



TORONTO STAFF REPORT

May 25, 2004

To: Long-term Fiscal Plan Committee

From: Chief Administrative Officer
Chief Financial Officer & Treasurer

Subject: Terms of Reference for Long-term Fiscal Plan Committee

Purpose:

To seek approval for the proposed Terms of Reference for the Long-term Fiscal Plan Committee (LTFPC).

Financial Implications and Impact Statement:

There are no financial implications as a result of the adoption of this report. However, the outcome of this long-term fiscal plan will have significant financial implications, including appropriate funding of City's assets and liabilities, expenditure reduction strategies, revenue enhancements, and incorporating the results of any new long-term stable funding from the Federal and Provincial Governments.

Recommendation:

It is recommended that the Terms of Reference for the Long-term Fiscal Plan Committee, as contained in Appendix A, be approved.

Background:

City Council established the Ad Hoc Committee for a Five-Year Fiscal Plan in February 2003, the purpose of which was to structure a Five-Year Fiscal Plan for the City of Toronto, with such Plan to be submitted to the 2004 Council as a blueprint for future financial planning and discussions with funding partners. After months of work, the Ad Hoc Committee in September 2003 adopted a joint report titled "Status Report on Five-Year Fiscal Plan" from the Chief Administrative Officer and the Chief Financial Officer and Treasurer, outlining the preliminary plan. This document is being submitted to the Committee under separate cover. As well, the Committee received a presentation summarizing the work done to-date.

In January 2004 the new City Council adopted Mayor Miller's report on Subcommittees, Advisory Committees, Roundtables and Other Bodies, with amendments. Contained in that report is a recommendation that "the name of the Ad Hoc Committee on the Development of a Five-Year Fiscal Plan be changed to Long-term Fiscal Plan, and the committee be re-established" reporting to the Policy and Finance Committee.

In March 2004, City Council adopted the Striking Committee's recommendation for the appointment of the following seven Members of Council as members of the Long-Term Fiscal Plan Committee: Councillors B. Ashton, J. Davis, G. De Baeremaeker, D. Holyday, N. Kelly, P. Milczyn, and D. Soknacki.

Comments:

While the name of the Committee has changed from "Five-year" to "Long-term", reflecting the longer-term planning horizon envisioned for the fiscal plan, it is staff's understanding that the Committee's mandate should remain similar to the previous Ad Hoc Committee for a Five-year Fiscal Plan. The Long-term Fiscal Plan Committee is still an ad hoc committee of the Policy and Finance Committee.

A. Terms of Reference:

The proposed Terms of Reference is attached as Appendix A. It is similar to that for the former Ad Hoc Committee for a Five-year Fiscal Plan, with the exception that the plan components have now been refined and regrouped into the three main groups - Expenditure Strategies, Revenue Strategies, and Asset and Liability Funding Strategies, and the long-term nature of the Committee is reinforced.

B. Outcomes of the Plan:

The anticipated outcome of the Long-term Fiscal Plan will be strategies, policies and principles that would help to guide and strengthen the fiscal health of the City. Deliberations of the committee will be consolidated into a comprehensive document containing the City's long term fiscal plan.

C. Roles of Committees:

While both the Long-term Fiscal Plan Committee and the Budget Advisory Committee report to Council through the Policy and Finance Committee, there are intrinsic differences in the roles and responsibilities among the three committees.

The Policy and Finance Committee (P&F) is responsible for, amongst other things,

- recommending and managing financial priorities and fiscal policies including revenues, assessment and tax policies; and
- recommending and overseeing the corporate capital and operating estimates.

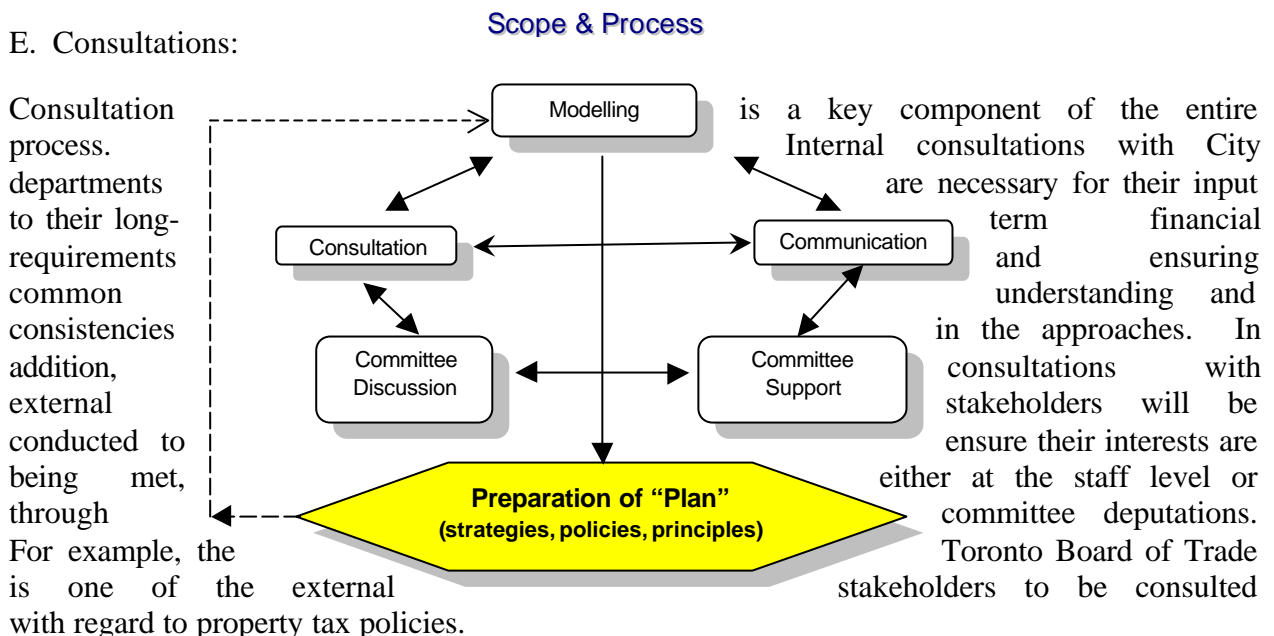
The Budget Advisory Committee (BAC) assists the Policy and Finance Committee by reviewing program priorities and resource allocations, and preparing recommendations for annual capital and operating budgets and matters having a significant impact on future budgets.

The attached Terms of Reference proposes that the Long-term Fiscal Plan Committee report to Policy and Finance Committee and have the responsibility for developing fiscal policies to guide multi-year financial planning within the context of Council's Strategic Plan and other sectoral plans. The Long-term Fiscal Plan should provide input to the setting of Council priorities and it should inform and provide context to the annual budget process and provide a framework for future year financial planning.

D. Scope & Process:

The project involves various plan components vis-a-vis modelling, consultation plan (for internal and external stakeholders), communication plan, development of financial strategies, and supporting Committee work, leading to the preparation of “the Plan”. Each component feeds into other components as depicted below. It is an iterative process in that, once in place, the Plan will be reviewed if and when there are changes in any of the linked component(s).

E. Consultations:



F. The Project:

The current project plan will build on the work done last year on the Five-year Fiscal Plan:

- extending the forecast model horizon to 10 years or more if data are available;
- refining the forecast with better estimates and assumptions;
- refining financial estimates for the operating and capital requirements, as well as assets and liabilities of the City's programs and services;
- updating the latest developments with respect to securing new sustainable revenue sources from senior governments;
- identifying available and potential new financial resources;
- identifying the gap between the total financial requirements and the available resources;
- developing strategies to close the gap as identified above and to plan for adequate future funding of assets (physical and financial) and liabilities; and
- establishing fiscal strategies, policies and principles to guide multi-year financial planning.

G. The Balance of Fiscal Sustainability:

As described in an earlier report on the former Ad Hoc Committee, the approach used in describing the plan is to categorize the strategies according to the three elements of the financial statements.

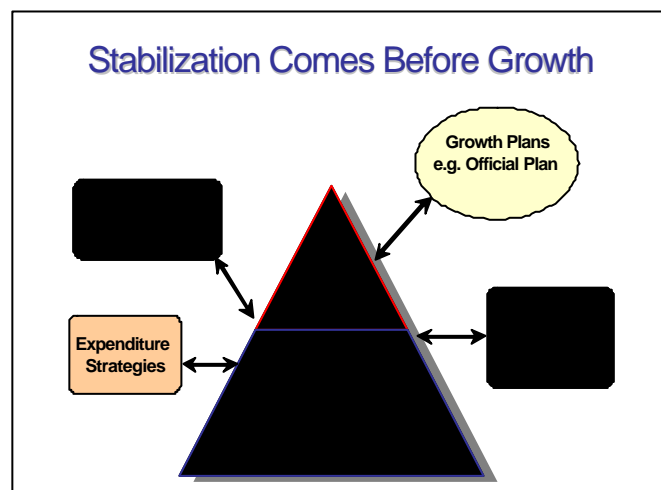
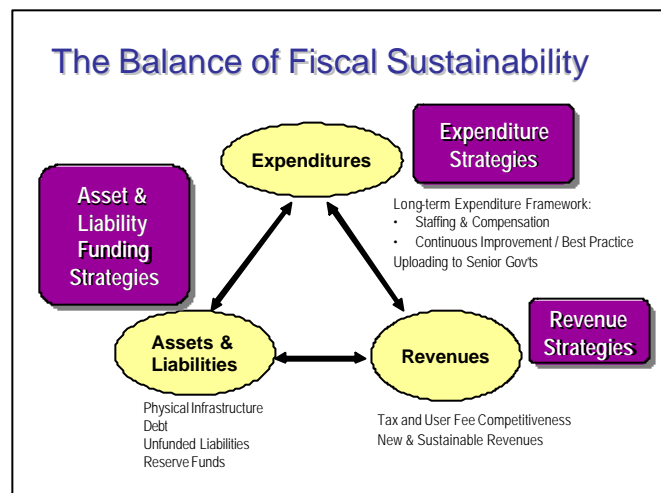
- Expenditure Strategies
- Revenue Strategies
- Asset and Liability Funding Strategies

The success of the plan is a balancing of the three components to achieve long-term fiscal sustainability.

Another concept presented earlier is the balancing of Stabilization Strategies versus Growth Strategies in the overall plan. Given that the current financial condition is not sustainable, priority should be given to stabilize the City's foundation to put the corporation on sound financial footing, before consideration is given to allowing for growth and service expansion.

H. Two Possible Scenarios:

The City's fiscal sustainability is largely dependent on whether the City is able to secure new sustainable funding from the Ontario and the Federal Governments. This has been well documented and articulated by various public or corporate bodies such as the Toronto Board of Trade, the Toronto City Summit Alliance, the United Way, The Association of Municipalities



of Ontario (AMO), the Federation of Canadian Municipalities (FCM), and the Big City Mayors' Caucus (BCMC). Depending on whether the City can secure new sustainable funding and the extent of financial tools and resources that it can get from senior governments, the Long-term Fiscal Plan could likely have two possible scenarios: Retrench, and Growth/Improvement. Each scenario is associated with a different mix of the three types of strategies. The following table explains the extent to which the three key strategies can be accommodated with the two scenarios:

	Scenario	Description	Expenditure Strategy	Revenue Strategy	Asset & Liability Strategy
1	Retrench Scenario	<p><u>No new sustainable revenue sources — continued insufficient revenue</u></p> <ul style="list-style-type: none"> • Expenditure controls/ service elimination/ service level reductions • Continuous under-service • Commercial competitiveness issues not addressed or exacerbated • Continued degradation of physical assets, and/or increasing debt • Underfunded liabilities/ obligations /reserves 	Yes	No	No
2	Growth / Improvement Scenario	<p><u>Adequate sustainable new revenue sources secured:</u></p> <ul style="list-style-type: none"> • Service level enhanced to meet growth and increased service demands • City's competitiveness improved • Infrastructure maintained / expanded • Debt levels managed • Sustainable reserves / liabilities addressed 	Yes	Yes	Yes

H. Proposed Work Plan/ Timetable:

The following chart summarizes the proposed work plan/timetable for both the Long-term Fiscal Plan Committee and staff work required to develop the Long-term Fiscal Plan.

Proposed 2004 Work Plan / Timetable		
	LTFPC	Staff
Apr 2004		Developed work plan
May 2004	Inaugural meeting (May 26, 2004) <ul style="list-style-type: none"> • Review of Terms of Reference • Approval of Work Plan 	Internal Consultations
June 2004		Preparation of first round of position paper(s)
Jul 2004	2 nd meeting (July 14, 2004) Consideration of position paper(s)	Preparation of position paper(s) External consultations
Aug 2004		Preparation of position paper(s) External consultations
Sep 2004	Additional meetings (to be determined) Consideration of position paper(s)	Preparation of position paper(s) External consultations
Oct 2004		Completion of draft report incorporating results of Committee deliberations
	Review of draft report	
Nov 2004	Submission of final report to Policy and Finance Committee and Council	Submission of final report to Committee

The development of a Long-term Fiscal Plan is intended to be an on-going exercise. It will be reviewed, updated and refined periodically.

Conclusions:

The Long-term Fiscal Plan is essential for the City to achieve its fiscal sustainability. The Long-term Fiscal Plan Committee will continue the work of the former Ad Hoc Committee for a Five-year Fiscal Plan. This report seeks Committee approval for the proposed Terms of Reference for the 2004 fiscal year. The development of the Long-term Fiscal Plan is intended to be an on-going exercise and should be reviewed, updated and refined periodically.

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Attachments:

Appendix A – Draft Terms of Reference

Appendix B – Council’s Strategic Plan: Fiscal Sustainability Principles

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DRAFT Terms of Reference
Long-term Fiscal Plan Committee

Mandate:

The mandate of the Committee comprises two parts:

- A. Revisit the 14 Fiscal Sustainability Principles as contained in Toronto City Council's Strategic Plan dated January 2002 (Appendix B). The Plan shall be consistent with the broad mandate and goals of the City's Strategic Plan and other sectoral plans.
- B. Develop a Long-term Fiscal Plan for the City of Toronto, which is to be used as a blueprint for future financial planning and discussions with funding partners. It includes the following:
 - 1. Expenditure Strategies
 - (a) Longer term expenditure framework;
 - (b) Uploading of selected services to senior governments;
 - 2. Revenue Strategies
 - (a) Property tax competitiveness and related property tax strategies to maximize the property tax base;
 - (b) Sustainable and targeted funding sources from senior levels of government;
 - (c) Other revenue strategies and policies;
 - 3. Asset and Liability Funding Strategies
 - (a) Long-term capital financing strategies
 - (b) Financial asset and liability funding strategies

Anticipated Outcomes:

The Committee shall submit the Long-term Fiscal Plan through the Policy and Finance Committee to Council. The plan will be reviewed and updated periodically.

Committee Membership:

The Committee shall consist of seven (7) members of Council.

Reporting Relationship:

The Committee shall report to Council through the Policy and Finance Committee, as well as provide input through the Policy and Finance Committee to the Budget Advisory Committee on issues within its jurisdiction.

Planned Timeline/ Meeting Schedule:

Committee meetings will be held bi-monthly at a minimum or at the call of the Committee Chair.

Rationale for Establishment of a Committee

Financial planning and fiscal strategies are within the purview of the Policy and Finance Committee. The Long-term Fiscal Plan Committee permits a more detailed review of strategies, policies and principles that would help to guide the City's long-term fiscal sustainability and provide input to the Policy and Finance Committee.

Staff Support:

- (a) The Finance Department, in conjunction with the Office of the Chief Administrative Officer, shall provide staff support to the Committee (and will co-ordinate the efforts of others).
- (b) The Committee shall be supported by the City Clerk's division.
- (c) All staff support to the committee will be provided from within existing resources.

Council's Strategic Plan: Fiscal Sustainability Principles

1. Infrastructure should be evaluated for replacement when it is no longer cost-effective to maintain in a state of good repair.
2. Investment in new infrastructure should be based on analysis of shifts in demographic growth and existing, unmet needs.
3. Reserves and reserve funds should be used to manage predictable cycles of financing requirements.
4. Reserves and reserve funds should be funded to the levels required for their purpose.
5. Community requirements and public input should assist in determining budget outcomes.
6. Innovative approaches to financing services should be considered.
7. Detailed budgets and annual reviews should be required for multi-year initiatives.
8. User fees should reflect public policy, and be used to manage demand for limited services and recover costs from non-residents.
9. User fees should be flexible, reflecting ability to pay and service delivery costs.
10. Tax increases should be based on service level costs and provide flexibility for taxpayers with limited fixed incomes.
11. Borrowing should occur only for assets that have a long-term useful life.
12. Debt repayment periods should not exceed the useful life of the assets.
13. Capital infrastructure should be funded through the least expensive financing strategy.
14. The cost of servicing new debt should not negatively affect the City's credit rating.

Source: Toronto City Council's Strategic Plan (January 2002)