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 Council 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:

<u>ISSUE 1 (Expenditure Issue)</u>

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.

<u>RECOMMENDATIONS</u>

<u>Strategies</u>

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.

<u>Principles</u>

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.

<u>Policy</u>

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

<u>ISSUE 2 (Expenditure Issue)</u>

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

<u>RECOMMENDATIONS</u>

<u>Strategies</u>

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.

<u>Principle</u>

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

<u>Policy</u>

Approval of updated Development Charges By-law.

<u>ISSUE 3 (Expenditure Issue)</u>

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

<u>RECOMMENDATIONS</u>

<u>Strategies</u>

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.

<u>Principle</u>

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

<u>Policy</u>

Reserve Fund By-Law (Municipal Code 227) specifies the use of each reserve and reserve fund.

<u>ISSUE 4 (Revenue Issue)</u>

Business taxes are not competitive.

<u>RECOMMENDATIONS</u>

<u>Strategies</u>

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 ratios between business tax rates and those on residential properties.

<u>Principles</u>

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-à-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.

<u>ISSUE 5 (Revenue Issue)</u>

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

<u>RECOMMENDATIONS</u>

<u>Strategies</u>

1. Current sources of financing should be reformed, 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.

Principles

1. Innovative approaches to financing services should be considered before using property tax financing, i.e. property tax is the funding source of the last resort.
2. The pricing of user fees should generally take into consideration of the full cost of the service (direct, indirect and the cost of capital).

ISSUE 6 (Revenue Issue)

Improper funding of Provincial cost-shared programs has resulted in significant financial pressures for the City:
- **Capping of Provincial share**
- **Tentative capping of GTA pooling revenues**
- **Social service costs / risk exposure**

RECOMMENDATIONS

Strategies

1. Income distributive programs should be fully funded from the income tax base (of the Provincial / Federal Governments).
2. The City should prioritize its programs and services, and focus on its core responsibilities.
3. Program and funding responsibilities of current services should be rationalized with other orders of government.
4. Funding from other orders of government should equal program commitment.

Principle

The property tax base should not be used to fund income distributive programs.

ISSUE 7 (Asset & Liability Issue)

City's investment in its ageing infrastructure has been lagging.

RECOMMENDATIONS

Strategies

1. Funding priority should be given to physical infrastructure's State of Good Repair over Growth.
2. Funding priority should be given to preventive maintenance to reduce replacement cost.
3. Strategic investment in physical infrastructure should be given priority to maintain City residents' quality of life.
4. Strategic asset management policies should be employed.

Principles

1. Infrastructure should be replaced when it can be demonstrated that the replacement cost and subsequent maintenance cost are less expensive than maintaining the existing asset in a state of good repair over the same period of time.
2. Debt repayment period should not exceed the useful life of the asset for which the debt is incurred.

Policies

1. Policy on Management of Operating Budget Surpluses:
   (a) The surplus carried forward should be zero by the 2007 fiscal year and this is accomplished by reducing the surplus carried forward in 2005 to a target level of $10 million, in 2006 to $5 million and 2007 to zero *(deferred for consideration during the 2005 budget process)*;
   (b) For the fiscal 2004 surplus, if any, the Deputy City Manager & Chief Financial Officer is authorized, consistent with item a above, to apply any additional surplus entirely to the Capital Financing Reserve Fund;
   (c) Starting with fiscal 2005, for any surplus, the Deputy City Manager & Chief Financial Officer is authorized, consistent with item a above, to apply any additional surplus, in priority order to:
   - Capital Financing Reserve Fund (at least 75 per cent of the additional surplus); and
   - the remainder to fund any under-funded liabilities, and/or reserves/reserve funds, as determined by the Deputy City Manager & Chief Financial Officer; and

   The Deputy City Manager & Chief Financial Officer report such contributions as per items b and c to the Budget Advisory Committee, Policy and Finance Committee and Council following the closing of the accounts for the prior year.
2. As a guideline, debt service charges should not exceed 10 per cent of net property tax levy.

ISSUE 8 (Asset & Liability Issue)

Employee Benefits and other liabilities are not adequately funded.

RECOMMENDATIONS

Strategies

1. Financial risks should be recognized and properly funded.
2. Funding for underfunded liabilities should be increased in the next five years to ensure at least the current gaps do not widen.
3. Work is in progress to quantify environmental liabilities.

Principle

Reserves and reserve funds should be funded to the levels required for their purposes.

FUTURE WORK PLAN

Under the direction of the Deputy City Manager & Chief Financial Officer, staff will develop, review and update fiscal strategies, principles and policies as the work plan is carried out, and report back to Council through the Policy and Finance Committee. The adopted financial principles, policies and financial control protocols will be incorporated into the annual budget guidelines so that both staff and Councillors can have easy access and reference to these financial principles and policies during budget deliberations.

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

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); and
- Silver Award from the Public Sector Quality Fair 2006

TORONTO