The City of Toronto’s Long-Term Fiscal Plan is an integral part of the City’s continuing move towards fiscal sustainability. This comprehensive report provides input for setting City priorities, aids in the annual budget process, and most importantly, provides a framework for future-year financial planning and forms a blueprint for discussions between the City and its funding partners including the federal and provincial governments. The Long-Term Fiscal Plan joins Council’s Strategic Plan and the Official Plan as tools with which the City is forging an integrated and coordinated planning management model.

The Long-Term Fiscal Plan emphasizes the balancing of financial strategies through three key components—revenues, expenditures, and assets and liabilities.

This Long-Term Fiscal Plan consists of:

- the goals of fiscal sustainability, the relationship between the Long-Term Fiscal Plan, the Strategic Plan and other sectoral plans, and the linkage between the long-term plan with the annual budget process;
- an environmental scan, i.e. assessment of the City’s economic & socio-demographic environment;
- the history and an analysis of the City’s financial condition;
- multi-year financial forecasts and the options to close the gap;
- a description of the financial issues that have been identified, the symptoms of these issues, the preferred outcomes, and the recommendations to address these issues in the form of financial strategies, fiscal principles and financial policies; and
- plan implementation and the future work plan.

A total of eight key financial issues have been identified, which can broadly be grouped under three major categories—Expenditures, Revenues, and Assets and Liabilities. A list of recommendations, consisting of 25 financial strategies, 17 fiscal principles and five financial policies, is developed to address these eight issues, and is summarised below:

**ISSUE 1 (Expenditure Issue)**

**The City of Toronto has a higher cost structure than other municipal governments in the rest of GTA, e.g. Police, transit, social assistance, social housing, and debt charges.**

**RECOMMENDATIONS**

Strategies
1. The City should continue to engage in Continuous Service Improvement.
2. The City should continue to exercise fiscal restraint.
3. The Federal Government should pay for the full costs of Federal programs which impact Toronto.
4. Program specific funding transfers from other orders of government should recognize the City’s higher cost structure with respect to those services.

Principles
1. All activities should be reviewed in the context of affordability.
2. All new initiatives should be accompanied by a business case and a timetable for a post-implementation review and/or sunset provision.
3. The cost of servicing new debt should not negatively affect the City’s credit rating which should be maintained at the current level (AA for long-term debt) or higher.

**Policy**

City programs will be reviewed periodically to assess their relevance to current City priorities, objectives, their effectiveness and efficiency.

**ISSUE 2 (Expenditure Issue)**

Demands for growth as laid out in the Official Plan, other Sectoral and program plans are not adequately funded.

**RECOMMENDATIONS**

Strategies
1. Plans for growth should be implemented consistent with the affordability level.
2. Other orders of government should provide the City with adequate financial resources to support TTC’s growth requirements.
3. The City request the Province of Ontario to amend the Development Charges Act:
   - (a) so that no municipal services are excluded from the development charge calculation;
   - (b) to allow municipalities to adopt service levels that are in keeping with Council-approved long-term service plans for the purposes of calculating development charges, instead of the average service levels during the 10-year period immediately preceding the preparation of the background study, as allowed under existing legislation; and
   - (c) so that the 10 per cent service discounts are removed.

Principle

Investment in new infrastructure should be based on analysis of shifts in demographic growth and existing unmet needs.

**Policy**

Approval of updated Development Charges By-law.

**ISSUE 3 (Expenditure Issue)**

There is variability in certain program expenditures from year to year.

**RECOMMENDATIONS**

Strategies
1. Target balances and financing plans should be established for each reserve and reserve fund, and should be based on the purpose on which the fund was based.
2. There should be periodic reviews of the relevance and adequacy of each major reserve and reserve fund.

Principle

Reserves and reserve funds should be used to fund anticipated potential liabilities, stabilizing (smoothing off) revenues and expenditures that are subject to cyclical fluctuations, extraordinarily large purchases, or self-financing on-going activities.

**ISSUE 4 (Revenue Issue)**

Business taxes are not competitive.

**RECOMMENDATIONS**

Strategies
1. The Province should provide business education tax relief by lowering the business tax rates to the GTA average.
2. The City should have the flexibility to rectify or re-dress tax rates between business tax rates and those on residential properties.

Principles

In June 2004 City Council adopted the following guiding principles relating to property tax policies:

1. Tax ratios are an important measure of tax fairness and equity between the various property classes. Reasonable targets for tax ratios should be set, and tax policies regarding budgetary levy increases and tax ratio-related tax burden shifts between classes should be made with a view of respecting and achieving these targets over a reasonable period of time.
2. The current capping regime is ineffective and will prolong historic tax inequities. However, any changes to the capping program in order to facilitate the transition to Current Value Assessment (CVA) should have regard for maintaining a manageable pace of change for property owners. A longer transition period should be available for those properties facing large increases.
3. Property tax protection for vulnerable business must be developed in conjunction with any other changes that facilitate the transition to CVA, with a view to achieving equity to the extent possible between various property types, objectivity in defining eligible properties, longer-term stability and certainty for property owners, and transparency in administration.
4. A view to achieving equity and fairness in tax rates for both the municipal and education portion taxes should be taken. The Province must be encouraged to show its commitment to reduce Toronto’s business education tax rate disparity vis-a-vis the surrounding GTA municipalities.

In addition, there are two more principles:

1. Affordability of a tax increase should first be viewed in the context of general inflation and/or the growth in the economy, consistent with the changes in the costs of maintaining or enhancing existing service levels.
2. Tax increases should be based on service level costs and provide flexibility for taxpayers with limited fixed incomes.

**ISSUE 5 (Revenue Issue)**

The City lacks adequate revenue sources to fund its municipal responsibilities.

**RECOMMENDATIONS**

Strategies
1. Current sources of financing should be reformulated, e.g. property taxes, development charges
2. Alternative revenue sources should be explored, e.g. share of sale taxes
3. Other orders of governments should provide the City with new revenue sources, e.g. sharing of fuel taxes, new tax tools through enabling legislation, and sharing of consumption taxes.
EXECUTIVE SUMMARY

City of Toronto Long Term Fiscal Plan

As approved by City Council in April 2005

Winner of:

- 2006 Award for Excellence in Government Finance from the Government Finance Officers Association of the United States and Canada (GFOA);
- Silver Award from the Public Sector Quality Fair 2006

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Full report can be downloaded at:
http://www.toronto.ca/finance/long_term_fiscal_plan.htm

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