TORONTO

2005 Capital Budget and 10-Year Capital Plan Summary

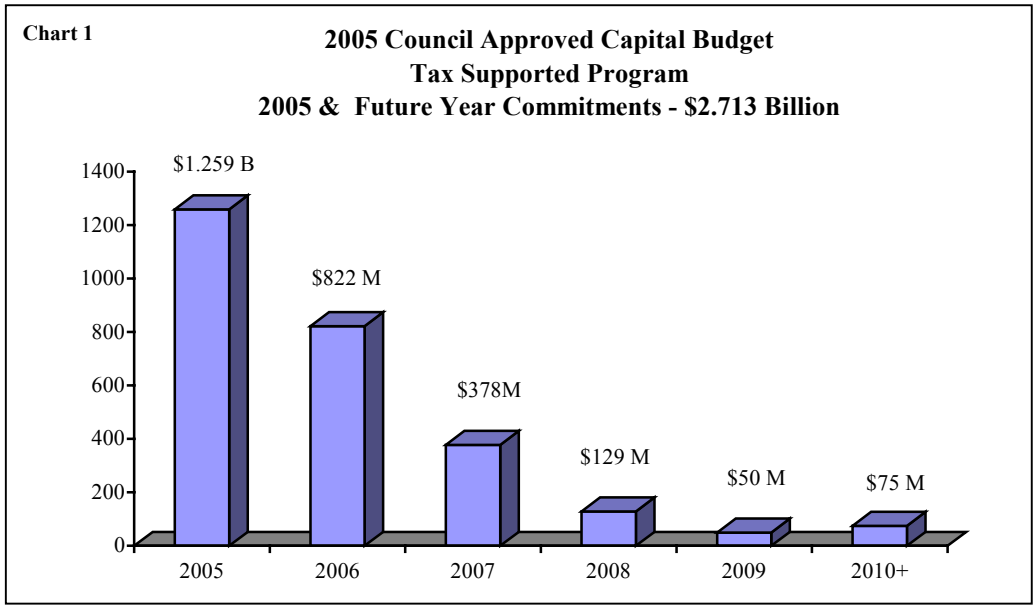
2005 Capital Budget Summary:

In accordance with prescribed guidelines, the 2005 Capital Budget was prioritized within five categories as shown in Table 1 below (and detailed by Program in Appendix 3 attached herewith). Consistent with prior years, the focus of the capital program continues to be on maintaining capital assets in a state of good repair. As shown in this table, state of good repair expenditures represent 62.7% or $647.361 million of the 2005 Council Approved Capital Budget.

Table 1
2005 Council Approved Capital Budget
Tax Supported Expenditures by Category

Category	Gross ($ Millions)	% of Total
1. Health & Safety	50.545	4.9
2. Legislated	65.555	6.3
3. State of Good Repair	647.361	62.7
4. Service Improvement and Enhancement	119.418	11.6
5. Growth Related	150.287	14.5
Total	**1,033.166**	**100.0**

Approval of the 2005 Council Approved Tax Supported Capital Budget will require the following total cash flows for 2005 and associated future year commitments (see Chart 1 below):



$1.259 billion in 2005 (includes 2004 carry-forwards); $822.381 million in 2006; $377.595 million in 2007; $128.990 million in 2008; $49.946 million in 2009 and $75.179 million in 2010 and beyond, for a total project cost of $2.713 billion during the period 2005 to 2014 (see Appendix 1.(i)). Excluding 2004 carry-forward cash flow of $226.175 million into 2005 (Appendix (1.(v)), the 2005 Council Approved Capital Budget is $1.033 billion (Appendix 1.(ii)).

Cash flow and future year commitments for the 2005 Council Approved Rate Supported Capital Budget for Toronto Parking Authority totals $34.327 million (including 2004 carry-forward funding of $8.601 million – see Appendix 1.(i)), and is comprised of gross capital expenditures of $32.792 million in 2005, and $1.535 million in 2006.

2005 Capital Financing:

Debt constitutes the principal source of financing for the 2005 Council Approved Capital Budget. As indicated in Table 2 below, to finance the recommended Capital Budget, debt of $526.720 million (base debt of $135 million plus new debt of $391.720 million) or 51% is recommended. Other significant funding sources include Reserves / Reserve Funds of $93.176 million, Capital from Current of $124.172 million, and Development Charges of $43.835 million.

Table 2
2005 Council Approved Tax Supported Capital Budget
Financing Sources (million)

Financing Sources	Excluding TTC & GO	TTC	GO	Including GO & TTC
Provincial Assistance (TTC)	6.388	76.200	-	82.588
Federal Assistance (TTC)	0.099	53.800	-	53.899
Reserves / Reserve Funds	93.176	0.000	-	93.176
Development Charges	42.335	1.500	-	43.835
Capital From Current	124.172	-	-	124.172
Other	91.676	17.100	-	108.776
Base Debt (Retire/Reissue)	135.000	-	-	135.000
Sub-Total	**492.846**	**148.600**	**0.000**	**641.446**
New Debt	135.278	237.005	19.437	391.720
Total	**628.124**	**385.605**	**19.437**	**1,033.166**

Financing the Toronto Transit Commission (TTC) Capital program continues to be a major pressure on the City's finances, representing about 61% of the new debt requirements. As discussed below, while assistance from the Province has been forthcoming in gas tax and other capital subsidies, the Federal gas tax allocation is still to be determined. As a result of delayed federal funding for the TTC, City Programs and other ABC Capital Budgets have been adjusted by BAC to minimize debt financing on the basis of revised projected spending for 2005.

Excluding debt service charges, the 2005 Council Approved Tax Supported Capital Budget will have an estimated incremental operating budget impact of $8.4 million in 2005; $4.5 million in 2006; $6.2 million in 2007; $6.7 million in 2008; and, $4.5 million in 2009 for a total of $30.3 million. It is estimated that the incremental staffing impact of the 2005 Council Approved Capital Budget will be 160 approved positions during the five-year period 2005 to 2009.

2005 Debt Financing:

Historically, the annual debt affordability level has been set at approximately $200 million of new debt. The 2005 debt affordability target was determined based on an assessment of how much new debt the City could reasonably afford without significantly increasing the debt service cost burden on the operating budget and impacting the City's credit rating. A significant consideration in determining affordability was the City's constrained revenue base, allocation of hydro revenues from capital funding to operating revenues and the delay in federal gas tax revenue for TTC. After critical analysis, the CFO and Treasurer set the 2005-affordability guideline at $150 million new debt except for TTC, and $200 million for the TTC for a total of $350 million. This high level of debt is only deemed feasible for a short term transition period only (that is, 2005-2006) as the City transitions to a new deal and enhanced gas tax and other revenues.

Given the projected TTC expenditure increases combined with delays in federal funding, the resultant debt request of the TTC of $295 million was not deemed affordable. As a result the TTC has reduced the 2005 capital expenditure request to a debt financing level of $237 million. This debt will be further reduced if federal gas tax revenues exceed estimates. Following BAC review, of the TTC debt requirements described above, City Programs were instructed by BAC to reduce debt financing below the guideline to offset the TTC higher debt level requirement. When combined with the new Go Transit requirement, the 2005 new tax related debt totals $391 million.

2005 is a transitional year towards the approval of a 5-year Capital Plan in 2006. The 5-year Capital Plan for most programs will require review in preparation for 2006, as most forecasted plans exceed current debt affordability levels.

Summary

In summary, the 2005 Council Approved Capital Budget of $1.033 billion satisfies the immediate objective of maintaining the City's infrastructure and capital assets in a relative State of Good Repair. This notwithstanding, the City has a significant backlog of unmet needs which must be addressed in the near future. Given fiscal realities, it was necessary in 2005 to balance between the strategic objectives of maintaining capital assets in a state of good repair with the need to remain in a financially stable position. This existing gap between program needs and affordability will only be solved in a financially prudent manner with the New Deal and funding partnership with the other orders of government.

Background:

Capital Budget Issues – Directions, Policies and Guidelines

At its meeting of September 28, 29, 30 and October 1, 2004 Council adopted recommendations contained in a staff report which proposed capital definitions, policies and guidelines for 2005 and future years. The report confirmed that the City's capital budget process is in line with best practices recommended by the Government Finance Officers' Association (GFOA). Nonetheless, it objectively recognized the need to establish and approve capital plans beyond the current fiscal year; and proposed that by approving a 5-year Capital Plan, the City would provide predictability and stability in the capital planning process in an effort to ensure the cost-effective management of City assets.

Council approved all recommendations contained in the above titled report and in so doing provided a framework for better management of its capital assets. The recommendations, which set the framework for the 2005 capital budget process, are as follows:

(1) City Council approve a firm 5-Year Capital Plan for the 2006 Budget that is based on the following:

a) Detailed projects for each year of the plan based on readiness;

b) Projects in years 1 and 2 must be preceded by feasibility studies and needs assessments while projects in years 3 to 5 may reflect the need for various planning work to be undertaken;

c) The 5-year plan must be developed within an approved fiscal affordability framework;

d) To ensure that the approved 5-year plan remains within the approved fiscal affordability framework, acceleration of any capital project in the plan must be offset through deferral of a project of equal value; and

e) Introduction of any new project must be approved by Council first, with the identification of a project deferral of equal value.

(2) Future year operating budget impacts of the 5-year capital plan be approved by Council;

(3) 2005 be considered a transition year for establishing the firm five-year capital plan and that all the current and related policies and principles outlined in that report be applied.

Finally, the report identified the need for further review on the specific issues of establishing capital expenditure thresholds and policies. In particular, establishing capital expenditure thresholds was delayed in order to fully assess their financial impact on the City's already challenged Operating Budget. As a result, it was determined that the implementation of capital expenditure thresholds and other capital policies be delayed until the 2006 capital budget process.

2005 Capital Budget Process

General Guidelines for the 2005 Capital Budget and 10-year Capital Plan process were detailed in a Staff Report entitled 2005 Budget Process which was approved by Council at its meeting of September 28, 29, 30 and October 1, 2004. The budget process was designed to ensure that the budget constitutes a strategic tool that enables Council to:

- deal with the stressful fiscal challenges of increasing service demands and a constrained revenue base.
- identify issues critical to helping Council formulate its corporate goals and objectives, and to put fiscal context on the corporate decision making process.
- determine the financial and service level impact of Provincial downloading and side-loading initiatives.
- allocate scarce resources to maintain the City's infrastructure in a State of Good Repair, and assuring expansion to satisfy growing community demands.
- establish long-term capital program debt financing and sustainability limits.

Guidelines for the 2005 Capital Budget Process required City Programs and Agencies, Boards and Commissions (ABCs) to prioritize their request within the same categories prescribed in fiscal 2004. Given the City's fiscal sustainability and affordability challenges, priorities were again given to Health and Safety, Legislated/City Policy and State of Good Repair projects. While the need for growth and service improvement projects was recognized, the City continued to be challenged to balance the need to meet service gaps with the need to ensure that it does not unduly increase its debt burden beyond what it can reasonably afford. Notwithstanding the need to invest in infrastructure expansion to satisfy growing population demands, it was necessary to carefully balance expansion needs against the goal of ensuring that existing capital assets are maintained in a state of good repair.

In accordance with directions issued by the Chief Administrative Officer (CAO) and Chief Financial Officer and Treasurer (CFO&T), a 10-year capital plan was submitted by City Programs and ABCs. Staff submitted capital project business cases that demonstrated and justified the need for the projects included in their capital budget and capital plan submissions. The business case justification was critical for the assessment of projects on a corporate basis, in order to ensure that the most effective resource allocation decisions were made.

2005 Budget Objectives, Principles and Guidelines

In consideration of the fiscal environment and realities in which the City operates, the 2005 Capital Budget and 2006 – 2014 Capital Plan was developed based on principles that committed all staff to be responsive to cost containment strategies essential to dealing with the City's Long Term Fiscal goals and Council priorities. The 2005 Council Approved Capital Budget achieves prescribed principles and guidelines, which includes:

- ensuring that the capital program remains within an affordable fiscal framework;

- maximizing partnerships in order to minimize debt;
- minimizing the incremental impact of the Capital Budget on the Operating Budget;
- using historical trends as part of the analysis and justification of capital project and capital budget requests; and,
- ensuring that all stakeholders have an opportunity to participate in the budget process.

In addition to the above, the capital budget review process focused on assuring compliance with capital asset management practices designed to ensure that acquisition and/or creation of capital assets are properly planned; that capital assets are justified based on cost-benefit analysis; that the most effective financial option is selected; and that risks are analyzed and carefully managed.

Listening to Toronto - November 2004 confirmed the City's commitment to engage stakeholders in the budget process. Excellent attendance at the November 28, 2004 session demonstrated continuing public interest in the City's priority setting exercise. The public strongly supported Council's adopted priorities for the remainder of its term of office and encouraged Council to continue negotiating with the other orders of government to 'Get the right powers and funding for Toronto to succeed'.

Capital budgeting guidelines approved by Council required that each capital project contained in the 2005 Capital Budget and 2006 – 2014 Capital Plan conforms with the following specific principles / policies:

- Useful Life: Capital expenditures must relate to items with a useful life that matches or exceeds the standard debenture term of 10 years. The exception being fleet and related equipment covered under a separate policy where the useful life has a threshold of 5 years. Assets consumed or fully depreciated during the fiscal year and costs to maintain an asset in its original state are to be funded from operating sources.

- Physical Characteristics: Expenditures must be reasonably related to the acquisition, betterment, or replacement of a physical asset with a multi-year life. Betterment is defined as enhancing the service potential or extending the useful life of the asset.

- Expenditure Thresholds: The gross expenditure threshold for defining a capital item is a sub-project that has a minimum expenditure level of $50,000.

- Timing: The capital budget must include only those projects that can reasonably be completed during the timeframe proposed in the business case.

- External Funding: Capital projects funded by external sources such as donations or grants, shall not be started until and unless all external funding sources are received or guaranteed.

Capital Project Prioritization Categories:

The 2005 capital budget process incorporated strategies to prioritize projects so as to ensure that limited resources were allocated in an effective manner. To facilitate the prioritization process, and in recognition of fiscal realities, the following categories were established to help focus on priorities:

- Health and Safety: project that is required to alleviate existing health and safety hazard.
- Legislated / Policy: project that must be done to satisfy legislative requirements or Council By-law or Policy mandates.
- State of Good Repair: project is critical to save the structural integrity of existing facility or repair significant structural deterioration.
- Service Improvement and Enhancement: project improves service delivery above the current Council approved standard or provides the introduction of new services.
- Growth Related: project supports growth and development across the City.

As part of the 2005 capital budget process, City Programs and ABCs prioritized their projects within the above categories in order to assist senior management to allocate scarce resources in an informed manner. As well, to foster the best resource allocation decisions, previously approved projects with new commitments underwent a full review based on eligibility criteria established by the Executive Management Team, and priorities approved by Council.

Carry Forward Policy:

A capital carry-forward project is a previously approved project where the planned capital work was not completed and its associated cash flow budget was not fully spent and / or committed in the year of approval and the total unspent amount, or a portion thereof, is required in future years in order to complete the project. In the context of cash flow commitments, carry-forward funding refers to the unspent cashflow balance that was approved in a preceding year and is required in the current year in order to proceed with or to complete a capital project. Key elements of the carry-forward policy include:

- Cash flow funding approval will continue to exist for *one fiscal year* in addition to the year in which the project / sub-project was approved when the project is not complete. In effect, City Programs and ABCs will be allowed to carry forward unspent cash flow funds for capital projects / sub-projects for a period of one year subsequent to the year of original approval to establish spending authority for the fiscal year.

- Carry-forward funding requests for projects approved in the previous fiscal year will not form part of the budget-year debt affordability targets. However, Council approval to carry forward the unspent amount must be obtained to establish spending authority.

- Where a project is not completed and approved funds are still not fully spent cash flow by the end of the second fiscal year, any subsequent carry-forward funding request will be treated as *new* and any further spending / funding request will form part of that year's debt affordability targets.

- Change in cash flows and / or project costs related to Change in Scope projects will not constitute carry-forward funding, under the premises of the policy. Change in Scope projects are to be identified as new capital projects with incremental funding requirements.

- During the capital budget process, City Programs and ABCs will conduct a complete review of all previously approved projects to determine their completion status. Projects that will not be completed by the end of the current fiscal year should be identified for carry forward spending approval in the next fiscal year.

- On a project/sub-project basis, the carry forward cash flow amount will not exceed the difference between the actual expenditures and the approved cash flow. Carry-forward requests included in the capital budget submissions are initially based on projected actuals. Therefore, during the capital budget review process, City Programs and ABCs, together with the Financial Planning Division, will be provided with an opportunity to update their carry forward estimates.

The 2005 Council Approved Capital Budget includes carry-forward expenditures for 2004 projects totalling $1.292 billion. These projects were carefully evaluated to confirm that the principles prescribed in the carry-forward policy were met.

Capital Expenditure and Financing Principles:

For the City of Toronto, capital expenditures generally include any expenditure on an asset, which has been acquired, constructed or developed with the intention of being used on a continuous basis beyond the current budget year, and where the assets are not intended for sale in the ordinary course of business. Capital expenditures also include improvements, the purpose of which is to alter or modernize an asset in order to appreciably prolong its useful life or improve its physical output or service capacity. Capital expenditures are included in the capital budget and are financed from various sources of capital funds.

The City relies on a number of sources to fund its capital expenditures. These include Reserves and Reserve Funds, Provincial and Federal Grants, Development Charges, Capital from Current funding (or pay-as-you-go financing), Debt and Other Funding sources not listed above, such as donations.

Guiding principles influencing the selection of funding sources for specific capital projects include the *Equity* principle, which is aimed at ensuring that beneficiaries or consumers of a capital asset or service pay for it. In effect, if a project provides benefits to a specific group, then that group is made to pay for development and related capital costs through user fees. Projects that benefit the entire community are appropriately funded from property tax revenues such as Capital from Current funding.

The *effective financing* principle focuses on ensuring that sufficient funds are available when needed to proceed with a capital project. This principle recognizes that required funds are not always available from the operating budget to pay for capital projects. Therefore, the City must rely on other funding sources to generate the benefits required by its constituents such as debt and reserve and reserve funds.

In selecting amongst available funding sources, the City imputes the cost of borrowing along with other administrative costs associated with competing funding options. It also examines the

impact of funding options on the operating budget with a view toward ensuring, in accordance with the *efficiency* principle, that the most cost-effective funding source is utilized.

Annually, the City undertakes an affordability analysis to determine the amount of capital funds available for the capital budget and program. This review assesses the amount of non-debt funds available, and the amount of debt that the City can afford based on its long-term fiscal plan, general state of its assets, and infrastructure expansion requirements to meet growing demands for services. Factors influencing the debt affordability determination include the cost of borrowing, policies on debenture / long term borrowing, the outstanding debt, the impact on credit ratings, and the impact of borrowing on the current account or operating budget.

New Deal & The City of Toronto Act

Because of the slower than anticipated support from the other orders of government, it is becoming increasingly more difficult to fully maintain the City's sizeable and aging infrastructure. While the federal and provincial governments have made some progress by providing a portion of the gas tax revenues to municipalities and by affording them a 100% Goods and Services Tax rebate, the new revenues are significantly shy of what is required to maintain the City's capital assets. Increasingly, the City has had to deplete its reserves and reserve funds to meet the shortfall in assistance received from both the provincial and federal governments – particularly with regards to the TTC capital program. For Toronto to continue to remain the economic engine of the country, and the major sender of tax revenues to the other orders of government, it must receive a fairer share of the tax revenues it generates.

The City continues to negotiate for a new relationship with the other orders of government in order to obtain long-term fiscal tools and solutions. A long-term strategy must rationalize existing revenue and cost sharing arrangements with the federal and provincial governments. The long-term strategy has to recognize the significant role the City plays in the national and provincial economies and the need to address the structural fiscal problem that has placed stress on the ability to maintain the City's infrastructure in a state of good repair and to address the growth demands in the community.

During 2004, progress was made in establishing a new relationship. However, all benefits of the commitments have not been realized, resulting in significant funding pressures in 2005 that will continue to 2007. Initiatives under the new deal include the following:

Federal Government:

- 100% Goods and services tax rebate was fully implemented effective February 1, 2004. This provides ongoing cost relief estimated at $48.0 million to the City, (both Operating and Capital Budgets).

- Announcement of a 5-cent share of the federal gas tax revenues accruing the City, which is to be phased in beginning in 2005. As yet, the allocation formula is not known (which must include a transit ridership component), and in addition, the City is advocating for flexible eligibility criteria (both state of good repair and growth related projects).

Provincial Government:

- City's share of 2 cents of the provincial gas tax revenues to be distributed to municipalities to be phased in at the beginning of October, 2004. The City's share is estimated at $92.0 million for 2005, and is being allocated to transit related operating expenditures

- Review of the City of Toronto Act is another provincial initiative that will address the fiscal challenges faced by the City.

In addition to the above, a tripartite Canada Strategic Infrastructure Fund (CSIF) was entered into with the other two orders of government to finance transit capital projects. This totals $1.0 billion over 5 years equally distributed between the three orders of government. A final` Memorandum of Understanding has been approved which sets eligibility criteria and funding or participation rates for each partner to the agreement. Four major projects identified include: Modernizing Canada's First Subway, Saving the Streetcar, Integrated Bus Network and Integrated Ticketing System. While the City welcomes the above initiatives, permanent sources of funding are needed to ensure that the City achieves a sustainable financial position.

Administrative Review

In conjunction with City Programs and ABCs, the Financial Planning Division staff reviewed the 2005 Capital Budget and 2006-2014 Capital Plan and Forecast submissions to ensure compliance with prescribed policies and guidelines. Findings and recommendations of this review were considered by the CAO and CFO & Treasurer, and other Commissioners in arriving at the Staff Recommended 2005 Capital Budget and 2006-2014 Capital Plan.

Excluding TTC and GO Transit, the 2005 Capital Budget submissions for City Programs and ABCs totalled $736.437 million (net of 2004 carry-forward funding). The debt required to finance these submissions totalled $358.193 million thereby requiring new debt of $223.193. This level of new debt exceeded the original affordability target of $150 million set for Tax supported programs excluding TTC and GO Transit by $73.193 million (see Table 3 below). Finance Department's analysis confirmed that this level of new debt was not sustainable over the long-term and that a strategy was required to address this untenable debt burden, without substantively compromising the state of good repair or eroding the useful-life and utility of the City's infrastructure and capital assets. The debt reduction strategy addressed the need to slowdown the rapid increase of the City's debt-load and the associated debt service cost pressures on the operating budget.

In establishing the 2005 Staff Recommended Capital Budget, the Executive Management Team (EMT) gave priority to previously approved projects that contributed to public safety, Council priorities (that is, Parks and Recreation, Transit, and Clean and Beautiful City) and fulfilled the objective of maintaining existing assets in a state of good repairs.

Table 3
City of Toronto
2005 Capital Budget - Debt Affordability

Financing Sources	2005 Program Request	2005 Affordable Targets	2005 Staff Rec'd	2005 BAC Rec'd
Excluding TTC & GO Transit				
Provincial/Federal Assistance	6.265	0.525	6.265	6.487
Reserves / Reserve Funds	88.704	31.549	94.596	93.176
Development Charges	39.485	10.339	38.959	42.335
Capital From Current	124.172	124.172	124.172	124.172
Other	119.618	154.589	116.066	91.676
Base Debt (Retire/Reissue)	135.000	135.000	135.000	135.000
Sub-Total	513.244	456.174	515.058	492.846
New Debt	223.193	89.955	154.932	135.278
Total Excluding TTC & GO Transit	**736.437**	**546.129**	**669.990**	**628.124**
TTC Debt			295.205	237.005
GO			19.437	19.437
Total New Debt			**469.574**	**391.720**

As shown in Table 3 above, after thorough review and evaluation, excluding TTC and GO Transit, staff recommended a 2005 Capital Budget of $669.990 million to BAC (excluding 2004 carry-forward funding). This Staff Recommended Capital Budget included total debt financing of $289.932 million, and therefore, new debt of $154.932 million. EMT determined that the recommended debt increase of $4.932 million above the affordability target was necessary to meet Council priorities and corporate goals. The total 2005 Staff Recommended Tax Supported Gross Capital Budget (including TTC and GO Transit) was $1.120 billion.

Standing Committee Review

Standing Committees reviewed the 2005 Staff Recommended Capital Budget for programs within their respective jurisdictions. Collectively, these committees decreased the 2005 Staff Recommended Capital Budget by $36.7 million gross while increasing debt by $1.824 million, and recommended a budget of $1.083 billion gross with a debt and internal financing requirement of $593.229 million (excluding carry-forwards). Standing Committee recommendations were presented to the Budget Advisory Committee for review.

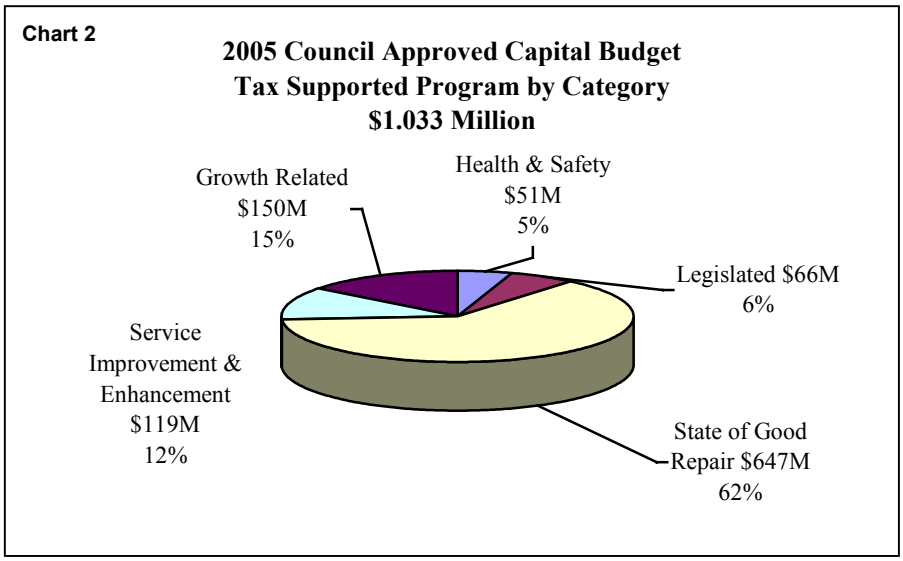
2005 Council Approved Capital Budget and 2006 – 2009 Capital Plan

The Budget Advisory Committee reviewed the 2005 Staff Recommended Capital Budget, taking into consideration recommendations of Standing Committees, and recommended expenditure

reductions totalling $87.016 million and a corresponding debt reduction of $64.904 million from the 2005 Staff Recommended Budget. Council approved a 2005 Capital Budget of $1.033 million with debt financing of $526.720 million.

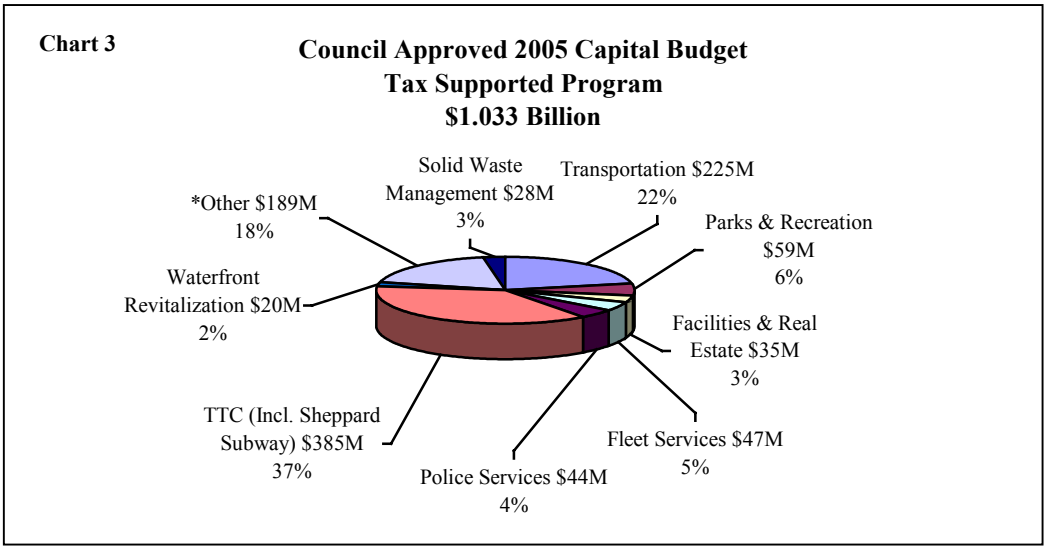
2005 Tax Supported Capital Budget by Category

Chart 2 below shows that 62% of the 2005 Recommended Capital Budget is allocated to state of good repair projects. This is consistent with the direction to give high priority to ensuring that existing assets are properly maintained in order to maximize utility of the assets.



2005 Tax Supported Capital Budget by Major Program

Chart 3 below illustrates the 2005 Council Approved Tax Supported Capital Budget net of carry-forward funding of $1.033 billion, by major Program. As indicated in this chart, TTC and Transportation account for $610.581 million or 59% of the total tax supported program. All other City Programs and ABCs combined represents $422.585 million or 41% of the total Capital Budget.

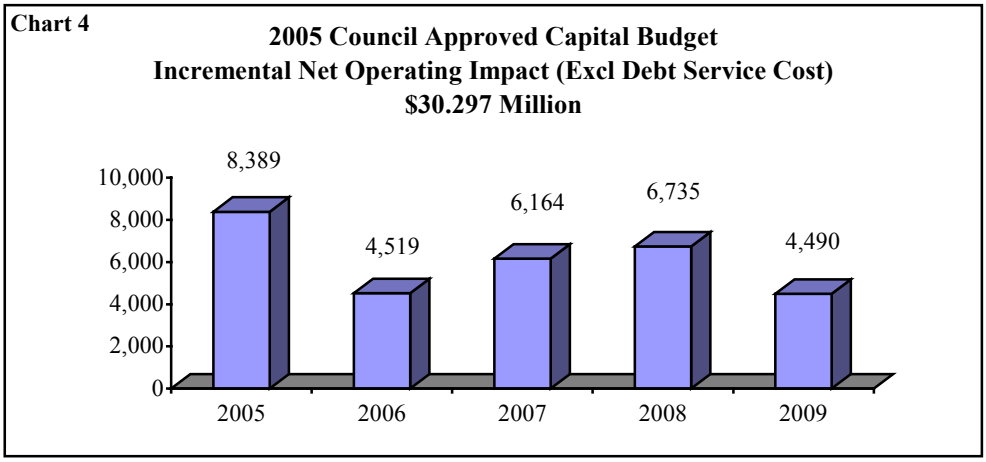


2005 BAC Capital Budget - Incremental Operating Impacts

Typically, the capital program may impact the operating budget in four areas:

i. Increased operating costs related to new or expanded facilities;
ii. Efficiency savings from investments that reduce operating costs;
iii. Direct contributions to Capital from the Operating Fund which reduce the annual borrowing requirements, and;
iv. Principal and interest payments on debt issued for the capital program.

Chart 4 highlights the future year operating budget costs, excluding debt services costs, resulting from the 2005 Council Approved Capital Budget. Over the years 2005 to 2009, the incremental operating impact is estimated to be $30.615 million.



In summary, the 2005 Council Approved Capital Budget satisfies the immediate objective of maintaining the City's infrastructure and capital assets in a relative State of Good Repair. This notwithstanding, the City has a significant backlog of unmet needs that must be addressed in the near future. Given fiscal realities, it was necessary in 2005 to balance between the strategic objectives of maintaining capital assets in a state of good repair with the need to remain in a financially stable position. This existing gap between program needs and affordability will only be solved in a financially prudent manner with a New Deal and funding partnership with the other orders of government.

Budget Highlights:

Toronto Transit Commission Capital Funding

The 2005 Council Approved TTC Capital Budget is $385.605 million gross and $237.005 million debt. This budget reflects approximately $130 million in funding from the provincial and federal governments, which includes estimated gas tax revenue from the federal government of $33 million and tripartite funding of $97 million. The Council Approved Capital Budget results in current and future year commitments of $986.153 million: $385.605 million required

for 2005; $401.940 million required in 2006; $179.741 million in 2007; $17.347 million in 2008 and $152 million in 2009. During 2005, the TTC plans to take delivery of 250 new 40-foot low floor diesel buses and will continue to maintain its existing infrastructure in a state of good repair. Of the TTC 2005 capital expenditure, 84% is dedicated to replacing and maintaining existing vehicles and infrastructure. The TTC Capital Plan proposes capital expenditures of $633.642 million in 2006 and $711.317 million in 2007 due mostly to the increased requirements of vehicle replacement, especially subway cars and refurbishing existing streetcars.

The TTC's capital forecast amounts to an investment of $4.7 billion over the next ten years to provide for the reinvestment and rehabilitation of physical infrastructure as well as the replacement of revenue vehicles, to ensure service safety and reliability. A significant portion of these needs relates to fixed rail systems (Subway, Streetcar, and SRT) which are unique to large transit systems.

Clean and Beautiful City Initiative

The Clean and Beautiful City Initiative is one of Council's priorities that was considered in preparing the 2005 Capital Budget. At its meeting of March 1 to 3, 2004, City Council unanimously approved a two-stage approach for the implementation of this initiative. Stage 1 of the program focused on making the City clean. Stage 2 introduces actions to beautify Toronto with the participation and assistance of the public and private sectors. As detailed in Appendix 6 of this report, the Clean and Beautiful initiative includes sub-projects in Corporate Services, Works & Emergency Services, Urban Development Services and Economic Development, Culture and Tourism.

The five-point City action plan to Make Toronto a Clean and Beautiful City was approved by Council at its meeting on November 30, December 1 and 2, 2004. The five key actions are Sweep It, Design It, Grow It, Build It and Celebrate It which are implemented over a 3-year period (2005 – 2007). Included in the Capital Budget is base funding of $7.337 million and $8.616 million of new funding over a three-year period as follows: $5.598 million in 2005, $1.400 million in 2006 and $1.618 million in 2007 as shown in Table 4 below. The total recommended capital funding of $8.616 million is financed by a combination of Development Charges ($1.975 million) and debt ($6.641 million).

Table 4 City of Toronto Clean and Beautiful Initiative Capital Budget - 3 Year Program Summary of Base Budget and New Funding ($ Million)					
	Base Budget	New Funding			
Actions	2005	2005	2006	2007	Total New Funding
1. SWEEP IT	-	-	-	-	-
2. DESIGN IT	0.408	1.589	0.400	0.315	2.304
3. GROW IT		2.971	-	0.303	3.274
4. BUILD IT	6.529	1.000	1.000	1.000	3.000
5. CELEBRATE IT	0.400	0.038	-	-	0.038
Total	**7.337**	**5.598**	**1.400**	**1.618**	**8.616**
Financed by:					
Development Charge		0.915	0.530	0.530	1.975
Debt		**4.683**	**0.870**	**1.088**	**6.641**

Other Key Highlights

Children's Services

- Ongoing Health and Safety maintenance and retrofit of playgrounds to required safety standards ($5.000 million with $4.000 million conditional on funding from the Province).
- Construction of four new child care centres (at a total estimated cost of $7.895 million) in under-served areas; the second of five phases to be funded from Childcare Capital Reserve Fund of $1.946 million.
- Completion of $2.0 million Enderby Childcare Centre serving 62 children ($0.702 million gross and $0.300 million debt).

Homes For The Aged

- Completion of the $24.5 million True Davidson Acres redevelopment in 2005 ($4.984 million gross and $3.635 million debt).
- Ongoing maintenance projects to be funded from the Homes for the Aged Capital Reserve Fund ($3.500 million gross).
- Redevelopment of the existing Albion Lodge into a Supportive Housing facility totalling $2.000 million; final payment to Toronto Community Housing Company ($1.000 million gross and debt).

Shelter, Housing & Support

- Construction of the $2.200 million Bethlehem United Shelter to be completed in 2006 ($1.329 million gross and $0.250 million debt).
- Automation of program operational-reporting requirements of the $3.649 million client-information-reporting system expected to be completed in 2006 ($1.248 million gross and $0.293 million debt).
- Beginning the redevelopment of the $2.500 million Metropolitan United Church Shelter projects to be completed by 2008 ($0.800 million gross and debt).

Social Services

- Completion of the IT Refresh initiative totalling $7.304 million ($2.330 million gross and $0.390 million debt).

Emergency Management Plan

- The HUSAR (Heavy Urban Search and Rescue) facility will be located at the Special Operations Training Centre allowing co-ordinated and safe training. The Centre will include a new building for the Base of Operations from which the Toronto HUSAR Taskforce will operate ($2.1 million gross 2004-2006, $0.525 million debt, of which the 2005 cashflow amounts to $1.4 million gross and $0.350 million debt).

Emergency Management Services

- Asset management projects including the maintenance and repair of various roofing, HVAC and paving projects throughout existing ambulance stations ($1.258 million gross and debt).
- Second phase of the electronic data collection project ($1.200 million gross and debt).
- Public access defibrillator program - to train a select group of City of Toronto employees as "first responders" in CPR and in the use of an Automated External Defibrillator (AED) for victims of sudden cardiac arrest ($0.450 million gross and debt).

Fire Services

- Various asset management projects related to the state of good repair of fire stations and facilities ($2.152 million gross and debt).
- Acquisition of additional portable radios ($0.470 million gross and debt).
- Construction of the new Station C on Sheppard east of Leslie ($0.200 million gross and $0.100 million debt).

Solid Waste Management Services

- Acquisition of Split Body Collection Vehicles in order to implement the Three Stream system recommended by the Waste Diversion 2010 Task Force ($1.700 million gross and debt).
- Implementation of the Three Stream system recommended by the Waste Diversion 2010 Task Force - modifications at transfer stations ($1.310 million gross and debt).
- Ongoing work to provide additional Source Separated Organics Processing capacity ($1.5 million gross and debt)

Transportation Services

- Resurfacing and reconstruction of local and major roads ($60.458 million gross and debt)
- Rehabilitation of City bridge including the Leaside Bridge project at a total cost $8.800 million gross and $6.100 million debt ($25.800 million gross and $23.100 million debt for 2005).
- Carry-forward funding provided to cover costs for Front Street Extension project activities currently underway ($13.349 million gross and $0.0 debt). The balance of 2005 funding of $58.698 million deferred pending Council consideration of the Gardner Expressway dismantling.

Works and Emergency Services Departmental

- Funding Health and Safety and State of Good Repair projects of various shared yard facilities ($2.0 million gross and debt).
- The Toronto Infrastructure Data Standards project (TIADS) will establish a computer-based, integrated data base and information system, that will describe the physical condition and location of the City's transportation system, water distribution network, sewer collectors, etc. When completed in 2006, it will become an important management tool for a number of City programs including Transportation Services and Toronto Water. The total cost is $3.9 million and is to be fully funded through debt.

Culture

- Casa Loma structural repair and masonry restoration ($2.102 million gross, $1.302 million debt).
- Todmorden Mills Museum and Art Centre restoration ($1.516 million gross and debt)
- Fort York restoration ($0.677 million gross and debt).

Economic Development

- Ongoing streetscape improvements in 20 Business Improvement Areas in the City ($0.839 million gross, $0.419 million debt).
- Commercial Façade Improvement grants in 7 areas in the City ($0.246 million gross and debt).
- Ongoing Employment Revitalization Area programs in 7 areas in the City ($0.306 million gross and debt).
- New funding for streetscape improvements in 45 Business Improvement Areas in the City including $0.142 M for the Korea Town BIA ($3.331 million gross and $1.939 million debt).
- New funding for grants to improve commercial building facades in 7 areas ($0.327 million gross and debt).
- New funding for improvements to 9 employment revitalization areas ($0.466 million gross and debt).

Parks & Recreation

- Improve outdoor recreation facilities, including skateboard parks ($4.958 million gross and $3.201 million debt)
- Develop new parks and make improvements to existing ones ($14.274 million gross and $4.250 million debt)
- Purchase new grass cutting machines and tree service vehicles to support Council's "Clean and Beautiful City" initiative ($2.971 million gross and debt)
- Repair and refurbish tennis courts and parking lots ($1.506 million gross and debt)
- Refurbish and improve playground and water play facilities ($3.044 million gross and $2.022 million debt)
- Repair and refurbish indoor and outdoor pool facilities ($3.413 million gross and $3.394 million debt)
- Refurbish and improve indoor and outdoor arena facilities ($9.053 million gross and $7.484 million debt)
- Refurbish and improve trails and pathways ($1.757 million gross and $1.440 million debt)

- Restore and maintain the City's natural environment, including the Tree Advocate Program and environment education initiatives ($3.254 million gross and $2.512 million debt)
- Refurbish and improve a number of special facilities, including the City's three conservatories – the Civic Garden Centre, Allen Gardens and the Centennial Park Conservatory ($3.965 million gross and $3.351 million debt)
- Refurbish, improve and develop additional community centre facilities ($4.510 million gross and $3.012 million debt)

Tourism
- Design creation of Canada's Walk of Fame to make it more accessible as an attraction ($0.075 million gross and $0.038 million debt).

Urban Development Services
- Implementation of 8 Streetscape improvement projects across the City, including enhancements to Beecroft Rd., Bathurst St., Royal York Rd., Ellesmere Rd., and The Queensway ($1.190 million gross and $0.718 million debt).
- Implementation of Council's Clean and Beautiful City Initiative through expanded Civic Improvement project initiatives which include an additional 6 sites across the City ($1.0 million gross and $0.669 million debt).
- Continued development of the New Citywide Zoning By-Law ($1.514 million gross and debt).
- Enhancements to programs Integrated Business Management System (IBMS) in order to ensure flexibility to support Council's priority to improve public services ($0.836 million gross and debt). Enhancements include MLS, Web Disclosure, Internet Pilot Project, and Bill 124 Performance Management.

Waterfront Revitalization Initiative
- Realignment of 2005 cashflow and revised 5 year Business Plan to address City Council's policies regarding "making progress on the Waterfront" and "Transit first" ($20.028 million gross and $19.827 million debt). This year's projects include improvements to the Martin Goodman Trail and Leslie Street Corridor, the development of Parks and other public amenities, and the implementation of East Bayfront and West Donlands Precinct Plans, including construction of light rapid transit to service these precincts.

Facilities and Real Estate
- Funding for a design competition for Nathan Philips Square ($0.275 million gross and debt); related to Clean and Beautiful City initiative.

Information & Technology
- Telecomm Management System – a new inventory and billing system to manage the land line and cellular contracts ($0.250 million gross and debt).

Yonge Dundas Square
- Complete the Yonge Dundas Square Redevelopment Project ($0.128 million gross and debt).

- Construct a permanent canopy over the stage on the Square ($0.350 million gross and debt).

Exhibition Place
- Address deterioration in the Princes Gates ($0.540 million gross and debt).
- Replace the Bandshell Canopy ($0.900 million gross and debt).
- Enclose the court yard at the Better Living Building ($0.470 million gross and debt).
- Install Equipment for Parking Security System, Electrical and Transformers ($1.515 million gross and debt).
- Replace windows and various repairs in the Queen Elizabeth Building ($0.500 million gross and debt).

Toronto & Region Conservation Authority
- Various erosion control projects including Fishleigh Drive; Wicksteed Ave.; the Guild Inn; Manitoba Road; etc. ($1.800 million gross and $0.900 million debt).
- Waterfront development projects including Ashbridge's Bay; East Point Park; Tommy Thompson Park; Arsenal Park Development; etc. ($1.193 million gross and $0.893 million debt).
- Black Creek Pioneer Village Retrofit ($0.350 million gross and debt).
- Improvement of public use infrastructure including improvements to conservation areas. ($0.171 million gross and debt).

Toronto Parking Enforcement Operations
- Implementation of computerized handheld parking enforcement devices ($4.1 million gross and debt).

Toronto Police Service
- Completion of 43 Division ($4 million gross and debt)
- Initial work on the new training facility ($3.8 million gross and debt)
- 41 Division land acquisition ($3.254 million gross and $0 debt)
- 14 Division preliminary work (0.75 million gross and debt)

Toronto Public Health
- Final phase of the $7.5 million Toronto Community Health Information System designed provide an integrated City-wide client database replacing 30 incompatible legacy systems ($1.070 million gross and $0.251 million debt).
- Replacement of systems that are more than 10 years of age and to enable access to a national database to support the communicable disease control ($0.628 million gross and $0.283 million debt).
- Ongoing facilities state of good repair maintenance ($0.604 million gross and debt).

Toronto Public Library
- New building projects include first year funding for the design and drawings for; Thorncliffe Library/Jenner Jean-Marie Community Centre Project ($0.090 million gross and debt); Bloor/Gladstone Renovation and Expansion for ($0.345 million gross and $0.027 million debt); S.W. Stewart Renovation for ($0.240 million gross and $0.068 million debt); multi-branch minor renovations for ($1.624 million gross and $1.563

million debt); and on-going repair and retrofit of the Toronto Reference Library ($1.604 million gross and $1.577 million debt).

- Building projects expected for completion in 2005 include the following: Runnymede Renovation ($0.640 million gross and debt), Beaches ($0.845 million gross and debt), and Long Branch ($1.140 million gross and debt)
- IT equipment replacement and upgrades, web site upgrades and replacements, upgrades to the Children's web sites, additional disc space and replacement of the Integrated Library System ($3.711 million gross and $1.5 million debt).

Toronto Transit Commission

- Acquisition of 250 Orion VII buses ($122.042 million gross).
- Vehicle Overhaul Programs including buses, SRT cars and streetcars ($45.5 million gross).
- Track Program ($44.0 million gross).
- New Mount Dennis Bus Facility ($13.5 million gross).
- SOGR of Signals Systems, Traction Power and Subway Car Communication, Reconstruction of Streetcar Overhead and Power Distribution and Electrical Systems ($38.0 million gross).

Toronto Zoo

- Completion of a detailed design phase of the North Site Redevelopment project ($2.215 million gross and debt).
- Construction of a new Quarantine Facility to meet current animal health requirements as new animals arrive at the Zoo ($1.372 million gross and debt).

Toronto Parking Authority

- On-Street Pay and Display - Replacement of single space meters with pay and display machines has proven very successful and will continue with an annual increment of 130 machines in 2005, 2006 and 2007 ($1.886 million gross 2005, $0 debt).
- College / University - Development of parking to service the Medical and Research Services (MARS) facility ($7.5 million gross 2005, $0 debt).

The 2005 BAC Capital Budget fulfils the goal of ensuring that the City's infrastructure and capital assets are maintained in a state of good repair and provides assurance that health and safety risks are minimized. Further, the 2005 Capital Budget and 2006 to 2014 Capital Plan incorporates reasonable service expansion and growth to meet the increasing demands of a growing population for City services.

Capital Financing - Historical Comparison (1998 – 2005)

Table 5 below represents a historical summary of the City's budget by financing source. Evident is that debt continues to be the largest financing source and that the other orders of government provide relatively small and inconsistent subsidies. For example, the Province of Ontario capital financing contribution declined from 38% of the 1998 Capital Budget including (Sheppard Subway funding) to an estimated 7% of the 2005 Council Approved Capital Budget.

Table 5 1998-2005 Council Approved Capital Budget Tax Supported - By Funding Source ($Million)									
								2005	
Funding Sources	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**Staff Rec'd**	**BAC Rec'd**
Prov. Grants & Subsidies	359.1	25.2	75.5	22.8	103.7	112.2	75.8	80.4	82.6
Federal Subsidy	0.0	0.0	0.0	0.0	76.5	103.6	70.0	20.8	53.9
Cap. fr. Current	118.4	143.4	146.2	148.2	146.5	124.2	124.2	124.2	124.2
Res./Res. Funds	98.4	370.9	89.1	170.2	143.9	131.5	132.1	94.6	93.2
Developmental Chrages	0.0	0.0	8.7	4.5	8.1	20.2	24.0	40.5	43.8
Other	79.6	50.3	337.2	311.1	170.2	111.9	161.0	133.2	108.8
Debt	288.9	613.0	324.3	463.2	304.1	361.6	321.0	626.2	526.7
Total - Tax Supported	**944**	**1,203**	**981**	**1,120**	**953**	**965**	**908**	**1,120**	**1,033**

Maintaining the City's infrastructure valued at over $52 billion without adequate assistance from the other orders of government has been a major challenge during the past several years and, it is becoming increasingly more difficult given the City's relatively inelastic sources of revenue. Request for a *New Deal* has yielded some returns in the form of a 100% Goods and Services Tax (GST) rebate, a share of the gas tax revenues, and the TTC tripartite capital funding agreement.

To a large extent, the City has exhausted its non-debt internal capital financing sources to compensate for the shortfall in financial support from the federal and provincial governments. This has resulted in increased reliance on debt, and a significant capital asset maintenance backlog.

Capital Budget by Category - Historical Comparison (1999 – 2005)

Table 6 below shows that State of Good Repair spending has been by far the largest capital expenditure category since amalgamation. Yet, estimates as at December 2004 suggest significant deferred maintenance or backlog. Evidently, insufficient funding of the City's capital program has resulted in significant accumulated state of good repair backlog. Instead, fiscal analysis confirms that the infrastructure deficit problem will continue well into the future if new and sustainable revenue and capital financing opportunities are not found.

Table 6 City of Toronto 1999 - 2005 Capital Budget by Category Tax Supported ($million)								
							2005	
Category	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**Staff Rec'd**	**BAC Rec'd**
Health & Safety				33.8	21.1	48.0	52.0	50.5
Legislated	19.6	96.4	104.9	67.7	74.5	75.0	66.0	65.6
State of Good Repair	897.4	541.2	694.5	599.4	682.3	571.0	713.0	647.3
Service Improvement	40.5	71.1	100.3	89.0	70.0	103.0	125.0	119.4
Growth	239.6	272.6	220.8	163.0	117.2	108.0	164.0	150.3
Total - Tax Supported	**1,197.1**	**981.3**	**1,120.5**	**952.9**	**965.1**	**905.0**	**1,120.0**	**1,033.1**

2005 Capital Budget and 2006 to 2009 Capital Plan – Current and Future Year Estimates

Future Year Estimates refer to cash flows associated with project / sub-project proposals included in the capital plan. Current and Future Year Estimates is the annual values of the cash flows required for current budget and future year capital work. As indicated in Table 7 below, the current and future year estimates included in the 2005 – 2009 Council Approved Capital Budget and Plan totals $6.851 billion.

Table 7
TOTAL CAPITAL PROGRAM
2005 - 2009 Current & Future Year Estimates
($000)

	Approved	BAC Rec.'d	Capital Forcast				Total
Tax-Supported:	2004	2005	2006	2007	2008	2009	2005-2009
Community and Neighbourhood Services	21,326	25,629	29,015	27,134	21,587	20,734	124,099
Works and Emergency Services	263,118	274,892	484,475	374,229	373,187	365,580	1,872,363
Economic Devel., Culture and Tourism	63,569	71,180	114,869	105,500	82,754	89,371	463,674
Urban Development Services	24,110	27,582	101,111	81,688	70,720	34,284	315,385
Corporate Services	148,248	124,541	94,327	88,064	77,902	75,538	460,372
Finance	4,034	3,153	8,890	2,005	3,525	3,875	21,448
Other City Departments	22,741	16,806	18,987	13,957	6,212	0	55,962
Special Purpose Bodies (Excl. TTC & GO)	75,630	84,341	110,321	97,566	100,860	105,006	498,094
Total Tax Supported Programs (Excl. TTC & GO	622,776	628,124	961,995	790,143	736,747	694,388	3,811,397
GO Transit	0	19,437	21,700	22,900	20,300	18,400	102,737
Toronto Transit Commission - Sheppard Subway	(2,248)	16,981	0	0	0	0	16,981
Toronto Transit Commission (Excl. R.T.E.P.)	285,000	368,624	640,322	699,917	599,661	501,409	2,809,933
Total Tax Supported Programs (Incl. TTC & GO)	905,528	1,033,166	1,624,017	1,512,960	1,356,708	1,214,197	6,741,048
Toronto Parking Authority	22,744	24,191	22,671	21,136	21,000	21,200	110,198
Total City	928,272	1,057,357	1,646,688	1,534,096	1,377,708	1,235,397	6,851,246

It is evident from the comparative historical and forecast analysis above that the City has focused on maintaining its infrastructure and other capital assets in a state of good repair, and where possible meet the demand for growth and service enhancement. However, this has been done with an historical under-funding from the other orders of government. As a result, the City has had to fill the resulting funding gap by drawing from reserves and reserve funds and issuing debt.

On average, capital expenditure forecast for Tax Supported Programs and ABCs is estimated at $1.348 billion per year. This approximates an annual additional expenditure increase of more than $300 million, which will require new sources of revenue simply to maintain the City's capital infrastructure in a state of good repair. Further review of future capital needs within the context of the City's fiscal affordability will be required.

Capital Budget Financing

Appendix 2 summarizes the 2005 Recommended Capital Budget by financing source. For the Tax Supported Program, the principal financing sources are debt of $526.765 million, and Reserves and Reserve Funds of $93.176 million.

The Chief Financial Officer & Treasurer, in accordance with requirements of Provincial regulations, confirms that expenditures in the amount of $1.033 billion for projected borrowing requirements (i) can be financed by the issuance of debentures; (ii) is within the City's updated Debt and Financial Obligation Limit; and (iii) authority for debenture terms not exceeding 10 years is being recommended. The CFO & Treasurer further confirms that funds are available from the other financing sources as summarized in Table 2 (page 2 above).

Conclusions:

The 2005 Council Approved Total Tax Supported Capital Budget and 2006 – 2014 Capital Plan totals $2.713 billion in gross capital expenditures, while the 2005 capital budget cash flow is $1.259 billion (see Appendix 1.(i)). Carry forward expenditures included in the above amount totals $234.776 million (see Appendix 1.(v)).

The 2005 Council Approved Tax Supported Capital Budget will result in the following future year commitments (excluding 2004 carry forwards): $822.381 million in 2006; $377.595 million in 2007; $128.990 million in 2008 and $49.946 million in 2009, and $75.179 million for the five years 2010 to 2014 for a total cost of $2.487 billion, as outlined in Appendix 1.(ii).

The 2005 Rate Supported Capital Budget includes the following estimated cash flows for the Toronto Parking Authority before carry forward expenditures: $24.191 million in gross capital expenditures in 2005 and $1.535 million in 2006 for a total cost of $25.726 million, as outlined in Appendix 1.(ii).

In conclusion, the 2005 Council Approved Capital Budget addresses the City's Health and Safety, Legislated and State of Good Repair needs in an optimal way – given existing fiscal challenges. While priority was given to the three categories listed above, the capital program also fulfils the short-term need for growth in strategic areas, and for service expansion in key program areas to accommodate demands and expectations of constituents. Managing the City's debt burden without compromising the state of good repair of existing assets or the health and safety of its citizens has been a major consideration. Nevertheless, there continues to be a *gap* between spending needs as identified in program submissions and what can be afforded as detailed in the Council Approved budget. It is imperative that this gap be addressed within the next few years in order to ensure that the City's assets are maintained in a state of good repair and that maximum utility is derived from its infrastructure and capital assets.

Only an equitable *New Deal* that includes new revenue sources and financial tools will enable the City to address this gap. A first step has been taken in the recently announced federal and provincial gas tax sharing arrangements, the tripartite Canada Strategic Infrastructure Fund and the goods and services tax exemption. However, predictable funding tools must be realized to

ensure both short-term (2005/2006) and long-term sustainable capital financing plan to meet the City's needs. 2005 is a transitional year towards the approval of a 5-year Capital Plan in 2006. During 2005, City Programs & ABCs together with the Financial Planning Division will review the 5-year Plan in context of affordability and readiness.