



# BLUEPRINT

## for Fiscal Stability and Economic Prosperity — a Call to Action

### REPORT HIGHLIGHTS Mayor's Fiscal Review Panel

CITY OF TORONTO, ONTARIO

FEBRUARY 21, 2008

## **The Independent Fiscal Review Panel**

In October 2007 His Worship Mayor David Miller established a City of Toronto Independent Fiscal Review Panel with instruction to report by February, 2008. Its terms of reference are as follows:

“To provide the Mayor of Toronto with:

1. **A high level, impartial and objective assessment of the City of Toronto’s relative competitiveness, financial position, revenue opportunities and savings potential in the near to medium term.**
2. **To make a series of comments and recommendations with a view towards helping enable the City to improve its efficiency, effectiveness, economic prosperity, livability and create opportunity for all.”**

In response to this mandate, we have set out our recommendations which we have called *A Blueprint for Fiscal Stability and Economic Prosperity — A Call to Action*. Our final comments and recommendations are based on what we learned, collectively and individually, in over 200 meetings with City personnel, provincial officials, academics, experts, mayors of other municipalities and a broad sampling of people interested in civic politics. We studied thousands of pages of material provided by the City and other interested groups and parties. In the end, we recognize that the Mayor and the City face daunting challenges, but we are also aware of the great potential of the City to grow and prosper in spite of these challenges. Too often the focus is on the negative. We have been impressed by how many things the City does well. Our hope is that our recommendations will help it do much better.

We have grouped our recommendations under the following headings: Governance Structures and Processes; Fiscal Prudence; Revenue Diversification and Growth; More Flexibility from People; and Breaking Down Barriers. We believe that taken together they provide the following benefits to the City:

## General Financial Highlights

- A blueprint for the City to reach a position of fiscal stability and economic prosperity in the short to medium term.

At a high level, as a package, this includes the potential to: reduce current tax supported debt of the City (**\$2.6 billion**) from the after tax proceeds of the potential monetization of certain assets totaling **\$3.5 billion** and with it the corresponding reduction in debt service charges (including principal and interest) of **\$440 million** to create more fiscal elbow room to finance future capital spending needs or other high priority areas; bridge the provincially-mandated services shortfall of **\$200 million** annually and secure the forgiveness of an outstanding provincial loan of **\$170 million**; find **\$50 million** in 2008 in efficiencies and other savings, and **\$150 million** or more in 2009 and beyond; unlock **\$150 million** of incremental value annually from better use of the City's **\$17.9 billion** real estate holdings; unlock **billions of dollars** from partnering with the Province on new regional transportation policies; and uncover or unlock **tens of millions of dollars** and more over time through other revenue gains, expense reductions, and opportunities through effective implementation of some of the suggestions made herein.

## Specific Highlights Corresponding to Recommendations

### Governance Structure and Processes

- A reformed governance structure that enables the City to set priorities and make clear choices and that allows the Mayor, Executive Committee and Council to set the vision and strategy, yet hold management responsible and accountable for implementation.
- A streamlined budget process that will provide enhanced financial oversight of the City's books and those of the City's subordinate Agencies, Boards, Commissions and Corporations (ABCCs) — which account for more than 30% of the total budget — and more tools to make sound long-term economic decisions and plans.

### **Fiscal Prudence**

- A commitment to set fiscal targets that could result in \$50 million in savings in 2008 and \$150 million in savings in 2009 and much more accountability to taxpayers.
- The potential to reduce and contain several cost areas through new or enhanced strategies including programs in connection with outsourcing, procurement and other shared services integration. These can contribute to significant savings in years 2009 and beyond.
- A benchmarking and monitoring plan that will allow the City to better understand its strengths, weaknesses and competitiveness both within Canada and North America. This will put the Mayor and Council in a position where they can focus on becoming world-class in certain strategic areas and to get out of other areas altogether.

### **Revenue Diversification and Growth**

- A new multifaceted approach to increase the revenue base including encouraging more development, greater recovery on user fees, and exploring the potential to upload the Don Valley Parkway and the Gardiner Expressway in exchange for significant revenue gains and an equity stake in a broader regional transportation network worth many billions of dollars.
- A systematic review of capital assets including a roadmap for offsetting significant portions of the current tax supported cumulative debt to allow the City the elbow room to finance strategic investments in the TTC, infrastructure projects and other key priorities.
- The opportunity to unlock huge value from the City's vast and valuable real estate asset base by bringing together a unified real estate entity and team servicing and focusing upon the entire real estate portfolio over which the City has influence and/or control.

### **Investing in a High Performance Flexible Workforce**

- A more open and flexible long-term strategic human resources plan to improve morale, productivity, safety, and cooperation within the City's workforce.

## Breaking Down Barriers

- A plan for much more alignment, cooperation and increased oversight of the 119 Agencies, Boards, Commissions and Corporations creating more opportunities for savings and joint initiatives.
- New planning and economic development programs to enhance the City's economic health and competitiveness resulting in new projects and more overall investment and job creation in the City.
- The renewed financial strength and credibility will open up the door for a much more reasonable and long-term cost sharing solution between the City and the federal and provincial governments in areas such as transit, transportation, and regional infrastructure. This will involve a higher level of trust and cooperation between the parties, more flexibility as to “who does what” in the future and clarity with respect to specific areas of funding that have been debated for more than a decade. This should bring certainty to several hundred million dollars of annual funding, shortfalls and several billion of transportation and infrastructure funding.

These can clearly put the City on the right track of fiscal stability and economic sustainability. Attaining this state will allow the City to embark upon and achieve its many other exciting and important goals in service of providing greater economic prosperity and opportunity for all. These can range from small initiatives to massive new social and economic projects.

We have tried to keep our recommendations short and relatively simple. There is little doubt that the City can ignore some or all of them, or write them off as too simplistic and continue on its present course. And in certain cases we freely acknowledge that more homework is required before a definitive decision to proceed can be made. It is our belief, however, that now is the time for the City to act before there is an acute crisis facing this great city — one that could have been avoided.

The following presents our specific Recommendations:

## **Summary of Recommendations**

### **Governance Structure and Processes**

#### **REFORM GOVERNANCE STRUCTURES**

**RECOMMENDATION:** The Mayor and Council change the governance structure of the City by adopting the recommendations and principles on governance in the recent Governing Toronto Advisory Panel report, including, but not limited to:

- The Mayor should have the power to direct, appoint, and dismiss the City Manager.
- There should be an assigned professional staff working for the Mayor and Executive Committee.
- Members of the Executive Committee should receive extra remuneration.
- The Mayor and the Executive Committee should set and communicate clear and focused priorities for the term of office.
- The Mayor and the Executive Committee, supported by Council, should set the overarching vision and strategy and hold management responsible and accountable for implementation.

**BENEFIT:** This Governance structure will set the stage for a much more focused and effective City government.

## STREAMLINE THE BUDGET PROCESS

**RECOMMENDATION:** The CFO needs to continue to streamline the City’s budget process, to complete top-down rolling five-year operating budgets, and ten-year capital budgets, and to have more oversight of the 119 Agencies, Boards, Commissions, and Corporations (ABCCs) and out-of-sequence expenditure requests.

- The CFO and staff should further refine and streamline the City’s budget process and take action to address the current “bottom-up” approach.
- The CFO and staff should complete five-year operating and ten-year capital budgets to help the City make better short- and long-term financial choices.
- The CFO and staff should accelerate adoption of the PSAB Capital Asset Guideline accounting standards scheduled for 2009 to better plan and to avoid implementation difficulties.
- The CFO and staff should undertake a formal review of all assets, asset conditions, and needs, and develop an asset management plan for all major infrastructure assets.
- The CFO and staff must be involved and consulted on all financial matters having a material impact on the fiscal stability and sustainability of the City.

**BENEFIT:** The City will enjoy a much more streamlined budgeting process and City-wide five-year operating and ten-year capital budgets with which to make sound long-term economic decisions and plans.

## **Fiscal Prudence**

### **SET FISCAL TARGETS**

**RECOMMENDATION:** The Mayor and Council must make the City's fiscal stability and sustainability an urgent and top priority and establish financial goals tied to its long-term priorities and limited resources.

- The Mayor and Council should adopt a blueprint for setting out ambitious yet realistic fiscal goals to be achieved by the end of each year of the current term tied to its long-term priorities.
- The Mayor and Council should set and meet targets for cost reduction each year and start by achieving efficiencies and other savings of \$50 million in fiscal year 2008 and \$150 million in fiscal year 2009 and beyond.
- The Mayor and Council should review deviations from the fiscal goals and direct management to take corrective action within the current year to stay on track.
- The Mayor and Council should engage the public in setting these goals and report on how effective they have been in achieving them.

**BENEFIT:** This acknowledgement of the issue, focus, and approach will lead to \$50 million in savings in 2008, \$150 million in 2009, and much more accountability to taxpayers.

## REDUCE AND CONTAIN COSTS

**RECOMMENDATION:** The City must adopt or enhance several cost reduction and cost containment programs such as a Core Services Review, a Cost Optimization Review, a Catch the Little Things program, and a strengthening of the Auditor General’s office, driving Citywide shared services initiatives and consistent new policies for outsourcing, procurement, and contract monitoring.

- The City should immediately implement a “Core Services and Cost Optimization Review” program to identify areas of duplication of efforts, overlap of responsibilities, and efficiency gains in service delivery.
- The City should implement a “Catch the Little Things” program that reviews some of the smaller areas of savings that taken together will have a large impact.
- The City should increase the budget for the Auditor General’s office to enable it to complete more efficiency audits and drive more savings. The City should also limit the Auditor General’s term to five years.
- The City should enhance its Internal Audit function to respond to the Auditor General’s recommendations.
- The City should review its Outsourcing and Procurement policies in connection with its over \$1 billion in annual expenditures; improve the monitoring process for City departments and for the ABCCs; and strive to improve transparency, consistency, efficiency, and savings potential.
- The City should review its Citywide Shared Services departments and those of the ABCCs and look for opportunities to consolidate certain key functions and responsibilities.

**BENEFIT:** Taken together, the City can dramatically reduce its cost base in the short to medium term. Our estimates suggest that these areas will be big contributors to the \$50 million of savings we recommended earlier in this report and can contribute \$150 million of additional savings in years 2009 and beyond.

## **MONITOR PERFORMANCE THROUGH BENCHMARKING**

**RECOMMENDATION:** The City must refine benchmarks to set bold targets and to become the world's best in delivering certain identified municipal services, and to position the City to compete favourably nationally and internationally.

- The City should establish a benchmarking strategy focusing on its key priority areas (fiscal and otherwise) in comparison to other major North American cities.
- Once the strategy is established the City should develop action plans to become the world's best in each of the key priority areas, and de-link from other non-core service areas.
- Statistics on how the City performs on these benchmarks should be kept and year-over-year results should be highlighted, shared, and addressed.
- The Mayor and Council should evaluate management and staff based on their results and improvements in these key areas.
- The Mayor and Council should issue an annual benchmarking and performance report to taxpayers on how the City is doing in a North American context.

**BENEFIT:** What gets measured gets results! The City can become the world's best in certain priority areas and get out of others altogether. It can become much more competitive nationally and internationally and more transparent to taxpayers.

## Revenue Diversification and Growth

### INCREASE THE REVENUE BASE

**RECOMMENDATION:** The City must take a multifaceted approach to growing revenues including encouraging intensification through zoning changes, less red tape, user fees, exploring with the Province the possibility of new regional transportation related levies, and adjusting its real property taxes to bring them in line with competing jurisdictions.

- The City should encourage more development through new intensification, planning strategies, and less red tape.
- The City should encourage more development and tenant retention through an accelerated reduction of the ratio between commercial and residential property taxes in ten years or less to bring them in line with competing regions.
- The City should implement a program that tracks the full cost of providing all municipal services and, wherever desirable and respecting varying abilities to pay, it should seek to recover the cost of the services through user fees.
- The City should engage the Province in a serious review of uploading the Don Valley Parkway and the Gardiner Expressway in exchange for a large share of any regional tolls or other revenue streams. This should be administered by a regional authority like Metrolinx.
- As part of its Green Strategy, the City should consider a non-residential surface parking tax, the use of dedicated funds to increase bike routes, the establishment of car-free zones, and other environmentally friendly measures.

**BENEFIT:** Taken together, these recommendations will help the City dramatically improve its annual revenue, consistent with its other policy goals. By uploading the Don Valley Parkway and Gardiner Expressway it could participate in hundreds of millions of dollars of new fees annually and enjoy a large component of equity in an asset worth as much as \$7 billion.

**SYSTEMATICALLY REVIEW CAPITAL ASSETS**

**RECOMMENDATION:** The Mayor and the Executive Committee must re-examine the City’s asset and debt management strategies to ensure that its capital is invested in areas that meet the City’s long-term goals and needs, and that it is receiving an adequate return on its investments. An immediate focus should be placed on its major capital assets, including: Toronto Hydro, the Toronto Parking Authority, Enwave, the Gardiner Expressway and Don Valley Parkway, and real estate holdings as mentioned in other recommendations.

- The Mayor and Council should study the current City policies and practices on debt management, debt service payments (depreciation schedules, etc.) and capital asset management, including those related to the ABCCs.
- The Mayor and Council should evaluate all options for maximizing the financial value of the City’s major capital assets consistent with public policy objectives identified by Council, with an immediate emphasis on those mentioned above.
- To maximize the net proceeds of the above, if appropriate, the City should urge the federal government, the Province, and the Ontario Energy Board to coordinate legislation and policies to facilitate the transfer of such assets, including a review of the 33% transfer tax and the possible reintroduction of the *Public Utility Income Tax Transfer Act*.
- The Mayor and the Council should adopt a policy to ensure that the proceeds from these initiatives be used directly to reduce existing debt and/or offset future needed borrowing.
- The City should review potential partnerships with outside stakeholders that can assist the City in getting a better return on its investments. This process should engage the private sector, Pension Funds, and the leadership of various ABCCs, among others.

**BENEFIT:** Taken together, this will help the City develop a much more entrepreneurial and strategic approach to its asset management. The monetization options noted above could result in excess of \$3.5 billion of pre-tax proceeds to the City, thereby eliminating all or substantially all of the City’s current tax-supported debt, approximately \$440 million, allowing it more flexibility to pursue other capital allocation strategies.

## UNLOCK THE VALUE OF REAL ESTATE HOLDINGS AND INFRASTRUCTURE

**RECOMMENDATION:** The City must have a new structure and strategy for managing, coordinating, and maximizing the real estate holdings (conservatively valued at \$17.9 billion) and the infrastructure of the City and the ABCCs.

- The City should assess and evaluate the highest and best use of the real estate holdings of the City and the ABCCs.
- The City should create a new high-level real estate department, headed by a new Senior Officer for Real Estate, which should supervise the management and development of the City's real estate holdings (similar to Ontario Realty Corporation).
- The Senior Officer for Real Estate should have the ability and the authority to coordinate and manage the real estate holdings of the City and of the ABCCs, where permitted.
- The City should establish new incentives for the personnel of the City and the ABCCs to cooperate and help drive the process of extracting best value from real estate holdings with a target of realizing \$150 million of incremental benefit annually.
- The City and real estate staff should assign an internal notional rent for City space and lands occupied by City departments to capture the true costs of delivering City services, and explore outsourcing options for all or a portion of the portfolio.
- The City should create a new high-level infrastructure department, possibly an adaptation of an existing department, headed by a new Senior Officer for Infrastructure for the City and the ABCCs, where permitted.

**BENEFIT:** Taken together, these recommendations will dramatically improve how the City manages and approaches its real estate holdings and infrastructure projects. We believe the City should conservatively target \$150 million annually from real estate development, sales, etc., and significant additional savings from better infrastructure supervision and monitoring.

## **Investing in a High Performance Flexible Workforce**

### **DEVELOP A COMPREHENSIVE HUMAN RESOURCES STRATEGY**

**RECOMMENDATION:** The City should develop a long-term strategic human resources strategy, reflecting more internal flexibility on the part of both the City and its unions, in order to enhance the City’s ability to optimally address new technologies, the education and skill levels of existing staff, the evolution of future staffing needs, continuous improvements in quality and productivity, work rules, and the varying provisions of the City’s labour contracts.

- The City should show leadership by reviewing and reforming its current system of “merit” pay for senior managers and staff. The existing performance “merit” pool should not be automatic and should be checked annually against the market. Once quantum is established, there should be larger benefits for those who meet challenging targets for innovation and effectiveness, and smaller benefits for those who do not.
- The City and its unions must restrain the growth of average compensation (including benefits) in future labour contract negotiations in line with the evolution of broad labour market averages and the City’s fiscal health.
- The City should push top managers and supervisors to achieve continuous improvement targets in the performance of their divisions (reflected in cost efficiency, productivity, effectiveness and quality of service delivery), in part by utilizing existing management rights and contract provisions which commit to enhanced performance and flexibility.
- The City should emphasize and enhance internal flexibility and mobility for City workers within the overall City workforce and focus heavily on the utilization of the 6% attrition factor.
- The City should develop a strategy for systematic and comprehensive staff training and education, including more internal resources for on-the-job training and retraining, as well as joint training initiatives with City unions.
- The City must become a leader in developing safer workplaces by: working with its unions to establish and ramp up the activities of joint health and safety committees; investing in advanced ergonomic and other safety-related equipment and procedures; and building a genuine culture of “safety first.”

**BENEFIT:** Taken together, these measures will assist the City with dramatically improving morale, productivity, safety, and cooperation within the City’s workforce — all in service of a more flexible and more efficient human relations strategy.

## Breaking Down Barriers

### GET A GRIP ON THE AGENCIES, BOARDS, COMMISSIONS, AND CORPORATIONS

**RECOMMENDATION:** The Mayor and Executive Committee must set clear goals and targets for each of the 119 ABCCs (approximately 30% of the City's budget) in connection with the larger City plans and policies, and assess the future of each on the basis of how well it achieves them.

- The City should conduct consistent operational reviews of each ABCC immediately and every two years thereafter, to ensure they are fulfilling their mandates and that they continue to meet the overarching plans and policies of the City.
- The City's CFO should have full authority to be an active participant in the budgeting process of every City department and the ABCCs. Certain legislative changes may be necessary to accomplish this goal.
- The City's Auditor General, or some equivalent, should have full authority to do efficiency audits of all ABCCs and other transfer payment partners financed by the City. Certain legislative changes may be necessary to accomplish this goal.
- The City should develop a program and institute a system of cross appointments and secondments of senior financial officials to help break down the "silo effect" of separate organizations.
- The City should develop a program to require much more coordination, cooperation with shared best practices, and cost sharing between the City and the ABCCs.

**BENEFIT:** The City will secure greater alignment between its responsibilities, accountability, and authority through more cooperation with and increased oversight of the ABCCs and increased opportunity to realize savings and execute joint initiatives.

## **DEVELOP AN INTEGRATED APPROACH TO ECONOMIC DEVELOPMENT AND PLANNING**

**RECOMMENDATION:** The City should recognize the importance of planning and economic development for future regional economic growth and prosperity.

- The City should appoint an Economic Development Senior Officer reporting to the Mayor.
- The Mayor should task the Economic Development Senior Officer to work with all ABCCs and other outside stakeholders to implement the recently completed Prosperity Report.
- The Economic Development Senior Officer and the Office of Partnerships should drive revenue opportunities such as innovative business ventures, the development of brownfield sites, attracting new investments and driving private sector partnerships, etc.
- The City should enhance and streamline its Planning Department to be more user-friendly and efficient.
- Council should amend the City's *Planning Act* Section 37 by-law and guidelines so that the money collected can be split equally between the Ward and a Citywide fund so that the Mayor and Executive Committee can direct the Citywide portion to key identified community services in high-priority areas.

**BENEFIT:** Taken together, these will dramatically improve the City's economic competitiveness, overall investment and job creation in the city, and the economic and social health of the region.

## PARTNER WITH THE PROVINCE

**RECOMMENDATION:** The City must work with the Province to establish a much more predictable, transparent, and long-term operating and capital plan for the benefit of their shared taxpayer base.

- The City must use the current negotiations with the Province to settle once and for all disputes about reimbursement or uploading of: Wheel-Trans, court security costs, Ontario Works, hostels and emergency shelters, and the Toronto Zoo, among others.
- The City and the Province must address once and for all the forgiveness of the outstanding post-amalgamation loan by the Province to the City of \$170 million, which remains on the City's books and in dispute.
- The City must develop a program to improve coordination and cooperation of infrastructure planning and investment with surrounding municipalities.
- The City should share with the Province its established plans, priorities and fiscal goals for the City and the ABCCs to identify the potential for uploading and/or other mutually beneficial alternatives for the short and long term.
- The City should then work with the Province to establish a firm one-, two-, and three-year operating grant and capital plan commitment for certain defined areas of mutual responsibility and benefit such as the TTC.

**BENEFIT:** The City will have a final decision and certainty on \$200 million of annual funding shortfalls, forgiveness of \$170 million in current debt, and certainty about long-term operating and capital grants in place for the City.

## **LEAD REGIONAL TRANSPORTATION PLANNING AND INVESTMENT**

**RECOMMENDATION:** The City must initiate and show leadership in discussions with the Province and Metrolinx to create short-, medium-, and long-term capital plans for an enhanced and coordinated regional transit and transport system for the twenty-first century.

- The City and the TTC must take a leadership role in discussions to achieve a coordinated regional transit and transportation plan by working with Metrolinx, GO Transit, and the Province.
- The City, the Province, and the surrounding municipalities should strike an agreement for better short-to-medium term transit coordination, planning, and implementation.
- All key stakeholders should study the costs and benefits of full integration of the regional transit system in the long term, taking into consideration needs of the customers and growing capital needs within the region.
- All key stakeholders should reach a binding agreement for dedicated operating and capital funds for the short-to-medium term inclusive of needs for the agreed upon initiatives above.
- Any new revenues from these initiatives should be specifically dedicated to finance capital projects for transportation growth and expansion.
- The City should consider opportunities for partnering in major investments in transit infrastructure improvement, including with the private sector and Canadian Pension Funds.

**BENEFIT:** Taken together, these will help the City put in place a much better regional partnership for planning and funding infrastructure and transportation, and will help ensure that it receives the appropriate funding for its \$6 billion capital spending plans.

## **A Blueprint for Fiscal Stability and Sustainability — A Call to Action**

### **BREAK THE IMPASSE**

**RECOMMENDATION:** The City must complete a serious review of this entire report with a particular emphasis on the recommendations that can potentially unlock hundreds of millions of dollars within the current year and billions in the near future.

- We ask the Mayor to consider accepting our offer to meet with the Fiscal Review Panel annually to provide a progress status on the report, and to generally keep the Panel informed about the fiscal strength of the City.

**BENEFIT:** The City acts on a blueprint of fiscal stability and sustainability that benefits the City of Toronto and its people for decades to come.

**Panel Members**

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