



TORONTO
BOARD OF TRADE

Building Our City Sustainably

Submission re:
2010 – 2019 Recommended Capital Budget and Plan

November 2009

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Executive Summary

The Toronto Board of Trade (the Board) welcomes the opportunity to participate in the City's 2010 tax-supported capital budget process.

The Board is Canada's largest chamber of commerce. Founded in 1845, we connect 10,000 members and more than 200,000 business professionals and influencers throughout the region. The Board's mission is to advance the success of our members and the entire Toronto region. The Board strives to be a bold and innovative catalyst for strengthening the economic, social and cultural vitality of the Toronto region. The Board is an authoritative advocate for a strong economic climate, exceptional quality of life and global competitiveness in Toronto.

Infrastructure is our members' top priority.

The top priority for our members, as outlined in both *From World-Class to World Leader: An Action Plan for the Toronto Region* (the Board's recently released vision and action plan for positioning the Toronto region as a globally competitive jurisdiction in which to live, work and invest) and the Board's Vote Toronto 2010 campaign, is to address congestion and gridlock through an expansion of the region's transportation network.

The Board and our members are concerned about Toronto's sustainability – including our fiscal sustainability, our environmental sustainability and the sustainability of our infrastructure and our methods for financing it. It is with a focus on Toronto's sustainability that the Board offers its views on the 2010 – 2019 Capital Budget and Plan.

The 2010 Capital Budget takes advantage of stimulus funds on offer through an approach that makes sense in today's financial climate. The budget and plan also highlights the need to find a sustainable long-term fiscal strategy for financing our infrastructure.

The Board believes that the budget and plan presented has a number of positive elements. It finds a way to utilize \$240 million of federal and provincial stimulus funds and to stay within Council's debt ceiling target. The Board commends the City for redeeming the Toronto Hydro promissory note and using the funds to pay down debt, a move recommended by the Mayor's Independent Fiscal Review Panel. As well, this budget plan begins to reduce, rather than contribute to, the City's state of good repair (SOGR) backlog.

At the same time, the Board recommends that caution be exercised. The move to 30-year debentures (instead of the 10-year debentures traditionally issued by the City) lowers the City's interest payments, but significantly raises the overall cost of this debt – amounting to approximately \$1-billion in interest payments over the additional 20 years. As well, the low interest rates that make issuing 30-year debentures an attractive option today are unlikely to be available in future. As a result, the City should avoid making the issuance of 30-year debentures a blanket policy to be pursued in future years. Similarly, the budget and plan's increased reliance on debt financing from previous plans shows that this is not a strategy that can be pursued long-term.

When the costs of needed regional plans such as Metrolinx's The Big Move are considered, it is clear that we face a significant challenge when it comes to financing and implementing our needed

capital maintenance and expansion. Public understanding of the challenge and public acceptance of the means to address it are needed to move forward. The Board has been and continues to be a partner in this process, helping to educate the public and offer policy solutions. In this regard, the Board recommends that the City:

1. Ensure that all strategies to pay for capital projects make fiscal sense for the City from both a short-term and a long-term perspective.
2. Incorporate, into the 2010 – 2019 Capital Budget and Plan, the costs to the City for Toronto’s hosting of the 2015 Pan Am Games.
3. Begin an open and frank public discussion about how best to finance and implement capital infrastructure projects. This dialogue must include how to resolve the challenge of funding Metrolinx’s The Big Move, in concert with Metrolinx and other municipalities in the Greater Toronto and Hamilton Area.
4. In light of the City’s debt constraints and the need for capital expansion to meet the City’s growth, the City needs to focus on what it can do best and consider if it should be divesting itself of certain assets or services.

Pursuing a sound asset management and growth strategy will ensure our infrastructure stock’s sustainability and enhance our fiscal sustainability.

Repairing and maintaining existing infrastructure stock is cheaper than replacing it. So, it is important that the City devote the majority of funds to SOGR investments.

At the same time, the Board believes that the City’s approach to on-going asset management needs to change. The City should pursue more rigorous asset management based on lifecycle management practices to ensure that finite funds are prioritized appropriately. This requires long-term planning and accounting for costs that will be incurred over the lifecycle of a particular project.

Under the requirements of the Public Sector Accounting Board’s (PSAB) Handbook relating to tangible capital assets, and in particular PSAB 3150, all City departments need to undertake certain asset management initiatives, such as lifecycle budget planning. The Board welcomes this development and understands that all City divisions and all relevant ABCCs are producing these, if ones did not already exist. The Board recommends that these long-term plans be made publicly accessible to increase transparency and accountability.

Further, the City has recently established an infrastructure coordinator. To build on the efficacy of this position, the City should also establish a single corporate asset manager to oversee the City’s asset management programs. An integrated approach on asset management will assist in controlling costs, adding to the City’s fiscal sustainability. In this area, the Board recommends that:

5. Building on the requirements of PSAB’s Handbook relating to tangible capital assets, and in particular PSAB 3150, the City and its agencies, boards, commissions and corporations

(ABCCs) should entrench lifecycle budgeting practices. These plans should be publicly accessible.

6. In addition to the recently created Infrastructure Coordinator, the City should establish a single corporate asset manager to lead and coordinate the asset management programs of the City's departments, rather than the current situation of asset managers in each separate division. An integrated or systems approach can help bring down overall costs.
7. The City should initiate dialogue with stakeholders to determine if stabilization of its infrastructure deficit (as this budget proposes) is acceptable, or whether the City should be striving to eliminate its infrastructure deficit in the long-term.

Toronto competes against other global cities. We must ensure that our global performance is best in class, not just best in Canada or best in Ontario.

We need to ensure that our municipal agents are competitive globally, not just nationally or provincially. To track this, the City should be benchmarking its performance against the performance of other global cities and incorporating best practices from around the globe. The results in *Toronto as a Global City: Scorecard on Prosperity*, the Board's annual city-region benchmarking study can highlight the leading global cities in a variety of areas.

8. Benchmark the City's performance against other global cities and implement best practices found in other jurisdictions. The Board's annual study, *Toronto as a Global City: Scorecard on Prosperity*, can help in identifying where the City leads and where it lags and who Toronto should be emulating.

Introduction

The Toronto Board of Trade (“the Board”) welcomes the opportunity to participate directly in the City’s 2010 tax-supported capital budget process. The Board would also like to thank the senior City staff who have provided the Board with a background briefing on this budget and plan.

The Board is Canada’s largest chamber of commerce. Founded in 1845, we connect 10,000 members and more than 200,000 business professionals and influencers throughout the region. The Board’s mission is to advance the success of our members and the entire Toronto region. The Board strives to be a bold and innovative catalyst for strengthening the economic, social and cultural vitality of the Toronto region. The Board is an authoritative advocate for a strong economic climate, exceptional quality of life, and global competitiveness in Toronto.

The Board’s Role in Making Toronto Globally Competitive

The city of Toronto, and with it the Toronto region, enjoy the economic and social advantages that come with being a great global city: a skilled population; a vibrant business community; cutting-edge research facilities, hospitals and educational institutions; convenient access to transport; and a solid international reputation. These assets have been built and developed over many years. The Board has been a constant partner and city-builder, working with the City to create a globally competitive Toronto region.

The Board believes that making Toronto globally competitive is a continual goal. In April 2009, the Board launched *Toronto as a Global City: Scorecard on Prosperity*, our study benchmarking global urban centres on a range of economic, social, environmental and cultural statistical indicators. The Toronto region’s tied for fourth place ranking and “C” grade shows that it can compete with other great global cities in a number of areas. The results also reflect, however, that Toronto still needs to make strides in a number of areas in order to become a world leader.

Long-term planning and vision are needed for the city and the region to make these advances and improve our standing among global cities. In recent days, the Board launched *From World-Class to World Leader: An Action Plan for the Toronto Region*, the Board’s vision and action plan for positioning the Toronto region as a globally competitive jurisdiction in which to live, work and invest. And on November 10, the Board launched our Vote Toronto 2010 campaign – a year-long campaign to define the issues, lay out the challenges that all candidates in and residents of the Toronto region need to consider and address in the upcoming municipal elections. The Board will develop and advance solutions to these and looks to engage Torontonians to take bold action for the future.

A priority issue in both *An Action Plan for the Toronto Region* and the Board’s Vote Toronto 2010 campaign is to address congestion and gridlock through an expansion of the region’s transportation network. For the past number of years, including as recently as this past summer, Board members have identified the region’s traffic congestion and gridlock as their top priority. The Board’s concern with transportation infrastructure has been confirmed by the Organization for Economic Cooperation and Development’s (OECD) recent study of Toronto. The OECD states that the Toronto region’s transit services have not kept up with population growth and are poorly integrated. Transit infrastructure is less well developed than in several OECD metropolitan regions and, in

2005, federal spending on transportation in Canada as a share of total government spending was the lowest among OECD countries.

Certainly, we need to quickly see progress made on constructing Metrolinx's The Big Move, the 25-year, \$50-billion regional transportation plan for the Greater Toronto and Hamilton Area. But the issues surrounding Toronto's infrastructure go beyond our transportation infrastructure and include our electricity and our water and wastewater systems. As well, how we finance our infrastructure throughout its lifecycle – in particular, The Big Move's looming \$40 billion capital gap (the difference between the plan's forecasted price and the amount currently committed for Metrolinx projects by senior orders of government) – needs to be addressed.

The 2010 – 2019 Capital Budget and Plan's Context

The City of Toronto finds itself in a difficult position. Due to the lack of infrastructure investment in recent decades, the City of Toronto and the Toronto region generally have significant capital infrastructure needs. According to the City's presentation on the 2010 – 2019 Capital Budget and Plan, the State of Good Repair (SOGR) backlog sits at \$1.578 billion as of 2009. The City of Toronto also has an ageing infrastructure stock, which requires significant funds to maintain. At the same time, the Toronto region is experiencing significant population growth – a population equivalent to a city the size of Kingston (about 100,000 people) moves to the region each year. This growth puts a substantial strain on the existing infrastructure; expansion is generally needed to accommodate this growth.

From a fiscal perspective, the City is also in a tricky situation. As the Board noted in its 2009 Operating Budget submission, *Balanced but not Sustainable*, the City is in a structural deficit position on the operating side of the ledger. Consequently, there is little fiscal room to increase the City's debt to pay for substantial SOGR and capital investments. However, the City needs to bring forward many infrastructure projects to take advantage of the stimulus funds on offer from the federal and provincial governments.

Infrastructure is a vital component of a jurisdiction's global competitiveness. For Toronto to maintain its standing as a global city, investments in maintaining and expanding our infrastructure are critical. The bottom line is that failing infrastructure cannot support a healthy and competitive economy.

The Board and our members are concerned about Toronto's sustainability – including our fiscal sustainability, our environmental sustainability and the sustainability of our infrastructure and our methods for financing it. It is with a focus on Toronto's sustainability that the Board offers its recommendations on the 2010 – 2019 Capital Budget and Plan.

Ensure a Sustainable Long-Term Fiscal Strategy

1. Ensure that all strategies to pay for capital projects make fiscal sense for the City from both a short-term and a long-term perspective.
2. Incorporate, into the 2010 – 2019 Capital Budget and Plan, the costs to the City for Toronto's hosting of the 2015 Pan Am Games.
3. Begin an open and frank public discussion about how best to finance and implement capital infrastructure projects. This dialogue must include how to resolve the challenge of funding

Metrolinx's The Big Move, in concert with Metrolinx and other municipalities in the Greater Toronto and Hamilton Area.

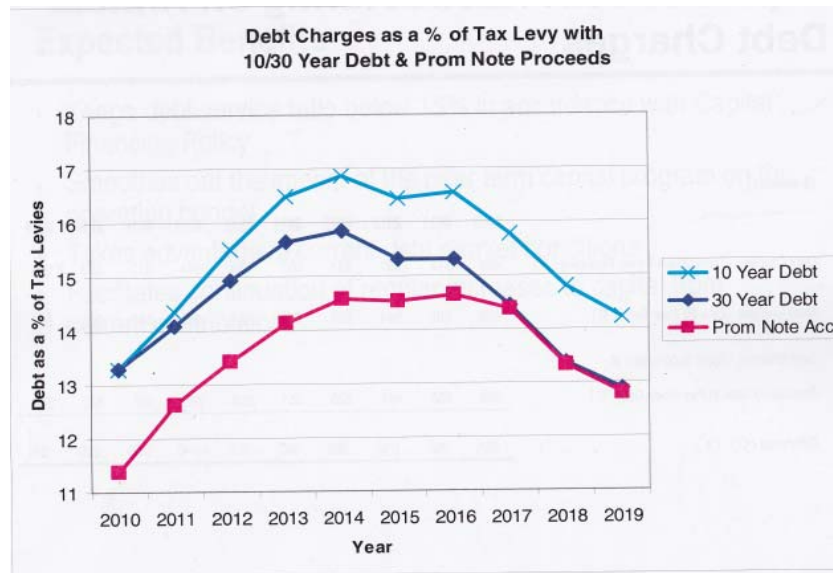
4. In light of the City's debt constraints and the need for capital expansion to meet the City's growth, the City needs to focus on what it can do best and consider if it should be divesting itself of certain assets or services.

As noted above, the impetus of taking advantage of federal and provincial stimulus funds creates a "fiscal bulge" for the City in the years 2010 and 2011. In light of Toronto's infrastructure needs, the City would be well advised to take advantage of any and all funds available from senior orders of government, especially for vital projects such as the Coxwell trunk repair. The Board believes that the 2010 - 2019 Capital Budget and Plan takes advantage of these federal and provincial stimulus funds through an approach that makes sense in today's financial climate.

To capitalize on these funds using the City's traditional 10-year debenture financing causes the City's debt charges to exceed the 15% ceiling established by Council, peaking around 17% in 2014. To mitigate this operating budget impact, staff are recommending two new policies:

- Redeem a \$600 million promissory note issued by Toronto Hydro and use the proceeds to offset debt; and
- Match the term of debt issued for long-term assets to correspond to the asset's useful life. This would see up to 25% of debt in the ten-year period issued with a 30-year term-to-maturity rather than the existing 10-year term.

As shown in the graph below from the City's presentation on the 2010 - 2019 Capital Budget and Plan, the impact of these two initiatives would bring the debt charge impact on the operating budget to within the 15% target throughout the entire ten-year forecast period.



The Board commends City staff for presenting a budget that finds a way to utilize the offered stimulus funds and to stay within Council's debt ceiling target. Further, the Board commends the

City for redeeming the Toronto Hydro promissory note and using the funds to pay down debt, a move recommended by the Mayor's Independent Fiscal Review Panel.

The Board does have some reservations about the staff's recommended approach, though. The impact of moving to 30-year debentures on longer-term infrastructure projects is closely analogous to renegotiating a mortgage to reduce the monthly impact on a family's budget. While the immediate impact can be significant, creating liquidity to meet immediate needs, it comes at the expense of reduced flexibility with respect to future commitments that are often not foreseeable when the refinancing is undertaken. In the case of Toronto's proposal, debt servicing costs provide immediate liquidity as debt servicing costs for these long-term assets would be cut in half. However, the City would now carry this debt for an additional 20 years and in total, interest costs for the 30-year debt will be approximately 4 ½ times that paid on the 10-year debt.

The table below provides a numerical illustration of this impact on both annual debt charges and total interest payment¹:

City of Toronto Debt Charge Analysis						
	Bond	Coupon	Maturity	Price	Yield *	Yield Spread
8 Year	Canada	4%	Jun 01/17	105.45	3.18%	
	Toronto	6%	Dec 12/17	113.19	4.16%	0.98% Actual
28 Year	Canada	5%	Jun 01/37	116.73	3.99%	
	Toronto (Estimate)		Jun 01/37		5.09%	1.1% Estimate
	* Nov. 5/09					
Annual Debt Charge (per \$1000)	8 Yr		\$ 149.51			
	28 yr		\$ 67.78			
	Difference:		\$ 81.73			
			% 45.3%			
Total Interest Payment	8 Yr		\$ 196.08			
	28 yr		\$ 897.84			
	Difference:		\$ 701.76			
			% 457.9%			

Overall, the City will face approximately \$1 billion in additional interest payments by moving to 30-year debentures.

It is also important, given current fiscal constraints, that the City does not significantly diverge from this plan. As the table below shows, the 2010 Capital Budget relies more heavily on debt financing than the 2009 Capital Budget forecast. For example, there is a 27% increase in debt financing in the first five years of the forecast – from \$2.8 billion to \$3.6 billion.

¹ This example is provided as a numerical illustration only and is not meant to accurately reflect the charges incurred by the City. The example uses 8-year and 28-year debentures, rather than 10-year and 30-year debentures as proposed by the City. As a result of the different debt terms used, the interest rates do not directly correspond to the rate charged on the City's debt.

Capital Budget and Forecast						Capital Budget and Forecast									
Percent of Total Expense/Revenue						Percent Change in Total Expense/Revenue									
						2009 Budget to 2010 Budget									
						5-Year Forecast		10-Year Forecast							
						2009-2013	2010-2014	2009-2018	2010-2019						
						5-Year Forecast		10-Year Forecast							
Expenditures						Expenditures									
Health and Safety		1.4%		1.4%		1.7%		1.7%		Health and Safety		0.7%		-5.4%	
Legislated		2.4%		2.6%		2.7%		2.8%		Legislated		7.6%		-5.9%	
State of Good Repair		56.0%		53.0%		61.1%		60.8%		State of Good Repair		-3.9%		-7.1%	
Service Improvements		10.9%		10.5%		10.8%		9.8%		Service Improvements		-1.6%		-15.0%	
Growth Related		29.3%		32.5%		23.6%		24.8%		Growth Related		12.6%		-1.7%	
Total Gross Expenditures		100.0%		100.0%		100.0%		100.0%		Total Gross Expenditures		1.5%		-6.6%	
Funded By						Funded By									
Province		18.9%		18.8%		17.1%		17.8%		Province		1.2%		-2.6%	
Federal		16.8%		16.1%		17.1%		15.0%		Federal		-2.6%		-18.1%	
Reserves/Reserve Funds		14.3%		9.8%		13.3%		11.1%		Reserves/Reserve Funds		-30.0%		-22.5%	
Capital from Current		8.4%		9.2%		13.8%		16.1%		Capital from Current		10.0%		8.5%	
Others		15.7%		13.7%		13.2%		11.1%		Others		-11.2%		-21.7%	
Debt Tax Supported		25.9%		32.4%		25.4%		29.0%		Debt Tax Supported		26.9%		6.4%	
Total Funding		100.0%		100.0%		100.0%		100.0%		Total Funding		1.5%		-6.6%	

A possible positive consequence of issuing longer-term debt is the certainty of debt servicing costs. Therefore, if debentures are issued when rates are relatively low, which is the case in current financial markets, there is an opportunity to capture attractive financing well into the future.

But it is essential that this strategy be pursued with care for a number of reasons. First, extending this practice to the financing of significantly more assets than what is proposed in the City's recommended budget could possibly raise a concern with credit rating agencies, as repayment risk is being extended over a much longer period. If the risk is considered significant, this could adversely affect the City's credit rating, resulting in higher interest costs on all debt. Second, the relatively favourable pattern of interest rates we are seeing now will probably return to more "normal" levels as the economy returns to stable long-term growth. At that time, the return on 30-year debt could be unattractive.

The staff presentation emphasizes that pursuing the matching of debt maturity to the life of long-term assets should be undertaken "subject to market conditions." A blanket policy of applying this strategy to finance all long-term assets should be avoided because of its possible negative constraining impact on future operating budgets.

In our April 2009 Operating Budget submission, the Board called on the City to incorporate contingency funds into its budget in order to access infrastructure stimulus dollars from senior orders of government. Unfortunately, this expense, which was at least partially known at the time of the budget's presentation, was not incorporated into the City's budget. The Board wishes to ensure that the same situation does not occur with respect to Toronto's successful bid to host the 2015 Pan Am Games. The Board and our members are very excited that Toronto will be hosting this international sporting and cultural event. We believe hosting the 2015 Pan Am Games will benefit Toronto in a number of ways.

We now know that the bid has been successful, so it is important that the fiscal implications of this success are incorporated into the 2010 – 2019 Capital Budget and Plan. The Board’s understanding is that the largest items for the City are the construction of the athletes’ village, the residential and other development in the east Donlands, the Scarborough RT extension and replacement and the building of the Scarborough Aquatics Centre. The Board’s further understanding is that there is only a small further financial expectation of the City with respect to these projects. However, this expectation needs to be reflected in the City’s budget and plan.

As noted in our April 2009 Operating Budget submission, the Board commends the City for presenting a 10-year capital plan. This initiative reflects the City’s long-term capital plans and provides residents and businesses with a clearer understanding of the projects the City will undertake over this period.

The budget and plan highlights the need to establish a sustainable long-term fiscal strategy. Creating this strategy requires an open and frank discussion with the public about the City’s infrastructure requirements and the possible ways to meet the revenue demands associated with these needs.

As noted earlier, the Board’s members consistently cite the expansion of our regional transportation system as their top priority. The Board strongly supports Metrolinx’s The Big Move and is working to ensure that the projects in this 25-year regional transportation plan get built and get built quickly. But The Big Move faces a \$40 billion gap between its expected capital requirements and what governments have pledged toward its construction. When operating and maintenance costs are taken into consideration, the overall price tag is closer to \$100-billion, with the \$10-billion announced still being the only identified funds. The federal government, the Province, Metrolinx, as well as the City of Toronto – and other municipalities in the Greater Toronto and Hamilton Area – need to play a role in bridging this remaining funding gap. Frank public discourse on the challenge of funding our regional transportation and other infrastructure projects, as well as some of the potential solutions, needs to begin immediately.

To have this discussion, it is important to understand what are our capital – and, perhaps even more importantly, what our associated operating and maintenance – requirements. This requires accurate long-term forecasting. The 2010 – 2019 Capital Budget and Plan is structured to commit the majority of project funding into the first five years of the forecast. To put this in perspective, recommended expenditures in the 2015-19 period are only 47% of those in the preceding five years. However, debt and capital from current makes up 59% of the financing in this latter period. As a result, in spite of the lower level of spending, budgeted financing from debt and capital from current remains \$295 million above Council’s target by the end of the ten-year forecast period.

The Board is concerned that the significantly diminished level of spending identified in the last five years of the forecast is not realistic or that, as time progresses, additional program pressures will be added. The financing plan is aggressive and depends on the “breathing room” currently identified by low levels of commitment in the 2015 – 2019 timeframe. If new initiatives materialize without a higher proportion of senior government funding, more debt will likely have to be issued in this period which, in turn would move the budget even further away from the Council target. The following table illustrates the possible consequences:

Potential Impact of Increased Expenditures in 2015-2019					
	Percentage of	Gross Expend.	Other	Debt	Amount Over
	2010-14 Expend.	2015-19	Funding *	and CFC	Target
Actual					
	47%	5,167	2,455	2,712	295
Estimated					
	55%	6,060	2,879	3,181	764
	60%	6,611	3,141	3,470	1,053
* Assumed the same proportion as 2015-19 actual					

Finally, the Board believes that, to sustainably finance, build and implement the capital expansion and services needed to meet the City's growth, the services and assets that the City provides need to be examined. Are there better ways of delivering these services and assets? Should the City even be divesting itself of certain programs or assets? This examination needs to consider things like the monetization of public property assets and the creative use of partnerships between governments and the private sector.

With Toronto's substantial infrastructure needs and the record deficits being experienced by the senior orders of government, the traditional model of government financing of public infrastructure may no longer be viable. We need to utilize all existing assets as productively as possible to generate new revenues and achieve public policy objectives.

Follow a sound asset management and growth strategy to ensure the City's sustainability

5. Building on the requirements of PSAB's Handbook relating to tangible capital assets, and in particular PSAB 3150, the City and its agencies, boards, commissions and corporations (ABCCs) should entrench lifecycle budgeting practices. These plans should be publicly accessible.
6. In addition to the recently created Infrastructure Coordinator, the City should establish a single corporate asset manager to lead and coordinate the asset management programs of the City's departments, rather than the current situation of asset managers in each separate division. An integrated or systems approach can help bring down overall costs.
7. The City should initiate dialogue with stakeholders to determine if stabilization of its infrastructure deficit (as this budget proposes) is acceptable, or whether the City should be striving to eliminate its infrastructure deficit in the long-term.

Toronto must invest in repairing and maintaining its current infrastructure. The costs of maintaining our infrastructure assets are much lower than upgrading a deteriorated asset to usability. Infrastructure can also reach a point of deterioration where restoration is no longer possible. Demolition and replacement costs may result in a much greater expense than regular maintenance of an asset.² While deferring maintenance can go unnoticed for some time, it ultimately costs the City and is not a sustainable strategy. Using road repairs as an example, a road crack that costs \$1 per linear metre to be filled can increase to \$15 per metre for resurfacing, to \$45

² http://www.capitalplanningsolutions.com/pdf/042408_Silent_Deficit.pdf

per metre for rebuilding over a span of 5 – 10 years. Infrastructure not kept in a state of good repair deteriorates at a quicker rate.

Clearly, the City recognizes this need – nearly 61% of the 2010 – 2019 Capital Budget and Plan and 55% of the 2010 Capital Budget are going toward funding SOGR projects. The Board congratulates the City on presenting a capital budget that begins to address the City’s considerable SOGR backlog. This backlog stands at \$1.578 billion in 2009. It will begin to decrease in 2010 and, at the end of 2019, the City forecasts the SOGR backlog to be \$1.12 billion.

The Board notes that this represents more of a stabilization of the SOGR deficit than an elimination of it. This may in fact be the right approach when all factors are considered, but the City should initiate a dialogue with stakeholders to determine if this is the right approach in the long-term. Toronto’s growing infrastructure backlog has a negative impact on the social and economic aspects of the City, as well as the safety and quality of life of Torontonians. A city’s infrastructure system has an enormous impact on its global competitiveness and productivity; an unreliable and/or inefficient infrastructure system can negatively impact global competitiveness.³

The impact of failing infrastructure affects Torontonians on a day-to-day basis. Thankfully, significant infrastructure failures, such as the sinkhole that appeared on Finch Avenue West after rainstorms in July 2009, are not a regular occurrence. But more mundane infrastructure failures, such as broken water mains (of which Toronto experiences approximately 1300 - 1500 annually), can be a daily ordeal. Repairing these problems costs a significant amount of money and causes substantial disruptions. Road closures, school closures, power outages, increased congestion and other situations that negatively impact productivity and quality of life are common side effects of these infrastructure failures.

In this regard, the Board believes that the City’s on-going asset management needs to change. The City needs to consider more rigorous asset management practices based on lifecycle management practices to ensure that finite funds are prioritized appropriately. This requires long-term planning and accounting for the costs that will be incurred over the life-cycle of a particular project.

The Board believes that Toronto Water presents a commendable example for other City divisions and agencies to follow in this area. For example, Toronto Water has long-term (10 year) capital and operating plans. As part of creating these plans, Toronto Water has forecasted its costs and is setting its recovery rates at a level that will fund these needs. The Board applauds Toronto Water on accomplishing this through also lowering industrial water rates to ensure competitive costs. In addition, Toronto Water maintains a reserve fund to cover emergency and unexpected repairs. This reserve fund has been built up over a period of a number of years.

While Toronto Water’s long-term planning and capital reserve funds are examples to be followed by other divisions and ABCCs in Toronto, the performance of Toronto Water also reflects some of the challenges faced by Toronto with respect to our infrastructure. Despite this year’s approved 9% rate increase for Toronto Water, rates for water in Canada, including in Toronto, are well below those found in other countries. In fact, Toronto’s water rates are cheaper than those found in many neighbouring municipalities. In light of the City’s fiscal difficulties, the true costs of providing services need to be reflected. The Board commends Toronto Water for maintaining reserve funds, but notes that Toronto Water’s inability to complete all scheduled projects each year (approximately 50-60% of their budget for major programs versus 80-90% of budget is completed

³ http://www.capitalplanningsolutions.com/pdf/042408_Silent_Deficit.pdf

for transportation projects) is part of the reason for the build-up of these reserves. As well, Toronto Water has one of the lowest, if not the lowest, capital reserves in the GTA. We need to ensure both that planned projects are being completed and that adequate reserve funds are in place.

In terms of long-range budgetary planning, the City should focus on adopting flexible planning processes that allow for population shifts, encourage non-capital solutions, focus on customer service and explore public-private partnerships as a source of new capital.

As a result of PSAB Handbook requirements (in particular PSAB 3150), the City must undertake many of these asset management practices, such as lifecycle budgeting. The Board welcomes this development; our understanding is that all City divisions and all relevant ABCCs are producing these lifecycle budget plans, if ones did not already exist. The Board is concerned that these long-term plans are not being made publicly available. The Board believes that these plans must be publicly accessible – doing so will increase transparency, accountability and will help to ensure that the City and its bodies stay true to their forecasts.

Having an explicitly identified corporate asset manager is also viewed as a critical component of sound asset management techniques. At present, the City maintains a multitude of asset managers – Toronto Water has one, the City’s transportation department has one, the TTC has one, and so forth. The Board believes that the City needs to have a single corporate asset manager to lead and coordinate the asset management programs of the City’s departments. The Board notes that the Town of Markham has an Asset Management Department, as does the Region of Peel.

Establishing a corporate asset manager will aid in the transition to better sharing of corporate services and to breaking down any silo mentalities that may currently exist. Further, this asset manager can ensure that maintenance is prioritized based on corporate asset management plans and that finite funds are spent wisely according to the greatest value for money and long-term benefit, adding to the City’s fiscal sustainability through more focused and targeting spending on the maintenance of our existing assets. An integrated or systems approach to asset management has also been shown to help bring down overall costs. Sound asset management is needed to ensure the sustainability of Toronto’s municipal assets, such as our water, wastewater & stormwater systems and our roads and bridges.

Pursue sustainable global performance

8. Benchmark the City’s performance against other global cities and implement best practices found in other jurisdictions. The Board’s annual study, *Toronto as a Global City: Scorecard on Prosperity*, can help in identifying where the City leads and where it lags and who Toronto should be emulating.

While Toronto Water is a commendable example among our municipal infrastructure agents, we need to be examining the performance of these operators on a global basis. As the Board highlighted in *Toronto as a Global City: Scorecard on Prosperity*, our competition is global; we need to strive to be a global leader, not just a Canadian or Ontario leader.

In this regard, it is important to take stock of what is being done successfully in other jurisdictions. For example, how does Toronto compare to, say, Australia with respect to our water and wastewater systems? Are there practices that we can learn from and implement locally? As we strive to improve Toronto’s global competitiveness, we must seek out “best in class” solutions, wherever they may come from.

In looking to benchmark the City's performance against other global cities, the Board's *Scorecard on Prosperity* can be used to highlight some of the areas where the City needs to improve. Similarly, the *Scorecard on Prosperity* can help to identify those cities that excel in these areas. Toronto should be looking to global best practices and putting these in place in our city.

Conclusion

A healthy infrastructure foundation is a fundamental building block for growing our economy. So, it is important that we make investments in this vital building block of our global competitiveness and our prosperity. As highlighted in *Toronto as a Global City: Scorecard on Prosperity*, Toronto fares well internationally, but still needs to advance in certain areas to be a global leader. It is equally important that we put in place a sustainable long-term fiscal strategy that ensures we invest wisely for the long-term vitality of our city. Done correctly, the infrastructure we build will last for generations to come. We should ensure that the way we finance these projects does not also overburden these future generations.