

# **TORONTO** STAFF REPORT

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July 9, 2004

To: Ad Hoc Committee on the Development of a Long-term Fiscal Plan  
From: Chief Financial Officer & Treasurer  
Subject: Status Report on the Long-term Fiscal Plan

Purpose:

To report on the status of the Long-term Fiscal Plan.

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 any requirements for long-term stable funding from the Federal and Provincial Governments.

Recommendation:

It is recommended that this report be received for information.

Background:

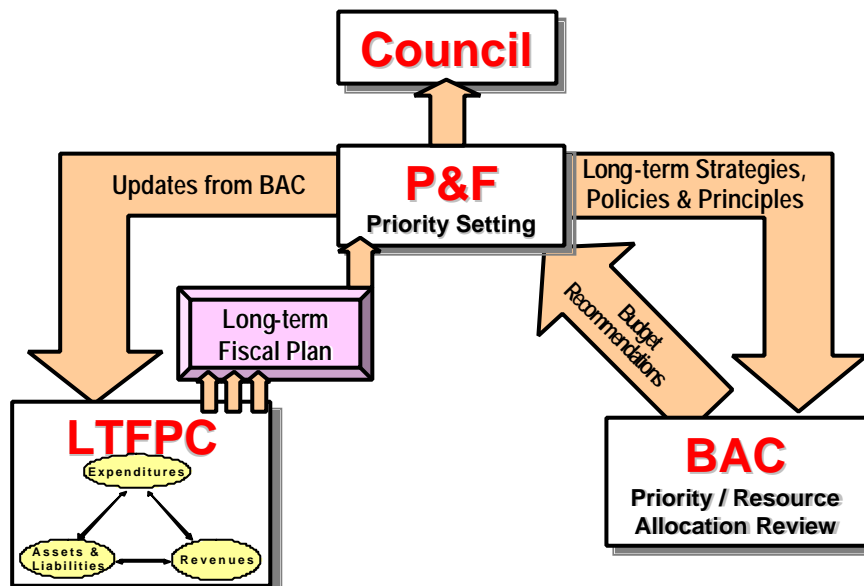
City Council established the Ad Hoc Committee to Develop a Long-term Fiscal Plan in early 2004, to continue the work of the Ad Hoc Committee for a Five-year Fiscal Plan established in 2003 which ended with the previous term of Council. The purpose of the Ad Hoc Committee is to structure a Long-term Fiscal Plan for the City of Toronto, with such Plan to be submitted to Council as a blueprint for future budgeting and discussions with funding partners.

The Ad Hoc Committee to Develop a Long-term Fiscal Plan held its first meeting on May 26, 2004. It received a presentation as well as a staff report dated May 25, 2004 from the Chief Administrative Officer (CAO) and the Chief Financial Officer and Treasurer (CFO), and had a discussion on the Committee's proposed Terms of Reference. The Committee subsequently adopted the recommendation to approve the Terms of Reference with an amendment stating that Appendix A, Section B, No. 1(b) should read: "(b) Uploading of costs and/or selected services to senior governments;". The staff report was then submitted to the following June Policy and

Finance Committee and City Council, which adopted Terms of Reference. The Terms of Reference as amended and adopted by Council at its meeting on June 22, 2004 is attached herein as Appendix A.

As described in the May 25, 2004 report from the CAO and the CFO, the Ad Hoc Committee reports to Council through the Policy and Finance Committee, and is responsible for developing fiscal policies to guide multi-year financial planning within the context of Council's Strategic Plan and other sectoral plans. It provides input to the setting of Council priorities, informs and provides context to the annual budget process, and provides a framework for future-year financial planning. The relationship between Policy and Finance Committee (P&F), the Budget Advisory Committee (BAC) and the Long-term Fiscal Plan Committee (LTFPC) is represented in the following schematic diagram.

**Relationships amongst the Roles of the Policy and Finance Committee, Budget Advisory Committee and the Long-Term Fiscal Plan Committee**



At its May 26, 2004 meeting, the Ad Hoc Committee requested reporting on the following:

- (1) the CFO to submit a status report to its July 14, 2004 meeting on the long-term fiscal plan; and
- (2) the CFO to submit reports on the following:
  - (i) allocation of resources (funds and staffing) and any changes thereto amongst departments, agencies, boards and commissions since amalgamation;

- (ii) potential new performance measures including output, effectiveness and efficiency measures with respect to the Municipal Performance Measurement Program (MPMP);
- (iii) options for the creation of Quality of Life Index (Indices) for the City of Toronto;
- (iv) potential procedures to ensure that Council adheres to the Fiscal Sustainability Principles once they are adopted;
- (v) review of the 14 Fiscal Sustainability Principles as included in Toronto City Council's Strategic Plan dated January 2002; and
- (vi) review of other municipalities' practices regarding debt loads, credit ratings, etc.

Comments:

Work on the Long-term Fiscal Plan has been on-going on various fronts and according to the timetable as proposed in the May 25, 2004 report from the CAO and CFO.

**Work Plan – Issue Components:**

As described in an earlier report on the Terms of Reference of the 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.

Appendix B (Work Plan – Issue Components) contains a full description of a matrix summarizing the three main elements of the plan: Expenditure Strategies, Revenue Strategies, and Asset and Liability Funding Strategies; their sub-components; the corresponding outcome/product, and the expected priority/timelines.

Since the May 26, 2004 Ad Hoc Committee meeting, Finance staff have been working with staff from the CAO's Office and staff from Community and Neighbourhood Services Department on the requested information as well as developing a series of position papers.

Under separate covers the following reports are being submitted to the July 14, 2004 meeting of the Ad Hoc Committee:

- (a) Transmittal report on Property Tax Consultative Framework – 2005 and Beyond (from the CFO);
- (b) Status Report on Performance Measurement in the City of Toronto (from the CAO);
- (c) Summary of Changes in Approved Staff Positions and Gross Expenditures from 1997 to 2004 (from the CAO and the CFO);
- (d) Quality of Life Reporting (from the Commissioner of Community and Neighbourhood Services);
- (e) Policy on Management of Operating Budget Surplus (from the CFO);

- (f) Capital Financing Strategy, 2004 (from the CFO); and
- (g) Overview of Debt Loads and Credit Ratings of Major Canadian Municipalities (2003) (from the CFO).

The two items that the Ad Hoc Committee requested at its May 26, 2004 meeting that are work-in-progress are:

- the review of the 14 Fiscal Sustainability Principles as included in Toronto City Council's Strategic Plan dated January 2002; and
- potential procedures to ensure that Council adheres to the Fiscal Sustainability Principles once they are adopted.

Principles and policies are being developed as each issue component in the work plan is reviewed. For example, in developing property tax policies guiding principles are established. At its meetings on June 22 – 24, 2004 Council adopted the recommendations as contained in the June 8, 2004 report from the CFO titled "Property Tax Policies for 2005 and Beyond – Consultative Framework", endorsing all four guiding principles.

Once all issue components contained in the work plan have undergone reviews, staff will then be able to summarize and categorise all these finance principles, and have them incorporated into Council's Strategic Plan.

With respect to Council's procedures and potential changes to ensure Council adheres to the Fiscal Sustainability Principles once they are adopted, staff will report back to future Committee meetings after they have established a full set of principles through a complete review of all issue components.

### **Long-term Financial Forecast:**

Staff are in the process of updating the five-year forecast that was presented to the former Ad Hoc Committee on a Five-year Fiscal Plan in 2003. This involves extending the forecast model horizon to ten years, and refining the forecast with updated estimates and assumptions. The model will incorporate all issue components, and provide the best estimates for both the operating and capital requirements over the long term, including existing and new revenue sources. Two possible scenarios will be studied: "Retrench" and "Growth", as discussed in the May 25, 2004 report to the Ad Hoc Committee. Corporate financial strategies and options will be developed to close the "gap" between expenditure requirements and available resources under these two scenarios. It is expected that an update will be presented to the Ad Hoc Committee at its meeting in October 2004.

Conclusions :

The Long-term Fiscal Plan is essential for the City to achieve its fiscal sustainability. So far the work on its preparation has been on-going and on schedule. A number of position papers were developed and are currently tabled for the Ad Hoc Committee's review. Staff will continue to update the forecast model, prepare and submit other position papers for the Ad Hoc Committee in future meetings according to the issue components in the work plan. It is intended that a final report on the Long-term Fiscal Plan will be submitted to the Policy and Finance Committee and Council in December 2004.

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List of Attachments:

Appendix A – Terms of Reference for the Ad Hoc Committee to Develop a Long-term Fiscal Plan as amended and adopted by City Council at its meeting on June 22, 2004  
Appendix B – Work Plan – Issue Components

## **Terms of Reference**

### **for the Ad Hoc Committee for the Development of a Long-term Fiscal Plan**

As amended and adopted by City Council at its meeting on June 22, 2004

#### **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. 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 *costs and/or* 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.

**Long Term Fiscal Plan (LTFP)  
Work Plan — Issue Components**

Component	Sub-Component	Description	Outcome / Product (e.g. strategy, policy, principle)	Timing/Priority 1 = immediate 2 = Oct 2004 3 = Dec 2004 4 = Long-term
<b>A. Expenditure Strategies</b>				
1	Capital Affordability	<ul style="list-style-type: none"> <li>Infrastructure needs</li> <li>Service levels &amp; capital affordability targets</li> <li>Review of funding options</li> </ul>	Capital Financing Strategy	2 – Oct
2	Operating expenses: (a) Compensation (b) Non-compensation	<ul style="list-style-type: none"> <li>Forecasting for cost increases for compensation and non-compensation items</li> <li>Funding options</li> </ul>	<ul style="list-style-type: none"> <li>Long Term Forecast</li> <li>Funding strategies for expenditure increases</li> </ul>	2 – Oct
<b>B. Revenue Strategies</b>				
1	Property Tax Policy (a) Business tax competitiveness (b) CVA phase in including small business protection	Property tax policy to improve the City's competitiveness, alleviate tax burden on vulnerable groups and maximize tax revenues	<ul style="list-style-type: none"> <li>Consultative Framework (done)</li> <li>Policy recommendations (pending)</li> </ul>	2 – Oct
2	Requirements for new Federal & Provincial funding	Refinement of City's needs	Funding options	2 – Oct
3	Uploading of costs and/or selected services to other orders of governments	Refinement of City's needs	Funding options	2 – Oct
4	User Fees, Fines & Licence Fees framework & calculation methodologies	Policy for User Fees, Fines and Licence Fees to maximize fee revenues while ensuring that the City remains competitive and vulnerable groups are protected	Policy Recommendations	2 – Oct
5	Water Rates (a) Long term strategy (b) Rate structure	<ul style="list-style-type: none"> <li>Policy for Water and Wastewater Rates</li> <li>Forecasting for future requirements</li> <li>Funding options</li> </ul>	<ul style="list-style-type: none"> <li>Long-term Water Rate Strategy (done)</li> <li>Water Rate Structure</li> </ul>	2 – Oct
6	Property Assessment: (a) Assessment Growth Enhancement (b) Assessment Exemptions	<ul style="list-style-type: none"> <li>Options to promote assessment growth &amp; enhancement</li> <li>Review of assessment exemptions to ensure tax revenues are maximized within equitable principles</li> </ul>	Growth Strategy position paper	2 – Oct  4 – Long-term
7	Payment-In-Lieu (PIL) on Federal - Provincial properties	Review of PILs on Federal & Provincial properties to ensure revenues are maximized within equitable principles	PIL strategy	3 – Dec
8	Investments	Investment policy to ensure City's investment earnings are maximized	Investment policy	3 – Dec

Component	Sub-Component	Description	Outcome / Product (e.g. strategy, policy, principle)	Timing/Priority 1 = immediate 2 = Oct 2004 3 = Dec 2004 4 = Long-term
9	New Revenues: (a) Donation (b) Gaming (c) Others	New revenue sources (within City's mandate) to improve City's revenue flexibility & maximize City's revenues, while complying with legislative requirements, Canadian Institute of Chartered Accountants' accounting & reporting standards, as well as best practices according to Government Finance Officers Association.	<ul style="list-style-type: none"> <li>• Donation Strategy</li> <li>• Revenue-sharing strategy with Province re gaming</li> <li>• Revenue Allocation Strategy</li> </ul>	2 – Oct 2 – Oct  2 – Oct
10	Development Charges	<ul style="list-style-type: none"> <li>• Forecasting for growth in developments</li> <li>• Capital affordability</li> <li>• Funding options</li> </ul>	Development Charges Policy (done)	1 – immediate (completed)
<b>C. Asset and Liability Funding Strategies</b>				
1	Infrastructure, e.g. (a) Vehicle (b) Equipment (c) IT (d) Facilities (e) TTC (f) Roads (g) Housing (h) Homes for the Ages (i) Water & wastewater	<ul style="list-style-type: none"> <li>• Funding options for physical assets to ensure adequate resources are provided for the rehabilitation &amp; replacement of existing asset, and purchase of new asset to meet service and growth demands</li> <li>• Example: annual contributions to reserve/reserve funds based on funding formulae</li> </ul>	Infrastructure Funding Strategies	3 – Dec
2	Employee Benefits	<ul style="list-style-type: none"> <li>• Proper estimate of liabilities relating to employee benefits, e.g. future pension payouts, sick leave benefits, WSIB obligations, &amp; other employment &amp; post-employment benefits</li> <li>• Funding options including reserve strategy</li> </ul>	Employee Benefit Funding Strategy	3 – Dec
3	Stabilization Reserves, e.g. (a) Social Assistance (b) Social Housing (c) Child Care (d) Insurance (e) Working Capital (f) Winter Control (g) WWW (h) ABC	Funding strategies for various stabilization reserves/reserve funds: <ul style="list-style-type: none"> <li>• to adequately provide for unbudgeted cost increases/revenue losses</li> <li>• to smooth out year-to-year net cost fluctuations</li> <li>• to ensure risk management principles are followed</li> </ul>	Various Reserve Funding Strategies	3 – Dec (Work plan and selected strategies)
4	Capital Financing (a) Debt (b) Lease (c) Alternative Financing (d) Hydro revenues	Financing options for capital expenditures to ensure financing costs are: <ul style="list-style-type: none"> <li>• minimized while capital assets are protected &amp; properly funded</li> <li>• capital affordability is maintained</li> <li>• City's revenues are maximized /optimized</li> </ul>	<ul style="list-style-type: none"> <li>• Capital Financing Strategy (to be revisited)</li> <li>• Lease Financing Policy (completed)</li> <li>• Surplus Allocation Strategy (to be revisited)</li> </ul>	1 – immediate   4 – Long-term
5	Other assets, e.g. <ul style="list-style-type: none"> <li>• Surplus land <ul style="list-style-type: none"> <li>○ Allocation of Proceeds</li> <li>○ Disposal</li> </ul> </li> </ul>	Overall review of all other assets to ensure assets are protected and properly funded, and to ensure City's revenues are maximized & properly distributed upon asset disposal	<ul style="list-style-type: none"> <li>• Policy on Allocation of Proceeds (done)</li> <li>• Strategy on Disposal of Surplus Land (done)</li> </ul>	1 – immediate