

March 12, 2010

City of Toronto's Long Term Fiscal Plan Update Then, now, what is needed and what can be done

How the Long Term Fiscal Plan came to be

City Council unanimously approved the Long Term Fiscal Plan at its meeting on April 12, 2005, as recommended by the Ad Hoc Committee to Develop a Long-Term Fiscal Plan. It was the result of almost two years of effort.

2003

During this year, the Committee deliberated and received staff presentations and reports on the Five-Year Fiscal Plan, including proposed approach and work plan, preliminary strategies on asset and liability funding, expenditure control and revenue enhancement, preliminary five-year operating forecast and the proposed sustainable funding from senior governments.

2004

During the four Ad Hoc Committee meetings in 2004, a number of staff position papers and status reports were submitted to the Committee. On December 13, 2004, the Ad Hoc Committee had before it a staff report titled "Comprehensive Report on the City's Long-Term Fiscal Plan" including a draft Long Term Fiscal Plan dated December 2004.

2005

The Draft Plan identified and discussed eight financial issues the City is currently facing, and recommended 25 financial strategies, 17 fiscal principles and five financial policies. The Ad Hoc Committee recommended that Policy and Finance Committee adopt these recommendations and also received a staff presentation on a Long-Term Financial Forecast for the City.

At its meeting on April 12, 2005, City Council unanimously adopted Policy and Finance Committee's recommendation to adopt the recommendation of the Ad Hoc Committee, including the strategies, principles and policies as mentioned above. The very first Long Term Fiscal plan report was published.

Accomplishments

Since the Long Term Fiscal Plan was introduced, City Council, in partnership with the Federal and Provincial governments and staff, have taken steps towards fiscal sustainability, including:

- Continuous improvement and cost control including ongoing expenditure restraint, service reviews and recently approved moderate wage increases
- Full GST rebate - \$50 million
- Introduction of the Municipal Land Transfer Tax (MLTT) and the Personal Vehicle Tax (PVT) - \$218 million annually
- Sharing of the Federal and Provincial gas taxes for capital funding - \$320 million annually
- Phased upload of Social Services programs - \$350 million by 2018

- A debt restructuring plan which will mitigate the cost of servicing the capital debt
- Funding commitment for Transit City
- Economic Stimulus capital funding
- Various asset strategies, e.g. establishment of Build Toronto, use of proceeds from sale of Toronto Hydro Telecom to help renew social housing

What is still required

Despite the progress made since 2005, more will need to be done to secure Toronto's future on a long-term basis:

- Ongoing expenditure control
- Resumption of Provincial Transit operating funding for the TTC (50 per cent)
- Upload Social Housing costs
- National Housing Strategy
- National Transit Strategy (capital)
- Growth revenues – Equivalent of one cent of Sales Tax

The long-term road to fiscal sustainability – Vision 2020

The City's long-term fiscal vision for the next ten years includes:

- Expenditures:
 - Continued actions on efficiencies and rationalization of selected services and salary / benefit restraint
- Assets and Liabilities:
 - Maximize corporate asset values and pay down debt, continue to increase pay-as-you-go capital financing and further actions to reduce unfunded liabilities
- Revenues:
 - Continued actions to grow tax base: Improved business competitiveness, population growth
 - Enhanced use of user fees and exemptions where appropriate
 - Funding from other orders of government:
 - Stable and permanent partnership funding, 50 per cent transit operating funding, the upload of social housing costs and a National Housing Strategy
 - Share of sales tax revenues (1 cent of 13 cent HST)

City's Structural Funding Shortfalls

The City continues to experience expenditures that grow faster than its revenue. Arbitrated wage increases are a significant contributor. There are two components to the City's accumulated funding shortfall due to downloaded Provincial programs: the funding shortfall accumulated to date and the annual operating funding shortfall. Population growth adds to the cost pressure. There have been modest enhancements to services (e.g. Transit Ridership Growth Strategy) and a need to fund capital repair of ageing infrastructure. All of these pressures combined creates an annual funding shortfall that averages \$75 million to \$100 million per year.

Unlike the Provincial or Federal governments, the City's main revenue source – property tax – does not grow as fast as the economy. Between 2003 and 2009, the Province experienced a Provincial Sales Tax revenue growth of 22 per cent with no changes in its tax rates while the City experienced only a six per cent increase in property tax revenues from assessment growth. The City had to increase its tax levy by 14 per cent which generated additional property tax revenues of 20 per cent over the same period. A main vision for the first Long Term Fiscal Plan in 2005 was the sharing of the sales tax which has yet to be negotiated by the Province or Federal governments.

Monetization of City assets

Monetization means turning the City's assets into money. Ideally, the monetization of assets should be used to relieve debt (which lowers the City's annual costs) and the early monetization of the Toronto Hydro promissory note was a clear example of this. The City has had success with monetizing assets through sales, naming rights and Public Interest Partnerships (PIP).

Examples include the sale of Toronto Hydro Telecom (to fund Social Housing renewal), the creation of Build Toronto, Union Station revitalization, Street Furniture advertising, Ricoh Centre, BMO Field, Lakeshore Lions Arena. The City has also attained naming rights for the Sony Centre, All-Stream Conference Centre, Direct Energy Centre and the Scotia Bank Nuit Blanche event.

Meeting the plan

If this plan is not met, the City will be forced to monetize more assets and make significant service adjustments. These two options are problematic; monetization of City assets will bring in funding that will not sustain the City long-term. Of course, significant service adjustments will affect every Torontonians in some way and affect the livability and opportunity for all in this great city.

The case for sustainable funding

1. Transit Operating funding for the TTC:

Effective transit contributes to Provincial objectives by offsetting demands for Provincial highways, GO Transit driving while promoting economic growth and clean air. The full cost of transit should not be borne on a local tax base alone. Per capita transit use and resulting operating burdens varies significantly between municipalities especially when transit serves riders and businesses from outside local tax base. The large U.S. cities that Toronto competes with recognize this. The 2007 U.S. National Transit Database confirms that 51 per cent of transit funding in the U.S. is funded by Federal and State funds while 49 per cent is funded by local municipalities. Toronto has relied on annual one time transit funding from the Province which ended in 2009.

2. Social Housing Funding

Funding responsibilities for Social Housing were transferred to the City in 1998. Social Housing is one of several income support programs. The Province has re-established the principle through the Social Services upload that income support programs should not be funded from the property tax base. There is a competitive disadvantage to the City funding Social Housing; Ontario has the highest property tax per capita and is the only jurisdiction in Canada to fund Social Housing from property taxes. Therefore, it is within the City's long-term fiscal interest to have the Province take back the funding responsibility for Social Housing.

3. Sharing of the Sales Tax

Toronto's economic health anchors the entire region and the Province benefits through the City's tax revenue. Toronto competes with large U.S. cities that have access to sales and income taxes and risks relative decline without comparable revenue base. The participation in economic/tax growth would motivate greater focus on the City's broad economic development role. This is a financing tool that all cities in Canada should have.

- 30 -

Media contact: Cindy Bromley, Communications Manger, Finance & Administration, cbromley@toronto.ca, 416-392-4993