

City of Toronto Long-Term Financial Plan

Date: March 5, 2018

To: Executive Committee

From: City Manager, Acting Chief Financial Officer, Deputy City Manager Cluster A, Deputy City Manager Cluster B, Deputy City Manager Internal Corporate Services

Wards: All

SUMMARY

This report tables the City of Toronto's Long-Term Financial Plan for Council consideration. The Long-Term Financial Plan provides a framework for longer-term financial decision-making, including strategies and key actions to facilitate multi-year, integrated, strategic decision-making.

RECOMMENDATIONS

The City Manager, Acting Chief Financial Officer, Deputy City Manager Cluster A, Deputy City Manager Cluster B, and Deputy City Manager Internal Corporate Services recommend that:

1. Executive Committee request the City Manager to report back on individual strategies and key actions contained within the Long-Term Financial Plan through Executive Committee, as appropriate, following the start of the 2018 to 2022 term of Council.

FINANCIAL IMPACT

The key actions and strategies contained in the Long-Term Financial Plan are intended to improve the long-term financial stability of the City. Implementation of the actions and directions will shift how the City approaches financial decision-making through its annual budget, service and financial planning, key expenditure, revenue and asset strategies, and intergovernmental fiscal frameworks.

The recommendations in this report have no financial impact on the 2018 Capital and Operating budgets but will impact future year Capital and Operating budgets and plans.

The City Manager will report to the Executive Committee as required regarding potential future financial impacts resulting from the implementation of the strategies and actions contained in the Long-Term Financial Plan.

DECISION HISTORY

At its meeting on June 7, 8, and 9, 2016, City Council adopted the item, "The City of Toronto's Long-Term Financial Direction" and requested a report back to Executive Committee in the fall of 2016 on multi-year financial and budget process, strengthening the City's strategic decision-making and financial oversight, a multi-year expenditure management plan, a multi-year revenue strategy, and an asset optimization study.
<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2016.EX15.1>

At its meeting on July 12, 13, 14, and 15, 2016, City Council adopted the item "The City of Toronto Long-Term Financial Direction – Consultation Plan," and requested consultation with the public on the City's long-term financial direction.
<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2016.EX16.2>

At its meeting on December 13, 14, and 15, 2016, City Council adopted the item EX20.1 "City of Toronto Long-Term Financial Direction Update", which provided an update on the renewal of the Long-Term Financial Plan, analyzed the key financial challenges facing the City, and presented key initiatives being advanced in support of the Long-Term Financial Plan.
<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2016.EX20.1>

At its meeting on December 13, 14, and 15, 2016, City Council adopted the item EX20.2, "The City of Toronto's Immediate and Longer-Term Revenue Strategy Direction," which provided a framework for the application of existing and new revenues including principles for the selection of potential revenues, social and economic impacts, and implementation considerations. The report provided detailed analysis on a range of revenue options to address immediate and long-term needs, and recommended a number of revenue options.
<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2016.EX20.2>

COMMENTS

Context: Success, challenges and strategies

The city of Toronto is experiencing extraordinary success. Toronto sits at or near the top of international rankings for quality of life, safety and tax competitiveness. These rankings are validated by the rate of incoming investment, sustained population growth, and that the city is an economic anchor for Ontario and Canada. Toronto fully lives its motto of "diversity our strength." Toronto is a magnet for immigration. Our experience and success in living together is a global asset.

At the same time, as with all global cities, Toronto's success is paired with significant challenges.

Our road, transit and active transportation options are not sufficient to move goods and people efficiently. This has been exacerbated by an extended period of underinvestment. The City, along with provincial and federal partners, have insufficiently invested in the state-of-good-repair for existing infrastructure and critically needed new capacity. The resulting network gaps and congestion impose economic loss and cause frustration with overcrowded roads and transit every day. These impacts are region-wide, but most acute and costly in Toronto.

The same forces that support economic success contribute to economic and social displacement affecting residents. The widening gap between well-off and poorer neighbourhoods are well documented. Steep increases in costs of home ownership and rental, along with stagnant incomes for many families, inadequate adjustments to provincial housing benefits and gentrification of housing stock have contributed to an increased need for affordable housing. Striking increases in the need for homeless shelters appear to be driven by inadequate physical and mental health services, challenges in settlement of refugees and other newcomers and a lack of supportive housing options. Acute gaps have been revealed by a dramatic increase in opioid overdoses. Public investments are required to address these growing, urgent pressures.

Toronto City Council has long worked to address these very significant needs through positive and proactive strategies, especially over the past several years. These strategies are approved by significant majorities at Council, receive considerable public attention and have the potential to address historic gaps.

State-of-good-repair investments are underway for transit and road assets. An integrated transit network plan is also in place. Council has adopted a staged approach to new transit investment and will soon be considering full funding for SmartTrack. Provincial funding is facilitating planning work on a relief line and Line 1 subway extension. Planning and design is underway on a waterfront transit network.

City Council has also addressed new and ambitious social policy objectives. Key examples include the stabilization of Toronto Community Housing Corporation (TCHC) capital investments, working towards transit equity by lowering transit costs for social assistance and disability support recipients, improving social housing by providing increased and appropriate levels of operating and capital funding and increasing the number of temporary and permanent homeless shelter spaces. Council has approved plans for services improvements and modernization for nearly every City division and agency including, for example, investments in parks, recreation, and greenhouse gas mitigation.

Challenges to delivering on Council's directions

While City Council has clearly established policy directions and expectations for implementation, there are real barriers to their realization which are primarily financial. Council has provided consistent fiscal direction towards a smaller cost of government. Annual savings targets are used to drive efficiencies. Residential property tax, the core

revenue for the City, is indexed at or below inflation. These strategies have held the overall spending of Toronto's government constant relative to economic and population growth.

There are four main financial challenges to delivering on Council's directions.

1. Moderate but growing risks, notably revenue volatility

Current City services and investments are supported by approximately \$9 billion in revenue raised directly through property taxes and fees. Municipal Land Transfer Tax provides approximately nine percent of the City's own-source revenue and has increased dramatically over the recent past. This has been an enormous benefit and allowed the City to both maintain services and keep property tax increases below the rate of inflation. Municipal Land Transfer Tax is a relatively recent addition to the City's revenue mix, and Toronto is the only municipality in Ontario that levies such a tax. Current financial plans assume that Municipal Land Transfer Tax will generate at least as much revenue as prior years. Ontario has collected land transfer tax for a much longer period and has experienced periods of significant revenue decline, generally leading to greater deficits. If Municipal Land Transfer Tax follows similar cyclical ups and downs it would force decreases in service levels or increases in other taxes and fees. The City's tax stabilization reserve, held to offset potential volatility in tax revenue, is well below that of other municipalities that do not have land transfer tax revenue risk. This year it was reduced by approximately 50 percent to help offset permanent spending pressures.

Even sustained revenue performance from current sources would be insufficient to maintain current service levels. The City has relied on unexpected increases to Municipal Land Transfer Tax revenue to help fund the operating budget each year – \$75 million, \$101 million, \$182 million and \$102 million in 2015, 2016, 2017 and 2018, respectively. The City implicitly relies on either sustained Municipal Land Transfer Tax increases or increases in other taxes, fees or transfers.

The City also faces other growing risks. Provincial uploads have provided the City with approximately \$40 million in annual budget relief over the past 10 years. Uploading will be complete in 2018. Also, costs have been deferred to future years. The City may require \$900 million in investments over the next five years just to maintain existing levels of service. Furthermore, the City has been a beneficiary of historically low short- and long-term interest rates, which have allowed increased debt financed expenditures within City debt service guidelines. Regardless, debt costs are increasing.

2. Modernization and transformation

Future savings and efficiencies will require increased investments in modernization and transformation. Business as usual will not allow the City to continue delivering exceptional services while managing costs. To improve services to residents and businesses and keep government affordable, the City should continue to modernize and transform how it does business and focus on maximizing value for money. This includes breaking down silos and improving co-operation, collaboration and governance across all divisions and agencies. This requires up-front investment, rigorous focus on

managing labour and contract costs, and a sustained focus on technology. That said, the City's past experience suggests that savings efforts – as necessary and critical as they are – cannot be realized on the magnitude needed to offset expense risks.

3. Gap between service and revenue commitments

There is a growing gap between Council's vision for Toronto and available funding. Council and its committees approve spending on future investments without matching revenues. Each Council meeting sees the approval of new strategies, plans and initiatives that require further investment to be implemented.

The City also has a set of unfunded capital projects totaling approximately \$30 billion over the next ten years. This is a significant amount, but it is not insurmountable. Like all major capital projects, some of these costs may be shared with other orders of government, thus reducing the City's share.

These unfunded strategies, plans and projects are important investments in Toronto's future and require a funding plan.

4. Intergovernmental transfers

City Council has traditionally relied on the prospect of increased financial transfers from the provincial and federal governments. The need for increased government transfers is well-founded. The City of Toronto provides key transit and social services which – while borne directly on the City's revenue base – provide enormous regional and national economic and social benefit. Toronto provides 90 percent of the public housing in the Greater Toronto Area and 37 percent of the total social housing in the province, well beyond its share of population or tax base. Likewise the Toronto Transit Commission (TTC) carries about 60 percent of all transit ridership of the province. Importantly, City services are critical to easing the experience of poverty. In Toronto, 20.7 percent of children are living below the low income cut-off (after tax), compared to 9.4 percent in the rest of Ontario.

The Governments of Ontario and Canada are reengaging in investments and partnership with the City. SmartTrack, Regional Express Rail, the Scarborough Subway Extension, Eglinton Crosstown and planning for a relief line are examples of important progress. Federal investments in housing will make significant contributions over time. Waterfront Toronto tripartite investments will unlock tremendous private sector innovation and value.

The City will be challenged to incorporate this opportune but episodic funding into sustainable financial plans that help realize the policy directions established by Council.

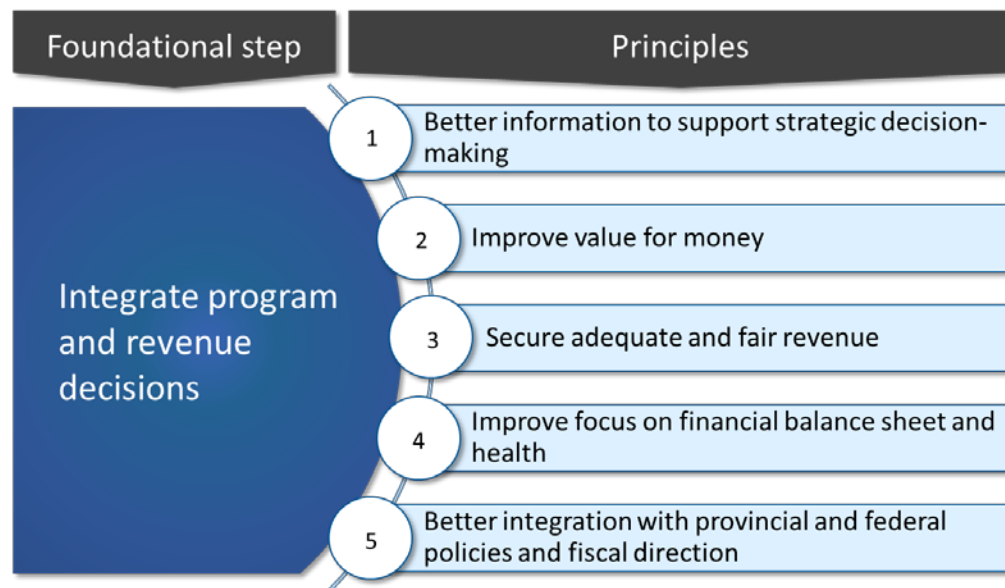
Timing and implementing change

All of these challenges are real and require attention. The upcoming term of Council, beginning in the fall of 2018 after the municipal election, will provide an opportunity for a reassessment of policies and better integration of program ambitions with fiscal capacity. This will require active choices by Council. This is entirely consistent with the

needs of a growing city and realities of managing a \$17 billion annual budget on a sustainable basis.

Attachment 1 to this report -- the Long-Term Financial Plan: The City of Toronto's Roadmap to Financial Sustainability -- provides a long-term financial decision framework including a series of key actions available to Council and, under Council direction, City staff. These are broken into a foundational step of integrating program and revenue decisions, and five principles intended to support implementation of Council's direction, as detailed in Figure 1.

Figure 1 – Long-term financial decision-making framework



This report does not provide a detailed implementation plan so as to respect the role of City Council and the existing political decision-making processes in determining the way forward for Toronto. It offers a series of practical steps which, if assessed and implemented, will help City Council realize the positive vision it has established.

These are challenging but not insurmountable goals. Toronto has moved with creativity and foresight to financially secure its water and solid waste programs, ensuring effective delivery, excellent policy and long-term sustainability. Prior commitments to increases in service levels, such as the Scarborough Subway plans, have been matched by direct increases in revenue. Consistent policies can set the path for consistent outcomes.

Some of the actions in this document are a continuation of work underway by staff. Other actions will require direction and guidance from City Council. Some work may require investment including dedicated staff resources, technology, external expertise and financial resources.

Achieving the goals and implementing the strategies of the Long-Term Financial Plan will require the Toronto Public Service and all agency and corporation staff to continue working together. It may also require changes to some of the City's key processes and procedures, such as financial decision-making, management and control.

Public consultations

Consultations were held with the public on the Long-Term Financial Plan. A number of common themes emerged. Participants from the consultation would like the City to apply clear principles-based criteria to spending decisions, such as protecting vulnerable residents. Likewise, participants felt that expenses can be better managed by establishing and following through on clear, long-term strategic goals and priorities. Overwhelmingly, participants would like to use more data and fact-based assessments to guide decision-making. Consultation and engagement is highly valued by the public, and participants felt that overall engagement could be improved.

The input received from the consultation has informed the Long-Term Financial Plan. A summary of the consultation can be found in Appendix 3 of the Long-Term Financial Plan (Attachment 1 to this report), and a detailed report can be found at www.toronto.ca/lftp.

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ATTACHMENTS

Attachment 1: Long-Term Financial Plan: The City of Toronto's Roadmap to Financial Sustainability