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Fiscal Pulse

City of Toronto's 2009 Budget — *Weathering The Economic Downturn*

Operating Budget Overview

Responding to the current economic retrenchment, the City of Toronto in late March approved an **\$8.7 billion Operating Budget for fiscal 2009¹** (FY09). On a net basis, the operating outlays total \$3.4 billion, up 3.7% from the 2008 approved Budget. After taking into account assessment growth, the FY09 increase in operating outlays remains a solid 2.5%. In addition to the City's commitment to maintain existing services and service levels, improve public access to City services and freeze transit fares, Toronto adopted several measures to assist businesses and its most vulnerable residents during the economic downturn. Thus, the Operating Budget does not follow the Mayor's original guideline of a zero net increase.

Balancing the Operating Budget for FY09 was once again difficult. Eliminating this year's \$679 million operating shortfall relied upon the \$74 million 2008 operating surplus, \$92 million from Closed Capital Accounts, \$43 million of reserve draws, \$130 million of property tax and fee increases, a one-time \$238 million injection from the Province of Ontario for transit operations and \$102 million from the City's Continuous Improvement/Cost Reduction program.

Dominating the 5.7% rise in the City's direct citizen-centred services is a \$42 million jump in Employment and Social Services. Beyond welfare assistance, measures to help citizens during the downturn include the expansion of City services to aid employment searches, broadening the student nutrition and dental programs, a \$4.2 million property tax rebate for registered charities and a continuing effort on the *Streets to Homes* program for the homeless. As well, the City's Property Tax Increase Cancellation Program for low-income Seniors and residents with disabilities was enhanced for 2009 to allow almost 15% more households to qualify, with increases in the ceilings for household income from \$26,000 to \$30,000 and property assessments from \$454,000 to \$525,000. For the same two groups of residents, adjusted ceilings for the Property Tax Increase Deferral Program this year will raise the number of eligible households 32% to 82,000.

Dominating the projected 10.9% net Operating Budget increase for Agencies, Boards and Commissions in FY09 is a 35.5% rise for conventional Toronto Transit Commission (TTC) services and a jump of almost 50% for its Wheel-Trans services. Having finally regained the ridership peaks of the late 1980s, measures to further promote ridership include lengthening and standardizing hours of operation across bus routes.

2009 Operating Budget

Allocation	% share
Provincially Mandated/ Cost-Shared Programs*	32
Emergency Services	17
Transit	16
Municipal Services	14
Capital & Corporate Funding	7
Non-Program Spending	7
Administrative Services	6
Community Partnership**	1
Total: \$8.7 billion	100

* Includes Affordable Housing Office, Toronto Public Health, Employment & Social Services and Long-term Care, Children's and Court Services.
 ** Community Partnership & Investment Program.

Funding	% share
Property Taxes	39
Provincial Grants & Transfers	24
User Fees	15
Reserves, Reserve Funds	5
Federal Grants & Transfers	2
Other	15
Total: \$8.7 billion	100

Source: City of Toronto, 2009 Recommended Operating Budget.

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¹ Fiscal year-end is December 31 for the City of Toronto and March 31 for the federal and provincial governments.

Climate change initiatives remain a priority with further outlays on projects such as doubling the City's tree canopy to 34% by 2050. Details of a proposed bylaw mandating environmentally friendly green roofs for new buildings are under review. Waterfront Toronto's Lower Don Lands development has been named as one of the sixteen founding projects in the Clinton Climate Initiative that aim to demonstrate that large-scale urban developments can be "climate-positive". With the goal of diverting 70% of Toronto's garbage from landfills by 2010, daily tractor trailer loads of refuse for disposal in Michigan have been halved since 2002 and will be halted after December 2010. Efforts to green municipal government operations include an Idle Free Campaign for the City's fleet, and \$21 million to make City Hall a showcase for green technology. Upgrading public spaces includes opening up new parks and pathways, and the City's 175th anniversary will be celebrated during 2009.

A 4.0% rise is planned for residential property taxes, building on the cumulative increase of more than 17½% over the previous five years. The 2009 user fee inflationary increases of about 3.7% for many programs also is close to the top of the Mayor's recommended 2%-4% guideline. In addition, as the City laid out in June 2007, the scheduled 9% annual growth in residential water rates from 2009 to 2013, reflecting the pay-as-you-go strategy of the Water and Wastewater Program and the City's plan to eliminate the capital spending backlog for these services without new borrowing. Relative to other Southern Ontario municipalities, Toronto's residential water rates in 2008 were low, and rebates on the annual consecutive increases will only be offered to low-income Seniors and residents with disabilities. As well, residences now pay for curb-side garbage collection according to volume to help cover costs and to encourage greater reuse and recycling.

Managing Operating Expenditures

Operating efficiencies continue to be sought with the Continuous Improvement/Cost Reduction program expected to generate savings of \$102 million this year. Recognizing the difficult environment in 2009, the City has committed to closely monitoring economic developments, submitting quarterly variance reports to Council and embarking early on planning for FY10. This year, almost \$6 million will be invested towards implementing a Performance Based Planning and Budget System in 2011. Responding to the recommendations of last year's Independent Fiscal Review Panel, the City has established a new entity, "Build Toronto", with a portfolio of properties on which to maximize revenues for the City. For Toronto Hydro, sale of its Telecom shares in mid-2008 resulted in a net gain of \$119 million.

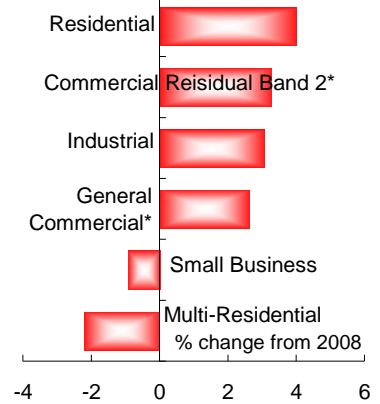
Restraint in wages and salary costs is proving difficult to achieve. The arbitrated settlement awarding Toronto police salary increases of roughly 10% over the three years to 2010 has prompted the City to request the Police to hold their total FY10 budget to a minimal increase. The TTC and Police settlements have complicated the City's current negotiations with its inside and outside workers on contracts that expired at the end of 2008. The City is putting forward as an example the federal government's recent settlement for wage increases of 2.3% for Ottawa's FY08 (where applicable) and 1.5% annually from FY09 to FY11. The city also wishes to renegotiate some benefits, particularly for new hires. For the City's non-union employees numbering about 4,000, the annual cost-of-living pay hike will not occur in 2009 and will be limited to 1.0% in 2010, and for staff at the top of the pay scale, no lump-sum bonuses will be paid over the two years. The projected \$20 million saving will be used to replenish the City's depleted welfare reserve given the anticipated rise in caseloads. The City is suggesting similar measures for the non-union staff of its agencies, boards and commissions.

Economic Development

Toronto is proceeding with a range of measures to attract new business investment and help protect existing activity, recognizing that indicators of the City's performance such as output and productivity growth are lagging other global cities and its own surrounding suburbs. Responding to recommendations, a second new entity, "Invest Toronto", has been created to collaborate with the private sector and other governments in promoting Toronto for new investment through vehicles such as trade missions. Targetted measures include an ownership stake in a large film production facility and Tax Increment Equivalent Grants for Employment Lands for specific sectors, alongside Brownfield Remediation Grants.

The City is accelerating the planned reduction of its commercial, industrial, multi-residential and small business property tax rates relative to its residential rates. In addition to holding non-residential rate increases to one-third the residential rate increase, the City is using the Current Value Assessment (CVA) results as of January 2008 to further reduce non-residential rates this year. Without adjustment, the latest CVA results would have dropped the residential share of

2009 Property Tax Changes



* Properties greater than \$1 million; small business properties are less than \$1 million.
** Includes large office towers and big box retail projects.

property taxes by 0.61% this year and raised the share paid by the various business classes from 0.29% for small business to 3.87% for industrial properties. Cancelling the 0.61% drop for residential taxpayers will allow the tax ratios for other groups to be lowered while maintaining the tax neutrality of the city-wide reassessment. The resulting configuration of rate adjustments within the overall 2.5% increase (see graph, p.2) will allow small business rates to drop to 2.5 times residential rates by 2013, two years ahead of schedule, and the other non-residential classes to meet the same goal by 2017, three years ahead of schedule.

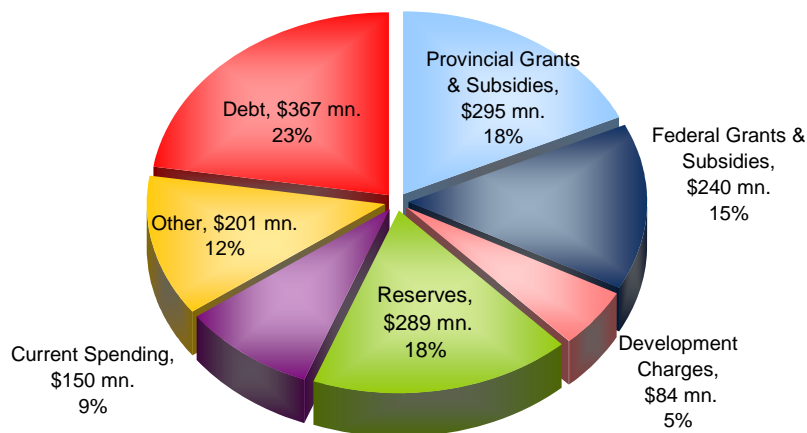
Additional tax relief for business includes the new water rate structure adopted in mid-2007 that resulted in industrial water rates 20% below residential rates in 2008. The target of a 30% differential will be achieved by limiting rate increases for industry to one-third the residential pace. Thus industrial rates are expected to rise only 3.0% this year and next, and 6.81% in 2011. After the 30% differential is achieved in 2011, industrial and residential rates will be raised 9% in both 2012 and 2013. To encourage existing and new development, on an interim basis, letters of credit will be eliminated for conditional building permits, reduced from 125% to 75% for the completion of landscaping and trimmed from 100% to 75% for subdivision infrastructure. Targetted adjustments on development charges are now in place. Developers also face more than 40 separate zoning bylaws across Toronto, prompting the long process of developing a new unitary zoning bylaw to reflect the merged city and best practices.

The Capital Budget Plan

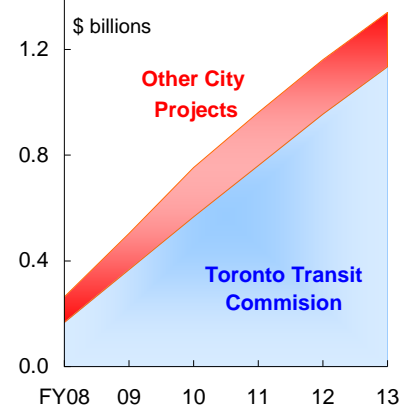
The \$1.6 billion 2009 Capital Budget approved in December 2008 represents the first year of the \$10.9 billion 2009-13 *Capital Plan* and the \$6.5 billion 2014-18 *Capital Forecast*. Maintaining the City's capital assets with the objective of minimizing their life cycle costs will absorb 57% of this year's capital outlays, and includes rehabilitating 80 bridges. Only in 2014 is the "State of Good Repair" backlog expected to stabilize. Investments to improve service represent a further 14½% share of 2009 capital expenditures with police and fire hall projects, outlays on Emergency Services communications and the launch of 3-1-1 technology this year to offer a "one-number" contact point for citizens. Growth-related projects will receive 23% of this year's Capital Budget. In addition to the transit projects discussed below, renewal of the waterfront continues, revitalizing the City Hall square will absorb \$6 million of an eventual \$38½ million budget, four community centres and three child care centres are proceeding and implementation of the \$70 million *Toronto Bike Plan* by 2012 will cost \$8 million this year. The latter includes 410 km of bicycle lanes, 122 km of shared roadways and 83 km of off-road paths, while the TTC is enhancing its facilities to encourage greater bike and transit integration.

TTC capital expenditures, including maintenance, absorb a hefty 47.7% share of the City's 2009 Capital Plan, that approaches 50% when GO Transit is included. The TTC's ambitious catch-up includes embarking on the \$443 million state-of-the-art signaling systems for both subway lines, further construction on the two Bus Rapid Transit ways totaling \$12 million, and collaborating on an interregional bus terminal. In addition, with the City assuming senior government funding assistance, deliveries will begin in 2010 on purchases of 360 subway cars and 204 light rail vehicles, with the latter slated to begin replacing the TTC's existing street car fleet.

2009 Capital Budget Financing



City of Toronto Projected New Debt





Ontario is stepping up its transit plans, partly to provide economic stimulus but also to address congestion costs in the Greater Toronto and Hamilton Area that now total an estimated at \$6 billion annually. In late March, the Province tabled the *Greater Toronto and Hamilton Area Transportation Act, 2009*, to create a single transit agency that merges the planning expertise of Metrolinx and its *Big Move* regional transportation plan with GO Transit that currently operates bus and rail networks in the Greater Toronto Area. In early April, Ontario announced \$9 billion of its promised \$11.5 billion investment for transit in the Greater Toronto and Hamilton Area. Of the \$9 billion, \$7.2 billion will jump start the City of Toronto's *Transit City* light rail plan, with \$4.6 billion directed towards a 31 km partially tunneled line across the city that connects to the international airport.

DBRS	AA
Moody's Investors Service	Aa1
Standard & Poor's	AA positive*
* Positive outlook	

The debt charges stemming from the 2009-13 Capital Plan fall just within the City's guideline that principal and interest payments should not exceed 15% of property taxes. This decade until 2004, the City's debt charges were well below 8% of property taxes. By 2007, they were more than 12% of property taxes, and now are expected to bump up against the 15% ceiling from 2011 to 2013. The TTC projects drive Toronto's new borrowing. This year, they will require \$200 million of new debt versus \$40 million for other City investments. For the entire 2009-13 period, they will need close to \$970 million of new debt, with a further \$523 million slated for 2014-18. In contrast, the City's other projects are expected to require \$109 million of new borrowing through 2013 and no new financing for the following five years.

Outlook

Completion of the Provincial-Municipal Fiscal and Service Delivery Review resulted in an agreement in late October 2008 for Ontario to gradually upload all social assistance benefits and court security costs from municipalities by 2018. For all Ontario municipalities, and particularly the City of Toronto, this multi-year adjustment will make local government finances far less sensitive to economic downturns. The upload of Ontario Drug Benefits was completed in 2008; from 2009 to 2011 the Ontario Disability Support Program will be shifted; in 2012 transfer of the costs of court security will begin to a \$125 million annual maximum by 2018; and the \$400 million annual expense of Ontario Works benefits also should be shifted to the Province by 2018. The estimated annual net benefit for Ontario municipalities by 2018 is \$1½ billion compared with the fiscal arrangements in place in 2007.

As well, the roll-out of Ottawa's and Ontario's stimulus packages should benefit Toronto through 2010 in key areas such as affordable housing repairs and construction, with other shared-cost infrastructure projects offering an extended boost. Over the next two years, \$1.2 billion of federal-provincial funding will be directed to renovating 50,000 social housing units across Ontario and building 4,500 new affordable units. For the creation of new affordable rental units for Seniors in February, the City provided funding and waived development charges and property taxes.

Beyond 2010, however, anticipated fiscal repair efforts by both the federal and Ontario governments are expected to squeeze one-time transfers to Toronto. This will exacerbate the soft growth anticipated for the City's own-source revenues from 2009 to 2011, if the economic recovery, after an initial bounce entering 2010, proves to be gradual and uneven. In this scenario, the City's economic development efforts may initially serve to offset anticipated industrial restructuring. Substantial growth of the City's assessment base will probably be challenging and more cautious real estate markets are likely to limit collections from the municipal Land Transfer Tax adopted in 2008.

Since Council approved a \$6.4 billion Operating Budget in 2003, spending plans have climbed, on average, more than 5% each year. For fiscal 2010 a significant operating budget gap is once again anticipated. To plan for revenue growth over the next few years that may be moderate at best, placing the City's expenses on a more sustainable path is likely to be the most favourable option for maintaining Toronto's competitiveness. The City's objectives — including economic diversification and expansion, the *Transit City* plans and a leadership role on climate change — will depend upon municipal cost competitiveness. As the City reviews its spending, the expenditure overhauls expected from the federal and provincial governments over the next half decade also may open up opportunities for greater synergies and efficiencies for Toronto.

Scotia Economics