unless capital expenditures are further reduced and /or additional sustainable funding is established.

The majority of the City's $800 million increase in net debt over the next five years to 2007 is due to necessary transit financing. The City of Toronto borrowed $150 million in 2002 to provide basic maintenance to the transit system infrastructure and for other needed maintenance and enhancements to City assets such as road resurfacing and reconstruction.

Repayment of the debt is scheduled to last no longer than the economic useful life of a project. Historical and Forecasted Annual Debt Issuance (in $millions):



	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Debt Issuance	225	99	49	222	129	250	0	200	250	150					
5-Year Average	145	145	145	145	145	170	170	170	170	170	285	285	285	285	285

The forecast combines projections of future capital borrowing requirements and financing of provincial transitional loan repayments, in conjunction with the retirement of debt issued in previous years. The timing and amount of debt issuance for individual years will vary independent of expenditure levels, based on several factors including capital financing market conditions.

Firmly committed federal and provincial assistance is necessary to ensure a stable source of funding and to avoid major reductions in services and/or additional tax increases. Note that these figures already assume two-thirds funding for transit capital needs from the provincial and federal governments.

Fiscal Sustainability

A city's sustainability depends on its ability to maintain programs without increasing debt or allowing physical or financial assets to deteriorate. Long-term solutions are required for the Toronto to maintain reasonable debt levels based upon affordability and the protection of its credit rating.

In recent years, the City has been successful in responding to the elimination of provincial grants for transit and housing infrastructure without significantly adding to its debt. This has been achieved by using one-time funding sources such as the OMERS pension contribution holiday, a provincial grant of $50 million and loans of $200 million, asset sales of $50 million, use of dedicated reserve funds (TTC capital) and revenue from Toronto Hydro. However, use of one-time revenue sources is clearly not sustainable.

The forecast shows an average annual borrowing requirement of $285 million from 2003 to 2007, even after ambitious expenditure constraints by all programs have been factored in. The shortfall will have to be made up by either additional funding from senior governments or from higher property taxes to fund additional debt service costs.

The City will avail itself of funding from all available programs such as the provincial SuperBuild Fund, Ontario Municipal Economic Infrastructure Financing Authority (OMEIFA), which will pool resources to help reduce borrowing costs to municipalities, and federal infrastructure initiatives in order to reduce this shortfall over the next few years. However, a permanent increase to available funding is the only way to avoid serious debt consequences for the City. The City continues to build its relationships with provincial and federal governments to secure a fairer share of long term funding for Canada's major urban centre.