



# **Long-Term Financial Plan:**

The City of Toronto's Roadmap to Financial  
Sustainability

Spring 2018

# TABLE OF CONTENTS

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|  |           |
|--|-----------|
| <b>EXECUTIVE SUMMARY</b>   | <b>3</b>  |
| <b>INTRODUCTION</b>  | <b>7</b>  |
| Context: Success, challenges and strategies                                    | 7         |
| Challenges to delivering on Council's directions                               | 8         |
| Timing and implementing change   | 10        |
| Public consultations   | 11        |
| <b>FOUNDATIONAL STEP: INTEGRATE PROGRAM AND REVENUE DECISIONS</b>              | <b>12</b> |
| Strategic direction  | 12        |
| Illustrating choice: Three potential future paths                              | 13        |
| <b>PRINCIPLES OF THE LONG-TERM FINANCIAL PLAN</b>                              | <b>16</b> |
| Principle 1: Better information to support strategic decision-making           | 16        |
| <i>Strategic approach and perspectives</i>                                     | 16        |
| <i>Policy and financial processes integration</i>                              | 17        |
| <i>Operating budget process</i>  | 18        |
| <i>Capital budget process</i>  | 19        |
| <i>Agencies and corporations integration into policy and financial process</i> | 20        |
| <i>Civic engagement</i>  | 21        |
| <i>Equity, gender and economic impacts</i>                                     | 22        |
| Principle 2: Improve value for money   | 23        |
| <i>Human resources and staffing</i>  | 23        |
| <i>Goods and services procurement</i>  | 24        |
| <i>Agencies and corporations costs</i>   | 25        |
| <i>Invest in modernizing government</i>  | 25        |
| <i>Address capital financing and funding costs</i>                             | 28        |
| Principle 3: Secure adequate and fair revenue                                  | 29        |
| <i>Residential property tax</i>  | 29        |
| <i>Municipal Land Transfer Tax</i>   | 30        |
| <i>User fees</i>   | 31        |
| <i>Land development levies</i>   | 32        |
| <i>Tax and fee discounts, waivers, rebates, deferrals and exemptions</i>       | 33        |
| <i>Opportunities to broaden the tax base</i>                                   | 34        |
| <i>Evaluation criteria for revenue options</i>                                 | 34        |

|   |           |
|---|-----------|
| Principle 4: Improve focus on financial balance sheet and health                          | 35        |
| <i>Debt</i>   | 35        |
| <i>Reserves and reserve funds</i>   | 36        |
| <i>Financial health metrics</i>   | 37        |
| <i>Toronto Hydro and Toronto Parking Authority revenue performance</i>                    | 37        |
| <i>Investment returns</i>   | 38        |
| Principle 5: Better integration with provincial and federal policies and fiscal direction | 39        |
| <i>Focus on shared public policy objectives</i>   | 39        |
| <i>Strategic approach to intergovernmental relations and partnership</i>                  | 41        |
| <b>APPENDIX 1: FINANCIAL CONDITION</b>  | <b>43</b> |
| Municipal fiscal health indicators  | 43        |
| Operating budget trend  | 45        |
| Capital budget trend  | 45        |
| Property taxation   | 46        |
| City physical infrastructure  | 48        |
| Debt and debt service trend   | 48        |
| Reserves and reserve funds  | 50        |
| City's credit rating  | 51        |
| Summary   | 52        |
| <b>APPENDIX 2: FINANCIAL HISTORY AND FORECAST</b>   | <b>53</b> |
| Operating expense history   | 53        |
| Operating revenue history   | 53        |
| Operating forecast  | 55        |
| Assumptions and sensitivities   | 56        |
| Current expenditures and revenues   | 61        |
| <b>APPENDIX 3: CONSULTATION</b>   | <b>63</b> |
| Public consultation   | 63        |
| Stakeholder input   | 67        |

# EXECUTIVE SUMMARY

## Context and key challenges

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Toronto is an exceptional city and the economic and social anchor for Ontario and Canada. Our place at the top of international rankings is due in part to public policies and investments championed by residents and stakeholders and led by Toronto City Council.

Toronto is successful and this success has driven a range of challenges, such as housing affordability, transit, congestion and poverty. City Council has recognized these challenges and set in place a range of positive and proactive strategies aimed at improving outcomes and providing real value to residents and businesses.

City Council has given clear direction to implement these strategies. Council has also given clear direction to maintain affordability by keeping costs in check and moderating tax increases.

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

1. Moderate but growing risk, notably revenue volatility: A number of risks – such as relying on cyclical revenue from the Municipal Land Transfer Tax and deferring known costs – threaten the City's ability to maintain existing services, and impede consideration of any new services.
2. Modernization and transformation: The City will continue to find savings and efficiencies each year through the budget process. However, substantial further savings and efficiencies will require accelerating business modernization and transformation initiatives.
3. Gap between service commitments and revenue: There is a growing gap between the levels of spending required to meet Council's directions and available funding.
4. Intergovernmental transfers: The City pays a disproportionate share of the costs to deliver services that provide broad benefits to the region and the province as a whole, including housing, transit, and anti-poverty initiatives.

City Council would benefit from a framework to address these challenges, deliver on Council's directions, and provide improved mechanisms for longer-term financial decision-making. This document provides this framework. It is not 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.

## The time for change

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A new Council term, beginning in the fall of 2018 after the municipal election, offers the opportunity to implement a series of changes to address Toronto's fiscal challenges and support Council in making more strategic, integrated decisions on a multi-year timeframe.

## Foundational Step: Integrate program and revenue decisions

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A foundational step is to establish a much stronger and persistent linkage between policy directions and fiscal resources in the form of a strategic direction adopted by City Council and used to guide Council's decision-making over the term. This recommendation follows that of the University of Toronto's School of Public Policy and Governance City Hall Task Force,<sup>1</sup> which calls on the Mayor to lay out her or his strategic priorities and public commitments for the coming year and remaining term of Council.

A clear strategic direction would clarify Council's agenda and priorities. It would provide a clearer direction for the City's expenditure, revenue and service delivery strategies, including how to best allocate resources towards achieving Council's goals.

A sustainable future for the City requires compatible revenue and service paths. This report does not suggest specific levels of service, expense and revenue. These are inherently the choices of elected representatives, and this report respects this clear policy role for City Council. This report provides illustrative examples showing alternative revenue and expense paths and demonstrating what service levels are achievable with different revenue approaches.

This report also outlines five principles to support Council's priorities. Within each principle there are a number of key actions. How Council uses each principle and key action will be dependent on its desired strategic direction.

## Principles of the Long-Term Financial Plan

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### 1. Better information to support strategic decision-making

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The City's budgets provide an enormous degree of detail to support transparency and accountability. However, the information focuses on a single year, incremental change and net budgets which can disguise the full cost of City services and investments, particularly over time. Actions which will support increased insights into multi-year implications of capital and operating expenses, as well as support more informed and strategic decision-making, include:

- Making better use of existing Council decision-making processes, structures and tools.
- Aligning policy and financial direction – of particular emphasis is aligning key agencies and corporations with Council direction.
- Implementing operating and capital budget changes to support strategic decision-making.
- Improving risk analysis and reporting.

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<sup>1</sup> Gabriel Eidelman and Brian F. Kelcey (2017). A Practical Blueprint for Change; Final Report from the City Hall Task Force. *School of Public Policy and Governance, University of Toronto.*

- Requiring financial estimates for all Council-approved strategies to better integrate policy and financial planning.
- Strengthening civic engagement.
- Integrating equity, gender and economic impacts into decision-making.

## 2. Improve value for money

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City Council has placed a very high priority on expense control. Annual targets have been used to limit expense. The rate of growth in expense has in fact been quite low, with overall net expense tracking with inflation. Expenses compared to 2010 are actually down when adjusted for inflation and population growth. However, program structures remain largely unreformed. Human resources and staffing cost pressures are significant, with notably challenging arbitrated settlements. Council has been reluctant to reduce or eliminate services, including those identified as redundant or inefficient by staff and external consultants.

The upcoming new term of Council offers an opportunity to:

- Set more strategic labour relations objectives across all City divisions and agencies.
- Rebuild back office functions and front-line operations.
- Modernize and transform how the City does business.
- Where appropriate, adopt new models of procurement to drive greater value.

## 3. Secure adequate and fair revenue

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The City continues to experience low growth in its revenue base. It does not have sufficient revenues to meet its spending needs, neither under the existing service levels and capital projects nor to pay for Council's unfunded strategies and projects. City Council would be better served by a more systematic approach to revenue policy, focused on efficiency, adequacy and fairness. Potential actions include:

- Adopting a property tax strategy that links property tax increases with multi-year expenditures and continues to address the disproportionate burden on businesses and renters.
- Reducing the cyclical risk of Municipal Land Transfers Tax by allocating an appropriate portion of revenue to capital reserves.
- Developing a user fee pricing strategy based on the full cost of the service and Council approved public policy objectives, with the exception of effective fee subsidies such as the City's Welcome Policy for recreation programs.
- Ensuring appropriate land development levies that pay for the cost of growth.
- Identifying all costs and reporting annually on all tax and fee discounts, waivers, rebates, deferrals and exemptions.

- Broadening the tax base through further consideration of revenue options that meet the City's criteria.

#### 4. Improve focus on financial balance sheet and health

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The focus of the City's budget process is achieving annual operating balance, as required by provincial legislation. Simply meeting the statutory test is often taken as success. This does not provide much indication of broader financial health and emerging trends. The City has a solid financial footing, as evidenced by its AA and Aa1 credit ratings. Council would be better served by a series of actions related to its balance sheet and overall financial health, such as:

- Establishing goals and reporting annually on appropriate financial health measures.
- Reviewing the debt service ratio and increasing the debt limit if appropriate.
- Continuing to review reserve and reserve fund adequacy.
- Explore improving the revenue performance of Toronto Hydro Corporation and Toronto Parking Authority.
- Optimizing investment returns through the newly established Toronto Investment Board.

#### 5. Better integration with provincial and federal policies and fiscal direction

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The City's challenging relationship with both provincial and federal governments offers real opportunity for reform, although this remains dependent on cooperation and support from those governments. Toronto's long-established call for more stable investment remains valid. Other orders of government will expect strong support from the City and may be reluctant to invest if City resources continue to diminish as a share of economic growth. Most importantly, transit, housing, climate change and many other policies offer a much greater need and opportunity for partnership to reduce overlap and duplication as well as to support more positive outcomes. A new and positive framework is required with the potential to serve provincial and national goals as well as achieve Toronto priorities. Actions with the potential to begin improving the intergovernmental fiscal and delivery framework include:

- Continuing to pursue shared policy outcomes with the Governments of Ontario and Canada on social housing, transit, public good pricing and community services.
- Developing a strategic intergovernmental approach based on Council's priorities.
- Augmenting provincial and federal investments in Toronto in a fair and equitable manner.

# INTRODUCTION

## Context: Success, challenges and strategies

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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

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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

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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

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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

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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

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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.

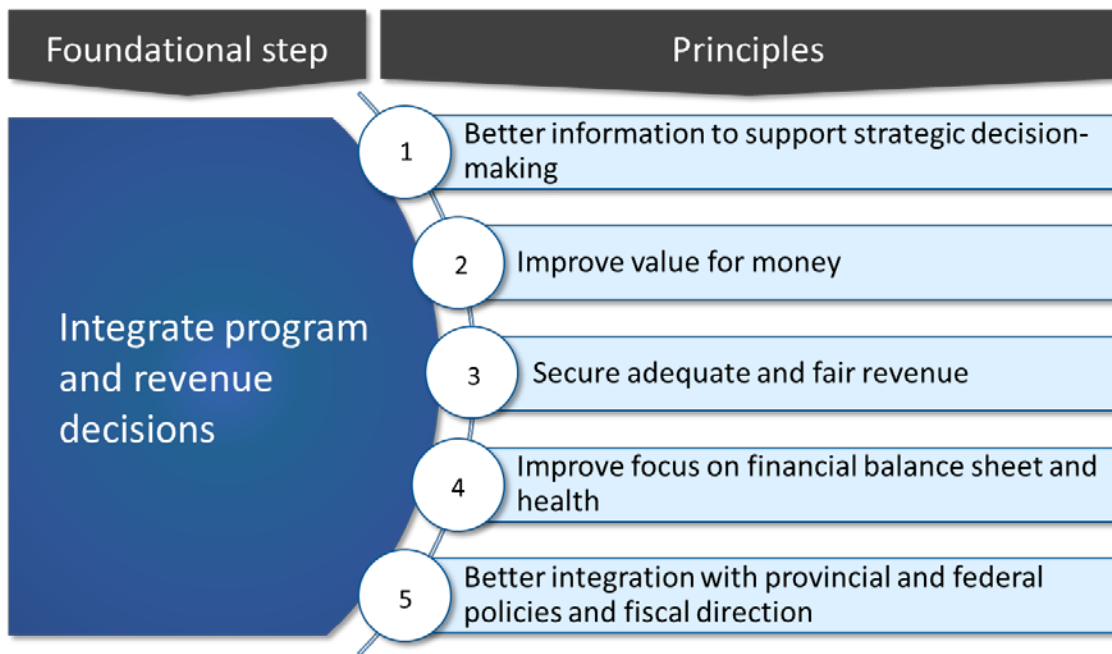
The City will be challenged to incorporate this opportune but episodic funding into sustainable financial plans that help realize the policy directions established by Council.

## 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.

This document 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

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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 this report. A summary of the consultation can be found in Appendix 3, and a detailed report can be found at [www.toronto.ca/lftp](http://www.toronto.ca/lftp).

# FOUNDATIONAL STEP: INTEGRATE PROGRAM AND REVENUE DECISIONS

## Strategic direction

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Council and its decisions matter. City Council has set a range of policy directions – through its strategies and plans – that have significantly improved environmental sustainability, built form and livability, economic competitiveness, mobility of people and goods, newcomer settlement, public health, experience of poverty, and risks to public safety.

Toronto City Council has not traditionally adopted a broad policy perspective or cohesive work plan. Instead, strategies, plans, policies and programs are considered on a stand-alone and transactional basis.

A foundational first step is for Council to set a firm strategic direction for the term of Council. This is an opportunity for Council to clarify the scope of services it provides residents and businesses – for example, a lean set of service offerings focused on properties and public safety, or a broader city building agenda.

City Council has long been advised to integrate long-term expense and revenue decisions and take significant action to secure future investments. This has been well documented by City Managers<sup>2</sup>, and organizations such as the Toronto Region Board of Trade<sup>3</sup>, Institute on Municipal Finance and

Governance,<sup>4</sup> C.D. Howe Institute,<sup>5,6</sup> Canadian Centre for Policy Alternatives<sup>7</sup>, independent review panels,<sup>8</sup> and many others.

Toronto's span of control is significant – \$13 billion in annual operating expense, a 10-year \$40 billion capital plan, direct employment of over 27,000 staff and a further 29,000 staff in tax- and rate-supported agencies. The City is the sole shareholder or financial backstop for Toronto Community Housing Corporation, Toronto Transit Commission, Toronto Public Library, Toronto Police Service, Toronto Parking Authority, Toronto Hydro Corporation, civic theatres, and many other corporate bodies.

It is important that policy capacity and governance processes are in place to provide a clearer sense of priorities, which can then inform how to dedicate resources towards Council's goals. Setting a whole-of-government direction – including all City divisions, agencies and corporations – as the basis for financial planning was a resounding theme from the consultation on renewing the Long-Term Financial Plan (see Appendix 3). This advice is also consistent with experts from the University of Toronto's School of Public Policy and Governance

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<sup>2</sup> Joseph P. Pennachetti (2013, 2014). IMFG's 2<sup>nd</sup> and 3<sup>rd</sup> Annual City Manager's Address. Speeches presented at the Institute on Municipal Finance and Governance, Toronto.

<sup>3</sup> Toronto Region Board of Trade (2010). Bridging the Chasm: Fixing the City's Finances – Final Recommendations

<sup>4</sup> Enid Slack & André Côté (2014). Is Toronto Fiscally Healthy? A Check-up on the City's Finances. *Institute on Municipal Finance and Governance Perspectives, Pre-election series* (no. 7)

<sup>5</sup> Benjamin Dachis, William B.P. Robson, & Jennifer Y. Tsao (2016). Two Sets of Books at City Hall? Grading the Financial Reports of Canada's Cities. *C.D. Howe Institute, Commentary* (no. 460).

<sup>6</sup> William B.P. Robson (2014). How to make Toronto smarter: Start with transparent budgets. *Op-ed in the Globe and Mail*.

<sup>7</sup> Sheila Block and Alexandra Weiss (2015). Toronto's Taxing Question: Options to Improve the City's Revenue Health. *Canadian Centre for Policy Alternatives*.

<sup>8</sup> Toronto Mayor's Fiscal Review Panel (2008). Blueprint for Fiscal Stability and Economic Prosperity: A Call to Action. *City of Toronto*.

City Hall Task Force<sup>9</sup> and is a recognized best practice for strategic and financial planning.

To be abundantly clear, the choice and mix of revenues and expenditures is up to Council. Whatever the direction, Council's desired

expenditures should be linked to a long-term revenue strategy. Council should be realistic about the services it is willing to fund – this requires taking an integrated, multi-year approach to service, expenditure and revenue policies.

### KEY ACTION

#### *Set the direction and priorities for the City*

- Beginning in the new term of Council, the Mayor and Executive Committee set the policy and financial direction and priorities for the City of Toronto and revisit it each year thereafter. Council votes to approve or amend the Mayor and Executive Committee's direction and priorities.
  - As recommended by the University of Toronto City Hall Task Force<sup>10</sup>, Toronto should take the lead of many other North American cities where mayors lay out their legislative agenda for the upcoming year and remaining term of Council
  - It is imperative that any vision integrate expenditures and revenues. Beyond this, the Mayor and Executive Committee could have broad scope to determine and modify the combination of both programs and strategies.

## Illustrating choice: Three potential future paths

The following illustrative options below offer very basic perspectives to help define the fundamental choices Council could make to determine the direction of the City and form the basis for financial planning and future investment decisions. The direction would be a reflection of the scope of public services Council would like the City to deliver.

City Council could decide to focus on services to property and only deliver services it is required to by the Province. Doing so would require stepping away from existing programs and policy areas. This

would allow Council to operate with less required revenue.

City Council could decide to focus on maintaining existing service levels. Given existing risks, maintaining services would require some modest increases in revenue.

Increasingly, City Council has directed services in line with broader city building objectives. Many of Council's strategies will require increased revenue

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<sup>9</sup> Gabriel Eidelman and Brian F. Kelcey (2017). *A Practical Blueprint for Change; Final Report from the City Hall Task Force. School of Public Policy and Governance, University of Toronto.*

<sup>10</sup> Ibid.

to be implemented and significant changes in the way the City of Toronto does business.

These examples are meant to illustrate an important reality; City Council cannot expect to

deliver a level of service that is not consistent with a commensurate level of revenue. The two must be consistent and aligned.

Figure 2 – Illustrative policy choices

|                          | A   | B  | C  |
|--------------------------|---|--|--|
| <b>Impact on service</b> | <b>Focus on services to property</b> <ul style="list-style-type: none"> <li>- Decrease service levels to meet available tax room</li> <li>- Will require stepping away from some service areas</li> </ul> | <b>Maintain existing service levels</b> <ul style="list-style-type: none"> <li>- Adjust spending to pay for existing service levels</li> <li>- Limited expansion of broader investments</li> </ul> | <b>Broader city building</b> <ul style="list-style-type: none"> <li>- Increase spending to pay for existing service levels, deferred costs, and Council's approved strategies and plans</li> </ul> |
| <b>Impact on revenue</b> | <ul style="list-style-type: none"> <li>- Smaller footprint</li> </ul>   | <ul style="list-style-type: none"> <li>- Modest increase to revenue to meet existing service levels, manage risk</li> </ul>  | <ul style="list-style-type: none"> <li>- Increase revenue to meet Council's unfunded commitments</li> </ul>  |

Figure 3 – Operating forecasts under illustrative options A, B, and C

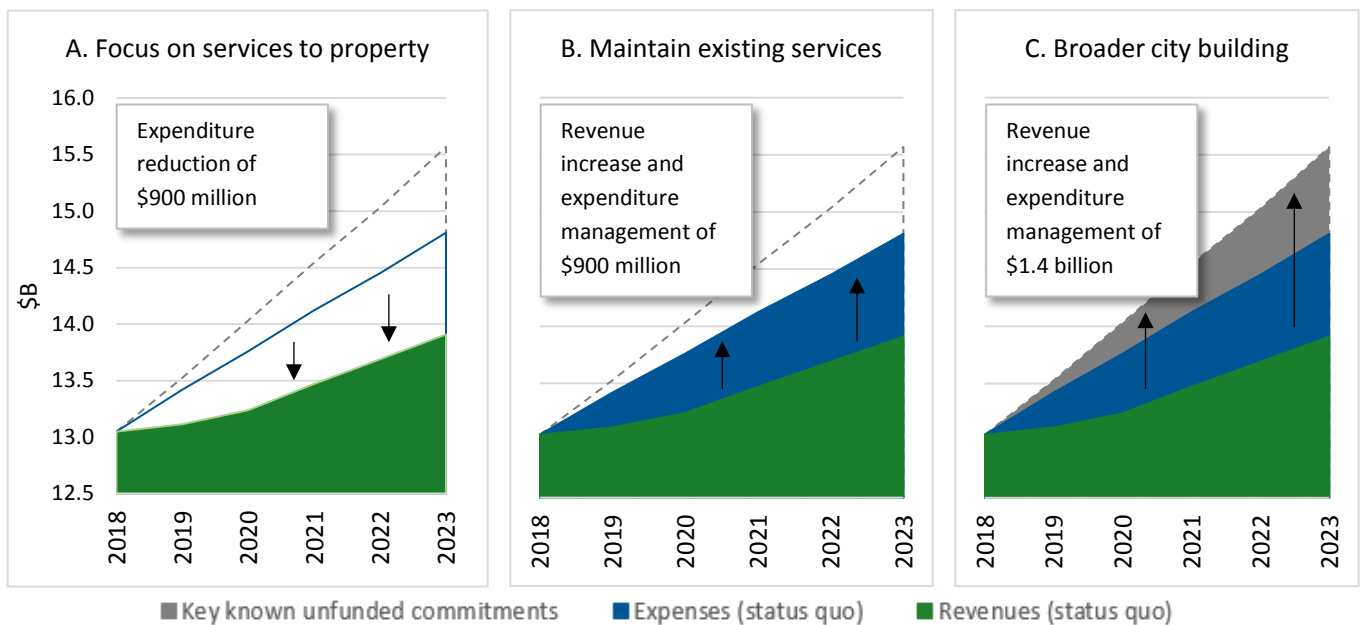
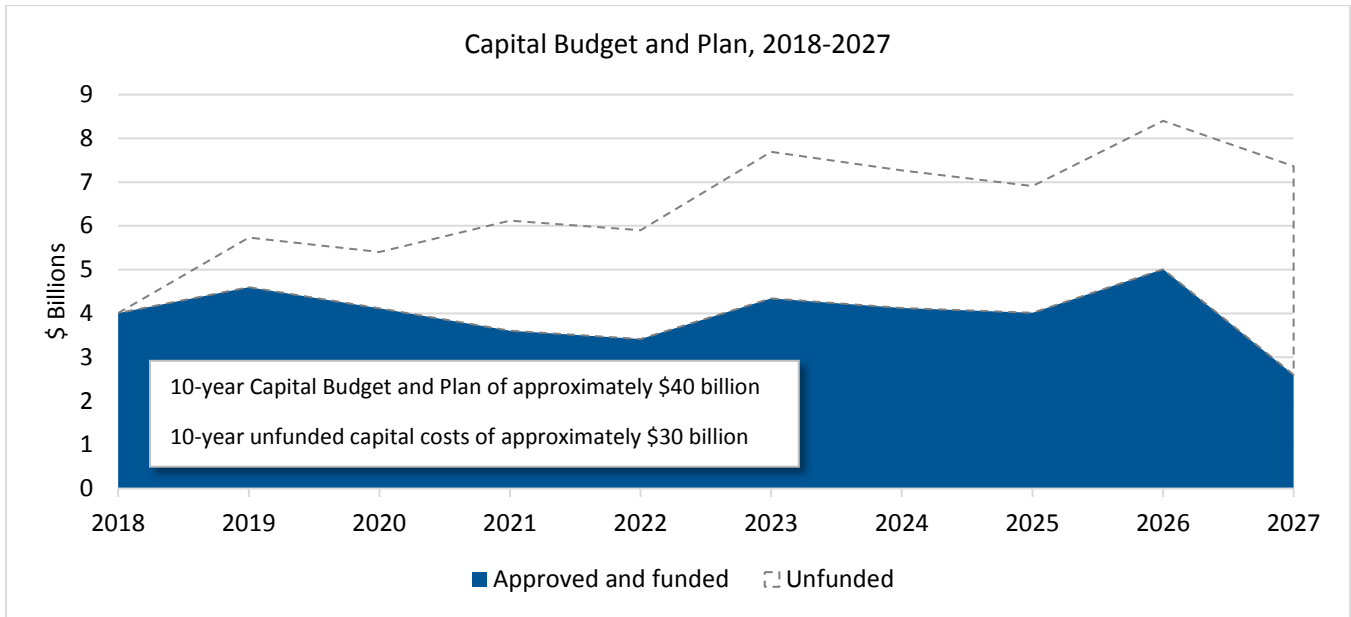


Figure 4 – Capital forecast under illustrative option C: Broader city building



It is important to emphasize the limitations of these illustrative options and their underlying financial models. The assumptions and sensitivities of the modelling can be found in Appendix 2. They are based on best understanding of likely expense and revenue trends from a single point in time and available information on the City's unfunded strategies and plans. The modelling likely understates the size of the pressure as the City does

not have a comprehensive process to track the operating ramifications of future years' expense. These options are not predictive and would require considerable adjustment to match emerging changes in the economy, funding from other governments, and other sources of variance. This modelling does not include any future decisions of Council. Details can be found in Appendix 2.



# PRINCIPLES OF THE LONG-TERM FINANCIAL PLAN

## Principle 1: Better information to support strategic decision-making

### Strategic approach and perspectives

- Toronto has a sophisticated, well-managed budget process with detailed information and transparency. However, the budget process has reached its practical limit as a way to provide proper oversight to a \$17 billion organization. While robust, the budget process is similar to that of other municipalities with far smaller and less impactful budgets. Toronto's scale and complexity is comparable to a large, sophisticated corporation or a provincial government.
- Processes and information for Council and its committees can be better presented to provide the perspective necessary to consider and implement strategic change. Improved strategic decision-making is one of Council's most significant opportunities. Participants from the public consultation on renewing the Long-Term Financial Plan stated a desire for better information to inform decision-making (see Appendix 3). While considerable time, information and thought are directed to the annual budget process, little change in direction actually emerges. There is strong fidelity to prior year outcomes. In practical terms, recent decisions by the Province – for example, uploads, housing and transit investment, and gas tax increases – outweigh the impacts of the small annual changes in the City's budget.
- Executive Committee has a mandate to make recommendations on the priorities for the City, including strategic policy, governance, financial planning and budgeting, fiscal policy, intergovernmental relations and labour relations. However, this mandate is not being effectively fulfilled. Standing policy committees increasingly take on these functions within their policy areas. Critically, financial direction is being set ad hoc through multiple decision-making bodies. Council could better use the governance structures and tools it has.
- Comprehensive risk assessment is critical to modern governance, but risk is not properly assessed in Council's decision-making. Council should be able to properly weigh its appetite for risk with the potential benefits across a range of key risk areas, including expense, revenue and service outcomes.

### KEY ACTIONS

#### *Make better use of Council's decision-making processes, structures and tools*

- Council should leverage the governance structure it has in place, and focus on using its processes to improve strategic, integrated, multi-year decision-making. Examples are the legislative process, mandates of committees, roles and responsibilities of staff in relation to Council, and delegation of authorities. Council and staff should leverage the existing terms of reference for Council's committees, including ensuring Executive Committee functions as the body responsible for the City's strategic priorities and financial direction and standing policy committees work collaboratively to move Council's priorities forward.

### *Risk analysis and annual risk report*

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- Commission an independent external review and analysis of the City's risks, including advising on the appropriate levels of acceptable risk across the City and its agencies and developing a set of risk criteria – standards, measures or expectations used in making decisions related to risk. This review will align with the City's strategies on a broader implementation of an Enterprise Risk Management Framework.
- Using this analysis, City staff should produce an annual report, led by the Internal Audit Division, on risks to the City – including all City divisions and agencies – to better enable Council and staff to proactively mitigate any potentially negative outcomes.
- Risk analysis and reporting should include risks associated with variable revenue sources, such as conditional funding from other orders of government.

### *Policy and financial processes integration*

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- City Council's committee structure separates decision-making on budgeting and policy development to an unrealistic degree. To a large extent, policy development occurs outside of financial planning and vice versa. Many strategies and plans come forward to Council for consideration without financial strategies, timelines or expected outcomes. Council is unable to determine relative priorities without understanding the organizational and financial capacity required for implementation. This does not support a multi-year financial planning process.
- Strategies and plans are approved throughout the year. Separately, through the budget process, Council then decides how to allocate dollars across a set of disparate strategies. This practice has contributed to the development of under-funded or unfunded service plans and capital projects, resulting in unmet expectations and outcomes.

### *KEY ACTIONS*

#### *Require financial estimates for all Council-approved strategies and plans*

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- A critical step to addressing the disconnect between policy development and financial planning is to know the expected total costs of all strategies and plans, when the money will be needed, options for funding and expected outcomes. All existing and future strategies and plans can be priced, including required expenses and revenues.

#### *Improve evidence-based advice to Council*

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- To achieve Council's desired outcomes, it is crucial that decisions are grounded in the best available evidence. Potential improvements may include opportunities for additional advice to Council through expert and peer review panels.

## Operating budget process

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- The current budget year is the predominant focus. Council's decision-making is not supported by a multi-year view. There is a two-year budget forecast but it is not heavily weighted in decision-making. Without a multi-year budget perspective it is challenging for Council to assess how decisions impact the City's long-term policy and financial direction.
- Net budget impacts to property tax rate increases are the driving force behind most decisions. Council should be able to fully consider and have visibility into the amount of revenue raised through all sources. A focus on the net budget leads to a number of distortions:
  - The actual costs of operating the City are understated to residents and businesses because other sources of revenue – such as user fees and rates – are given insufficient attention
  - The underlying rate of expenditure and revenue change is disguised
  - There is an understandable bias toward programs that generate revenue directly, or receive direct funding from the Province – these programs have tended to expand more rapidly or be insulated from expenditure reduction compared to those that are funded purely from the property tax base
  - The definition of revenue includes transfers from other programs or reserves, allowing proposals to appear supported by external funding when that is potentially not the case
- Small, neighbourhood-level budget items receive the majority of analysis and debate. In part, this is due to the budget process being structured on the basis of individual programs – often by a single City division or agency. There is an opportunity to expand the focus on city-wide strategic priorities and outcomes.

### KEY ACTION

#### *Operating budget changes beginning in 2019 with the new term of Council and phased in over four years*

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- Review prior year budgets: Improved analysis of historic budget performance.
- Ten-year forecast of budget assumptions and sensitivities: A statistical base to help inform decision-making.
- Three-year provisional operating budget allocations: Approve whole-of-government expenditures and revenues for three years in total – current year allocations plus allocations in principle for the two following years, including detailed estimates of required expenditure and revenue levels, subject to Council's annual confirmation and appropriation of funds.
- Present detailed information on all revenue sources: Beyond the current focus on residential property tax, include detailed information on all property tax classes, user fees, rates, transfers from other governments, investments and dividends and other revenue sources.
- Explicit focus on agency budgets: Increase the depth of review of agency budgets to be on par with the review of City divisions' budgets.

- Explicit focus on reserves and reserve funds: Include detailed information on the health of the City's reserves, as well as the sources and uses of reserve funds.
- Explicit focus on both net and gross expenditures: Increase budget scrutiny of City programs and agencies that generate revenue, and maintain scrutiny of City programs and agencies that are reliant on property tax.
- Establish multi-year budget expectations that include key expense, revenue and agency components: Create annual budget targets that are strategic and set multi-year direction beyond just spending levels.

## Capital budget process

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- Addressing the City's unfunded capital projects is a pressing challenge but is not insurmountable. These critical projects represent a significant budget challenge, estimated at approximately \$30 billion. The capital budget process can provide Council with the opportunity to consider a multi-year capital plan that can generate the best outcomes for residents and businesses.
- The capital budget process can provide improved opportunities for Council to set priorities. Aside from legislated requirements to maintain infrastructure in a state-of-good-repair and ensure health and safety, Council should have improved information to effectively weigh competing capital demands against each other, and to evaluate the relative value of an investment in one area over another. Currently, capital projects are added incrementally and there is little opportunity to review the full capital plan to set government-wide priorities.
- The City can have an improved process for assessing the risk of non-traditional forms of project funding, as well as funding from other orders of government. It is crucial to be able to appropriately account for inherent risks in these types of funding.
- There is an opportunity for better integration between the capital plan, operating budget and other key planning processes such as the Official Plan and service plans. Capital projects should be approved with sufficient understanding of how they support – or detract from – other City priorities. Critically, the ongoing operating and maintenance costs, as well as resulting debt service costs, should be well understood and built into City plans.
- The practice of "stage gating" exists for some large capital projects. This is a new and recent practice of projects moving through a series of pre-determined stages in order to proceed – for example, strategic assessment and concept, project approach, business case and general readiness, detailed project plan, design, implementation and post-implementation review. Capital projects should be approved alongside a sufficient understanding of their full costs and benefits. Money should only be allocated once it is ready to be spent on project activities in order to minimize underspending of the capital budget.

## KEY ACTION

### *Capital budget changes beginning in 2019 with the new term of Council and phased in over four years*

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- Prioritize capital projects based on Council's direction and priorities: Establish criteria to evaluate capital projects based on Council's desired outcomes and value for money, and then prioritize capital projects accordingly.
- Integrate the official plan, service plans and other key planning processes with the capital plan: The city's infrastructure and assets are a key tool to implement policy goals. Planning processes, such as the Official Plan and services plans, can be better integrated into the capital planning process.
- Explicit focus on the operating expense of new capital: The capital plan can further emphasize the impact of ongoing operating and maintenance costs of new capital spending.
- Undertake a comprehensive asset management plan: For all City assets, identify capital costs, ongoing operating and capital maintenance costs, lifecycle replacement costs and matching funding sources.
- Implement a consistent phased "stage-gating" decision-making process for capital projects: Capital projects can go through a series of pre-determined stage-gate decision points where the project is examined and any important changes or decisions are made. This can improve governance and oversight, helping to ensure the intended value of the project is realized and costs are well understood and effectively managed.
- Improve cash flow and management of in-year capital expense: Better align capital spending with project activities and timelines so money is allocated more efficiently.

### *Agencies and corporations integration into policy and financial process*

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- Key agencies and corporations can be better integrated into the planning and budget process. The City's agencies and corporations deserve the opportunity to benefit from multi-year budgeting.
- Council's relationships and financial planning processes with its agencies and corporations have not allowed for reliable budget forecasting or adherence to credible budget targets and instructions. Agency budgets are not subject to the same level of detailed review by City staff and Budget Committee as City divisions. Likewise, Council directions for savings have not been reflected in the planning documents of agencies.
- Improved financial and performance information is required to plan and execute effectively – especially for key agencies such as the TTC and key corporations such as TCHC. It is difficult for Council to oversee these multi-billion dollar organizations, whose mandates are aligned with broader city-wide strategic priorities, without knowing year-over-year what the costs and outcomes may be.

## KEY ACTION

### *Align policy and financial direction of key agencies and corporations with Council*

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- Standardize and strengthen requirements for City agencies and corporations so Council has the appropriate governance, financial and policy levers to ensure a whole-of-government approach to decision-making. In doing so, it is important to recognize the governance distinctions between the City's agencies and corporations.
- As key service providers and cost drivers, the TTC and TCHC pose the most significant challenges compared to the City's other agencies and corporations. Therefore the primary focus for aligning policy and financial direction should be on the TTC and TCHC. The Toronto Police Service has also been a cost driver in the past, although in the last two years their budgets have held constant.

## Civic engagement

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- The City can align its engagement strategy with the public's interest and growing expectation for effective, purposeful and timely engagement. The public has asked for clear information, opportunities to provide meaningful input, and for evidence that its input has been heard and its contributions respected.
- Residents express growing expectations to be more involved in decision-making. Ideally, engagement supports a sustained relationship with residents so they can gain knowledge about their municipal government, provide informed input to the City on a wide range of issues, and be encouraged to become more involved in other aspects of civic life such as advisory bodies, elections and community-based activities. This ideal is increasingly difficult to achieve when issues are dealt with in isolation from other related topics, or when consultations are episodic or do not effectively reach people who are busy or who face barriers to participation.
- The City's budget process can be particularly challenging, with large volumes of complex, detailed information, debates which separately consider inter-related strategic plans and issues and long committee meetings that provide limited engagement with interested members of the public. For the most part, engagement is focused at the back end of the budget process rather than influencing the direction up front.
- The City's commitment to civic engagement is evolving from activities fragmented across all divisions to a more coordinated strategy that aims to build purposeful and effective tools and capacity and reach all residents, especially those not typically involved or who face barriers to participation. In light of the growing challenges and demands for new engagement methods on a wider range of issues, however, more work is needed.

## KEY ACTION

### *Strengthen civic engagement*

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- Enhance co-ordination across City divisions and provide residents the opportunity for upfront engagement, more information and meaningful opportunities to contribute to the City. Improvements to strengthen civic engagement can include effective consultation tools and methods to collect broader input, enhance data sharing and analysis, and improve co-ordination of information, advice and reporting to Council and the public. This work aligns with the City's direction towards a more open government guided by the principles of transparency, participation, accountability and accessibility.

## Equity, gender and economic impacts

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- The analysis of City spending is predominantly focused on financial and service level impact. The City is increasingly analyzing how spending decisions impact on equity, gender and economic objectives. This is critical work to be able to better assess and respond to the City's priorities in these areas. If it is not clear how spending affects these areas, it is difficult to effectively implement improvements.

## KEY ACTION

### *Integrate equity, gender and economic impacts into the budget process*

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- Additional analysis on equity, gender and economic impacts, and to better integrate these impacts into the budget process, is in progress including developing a disaggregated data collection strategy to assist in assessing the gendered impacts of budgetary and policy decisions. This analysis can be supported by the application of the City's recently revised equity lens as well as new budget reporting requirements.

## Principle 2: Improve value for money

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Toronto has demonstrated consistent success in year-over-year cost control. Annual budget targets have produced consistent savings (see Appendix 1 and 2 for details). City divisions, in particular, are smaller as a share of the budget as well as adjusted for economic and population growth. For example, since 2010 social service spending has fallen by about two percent – excluding one-time increases through federal social infrastructure funding.

This does not mean the City has managed to achieve optimal cost control or value for money in all cases. Council has not been able to make sufficient progress towards reprioritizing

expenditures or reducing duplicate or low value-for-money services. In part this is because the expenditure control process has not consistently offered multi-year approaches to expenditure management, especially for key agencies.

There is some evidence that the City's costs may be higher than necessary. This point has been raised by the Auditor General and Council, and was a theme heard from the public consultations on renewing the Long-Term Financial Plan. In addition, Council has demonstrated a reluctance to reduce service levels and has tended to restore reduction proposals put forward by staff.

### Human resources and staffing

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- Spending patterns are fundamentally influenced by human resources and staffing costs. These costs are the largest single item in the City's budget, costing about \$5.7 billion in 2018 – 44 percent of gross operating costs. Of that, City divisions account for just under \$2.8 billion and agencies \$2.9 billion, with the Police and TTC costing \$1.0 and \$1.4 billion respectively. In addition, labour costs are a significant portion of the City's contracted services.
- Targets to reduce the number of staff positions are an appropriate interim measure but are inconsistent with Council endorsed plans to enhance service levels.
- This is an opportunity to work respectively with all bargaining agents. In the majority of cases, the City and its agencies are locked into collective agreements until 2018 and the end of 2019, so the City's ability, and the ability of its agencies, to consider certain strategies related to these expenditures are limited to 2020 and beyond. Collective bargaining with the emergency services (Toronto Police, Fire and Paramedics) and the TTC through mandatory arbitration results in additional challenges on efforts to control those costs.

#### KEY ACTION

##### *Manage human resources and staffing costs*

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- Costs should be managed across all City divisions and agencies, while recognizing their status as separate employers, including all bargaining agents, labour agreements and non-union staff.
- Petition the Ontario government for changes to mandatory arbitration models to allow for a more effective, coordinated process province-wide.



- Pursue targeted reduction of staff positions across City divisions and agencies. Reductions should be made in consideration of maintaining appropriate risk mitigation, accountability and service delivery commensurate with Council's directions. Reductions can be achieved through:
  - Business transformation, modernization and innovation initiatives
  - Attrition and retirement
  - Review of vacancy strategies
  - Program management and delivery reviews

## Goods and services procurement

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- Goods and services procurement is a significant cost driver. In 2018, the total cost to the City will be over \$2.6 billion.
- The City relies on a competitive bid process that may not in all instances be achieving full value, particularly because of high barriers to entry in the public market place.

### *KEY ACTION*

#### *Transform procurement*

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- Initiate a three-year strategic sourcing program based on a savings target consistent with relevant market benchmarks for organizations at a similar level of strategic sourcing maturity.
- Engage a service provider to drive the strategic sourcing program under a "fees at risk" engagement model whereby the service provider is not fully compensated unless the savings targets are achieved. To achieve the full benefits available from participation in strategic sourcing, it must be mandated for all divisions and agencies.
- Modernize the procurement operating model. Transform procurement policies, processes and technologies in order to achieve the highest value for money for all procurements. Key strategies will be:
  - Immediately commence a "proof of concept" for procurement transformation for Parks, Forestry and Recreation capital projects. Focus on innovative procurement approaches that have the potential to greatly reduce the cost and increase the speed of delivery of these projects.
  - Implement a modern "source to pay" technology platform (note that this is already in progress through the SAP Ariba Project).
  - Leverage automation in the "source to pay" processes and technology platform for financial benefits not easily available with current processes and technology, such as early payment discounts.

- Expanded use of "Negotiated RFPs (nRFPs)" to give the City greater opportunities to achieve post-bid price reductions through structured evaluations and negotiations while maintaining the integrity of the competitive bid process.
- Expanded use of bulk purchasing, early tender calls, reverse auctions, vendors of record (VORs), volume discounting, price banding and other cost management methodologies, as appropriate. This may require enhancing and clarifying current procurement policies to allow for greater flexibility in procurement.
- Build permanent capacity and capabilities with the Purchasing Management and Materials Division (PMMD) for ongoing strategic sourcing and category management.
- Assessment of different procurement strategies, contract structure and management of significant capital projects to better allocate risk between the City and external vendors.

### Agencies and corporations costs

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- Agencies and corporations represent about 32 percent of the City's gross operating budget and 29 percent of the 10-year capital plan.
- The key City entities exerting pressure are the Toronto Transit Commission, Toronto Community Housing Corporation and Toronto Police Service. The Police are in the midst of implementing recommendations from their Transformational Task Force and are showing cost reductions. The City is implementing its Tenants First Plan which lays out a vision in which Toronto Community Housing Corporation focuses on being a social housing landlord, buildings are kept in a good state of repair and tenants are connected to appropriate services and are active participants in their communities. While progress is underway, the TTC and TCHC both continue to face significant cost pressures, primarily due to significant capital costs, unsustainable revenue models and growing demand for service.

#### *KEY ACTION*

#### *Manage agency and corporation costs*

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- To better manage agency costs, agencies can be better integrated into the policy and budget process. Council should have the opportunity for better visibility into the finances and performance of its agencies and corporations. Likewise, agencies should have the opportunity to work under a more certain operating environment.

### Invest in modernizing government

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- Delivering services in smart, innovative and streamlined ways has the potential to better meet residents' and businesses' needs and provide value for money.

- The City should continue to advance business transformation, modernization and innovation to improve productivity and embrace new ways to do business. The City currently has a series of key, enterprise-wide initiatives completed, underway or planned. These initiatives can help transform critical processes and realize benefits such as reduce costs, increase productivity and establish lean, end-to-end standardized processes based on best practices. For example, Shared Services savings confirmed by the Auditor General have been \$38 million to date and could total \$69 million over the next five years. Many will be enabled by the most current technology, helping to modernize and digitize government operations.

## KEY ACTIONS

### *Implement program management and delivery reviews*

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- Undertake a five-year review cycle that evaluates the program costs, benefits and outcomes for all City programs and agencies to achieve the best value for money, and includes:
  - Evaluating service alignment, relevance and effectiveness based on Council's priorities, including focusing on what is most effective and addressing overlap and duplication across City divisions and agencies. This can enable Council to focus its resources on best meeting its intended outcomes, identifying where inefficiencies exist and revealing opportunities to shed least valuable or effective services.
  - Analyzing program costs and benefits for all discretionary (not required by law) City programs and agencies. Operating budgets should be in line with the benefits being achieved (economic, social, environmental, etc.).
  - Pursuing opportunities to achieve the appropriate amount of outsourcing by assessing opportunities as the market for various services evolves. For example, the cost of IT infrastructure services (storage and server capacity) in the market have decreased in the last three years in Canada, due to the proliferation of large scale public cloud-based services in Canada.
  - Assessing management and administration capacity. There is management and administrative capacity variation across the City and its agencies. Assessment may include looking at management and administration models across clusters, divisions and agencies to investigate ways to reduce duplication of effort.
  - Using consistent methodology, processes and applications to perform cost-benefit analysis (for example, calculating the value of social and other non-monetary benefits). The output of cost-benefit analyses may be used to inform decisions about adding and terminating programs, as deemed appropriate.

### *Redesign how the City does business*

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- Leverage the Chief Transformation Officer to drive and enable a series of additional initiatives focused on business transformation, modernization, innovation and improved productivity. These will include but not be limited to:

- Optimization of IT services – Explore outsourcing and the consolidation of IT services to reduce costs, improve service levels and enhance digital capabilities.
- Inspections and enforcement – Explore ways to better share technology and human resources in various inspections and enforcement related activities across City divisions.
- Fleet management – Explore ways to better share the assets (facilities, parts inventory, vehicles), technology and human resources providing fleet-related services, across City divisions and agencies.
- The City's customer service transformation strategy can be revisited, applying the following guiding principles:
  - The most cost efficient and sustainable customer service model will be achieved by "grouping" services according to customer segment (customer-centric). This will require a clear identification of customer segments (e.g. businesses, households and social services clients), a full understanding of the needs and behaviours of each segment and a customized service delivery strategy for each segment. The City's current customer service groupings are more aligned to the division delivering the service (service provider-centric). This creates duplication of costs across divisions.
  - Speed and agility are critical. Digital customer service models are evolving very rapidly. Large and time-consuming customer service projects are expensive and complex. As such, the City should focus on buying turn-key customer service technology and "know-how" from the marketplace and deploying it rapidly through partnerships with service providers.
- Drive and enable improved resilience across City divisions, agencies and corporations. Initiatives will include but not be limited to:
  - Resilience Strategy – Oversee the development and implementation of a comprehensive Resilience Strategy for the City.
  - Climate resilience – Apply a climate change adaptation lens to programs and policies to improve environmental, social, economic and financial outcomes.
  - Engagement and partnership – Pilot new methods to more effectively engage communities, stakeholders such as philanthropic and industry associations, and other partners through the Resilience Strategy. This work can be aligned with strengthening the City's overall civic engagement.

#### *Innovative service delivery*

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- Continue to leverage the City's wealth of data to drive innovation in service delivery and assess overall whole-of-government performance. The City is currently establishing a data governance framework and designing data implementation tools that could be used by the public, staff and Council to improve services and outcomes.

## Address capital financing and funding costs

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- Debt service and capital finance costs are a growing and significant pressure
  - Debt repayment and other capital financing costs will continue to increase as the City continues to finance previous underinvestment in capital maintenance, needed capital growth and its share of the approximately \$30 billion of unfunded capital costs. Current debt servicing objectives act to constrain further capital spending.
- State-of-good-repair is a constant pressure
  - The City owns an inventory of physical assets with an estimated value of \$84 billion. About half of the capital budget is spent on maintaining these physical assets in a state-of-good-repair. Addressing these maintenance costs is a key objective and priority for the City to ensure that infrastructure is able to support service delivery. Despite targeted investments made in recent years to address the state-of-good-repair backlog, the City's aging assets and infrastructure require more funding to slow backlog growth over the next 10-year period.

### KEY ACTIONS

#### *Explore alternative approaches for capital planning and delivery*

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- Increased private sector involvement throughout all stages of capital planning and delivery have shown significant benefit across multiple jurisdictions. Public-private partnerships, when applied to the right projects in appropriate ways, can provide many benefits. Potential approaches to explore include:
  - Establishing an arms-length organization to procure, build, manage, finance and enhance the value of Toronto's public assets (similar to Infrastructure Ontario).
  - Establishing a third-party reference group to review the costs and benefits of major strategic capital investments.
  - Working with Canada Infrastructure Bank to find ways to align City projects with its investments.
  - Continuing to build in-house capacity to deliver alternative procurement approaches.

#### *Optimize real estate*

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- Through the City-wide review of real estate assets and functions, continue to rationalize and optimize City and agency real estate.
- Continue to modernize office workplaces to concurrently reduce office space costs and improve productivity through the Office Modernization Program.

#### *Continue to implement energy savings*

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- Through TransformTO and the City's other energy efficiency strategies, continue to lower environmental footprint and corresponding energy costs of the City and its agencies.

## Principle 3: Secure adequate and fair revenue

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The City continues to experience low growth in most of its revenue base. It does not have sufficient revenues to meet its spending needs, neither under existing service levels and capital projects nor to pay for Council's approved strategies and plans.

In terms of financial planning, Council spends relatively little time on the City's revenue strategy compared to its service delivery strategies.

It is critical that the City's revenue and expenditure strategies are effectively integrated. This includes matching the timing of revenues to expenditures.

Council would be better positioned to achieve its priorities by considering the following opportunities for its revenue sources.

### Residential property tax

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- Property tax is the largest source of revenue the City collects, accounting for 47 percent of revenue generated directly by the City. Council has recently directed that residential property tax rates are to rise at or below the rate of inflation. Combined with the City's policy to reduce business property tax, this results in a decline in the share of property tax revenue compared to the City's overall revenues.
- Property tax is designed to provide services to properties where a direct user fee would be inappropriate – such as police, fire, and parks. Benefits from these services cannot easily be assigned to individuals, and therefore it is difficult to charge specific user fees.
- Increasingly, property tax is used to fund services that provide broader social benefits, such as poverty reduction, housing, and transit expansion.
- Property tax – and the resulting burden on current taxpayers – is impacted by decisions between current and debt financing, particularly for large infrastructure that will benefit residents and businesses for many years. It is important that the City's overall financing strategy is sensitive to issues of fairness and potential intergenerational transfers.
- Toronto has some of the highest non-residential property tax ratios in the GTA. Commercial and industrial properties pay nearly three times the property tax rate paid by residential properties. The City has been working to bring this ratio down to 2.5 times the residential rate by 2020. Under the City's tax fairness plan, for every percentage increase to residential property tax rates, the increase is only one-third for businesses.
- Likewise, multi-residential properties pay nearly three times the property tax rate that residential properties pay. In a densifying city with growing poverty, this disproportionately impacts low-income households. The provincial decision to freeze multi-residential property tax rates recognizes this issue and will begin to correct this disproportionate burden on renters.
- Provincial legislation requires that property tax rates be reset each year, creating high visibility and accountability. The transparency and accountability of property tax is one of its strengths as a municipal fiscal tool designed to fund property-related services. However, it is a poor fit for supporting broader investments in social priorities.

## KEY ACTIONS

### *Link property tax increases with multi-year expenditure commitments*

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- As the City's core revenue source, property tax growth should be linked to the long-term forecasted rate of expense growth. The City has been successful with similar revenue strategies, most notably Council's decisions to increase water rates in line with needed improvements to water infrastructure.

### *Continue to address the disproportionate burden on businesses and renters*

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- It is prudent for the City to maintain its policy of lowering non-residential property tax burden. This policy helps stimulate economic development and address a disproportionate burden of some of Toronto's most vulnerable residents who live in multi-residential rental units that are taxed at a higher rate compared to other residential housing types.

### *Study changes to the application of property taxes*

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- Staff have begun an analysis of the potential of progressive residential property tax rates – its merits can continue to be studied as a revenue generating opportunity and a means to address inequality in the tax system. Likewise, using a Municipal Price Index to calculate inflationary increases to property tax may more accurately reflect the true costs to the City and more appropriately index the rate of property tax increases. The benefits and detriments of these approaches should be assessed thoroughly for Council's consideration.

## Municipal Land Transfer Tax

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- Revenue from the Municipal Land Transfer Tax has been the dominant force in maintaining stable revenues in spite of low property taxes. When the Municipal Land Transfer Tax was introduced in 2008, it was expected to be a small portion of total revenues. As has been well documented and flagged, it has grown considerably with the real estate market, bringing the City considerable and unforeseen revenue increases along with revenue risk. It is important to take appropriate steps to mitigate the cyclical risk of this tax.
- Municipal Land Transfer Tax revenues do not need to decline to pose a significant problem. If the tax does not continue to grow, Council may have to make difficult decisions to close the structural budget gap each year. 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.

## KEY ACTION

*Reduce the cyclical risk of Municipal Land Transfer Tax by allocating an appropriate portion of budgeted revenue to capital reserves*

- A new policy is needed to address the inherent and well documented risk posed by the Municipal Land Transfer Tax. This revenue is cyclical, and steps should be taken to effectively manage its fluctuations. The City should address the volatility and budget reliance as Municipal Land Transfer Tax grows in importance. As part of such a policy, Council should consider the appropriate role of the tax in the long term.

## User fees

- User fees – such as rates for water and solid waste, transit fares, and permit fees – are an important source of revenue, accounting for 43 percent of own source revenue.<sup>11</sup>
- User fees are an appropriate revenue tool when there is an identifiable individual beneficiary of the service. When used appropriately, user fees are an economically efficient revenue tool matching who uses a service with who pays.
- User fees not only produce revenue to pay for the cost of providing a service, they also promote economic efficiency. When residents and businesses are charged for a service, they are more likely to consume only as much of that service as they need. Conversely, when residents and businesses do not pay directly for a service more of that service is consumed and demanded.
- How and how much the City charges for its services is an effective means to manage demand – increasing or lowering user charges, such as transit fares, water rates, and solid waste rates, has a direct effect on how much of that service residents and businesses will use. As such, user fees are an effective tool to help meet Council's policy objectives.
- There is variation in how user fees are applied across a range of City services. This variation creates the potential for policy outcomes that are inconsistent with Council's directions. For example:
  - Transit fares versus parking fees: 63 percent of the TTC's revenue comes from the fare box -- considerably more than any other large transit operator in North America – and fares continue to increase. The cost of City owned parking, managed through the Toronto Parking Authority may not account for the implicit value of the City's land assets. Efficient parking pricing could help reduce the volume of traffic and lead to less congestion, fewer traffic enforcement costs and reduced demand for new and expanded roads and highways.
  - Transit fares versus road use: While a significant user fee is charged for the use of public transit, no direct fee is charged for the use of public roads. Council's decision to pursue road tolling on the Don

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<sup>11</sup> Including all user and licence fees, fares and rates



Valley Parkway and Gardiner Expressway would have begun to address this inconsistency, but permission to do so was rejected by the Province.

- There are a number of user fees that have the potential to be optimized to recover the full cost of the service and meet other policy goals. While most user fees are calculated on a cost recovery basis, many do not include the cost required for capital investments.

#### *KEY ACTION*

#### *Develop a user fee pricing strategy based on the full cost of the service and Council-approved public policy objectives*

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- Council may be better able to achieve its policy and revenue objectives by revisiting the application of its user fee policy, including the pricing of public services such as transit and parking.
- To effectively do so, the City would benefit from identifying the full cost of all its services, including operating costs, capital costs, overhead and externalities. Using that information, Council can decide where user fees and rates can be set to recover the full cost of the service (for example to cover capital costs in addition to operating costs).
- Council should consider not collecting the full cost of a service, or providing subsidies, where there is a public benefit, such as the Welcome Policy for recreation programs that helps individuals and families with low-income who live in Toronto to access City-operated recreation programs.
- The City's existing user fee policy can facilitate this work.

#### *Land development levies*

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- A key principle of the provincial Development Charges Act is that growth should pay for growth. However, the legislation falls short of achieving this objective. This is due to continued exclusion of certain costs and services from development charges (such as computer equipment, general administrative headquarters and the purchase of parkland), the 10 percent statutory rate discount for some services (such as parks and recreation facilities, child care and paramedic services), recovery limitations based on past service levels and statutory exemptions (such as exemptions for intensification of housing and industrial expansion). As a result of these limitations, municipalities recover approximately 80 to 90 percent of the cost of growth.
- In addition to the legislative constraints, the City's development charges bylaws have included discretionary policies such as rate increase phase-ins and exemptions for affordable housing and non-residential development. These policies further reduce development charge recoveries to achieve public policy goals, such as long-term economic development and intensification.
- This foregone development charge revenue must be made up from other City revenues, such as property tax or rates, making growth related capital projects less affordable. If the City cannot fund the shortfall caused by these development charge reductions, it can lead to a downward spiral of deferred expenditures and falling service levels.

## KEY ACTION

### *Ensure that land development levies appropriately pay for the cost of growth*

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- There are a number of options the City can pursue to improve the recovery of growth related capital costs. These include continuing advocacy for provincial legislative changes to the Development Charges Act, such as eliminating ineligible costs and services and eliminating the 10 percent statutory rate discount.
- In addition, Council, in deciding whether to impose the fully calculated charge or a reduced amount in order to achieve a public policy objective, like economic development or intensification, should continue to consider the City's overall capital financing needs, its broader economic development and long-term financial objectives and the trade-off between increased development charge rates and level of development.
- Council's ability to balance these considerations can be enhanced by improving reporting of the financial implications of these decisions on the City's capital budget, service levels and property tax rates.

## Tax and fee discounts, waivers, rebates, deferrals and exemptions

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- The City's tax and fee discounts, waivers, rebates, deferrals and exemptions – which provide some form of financial assistance to residents and businesses – have become entrenched across multiple program and policy areas. These include property tax assistance for people in low income, property tax relief and incentives for business, rate program discounts, recreation program subsidies, TTC fare discounts and myriad others.
- The estimated annual cost of tax and fee discounts, waivers, rebates, deferrals and exemptions is \$475 million. This is a sizeable cost to the City, and in some cases the desired impact on policy objectives may be poorly understood or not achieved. Discounts, exemptions and deferrals are effectively unbudgeted expenditures (and therefore foregone revenues) which are not readily visible to Council and taxpayers. They are tax and fee expenditures. There is no formal annual mechanism in place to revisit the appropriateness of these concessions in terms of costs and achievement of objectives.

## KEY ACTION

### *Identify opportunity costs and report annually on all tax and fee discounts, waivers, rebates, deferrals and exemptions*

---

- Tax discounts, rebates and other concessions have the potential to achieve policy objectives through the tax system, but do so at an opportunity cost of reduced revenue. These foregone revenues should be compared against the public policy benefits the City is trying to achieve to determine if it is an effective use of tax dollars. This can be done for all existing tax discounts, rebates and other concessions on an ongoing basis.

- The City should report annually on the estimated fiscal impact of these concessions and the value they are generating. This would give Council and the public greater transparency into the costs and benefits of this foregone revenue. It could become a key component of the City's reporting on expenditures and contribute to public dialogue on tax policies.

## Opportunities to broaden the tax base

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- City Council has considered implementing new revenue options on a number of occasions, most recently in December 2016. City staff and external consultants have provided Council with detailed analysis on potential revenue strategies, including the impact on the City's short- and long-term revenue generation as well as social and economic impacts for residents and businesses. Council has also adopted detailed decision-criteria to weigh any potential changes to its revenue framework.
- The City has viable revenue options that it can implement immediately or can seek provincial legislative or regulatory changes to do so. It is appropriate for Council to consider options that meet its evaluation criteria and have the potential to meet its desired level of investment.

### KEY ACTION

#### *Continue to consider revenue options*

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- The City should continue to consider revenue options that have the potential to broaden its tax base and generate appropriate amounts of revenue to fund Council's directed investments. It is important for Council to focus on the revenue adequacy and quality of any potential options.

## Evaluation criteria for revenue options

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The December 2016 report approved by Council, "The City of Toronto's Immediate and Longer-Term Revenue Strategy Direction" provided a clear basis for evaluating new tax and fee options using the following criteria:

- Revenue quality
- Incidence and fairness
- Efficiency
- Policy fit
- Minimizing negative economic impacts and distortions
- Legislative authority

Revenue quality, especially the amount of revenue potential, should be the first consideration for long-term financial planning. It is critical to focus on key revenue drivers. Small changes in rates for large revenue sources have the greatest potential to raise sufficient revenues. Other than the Municipal Land Transfer Tax, the City of Toronto Act taxing powers only generate very marginal revenues – the Billboard Tax and Hotel Tax in combination would account for less than 0.4 percent of all revenues generated directly by the City.

## Principle 4: Improve focus on financial balance sheet and health

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Despite the challenges outlined above, the City has a solid financial footing as evidenced by its AA and Aa1 credit ratings. Appendix 1 includes a range of metrics that detail the City's current financial condition.

The City's expenditures and revenues may be the most immediate issue facing Council, but it is the state of the City's financial assets and liabilities that is most often impacted by fiscal ill-health. In times of fiscal constraint, these less immediate "balance sheet" needs are often deferred.

Toronto's annual operating surplus is not in itself a sign of financial good health. Operating deficits are not permitted under provincial legislation, so the City must set the budget at the beginning of the year and manage the budget throughout the year to ensure there is no deficit. Surpluses have also been declining and are the product of one-time variances in the budget. Unlike the structural expenditure and revenue challenges facing the City, the drivers of the annual surplus are not re-occurring.

### Debt

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- Debt is limited by Council's policy requiring that annual debt service charges on average not exceed more than 15 percent of property tax revenues over a 10-year period. This policy is designed to protect the operating budget from excessive debt-financed capital demands and has been quite effective. This is a more conservative limit than the provincial requirement to limit debt service charges to no more than 25 percent of all own-source revenues generated directly by the municipality.
- The City will remain at this self-imposed cap for the foreseeable future. The growing list of capital projects and state-of-good-repair costs remain outside the capacity of the City to debt finance without exceeding the 15 percent guideline.
- The City has a significant infrastructure gap, with approximately \$30 billion of unfunded capital projects. This is in part a reflection of prior under-investment. As shown in Appendix 2, like all major capital projects costs may be shared by other orders of government thus reducing the City's share.
- The City's unfinanced capital – approved debt financing for capital expenditures already completed – presents a potential risk if interest rates begin to rise, causing higher future borrowing costs.

#### KEY ACTIONS

##### *Debt service ratio should be reviewed and increased if appropriate*

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- Council should assess the potential to increase the City's debt service charge repayments above the current limit of 15 percent of property tax revenue. Increased debt can support necessary investment.
- Any policy change that increases debt will increase the City's operating expense and would require corresponding, sustainable revenue sources. Any measures to raise the debt limit should be paired with careful study of the impact of future costs to service increased debt.

- Increased debt has the potential to affect the City's credit rating. Additional study would be required to determine how much the City could raise its debt limit, the funding sources required to service that debt and the potential impact on the City's credit rating.

#### *Continue to reduce unfinanced capital*

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- The unfinanced capital expenditure balance should be managed as part of the City's overall long-term financial plan. A reduced amount of unfinanced capital will help manage overall financial risk and ensure affordability over the long term.

#### Reserves and reserve funds

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- Reserves and reserve funds are set aside by Council in order to finance future expenditures, insulate the City against an unbudgeted or unforeseen event that may result in a budget deficit, smooth out future program expenditures which may fluctuate from year to year and accumulate funds for future capital requirements or contingent liabilities.
- While the City's consolidated reserve and reserve fund balance has been growing – largely due to the City's policy of allocating 75 percent of the annual surplus to reserves, as well as required contributions from developers as part of the development – reserve balances are insufficient to effectively address the large backlog of unfunded capital projects
- From an operating perspective, higher stabilization reserves are needed to address any unforeseen expenditure requirements or revenue shortfalls in a given year. Based on industry best practices from the Government Financial Officers Association, between five and 15 percent of total operating expenditures should be held in stabilization reserves. The City holds the equivalent of about 1.6 percent of tax-supported expenditures in stabilization reserves.
- The City has consistently withdrawn from reserves to fill the annual budget gap. The use of reserves to address recurring operating pressures exacerbates the problem in future years.
- Reserves to fund employment and post-employment employee benefits, including sick leave payouts, are underfunded in relation to the growth of the contingent employee benefits liability. Council approved, in principle, a target ratio of employee benefits reserve balances to annual employee benefits cash costs of two times. The City's ratio was 1.3 at the end of 2016.
- Reserves for insurance and contractor claims and landfill post-closure costs (and employment costs noted above) are not growing to the same extent as the underlying liabilities, resulting in increased net liabilities that are not captured by the operating budget.
- In addition, the allocation of investment returns to reserves is below the rate of inflation, eroding purchasing power over time.

#### KEY ACTION

##### *Engage third parties to review the adequacy of reserves and reserve funds*

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- Reserves form an integral component of the City's long-term financial sustainability. They should continue to be reviewed to ensure they can adequately meet their intended needs and are not under undue strain. In addition the underlying costs of underfunded costs should be captured in the operating budget.

#### Financial health metrics

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- Because the City's annual budget must be balanced each year, the budget process only gives Council a narrow perspective on the City's financial health. The budget provides Council with information on some aspects of the City's financial condition, such as long-term debt; however, a more comprehensive picture of trends would give Council the opportunity to review better contextual information in its decision-making. For example, information about the current value of assets, state of good repair, assets with revenue-generating capacity and the nature and timing of repayment liabilities.

#### KEY ACTION

##### *Set goals and report annually on financial health metrics*

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- The City should report annually on its financial condition using a set of appropriate metrics. Council should have the ability to easily identify multi-year trends and implications of annual budget decisions on overall financial health.

#### Toronto Hydro and Toronto Parking Authority revenue performance

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- The City's two largest revenue-generating assets, Toronto Hydro Corporation and Toronto Parking Authority, largely run on a commercial basis and have dividend policies that provide revenue directly to the City. These City entities have a potential to produce increased revenue for the City.
- Council may be able to raise additional revenue, or minimize future investments, under different capital structures.
- The Toronto Region Board of Trade reported in 2016 that the Toronto Parking Authority has significant potential to yield additional resources for investment in transit.

#### KEY ACTION

##### *Explore improving the revenue performance of Toronto Hydro Corporation and Toronto Parking Authority*

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- This potential was recently explored through an asset optimization review of Toronto Hydro Corporation and the Toronto Parking Authority conducted by Deloitte in 2016. Similar exercises should continue to

ensure the City is receiving best returns possible while meeting the needs of residents and businesses. Reviews and analysis should consider the benefits of external investment, re-structuring these assets into their constituent businesses and City ownership over these assets. Reviews should also determine if revenue yield can be optimized under a different capital structure including any implications on the City's public policy objectives.

- Ensure appropriate valuation of assets under the control of Toronto Hydro and Toronto Parking Authority. As argued by the Toronto Region Board of Trade, the clearest example of underused value is the City's substantial portfolio of surface parking lots in areas of high development demand.<sup>12</sup>

## Investment returns

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- Investment returns will not solve the City's financial challenges – incremental risk adjusted investment returns are likely to be marginal especially in the short-term – but they are nonetheless a key revenue source and should be optimized.

### KEY ACTIONS

#### *Optimize investment returns through the newly established Toronto Investment Board*

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- The new provincial prudent investor standards are similar to standards that govern trustees and pension fund administrators, and creates a fiduciary responsibility. These reforms are expected to enable the City to diversify its investments so as to earn improved risk-adjusted rates of return on its investment, as it will no longer be restricted to a prescribed and limited list of eligible investments.

#### *Increase investment return allocation to reserves to at least the rate of inflation*

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- The allocation of investment returns to reserves – the source of the investment funds – is currently below the rate of inflation, eroding purchasing power over time. The prudent investor rules are expected to gradually increase investment returns, enabling a return to a more balanced allocation to reserves so that purchasing power is maintained.

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<sup>12</sup> Toronto Region Board of Trade (2016). *Unlocking Value: A Strategy to Finance Transit Expansion with Existing City Assets and Revenue*

## Principle 5: Better integration with provincial and federal policies and fiscal direction

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The City continues to struggle with the downloading of formerly provincial costs, such as financing public housing and operating transit. These and other services – such as newcomer integration, anti-poverty, and congestion alleviation – benefit the region and province.

The City has made, and continues to make, considerable investments that benefit both Toronto and Ontario. For example, recent poverty reduction efforts include \$31 million on social housing, \$18 million on making the TTC free for children and \$7 million on the expansion of student nutrition programs. While these steps are commensurate with municipal revenue sources, adequately addressing these pressing issues requires much larger investments.

The Governments of Ontario and Canada have provided increased financial support and partnership in recent years. For example, uploading social service costs and investments in city building infrastructure.

Despite this, current intergovernmental funding and service delivery arrangements do not adequately reflect Toronto's needs. For example, Toronto provides 90 percent of the public housing in the GTA and 37 percent of the total social housing in the Province, well beyond its share of population or tax base. Likewise the TTC carries about 60 percent of all transit ridership of the province. 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.

### Focus on shared public policy objectives

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- The separate funding and delivery models between the federal, provincial and municipal governments often obscure the potential for much better integration between complementary policy areas as well as better outcomes for many vulnerable residents.
- The City plays a critical role in achieving policy goals of the Governments of Ontario and Canada. The success or failure of many provincial and federal initiatives are dependent on municipal governments. Critical policy levers are held at the municipal level, such as housing, public health, social services and newcomer integration. For example:
  - Mobility of goods and people is critical to economic development and growth and is dependent on infrastructure largely situated in cities.
  - Cities' built form drives energy distribution and use.
  - Municipal services – such as the delivery of public health, child care, welfare, newcomer settlement, and shelters – are the front lines in addressing poverty.
  - Our ability to address and respond to the needs of urban indigenous people, with services, including housing and other community-based interventions, will depend on the active leadership of urban municipalities.



- The priority placed on safety and security of infrastructure, public spaces and institutions depends on effective social and public safety policies and effective integration of delivery at the local level – this involves municipal police forces, social and community programs and services and effective infrastructure planning.
- To work through separate funding and delivery models as well as jurisdictional boundaries, governments are increasingly focused on broad public policy objectives, such as climate change, transit expansion, and poverty reduction. A continued focus on outcomes, as well as strong leadership of all governments, would help improve alignment and policy outcomes for residents and businesses. Doing so has the potential to better allocate limited funds to projects that effectively address shared policy priorities.
- Federal, provincial, and municipal governments may be more successful at achieving their shared goals by determining how each government can best use their tools to solve policy challenges: financial as well as policy areas such as land use planning, complementary infrastructure investments, administrative leadership, and integration with the full range of city-building initiatives.
- It is important for all governments to clarify the roles and responsibilities for these critical services, as well as secure appropriate revenue sources that match these roles and responsibilities.

#### KEY ACTIONS

*Continue to pursue shared policy outcomes with the Governments of Ontario and Canada in social housing, transit, public good pricing and community services*

- Social housing
  - There are fundamental challenges to properly funding social housing in Toronto. It is important to take an integrated, regional approach that recognizes the complex challenge of housing and its importance to vulnerable residents. The City has neither the fiscal capacity nor the financial tools designed to adequately address residents social housing needs or effectively redistribute income from the city's wealthy to those in need.
  - The City is leveraging one-third of the required capital costs for Toronto Community Housing Corporation. Additional funding has been frequently requested from other governments. The City should continue to push for its appropriate share, including exploring further cost sharing and alignment of the appropriate roles and responsibilities related to social housing with the Province.
- Transit
  - Significant intergovernmental collaboration is underway on key transit initiatives in the city. However, there are still significant unfunded capital needs and ongoing challenges with funding maintenance and operating costs.
  - The City should continue to seek support from intergovernmental partners to ensure ongoing investments to maintain existing infrastructure and plan for future growth. A comprehensive approach to establishing roles, responsibilities and funding arrangements on transit projects

throughout an asset's lifecycle may provide predictability and help the City to align its capital planning processes and priorities.

- Public good pricing
  - Council may benefit from working with the Province to find better mechanisms to increase the pricing of public goods including the potential for congestion pricing on a region-wide basis.
  - The National Infrastructure Bank has the potential to be a critical component of this work.
- Community services
  - The City should approach the Province for a more realistic working relationship around the integration of community services with funding models based on the allocation of progressive revenue sources to programs that yield broader social benefits.

### Strategic approach to intergovernmental relations and partnership

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- The City engages in a range of intergovernmental relations to maintain and advance partnerships that benefit Toronto residents and businesses, as well as to achieve better and more informed decision-making across orders of government. Intergovernmental relations objectives are met through a variety of ways including formal agreements and partnerships with other governments, such as the City of Toronto Act, the Toronto-Ontario Cooperation and Consultation Agreement (T-OCCA), and active participation in municipal alliances such as the Federation of Canadian Municipalities (FCM) and its Big City Mayors' Caucus.
- Partnering with other governments is a critical component of achieving City Council's agenda and priorities. Effective partnership requires concerted consultation and engagement by all stakeholders.
- The Governments of Ontario and Canada have the potential to achieve unrealized benefits by building on existing intergovernmental successes and more effectively partnering with the City of Toronto. The City's service delivery networks and policy capacity are critical to effectively achieving the policy objectives of all governments.
- City Council has the potential to lead efforts to improve these intergovernmental relations and partnerships by taking actions under its control. Council may benefit from taking a strategic approach to improving its relationships with the Governments of Ontario and Canada. Currently, Council makes a wide range of disparate requests to other governments generally without differentiation and priority. Toronto City Council adopted 139 requests to the Province in 2017 alone.

#### KEY ACTIONS

##### *Develop a strategic intergovernmental approach based on Council's agenda and priorities*

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- Council should develop a strategic approach and a set of priorities for working with the Province, including how the City and Province engage with the federal government. The Mayor and Executive Committee's directions and priorities for the City could frame Toronto's intergovernmental priorities and

key asks. With scarce provincial and federal resources, Council should strategically pursue initiatives that will have the best outcomes for residents and businesses. To do so, Council may find value in seeking advice from an external, independent panel.

*Address the needs of the provincial and federal governments for incremental, additional City contributions*

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- To effectively address public policy challenges of shared intergovernmental importance – like social housing, transit expansion, social determinants of health and integration and settlement – the City should work in fair partnership with the Governments of Ontario and Canada. In a fair and equitable manner, Toronto should strive to augment provincial and federal investments in the city.

# APPENDIX 1: FINANCIAL CONDITION

## Municipal fiscal health indicators

This appendix is a look at the City's fiscal health based on metrics that have either been used by the City for its presentations to credit rating agencies, or have been pulled from a list compiled through a Provincial initiative led by the Municipal Financial Officers of Ontario (MFOA) to provide a consistent approach to measuring municipal operational and financial performance. A complete list of these is provided in Table 1.

*Table 1 – City's 2016 Municipal Fiscal Health Indicators*

| Financial Principle   | Fiscal Health Indicator  | Best Practice Benchmark | City's 2016 Ratio (*) | Explanation  | Comparison To Target Benchmark and/or Comparable Municipalities         | Five Year Trend |
|-----------------------|--|-------------------------|-----------------------|--|---|-----------------|
| <b>Sustainability</b> | Total Debt per \$100,000 Weighted Assessment   | Varies                  | \$684                 | Ratio provides a comparison to other municipalities on its debt load.  | On-track – Below the average of comparable municipalities               | Worsening       |
|                       | Total Taxes Receivable less Allowable Uncollectables as a percentage of Total Taxes Levied | Below 15%               | 4.2%                  | Taxes Receivable is the amount of outstanding taxes owed to the municipality (also known as tax arrears). High outstanding taxes could create cash flow problems for the municipality or result in higher tax rates to fund uncollectable taxes or tax write-offs. | On-track – Below the Benchmark and average of comparable municipalities | Improving       |
|                       | Reserves / Discretionary Reserve Funds as a % of Operating Expenditures                    | 20% and up              | 23.2%                 | Indicates the ability to offset unexpected revenue losses or increases in expenses.  | On-track - Above the Benchmark  | Improving       |
| <b>Flexibility</b>    | Debt Servicing cost as a percentage of Operating Revenue                                   | Below 10%               | 6.0%                  | Debt servicing is how much of each dollar raised in revenue is spent paying down existing debt (both principal and interest). This indicator shows the extent to which past borrowing  | On-track – Below the Benchmark  | Worsening       |

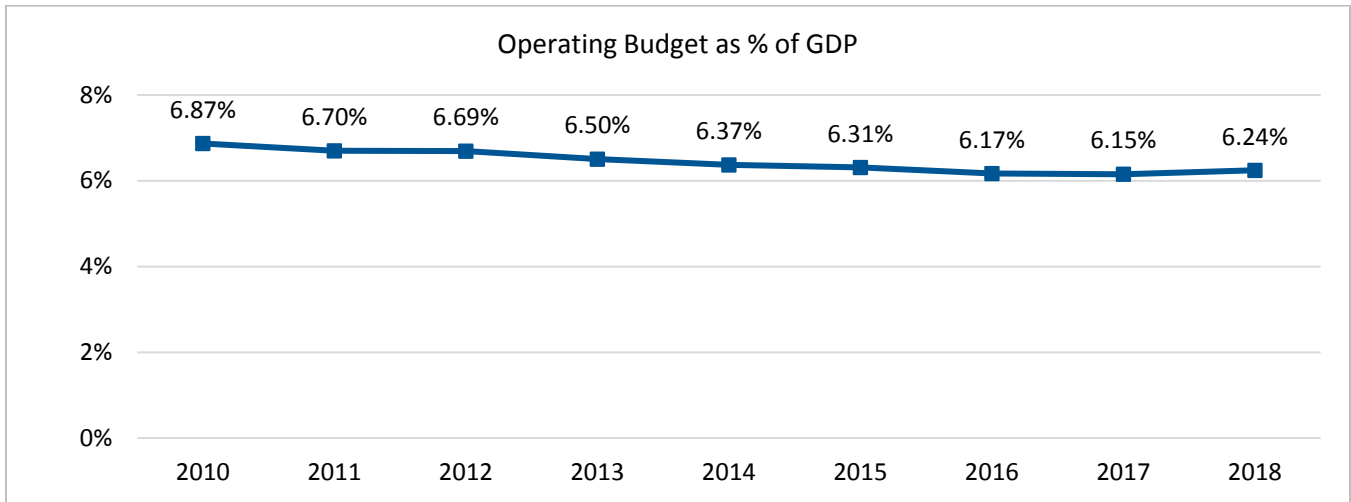
| Financial Principle  | Fiscal Health Indicator   | Best Practice Benchmark | City's 2016 Ratio (*) | Explanation   | Comparison To Target Benchmark and/or Comparable Municipalities              | Five Year Trend |
|----------------------|---|-------------------------|-----------------------|---|--|-----------------|
|                      |   |                         |                       | decisions may impact the current municipal budget.  |  |                 |
|                      | Total Debt Burden per Household   | Varies                  | \$4,635               | Measures a municipality's flexibility to meet future spending needs.  | On-track – Below the average of the comparable municipalities                | Worsening       |
|                      | Asset Consumption   | Under 50%               | 40.9%                 | Compares the net book value of assets (original cost less accumulated depreciation) to their replacement costs to measure the rate to which assets that depreciate in value have been consumed. | On-track – Under the Benchmark   | Improving       |
| <b>Vulnerability</b> | Own Source Revenues as a percentage of Total Operating Revenues           | Varies                  | 60.4%                 | Indicates the extent to which a municipality has a high proportion of revenues from its own sources reducing its impact to a change in transfers from other levels of government.               | On-track – At the average of the comparable municipalities                   | Improving       |
|                      | Total Residential Property Taxes per Household as a % of Household Income | Varies                  | 3.1%                  | Indicates the portion of a ratepayer's income used to pay municipal property taxes.   | On-track – Below the average of the comparable municipalities                | Improving       |
|                      | Commercial Property Tax Class Ratio                                       | Varies                  | 2.9044                | Indicates how a municipality's commercial property tax rate compares to the residential rate.   | Further Action Required – Above the average of the comparable municipalities | Improving       |
|                      | Revenue Per Capita  | Varies                  | \$4,249               | Indicates the demand for resources and the municipality's ability and willingness to provide resources.   | On-track – Above the average of the comparable municipalities                | Improving       |

Note: (\*): Based on 2016 Financial Information Returns.

## Operating budget trend

While the City's operating budget has grown by approximately 3.2% annually since 2010, it has declined as a share of the economy, as shown in Figure 1. Not surprisingly, the City has struggled to maintain current service levels while keeping up with demands associated with economic growth.

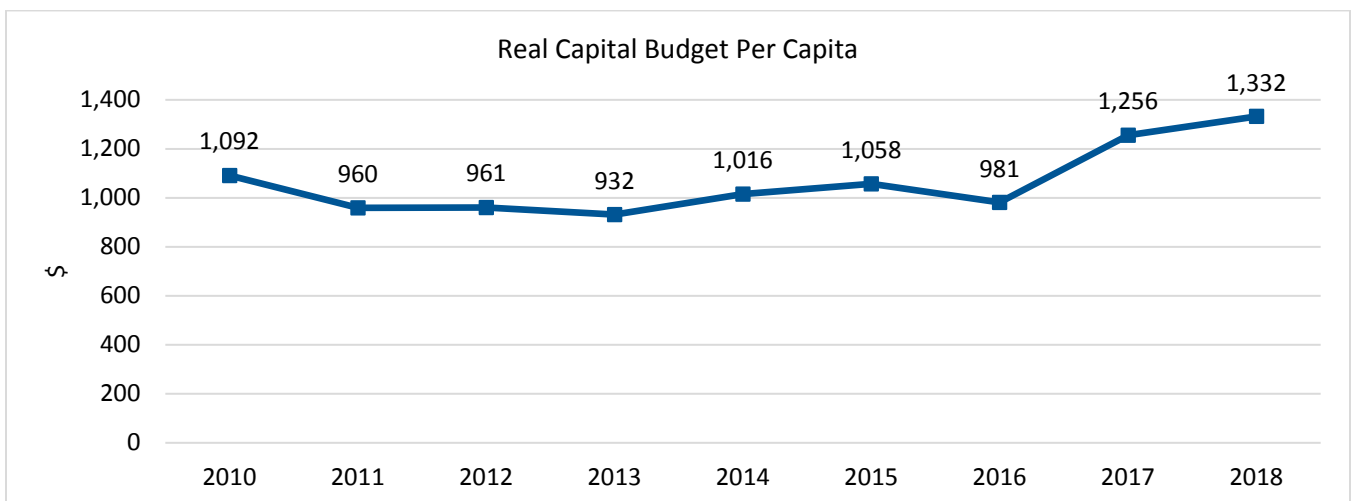
Figure 1 – Tax and Rate-Supported Operating Budget (2010-2018) as % of GDP



## Capital Budget Trend

Figure 2 shows that in real per capita dollar terms, the City's Capital Budget investment was relatively flat between 2010 and 2016. The chart shows that capital budget investment spiked up in 2017 and 2018 to \$1,332/capita, representing a significantly increased capital investment with an emphasis on improving transportation and transit networks and increased spending for repairing water/wastewater infrastructure.

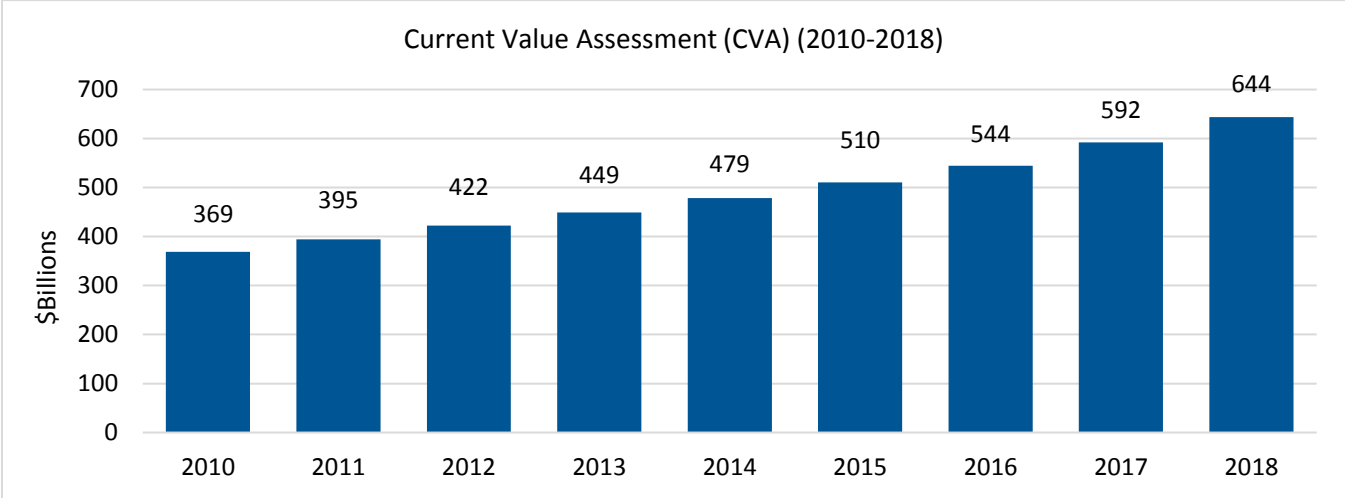
Figure 2 – Real Capital Budget Per Capita



# Property taxation

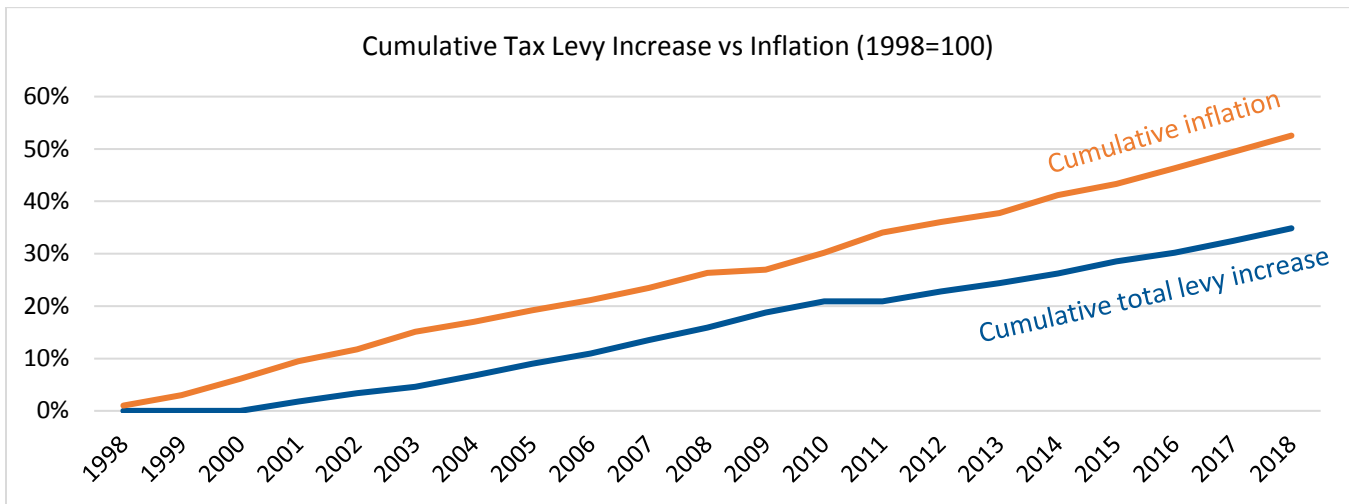
Steady property value appreciation is a positive sign about a city's economic and fiscal health. As shown in Figure 3, Toronto's property values have grown on an average by 8.7% annually since 2010 on a Current Value Assessment (CVA) basis. However, the current property tax system does not permit municipalities to realize higher tax revenues from property value increases. The property tax revenue grows only through new construction and budgetary tax increases. As such, the City's total property levy has only grown by an average of 2.5% annually over this period, and tax rates have by and large declined by the difference.

Figure 3 – Current Value Assessment



As a result of limited tax revenue from assessment growth and policies to limit budgetary property tax increases to around the rate of inflation, the City's purchasing power has fallen over time. This is illustrated in Figure 4, which shows that increases in the City's total property levy has remained below the rate of inflation over the past twenty years.

Figure 4 – Property Tax Levy vs. Inflation



Notes:

- Budget tax increase + SSE Increase + City Building. Excludes CVA & Policy Shifts
- CPI Inflation - Toronto CMA (Statistics Canada; 2017 based on forecasts from Conference Board & Moody's)

Total Residential Property Taxes as a % of Household Income – Toronto's 2017 tax effort ratio of 3.8% of Average Household Income is the lowest among select GTHA and Ottawa municipalities (as shown in the table below) and one of the lowest ratios in Ontario according to the 2017 BMA Municipal Study. This is partly a result of policy decisions to limit residential tax increases to at or below inflation, while average incomes have evidently increased in comparison. Figure 5 below shows the ratio for selected Ontario municipalities.

Figure 5 – 2017 Residential Property Taxes as a % of Household Income, Select Municipalities

| Toronto | Hamilton | Ottawa | Mississauga | Markham | Overall Average |
|---------|----------|--------|-------------|---------|-----------------|
| 3.8%    | 4.5%     | 3.7%   | 4.1%        | 4.0%    | 4.0%            |

\* Source: 2017 BMA Municipal Study (includes municipal and education portion of property taxes)

Commercial Property Tax Class Ratios – Toronto's 2016 Commercial Property Tax Ratio of 2.8476 is above the average of among select GTHA and Ottawa municipalities (as shown in the table below). While Toronto's ratio has been declining as a result of a 2006 Tax Policy to reduce the City's non-residential tax ratios to 2.5% times the residential rate over 15 years– from 3.68 in 2006 to 2.8476 in 2017, Figure 6 below shows that the City's 2017 Commercial Property Tax Class Ratio is still higher than the other selected comparable municipalities.

Figure 6 – 2017 Commercial Property Tax Class Ratios, Select Municipalities

| Toronto | Hamilton | Ottawa | Mississauga | York   | Overall Average |
|---------|----------|--------|-------------|--------|-----------------|
| 2.8476  | 1.9800   | 1.9260 | 1.4517      | 1.1813 | 1.8773          |

\* Source: 2017 BMA Municipal Study



## City physical infrastructure

**Relative Value of Physical Assets** – The City owns a significant value of physical assets. Much of the transportation and water/wastewater infrastructure was built over 50 years ago. The City's capital priority is maintaining these assets in a state-of-good-repair. Approximately 50% of the City's Ten Year Tax-Supported & Rate Capital Plan is dedicated to state-of-good repair projects, while 25% supports service improvement and the remaining 25% is for growth, legislative and health & safety projects. Figure 7 provides a breakdown of City's Asset Infrastructure by estimated asset value.

*Figure 7 – Breakdown of City's Physical Infrastructure by Asset Value*

| Asset Type                                       | Estimated asset value* |
|--|------------------------|
| Transportation infrastructure                    | \$15 billion           |
| Water and wastewater infrastructure              | \$28 billion           |
| Public transit system                            | \$15 billion           |
| Buildings, facilities, and fleet                 | \$13 billion           |
| Toronto Community and Housing Corporation (TCHC) | \$9 billion            |
| <b>Total</b>                                     | <b>\$84 billion</b>    |

\* Replacement cost estimates

**Asset Consumption Ratio** (Net Book Value of Assets/Gross Replacement Costs) – This ratio is intended to convey the portion of assets that has been consumed or depreciated – 100% means they are "used up", at least on an actuarial basis. A ratio of 50% or higher indicates significant replacement needs for a municipality, whereas a ratio between 25% and 49.9% indicates that overall assets are moderately new. As shown in Figure 8, Toronto's 2016 ratio of 40.9% is the highest of the comparable municipalities but within the target benchmark of staying below 50%. Toronto's ratio has declined from 43.5% in 2012 to 40.9% in 2016 indicating some improvement in asset condition resulting from the City's level of capital investment.

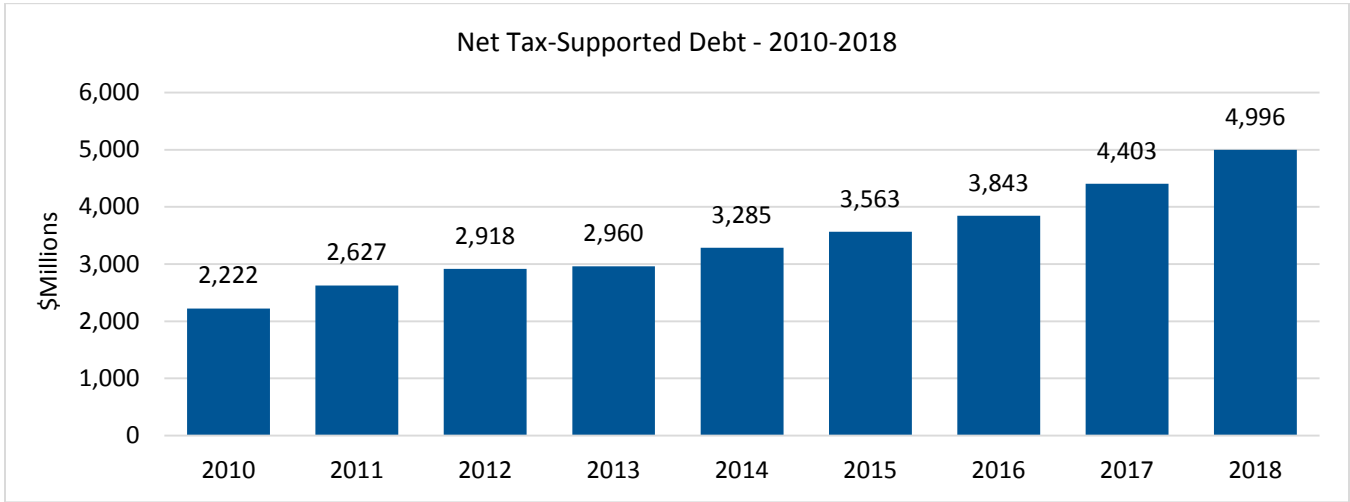
*Figure 8 – 2016 Asset Consumption Ratio of Select Municipalities*

| Toronto | Hamilton | Ottawa | Peel Region | York Region | Target Benchmark |
|---------|----------|--------|-------------|-------------|------------------|
| 40.9%   | 37.0%    | 28.4%  | 25.3%       | 22.2%       | Under 50%        |

## Debt and debt service trend

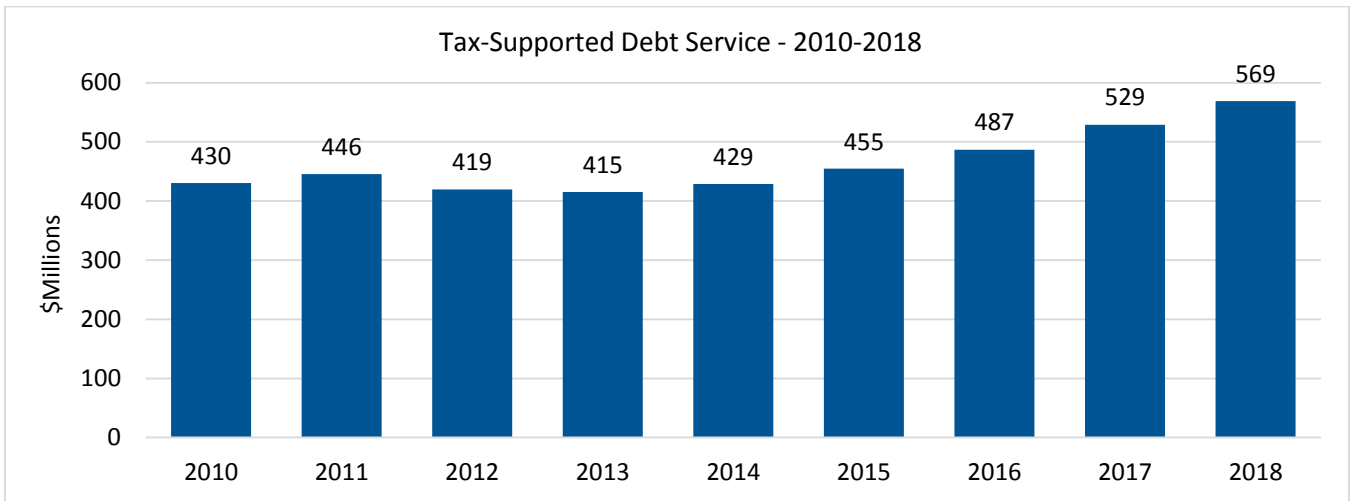
Net debt is the value of outstanding long term debt less accumulated sinking funds to repay that debt. As shown in Figure 9, Toronto's Net Tax-Supported Debt has been growing since 2010. The upward trend is expected to accelerate over the next five years in alignment with growth in the Capital Plan.

Figure 9 – Net Tax-Supported Debt (2010-2018)



Debt Servicing Cost as a % Property Tax Levy – Debt service costs are the budgeted principal (sinking fund) and interest payments on outstanding debt. While net debt has grown significantly (almost 69%) since 2013, Figure 9 shows that debt service costs have increased at just under half that rate (37%), as interest rates have remained low, and the City has extended the average term of debt repayment. Lower cost financing has helped the City remain at or below the Council-approved annual debt service guideline of 15% of the property tax levy. The City's ratio of debt service to property tax levy is approximately 13.5% in 2018 but is expected to briefly rise above the 15% guideline between 2020 and 2023 peaking at close to 15.6% in 2021, based on planned capital spending and forecasted interest rates.

Figure 10 – Tax Supported Debt Service (2010-2018)



## Reserves and reserve funds

Reserves are savings for future planned expenditures, and generally grow with the size of a municipality and its expenditure obligations. As depicted in Figure 11 the consolidated balance of the City's Reserves and Reserve Funds has been growing since 2011 and is currently over \$4 billion. The growth has been possible due to large year-end operating surpluses and increasing development charge collections.

On a comparative basis, Figure 12 compares Toronto's per capita reserve and reserve fund balance to other large Ontario cities and regional municipalities. It shows that Toronto's reserve levels are comparable to older urban cities such as Ottawa, Hamilton and Windsor but well below the balances of the surrounding GTA regional municipalities largely due to the fact that these municipalities are supported to a greater extent from growth-related Development Charges.

Relative to funding requirements for capital projects, Toronto's reserves/reserve funds dedicated to capital funding appear insufficient. The City has a variety of reserves and reserve funds that provide funding for capital project priorities. Based on the level of unfunded Capital projects estimated at \$30 billion, the adequacy of reserve funds supporting the City's Capital Plan is relatively modest.

In addition, reserve funding for employee benefits liabilities has also been identified as an area of underfunding. Council approved a target consolidated employee benefits reserve fund balance of 2 times annual employee benefits payouts in 2006, when the ratio was 1.5 times. This target level has not been achieved as the growth of annual employee benefits costs has exceeded available funding to grow employee benefits reserve funds. The ratio at the end of 2016 stood at 1.3.

Figure 11 – Consolidated Year-End Balances of City's Reserves & Reserve Funds

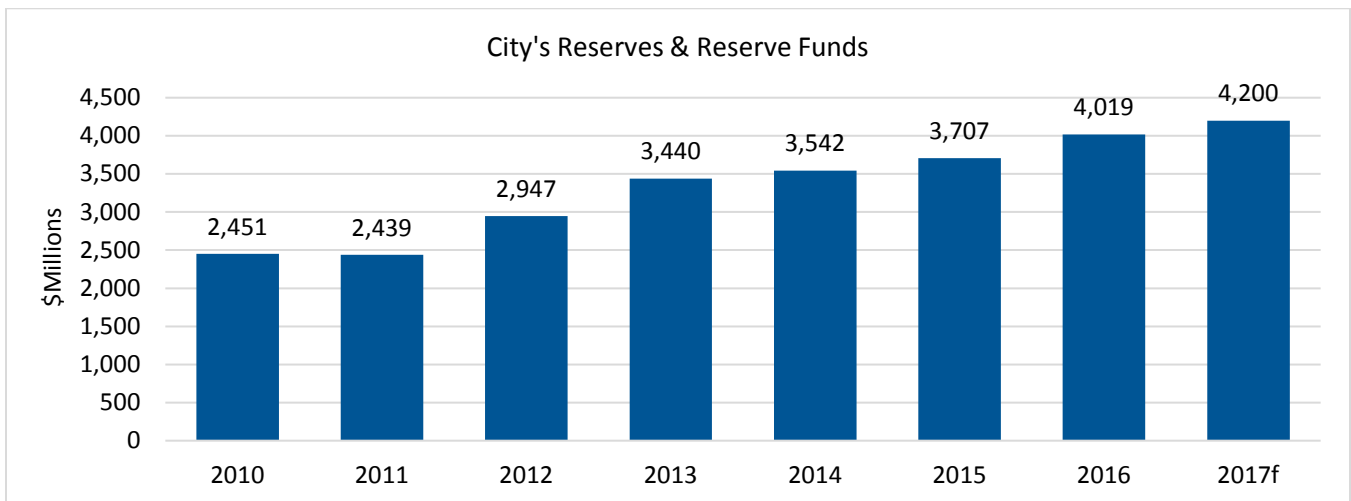
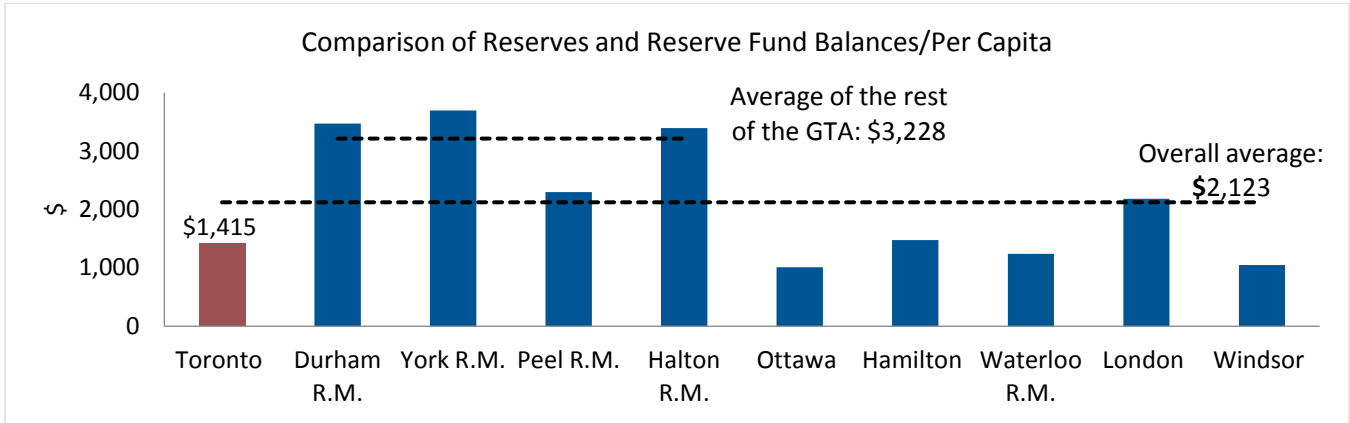


Figure 12 – Comparison of 2016 Reserves and Reserve Fund Balances/Per Capita



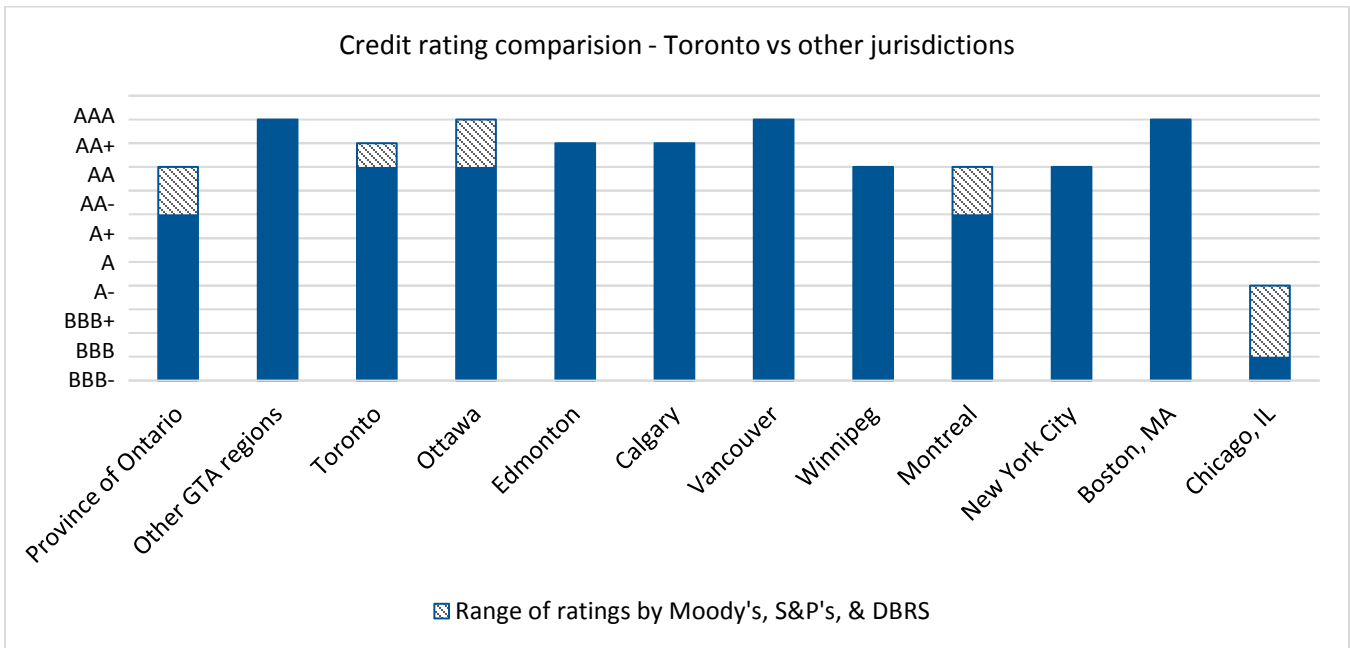
Based on 2016 Financial Information Returns (FIR). Regional data consolidated for lower and upper tiers. Balances include Obligatory Reserve Funds.

## City's credit rating

As shown in Figure 13, the City's solid credit rating of AA (Stable) for the Dominion Bond Rating Service (DBRS) and Standard & Poor's (S&P) and Aa1 (Moody's) remains comparable to other large North American cities such as New York, Montreal, Edmonton and Calgary, and is consistent with a healthy demand for the City's bonds.

The City's diversified and growing economy and assessment base could justify a higher rating (and potentially lower borrowing costs), but these positives are offset by rising capital requirements and associated debt levels, and revenue growth that is either modest (property taxes) or vulnerable to downturn (land transfer tax)..

Figure 13 – Credit Rating Comparison



Note: Toronto's credit rating – Moody's: Aa1 (=AA+); DBRS: AA (stable); S&P's: AA (stable)

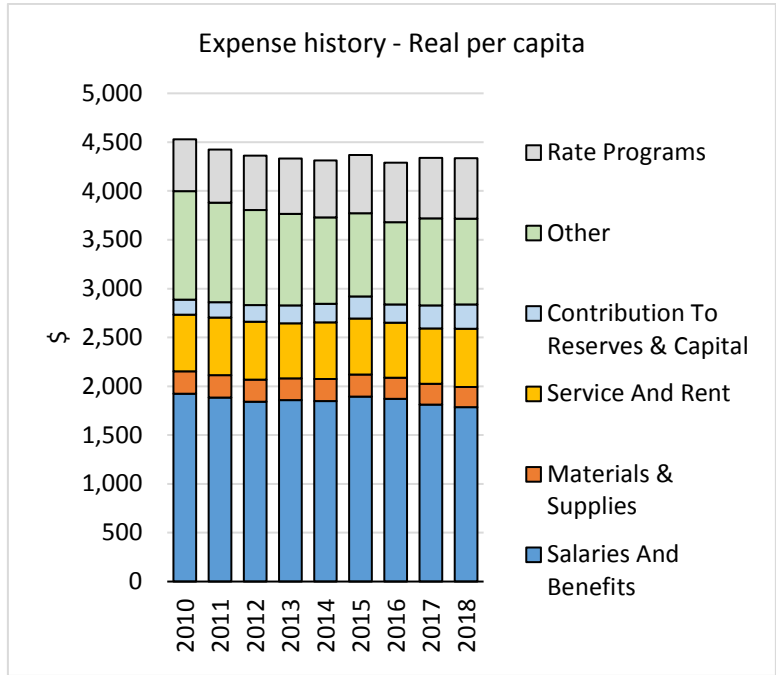
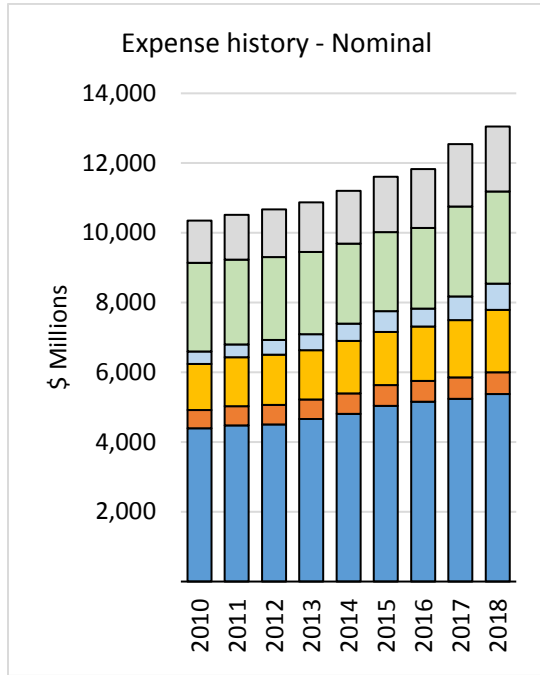
## Summary

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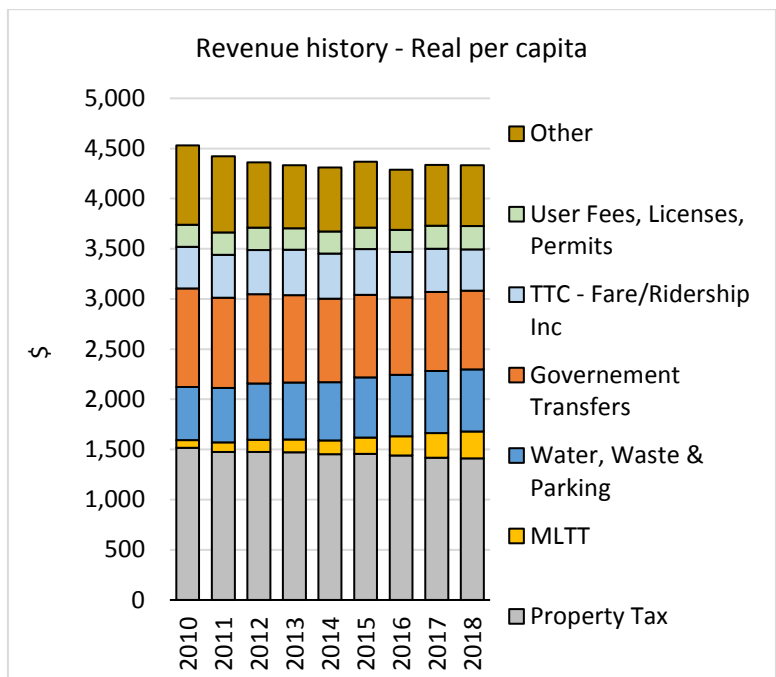
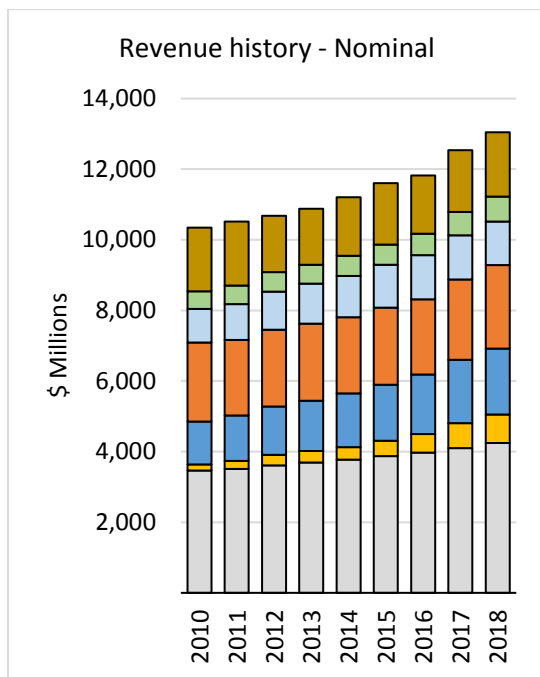
A selection of fiscal performance measures illustrates the challenges and opportunities facing the City. In general, fiscal constraint has shrunk the City's spending footprint in terms of GDP, while tax revenue has taken an increasingly smaller share of real estate value. At the same time, capital spending and related debt is growing but not nearly as fast as the City's enumerated capital aspirations. Rising interest rates would exacerbate the challenge to address these spending demands.

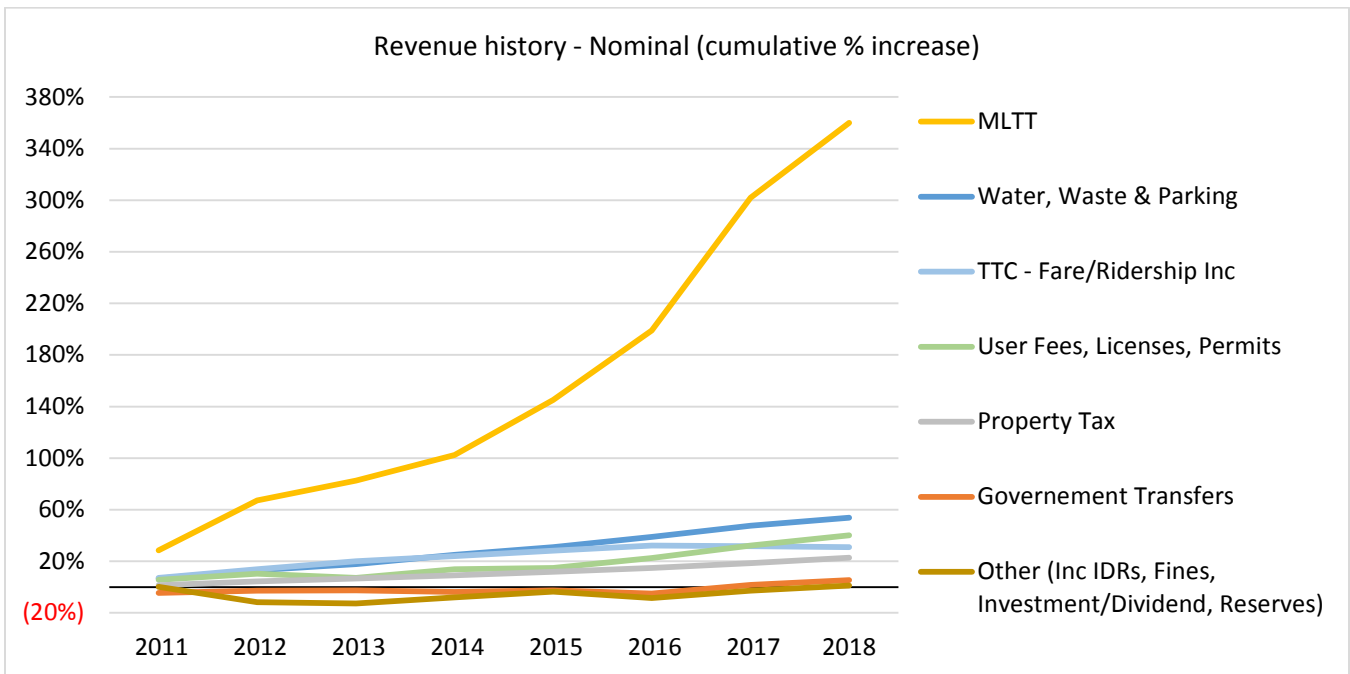
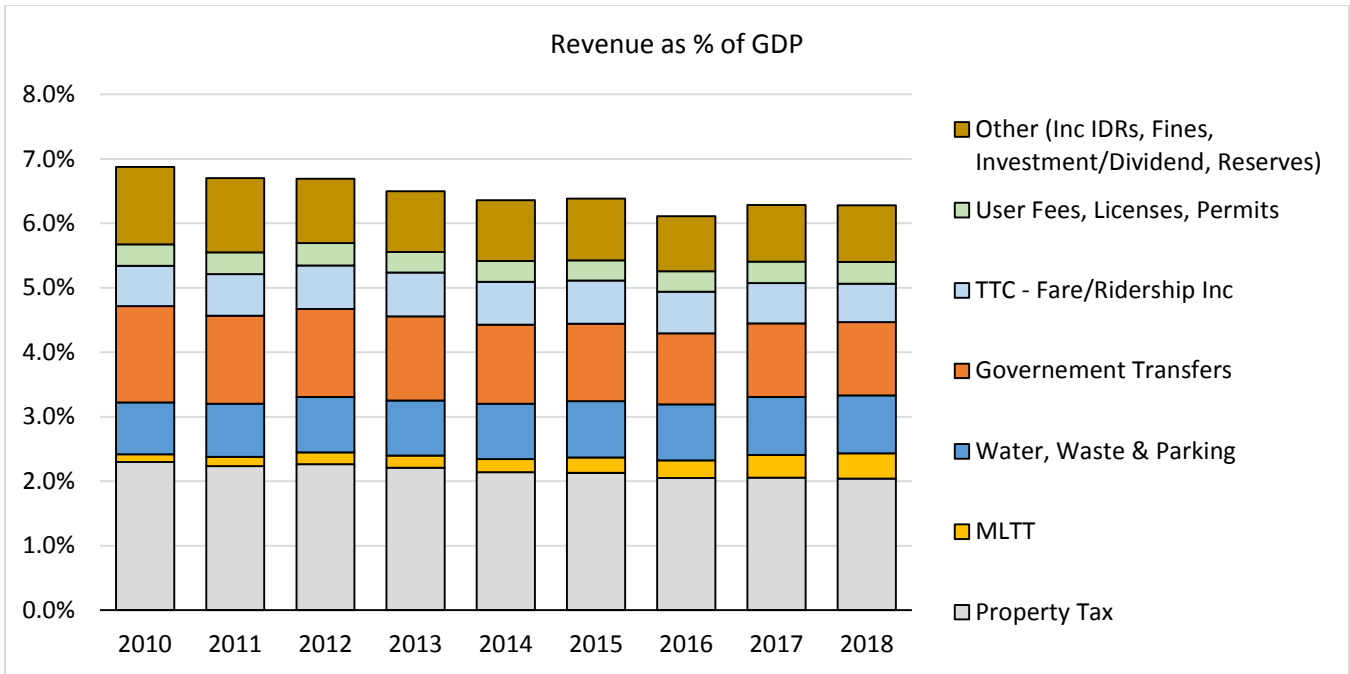
# APPENDIX 2: FINANCIAL HISTORY AND FORECAST

## Operating expense history



## Operating revenue history





## Operating forecast

| Cumulative, Status Quo, \$ Millions   | Budget<br>2018  | Projected<br>2019 | Projected<br>2020 | Projected<br>2021 | Projected<br>2022 | Projected<br>2023 |
|---|-----------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| <b>Status quo</b>   |                 |                   |                   |                   |                   |                   |
| Expenditures  |                 |                   |                   |                   |                   |                   |
| Salaries & Benefits   | 5,379.9         | 5,529.9           | 5,651.4           | 5,794.2           | 5,941.5           | 6,093.1           |
| Materials, Supplies & Equipment   | 671.1           | 718.2             | 750.5             | 781.5             | 814.3             | 849.0             |
| Service and Rents   | 1,502.0         | 1,566.5           | 1,596.8           | 1,618.3           | 1,640.2           | 1,662.2           |
| Contributions & Transfers   | 1,563.1         | 1,512.1           | 1,473.2           | 1,473.2           | 1,473.2           | 1,473.2           |
| Corporate Costs   | 297.3           | 308.5             | 314.4             | 318.4             | 321.6             | 327.8             |
| Debt Servicing Costs  | 603.9           | 649.0             | 715.5             | 744.4             | 723.5             | 761.4             |
| Current from Capital  | 373.4           | 408.6             | 447.3             | 490.0             | 537.0             | 588.7             |
| Tax Related Expenses  | 424.0           | 432.2             | 440.1             | 455.1             | 455.1             | 455.1             |
| Other Expenditures (IDC, Op Impacts of Cap)   | 374.5           | 386.1             | 406.5             | 432.7             | 477.3             | 477.3             |
| Rate Programs   | 1,860.4         | 1,909.2           | 1,964.3           | 2,014.9           | 2,067.1           | 2,120.9           |
| <b>Gross expenditures</b>   | <b>13,049.5</b> | <b>13,420.2</b>   | <b>13,760.0</b>   | <b>14,122.8</b>   | <b>14,450.8</b>   | <b>14,808.8</b>   |
| Revenues  |                 |                   |                   |                   |                   |                   |
| User Fees   | 574.1           | 592.4             | 592.8             | 611.6             | 631.1             | 651.1             |
| TTC Fares   | 1,238.6         | 1,256.7           | 1,295.3           | 1,327.6           | 1,361.9           | 1,394.2           |
| Government Transfers  | 2,361.4         | 2,290.1           | 2,236.8           | 2,236.8           | 2,236.8           | 2,236.8           |
| Reserve Draws   | 507.9           | 423.7             | 408.2             | 408.2             | 408.2             | 408.2             |
| Investment and Dividend Income  | 258.4           | 274.2             | 285.2             | 285.2             | 285.2             | 285.2             |
| Other (Inter-Departmental Recoveries, etc.)   | 953.2           | 938.3             | 897.1             | 897.5             | 897.5             | 897.5             |
| Municipal Land Transfer Tax   | 817.7           | 817.7             | 817.7             | 817.7             | 817.7             | 817.7             |
| Property Tax  | 4,176.2         | 4,293.1           | 4,407.1           | 4,520.8           | 4,634.8           | 4,747.8           |
| Scarborough Subway Levy   | 40.7            | 40.7              | 40.7              | 40.7              | 40.7              | 40.7              |
| Capital Building Fund Levy  | 28.7            | 43.7              | 58.7              | 73.7              | 73.7              | 73.7              |
| Additional Tax Revenue (Payments in Lieu of Tax, Hotel Tax, Sign Tax, Tax Penalties, etc..) | 232.4           | 235.2             | 235.0             | 235.0             | 235.0             | 235.0             |
| Rate Programs Revenue (Water, Parking, Solid Waste)   | 1,860.4         | 1,909.2           | 1,964.3           | 2,014.9           | 2,067.1           | 2,120.9           |
| <b>Revenues</b>   | <b>13,049.5</b> | <b>13,114.9</b>   | <b>13,239.0</b>   | <b>13,469.9</b>   | <b>13,689.8</b>   | <b>13,909.0</b>   |
| <b>Net gap / (surplus)</b>  | <b>-</b>        | <b>305.3</b>      | <b>521.0</b>      | <b>652.9</b>      | <b>761.0</b>      | <b>899.8</b>      |
| <b>Unfunded Council approved strategies &amp; plans</b>                                     |                 |                   |                   |                   |                   |                   |
| Expenditures  | -               | 102.1             | 233.6             | 323.7             | 408.0             | 520.3             |
| Revenues  | -               | (36.5)            | (92.1)            | (140.7)           | (192.6)           | (265.1)           |
| <b>Net Increase</b>   | <b>-</b>        | <b>66.5</b>       | <b>141.5</b>      | <b>183.0</b>      | <b>215.4</b>      | <b>255.2</b>      |
| <b>Debt servicing costs related to unfunded capital projects</b>                            |                 |                   |                   |                   |                   |                   |
| <b>Increase in Debt Changes</b>   | <b>-</b>        | <b>17.1</b>       | <b>67.9</b>       | <b>124.9</b>      | <b>199.7</b>      | <b>265.0</b>      |
| <b>Deficit based on all known commitments</b>   |                 |                   |                   |                   |                   |                   |
| <b>Net gap / (surplus)</b>  | <b>-</b>        | <b>388.0</b>      | <b>730.4</b>      | <b>960.9</b>      | <b>1,176.1</b>    | <b>1,420.0</b>    |



## Assumptions and sensitivities

### Assumptions

| Item                             | Assumption  |
|----------------------------------|---|
| Contributions and transfers      | <ul style="list-style-type: none"> <li>- Includes known impacts (such as the elimination of one-time expenditures)</li> <li>- Other than known impacts, assumed no other changes to contributions and transfers</li> </ul>  |
| Current from Capital             | <ul style="list-style-type: none"> <li>- Assumes 10% growth per year</li> </ul>   |
| Debt servicing costs             | <ul style="list-style-type: none"> <li>- Based on forecasted debt servicing costs related to the Council Approved 2017 Capital Budget and 10 year plan</li> </ul>   |
| Government transfers             | <ul style="list-style-type: none"> <li>- Includes known impacts (such as the one-time elimination of one-time expenditures)</li> <li>- Other than known impacts, assumed no other changes to government transfers</li> </ul>  |
| Material, supplies and equipment | <ul style="list-style-type: none"> <li>- Increases based on forecasted inflationary factors</li> <li>- Includes known impacts such as impact of 2017 decisions and future operating impacts of capital</li> </ul>   |
| Municipal Land Transfer Tax      | <ul style="list-style-type: none"> <li>- Assumes flat growth</li> </ul>   |
| Other / corporate expenditures   | <ul style="list-style-type: none"> <li>- Includes known impacts (such as the impact of 2017 decisions and operating impacts of capital)</li> </ul>  |
| Other Revenues                   | <ul style="list-style-type: none"> <li>- Includes known impacts (such as the impact of 2017 decisions and operating impacts of capital)</li> <li>- Assumes no other changes to other revenues</li> </ul>  |
| Property Tax                     | <ul style="list-style-type: none"> <li>- Assumes annual 2% inflationary based increase on residential rates</li> <li>- Assumes average increase of \$50 million of assessment growth per year</li> </ul>  |
| Rate program increases           | <ul style="list-style-type: none"> <li>- Based on existing planned increase for rate programs                             <ul style="list-style-type: none"> <li>o Solid Waste: 3.9% increase for 2018-2022</li> <li>o Toronto Water: 5% increase for 2018, 3% increase for 2019-2022</li> <li>o Toronto Parking: Assumes no rate increase</li> </ul> </li> </ul> |
| Salaries and benefits            | <ul style="list-style-type: none"> <li>- Salary increases are based on existing labor contracts</li> <li>- Benefits increases are based on past rate increase experience and trends</li> <li>- Includes known impacts such as impact of 2018 decisions and future operating impacts of capital</li> </ul>   |
| Service and rents                | <ul style="list-style-type: none"> <li>- Increases based on forecasted inflationary factors</li> <li>- Contacted services increases based on existing contract increases</li> <li>- Also includes known impacts such as impact of 2017 decisions and future operating impacts of capital</li> </ul>   |
| Tax related expenditures         | <ul style="list-style-type: none"> <li>- Includes known impacts (such as the depletion of the assessment appeal stabilization reserve, expansion of the City Building Fund levy reserve contribution )</li> <li>- Other than known impacts, assumed no other changes to tax related expenditures</li> </ul>   |
| TTC fares                        | <ul style="list-style-type: none"> <li>- Includes known impacts (such as the impact of 2018 decisions and operating impacts of capital)</li> <li>- Includes increase based on projected TTC ridership increases</li> <li>- Assumes no TTC fare price increases</li> </ul>   |
| User fees                        | <ul style="list-style-type: none"> <li>- Includes known impacts (such as the impact of 2017 decisions and operating impacts of capital)</li> <li>- Includes increase based on inflation and population increases</li> </ul>   |

## Municipal Land Transfer Tax

Indicative impact on the City's Municipal Land Transfer Tax revenue under the housing market correction scenarios as described by the Financial Accountability Office of Ontario (FAO).<sup>13</sup>

| 2017 Scenario                    | Consumer Expectation Assumptions   | Interest Rate Assumptions   | FAO's Estimated Impact on Home Prices   |
|----------------------------------|--|---|---|
| <b>Base Case (Fall 2016 EFO)</b> | Households expect house prices to rise by 7% in 2017 – a growth rate consistent with recent trends | Interest rates rise gradually beginning in 2018 as outlined in the Fall 2016 Economic & Fiscal Outlook (EFO). | Household expectations for moderately higher house prices are tempered by a gradual increase in interest and mortgage rates, resulting in house prices increasing moderately (by 4%) in 2017, and then trending modestly lower over the next three years. |
| <b>Low Impact</b>                | Households expect house prices to rise by a more modest 3% in 2017.                                | Interest rates jump by 100 basis points in 2017 above the EFO baseline forecast.                              | 10 % decline in actual home resale prices from 2016 to 2020.  |
| <b>Medium Impact</b>             | Households expect prices to remain unchanged in 2017 compared to 2016.                             | Interest rates jump by 100 basis points in 2017 above the EFO baseline forecast.                              | 13.5% decline in actual home resale prices from 2016 to 2020.   |
| <b>High Impact</b>               | Households expect prices to fall by 7% in 2017.  | Interest rates jump by 100 basis points in 2017 above the EFO baseline forecast.                              | 20% decline in home prices from 2016 to 2020.   |

| 2017 Scenarios       | Resale home price | No. of transactions | Combined revenue impact over 4 years |
|----------------------|-------------------|---------------------|--------------------------------------|
| <b>Low impact</b>    | (10%)             | (5%)                | (14%)                                |
| <b>Medium impact</b> | (14%)             | (7%)                | (17%)                                |
| <b>High impact</b>   | (20%)             | (9%)                | (25%)                                |

| Cumulative annual impacts of housing market correction |        | 2017  | 2018  | 2019  | 2020  |
|--|--------|-------|-------|-------|-------|
| <b>Revenue Reduction %</b>                             | Low    | (7%)  | (10%) | (13%) | (14%) |
|  | Medium | (9%)  | (13%) | (16%) | (17%) |
|  | High   | (12%) | (18%) | (23%) | (25%) |
| <b>Revenue Reduction (\$M)</b>                         | Low    | (49)  | (72)  | (89)  | (96)  |
|  | Medium | (60)  | (90)  | (110) | (120) |
|  | High   | (84)  | (130) | (160) | (174) |

Note: None of the scenarios above included the OSFI B20 mortgage stress test rule changes effective January 1, 2018

<sup>13</sup> Financial Accountability Office of Ontario (2017). The Impact of a Housing Market Correction on Ontario's Fiscal Position. Retrieved from [http://www.fao-on.org/en/Blog/Publications/Housing\\_Market16821](http://www.fao-on.org/en/Blog/Publications/Housing_Market16821)

## Debt servicing impact of unfunded capital (\$30 billion gross for the period of 2019-2028)

| (\$ millions, incremental year-over-year impact on debt charges) | 2019 | 2020 | 2021 | 2022 | 2023 | Total |
|--|------|------|------|------|------|-------|
| 100% Debt Funded   | 30   | 106  | 158  | 214  | 243  | 750   |
| 66% Debt Funded  | 17   | 64   | 105  | 140  | 154  | 480   |
| 33% Transit/Housing, 50% SOGR/Other Debt Funding                 | 17   | 51   | 57   | 75   | 65   | 265   |
| 33% Debt Funded  | 13   | 41   | 48   | 56   | 65   | 223   |

## Impact of interest rates on debt charges

| Debt Borrowing Rates (Base Case) | 2018  | 2019  | 2020  | 2021  | 2022  | 2023  |
|----------------------------------|-------|-------|-------|-------|-------|-------|
| 10 Year                          | 3.30% | 3.85% | 4.10% | 4.10% | 4.10% | 4.10% |
| 20 Year                          | 4.00% | 4.52% | 4.70% | 4.90% | 4.90% | 4.90% |
| 30 Year                          | 4.10% | 4.62% | 4.80% | 5.00% | 5.00% | 5.00% |

| Debt Borrowing Rates (100 bps increase) | 2018  | 2019  | 2020  | 2021  | 2022  | 2023  |
|---|-------|-------|-------|-------|-------|-------|
| 10 Year                                 | 4.30% | 4.85% | 5.10% | 5.10% | 5.10% | 5.10% |
| 20 Year                                 | 5.00% | 5.52% | 5.70% | 5.90% | 5.90% | 5.90% |
| 30 Year                                 | 5.10% | 5.62% | 5.80% | 6.00% | 6.00% | 6.00% |

| Impact in \$ Millions    | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|--------------------------|------|------|------|------|------|------|
| Difference - Absolute    | 4.5  | 13.5 | 21.5 | 29.3 | 34.5 | 36.8 |
| Difference - Incremental | 4.5  | 9.0  | 8.0  | 7.8  | 5.3  | 2.3  |

## Detailed inflationary assumptions

|                             | 2018  | 2019   | 2020  | 2021  | 2022  | 2023  |
|-----------------------------|-------|--------|-------|-------|-------|-------|
| Printing & Paper Products   | 1.20% | 1.10%  | 1.05% | 1.05% | 1.05% | 1.05% |
| Utilities - Hydro (General) | 1.80% | 7.90%  | 7.90% | 7.90% | 7.90% | 7.90% |
| Utilities - Hydro (TTC)     | 2.90% | 11.20% | 8.60% | 8.60% | 8.60% | 8.60% |
| Utilities - Steam Heating   | 3.00% | 3.00%  | 3.00% | 3.00% | 3.00% | 3.00% |
| Utilities - Natural Gas     | 1.00% | 2.00%  | 2.00% | 2.00% | 2.00% | 2.00% |
| Utilities - Water           | 5.00% | 3.00%  | 3.00% | 3.00% | 3.00% | 3.00% |
| Utilities - Chilled Water   | 2.10% | 2.10%  | 2.10% | 2.10% | 2.10% | 2.10% |
| Gasoline                    | 3.90% | 2.80%  | 2.70% | 2.70% | 2.70% | 3.90% |
| Diesel                      | 3.90% | 2.80%  | 2.70% | 2.70% | 2.70% | 3.90% |
| Food                        | 2.40% | 2.30%  | 2.40% | 2.40% | 2.40% | 2.40% |

|  | 2018  | 2019  | 2020  | 2021  | 2022  | 2023  |
|--|-------|-------|-------|-------|-------|-------|
| Postage                                    | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Telephone/Cellular                         | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Bldg / Trade Materials / Tools & Equipment | 2.80% | 2.90% | 2.80% | 2.90% | 2.80% | 2.80% |
| Salt                                       | 0.39% | 1.09% | 1.09% | 1.09% | 1.09% | 1.09% |
| Medical Supplies                           | 2.20% | 2.20% | 2.20% | 2.20% | 2.20% | 2.20% |
| CPI - General                              | 2.12% | 2.28% | 2.24% | 2.10% | 2.10% | 2.10% |

Data sources: Conference Board of Canada; Canada Post; Moody's; Facilities, Real Estate, Environment and Energy Divisions; Fleet Services Division; Toronto Water Division; Purchasing and Materials Management Division; Information and Technology Division; Economic Development and Culture Division.

### Inflation sensitivities

|   | 2019          | 2020          | 2021          | 2022          | 2023          |
|---|---------------|---------------|---------------|---------------|---------------|
| <b>Base Estimate - Included in forecast (Based on Moody's / Conference Board of Canada Forecasts)</b> |               |               |               |               |               |
| CPI - General   | 2.28%         | 2.24%         | 2.10%         | 2.10%         | 2.10%         |
| <b>High Estimate - Based on CPI increase from 1986-1990</b>   |               |               |               |               |               |
| CPI - General   | 4.71%         | 5.60%         | 5.02%         | 6.31%         | 4.66%         |
| <b>Low Estimate - Based on CPI increase from 1992-1996</b>  |               |               |               |               |               |
| CPI - General   | 0.86%         | 1.62%         | 0.15%         | 2.38%         | 1.73%         |
| <b>High Estimate (\$M)</b>  |               |               |               |               |               |
| <b>Total - Incremental</b>  | <b>21.6</b>   | <b>29.4</b>   | <b>26.7</b>   | <b>42.3</b>   | <b>28.9</b>   |
| <b>Total - Cumulative</b>   | <b>21.6</b>   | <b>51.0</b>   | <b>77.7</b>   | <b>120.0</b>  | <b>148.9</b>  |
| <b>Low Estimate (\$M)</b>   |               |               |               |               |               |
| <b>Total - Incremental</b>  | <b>(10.5)</b> | <b>(5.8)</b>  | <b>(18.2)</b> | <b>(1.6)</b>  | <b>(4.0)</b>  |
| <b>Total - Cumulative</b>   | <b>(10.5)</b> | <b>(16.3)</b> | <b>(34.5)</b> | <b>(36.0)</b> | <b>(40.0)</b> |

Methodology: The thirty year historical trend was analyzed in the Toronto CMA using data from Statistics Canada. Two high periods (1986 to 1990) and low periods (1992 to 1996) were selected and used to set upper and lower thresholds. The status quo includes estimates based on a combination of Moody's and Conference Board of Canada estimates.

### Energy cost sensitivities

|  | 2019   | 2020  | 2021  | 2022  | 2023  |
|--|--------|-------|-------|-------|-------|
| <b>Base Estimate - Included in forecast (Based on impact of Ontario's Fair Use Plan)</b> |        |       |       |       |       |
| Utilities - Hydro (General)  | 7.80%  | 7.80% | 7.80% | 7.80% | 7.80% |
| Utilities - Hydro (TTC)  | 11.20% | 8.60% | 8.60% | 8.60% | 8.60% |

|  | 2019         | 2020         | 2021         | 2022         | 2023         |
|--|--------------|--------------|--------------|--------------|--------------|
| <b>Adjusted Estimate – Does not include savings from Ontario's Fair Use Plan</b> |              |              |              |              |              |
| Utilities - Hydro (General)  | 9.80%        | 10.00%       | 10.00%       | 10.00%       | 10.00%       |
| Utilities - Hydro (TTC)  | 12.80%       | 10.00%       | 10.00%       | 10.00%       | 10.00%       |
| <b>Energy – Status quo (\$M)</b>   |              |              |              |              |              |
| <b>Total</b>   | <b>206.4</b> | <b>223.3</b> | <b>241.6</b> | <b>261.3</b> | <b>282.7</b> |
| <b>Energy – Adjusted Estimate (\$M)</b>  |              |              |              |              |              |
| <b>Total</b>   | <b>209.8</b> | <b>230.7</b> | <b>253.8</b> | <b>279.2</b> | <b>307.1</b> |
| <b>Difference - Absolute</b>   | <b>3.3</b>   | <b>7.4</b>   | <b>12.3</b>  | <b>17.9</b>  | <b>24.4</b>  |
| <b>Difference - Incremental</b>  | <b>3.3</b>   | <b>4.1</b>   | <b>4.8</b>   | <b>5.6</b>   | <b>6.6</b>   |

### Gas cost sensitivities

|  | 2019         | 2020         | 2021         | 2022         | 2023         |
|--|--------------|--------------|--------------|--------------|--------------|
| <b>Base Estimate - Included in forecast<sup>14</sup></b> |              |              |              |              |              |
| Gasoline   | 2.80%        | 2.70%        | 2.70%        | 2.70%        | 2.70%        |
| Diesel   | 2.80%        | 2.70%        | 2.70%        | 2.70%        | 2.70%        |
| <b>High Estimate<sup>15</sup></b>                        |              |              |              |              |              |
| Gasoline   | 13.00%       | 27.43%       | 4.20%        | 4.67%        | 4.46%        |
| Diesel   | 13.00%       | 27.43%       | 4.20%        | 4.67%        | 4.46%        |
| <b>Gas costs – Status quo (\$M)</b>                      |              |              |              |              |              |
| <b>Total</b>   | <b>108.6</b> | <b>111.6</b> | <b>114.6</b> | <b>117.7</b> | <b>120.8</b> |
| <b>Gas costs – High Estimate (\$M)</b>                   |              |              |              |              |              |
| <b>Total</b>   | <b>119.4</b> | <b>152.2</b> | <b>158.6</b> | <b>166.0</b> | <b>173.4</b> |
| <b>Difference - Absolute</b>                             | <b>10.8</b>  | <b>32.0</b>  | <b>35.2</b>  | <b>39.3</b>  | <b>43.3</b>  |
| <b>Difference - Incremental</b>                          | <b>10.8</b>  | <b>21.2</b>  | <b>3.2</b>   | <b>4.1</b>   | <b>4.0</b>   |

| Forecast                     | 2017 | 2018  | 2019*  | 2020   | 2021* | 2022* | 2023* |
|------------------------------|------|-------|--------|--------|-------|-------|-------|
| USD                          | 0.78 | 0.8   | 0.9    | 1.15   | 1.2   | 1.25  | 1.3   |
| CAD (Converted)              | 0.98 | 1     | 1.13   | 1.44   | 1.5   | 1.57  | 1.64  |
| % Increase YoY (Canadian \$) |      | 2.04% | 13.00% | 27.43% | 4.17% | 4.67% | 4.46% |

Methodology: 2019, 2021, 2022 and 2023 were estimates as were not include online in the model. Gas Price Model based on past trends and analysis and current as of July 21, 2017. The City of Toronto mitigates the risk of gas price sensitivity through hedging.

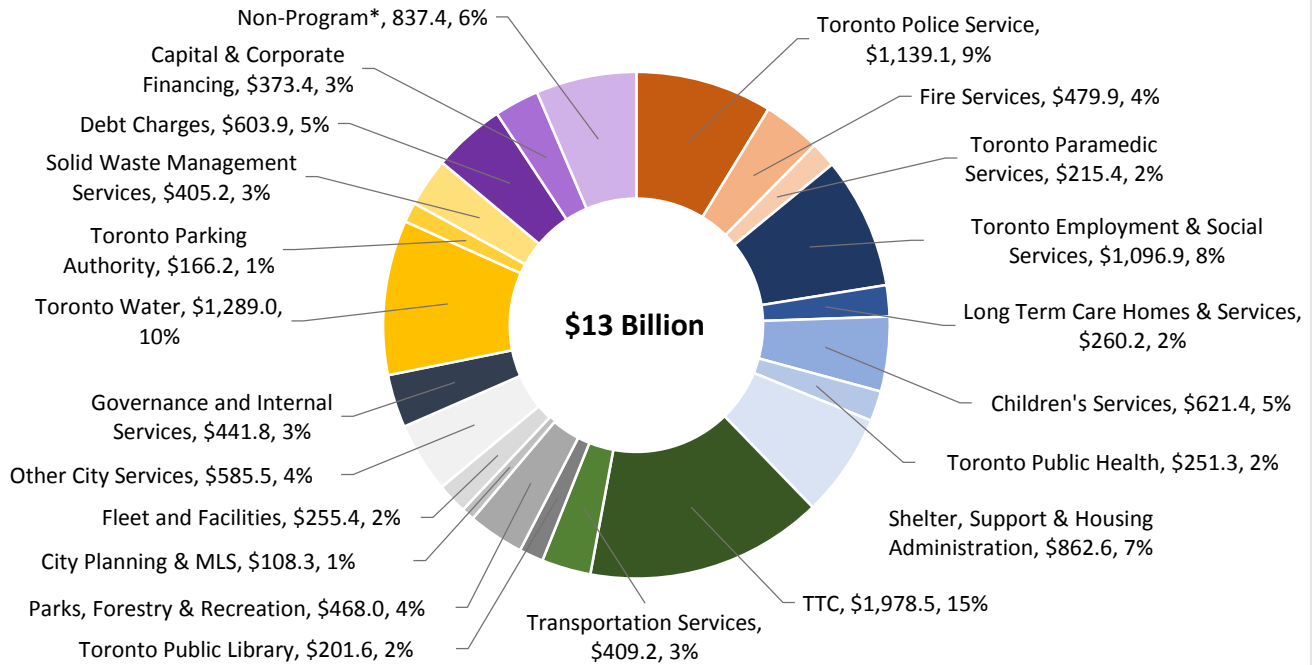
<sup>14</sup> Based on Fleet Services estimates – Includes hedging

<sup>15</sup> Based on forecast from <https://tradingeconomics.com/canada/gasoline-prices/forecast>

# Current expenditures and revenues

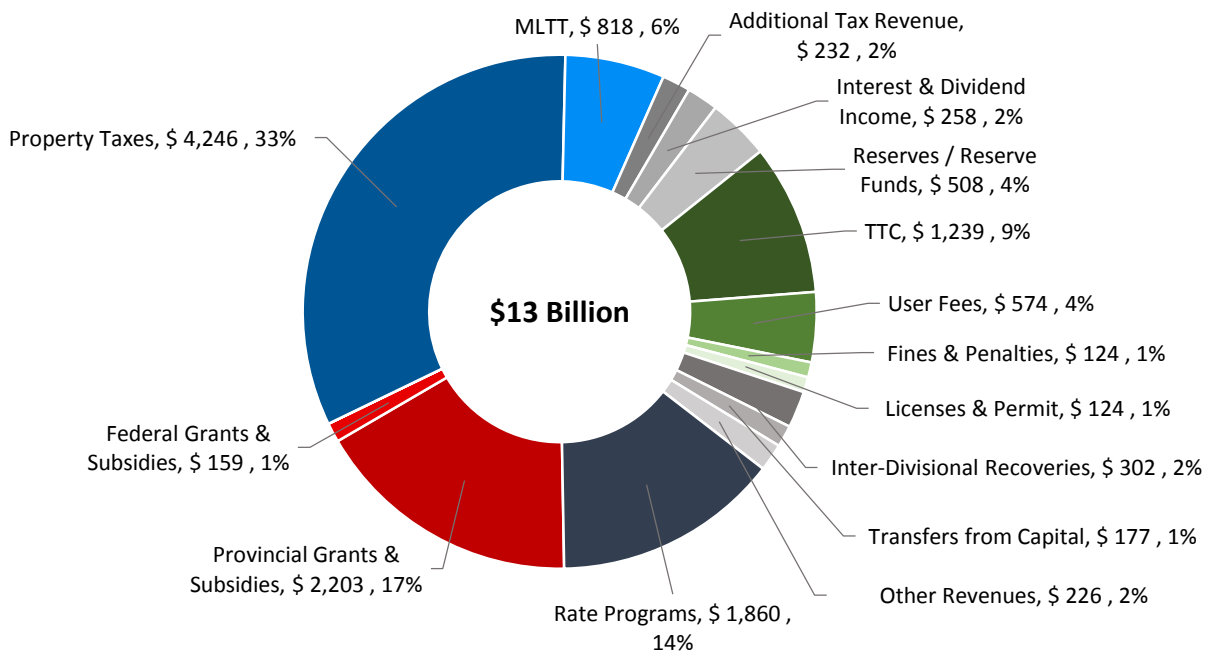
## Operating, 2018

### 2018 Tax- and Rate-Supported Operating Expenditures (\$M)

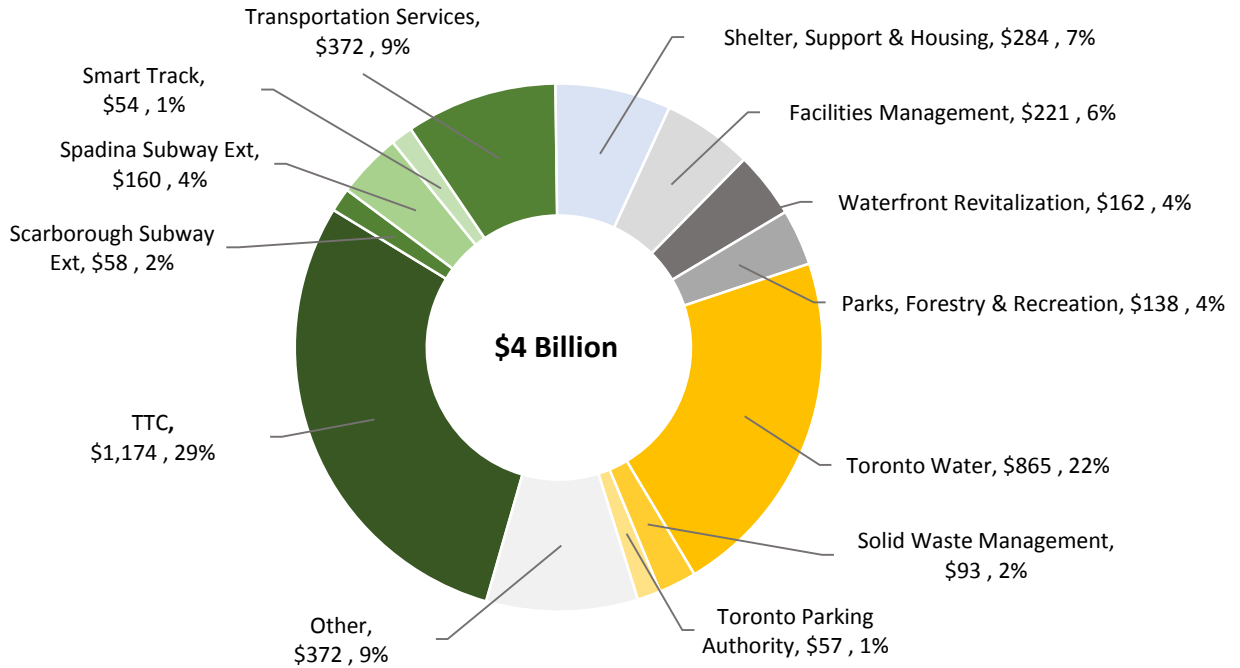


\* Includes reserve contributions for Scarborough Subway and City Building Levies

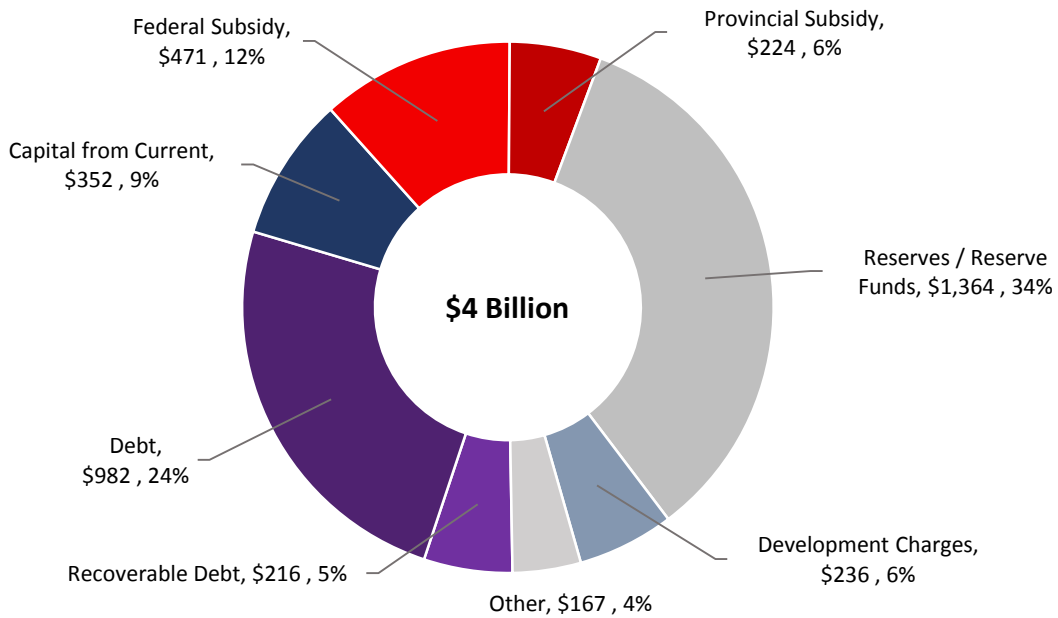
### 2018 Tax- and Rate-Supported Operating Revenues (\$M)



**2018 Tax- and Rate-Supported Capital Expenditures (\$M)**



**2018 Tax- and Rate-Supported Capital Revenues (\$M)**



# APPENDIX 3: CONSULTATION

## Public consultation

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City Council directed staff to undertake public consultations to provide input and advice on the renewal of the City's Long-Term Financial Plan. The consultation took place in two phases. Phase 1, in the fall of 2016, focused on how the City manages expenses, raises revenue and maximizes assets. Phase 2, in the spring of 2017, built on the input received in Phase 1 and incorporated new topics related to the City's systems of governance, decision-making and financial management. Consultation methodologies included online surveys, public meetings across the city and self-directed meetings hosted by community groups.

A full report, completed with detailed findings and methodology, can be found at [www.InvestingInTO.ca](http://www.InvestingInTO.ca).

### Key findings from the consultation

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- Participants understand the City's fiscal challenges and have faith in the people of Toronto to address those challenges with strong leadership from City Hall.
- A prevailing sentiment among participants is that expenses can be better managed by establishing and following through on clear, long-term, strategic goals and priorities.
- Participants are more likely to support spending if the link to strategic goals and priorities is clear.
- Participants overwhelmingly would like to see the City implement a rigorous, fact-based assessment process for capital projects to ensure decisions are made well and made just once.
- Participants were open to new revenue options, but there was no clear consensus on which options to pursue.
- There is strong opposition to the sale of assets, especially those supporting vital services or those generating revenue for the City.
- Data and digital tools were identified as ways to share more information with the public and guide decision-making.
- Participants value consultation and engagement very highly, want the City to seek a broader range of perspectives and enhance participation, and to see public input reflected, or at least reported, in decisions.
- Participants feel there are many improvements that could be made to the information and how it is shared, while acknowledging that it is very difficult to present budget information that is both comprehensive and easily accessible.
- Toronto is facing many enormous challenges that cannot be addressed only by adjusting priorities, but also according to participants need to be addressed, by focusing on building capacity, working more efficiently and finding creative solutions.
- Participants argued strongly in favour of the City having more powers to address the challenges it is facing. However, participants stated that this is not an excuse for not making better use of the powers it has.



## Key themes

### *Financial Health*

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Most respondents expressed a belief that the City is in poor financial health, with 62 per cent of respondents believing the City's finances are either somewhat unhealthy and unstable or very unhealthy and unstable (n=288). Roughly half of respondents feel that the City's finances are worse than they were five years ago (n=289). Respondents understood the financial challenge the City is facing. The public sees and experiences the increasing demands on the City's infrastructure – for example, noting that the skies are studded with cranes and TTC vehicles are overcrowded – and senses that infrastructure is falling behind.

A common theme among participants is that the municipal government should have stable leadership, establish long-term plans, have a strong relationship with the province and have a vision for what the city can become.

Participants understand the challenges the City faces, have faith in the people of Toronto to address them and welcome strong leadership from the City.

### *Expense Management*

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Participants frequently mentioned their interest in leadership and clarity when it comes to the City's expenses. Participants were divided on whether the City should begin the spending discussion by focusing on available revenues and then selecting priorities, or with projects and programs they would like to see implemented and then find appropriate revenues. They agreed on the need to establish clear, long-term, strategic goals and priorities – and to follow through on these commitments.

There was broad consensus on the need to apply clear criteria to spending decisions, such as the protection of vulnerable residents, adherence to established principles and distinguishing needs from wants. There was overwhelming support for greater transparency and accountability, more communication and more open government. With greater clarity about spending goals and performance measurement, the public would have more confidence in the City's financial management.

Many people stated their belief that expenses could be reduced by finding efficiencies. While the public is open to adjusting some service levels, there was no desire to reduce overall service levels.

Many respondents would like to see improvements in the planning process for capital spending. A number of participants would like the City to avoid revisiting spending decisions that have already been made. There were many suggestions for a more rigorous assessment process for capital projects, and for cuts to specific projects. The Gardiner Expressway reconstruction and Spadina Subway Extension were raised as examples.

### *Revenue Options*

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Consultations on the issue of revenue generation included 23 options that were presented to the public without ranking or recommendation by the City. Overall, opinions were mixed, but 16 of the 23 options were considered acceptable by over 50 percent of respondents city-wide.

A development levy, billboard tax and tobacco tax received the most support, with property tax increases, expressway tolling and Uber registration fee rounding out the top six. A municipal business income tax and municipal sales tax had the least support, and were the only options to earn less than 30 percent support.

### *Asset Management*

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Information for the asset management questions section of the consultation was also presented neutrally, without any specific recommendations from the City.

There was divided opinion on the issue of the sale of assets, with a slight majority of respondents against it under any circumstance. There was broad consensus, however, on the need for a measured approach, the development of business cases for the sale of any asset and prioritizing long-term value over short-term gain. In general, participants do not want to explore privatizing services that people depend on, are considered essential, or those that generate revenue for the City.

### *Decision-Making and Governance*

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Consensus emerged around the desire for a clear, long-term framework to guide decisions. Many concerns were raised about specific decisions made by Council, but they were out of scope of the consultation. There was vigorous debate on many issues including, for example, whether to begin the budget process with a spending limit or a wish list. It was evident to participants that the City cannot undertake projects without funding, but many participants felt that the absence of committed funds (including those in the City's own budget) should not preclude examination and prioritization of projects.

### *Financial and Other Decision-Making Information*

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To be able to provide better input, most participants want more information and for that information to be presented in a way they can more easily understand. Participants acknowledge a tension between providing all the data available, which is inherently complex, and providing more accessible data, which often requires reducing the level of detail. Participants suggested potential solutions to this challenge include:

- Providing more detail of spending at the community level
- Presenting alternative spending options, and cost and benefit analysis
- Expanding the open data program to include more topics and sources
- Using narrative or storytelling to present information
- Developing charts and visualizations that can be easily shared through social media
- Tracking the progress of programs and strategies
- Creating more dialogue and opportunities for the public to ask questions

Several participants wanted to see regular, long-term forecasting information made available to them, including potential issues and opportunities, so that they could provide feedback to Council. Participants also raised a need for more evidence-based decision-making.

### *Public Communications and Engagement*

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Participants almost universally welcome increased transparency and engagement. They would like to see engagement embedded in City governance. There was also a sense that the City is increasingly open and engaging. Some suggested the City could make better use of data and use digital tools to help engage the public. Open data received attention as an excellent tool for public information. Participants also felt that the City could make better informed decisions by aggregating and analyzing public data.

Residents who participated in this consultation indicated a strong belief that the City's greatest assets in addressing its fiscal challenges are Toronto's diverse population and its social cohesion. The majority of respondents believe diversity, tolerance, multiculturalism and openness to new people and ideas is Toronto's strongest asset. Many respondents believe that Toronto residents are engaged in their communities, care to vote and are well-informed.

Overwhelmingly, participants would like their input taken more seriously by the City. They believe public input should carry more weight in City decision-making than it currently does. They would also like to see broadening participation on long-term issues, including the environmental and social impact of different decisions, for example. It also means broadening inclusion to actively reach out to people, communities and interests that are not typically reflected in public consultation processes. The only caveat to increasing participation is a desire to streamline decision-making.

### *Balancing Priorities*

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Participants suggested that demonstrating the value of City programs and projects through transparent evaluation would help increase support and credibility, and possibly future investment, rather than being limited to the funds available.

Some participants argued in favour of focusing on fewer priorities since trying to do too much might lead to poorer quality and less effective work. However, in general, there was a feeling that the City could not limit its priorities. Participants argued that there are too many enormous, complex, multidimensional challenges that need to be addressed – whether the City is ready or not. Participants argued that the City should focus on building capacity, working more efficiently and finding creative solutions.

Many participants cited the size and complexity of these challenges as their argument for the need to increase the City's powers. At the same time, some participants felt that the City could make better use of the power it has before asking for more. In general, many participants felt that the City could both use existing powers more effectively and benefit from new ones.

## Stakeholder input

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Separately from the public consultation on the Long-Term Financial Plan, City staff received submissions or held meetings with stakeholders and organizations from Toronto's business community on potential revenue strategies. Stakeholders and organizations included the Toronto Region Board of Trade, Real Estate Industry Coalition, Greater Toronto Hotel Association, Tourism Toronto, business improvement areas, Cineplex Entertainment, Movie Theatre Association of Canada, Ontario Association of Cemetery and Funeral Professionals, Canadian Automobile Association, Canadian Courier and Logistics Association, Ontario Trucking Association, Beck Taxi, Zipcar iTaxiworkers Association and Uber.

These stakeholders and organizations provided constructive comments, although they generally do not support targeted revenue strategies, for example special taxes and levies, which may directly or indirectly put additional financial burden on their members, create competitive disadvantage in Toronto, cause economic distortions, or raise tax revenues disproportionately from select activities with no identified public policy benefit. They support strategies perceived as fair, transparent and evenly shared. For example, the Board of Trade expressed concern over the potentially severe and somewhat arbitrary tax burden that a parking lot tax could cause, but it supported the City's request to seek authority to implement an expressway toll.