What We Do Is What We Fund

The 5th Annual IMFG Toronto City Manager's Address

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Context

Great city

- The most tax competitive city for business (KPMG)
- Third best city for opportunity (PwC)
- Fourth most livable city (Economist)
- Fourth most globally competitive city (KPMG)

Sources: KPMG Focus on Tax (2016); PwC Cities of Opportunity 7 (2016); Economist Intelligence Unit – Livability Survey (2016); KPMG Competitive Alternatives (2016)

Economically important

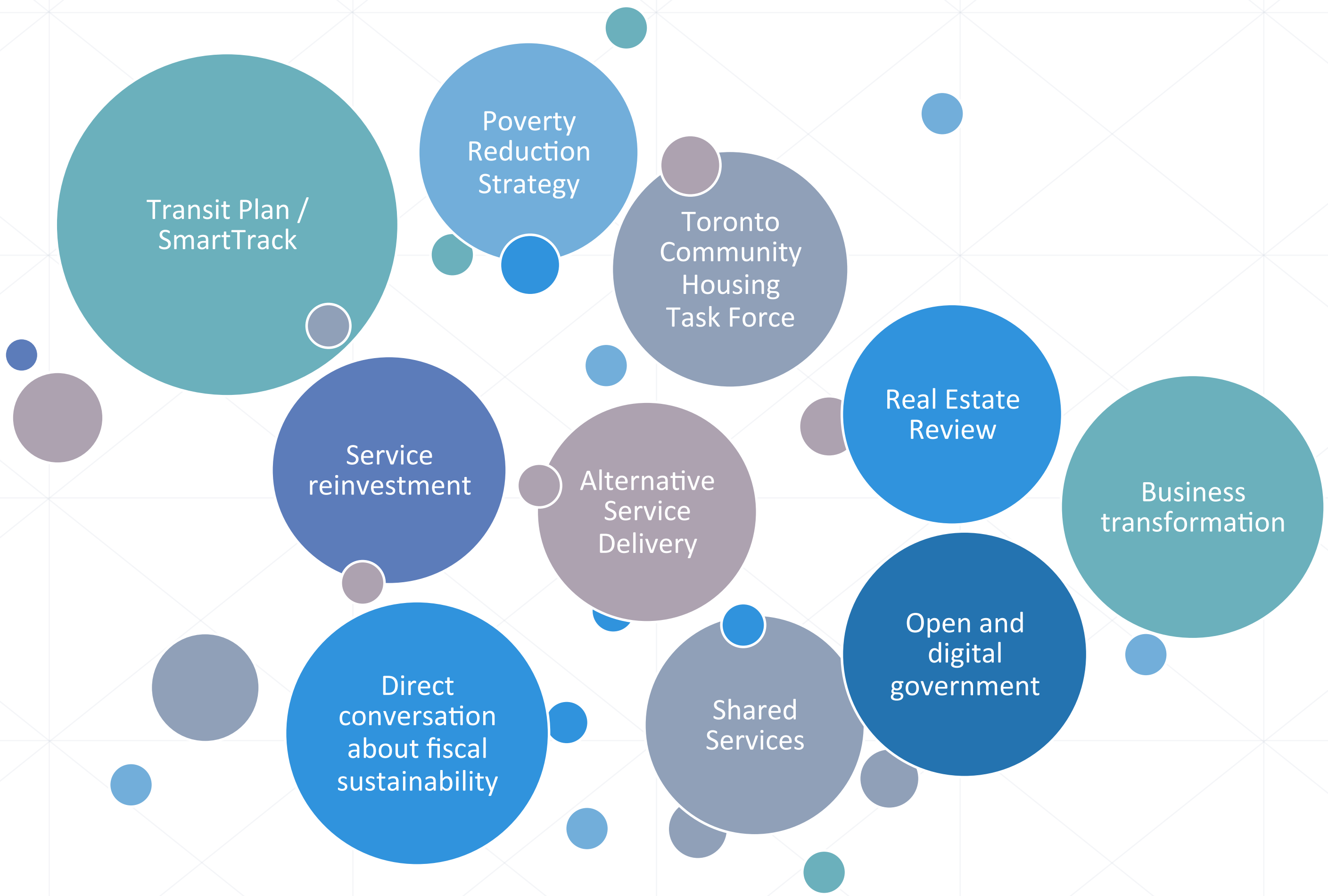
- The city of Toronto is home to 2.8 million people and nearly 90,000 businesses
- Canada's largest city and the fourth largest urban area in North America
- 8.2% of Canada's workforce
- Toronto’s gross domestic product (GDP) accounted for 26% of Ontario's GDP and 9.5% of Canada's output in 2014.

Sources: City of Toronto Employment Survey (2015) and Financial Report (2015)

Public services matter

- The City provides over 188 unique services
- Residents and businesses expect and value the services provided by the City
- Increased demand for public investment to offset congestion, carbon, and threats to poverty

Continuous improvement and progress



This time last year (4th Annual IMFG Address)

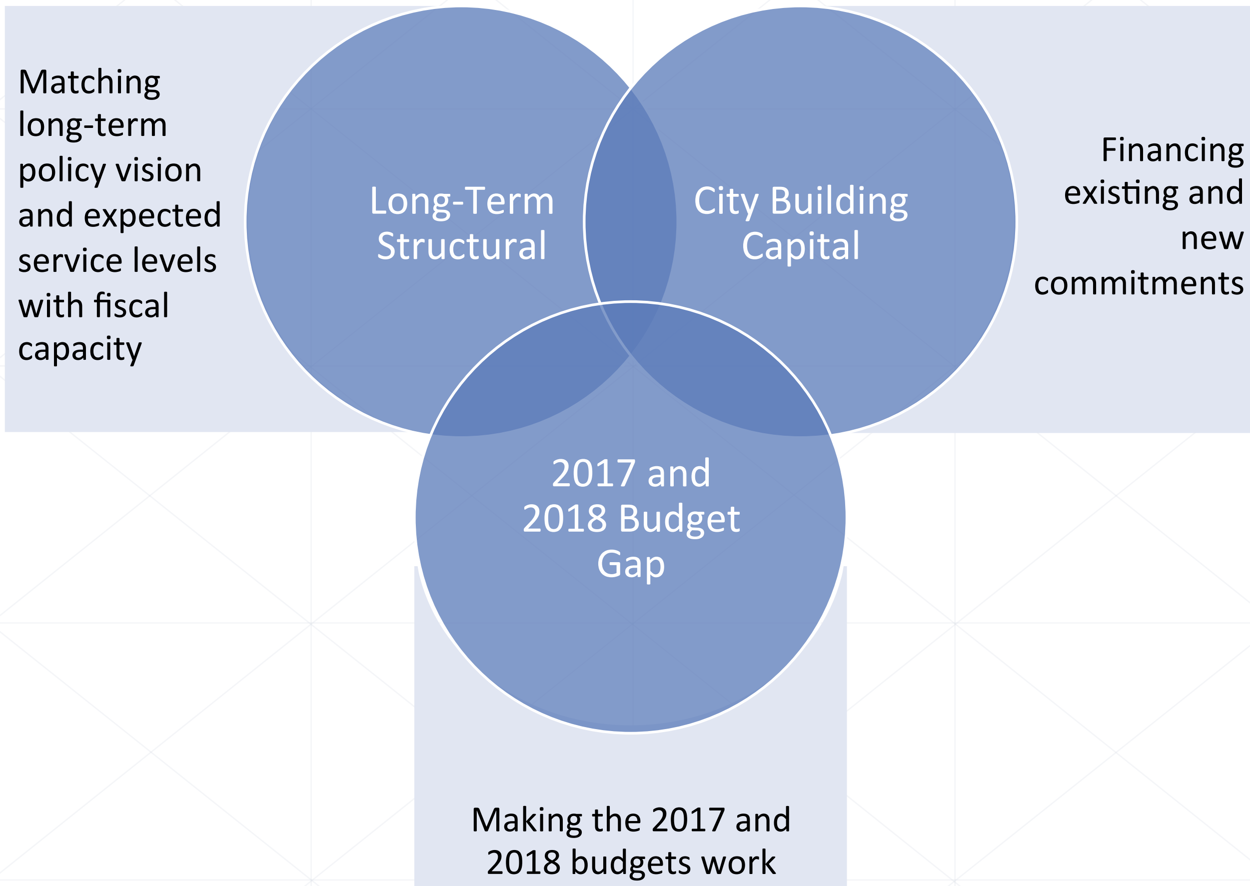
Thought experiment at fairly abstract, high level

1. Government is smaller – real and per capita adjusted
2. Gap between expectations and funding
3. Issues are structural and result from long-standing approaches
4. Revenue must be part of the solution
5. Consistent with every City Manager since amalgamation

Now, more clarity

Three key challenges

Interrelated and overlap



Need to be realistic about policy options

Austerity focus

- Savings and efficiencies are critical, but insufficient

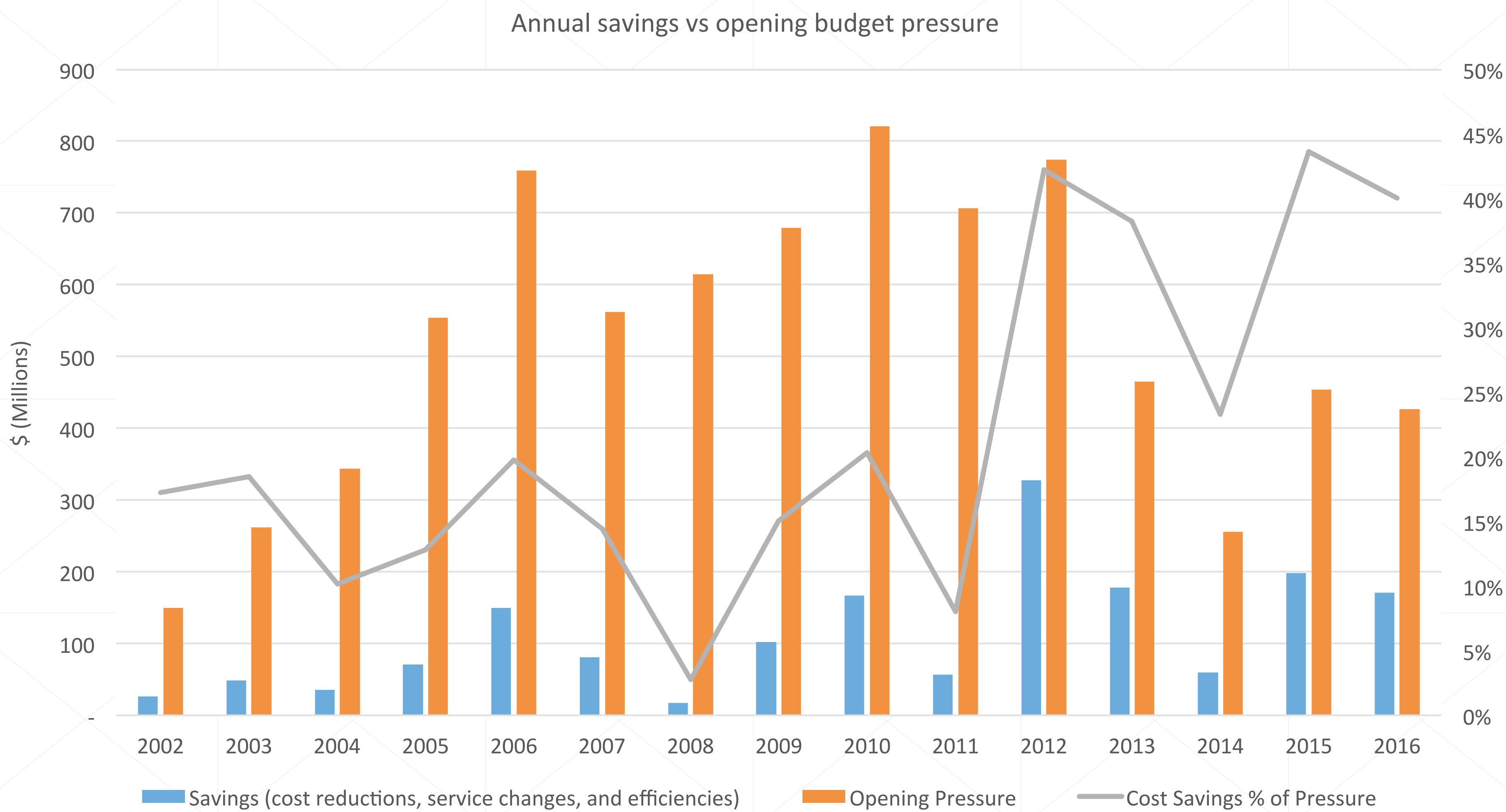
Available and acceptable revenue approaches

- Limited legal authorities
- All measures are challenging

Assumptions

- Cannot rely on narrative regarding future revenue sources or operating funding from other governments

Austerity



Annual savings vs opening budget pressure
$ (Millions)
900
800
700
600
500
400
300
200
100
-
50%
45%
40%
35%
30%
25%
20%
15%
10%
5%
0%
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015
2016
Savings (cost reductions, service changes, and efficiencies)
Opening Pressure
Cost Savings % of Pressure

Revenue framework

1. Taxes on real property

- Property tax
- Property tax classes
- Municipal land transfer tax
- Development charges (capital only)
- Parking levy potential

2. Specialty taxes under COTA

- Personal vehicle tax
- Alcohol tax
- Tobacco tax
- Amusement tax

3. User fees

- TTC
- Community Centres
- Regulatory charges
- Water and solid waste rates
- Full cost pricing of public goods

4. Require Major Provincial Policy Change

- Municipal sales taxes
- Municipal income tax
- Hotel
- Increased transfers

Decision criteria

- Available and feasible
- Yield
- Timing
- Stability
- Match beneficiary to pay (broad taxes for broad expenses)
- Minimize economic distortion
- Lower compliance cost for payers
- Acceptable administrative costs
- Minimize unintended consequences
- Generate positive externalities
- Visibility and accountability
- Political acceptance

Assumptions / narrative

Need to be responsible with basic revenue and expense forecast

Provincial resources are finite and uploads are reaching maturity

MLTT is tied to the real estate market

Immediate impacts of prior operating deferrals must be addressed

Cannot merely request operating funding from other orders of government

Chance to get real and make real progress

"To address these on-going operating costs, I'm going to be honest about what is necessary; I won't just pretend we can continue completely relying on short term fixes, which council after council, mayor after mayor have done in the past. We also need to build our city up… build a city of the future. […]

"We have to find new models to pay for these badly needed transit, housing and public space projects beyond just adding the cost to the property tax bill. […]

"That means dedicated sources of revenues, diligently guarded and invested only in long-term infrastructure priorities like transit and housing. This is the approach I will take later this fall, when city council debates new revenue measures to address our operating costs and Toronto city building projects. I will be supporting a range of measures which are designated to specific operating pressures or capital projects. I will be asking for measures which are fair and effective. And I will be looking for ways in which we can capture value from our existing assets."

- Mayor Tory remarks to the Toronto Region Board of Trade on "A new way of doing things" – September 21, 2016

Long-Term Financial Framework

Good news:	Fundamentally stable in terms of traditional municipal services (e.g., direct services to property)
Struggling with demands of:	Density, development, and public investment in essential public goods like transit
	Poverty, social cohesion, and inter-generational, geographic and racialized-based transmission of risk

Key question:
- What type of city do we want?

Council has answered:
- More extensive public service footprint

Need to match resources to ambition

Relentless expense constraint as pre-condition
- Public / private contestability, value-for-money audits, lower wage and benefit costs, etc.

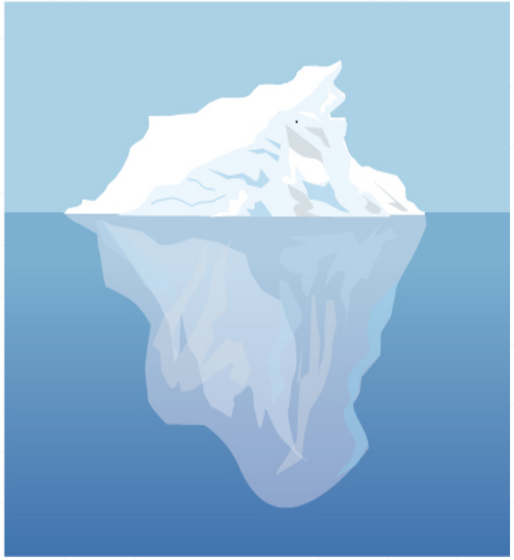
Match revenue to needs and economic growth
- Continued suite of new taxes or increase use of existing taxes, and/or;
- Continued rise in basic property tax, and/or;
- New deal with other orders of government – share of broader tax base

Consultations this fall and winter

City Building Capital

$29 B unfunded capital and growing (does not include new announcements)

- Gap will be refined – but still underwater
- Need to improve capital management
- Remove the need to underestimate project costs in order to get approval
- Match capital projects with sustainable revenue tools



Major Unmet Capital Needs ($Million)	
Unmet Need Priorities (Tier 1 Projects, TCHC & Waterfront 2.0)	
TCHC Province/Federal Share of $2.6 billion requirement	1,728
TCHC Capital Maintenance	650
TCHC Revitilization Projects	356
Less Prov Grant on Energy Retro Fit	-29
SOGR Backlog to 2% of Asset Value (Exc.TCHC)	1,046
TTC Board Approved Unfunded	2,679
SSHA (George Street Revitalization)	480
Long Term Homes Care Services	246
Other City Priorities	1,318
Lower Don Flood Protection	975
Waterfront Land Servicing (EBF, WDL and Keating)	150
Waterfront Public Realm Initiatives	350
Less Waterfront DCS/Federal & Provincial Funding	-1,125
Unfunded Projects from Environmental Assessments	2,000
Tier 2 Unmet Need Priorities	
TTC Future Capital Needs	2,323
Other Programs	597
Unfunded Transit Expansion Initiatives	
All Unfunded Transit Expansion Initiatives *(Preliminary - Pre-Design Estimates)*	15,300
Total of Unfunded Capital Projects ($Million)	**29,043**

Potential revenue measures

- Dedicated property tax
- Full cost utility pricing
- Full cost pricing of public goods
- Parking levy
- Proceeds from asset recycling

2017 and 2018 Budget Gap

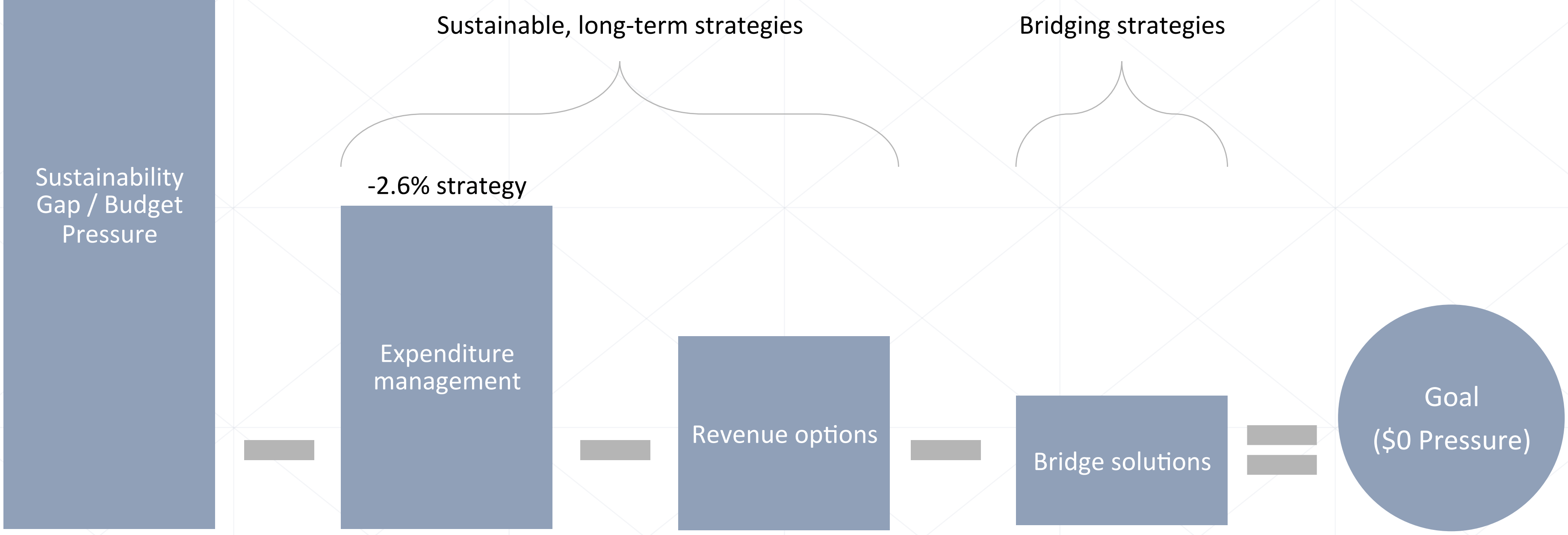
- Identified opening gross pressure
  - 2017 = ~$607 M
  - 2018 = ~$438 M

- Council directed approach in 2017
  - 2.6% reduction

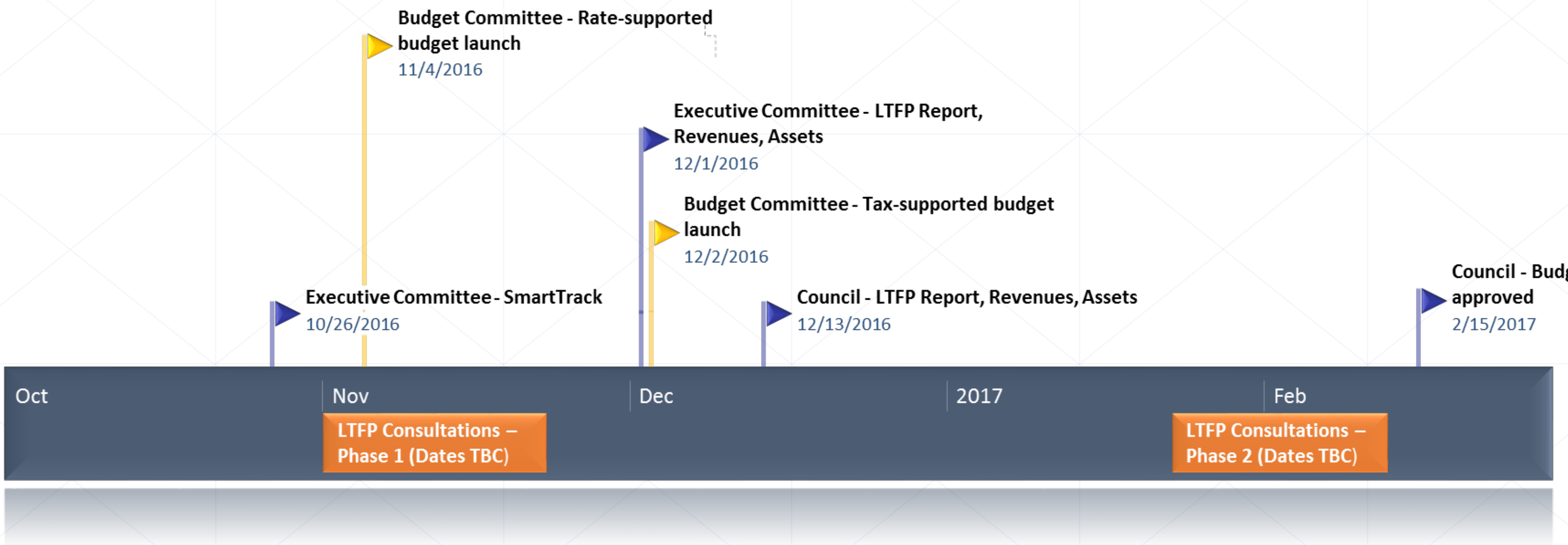
- Residual gap will be very challenging to close

How to address

Science + Art: Tools Matching Need



Potential Fall Timelines



In the new year:

- Future long-term financial framework
- Renewed capital plan with financial underpinnings

Thank you