The Growing Chasm: An Analysis and Forecast of the City of Toronto's Finances

TORONTO BOARD OF TRADE

VOTETORONTO2010.COM

February 2010

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Introduction & Rationale

In November 2009, the Toronto Board of Trade (the Board) launched its VoteToronto2010.com municipal election platform with the release of the discussion paper *Vote Toronto 2010: Framework for a Better City*. The purpose of the Board's VoteToronto2010.com campaign and platform is to frame the debate and develop solutions to the major issues in the upcoming 2010 municipal election.

Its VoteToronto2010.com campaign is the latest component of the Board's focus on the global competitiveness and economic development of the entire Toronto region. As we highlighted in *From World Class to World Leader: An Action Plan for the Toronto Region*, the prosperity of the Toronto region requires both a strong city centre *and* strong surrounding municipalities. In recent years, as the Board's April 2009 *Toronto as a Global City: Scorecard on Prosperity* demonstrated, the economic performance of the surrounding municipalities has eclipsed that seen in the city centre. With jobs, housing and wealth spreading beyond the city centre, much of the growth seen in the surrounding municipalities is testament to the Toronto region's success. At the same time, the city centre's diminished economic growth, due in part to controllable policy decisions, is slowing down the region's overall and potential economic growth. The city centre's prosperity should not come at the expense of growth in the surrounding municipalities, yet the surrounding municipalities' economic success can be threatened by sluggish results in the city centre. The Toronto region's overall economy will not grow — or will not grow as substantially — without a vibrant city centre being a part of the mix.

The 2010 municipal election presents voters with an opportunity to determine the course they want to set for Toronto — the city and, to a certain extent, the region — over the next decade. This discussion paper focuses on what is potentially the biggest issue in this election: the state of the City's finances. Put simply, Toronto has had a structural operating budget deficit since at least the start of the decade. By law, municipalities cannot run an operating deficit, so Toronto has managed to balance its operating budget every year through a variety of measures. But the majority of the measures used to bridge these annual gaps have been one-time fixes: emergency grants from the federal or provincial governments, use of reserve funds and so forth. These measures have enabled the City to get through its budget process each year, but they have also sowed the seeds for the following year's operating budget deficit, which usually grows larger.

The City's structural deficit severely limits City Council's ability to put in place the programs, infrastructure and services we all want to see in our great city. For example, businesses and residents wish to see an expansion of our public transit system — and to see this system enable commuters to travel seamlessly across the region. With a structural deficit, the City is unable to devote the necessary funds toward this needed construction (as evidenced in the City's recently passed 2010–2019 Capital Budget, which foresees construction not even beginning on half of the Transit City lines until 2020 at the earliest). In short, a structural deficit hampers our ability to put in place some of the elements we wish to see in our city and our region, hampering job creation, investment and economic growth.

Addressing this issue, though, requires understanding its magnitude. For this reason, the Board has undertaken an analysis of the City's finances based on available Financial Information Records (FIR), filed by the City to the Province. The City's historical structural deficit data has been provided to the Board by the City of Toronto. The Board has examined trends in the growth of revenues and expenditures, as well as the primary drivers of each. Based on these historical trends and incorporating a number of known incoming sources of revenue (such as the province's commitment to take financial responsibility for certain programs and social services), as well as a number of other assumptions about future revenues, the Board has forecast the scale of the City's deficit over the next 10 years. The forecasting model can be found in Appendix A.

By undertaking this analysis, the Board seeks to inform the public of the true extent of this issue. It also seeks to ensure that all candidates in the 2010 election understand the scale of the issue they will be dealing with and that they propose concrete solutions in their platforms. Based on this analysis and the candidates' campaign pledges, Torontonians should be able to make informed choices about the kind of city they want.

This analysis should also help lead the way to solutions. In order not to stifle needed public debate, however, it does not set out any recommendations at this point. A subsequent recommendations paper will be forthcoming as part of the Board's VoteToronto2010.com campaign. Some of the drivers of Toronto's structural deficit, as well as actions taken in other jurisdictions, point to where some of these solutions lie. At the end of this paper and at appropriate junctures in the discussion that follows, some of these potential solutions are noted.

How Does this Impact Me, My Business, My Community and My Quality of Life?

The City of Toronto's structural deficit affects everyone who lives & works in Toronto in the following ways:

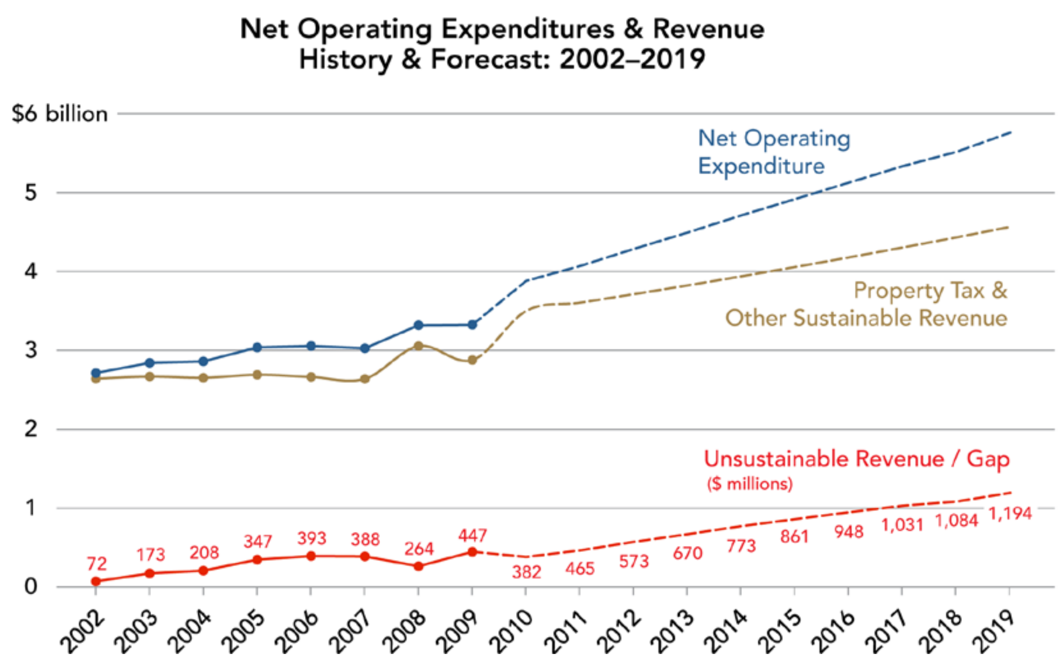
- By impeding our ability to effectively address social issues like poverty and immigrant integration
- By having a negative impact on the city of Toronto's and the Toronto region's growth
- By limiting our ability to fund other needed projects, like expansion of our regional transportation system
- Uncertainty surrounding the operating budget — including the potential service cuts or size of tax increases that will be needed to address the deficit — negatively affects the business environment, which in turn affects job growth and investment
- Residents & businesses likely face annual property tax increases to address the cost of current service levels
- Getting the City to a sustainable balanced operating budget will help to spur jobs, investment and help create a great city

The Big Picture: The City's Structural Deficit

The City of Toronto's structural operating budget deficit can be described conceptually as follows:

	Gross Program Operating Costs
Less:	Program revenues (sustainable revenue, including senior government transfers and user fees)
Equals:	Net operating expenditures to be funded from own source revenues including property taxes
Less:	Funds actually raised through property taxes
Equals:	Budget deficit

Based on the operating budget trends identified in this financial review, the Board has developed a preliminary forecast model (described fully in Appendix A). Absent mitigating policy initiatives, it is predicted that the **annual shortfall** between ongoing expenditures and sustainable revenue will be **$382 million in 2010,** growing to **$1.194 billion by 2019**.



It is incumbent that this structural deficit be tackled in the short-term. Overcoming a $400 million operating budget shortfall now, while still requiring restraint and expenditure reductions, is much easier than bridging a $1.2 billion deficit in ten years' time. The impact that such a large budget deficit would have on the city, our public services and our business environment would be immense – and that does not account for the service and program cuts and tax increases that would occur in the years leading up to 2019.

How did we get to this point? The principal reason is that the City's expenditures have been rising at a significantly higher annual average rate than its revenue growth. This situation, however, has many components:

Revenues

- The City's revenue sources are: property taxes; transfers from the federal or provincial governments (these include conditional grants tied to specific programs or services and unconditional grants that the City can spend as it sees fit); user fees and service charges; the municipal land transfer tax and the personal vehicle tax levy (new revenue tools the City was given under the *City of Toronto Act* and which are not available to other Ontario municipalities); and a few other sources
- Between 2002 and 2008, revenues from property taxes grew on average by 2.9 per cent a year
- Between 2002 and 2008, revenues from federal and provincial grants for operating and capital grew on average by 12 per cent a year — government transfers include both one-time grants (such as the federal government's stimulus funding) and ongoing, sustainable funds
- The new revenue sources created as a result of the *City of Toronto Act* (the municipal land transfer tax and the personal vehicle tax levy) are estimated to yield $206 million in 2009 and similar amounts going forward
- Overall, growth in revenues has not matched growth in expenditures and it does not appear that the City's tax base is robust enough to make up this difference

Expenditures

- Total operating expenditures increased on average by 5.9 per cent between 2002 and 2008 The largest single expenditure in the City's budget is for wages, salaries and benefits
- Over this period, wages, salaries and benefits increased on average by 6.5 per cent per year, while growth in full-time funded positions grew by an average of only 1.5 per cent a year
- As a result of an aggressive capital infrastructure program (mainly focused on transit), debt servicing costs more than doubled, increasing on average by 14.6 per cent annually. Debt servicing for transit initiatives increased on average by 20 per cent annually

Reserves

- The City holds some funds in reserve, generally for use at the later stages of projects or to cover unexpected cost overruns
- Reserve funds can be discretionary (where it is Council's decision how these funds should be spent) or non-discretionary (funds that must eventually be applied for specific uses, such as capital infrastructure projects)
- In prior years, the City has drawn extensively on its discretionary reserves to cover annual operating budget shortfalls; as these funds continue to get drawn down, however, the City will not be able to rely on reserves as a way to bridge the structural deficit
- In 2008, the City's reserve balance was only 15.2 per cent of tax-supported operating expenditures, a level much lower than is found in surrounding GTA municipalities

Pressure Points

- As noted above, the annual expenditure growth in salaries, wages and benefits is increasing at a faster rate than overall expenditures. This is the largest single cost driver for the City, and getting this item under more control will bring down the annual rise in expenditures
- The cost of servicing debt — introduced to address Toronto's significant infrastructure repair and expansion needs — grew on average by 14.6 per cent annually between 2002 and 2008 and will continue to be a substantial factor in the City's operating budget
- With unprecedented deficits at the federal and provincial levels, one-time transfers to the City (which accounted for $258 million in the 2009 Operating Budget) are not likely to continue in the near future
- The City faces an unfunded liability ($2.59 billion as of 2008) for its pension and other post-employment benefits, which will be an annual factor in the operating budget ($219 million in 2008)

Implications

- In the absence of mitigating policy initiatives, the City's structural deficit within its operating budget will continue to grow
- Even with the full implementation of the Province's commitment to take financial responsibility for certain programs and social services (a process known as uploading) by 2019 and the City's new revenue sources as a result of the *City of Toronto Act*, the City will be in a sizeable structural deficit position unless other actions are taken
- The City's fiscal flexibility is fairly limited due to its relatively low reserves — in addition to being lower than reserve levels found in surrounding GTA municipalities, Toronto's reserve levels are also well below those of many US municipal governments (which generally range from 30–50 per cent of their annual expenditures)[1]
- Addressing this structural deficit will likely require a combination of decreasing expenditures and increasing revenues
- Decreasing expenditures requires measures like finding budgetary efficiencies or cuts to (or elimination of) certain programs
- Increasing revenues requires measures like increasing property taxes and user fees or negotiating further ongoing grants from the federal or provincial governments
- The problem will only get worse unless candidates are willing to "think big" and consider new ideas for restraining spending or raising revenues

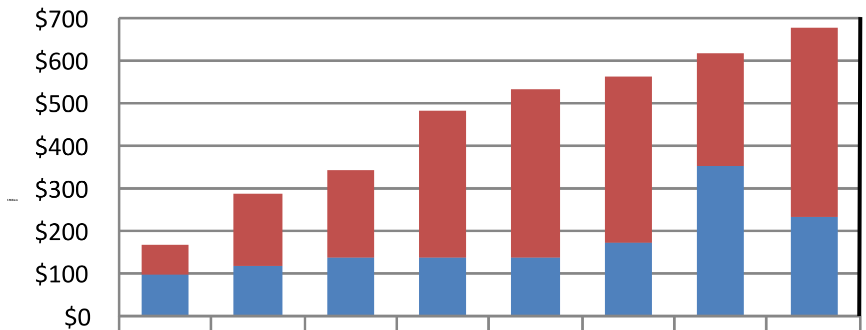
[1] Gerald J. Miller and James H. Svara "Navigating the Fiscal Crisis: Tested Strategies for Local Leaders – Overview," in Gerald J. Miller and James H. Svara, eds. *Navigating the Fiscal Crisis: Tested Strategies for Local Leaders* (Tempe: Arizona State University, 2009), 19.

How is a Balanced Budget *Not* a Sustainable One?

Key Observation: The City of Toronto's budget papers have identified annual operating budget "pressures," which it further identifies as being bridged by sustainable and unsustainable funding sources. Based on the City's figures and our analysis, the unsustainable portion of this pressure has risen steadily from $72 million in 2002 (the first year examined) to $447 million in 2009.

The chart below sets out the sources of operating budget funding from sustainable and unsustainable sources that have been used to "balance" the budget in recent years:

City of Toronto - Unsustainable Funding Sources for Net Operating Expenditures



	2002	2003	2004	2005	2006	2007	2008	2009
Unsustainable	$72	$173	$208	$347	$393	$388	$264	$447
Sustainable	$97	$115	$136	$135	$139	$174	$351	$232

As an example, the City identified $679 million in budget "pressures" in the 2009 Operating Budget. To put the budget "on side," the following funding sources were identified:

City of Toronto 2009 Tax-Supported Operating Budget Pressures

Revenue Sources ($ M)

	Sustainable	Unsustainable	Total
Total Budget Pressures			$ 679
Pressure Mitigating Strategies			
Prior Year's Surplus		(74)	
Program Reserve Draws		(43)	
User Fee Increases	(7)		
Continuous Improvement/Savings	(102)*		
Surplus from closed Capital Projects		(92)	
Total Cost Containment and Prior Year's Surplus			(318)
Adjusted Pressure			361
Provincial Investment			
Transit Debt Charges		(238)	(238)
Adjusted Pressure			123
Assessment Growth	(40)		
Property Tax Increase	(83)		
Adjusted Pressure			0
Total	(232)	(447)	(679)

* Contains $74 million in funding from unfilled but approved staff positions

The unsustainable components of the sources used to bridge the 2009 Operating Budget's shortfall are:

- **Prior Year's Surplus:** This cannot be budgeted for; when surpluses have developed, their average in the past eight years has been marginally negative
- **Program Reserve Draws:** These additional reserve draws, beyond those that can be sustained from ongoing reserve revenue (such as investment income), cannot form a source of continuing revenue
- **Surplus from Closed Capital Projects:** Unlike operating budgets, capital project budgets remain open until the completion of the project and often beyond that until the end of a maintenance period. The $92 million represents a major closure initiative and cannot be relied upon as a continuing funding source
- **Transit Debt Charges:** This was a one-time Provincial grant in 2009 based on a formula used to distribute a portion of a surplus in the 2008 Provincial Budget. With the Province's commitment to deficit funding as part of its economic stimulus package, further funding will not be forthcoming from this source

How Did We Get Here? Focus on Expenditures

Data on operating expenditures has been examined on two bases: by expenditure type within each program budget (by object) and by program. The table below sets out operating expenditures for the 2002–2008 period. A further analysis is set out according to major expenditure objects.

Key Observation: Salaries, wages and benefits, rising at 6.5 per cent from 2002 to 2008, represent the main driver of expenditure increases for the City (on average comprising 47 per cent of total expenditures). Over this period, the number of full-time employees increased by 1.5 per cent annually; this means that the average annual salary, wage and benefits per employee rose by five per cent annually over this same period.

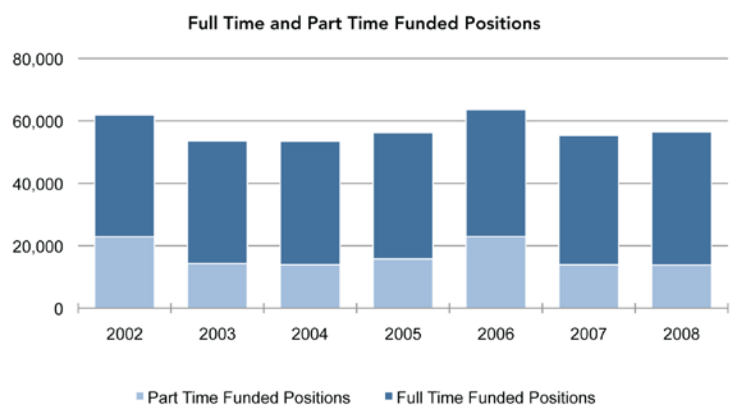
City Operating Expenditures 2002- 2008

	2002	2003	2004	2005	2006	2007	2008	CAGR%	Share of Total in 2008
Operating Expenditures by Object									
Salaries, Wages and Employee Benefits	2,911,082,747	3,065,513,881	3,322,883,660	3,548,673,619	3,742,268,586	4,093,061,101	4,254,755,667	6.5%	47%
Total Debt Servicing Cost	258,212,515	269,274,897	261,728,610	353,277,723	460,749,737	531,735,845	583,407,035	14.6%	6%
External Transfers	680,067,943	697,589,315	686,783,538	440,027,338	415,183,244	517,888,821	1,237,195,245	10.5%	14%
Materials and Contracted Service	1,990,757,736	2,099,877,915	2,052,926,981	2,581,719,241	2,525,662,290	2,505,948,208	1,976,200,052	-0.1%	22%
Amounts for Unfunded Liabilities	105,639,819	151,031,720	181,871,844	146,553,541	85,431,145	79,834,342	219,494,953	13.0%	2%
Transfers to Own Funds	549,209,043	1,097,973,236	1,188,630,450	1,196,634,102	1,392,419,026	985,858,031	868,609,517	7.9%	10%
Total Operating Expenses	6,494,969,803	7,381,260,964	7,694,825,083	8,266,885,564	8,621,714,028	8,714,326,348	9,139,662,469	5.9%	
Operating Expenditures by Program									
General government	489,775,878	471,480,013	566,134,279	438,271,620	495,625,578	773,017,869	942,194,071	11.5%	10%
Protection services	1,127,194,695	1,201,113,858	1,324,889,617	1,308,947,482	1,376,481,951	1,493,757,317	1,509,295,258	5.0%	17%
Transportation services	1,353,917,603	1,535,660,906	1,496,525,355	1,586,283,146	1,681,047,276	1,871,551,389	2,071,578,430	7.3%	23%
Environmental services	706,315,307	1,218,781,600	1,279,855,714	1,353,170,795	1,411,432,414	922,523,034	742,633,348	0.8%	8%
Health services	287,228,846	292,079,820	310,400,217	331,951,540	352,016,104	359,734,213	383,947,633	5.0%	4%
Social and family services	1,445,821,494	1,533,152,234	1,544,359,201	1,650,877,260	1,759,855,058	1,822,012,754	1,859,522,222	4.3%	20%
Social housing	469,709,006	489,762,683	488,726,983	810,932,231	739,254,959	617,337,472	669,621,225	6.1%	7%
Recreation and cultural services	568,761,758	587,300,476	625,798,207	719,966,419	735,750,305	768,895,642	820,586,170	6.3%	9%
Planning and development	46,245,215	51,929,375	58,135,510	66,485,071	70,250,383	85,496,658	140,284,112	20.3%	2%
Total Operating Expenses	6,494,969,803	7,381,260,964	7,694,825,083	8,266,885,564	8,621,714,028	8,714,326,348	9,139,662,469	5.9%	

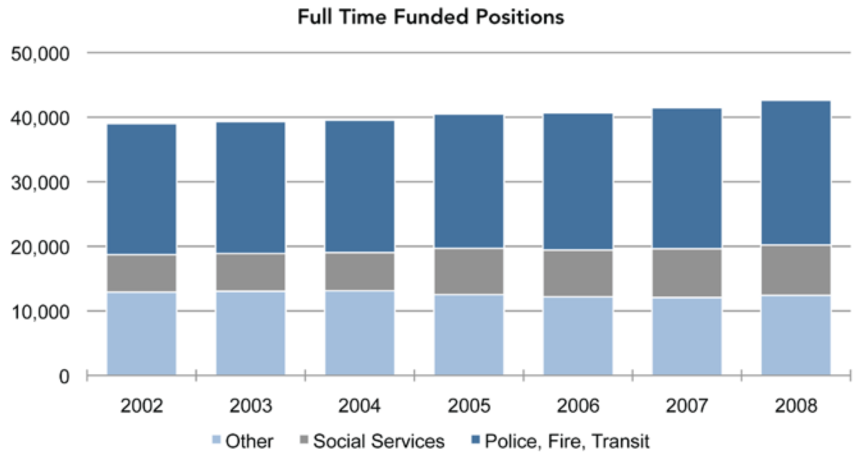
Salaries, Wages and Benefits (47 per cent of expenditures in 2008)

Assessment growth in Toronto since 1992 has been moderate. Over the period from 2002 to 2008, the number of households grew at an average rate of two per cent per year. During this same period, the number of full-time positions in place at the City grew on average by 1.5 per cent per year. Overall, salaries, wages and benefits are by far the largest expenditure object in the City's operating budget, accounting for 47 per cent of all expenditures in 2008. The average rate of growth for this expenditure category between 2002 and 2008 was 6.5 per cent per year, translating into a net average annual increase of five per cent for salaries, wages and benefits.

One trend to note is the transitioning of many part-time City employees into full-time City employees. This affects the operating budget in a number of ways. Most significantly, full-time employees often enjoy employment benefits (such as sick leave allowances) that are not available to part-time employees. In 2008, 75 per cent of all positions were full- time (a total of 42,627 positions), with the vast majority of part-time positions concentrated in three programs: parks and recreation; libraries; and homes for the aged.



It should be noted, however, that a large portion of the full-time workforce is funded either from fee-for-service (e.g. water and sewer collection services) or through sustained conditional grant funding (e.g. employment, social assistance and social housing). The rest of the full-time workforce is funded through property tax revenues. Police, Fire and Transit currently make up almost half (47 per cent) of all expenditures funded from property taxes. During the period 2002–08, these programs relied almost entirely on full-time funded positions (100 per cent for Fire Services; 91 per cent for Police Services; and 99 per cent for Transit). As can be seen from the graph below, most of the growth in full-time funded positions between 2002 and 2008 came from these three programs.



Between 2002 and 2008, increases in salaries, wages and benefits for Police, Fire and Transit increased by 5.9 per cent annually, which is slightly below the average annual growth for this entire expenditure category. In more recent years, 2006 to 2008 to be precise, salaries, wages and benefits for Police, Fire and Transit increased by 6.8 per cent annually, which is higher than the average annual growth.

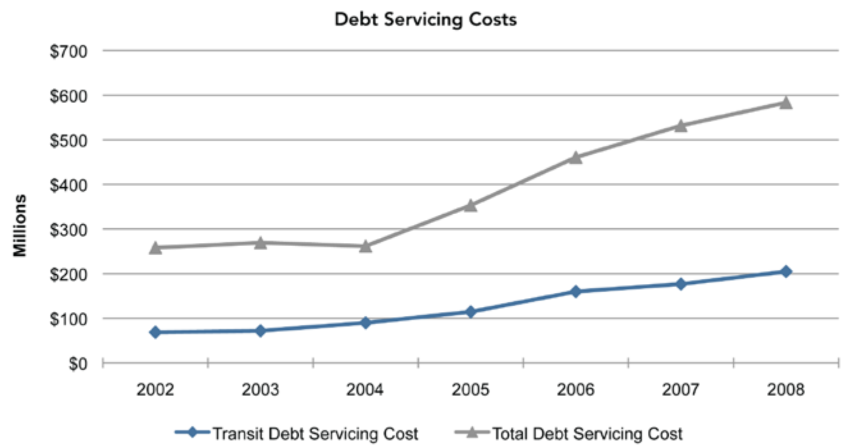
Salaries, wages and benefits are the largest component of all expenditures supported from property tax revenues. With a substantial portion of the City's employees being full-time unionized employees, the past trends identified above are likely to continue into the future. Many US cities experiencing fiscal constraints have sought to reduce their expenditures through concessions from their municipal employees (such as hiring freezes, pay freezes, layoffs and in some cases reduced pension benefits for new hires).[2]

Debt Servicing Costs (6.4 per cent of 2008 expenditures)

To address Toronto's significant capital infrastructure maintenance, repair and expansion needs, the City has embarked on an aggressive capital infrastructure program. The focus of this program has been on transit initiatives. The City has paid for this infrastructure program mostly through transfers from the federal and provincial governments (which totalled $2.94 billion for transit operations and capital between 2002 and 2008) and through the issuance of long-term debt. Payment toward interest and principal on this long-term debt (that is a part of the capital budget) is listed as debt servicing costs in the City's operating budget.

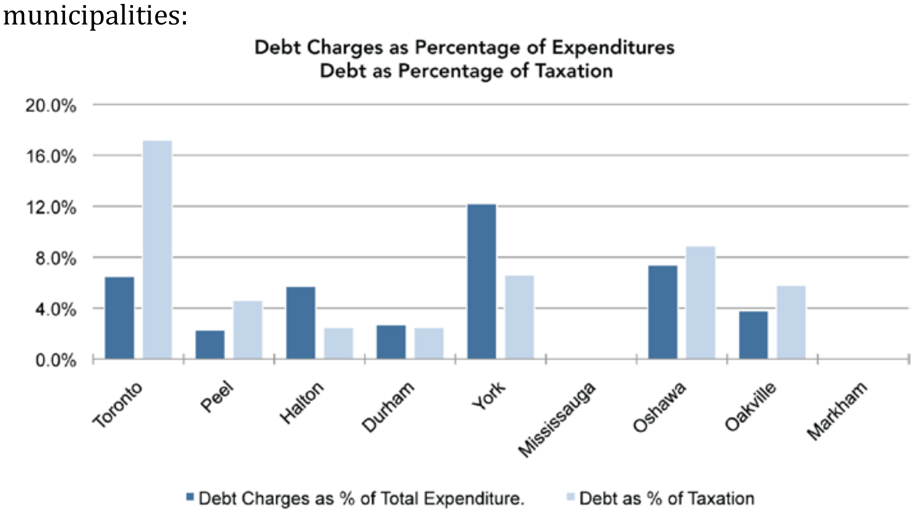
While total expenditures over the period from 2002 to 2008 increased on average by 5.9 per cent, debt servicing costs increased at 14.6 per cent per year and debt servicing for transit initiatives increased at an annual average rate of 20 per cent. As a result, debt servicing costs are a small, but rapidly growing, component of the City's operating expenditures. In 2002, debt servicing represented four per cent of total expenditures and had risen to 6.4 per cent of all expenditures by 2008 – an increase of over 60 per cent. In 2002, transit represented 27 per cent of all debt servicing costs; by 2008, this was up to 35 per cent.

[2] Gerald J. Miller and James H. Svara "Navigating the Fiscal Crisis: Tested Strategies for Local Leaders – Overview," in Gerald J. Miller and James H. Svara, eds. *Navigating the Fiscal Crisis: Tested Strategies for Local Leaders* (Tempe: Arizona State University, 2009), 11-12.



In December 2009, the City approved its 10-year capital program totalling $16.2 billion. With 29 per cent of this program funded from debt, the growth in debt servicing costs in the City's operating budget will continue into the future. Indeed, the City had to pursue new approaches in order to finance this capital expansion and remain within City Council's debt-ceiling target of 15 per cent; in this case, the issuance of 30-year, rather than 10-year, debentures for projects with longer life spans and drawing down a $600 million Toronto Hydro promissory note to provide up-front financing for a number of projects. There is a sizeable drop in the amounts being spent from the first five-year period of the plan (2010–2014) to the second five-year period (2015–2019). Approximately two-thirds of total spending comes in the first five years. Even with this significant infrastructure commitment, though, major projects — including four of the Transit City lines — are not slated to be built during this 10-year period.

The City's continued reliance on debt to finance its capital infrastructure is in sharp contrast to the situation in surrounding GTA municipalities, two of which (Mississauga and Markham) have no debt outstanding. The graph below compares debt and debt charges for Toronto and a number of large GTA municipalities:



Why is this "unfunded"?

The costs that comprise this expenditure category are post-employment benefits, such as employee pensions and accumulated sick leave. These plans are structured such that current workers fund past employees' benefits through contributions from their paycheques (over time, these workers "pay in" to the system). However, with the rising number of retired workers collecting benefits, the benefits being paid out exceed the contributions received. This difference is covered by the employer, in this case the City.

This comparison is revealing. Since Toronto is not a growth municipality (unlike many of the surrounding GTA municipalities), the graph also understates Toronto's situation relative to its surrounding municipalities. Whereas other municipalities can expect assessment growth to help fund their infrastructure projects, Toronto cannot anticipate such windfall gains to offset its reliance on debt to finance infrastructure maintenance, repair and expansion.

External Transfers (14 per cent of 2008 expenditures)

This is a major expenditure item in the City's operating budget that receives substantial support through conditional grants. In 2008, 95 per cent of these costs were for social services, general assistance and social housing. These costs remained relatively constant from 2000–2007, but they more than doubled from $517 million in 2007 to $1.2 billion in 2008.

Unfunded Liabilities (2 per cent of 2008 expenditures)

A disturbing trend in this budget is the increasing contributions to unfunded liabilities. While no annual provision (i.e. a contribution to reserves) was made prior to 2002, the annual provision in 2008 now stands at $219 million. The total forecast liability remaining unfunded in 2009 is $2.59 billion. This liability is comprised of the following components:

City of Toronto Unfunded Liability Year-End 2008 ($ million)	
Post employment benefits	
Accumulated sick leave	$ 467.6
Accrued pensions payable	2,028.4
Accrued Workplace Safety and Insurance Board (WSIB) claims	333.2
Other - unamortizated acturial loss (gain)	(240.0)
Total	$ 2,589.2

Materials and Contract Services (22 per cent of 2008 expenditures)

While there was a small decline in total materials and contract service costs from 2002 to 2008 (-1.1% per year), the use of contractors did increase substantially (6.9% per year). Most dramatic was the increased use of contractors to provide transit services. In 2002, transit spent $12 million on contract services. By 2008, this had increased 11 fold to $137 million, representing an average annual percentage increase of over 50% per year. In spite of these increases to fund outside resources, full-time positions for transit services grew at an average annual rate of 2.5 percent, almost twice the rate of growth in employment for the City as a whole.

How Did We Get Here? Focus on Revenues

The City has five primary sources of revenue:

1. Property taxes
2. Conditional and unconditional grants from the federal or provincial governments
3. User fees
4. Reserve draw-downs
5. Other sources

Key Observation: Between 2002 and 2008, revenues from property taxation have grown by an annual average of 2.9 per cent (compared to the 5.9 per cent average annual increase in expenditures). The rate of growth in revenue from federal and provincial grants and user fees has generally exceeded increases in expenditures, but the average annual increase in property tax revenue has been insufficient to meet the full cost of services within the operating budget.

The chart on the following page sets out the City's gross operating revenue, as well as program-specific information, for the period 2002 to 2008. The analysis that follows is broken down according to each of the major sources of revenue.

City Operating Revenues 2002-2008

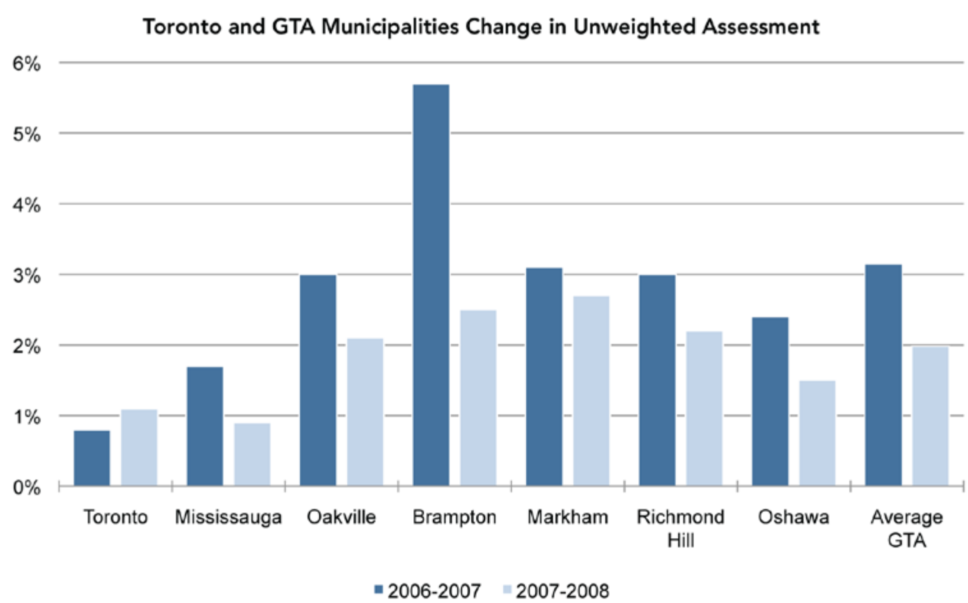
	2002	2003	2004	2005	2006	2007	2008	CAGR %	Share of Total in 2008
Taxation - Own Purposes	2,790,488,671	2,841,037,650	2,903,344,982	3,037,530,304	3,101,070,042	3,202,755,303	3,318,486,446	2.9%	37%
Taxation - Payments in Lieu of Taxation	70,816,161	64,862,867	79,387,391	81,694,779	88,204,999	89,881,247	79,108,820	1.9%	1%
Ontario Unconditional Grants (OMPF)	-	-	-	-	34,929,792	80,825,081	111,014,998		1%
Ontario Conditional Grants									0%
Transit	-	264,494	70,000,000	90,955,172	91,600,000	91,600,000	191,600,000		2%
Health Services	132,969,292	141,114,488	153,773,713	171,758,496	199,841,503	227,473,376	240,293,254	10.4%	3%
Social and Family Services	841,399,111	886,352,594	887,857,054	926,932,495	985,329,889	1,017,544,034	1,076,036,468	4.2%	12%
Other Services	53,112,025	109,823,114	19,739,737	98,807,339	153,863,793	28,993,152	116,168,751	13.9%	1%
Total	1,027,480,428	1,137,554,690	1,131,370,504	1,288,453,502	1,430,635,185	1,365,610,562	1,624,098,473	7.9%	18%
Canada Conditional Grants									0%
Social Housing	180,465,223	184,405,003	174,867,510	175,174,463	174,512,616	174,253,798	173,672,981	-0.6%	2%
Social and Family Services	36,214,528	31,457,026	19,968,425	17,903,450	34,916,555	34,311,498	20,333,700	-9.2%	0%
Other Services	1,519,680	2,048,217	6,057,136	5,140,463	3,773,453	4,483,306	3,988,283	17.4%	0%
Total	218,199,431	217,910,246	200,893,071	198,218,376	213,202,624	213,048,602	197,994,964	-1.6%	2%
User Fees and Services Charges									0%
Water and Wastewater	490,981,108	516,589,222	519,527,964	568,998,776	596,583,558	650,939,449	654,479,129	4.9%	7%
Transit	666,137,000	661,263,000	685,425,000	714,509,000	740,510,000	784,394,000	840,888,000	4.0%	9%
Social and Family Services	152,539,144	174,362,651	151,523,418	164,312,794	173,038,141	158,810,734	139,939,885	-1.4%	2%
Social Housing	63,627,900	71,234,862	89,906,277	105,149,741	106,598,559	98,033,377	81,300,003	4.2%	1%
Rec & Culture	86,719,252	84,460,646	96,170,973	88,775,661	122,189,357	134,089,450	114,797,358	4.8%	1%
Other Services	109,645,316	94,782,820	91,541,450	99,149,267	108,103,755	106,960,551	180,244,108	8.6%	2%
Total	1,569,649,720	1,602,693,201	1,634,095,082	1,740,895,239	1,847,023,370	1,933,227,561	2,011,648,483	4.2%	22%
Others									0%
Investment Income	95,428,271	109,111,658	125,896,782	139,513,147	192,591,819	226,732,344	221,297,891	15.0%	2%
Licences, Fines	262,175,058	264,157,159	292,779,960	566,745,106	552,959,630	573,796,235	606,941,752	15.0%	7%
Land Trans. & Vehicle Tax	-	-	-	-	-	-	180,734,587		2%
Own Fund Transfers	234,120,441	655,703,143	823,471,463	790,022,437	899,494,097	619,861,130	263,650,252	2.0%	3%
Others	173,868,918	210,320,232	296,729,658	365,311,505	310,871,694	249,889,871	378,959,018	13.9%	4%
Total	765,592,688	1,239,292,192	1,538,877,863	1,861,592,195	1,955,917,240	1,670,279,580	1,651,583,500	13.7%	18%
Total Operating Revenue	6,442,227,099	7,103,350,846	7,487,968,893	8,208,384,395	8,670,983,252	8,555,627,936	8,993,935,684	5.7%	100%

Property Tax Revenue (37.8 per cent of revenues in 2008)

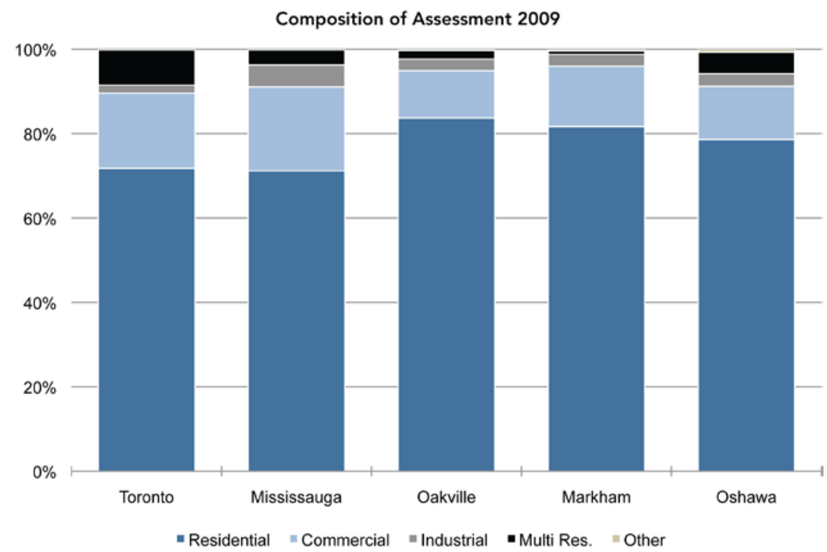
Property taxes fund all or a portion of the cost of all City programs, with the exception of water, sewer and storm water programs funded totally from user fees (waste collection services are also moving in this direction). Taxes are collected from various classes of taxable properties and also from tax-exempt properties. Most provincial and federal properties are tax-exempt but, through special agreement, make payments in lieu of taxes (PILTs). In total, property tax revenue from taxable and tax-exempt properties generated $3.4 billion in 2008. Over the period 2002–2008, revenue from property taxes, including PILTs, increased on average by 2.9 per cent per year.

Compared to surrounding GTA municipalities enjoying sizeable assessment growth, Toronto has only just returned to its 1992 levels. The implications as a city "builds out" are significant. During a growth cycle, new taxation revenue is collected on an average basis from all property owners. This usually generates more revenue than the incremental costs of adding new services beyond those already in place. As such, there is an assessment growth "bonus" allowing the property tax impact on all properties to be moderated. However, in the case of Toronto, this is becoming less and less significant.

As illustrated in the chart below, recent assessment growth in Toronto from 2006 to 2008 was less than half of that experienced in the surrounding large GTA municipalities:



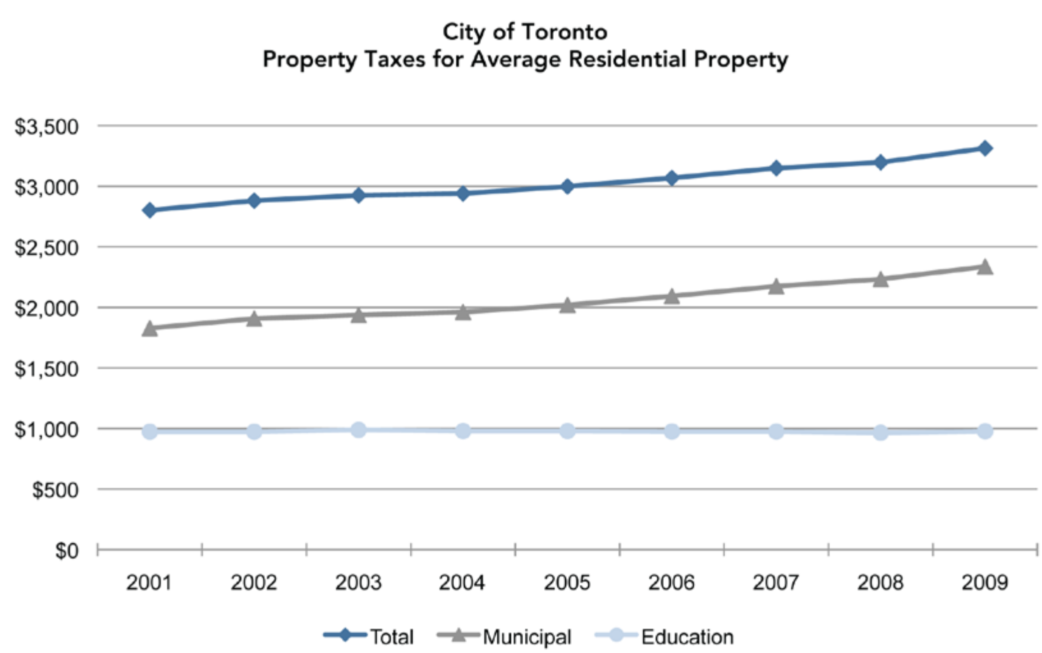
Another important consideration when examining the tax base of a municipality is the mix of assessments among various property classes. Municipalities will especially encourage the growth (and retention) of commercial and industrial assessment for two reasons: 1) the cost of providing services to these classes is often lower than for residential properties; and 2) compared to residential properties municipalities are allowed to recover more tax revenue per dollar of assessed value from these classes. The following chart sets out the mix of assessment by property class in Toronto and in surrounding large GTA municipalities:



The data from the chart above reveals a number of underlying issues with respect of Toronto's property tax base:

- Toronto is more reliant on non-residential property assessment than the average for the surrounding GTA municipalities
- Most of Toronto's non-residential assessment base is comprised of commercial properties
- Mississauga, with a higher percentage of commercial assessment than Toronto and surrounding GTA municipalities, is the exception to the above trends

The average residential property in Toronto in 2009 had a current value assessment of $387,680 and taxes of $3,314. Seventy-one percent or $2,337 went to support City services and 29 per cent or $976 was transferred to the Province to support education. Over the period 2002 to 2009, this property experienced a net average annual increase in property taxes of 2.0 per cent, due to an annual average increase of 2.9 per cent in the municipal property tax rate and an essentially stable rate for provincial education contributions.



Why Commercial Property Tax Increases Should not be Part of the Solution

"A major contributing factor for office sprawl in Toronto is a central city commercial property tax differential that is one of the largest of any city in North America. While several US cities have significant central city property tax premiums, these tax premiums are often mitigated by extensive tax abatement programs...[T]he total number of jobs in the City [in 2005 was] roughly 100,000 less than it was at the previous peak in 1989. During the same time, the number of jobs in the 905 area has grown by over 700,000 and the number of jobs in Ontario has increased by more than 1 million new jobs...When looking for reasons to explain the difference between the rates of employment growth in the City and the surrounding region, the two most commonly cited factors are congestion and property taxes."

— Enhancing Toronto's Business Climate: It's Everybody's Business, City of Toronto (July 2005)

Businesses and residents have an interest in a competitive business property tax rate for Toronto. As the above quote — from a 2005 City report that established a policy to pursue a more competitive business property tax rate for Toronto — reflects, a high tax rate impedes economic development and job growth. In addition, Toronto relies on strong commercial and industrial sectors (and the associated property taxes that are collected from these property classes) to fund its operating budget. Based on 2009 tax rates, the city of Toronto has the highest commercial property tax rates in the GTA — a position it has held for a number of years.

As the 2009 edition of *Toronto as a Global City: Scorecard on Prosperity* showed, economic development and job growth in the city of Toronto have lagged behind the GTA's surrounding municipalities in recent years. From 1987–2007, almost all employment growth in the GTA occurred outside of the city of Toronto. Annual average employment growth over that period was 0.3 per cent in the city of Toronto but 3.8 per cent in the rest of the GTA. More recently, between 2002 and 2007 employment grew in Toronto's surrounding municipalities at two-and-a-half times the pace of growth in the city of Toronto. As reflected in the City of Toronto 2005 report cited above, the business property tax differential played a significant role in this outcome.

As a result of Toronto's high commercial property tax rate, about 40 per cent of all property taxes collected by the City of Toronto come from businesses, even though these properties only make up about 20 per cent of the value of all assessed properties (there is essentially a 2:1 ratio between assessed value and percentage of taxes levied). In other GTA municipalities, the ratio between assessed value and percentage of taxes levied for business properties is closer to 1:1.

In 2009, the weighted average municipal tax rate on commercial properties in the surrounding GTA municipalities is 1.14 per cent, whereas in Toronto is 2.03 per cent. This translates into a commercial property worth $10 million paying property taxes of $114,000 if it is located in the surrounding municipalities (note that the exact amount paid will depend on the municipality in which the business is located — this is the weighted average rate for all of the surrounding municipalities) and $203,000 if it is located in Toronto.

To address the issue of GTA tax competiveness, the City of Toronto introduced the following policy, which is designed to gradually narrow the inequity between Toronto and the other municipalities in the region by reducing the tax ratio between Toronto's residential and non-residential classes.

The City has set a target for all of its non-residential classes to pay 2.5 times the residential rate (a ratio of 1:2.5) by 2020. This would be achieved by holding non-residential tax increases to one-third the rate of residential increases. To its credit, the City's policy exceeded the limits to non-residential tax increases established by provincial regulation, which restricts increases to half of residential tax increases.

From 2005 to 2008, the City held to its policy of holding non-residential tax increases to one-third the rate of residential increases. In 2009, however, the City effectively deviated from this policy by introducing a commercial tax rate increase that represents three-quarters of the increase levied on residential properties.

The cause of this deviation, allowable under provincial regulations, is related to the Current Value Assessment (CVA) system. Under the CVA system, the value of properties is periodically reassessed (presently this takes place every four years) to reflect how much the particular property's market value has increased or decreased. Even though reassessment generally finds an overall increase in property value, the total amount of property taxes that a municipality collects on these properties cannot increase, absent annual rate increases. Under a hypothetical scenario: total assessed value of all properties in Toronto before reassessment is $100 billion and the City of Toronto collects $5 billion in property taxes; if the total assessed value of all properties in Toronto after re-assessment increases to $110 billion, the City of Toronto must adjust down its property tax rates so that only $5 billion in property taxes is collected from these now more valuable properties.

Provincial law allows municipalities to set non-residential tax rate increases in excess of half of the rate of residential increases if the excess is to fund an assessment related tax shift between classes. The 2009 reassessment cycle saw Toronto's commercial and industrial classes appreciate disproportionately higher than its residential class. As a result of the higher increase in commercial and industrial property values and the flexibility granted to it under provincial regulations, the City of Toronto shifted $19 million additional tax dollars onto the commercial and industrial classes *while decreasing the non-residential to residential tax ratio.*

The result of this legal "tax shift" caused commercial tax rates in Toronto to rise 2.93 per cent in 2009 where a tax rate increase of 1.33 per cent would have been anticipated based on Toronto's four per cent residential tax rate increase. The 2009 commercial tax increase represents the second-highest tax rate increase since the amalgamation of Toronto in 1998. Since the CVA assessment-related tax impacts are being phased in over four years, there is a very strong potential for this order of tax rate increase to be repeated through to 2012 (the City's March 2009 report setting out this tax shift explicitly indicates the likelihood of this occurring).

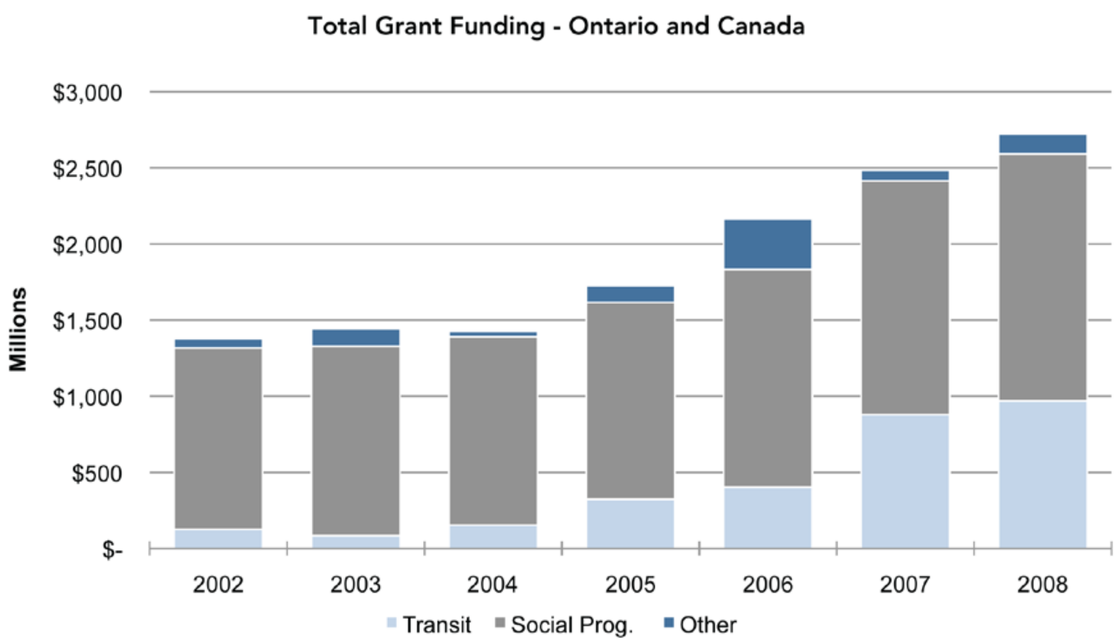
The implication of the 2009 (and potentially 2010, 2011 and 2012) tax rate increase on the commercial class is that the pace toward achieving a more competitive and level property taxation playing field across the GTA has been dramatically slowed down.

The 2009 property tax cycle also exposed a flaw in the City's policy aimed at achieving a more competitive business tax environment with the surrounding GTA municipalities. The City's tax policy is based on the relationship of its non-residential tax classes with its residential tax class and *not* on the corresponding classes in neighbouring jurisdictions. As result of the differential in the assessment increases of Toronto's property tax classes, it is thus possible to *accelerate* Toronto's objective of achieving a tax ratio of 1:2.5 (which it now is tracking to achieve by 2017 — three years ahead of schedule), and simultaneously *decrease* the pace of achieving competiveness with the rest of the GTA (which has now been pushed off by a factor of almost 50 per cent).

Senior Government Funding (21.5 per cent of revenues in 2008)

For many programs administered in Ontario, particularly those involving social services, delivery is done at the municipal level with substantial support from the provincial tax base. Most of this provincial funding is earmarked for specific programs and is classified as conditional grants. A smaller block of unconditional grant funding has been made in the last three years (2006–2008) and these funds can be allocated at the discretion of City Council. The federal government has been a smaller, but consistent, contributor of conditional grants for social housing and social assistance programs.

In addition, the federal and provincial governments make contributions directly to capital infrastructure projects, mainly for transit expansion. The federal gas tax revenue Toronto receives is applied to fund transit capital projects. The benefit from this funding will ultimately be reflected in future operating budgets by way of reduced debt servicing costs. Further, any multi-year operating fund, would be initially credited to a reserve fund and a portion brought into the operating budget each year. It should also be noted that the Province has supported operating costs for transit by way of unconditional grants and gas tax revenue. From 2002 to 2008, 72 per cent of all federal and provincial grants related to social programs, 22 per cent related to transit and six per cent related to other programs. The level and composition of federal and provincial grant funding is set out below:



Conditional grant funding from the province is shown by major program recipient and in most cases represents a sustained year-over-year source of revenue. For example, consistent gas tax revenue was applied to transit funding from 2004 to 2009 in the amount of $730 million (cumulative), $164 million of this in 2009 alone. On top of this, some extraordinary one-time funding has been made to the City, totalling $1.6-billion over the same period and $260 million in 2009 alone (including $238 million from the provincial surplus fund).

Notwithstanding the one-time nature of some provincial funding, the vast majority of provincial and federal transfers have provided consistent program support. The total of all grant funding from the federal and provincial governments between 2002 and 2008 was $13.3 billion, fully 80 per cent of which was for operations (i.e. service delivery) primarily in the form of social programs. Total grant funding (for both operating and capital expenditures) grew at an average annual rate of 12 per cent between 2002 and 2008 while grant funding for operations grew by an average of eight per cent a year over the same period.

User Fees and Service Charges (22.4 per cent of revenues in 2008)

Water, sewage and stormwater management are fully funded from user fees that have increased on average by 4.9 per cent per year since 2002. Other user fees provide support to offset costs for tax-supported programs and have experienced an annual growth of 3.9 per cent per year. These revenues include client fees for social programs, such as child care and social housing, and TTC fare-box revenue. There has been aggressive growth (8.6 per cent) in fees collected for a number of other services, including police (excluding fines), fire and waste collection from industrial and commercial users.

Other Own Source Revenue (18.4 per cent of revenues in 2008)

This revenue source is comprised of a number of items. The City has a highly successful investment program that manages balances in all reserves, reserve funds and cash balances in capital project accounts. Some of this investment income must be remitted to reserve funds or deferred revenue accounts such as development charges, while some is available as a source of operating budget revenue.

Fines and the cost of licenses have also grown aggressively in recent years. This includes fines for traffic violations, Provincial Offences Act revenue (such as speeding fines), penalties and interest on taxes, rents, concessions and franchises. Also included in this category is revenue collected under the new City of Toronto Act for land transfers and vehicle registration (budgeted at $206 million in 2009).

Own-source transfers also fall within this category. These are primarily transfers from reserves (generally non-discretionary reserves) that represent deferred payments made from conditional federal or provincial grants.

Reserves and Year-End Surpluses

Key Observation: Net contributions to the City of Toronto's reserves over the period 2002–2008 have increased from $891 million to $1.564 billion but relative to its operating expenditures are significantly below those of other GTA municipalities. As a result, the City has relatively less of a safety net to rely on to cover cost over-runs than other GTA municipalities.

With respect to funds not budgeted for immediate use either for operations or for approved capital projects, the City holds balances in reserves. The broad term "reserves" is actually sub-divided into those funds that must eventually be applied for specific uses (non-discretionary balances) and those where City Council can apply funding at its discretion (discretionary balances). Four classes of reserves are documented in the City's financial reporting:

Non-discretionary balances

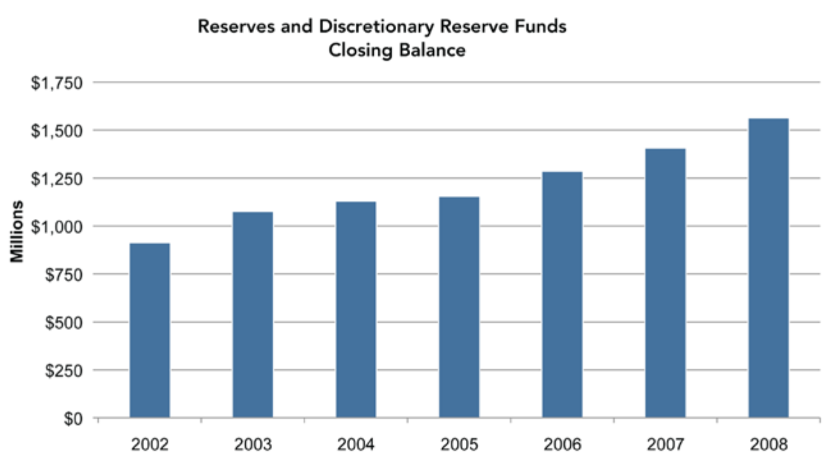
- Obligatory reserves funds
- Deferred revenue (mainly development charges)

Discretionary balances

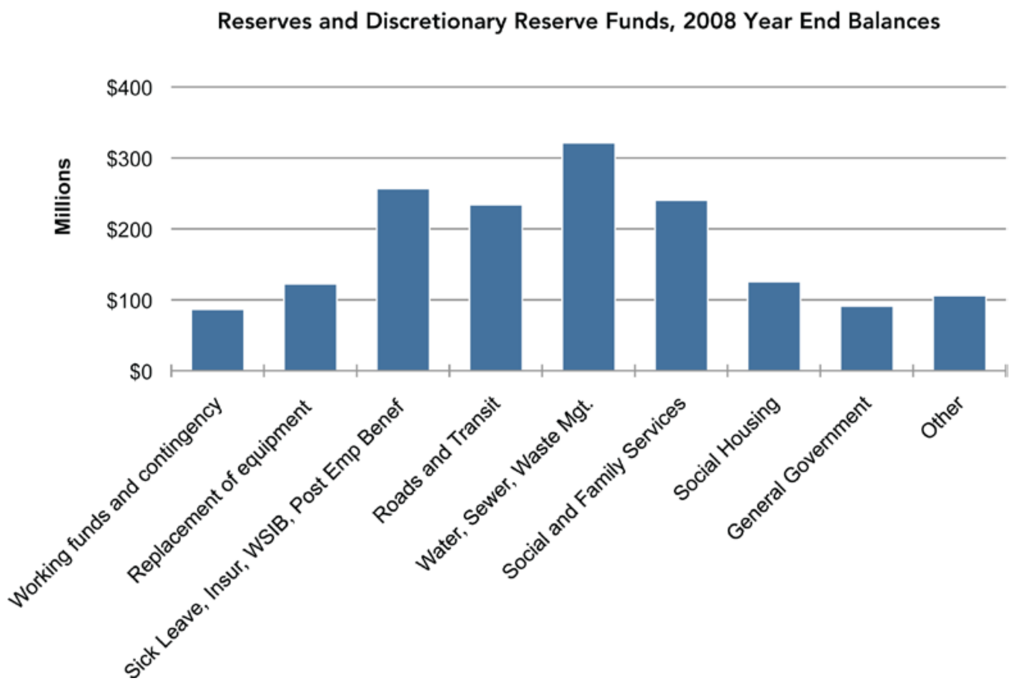
- Reserves
- Discretionary reserve funds

The majority of funds in obligatory reserve funds and deferred revenue are applied to future capital project funding, including equipment replacement and the stabilization of fluctuating expenditures (such as social assistance and water revenues). How Council deals with budget pressures is therefore focused on its use of discretionary balances. The vast majority of federal and provincial funding is in the form of conditional grants, which either go directly into the City's annual operating budget or into obligatory reserve funds. Revenues contributed to reserves and discretionary reserve funds are mainly comprised of income earned on the investment of idle funds, year-end surpluses and, more recently, provincial transit grants.

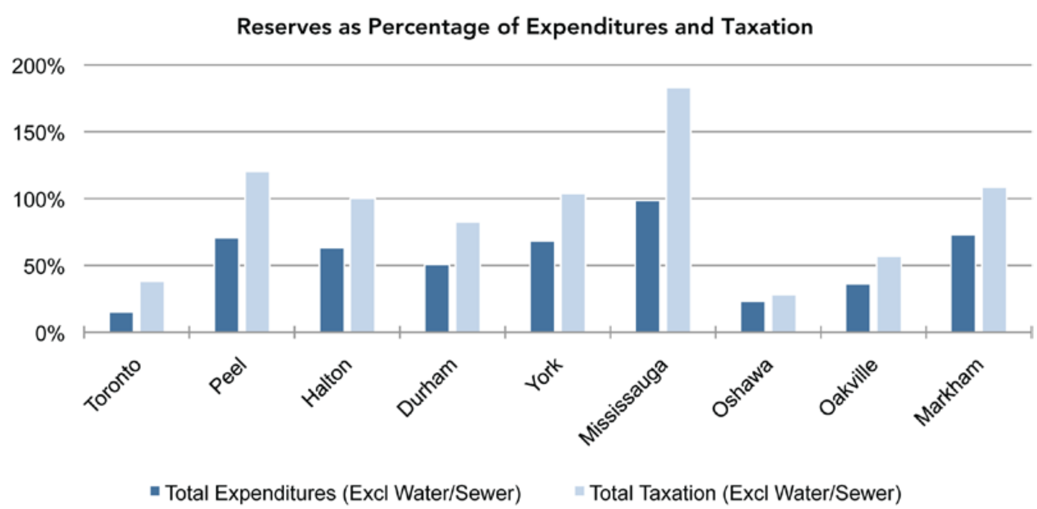
Budget surpluses have not been a consistent source of revenue (technically the Municipal Act prohibits the budgeting of a surplus). The average year-end position in the seven-year period from 2002–2008 was a small deficit of $2.1 million.



While the disposition of these funds is at the discretion of Council, policies adopted by Council set out the intended use of reserves and discretionary reserve funds. Intended uses for consolidated balances as of the end of 2008 are set out in the following chart:



In any event, the City is not in a position to make extensive draws from these sources to fund revenue deficiencies in future operating budgets. In 2008, total reserves and discretionary reserve funds totalled only 17.5 per cent of tax-supported operating expenditures — dramatically lower than the position of the surrounding GTA Regions:



Toronto has a relatively low level of reserves not just compared to surrounding GTA municipalities, but also compared to many US municipalities. While reserve levels vary by jurisdiction, many US municipal governments have reserves equivalent to between 30 and 50 per cent of their annual expenditures.[3]

[3] Gerald J. Miller and James H. Svara. "Navigating the Fiscal Crisis: Tested Strategies for Local Leaders – Overview." Gerald J. Miller and James H. Svara eds. *Navigating the Fiscal Crisis: Tested Strategies for Local Leader* (Tempe: Arizona State University, 2009), 19.

Conclusions and Implications

Key Observation: The City's unsustainable budget deficit is forecast to grow from $382 million in 2010 to $1.194 billion in 2019 if no new initiatives are undertaken. In addressing this structural deficit, the City is constrained in its use of the usual levers, highlighting the need for bold new thinking to address this pressing issue.

It is reasonable to assume that the two senior levels of government will continue their ongoing commitment to funding social programs: Ontario for employment and social assistance and Canada for social housing. However, a sizable portion of the funding used to assist with City operations has been unconditional funding from the Province ($227 million from 2006 to 2008) and special transit grants from both Ontario and Canada. At risk is the ability or willingness of senior governments to convert year-to-year transit funding into a sustainable level of base revenue. If this does not happen, the City's budget pressures will intensify.

Future relief will materialize, beginning in 2010, from the recent TTC fare hike (which it is estimated will generate $50 million per year) and from a commitment to upload Ontario Works and Police Court Security responsibilities (estimated at $33 million in 2010 and rising to $337 million by 2019)[4]. New tax revenue from land transfer and vehicle registration raised an estimated $206 million in 2009.

The City will be constrained in future from employing many of the levers it has already used to bridge budget shortfalls. It is, for example, relatively restricted in its ability to increase taxation revenue. As a consequence, cost control will become crucial. If programs supported from property tax revenues are not eliminated or curtailed or if their funding responsibilities are not transferred to others, cost containment *within* programs will have to be pursued. What's more, a substantial portion of these costs are driven by components that are difficult to control, the most notable being wages, salaries and benefits.

With the City's continued commitment to capital project funding, and, in particular, its reliance on debt to finance these projects, debt servicing costs will also progressively place more pressure on the City's operating budgets into the future. The new initiative aimed at amortizing a portion of this debt over 30 years will alleviate some of this pressure by lowering the debt's annual service costs, but it will also result in the debt being payed off over a much longer period and thus entail payment of a substantially higher amount of interest.

The City has only limited opportunities to fund budget shortfalls from reserves in the absence of external contributions. As of the end of 2008, reserves and discretionary reserve funds represented only 15.2 per cent of the City's tax-supported expenditures, while the average GTA municipalities was 60.5 per cent. It is estimated that if projected tax-supported budget deficiencies were funded entirely from these reserves, these funds would be depleted by 2016.

These constraints highlight the need for bold new thinking to address this issue.

The City faces pressures in its tax-supported budget for two reasons:

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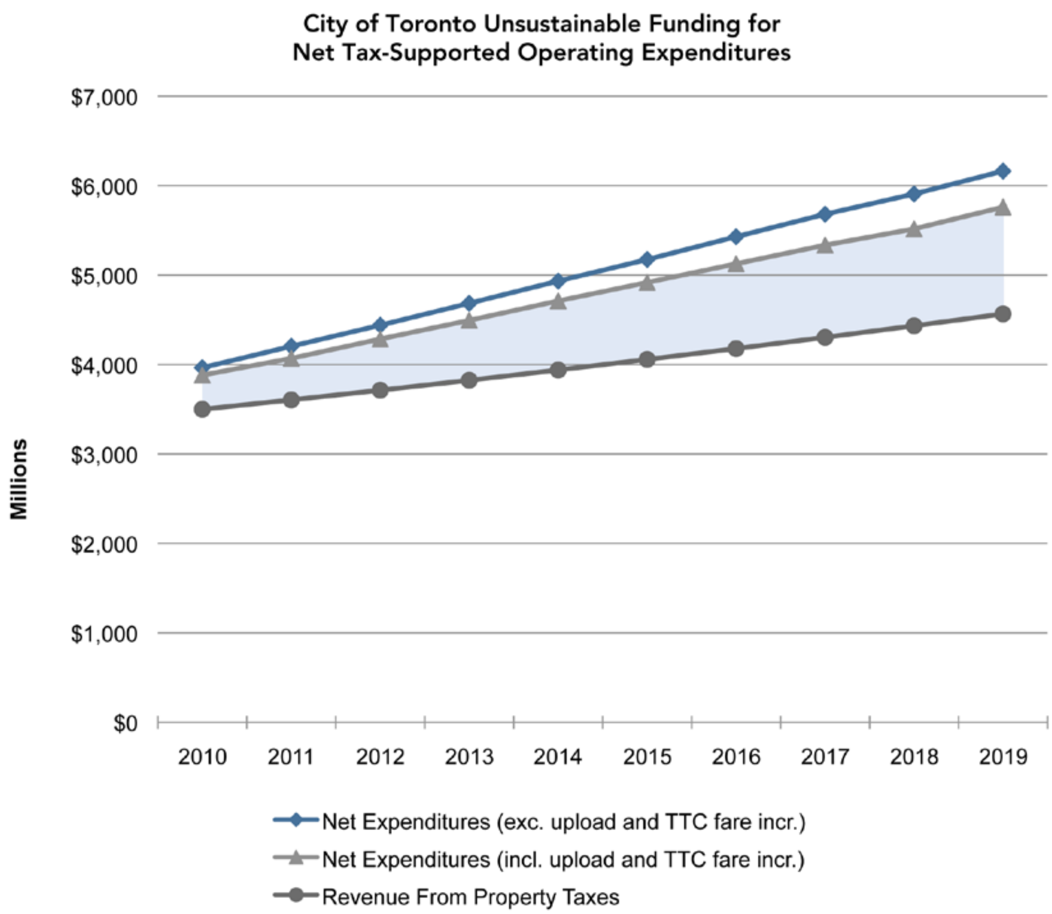
[4] See Appendix B for details of the Province's planned uploading initiatives.

1. The City will begin 2010 with what is forecasted to be a deficiency of $382 million, which is the net cost of all programs less funding from taxation, assuming the continuation of historical increases; and
2. Net program costs are increasing at a rate greater than revenues generated from the property tax base

Using the forecasting model described in Appendix A, and applying it to the 2009 Operating Budget, we can forecast the following unsustainable budget pressures for the years 2010 to 2019, inclusive.



Unsustainable	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Funding ($M)	$382	$465	$572	$670	$772	$860	$948	$1031	$1084	$1194

Appendix A

Forecasting Model

Our forecasting model is essentially a 10-year forecast of the City's operating budget deficit assuming a business-as-usual approach is taken. This forecast projects forward the continuation of historical trends and certain assumptions, as set out below, to determine the size of the annual operating budget deficit, based on applying these trends and assumptions to the 2009 Operating Budget. If City Council takes measures to address the structural deficit or if new sources of ongoing funding from the federal or provincial governments were to materialize, the numbers in our forecast would be impacted.

Based on identified trends analysed from 2002 to 2008, as well as available forecast information, estimates have been made regarding projected budget pressures on future City of Toronto operating budgets (this model focuses on tax-supported programs, as user fee-supported programs, such as water and sewer collection, are fully funded by the fees imposed). The model projects an unsustainable budget shortfall in each of the next 10 years (from 2010 to 2019). The assumptions and rationale used to build the forecast model are as follows:

- All net tax-supported program costs (subject to the exceptions set out below) are assumed to increase at an average annual rate of five per cent. This implicitly assumes that revenues from non-tax sources (e.g. grants and user fees) increase at the same rate as gross costs
- All unsustainable revenue used to balance the 2009 budget (totalling $447 million) is not available as revenue in 2010 and beyond
- Estimated benefits from the uploading of Ontario Works and Police Court Security costs are incorporated in the model
- Debt servicing costs and current funding for capital projects are included as they are identified in the City's approved 2010–2019 Capital Budget.
- The model credits additional revenue from the 2010 TTC fare increase as $50 million in 2010. This revenue is held constant until 2012. In 2013 a 15 per cent increase (yielding $57.5 million per year) is assumed each year from 2013 to 2015. In 2016, a further 15 per cent increase (to $62.2 million per year) is credited from 2016 to 2019.
- Assessment growth is assumed at one per cent per year
- Total tax revenue is assumed to increase by three per cent per year.

Appendix B

Assumptions Regarding Provincial Uploading

Toronto Employment and Social Assistance Budget and Police Court Security

Toronto Employment and Social Assistance Budget

The approved gross and net budget for the Toronto Employment and Social Assistance budget for 2009 is $1,201 million and $317.8 million respectively. A summary of the components is as follows:

Toronto Employment and Social Assistance 2009 Operating Budget

	Gross	Revenue	Net
2009 Approved Budget	1,203,022	(885,179)	317,843
Less Program Changes	2,019	(2,019)	-
2009 Base Budget	**1,201,003**	**(883,160)**	**317,843**
Ontario Works:			
Benefits	878,077	(734,990)	143,087
Admin	184,926	-	184,926
Sub Total	1,063,003	(734,990)	328,013
Ont. Disability Support (ODSP)	138000		
Ont. Drug Benefits (ODB)	-		
Less:			
GTA Pool & OMPF		(118,580)	
Fees/Rev.		(12,225)	
Reserves:		(17,366)	
Subtotal		(148,171)	
2009 Base Budget	**1,201,003**	**(883,161)**	**317,842**

In recent years and into the future up to 2018, a significant transfer of costs (uploading) will be taking place with respect to all of the programs administered within this function. The uploading is taking place with respect to:

Ontario Works: Benefits
By 2018, the cost of this program will be entirely uploaded to the Province. As of 2009, 20 per cent of the gross cost of this program is the City's responsibility, and the rate of transfer to the Province is as follows:

Ontario Works: Benefits	
City's Responsibility	
2009	20%
2010	19.4%
2011	18.8%
2012	17.2%
2013	14.2%
2014	11.4%
2015	8.6%
2016	5.8%
2017	2.8%
2018	0.0%

The City is currently responsible for 20 per cent of the gross cost of administration for Ontario Works. There have been no announcements to date that alter this funding relationship.

Ontario Disability Support Program (ODSP)

Prior to 2009, the City was responsible for 50 per cent of ODSB administration costs ($20 million) and 20 per cent of benefit costs ($138 million). In 2009, the full cost for administration was uploaded to the Province. In 2010, 50 per cent of the City's responsibility for ODSP benefits will be uploaded ($69 million) with the remaining portion ($69 million) uploaded in 2011, at which point the City will no longer be responsible for ODSB funding.

Ontario Drug Benefits (ODB)

Prior to 2008, the City was responsible for 20 per cent of the gross cost of the ODB program ($39 million). In 2008, the entire cost of this program was uploaded to the Province.
The impact of this uploading is summarized below:

Provincial Uploading - ODSP and ODB

$ M	2007	2008	**2009**	2010	2011 and Beyond
ODSP Admin					
%	50%	25%	**0%**	0%	0%
$	20.0	10.0	**-**	-	-
ODSP Benefits					
%	20%	20%	20%	10%	0%
$	138.0	138.0	138.0	69.0	-
ODB					
%	20%	0%	**0%**	0%	0%
$	39.1	-	**-**	-	-

GTA Pooling and Ontario Municipal Partnership (OMPF) Funding

The Province is in the process of replacing the net pooling revenue for social programs funded by the 905 GTA municipalities. The transfer began in 2007 and will be completed by 2013. While the results do not affect Toronto (GTA funding is being transferred to the Province), there is a negative "clawback" in that Toronto's eligibility from OMPF is being reduced. This clawback will result in a net reduction of annual grant funding of $19.7 million in 2009 and a further annual reduction of $20.8 million in each of 2010 and 2011. Based on this information and the forecasting assumptions set out below, the net effect of uploading in these budgets is as follows. The annual savings are $33.4 million in 2010, rising to $251.6 million by 2018.

Toronto Employment and Social Assistance - Uploading Impact

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
OW Benefits	143,087	138,723	129,995	129,995	129,995	136,495	143,319	150,485	158,010	165,910	174,206
Less: Upload Benefit	-	(4,162)	(7,800)	(18,199)	(37,699)	(58,693)	(81,692)	(106,845)	(135,888)	(165,910)	(174,206)
Net Cost	143,087	134,561	122,195	111,796	92,297	77,802	61,627	43,641	22,121	-	-
ODSP	138,000	138,000	138,000	138,000	138,000	138,000	138,000	138,000	138,000	138,000	138,000
Less: Upload Benefit	-	(69,000)	(138,000)	(138,000)	(138,000)	(138,000)	(138,000)	(138,000)	(138,000)	(138,000)	(138,000)
Plus: Loss of OMPF	19,000	39,800	60,600	60,600	60,600	60,600	60,600	60,600	60,600	60,600	60,600
Net Upload Benefit	19,000	(29,200)	(77,400)	(77,400)	(77,400)	(77,400)	(77,400)	(77,400)	(77,400)	(77,400)	(77,400)
Net Cost	157,000	108,800	60,600	60,600	60,600	60,600	60,600	60,600	60,600	60,600	60,600
Total Upload Benefit	**19,000**	**(33,362)**	**(85,200)**	**(95,599)**	**(115,099)**	**(136,093)**	**(159,092)**	**(184,245)**	**(213,288)**	**(243,310)**	**(251,606)**

Forecasting Toronto's Employment and Social Assistance Budget

In the forecasting model, the following assumptions are made regarding the Toronto Employment and Social Assistance budget from 2010 to 2019:

- The model forecasts forward based on the 2010 approved budget, so the uploading benefits for ODB and ODSB Administration are already in the base
- A $69 million reduction in the base for each of 2010 and 2011 reflects the uploading of ODSP Benefits
- The uploading of OW Benefits is per the Province's timetable (see above)
- The 20 per cent funding for OW Administration is unchanged at $184.9 m until 2011 after which it increases by five per cent per year
- The clawback of GTA pooling/OMPF revenue is reflected in a $20.8 million reduction in annual base funding in 2010. This level of base funding is maintained until 2012, at which time the remaining subsidy is phased out to zero in 2018
- Fees to the City collected within the programs are assumed to increase annually at five per cent
- In the 2010 budget, transfers from reserves totalled $17.3 million. Per the City staff's forecast, further reserve draws of $7.9 million will be made in each of 2010 and 2011. No further reliance on reserve funding beyond 2011 is assumed

The forecasted net budget for Toronto Employment and Social Assistance is as follows. As a result of uploading, the net tax-supported impact of this budget will decline by an average of 1.2 per cent per year over the 10-year forecast period from 2010 to 2019.

Toronto Employment and Social Services

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Ontario Works											
Benefits (Net of Upload)	143,087	134,561	122,195	111,796	92,297	77,802	61,627	43,641	22,121	-	-
Administration	184,926	184,926	184,926	194,173	203,881	214,075	224,779	236,018	247,819	260,210	273,220
Ontario Disabled Support (ODSP)											
Gross	138,000	69,000	-	-	-	-	-	-	-	-	-
Less: GTA Pooling adj for OMPF clawback	(118,580)	(97,780)	(76,980)	(76,980)	(64,150)	(51,320)	(38,490)	(25,660)	(12,830)	-	-
Less: Fees	(12,225)	(12,836)	(13,478)	(14,152)	(14,860)	(15,603)	(16,383)	(17,202)	(18,062)	(18,965)	(19,913)
Less: Reserves	17,366	(7,880)	(7,880)	-	-	-	-	-	-	-	-
Net Tax-Supp. Budget	**317,842**	**269,991**	**208,784**	**214,836**	**217,168**	**224,955**	**231,534**	**236,797**	**239,048**	**241,245**	**253,307**

Police Court Security

The approved gross and net budgets for the Toronto Police Services (including the Police Services Board) for 2009 are $921.5 million and $857.4 million respectively. A summary of their components is as follows:

Toronto Police Services - 2009 Approved Budget

	Gross	Revenue	Net
Police Services (excl. Court Sec.)	869,312	(64,125)	805,188
Court Security	52,240	-	52,240
Total Police Services *	921,552	(64,125)	857,428

* Includes Police Services Board

As part of the Province's uploading initiatives, funding responsibility for Court Security — which is currently funded 100 per cent by the City — will be transferred to the Province beginning in 2012. The rate of transfer is as follows:

Police Court Service City Responsibility	
2009	100%
2010	100%
2011	100%
2012	86%
2013	71%
2014	57%
2015	43%
2016	29%
2017	14%
2018	0%

In 2009, the budgeted cost of Court Security was $52.2 million. The savings to the City as a result of this initiative are estimated to be $8.6 million in 2012 rising to an annual savings of $85.1 million in 2018 when funding of the program has been completely transferred to the Province.

Toronto Police Services

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Court Security	52,240	54,852	57,595	60,474	63,498	66,673	70,007	73,507	77,182	81,041	85,093
Less: Uploading Benefit	-	-	-	**(8,639)**	**(18,142)**	**(28,574)**	**(40,004)**	**(52,505)**	**(66,156)**	**(81,041)**	**(85,093)**
Net Cost	52,240	54,852	57,595	51,835	45,356	38,099	30,003	21,002	11,026	-	-

In the forecasting model, the following assumptions are made regarding the Police Services budget from 2010 to 2019:

- All Police Services net costs excluding Court Security will increase by five per cent per year
- Court Security costs to 2011 will increase by five per cent per year
- The portion of Court Security costs that remains a City responsibility up to 2017 will also increase annually by five per cent.

The forecasted net budget for Police Services is as follows. Including the Province's uploading provisions, the net tax-supported impact of this budget will increase by an average of 4.3 per cent per year over the 10-year forecast period from 2010 to 2019.

Toronto Police Services

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Police Services (excl. Court Sec.)	805,188	845,447	887,719	932,105	978,711	1,027,646	1,079,028	1,132,980	1,189,629	1,249,110	1,311,566
Court Security	52,240	54,852	57,595	51,835	45,356	38,099	30,003	21,002	11,026	-	-
Total Police Services	857,428	900,299	945,314	983,940	1,024,066	1,065,745	1,109,031	1,153,982	1,200,655	1,249,110	1,311,566