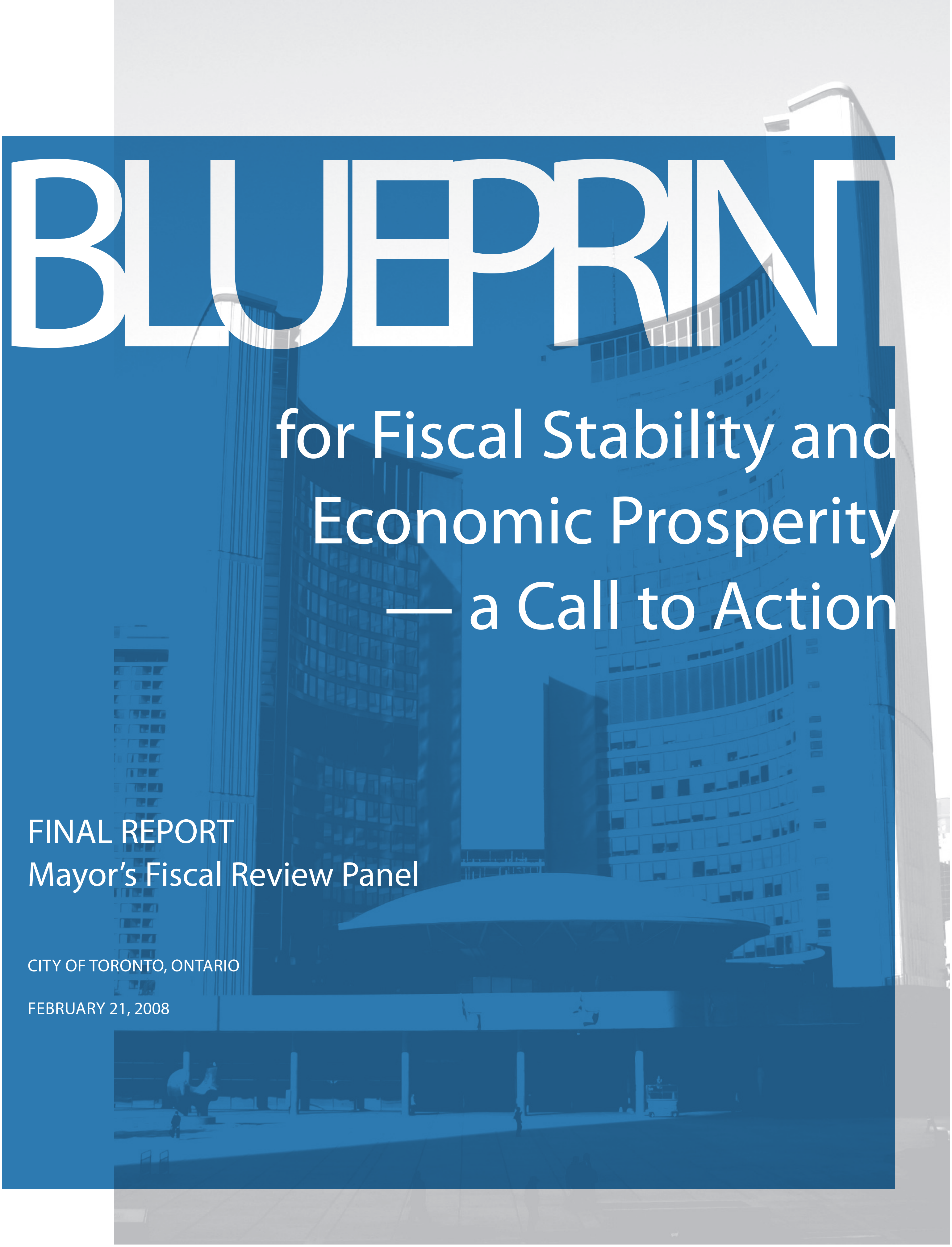

BLUEPRINT

for Fiscal Stability and Economic Prosperity — a Call to Action

FINAL REPORT
Mayor's Fiscal Review Panel

CITY OF TORONTO, ONTARIO

FEBRUARY 21, 2008

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The Panel would like to thank the following people and companies for their outstanding contribution to this Report.

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Use of this Report

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The recommendations contained in this document refer to estimated future outcomes based on information available and/or provided to us at the time of our report, interviews and consultation with stakeholder representatives and other available published information. There are a number of uncontrollable political, social and internal factors that may affect the findings outlined in this document. As a result, this document should be viewed in the context of being an estimate based on information, which may or may not be influenced by unforeseen or uncontrollable events. The ultimate success of any initiative can vary significantly from the projections outlined in this report due to economic or regulatory changes, cost escalations, decisions of Council, and changes in government funding programs and/or priorities, or the inability of the improvement process undertaken to achieve certain key milestones.

Letter from the Chair

Mayor David Miller
City Hall
100 Queen Street West, 2nd Floor
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Dear Mr. Mayor,

On behalf of the Independent Fiscal Review Panel I want to thank you for the opportunity to complete this report on your behalf and to provide you with our objective and candid feedback. All of the Panel members have taken their work seriously and treated this undertaking as both a privilege and a responsibility. Please pass on our gratitude as well to the many Councillors, members of the City Staff and leaders of various Agencies, Boards, Commissions and Corporations within the City who gave us their time and attention over the past several months. These professionals were very helpful to our Panel and made a challenging task both enjoyable and productive.

In the end, I am pleased to report that we worked as a true team, with every member contributing equally, and that our package of recommendations has the unanimous support of the Panel. I also want to acknowledge and share with you that we had some additional team members, KPMG led by John Herhalt, and Dr. Neil McCormick, who in particular helped us a great deal in framing and writing this report.

We hope that you agree that we have properly addressed the mandate with which you tasked us. Of course, if there are missing pieces or more ways that we can help the City move towards greater fiscal stability and economic prosperity we are all willing and available to do more. We respectfully ask that you take our recommendations seriously as we genuinely believe that this package, taken together, can make a real difference to the perception of Toronto overall, to the fiscal strength of the City, and to the well-being of the citizens of Toronto in the months and years ahead.

In connection with this assignment, the only thing we ask in exchange for our efforts is that you will accept our offer to meet with us once a year to discuss the progress on the goals and recommendations we have set out.

We look forward to your feedback and response.

Sincerely,

Blake Hutcheson
Chair

The Panel's Foreword

All of the members of the Panel donated their time in formulating these comments and recommendations and writing this report. We did this because we want our city to reach its full potential as one of the great cities of the world.

From the beginning, we were under no illusions about the difficulty of our task. The last several months have only confirmed this point. In the short amount of time we had to complete this assignment the volume of information we have attempted to digest has been nothing short of daunting. We felt that we could be most useful to the City by focusing on high-level questions and treating this report as a catalyst for change and call for action. Indeed, in certain sections we have asked more questions than we have answered. In come cases, we have recommended further research.

Early on in our deliberations, we decided to follow these procedures: We would seek out as much information as we could; we would enlist the support of other volunteer outside experts where we thought it appropriate; we would share all of our individual conversations and findings with each other in an open and collaborative process; we would deliberate on a series of recommendations and discuss the short-, medium-, and long-term implications of each. We would then make our recommendations in a straightforward and concise manner and "call it as we see it." We are pleased to report that throughout the process we had many debates and differing points of view, but, in the end, we agreed unanimously on the full package of our recommendations.

In our view, Mayor David Miller is genuinely interested in improving the fiscal health of the City. The existence of the Mayor's Independent Fiscal Review Panel is both a symbol of and a catalyst for the attainment of this goal. We also believe that the Councillors and senior management are becoming increasingly interested in working together to create a logical and responsible plan for the improvement of the City's financial position.

After having had full access to the senior staff and books of the City over the last several months we are optimistic about the future. We believe that while it will not be easy, fundamental change can be made. Fiscal stability, once achieved, will enable vibrant economic, cultural, and social growth for Toronto.

In order to realize this potential, however, we believe significant change is necessary. Without it, the City risks a chronic state of dependence on upper levels of government and a perpetual state of not being in charge of its own destiny. In short, the time is now to adopt a positive and optimistic approach to some quite dramatic change, a bold and inspirational vision for a world-class future, all anchored by a practical new Blueprint for Fiscal Stability and Economic Prosperity — A Call to Action.

In the end, we framed our recommendations so that they could be implemented by the Mayor and Council within the current term of office. We recognize that we have no control over how they will react to our suggestions. It is the fate of many reports to be ignored, or to have some of their ideas only partially implemented. It is our hope that the Mayor, members of Council and citizens of Toronto will not only discuss this report but act on it promptly. If they do, there will be significant social and financial benefits for this city we all love.

Independent Fiscal Review Panel

Blake Hutcheson, Chair
Rahul Bhardwaj
Lorna Marsden
Paul Massara
Jim Stanford
Larry Tanenbaum

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The Independent Fiscal Review Panel

Mandate

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."

Guiding Principles

The Panel approached this assignment with the following guiding principles in mind:

1. The City must focus its energies on securing the fiscal stability and economic prosperity of Toronto. If this can be achieved, then so too can all of its other exciting social, economic, and environmental goals and visions.

2. The City must put the past behind it. The current fiscal reality is not the fault of the current Mayor and Council. It has taken several decades to arrive at this point; assigning blame will accomplish nothing. However, only the current political leadership can make the tough decisions and enact strategies that will restore Toronto's financial strength and competitive position in the region, domestically, and internationally.

3. The City must take responsibility for its own destiny. It cannot and should not continue to rely on ad hoc, one-time transfers from the provincial government to cover shortfalls and the depletion of reserve funds to balance its budgets. This is not the sign of a great City. Where possible, in the context of a reasonable and sustainable fiscal deal with higher levels of government, the City must creatively enhance its own autonomy and control over its fiscal position.

4. The more the City can demonstrate the will and ability to solve its own financial problems and "get its fiscal house in order," the greater the support, understanding, and encouragement it will receive from its taxpaying citizens, and the greater the potential for strategic cooperation with other levels of government.

5. The City of Toronto is not an island. The federal and provincial governments must recognize cities are the engines that drive economic growth and prosperity and that a healthy and vibrant Toronto — the nation's financial capital — goes hand-in-hand with a globally competitive and successful Ontario and Canada. They must become active stakeholders in long-term planning for the future of the city and its region, through regular, predictable, and reasonable fiscal support for shared-cost programs, and through active, long-term participation in capital projects such as transportation and social housing.

6. In order to drive the necessary change and to achieve success the Mayor and Council should accept, as we do, the following three concepts:

    a) The City is in a "needs" environment, not a "wants" environment. Like all organizations it has limited resources and so it cannot be all things to all people. Creating a strategy for the future means setting clear priorities and making thoughtful choices about the allocation of resources, what services or businesses it needs to lead and manage, and what trade-offs it is prepared to make in service of its wider goals and a better tomorrow.

    b) There is no single solution to the problem. The City faces a chronic mismatch of revenues and expenditures, as well as large unfunded capital demands and other liabilities. These are interrelated. Any successful strategy or plan must address all at once.

    c) Failure is not an option.

7. The Panel's objective is to make recommendations that, taken together, will constitute a blueprint for the City to achieve fiscal stability and economic prosperity in the short to medium term, and also a call to action.

Executive summary

In undertaking this assignment we have attempted to present several firm yet balanced recommendations to help the City achieve fiscal stability and economic prosperity. We had little interest in presenting ideas that had no hope of being seriously considered in the near term. But we also felt it was important to recommend some bold and real change — including asking the Mayor and Council to take on some of the "sacred cows" that have stood in the way of the City's economic well-being — for decades. We hope this Report will be viewed in this light.

To achieve this balance, we have divided the Report into three main sections: What the City is Doing Well; The Many Pressures Facing the City; and What the City Can Do Better — Our Recommendations.

Following this Executive Summary we have also provided a Summary of our Recommendations. These are grouped as follows: Governance Structures and Processes; Fiscal Prudence; Revenue Diversification and Growth; Investing in a High Performance Flexible Workforce, and Breaking Down Barriers. For each recommendation, we highlight the potential benefits that could be captured and enjoyed by 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 to taxpayers 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.

The need for a new blueprint — the need for a call to action

Toronto is a vibrant multicultural success story. It is the fifth largest urban centre on the continent, it is the forty-eighth largest urban region in the world, and it is regularly ranked among the world's leading cities in terms of quality of life. It offers a rich and varied cultural experience to its citizens and to the visitors who make it Canada's largest tourist destination. It is the capital of Canada's financial markets and industries, the third largest financial centre in North America by employment, the home of universities and hospitals at the forefront of scientific research, a major manufacturing centre, the home of many of Canada's leading high-tech companies and the centre of Canada's entertainment industry.

The city is at the centre of a geographic region that is poised for dramatic population increase and economic growth. There is no doubt that the City of Toronto will continue to be the dominant municipal institution in a region that will continue to drive much of the Canadian economy. The measure of its dominance is apparent from some of the following statistics.

Its civic government handles a budget that is bigger than all but four of Canada's provinces. The City's total operating budget for 2008 is approximately $8.2 billion. Its capital budget for the coming fiscal year is $2 billion. Its capital spending plans for the years 2008–2012 total approximately $11.1 billion. Its assets are conservatively valued at more than $60 billion.

Despite these great strengths, from our Panel's first opportunity to look at the books, it became clear that the City is not currently facing a fiscal "crisis" but does have what we would call "chronic" revenue and expense problems and huge unfunded capital requirements and other contingent liabilities. It has also approximately $2.6 billion of cumulative tax-supported debt, another $2 billion of unfunded liabilities, and approximately $2.5 billion of additional debt in connection with the 119 Agencies, Boards Commissions and Corporations, known within the City as the ABCCs, for which it is ultimately financially responsible.

The new City of Toronto was created through the amalgamation of six municipalities and the upper-tier Municipality of Metropolitan Toronto. As could be expected, there were a number of challenges in integrating such large entities. The number of mayors was reduced from six to one and the number of councillors from 120 to 56, and later to 44. Sensitive and difficult decisions had to be made on senior staffing, real estate, program priorities and the future direction of this massive newly formed construct. The task of integrating and harmonizing collective agreements was especially difficult and expensive, involving the consolidation of 55 labour contracts into 15, dozens of arbitrations and thousands of grievances. The imposition of new provincial mandates — "downloading" — added further complications.

The passage of a new City of Toronto Act in 2006 gave the City certain additional regulatory and taxing powers to address its growing responsibilities and financial pressures. The first time the Mayor proposed to use the new taxing powers, Council could only agree to postpone a vote on the taxes, pending the outcome of the provincial election. Two months later, Council voted to impose a land transfer tax and a vehicle registration tax, the first use of its new powers.

Whatever the merits or flaws of the new taxes, it is apparent that the amount of money they will raise will not be enough to cover the structural shortfall between the City's continuing operational and capital needs and its revenue base and capital reserves.

Fortunately, for 2008 the Province has made a commitment of approximately $200 million in funding for the City to meet part of the operating expenses and capital needs of the TTC. While this provides some welcome relief there is no guarantee that the Province will be willing or able to make such contributions in future years and is certainly not prepared to commit to them now. Moreover, the current system of scrambling from quarter to quarter to extract such funds or find reserves is inefficient, unreliable and frankly demoralizing. It contributes to the general perception that the City is an inefficient manager of resources and it is not dealing with the real issues. As a result, we estimate that the shortfall in future years will range from between $250 and $350 million annually unless a combination of elements — some involving dramatic change — can be put into play: revenue opportunities; cost containment and reductions; debt management strategies; and a more predictable arrangement with regional and upper levels of government.

To be fair, there are real constitutional and jurisdictional barriers to the City's ability to act in certain areas. Moreover, for many of the projects the City wants to undertake, it is dependent on money and support from the provincial and/or federal government. It can be frustrating to be at the whim of changing political objectives of these other governments and the uncertainty caused from this process has materially impaired the future growth and prospects of the City.

In fact, in the process of completing this report we were repeatedly struck by the many obstacles and challenges facing the City today and certainly have developed some sympathy for the Mayor and Council in attempting to manage the finances of the City at this point in history.

However, the constitutional structure of Canada is what it is and so too is the current fiscal reality of the City.

As a result, rather than dwelling on past grievances and the system's inadequacies and injustices, the City must concentrate on taking responsibility for its current situation and effectively deploying its own resources to position the City as a competitive economic powerhouse in the post-industrial age. The City is at a crossroads, a critical time in its history. The need for A Blueprint for Fiscal Stability and Economic Prosperity has become patently clear. The need for a Call to Action is now.

This Blueprint is divided into three sections:

First, we will discuss what we believe the City does well — innovative delivery of services in a new knowledge-based economy, cutting-edge environmental initiatives, transparent and professional administration, citizen engagement, creative partnerships, and a commitment to community housing, to highlight just a few.

Second, we will discuss the many constraints and pressures confronting our City to help demonstrate that we do not diminish the difficulties it faces in making substantial change to address the current fiscal situation. We have considered this reality before making our recommendations.

Finally, we will discuss and make recommendations as to what we believe the City can do better.

What the City is doing well

The City of Toronto's problems, both internal and imposed from without, have become something of a spectator sport for journalists and citizens alike. Without minimizing the many challenges and pressures facing the City, which are the subject of the next section, we must first highlight some areas where we felt the City is showing real leadership.

Innovative and High-Quality Service Delivery

Notwithstanding the City's daunting fiscal and structural pressures, it is important to keep in perspective the generally high-quality and efficient nature of most of the City's operations, programs, and services. The City offers over 100 separate services, many of which are unique among Canadian municipalities, to its citizens. While there is always room to improve, we have been impressed by the enthusiasm and commitment demonstrated by many of the City administrators to think and act ambitiously about new ways for the City to deliver those services on a cost-effective basis. We live in a city where nobody gets thanked when services work or are delivered on time. As one City official said: "The only compliment my department ever receives is silence." In the end, the City remains one of the most livable in the world and much of what seems transparent to us all is the result of several layers of good work by good people behind the scenes. In connection with the above, the City has received 74 awards in the past four years at the Public Sector Quality Fair, including for the ICI WaterSaver program, the Social Services Advanced Case Management Initiative, and the Public Health Food Inspection and Disclosure System. The City has also received the Government Finance Officers Association (GFOA) award for financial planning and reporting.

A Professional and Committed Public Service

The overwhelming majority of the senior staff and personnel that we met in recent months were very professional, competent, and committed. They are certainly as strong in their areas of expertise as executives at a similar level in the public organizations and private businesses with whom we have had dealings in recent years. The City is most fortunate to have them and this should be acknowledged. They have also been extraordinarily cooperative, open, honest and helpful to us as we formulated our ideas and conducted our research.

Competing in the New Knowledge Economy

Our Panel was impressed by how much the City administration has moved on from the earlier post-amalgamation difficulties. The City recently brought together a diverse group of leaders of industry, education, labour and community activists to study how the City could work with these community leaders to create, as their report was titled, An Agenda for Prosperity. The report sets out a vision for the future of the city based on the new knowledge economy. The MARS Centre, the creation of clusters of excellence in medical research, and the City's growing strength in the fields of information technology, finance, and the service industries that have grown up around them — all testify to the resilience and innovative character of Toronto's economy in the face of global economic forces. That the City has reached out to the people who are driving this change is an important step in the refocusing of civic energies on the future, rather than the blame game of the past. Still, as we discuss later in this report, much more can and should be done. There is no doubt that these initiatives will result in substantial new investment in the City.

Environmental Initiatives

The City has been a world leader in developing and implementing new municipal initiatives to reduce pollution and energy use — both from the City's own operations, and from other businesses and consumers in Toronto. The City's environmental efforts, which were lauded in a recent Toronto Community Foundation study, have been entrepreneurial in the sense of identifying new opportunities and leveraging existing resources, including capital, but without putting long-term financial burdens on the City. Particular initiatives worthy of mention include the creation of the Toronto Atmospheric Fund, which makes revolving repayable loans to finance investments in energy efficiency; the Better Buildings Partnership, which uses a similar model to foster high environmental performance in new and existing buildings; the Green Bin recycling initiative, which has made a major contribution to the City's waste diversion goals; and Enwave's deep-water cooling network, which was sparked by initial City investments. The City has also been proactive in supporting the use of environmentally-friendly building technologies, including LEED-certified projects. All four of Toronto's new office towers have adopted these high standards.

Accountability and Transparency

Following recommendations in the Bellamy Inquiry, the City has adopted changes that will make for more accountable and transparent City government and restore public faith in civic management. Over the past several years it has implemented the most comprehensive accountability framework of any Canadian city. It includes the independent positions of Auditor General, Integrity Commissioner, Lobbyist Registrar, and Ombudsperson, as well as an Internal Audit function and a PATH to Excellence initiative that established clear lines of authority, management controls, and protocols.

Community Policing

While newspaper headlines about violent crime can be frightening, statistics indicate that Toronto is one of the safest cities in Canada. Crime rates are extremely low. Proactive, innovative, and effective programs like the Toronto Anti-Violence Intervention Strategy are helping to keep them low. Such programs take the long view and recognize that trust can be earned by active police involvement in communities. Positive policies for finding police recruits who reflect the social demographics of the City are already making an impact. There is no "magic bullet" for ridding the City of the problems of illegal handguns. The City needs the cooperation of federal and provincial agencies to stem the flow of guns. But the City should be commended for the efforts and headway it is making at addressing the root causes of gun violence.

Creative Partnerships

Certain City administrators push the envelope to imagine and implement creative, cost-effective ways of helping to build our community, acting like entrepreneurs to leverage and coordinate external resources in valuable projects. The Dundas Square development, for example, significantly enhances and uplifts the quality of that portion of Toronto's inner core at no cost to the City once all revenues are realized. In the last few years, through the Toronto Office of Partnerships, the City has also developed new relationships with businesses, not-for-profit organizations, community groups, residents' associations and individuals. Additional examples of such successful collaborations include:

- a partnership to create coordinated street furniture worth $450 million over the life of the contract;
- the revitalization of Regent Park;
- First Waterfront Place;
- Ricoh Coliseum;
- BMO Field;
- the Hummingbird/Sony Centre redevelopment;
- the Lakeshore Lions Quadplex; and
- the Bloor Street revitalization.

There is tremendous potential for many more of these ventures in the future.

Human Services

The City of Toronto operates an impressive network of human services, programs, and facilities that make an important contribution to the well-being and safety of Toronto and its diverse neighbourhoods. In a city facing as many social and economic challenges as Toronto, many of which are concentrated in specific communities, the City's efforts to foster better housing, health, recreation, and care for its citizens pay off many times over. Continual ad hoc policy changes by higher levels of government have put the human services system under fiscal pressure, yet City program managers have been extraordinarily innovative and entrepreneurial in imagining new programs and services, recruiting community and government partners to share the cost, and accessing unconventional funding sources.

Community Housing

The Toronto Community Housing Corporation (TCHC) helps keep a roof over the head of more than 160,000 low-income citizens. It makes innovative use of scarce dollars by partnering with private investors and developers to upgrade existing properties and identifying potential alternative revenue sources. It has also pioneered unique structures of participatory decision-making that have given residents a greater stake in their homes and neighbourhoods. The TCHC's initiatives are supplemented by the creative work of over 200 community-based partners, agencies which have identified unique and hard-to-meet housing needs in specific communities and which have delivered thousands of additional housing spaces in a flexible and cost-effective manner. Problems of under-housing and poverty in Toronto would be far worse if not for the efforts of the TCHC and its partner agencies.

Others

Since taking on this assignment we have found countless other areas where "we caught the City doing something really well." We discovered certain senior managers coming in under budget, remitting over $3 million at year-end due to innovative practices. We also found mid-level employees who identified some significant cost-saving measures simply because they believed it was the right thing to do. We have not catalogued all of the good things the City does. We want to be clear, however, that despite what one reads in the press or witnesses at some Council meetings, there are many things — often taken for granted — that the City does extremely well.

The many pressures facing the City

At the outset, it is fair to say that the Panel felt that the Mayor and the Council had considerable latitude to effect change and drive financial results. However, the more we got into the assignment, the more we realized how constrained the City is on several levels. The City did not arrive at its current situation overnight. We have come to understand the complexity of the myriad of pressures and challenges faced by the City government and management day after day, year and year. These are quite different than those facing most businesses and other large organizations, and it helps to explain how the City has arrived at its current financial and political reality.

This section will first present a "snapshot" of the City's present fiscal position, and then embark on a discussion of the forces, or pressures, that have produced it. We have grouped them under three headings: Pressures from Above, Pressures from Within, and Pressures from Below.

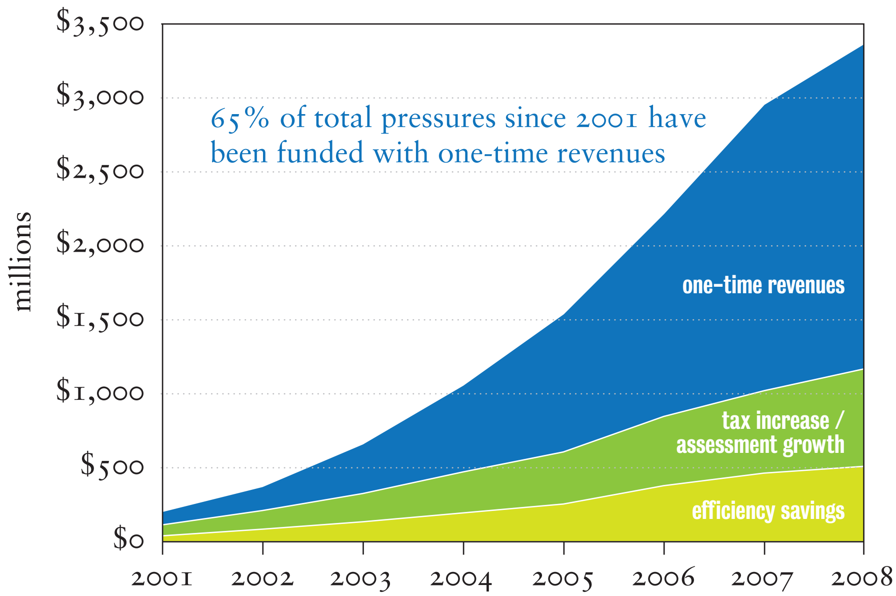
The purpose of this section is to highlight the challenges facing our City as it seeks fiscal sustainability, not to let it off the hook or to offer it excuses. We simply felt that it is important to take stock of the environment in which the City operates before offering recommendations.

The Current Fiscal Reality

The good news is that the City retains an 'AA' credit rating. This reflects the fact that the City's assets are conservatively valued at over $60 billion and tax-supported debts are only in the order of $2.6 billion. A good credit rating enables the City and the agencies for which it is responsible to borrow at favourable rates.

The bad news is that each year produces a major scramble to balance the operating budget. Provincial law prohibits municipalities from running operating deficits and they are only permitted to borrow for capital projects. In recent years, the City has balanced its books by deferring capital investments, siphoning money from reserve funds, and receiving top-up grants from the provincial government.

Figure 1: How the operating budget gap was funded, 2001–2008



$ millions	2001	2002	2003	2004	2005	2006	2007	2008
One-time revenue	91	163	336	587	934	1,372	1,936	2,200
Tax increase / assessment growth	74	126	191	277	352	468	557	659
Efficiency savings	40	85	135	195	255	379	464	510

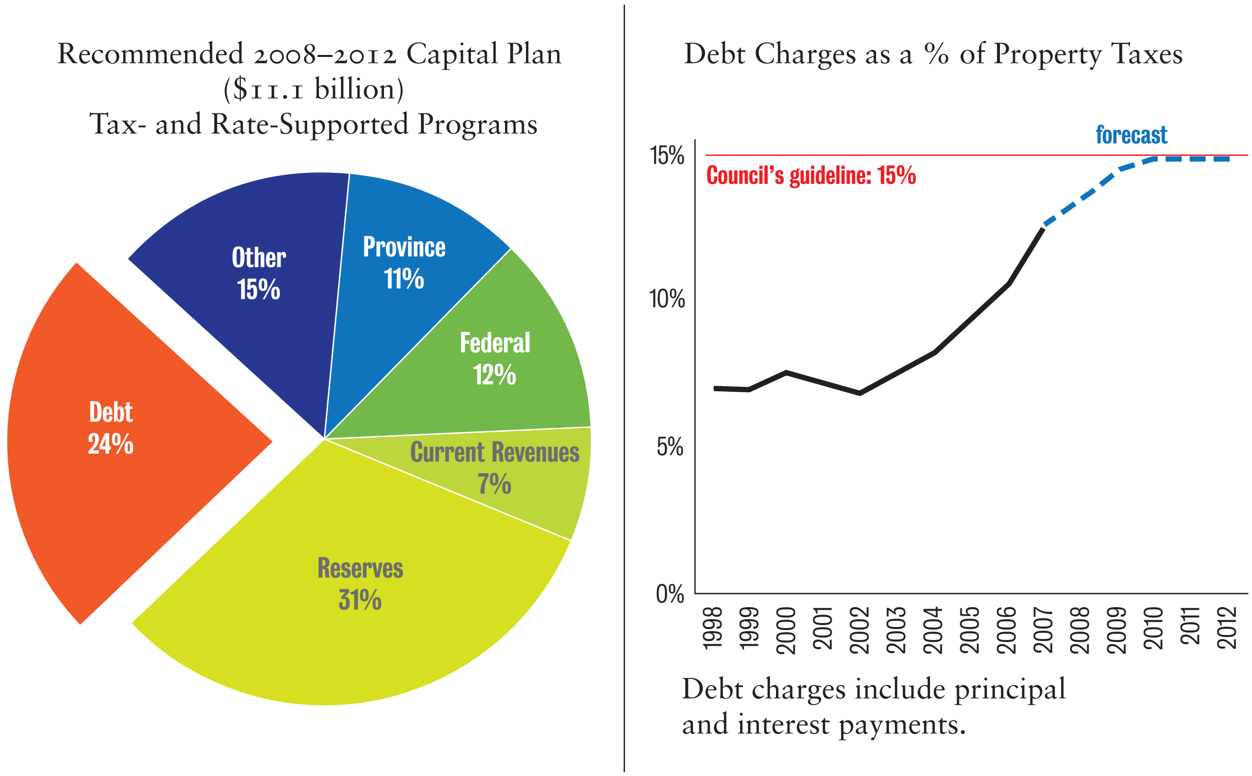
All values are cumulative.

Between 2001 and 2008, approximately $659 million was obtained through revenue increases, approximately $510 million through efficiency savings, and $2.2 billion through what the City describes as "one time revenues." This translates into an average annual operating budget gap of $367 million. This year's operating budget is only balanced because of a combination of some new taxes and a contribution of approximately $200 million from the Province. In the absence of major changes to the City's fiscal relationships with other governments, new sources of revenue, or expenditure reductions, we expect from our analysis that a structural operating shortfall of $250 to $350 million will persist in the future (See Figure 1).

This approach is unsustainable. In time, the City's reserve funds will run out — almost $1.6 billion has been used in the decade since amalgamation. Eventually, it will no longer be possible to defer investments. Moreover, too much depends on the generosity of the Province.

The existence of a seemingly intractable structural deficit despite 15 years of uninterrupted economic growth is troubling enough. A potential future economic downturn could further destabilize the City's fiscal position,

Figure 2: Funding the 2008–2012 Capital Plan



bringing unanticipated operating and capital expenditures to the table as its manoeuvrability is increasingly constrained. For example, Council has adopted the position that costs of borrowing should not exceed 15% of property tax revenues. Already, the $11.1 billion 2008–2012 capital budget, which relies heavily on reserves and other-government contributions, is forecast to bring the City to this limit; unforeseen costs would almost certainly push it above (See Figure 2).

The mismatch between own-source revenues and expenditures is not the whole story. The City also has substantial unfunded capital requirements. As of 2007, the City's unfunded liabilities, including capital infrastructure investments and employee benefits, totaled $2 billion. This does not include unfunded liabilities of agencies, boards, commissions, and corporations. Other non-tax-supported debt totaled approximately $2.5 billion.

This fiscal snapshot suggests that while 2008 is a year when the City may feel it can relax somewhat, this is certainly not the case. The pressure will continue to build — on fiscal matters and on several other levels.

Pressures from Above

Constitutional Constraints on Taxing Power

As noted earlier, the Toronto region is the engine that drives much of Canada's economy. It is one of the most successful, productive, and economically diverse metropolitan areas in North America, if not the world. Yet the City of Toronto, its most important component, is caught in the straitjacket of a nineteenth century constitutional model.

The Constitution Act (1867) made municipalities creatures of the provincial governments. Municipalities were expected to live on the proceeds of property taxes and local fees and licenses. This reflected the fact that municipalities were not expected to do very much. Their mission was to protect the rights of and deliver services to property owners. Indeed, municipal electorates were for many years restricted to those who owned real property.

This has not been the case for a very long time. The responsibilities of municipalities have changed dramatically since 1867, yet the City's taxing powers changed very little until the passage of the City of Toronto Act in 2006. The City of Toronto now provides a plethora of social and other services that were simply not contemplated 140 years ago.

Funding modern services with a nineteenth-century revenue base puts the City at a structural disadvantage. For example, the cost of providing social services is determined by macroeconomic forces and trends that are beyond the City's control. Inevitably, cost increases kick in when the economy falters, precisely when the City's ability to raise revenue is most constrained.

As a result, the City has looked longingly at the taxation powers possessed by competitor municipalities in the United States and elsewhere, including the ability to tax income and consumption. For example, the 35 largest cities in the U.S. average:

- 33% of their revenue from federal and state subsidies
- 24% from sales and income taxes
- 18% from property tax
- 16% from user fees
- 9% from all other sources

In contrast, in 2007 the City of Toronto's $7.8 billion operating budget was funded by:

- 42% from residential and commercial property tax
- 24% from federal and provincial grants
- 15% from user fees
- 13% from other sources
- 6% from reserves and reserve funds

Recognition of this relative disadvantage, and others noted herein, has helped fuel Mayor Miller's campaign for the federal government, currently enjoying significant surpluses, to transfer to cities one cent of the five cents it now collects in GST revenues. In the Mayor's view, shared by the Federation of Canadian Municipalities, this would provide a source of revenue that would grow with the economy and enable cities to shoulder the burden of costly social services mandated by the federal and provincial governments.

The response of the federal government to this campaign has not been encouraging. In response to a plea from the Federation of Canadian Municipalities for a federal infusion of cash for infrastructure investment and renewal, the Federal Finance Minister opined that he was not in the "pothole fixing" business and that the cities should "stop whining" and finance their own programs using their own resources; in effect, raise taxes to occupy room vacated by recent federal income tax and GST cuts. Whether he is wrong or right is not the point. In our opinion, the chances of the current federal government acceding to the City's request for its share of 20% of GST revenue are close to zero.

It should be acknowledged that the current Provincial government has recognized the important role that Toronto plays in the growth of Ontario and consequently it has moved in a number of ways to help the City. Most notably in amending the City of Toronto Act, the sharing of the gas tax, the reduction in business tax and the commitment for long-term transportation funding for the region. There is, however, more to do.

The Province has supported the City's case for a share of federal tax revenues, but it has also been careful not to give the City direct access to any of its income or sales tax revenues. Moreover, when it brought in the new City of Toronto Act, it clearly restricted the taxing powers it granted the City. As a result, the City's new revenue tools may be insufficient to secure fiscal autonomy. Moreover, tax increases are unpopular and may harm the City's competitiveness. Even now, there are fears that the Land Transfer Tax and the Vehicle Registration Tax adopted by the City may undermine its competitive position vis-à-vis adjacent municipalities that do not levy equivalent taxes.

One of the City's presentations to our Panel included a plan, adopted in 2005, that pinned the City's hopes for financial stability almost entirely on actions of the federal and provincial governments. While this is compelling on the surface, the political realities of Canadian federalism have never been based on economic logic. Despite the forceful advocacy of the Mayor of Toronto, the Mayor of Mississauga, and the Federation of Canadian Municipalities, both the federal and provincial governments continue to resist granting ongoing access to consumption taxes, instead negotiating their assistance for transit, infrastructure, and other capital programs on a case-by-case basis.

It is, as T.H. Huxley once said in a different context, a "brute fact" that cities, the driving force of Canadian innovation and economic competitiveness, are given short shrift in the Canadian constitution. Despite the best efforts of generations of Canadian mayors to change this, the constitutional framework remains as the Fathers of Confederation designed it in 1867.

Pressures from the Federal Government

The actions of the federal government, including changes to grants and other assistance, directly affect the City's fiscal position. At the same time, seemingly unrelated decisions, from trade to immigration to unemployment insurance also profoundly influence the City's costs, revenues, costs, and capital needs.

Free Trade, Industry, and Globalization

Global economic forces continue to reshape the functions and economics of municipalities around the world. The Toronto region is no exception. For example, long-standing manufacturing facilities within the City have been challenged by globalization — free trade agreements, fluctuations in exchange rates, and rapid technological change. Many have closed or relocated from the City areas to surrounding municipalities, eroding the City's industrial tax base. The resulting damage has put pressure on Toronto's commercial property tax rates (currently the highest in the world for class A office space, according to a recent study by CB Richard Ellis), with the effect of driving businesses to other parts of the region. A recent study by REALpac shows that both Toronto's and Vancouver's commercial-to-residential property tax ratio are tied at approximately 5:1 for the years 2004–2006. By comparison, Mississauga's ratio is approximately 2.6:1. Moving toward regional consistency in the tax ratio will necessarily cause residential property tax rates to rise.

This is not a criticism of free trade, which also brought many benefits. Moreover, despite property tax rate disparities, Toronto remains unique among global cities in the continuing economic importance of manufacturing.

Immigration

While the federal government sets the criteria for admittance and determines the number of immigrants who may come to Canada, the task of welcoming and integrating them into Canadian social and economic life falls to provincial and local governments. Nowhere is this more acute than in the City of Toronto, the country's preeminent receiver of immigrants. Almost one quarter of the immigrants who arrived between 2001 and 2006, approximately 270,000 people, settled in the City. As of 2006, the City of Toronto was home to 8% of Canada's population, 30% of all recent immigrants and 20% of all immigrants.

The positive effects of immigration for the City of Toronto are easy to see — the vibrancy and diversity of its people, the highly skilled workforce, the lively multicultural media, and the wide array of ethnic restaurants and shopping districts. At the same time, many immigrants require settlement and other social services for which the City is responsible. Affluent enterprise immigrants have tended to buy houses in the suburbs; immigrants without such resources have tended to settle in the City of Toronto.

The recession of the early 1990s led to higher rates of poverty among immigrants; more immigrants arrived precisely when jobs were scarce. This led to increased demand for social services and rent-geared-to-income housing, a system already badly under stress. Almost half of families headed by people who immigrated after 1989 lived in poverty.

The most needy are those claiming refugee status. Refugees have the hardest time of any immigrant group, as they are unlikely to have any of the support systems available to family-class sponsored immigrants, for example. Consequently, they find it harder to fit in while awaiting the determination of their claims and are the most likely of all immigrant groups to require sustained support from the City's social service agencies.

Employment Insurance Regulations

The Society of Actuaries recently criticized the federal government for rolling Employment Insurance levies into its consolidated revenue fund. For years there has been a huge discrepancy between the amount of money the program takes in and the amount it pays out, and that imbalance is particularly pronounced in particular regions. As a result of stringent qualifying rules which prohibit most jobless residents from accessing the program, into which many of them have paid, only about one-quarter of unemployed people in Toronto qualify for regular EI benefits. We understand that qualifying standards are more stringent in Toronto than in other regions. Individuals who are denied support under the EI program are forced to seek assistance from Ontario Works, with a corresponding burden on the City's finances, as 20% of Ontario Works benefits and a larger share of program delivery costs are covered by the City. The City's burden would magnify in the event of an economic downturn.

Affordable Housing

For many years Canada Mortgage and Housing Corporation provided low-cost mortgages to a variety of providers of affordable housing. Unfortunately for people on waiting lists for affordable housing, the federal government exited this business around the same time that the Province substantially reduced funding for social housing programs. This exacerbated an already bad situation in Toronto, where demand for social housing has long been high due to immigration and migration from other parts of the country. Given the lag time between the creation of housing programs, the provision of funding for those programs, and the actual construction of new housing units, decisions made by the federal government more than a decade ago continue to adversely affect the City today.

Pressures from the Provincial Government

The Harris government's decision ten years ago to amalgamate several urban centres led to a very complicated and difficult birth for the new City of Toronto. At the time, and in some quarters still, people lamented the death of the six lower-tier municipalities. Not many tears were shed for Metro Toronto, yet Metro, with its responsibilities for social services, police services, and the TTC, had a much bigger budget than any of the constituent parts. It was as if a ghost swallowed the smaller entities, and then disappeared. Along with the forced amalgamation came the provincial downloading of services.

In theory, downloading was to be revenue-neutral. This revenue neutrality was to be obtained by a combination of administrative savings as redundancies were eliminated, the transfer of full control of assets like Toronto Hydro, and the provision of transitional funds to cover any shortfalls in the first years of the transfer.

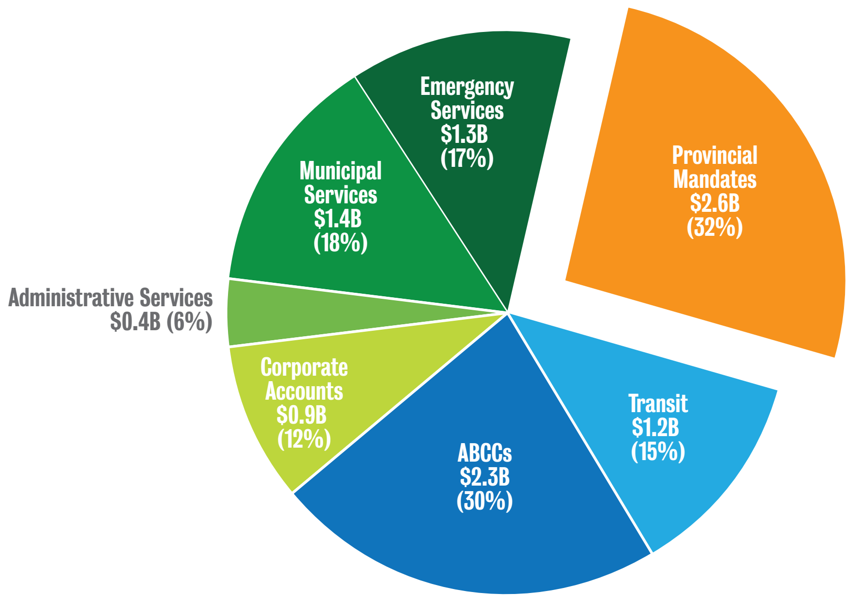
As it happened, there is now widespread agreement that the downloading was not revenue-neutral. For example, the change in funding for Wheel-Trans has left a massive annual shortfall for the TTC. The transfer of court services costs imposed a real burden on the City. Ontario Works has also added greater burdens annually. Provincial regulations about the handing over of people transported to emergency wards in hospitals imposed real and new costs on municipally-funded ambulance services. There is also little doubt that the transfer of the responsibility for all of the previously provincially-funded social housing units, some in shocking need of repair and refurbishment, imposed real costs on the City. The Toronto Zoo, a regional attraction, also has a net shortfall that is significant. The Don Valley Parkway and the Gardiner Expressway are expensive to maintain with no revenue base against them.

The City estimates that the 2007 operating shortfall for the services and functions noted above is approximately:

Wheel-Trans	$60 million
Court Security Costs	$41 million
Ontario Works (ending capping)	$29 million
Hostels and Emergency Shelters	$30 million
The Toronto Zoo	$12 million
The Don Valley Parkway and the Gardiner Expressway	$20 million
Total	$192 million

Programs mandated by the Province but run by the City account for almost one-third of the operating budget — almost double the proportion accounted for by the next largest expenditure, for municipal services (See Figure 3).

Figure 3: Provincial mandates as a proportion of the 2007 operating budget



There has been more than a tacit acknowledgment of this by successive provincial governments because, in fairness, they have provided top-up funds annually to prevent the City from running an operating deficit, albeit on an ad hoc basis. The City and the Province are currently in negotiations about "uploading" some services back to the Province and/or addressing some of the inequities in other ways. These negotiations, originally scheduled to conclude at the same time our report is due, continue and are now projected to conclude "in the late spring." We are hopeful that these discussions will deliver a fair and reasonable long term solution not only for the approximately $192 million shortfall, but acknowledge that as of today there are substantive disagreements as to the fundamental mathematics of downloading.

It was apparent to the Panel members who attended the City's meetings with provincial officials that the Province is skeptical as to the reliability of the City's figures regarding the extent of the funding gap in certain areas. There is additional concern that the City is not delivering some services sufficiently cost-effectively to warrant greater funding. There has been similar exasperation on the part of City officials about the Province's denial of the extra burdens placed on the City by downloading and its lack of commitment to look beyond one-year budgeting horizons. There is such a lack of transparency in the whole process that it is difficult to know which side is correct on an issue-by-issue basis.

It is not up to us to judge which party is right, nor to assign blame on so many deeply complicated issues and relationships. Our impression to date is that there has been much talk and it has generally been cordial, but little real communication has occurred and no long-term bankable solutions achieved.

This is unfortunate for the residents of the City who are still on waiting lists for social housing, say, as their real problems get lost while the two levels of government continue to argue and point fingers. It holds back certain extremely important initiatives such as the repair and growth of the TTC and other urgent infrastructure needs. In our view, transit and infrastructure are too important for the City and the region to be left in the dark about their funding sources from year to year. It is also unfortunate for the province as a whole because even though we appreciate the Province's reluctance to give Toronto any "special treatment," the city remains the economic capital of Ontario. It seems to us that by treating it fairly on these matters and coming to an expeditious agreement, the benefits to the province at large will be real, immediate, and exponential.

In the end, we came to realize from our review that in many ways this massive "merger" called amalgamation of so many large and politically-charged entities has still not been fully digested, and the benefit of the "synergies" has not been fully received — some ten years later. We also recognize that even though the Province has been much more generous recently, the relationship with the Province has still not been thoroughly worked out. There is still much more work to do and the likelihood of the Province being able to "fix" all these matters through "cutting new cheques" is highly unlikely now or at any point. This is especially true if the economy weakens. It underscores again the need for the City to attempt, wherever possible, to find and fund its own solutions.

Pressures from Within

In addition to the constraints put on the Mayor and Council from above, there are also a number of pressures from within that make it difficult to manage the finances of the City effectively. The three we highlight here are issues related to Political Culture, Governance, and Human Resources and Labour Relations.

Political Culture

Tip O'Neill (longtime Speaker of the House in the United States) once remarked that "all politics is local." The politics of Toronto City Hall has been considered highly parochial for years, making it difficult for the City to agree on macro directions and identify priorities. This has in turn contributed to a "credibility gap" about the effectiveness of Toronto City Council.

Unlike the federal and provincial governments, which have cabinet solidarity and party discipline, Toronto City Council is riven by factions and dependent on having a Mayor with a big enough personality and persuasive powers sufficient to override local concerns. Systemic change on fiscal or even less critical matters in such a political culture is extremely hard to achieve. We believe that this situation is in large part the cause of the City's financial difficulties.

The budget process exemplifies this. Based as it is on the annual calculation of the mill rate to determine much of the revenue stream, the budget process has been an annual ritual of "log-rolling" and "trade-offs" as Councillors make deals to protect their own political turf, often at the expense of confronting the issues facing the City as a whole.

Consequently, many people are critical of the governance of the City: there are jokes that it is the City that had to call in the army to clear snow or to police certain highly sensitive regions; that a photo op for Councillors had to be cancelled because of a squabble over who got to sit in the front row; that the City's budget woes and what Toronto Life magazine recently termed "down the toilet" spending practices mean it must be perpetually bailed out by senior levels of government.

Criticisms go to the incivility of the political culture, its inefficiency, the lack of a will to change, and the ineffectiveness of Council. The daily press is full of examples of petty bickering, grandstanding to score points, mistrust, bad blood, and the remembrance of past grievances among members of Council. There are many occasions when Councillors intervene with the administrative staff to promote some local cause or to subvert normal procedures. All of this is layered on top of the threats and challenges posed by amalgamation and the seeming ignorance of the City's fiscal problems.

Such a political culture at the top penetrates the bureaucracy, leading to morale problems, further inefficiencies, absenteeism, etc. As we conducted our review we heard story after story about entitlement attitudes, lack of motivation, ineffectiveness, disincentives to take risks or excel, and an overwhelming sense that the system is broken. It is not our intent to catalogue these stories. To do so would not be particularly helpful for us, or for anyone else. Moreover, particular stories may be isolated examples and, in a large organization, there are always some "bad apples." Furthermore, in our view, some progress appears to have been made in recent years. As we noted earlier, some Councillors and senior staff are not in any way proud of this behaviour and are working to reverse it.

It is clear, however, that these political culture issues are holding the City back on many levels. A serious commitment to change is necessary to restore confidence in civic government, if for no other reason than to address the urgent fiscal pressures.

Governance

Before the passage of the new City of Toronto Act, the Mayor appointed Ann Buller, Sujit Choudhry, and Martin Connell to study the way the City was governed and to make recommendations. As they noted in their report The City We Want — The Government We Need:

> The net result of Toronto's fiscal plight is a deteriorating infrastructure, several hundred million dollars in deferred capital expenditures, and the frustrating sense that whatever extra Toronto receives comes from an annual pilgrimage to Queen's Park and Ottawa.

This group thought that the structure of Council contributed in no small measure to the apparent inability of the City to function. They recommended the creation of what might be called a "strong-mayor system," in which the Mayor would appoint an Executive Committee whose members would be paid more than other members of council, and the City Manager and other officials would report to the Mayor and the Executive Committee, not Council.

While some of the report's recommendations were adopted by Council, many of them were rejected. There is an Executive Committee, but its members receive no extra pay, and its effectiveness as a "cabinet" is undermined by being obliged to hold all meetings in public. In addition, Senior Managers still report to the Council as a whole, so high-ranking officials like Shirley Hoy, the City Manager, essentially report to 44 Councillors and one Mayor, each with their own goals, objectives, political ambitions, etc. In our opinion Shirley Hoy is a very able and effective manager, but nobody can function properly with "45 bosses." This makes for an unwieldy, needlessly politicized, and unpredictable system to say the least. The Mayor is one of 45 members of Council, albeit with a bully pulpit to "encourage, advise, and warn," to use Bagehot's phrase about the powers of the monarch.

The result is a system where Councillors remain in close touch with the constituents who elected them (which is what democratic government is all about) but, at the same time, overarching priorities and the larger issues may be lost in a welter of deal making aimed at protecting sacred cows or advancing parochial interests. This in turn has contributed to an atmosphere of mistrust and a lack of respect for other members of Council.

Upon review of the exceptional work that was completed and documented in the City We Want — the Government We Need, our Panel was unanimous in its view that all of the report's recommendations should be adopted. This will not only lead to a much more effective governing process and City over time, but it will go a long way toward giving the Mayor and Council the structure to address the fiscal needs of the City.

The seriousness of this was noted by the members of the Governing Toronto Advisory Panel. In the letter accompanying their report, they asked Councillors to "…rise to the challenge. Make the necessary changes and you put to rest the criticism that City government will not take action. Whether or not you accept the recommendations we offer, this is the time when the pre-eminence of the City must take precedence."

Human Resources and Labour Relations

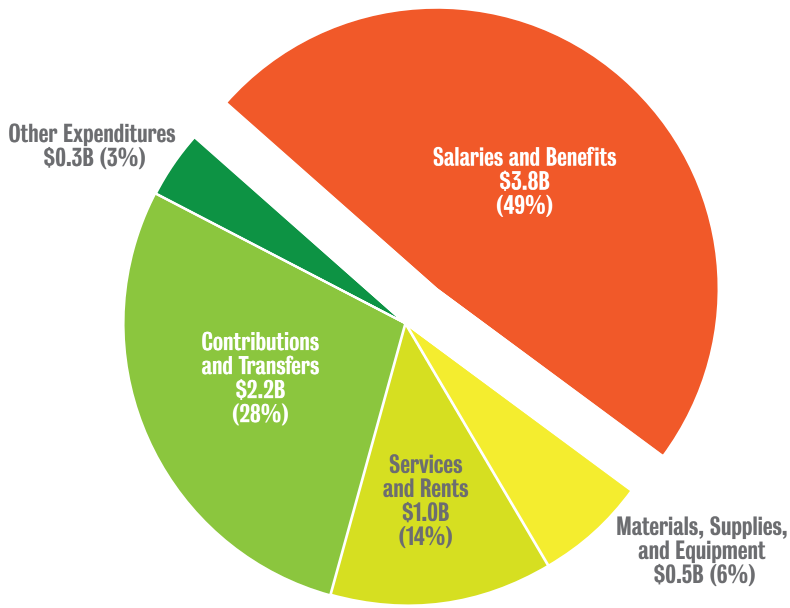
At every level, the City's people play an essential and crucial role in managing and delivering the services that Torontonians need. Making sure the City has the right people on the job, and utilizing their talents, energy, and ambitions in a cost-effective manner, is a vital component in running a successful municipal government.

The City's workforce lies at the heart of its overall fiscal picture. The City spends almost $4 billion per year on wages and benefits for its employees, including those of the ABCCs. This means that labour costs consume almost 50% of all City spending (See Figure 4). As a result, even small changes to remuneration have a profound financial impact on the overall budget. In short, ensuring that human resource and labour relations issues are handled efficiently lies at the core of any overall fiscal strategy for the City. Therefore, the City must interpret this challenge broadly and constructively by seeking to ensure that it manages its workforce in a manner that delivers full value for taxpayers and citizens and maximizes the contributions of City employees.

The City of Toronto directly employs about 37,000 people and over 50,000 including the ABCCs. Almost 90% belong to one of several different unions which hold collective bargaining rights for various groups of City workers. About 10% consist of non-union management and administrative staff.

Overall employment levels in programs operated directly by the City have remained relatively constant over the last decade. Some workforce reductions have occurred as a result of amalgamation and other efficiencies realized in areas like libraries, water services, and administration. These have been roughly offset by new positions required to meet program delivery goals in certain areas including provincially mandated programs such as emergency medical services, public health, court security, and parks and recreation. Overall, the City's employee base has grown by approximately 4,000 people or 8% since

Figure 4: Salaries and benefits as a proportion of the 2007 operating budget



amalgamation. This means that amalgamation did not produce anticipated efficiencies. In fact, almost all employment growth has taken place outside areas over which the City has complete control — the arm's-length ABCCs. The TTC has added about 2,000 positions, the police force and other emergency services about 1,200 positions, and the remaining growth has been largely connected to some of the cost-shared services mandated by the Province.

The average unionized direct City employee earns just under $40,000 per year in wages and salaries, including overtime. That is about one-fifth lower than average incomes for permanent, unionized employees in Ontario (reflecting in part the preponderance of part-time workers in some City divisions). Even for full-time staff, salary levels are on par with other unionized permanent employees in the broader Ontario labour market. However, overall compensation costs for City employees are higher than most, but not all, Ontario municipalities. Living expenses for City workers are also higher — and in some cases, it can be argued that City employees (such as fire and police workers) clearly work under more demanding conditions than in any other community in Toronto.

The fastest-growing component of compensation has been benefit costs, reflecting challenges in funding pension plans and health insurance benefits. Finding creative ways to manage and control rising benefit costs and more cost-effective ways of delivering benefits will be an important priority for the City's human resource managers in coming years.

As is often mentioned in this report, the process of amalgamation in the late 1990s proved to be an incredibly challenging and costly undertaking for the City — nowhere more so than in its human resources and labour relations functions. Indeed, the process of completing amalgamation in the human resources area is still incomplete: some labour contracts, wage schedules, and benefit programs must still be harmonized. As this long, controversial, and expensive task draws to a close, we understand that the City is very near to being able to turn the page on amalgamation and focus on making the most of its workforce for the years to come.

On balance, we were impressed by the quality and dedication of the City staff on all levels that we encountered and interviewed in our work. The City is fortunate to have a workforce that is so committed to its work. At the same time, our interviews and meetings revealed problems of confusion about priorities, a lack of direction, and poor morale in some divisions and functions, as noted earlier in the section on Political Culture.

Most City of Toronto employees, and most who work in the various ABCCs, have collective bargaining rights. Our Panel did not feel it was our job to question those rights, nor specific features of the labour contracts. Like other unionized employers, the City of Toronto faces an ongoing challenge to meet its fiscal and cost targets within a collective bargaining environment. This means that labour-related cost savings cannot be imposed unilaterally, but rather must be negotiated. It also means that involved unions must accept, one way or another, the fiscal constraints that face the City as they develop their own bargaining strategies.

Labour costs per employee have grown somewhat more quickly for the City of Toronto since 2000 than the regional labour market average, largely reflecting the impact of amalgamation and other special factors such as employment and pay equity awards. In contrast, labour costs grew more slowly than the regional average in the 1990s when several bargaining units operated under multi-year wage freezes. In coming years it will be incumbent on the City and its unions to restrain the growth of average compensation in line with the evolution of broad labour market averages and the City's fiscal health.

Our interviews discovered a wide range of experience in terms of the nature of the collective bargaining relationship between the City and its unions. In some cases, the relationship reflects mutual recognition, respect, and willingness to manage labour relations in an effective way — respecting both the contractual rights of the City's workers, and the City's need to conduct its operations in an effective, affordable and reliable manner. In other cases, the relationship is more dysfunctional, involving distrust, ongoing conflict over contract implementation, and a failure to see the big picture. Obviously, in these instances both the City and its unions need to improve their working relationships: this will be a complicated, ongoing challenge, but an essential one to address.

The City of Toronto operates in a dynamic, evolving world. Both its programs, and the way they are delivered, must change over time. And the City's workforce must also adapt over time — the functions they perform, how they are performed, and the skills that are required. There is a stereotype that the City cannot restructure or improve its operations because of union rules and inflexibility. From our review this is not the case. Collective agreements with the City's unions provide some very broad opportunities to reorganize or cancel programs, reallocate staff, and implement technological advances and other efficiencies. In our view, with appropriate management attention, and effective consultation and cooperation with employees and their unions, continuous improvements in efficiency, cost, and quality can and should become a regular feature of City operations. There are case studies of successful program reorganization and restructuring within the City that should be examined and emulated.

There is a corresponding stereotype that any such improvements necessarily translate into job losses or other negative impacts for City employees. This is wrong. The City must expand some of its services in coming years even as it reduces or eliminates others. The City operates a vast network of programs and services and in any dynamic organization new growth and opportunity will occur. Attrition due to retirements and other exits occurs at a rate of about 6% per year. This can be used to reshape the workforce over time. All of this implies that with appropriate flexibility, mobility, and retraining opportunities, job security should not be an issue for City workers — and certainly should not stand in the way of ongoing efforts to maximize the efficiency of City practices.

From our review, we believe that opportunities for internal flexibility within City employment and operations have been underutilized. The City's preoccupation with managing the challenges of amalgamation has led to crisis-driven short-term thinking. This has diverted attention from the necessary work of training its workers, managing change, and promoting more internal flexibility. In our judgment, neither the City's collective agreements nor a lack of interest by its workers prevent the City from doing a better job of upgrading skill levels, changing jobs, and where necessary reallocating workers (while still respecting seniority and job security). The City is going to be asked to do more for its citizens in the future, not less. It will need the skills and talents of a strong workforce to do that job. Working systematically to develop programs and a Citywide culture that promote lifelong training and flexibility will be crucial to help the City meet those evolving needs.

The Panel was distressed to learn that the City has been designated as a "problem employer" on health and safety indicators. The City self-insures its workplace compensation expenses under WSIB rules. As a result, this designation carries no fiscal impact in its own right — but the City's unacceptable health and safety record certainly carries major fiscal implications such as overtime due to higher compensation costs and lost time expenses. Certain City functions such as firefighting, homes for the aged, and Emergency Medical Services impose unique health and safety challenges. However, this cannot excuse failing to invest in new practices, new technology, and new workplace structures to minimize and ultimately eliminate the health risks facing City workers. In our view, this issue must become a key priority for the City administration.

In short, when almost half of the City's budget, and its very ability to function, rest in the area of Human Resources, Labour Relations, and the related cost, this area must become a major priority for the City. It is too expensive — on every front — to ignore this reality.

Pressures from Below

Agencies, Boards, Commissions, and Companies (ABCCs)

One of the most shocking realizations that the Panel came to early in our review process was that the City, in its zeal to create distinct operating units, has approximately 119 different Agencies, Boards, Commissions, and Companies, or as they are called internally, and throughout this report, ABCCs.

Collectively the ABCCs exert pressure from below. The City has very little say or control over their budgeting and decision-making, yet it is accountable to the public for their financial performance and service quality.

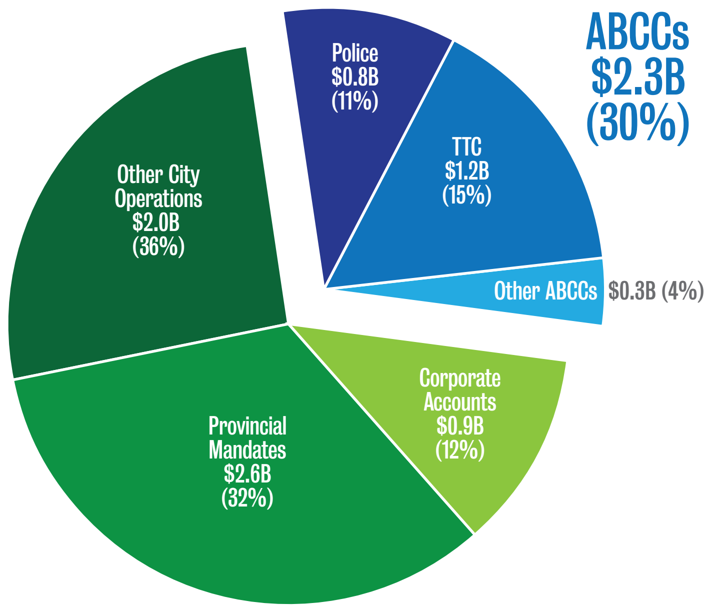
Many of the ABCCs are relatively minor in the grand scheme of things — the approximately sixty Business Improvement Areas, for example — but some are extraordinarily large and powerful. Consider, for example, the Toronto Police Services, the Toronto Transit Commission, Toronto Hydro, the Toronto Parking Authority, Toronto Community Housing Corporation, the Toronto Economic Development Corporation, the Toronto Public Library, and Toronto Public Health. These entities combined represent approximately 30% of the expenditure budget of the City and 25% of its employee base (See Figure 5). Most of the capital requirements of the City are incurred by the major ABCCs, especially the TTC. Indeed, half of this year's capital borrowing is for the TTC.

The principal rationale for the existence of separate entities is efficiency. Some services and projects are understood to be more efficiently delivered or implemented by special-purpose bodies than by the City itself. From our analysis, we believe this to be true in many cases. Indeed, as the Governing Toronto Advisory Panel noted, there is a tendency for Council to spend too much time on minutiæ and not enough time on considering and overseeing overarching matters of policy.

To incorporate the functions of ABCCs into line functions of the City administration, even if permitted through legislation, may not be practical or desirable in many cases. For example, the TTC is one of the largest transit organizations on the continent and is highly specialized and complex to run. Toronto Community Housing Corporation is by far the largest landlord in the City and one of the largest on the continent. Toronto Hydro is one of the largest public utilities in Canada. The list goes on.

On the other hand, there can be dangers to a completely hands-off approach. The alignment between responsibility, accountability, and authority gets lost, as the City is responsible and accountable for these entities over which it has very little authority or control. The leadership of ABCCs has made little acknowledgement of the fiscal pressures facing the City and the imperative of cost containment. There are also issues with how ABCCs allocate limited resources, how they might deliver certain services more efficiently, and how they cooperate with each other and with City departments.

Figure 5: ABCCs as a proportion of the 2007 operating budget



These are complicated relationships as well. For one thing, the relationship of the City to each of the subordinate organizations differs greatly depending on its legal status, its degree of independence, and its origin. For instance, the Board of Health's existence is mandated by provincial legislation, which defines the relationship between it and the City. Some of these entities are standalone corporations with little say either permitted or requested by Council; others, like the TTC, are heavily dominated by politically-appointed boards. It is fair to say that there is nothing straightforward about any of these relationships and the more we looked at the ABCCs the more we realized just how autonomous and inscrutable they have become.

Getting the relationship right between these agencies and the City is very important. There are hard questions that must be posed:

- Should each entity still exist, or has it outlasted its usefulness?
- Is the mandate of each entity still consistent with changing City needs and priorities?
- Does the City get value for the money it contributes or invests?
- Is the City getting an adequate dividend or return — financially or otherwise — from each?
- Are present funding arrangements efficient and appropriate, or should they be altered, uploaded, or reconsidered to reflect changing times?

- Are there savings that could result from better sharing of services and back-office functions?

- Should some of these entities be sold or the services they provide be outsourced?

These are all complicated questions but, in our view, they are not being asked enough, if at all. We feel that it is time they get asked on a regular basis. There is no question that these 119 entities must be a major part of any strategy to get the City back on to a sound financial footing.

In the following section, we look at the policy and financial implications of some of the larger ABCCs. They provide some of the biggest challenges to change and yet also the greatest opportunities to realize benefits. In one way or another the ones we have touched upon in this section form part of our recommendations.

The Toronto Police Service

Toronto is a complex city to police. There are many special challenges in providing police protection in such a fast-growing and diverse community. The force has made great strides in recent years in promoting community-police partnerships. There are also challenges in providing policing for the major events that enliven life in Toronto. Hundreds of thousands of visitors come every year for Caribana, Pride Day, the Canadian National Exhibition, sporting events, concerts, and other events. Tens of thousands of people congregate late at night in the downtown entertainment district each weekend. Yet in spite of all these challenges, Toronto is safe compared to other large metropolitan areas in North America.

Through our process of evaluating the ABCCs we were impressed by the Toronto Police Services senior leadership's level of professionalism and commitment, not only in their approach to policing our city, but to the training and development of their staff and to running this division efficiently. However, of all of the separate departments of the City, that of the police seems to be the most impervious to outside control.

The Toronto Police Service had a gross operating budget in 2007 of $828.2 million. Of that $737.5 million went to salary, benefits and overtime payments. This payroll is one of the biggest single line items in the operating budget of the City, yet it is negotiated by the Police Services Board, an arm's-length organization, not Council. The Police Act expressly forbids the municipality from exercising budget control on a line-by-line basis. The City can play a role in setting the overall budget of the force, but it is completely up to the Police Services Board to determine how that budget is to be divided and how services are to be delivered.

The rationale for setting the system up this way is quite clear, as people's safety not be compromised by petty interference. However, this is a paradigmatic case of how the City feels significant pressure from below. Police funding accounts for approximately 10% of the City's gross operating budget and 25% of taxes levied, yet the City does not directly control it. If it wants to make changes to certain line items, to adjust costs, or to tackle some of the sacred cows, the Mayor and Councillors are relatively powerless — yet the electorate does not know it.

The Toronto Transit Commission

The TTC has five major branches employing approximately 11,500 full- and part-time people. It is the third-largest transit property in North America, based on ridership, after New York City and Mexico City. TTC carries about 445 million riders per year and operates heavy and light rail, streetcar and bus services totaling over 2,400 vehicles throughout the City of Toronto. In addition to its conventional services, the TTC operates Wheel-Trans for people with high needs for accessible transportation. There is no question that the TTC is the glue that holds the City together. More than one million people a day use its services. Without the TTC, the congestion on the roads would be unimaginable. The TTC also plays a vital role in the economic development of the City.

In 2007, the conventional service generated over $800 million in revenues and received $271 million in operating grants from the City. Overall, the TTC spends approximately $1.2 billion per year — 15% of the City's operating expenditures.

The capital needs of the TTC are financed by a combination of federal, provincial, City, and internal TTC funding. At present, the funding breaks down as follows:

Federal Government Funds	37%
Provincial Government Funds	31%
City Debt	28%
Internal TTC	3%
Development Charges	1%

Almost 90% of the capital spending is to keep the TTC operations in a state of good repair; 7% goes to service improvements and 3% for legislated requirements around accessibility.

The TTC has ambitious plans for expansion, particularly of light rail services. These plans call for over $6 billion in capital spending over the next several years. The Province has committed some funds for this expansion through its "Move Ontario" program. The federal government has yet to finalize its contribution agreement. The City of Toronto will have to borrow to cover any shortfall in federal or provincial funding.

From our review of the TTC there were many things that impressed us. By most international benchmarks it is among the best in the world. It is also the only major transit operation in the world that does not receive operating subsidies from a national government; indeed, the TTC is the least-subsidized major transit authority in North America. The TTC has also become very adept at doing whatever it takes to fight for the capital it needs just to keep the system operating, let alone carving out its ambitious plans for extensive multi-phased expansion.

Senior TTC staff are experienced managers who are in a very specialized operating business that is as deep and complex as it is important to the very core of Toronto. They take their work and responsibility seriously, and they manage to get a great deal accomplished despite the confines and restrictions placed on them by the nature of their business and role within the City.

However, as we conducted our review the one contention that we heard repeatedly was that the senior management have historically adopted an insular approach not only in relation to the City but also to the greater region and the Province with respect to integration with neighbouring transportation systems. Our impression is that while this situation is improving somewhat, much more must be done. In fact, as it is the most mature and financially skilled component of the greater regional transportation network, it needs to play a leadership role in helping build a better regional transit system.

The vision for transportation in this entire region is exciting and broad. How it is implemented in the following decades will bear strongly on the success of not only Toronto but Ontario as a whole. The creation of the Greater Toronto Transportation Authority, recently renamed Metrolinx, indicates that the Province recognizes this.

In our view the TTC, in partnership with the City, must embrace and assert a role as the dominant and most sophisticated piece of a future world-class integrated regional transportation system. This will require more cooperative and open relationships with the Province, Metrolinx, and neighbouring transportation authorities. There is no reason why an integrated regional system needs to be a losing proposition for the TTC or the City. We need to look no further than Montreal or Vancouver to see how multiple transit operators' capital investment, routes, tariffs, and payment systems can be coordinated by regional umbrella organizations.

In light of these facts our Panel strongly considered recommending a full uploading of the TTC (rail and buses) immediately. Upon reflection, this does not appear to be the most practical solution at this time, given its history. However, if the TTC does not become much more integrated its destiny will be limited to some ad hoc funding, diminishing clout and power, and a system that cannot afford to grow or service the customers who depend on it.

Toronto Hydro

While the Toronto Hydro Corporation is wholly owned by the City of Toronto, its rates are set by the Ontario Energy Board. It does not produce power, it distributes it. Toronto Hydro was established decades ago with a public policy mandate to build a reliable, cost-effective electricity distribution network. Its public policy mission has evolved recently to include environmental and conservation goals.

Toronto Hydro is divided into three subsidiaries:

- The Toronto Hydro-Electric System operates the largest municipal electricity distribution company in Canada, with almost 700,000 customers.

- Toronto Hydro Energy Services Inc. owns and operates street lighting and expressway lighting systems in the City of Toronto. It also sells energy efficiency products.

- Toronto Hydro Telecom Inc. is in the fibre optic business and has connections to over 490 buildings in the City of Toronto.

Toronto Hydro had consolidated revenues of approximately $2.25 billion and a net income of $92 million in its last fiscal year. By some estimates, Toronto Hydro could be worth $2.5 to $3 billion (before debt repayment of approximately $1.2 billion and taxes) if it were to be sold to either another municipality, the Province, or to the private sector.

As noted in our recommendations, this is one ABCC that deserves particular attention by the City. The significant value of this asset and the current yield of return suggest that there may be ways to enhance its value to the City. On a purely mathematical basis this may be the single best short-term opportunity for the City to improve its financial position. Of course, as with any of these considerations, there are also significant tax, public policy, and political implications that will need to be weighed. If monetized, it could singlehandedly eliminate the majority of the City's existing debt as well as a significant proportion of its annual debt servicing costs.

Toronto Parking Authority

From our review the Toronto Parking Authority is one of the most "business-like" and "entrepreneurial" divisions of the City. It runs a lean operation, employing less than 300 people. It has completed several public/private joint ventures and it has been very proactive in initiating new development projects, taking on third-party operating contracts and taking advantage of its real estate holdings. It is a steady producer of revenues and delivers superior gross-to-net margins. In 2007 off-street revenue was projected to produce $60 million gross ($15 million net) while street parking produced gross revenue of $38 million ($26.5 million net).

In addition to these contributions its mission statement illustrates the public policy functions at its core:

> The Toronto Parking Authority exists to provide safe, attractive, self sustaining, conveniently located and competitively priced off-street and on street public parking as an integral component of Toronto's transportation system.

When reviewed closely the ambiguous nature of its mission in life should be noted. It is in the business of maximizing returns? Is it in the business of distributing social goods such as off street parking for struggling business improvement areas? Is it in the business of subsidizing parking and competing with the private sector head to head? Does it have the potential to partner with real estate developers to enhance the value of its property holdings by exchanging air rights for parking garage spaces in new retail, commercial and residential developments?

In our opinion the City should take a hard look at these questions. It is also our view that, like Toronto Hydro, this is another valuable asset under the City's "control" that may or may not be a core holding. A thorough review is required of both its public policy and financial contributions to the City, both in its current state or in some restructured form.

On the surface, there may be several ways to realize considerable value from the Toronto Parking Authority.

1. Some of the lots/garages that it controls could be sold to capitalize on a still-healthy real estate market. For example, the City of Chicago recently monetized the spaces it owned in four civic parking lots by auctioning off long-term leases. Chicago received hundreds of millions of dollars from this process, enabling the City to pay down debt and invest in parks and recreation facilities, while still retaining ownership of the garages after the expiration of the leases.

2. The Toronto Parking Authority could monetize the operating contract for a period of five to ten years in order to receive a substantial cash payment today, but retain the real estate and flexibility long term.

3. There is potential to establish a standalone parking REIT (or similar financial structure) in the capital markets to unlock immediate value for the revenue stream and allow the business to grow and expand while keeping some level of ownership.

4. There is always more potential to partner with developers to enhance the value of property holdings by exchanging air rights for parking spaces in new retail, commercial and residential developments.

Other options are possible. The challenge remains: if viewed creatively, the Toronto Parking Authority has the potential to help the City unlock hundreds of millions of dollars in value.

The Toronto Community Housing Corporation

The Toronto Community Housing Corporation is another important City-owned entity. It provides about 60,000 low-cost social housing units in complexes around the City, housing about 160,000 residents. The Corporation was founded in 2002 as a result of the unilateral downloading of social housing responsibilities by the federal and provincial governments — following a long period of underinvestment in social housing assets by both levels.

The TCHC receives an annual $250 million operating subsidy from the City and no direct capital funding. The Corporation has been very creative in attempting to generate positive cash flow from its operations. These include the identification of non-rent revenue opportunities, such as from coin-operated laundries, building maintenance services offered to outside building owners, and the monetization of energy cost savings resulting from conservation measures and cogeneration initiatives. This cash flow is then leveraged to access new capital funding from outside sources to finance both the repair of existing stock, and construction of new projects, mainly on existing sites. The TCHC's independence from the City has allowed it to engage more flexibly in creative external capital funding initiatives.

In addition to supplying its own social housing units, the TCHC serves as a clearinghouse for access to all of the social housing units in the Toronto area. (A network of over 200 small independent agencies, also supported by the City, supplies another 30,000 social housing units.) The TCHC manages inquiries and the waiting list for all of those facilities, for which it is compensated by the Province.

The TCHC's main fiscal problem is the hangover of unmet maintenance and reconstruction needs from its aging stock of buildings (most of which were built in the 1960s and 1970s, and hence are entering a high-cost era of their useful lives). The TCHC estimates it carries $1.3 billion in unmet liabilities required to bring its buildings up to state-of-good-repair standards. It will take a decade to fully address that liability.

The TCHC has been reasonably creative and flexible in identifying ways to partner with outside agencies and private sector firms in redeveloping existing properties, and developing properties on new lands. The main constraint holding back further initiatives of this type is the Corporation's limited access to capital.

Again, this division underscores the competing needs and pressures put on a city of this size and scope. It is always a balancing act and like any organization the City has limited resources and cannot do it all.

What the City can do better — Our recommendations

It is clear that there is a mismatch between the City's operating responsibilities and resources, even as it, and some of its ABCCs, face growing capital debt and unfunded liabilities. Of late it seems constrained in its ability to correct these problems. We believe that with creativity, these constraints, while formidable, can be overcome. Restoring the City's fiscal health will not be simple; indeed, multiple changes and reforms will be required. This section sets out our recommendations as to what we feel the City can do at this juncture, during the current term, to move forward with strength and conviction. This section also offers solutions and captures opportunities that have not been fully seized.

Governance Structures and Processes

Reform Governance Structures

The recent Governing Toronto Advisory Panel took a long and hard look at how the City of Toronto could best be governed. We believe that they were right that the City needs a strengthened Mayor and Executive Committee to take a leadership role to set long-term plans and clear and focused priorities. Council adopted many of the Panel's recommendations but also rejected some that we think were important. Our Panel feels that the Council should revisit and reconsider some of the key recommendations and principles in that report including: that the Mayor should have the power to direct, appoint or dismiss the City Manager; that there should be an assigned professional staff reporting directly to the Mayor and Executive Committee; and that the members of the Executive Committee should get extra pay. The rationale for these changes is that a management structure where the City Manager reports to 44 members of the Council and one Mayor is unwieldy, difficult to operate, and diffuses accountability, authority and responsibility. We believe that everything starts at the level of governance and that it is important to get it right. These changes will improve the City's ability to set priorities and efficiently manage its finances.

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

In our opinion, the City's budget process is thorough, professional, and of a high standard. We had several financial professionals attend one or more of our meetings with the City to assess its approach and process, and the general feedback was quite positive and encouraging.

In recent years the City has worked at streamlining its approach and has implemented positive changes such as the elimination of the role of Standing Committees of Council in the process, the establishment of a Five Year Capital Plan, and the placing of much more priority on the opinion of the Mayor and Executive Committee.

Despite these positive signs, the City is constrained by the uncertainty of not knowing the current year's tax levy. This by definition means the City only has a one-year operating budget which makes it extremely difficult to make prudent medium- and/or long-term economic decisions. There are obvious implications because this results in deferring some necessary capital and maintenance spending and perhaps not taking into account the appropriate cost of capital. As a result, a move to a multi-year operational outlook is essential. Most successful organizations run operating numbers for three to five years in order to thoroughly understand their cash position and future needs, and to make sound economic decisions.

Another problem is that efforts at the financial planning level are fragmented between the City and the ABCCs. Currently the process is highly "bottom-up," with consolidation only taking place at the highest level. As a result, forward financial planning, priority setting, target setting, and service discussions on a citywide basis do not receive the oversight they deserve. As the system exists today City financial staff have limited involvement in reviewing and challenging budget submissions of the ABCCs, which represent approximately 30% of the City's annual budget.

Another area in need of attention is accounting policies. Historically the City, like all other municipalities in the Province, has not reported capital depreciation on the balance sheet or had any formalized Asset Management Plans. The new Capital Asset Accounting PSAB (the Public Sector Accounting Standards Board of the Canadian Institute of Chartered Accountants) Guideline 3150 requires municipalities to report annually on the historical value of their infrastructure assets starting in 2009. In anticipation of this new guideline, many municipalities have begun a process to properly inventory and assess the historical cost value of their assets. In our view the City needs to make this accounting practice an immediate priority. This will both help the City manage its assets and circumvent the pitfalls of implementing the Guideline. It will also make assets and asset depreciation more visible and transparent.

We also noted that new spending proposals are often brought forward by various Committees of Council for approval in the middle of fiscal years. This is understandable in a dynamic City. However, the financial staff need to be more involved in these matters in order for the full impact on the budget to be planned for and known.

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

There is a perception shared by the provincial government, mayors of surrounding municipalities, and many citizens of the City of Toronto that the Mayor and Council do not pay as much attention to the financial well-being of the City as they might. At some level, it does not matter if this perception is correct or not: the fact that it exists damages the credibility of the Mayor and Council when it comes to financial matters. We believe it is necessary to counter this perception. The best way to do this is to demonstrate that the Mayor and Council are serious about getting the fiscal framework right and allocating resources in the most efficient way possible. In our view, the best way for this process to get started is for the Mayor and Council to establish a clear set of aggressive yet realistic long-term fiscal targets and some short-term targets for redundancies and savings. They then need to ensure that they report on their success or failures in these areas in an open and consistent manner.

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.
- 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

The City must address expenditures. As so much of its expenditures are dictated by provincial mandates and labour contracts, the City has little room to manoeuvre. Indeed, if expenditure on ABCCs, corporate accounts, and provincial mandates are set aside, it can be argued that the City directly controls only 26% of its operating budget.

There are, however, a number of areas where we feel cost reduction and containment offer real opportunities for the City. We accept the fact that some divisions and departments have done a great deal to address these issues but we have little doubt that all could do more. We also readily acknowledge that the City will have to make some initial expenditures, as "investments" not costs, to unlock certain opportunities. A few areas and ideas that the Panel feels could be beneficial for the City to look at are discussed in this section:

Some Canadian cities have completed Core Services and Cost Optimization Reviews. Former Markham Mayor Don Cousens explained his experience: "These were among the best initiatives we ever undertook for driving efficiency and saving costs." If taken seriously, these processes can examine every core service, identify areas of duplication of effort and find overly bureaucratic or slow processes. They do not necessarily result in significant reductions in staff. The employee base should be engaged in helping make these exercises both positive and fruitful.

Another area that we know is often addressed in certain divisions but seldom across the full range of departments and ABCCs is a Catch the Little Things program. This is simply a Citywide exercise to address many of the "small" cost areas that on their own seem immaterial, but taken together can result in significant savings. For a City this size it can represent tens of millions of dollars annually. Some of the areas to focus on include travel, entertainment, sick pay entitlement, absenteeism, overtime expenses, work rule flexibility, office overhead costs, marketing and communication costs, among many others.

A Strong Auditor General: The Auditor General was appointed for a reason. In May 2007 he identified $69.8 million of recommended savings and the City is working through that list now in the hope of acting on many of them. We feel the Auditor General's department can and should be enhanced by giving it the ability to complete more of these types of reviews and efficiency audits. The City should also be adequately staffed to respond promptly to these recommendations. We also feel that while the role of the Auditor General is an extremely important one, a change of leadership and a fresh perspective will serve the City well from time to time. Consistent with the federal government practice, we recommend a five-year term limit.

Shared Services: We noted during our review that within the City itself and many of the ABCCs there were several separate and distinct "shared services" departments covering finance, accounting, HR, payroll, admin, IT, research, communications, among other areas. While we recognize that there may be practical reasons for the retention of separate departments in some cases, we see a huge opportunity to consolidate some others for the benefit of the City. If this exercise is undertaken properly, it will promote better commitment and co-operation, open up opportunities to share best practices, and lead to significant cost savings.

Outsourcing and Procurement: Another place to find savings is in the area of outsourcing and procurement. The City purchases over $1 billion of goods and services annually. While it has focused on this area in recent years, there is still work to do to be done to adopt best practices to get consistency across the organization, including the ABCCs, and to stress the deep importance of controlling and monitoring these programs in the future.

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

The City must also take a hard look at which services it and the ABCCs deliver well, and which might be better delivered by other means. Benchmarking — the monitoring of program performance over time — aids in identifying the potential for savings or realignment of responsibilities. The City collects and publishes benchmarks following standards set out in Ontario Municipal Chief Administrative Officers' Benchmarking Initiative (OMBI), meaning that its performance can be easily compared to a basket of other Ontario municipalities. The problem with this system is, however, that no other Ontario municipality comes close to the City of Toronto in terms of size, social diversity, and complexity of service delivery.

The Panel thought that some of the provincial benchmarking standards employed by the City were too limited. Toronto should be measuring itself against many of the world's great cities, not rural municipalities in Ontario. To address this issue, in our view, the City needs to develop a much more robust benchmarking system; it needs this to understand its relative competitiveness and to be more aware of its international ranking in key areas. It also needs to raise its sights and set aggressive targets and measure how well it meets them year over year. Several cities have done this well by including certain private sector techniques to measure performance, in addition to those used in the public sector. New York City is an excellent example of a municipal government that has made huge strides forward by deploying solid benchmarking strategies.

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

There are several ways for the City to grow its revenues: it can follow policies that encourage economic growth, thereby expanding the tax base; it can impose new user fees or taxes; or it can raise the rates on its existing taxes. The City has done all of the above.

It has increased its revenue base by permitting the intensification of existing neighbourhoods. The boom in condominium developments in downtown Toronto, according to a recent study by RealNet Canada, will significantly increase tax revenues for the City. It has been less successful encouraging commercial and retail development because of both a cumbersome approval processes and extremely high commercial property taxes. More progressive and inviting policies and programs, and less red tape, can certainly help increase revenue.

It has also introduced new taxes. Whatever the merits or demerits of the new Land Transfer Tax and the Vehicle Registration Tax, they will together bring in approximately $300 million annually. The recent proposal before Council to increase user fees for City programs will bring in much less, but it does send a message that the City is serious about full- or high-cost recovery on many of the services it provides. We feel that this makes sense and should be encouraged. The City has also looked at consumption or sales taxes on hotel accommodation, liquor sales in bars and restaurants and sales taxes on gasoline. For the moment, the City has concluded that these taxes raise boundary issues or would be too administratively expensive to be efficient.

There is also a series of other taxes being discussed that could produce significant new revenues over time. As the recent study by Harry Kitchen for the Residential and Civil Construction Alliance of Ontario pointed out, the key to making these taxes work is to have them administered across the Greater Toronto Area and Hamilton (GTAH). He estimated that a toll of 7 cents per kilometer on major arterial routes like the 400 series of highways, the Gardiner Expressway, and the Don Valley Parkway could raise as much as $700 million annually and that a GTAH-wide fuel tax of 6 cents per litre would raise between $300 and $420 million annually. A GTAH-wide annual parking tax of $25 on non-residential surface parking spaces would bring in an estimated $80 million. The City cannot do this on its own. It would require the cooperation of the Province and would have to be administered by a provincial agency such as Metrolinx. The point is that together new taxes such as these have the potential to bring in significant tax revenue for the City. While we are not advocates of all of these tax measures and have not studied the costs and benefits of each, we believe that they are at least worth exploring further as options for the future.

One that captures our interest and that is within the City's direct control is a deal with the Province to upload the Don Valley Parkway and the Gardiner Expressway to the Province, in exchange for being an integral part of some additional new road tolling programs. Our quick analysis suggests that this could result in off-loading approximately $20 million per year in maintenance costs in exchange for a large share of a revenue stream generated from this new "user fee." Some rough estimates of the potential net present value of tolling rights for the 400 level highways, the Don Valley Parkway, and the Gardiner are in excess of $7 billion. This option is clearly worth exploring immediately as much of this value could find its way back to Toronto.

Another option is simply to raise rates on existing residential taxes. There is plenty of evidence to show that Toronto's residential property taxes are very low compared to the 905 region and other cities across the country. This has often infuriated the Province, which does not feel the politicians in the City of Toronto have done enough on this front. It certainly has aggravated business, which has been asked to shoulder a disproportionate share of the tax burden.

At the time of writing this report, the City has just announced that it is raising the residential rates by 3.75% for 2008. While we are not supportive of large tax increases of any kind, and hope that the other plans and programs we have suggested in this report result in much less need for residential tax increases, we do not dispute the need for annual increases of this order of magnitude in the foreseeable future given the City's current fiscal position. This is the most obvious place to look to increase tax revenues. However, in our view, any increase in residential tax rates must be linked to a commitment by the City to direct the increased revenues to long-term investments in designated infrastructure programs and to help redress the imbalance between residential and commercial rates on an accelerated basis: if taxpayers can see they will be getting value for money, there will be less resentment of increases in taxes.

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

The City at present has a relatively low tax-supported debt-to-asset ratio, which is reflected in its "AA" credit ratings by major bond rating agencies. City Council has passed a resolution that debt repayments and interest should not exceed 15% of its revenues from real property taxes. At present, the ratio is approximately 13%. Debt and principal repayments now are one of the largest line items in the City's budget and yet it is clear the capital needs of the City and its ABCCs are expected to grow significantly after several years of deferring investment as a way of easing pressure on the City budget.

The Panel believes that there are real opportunities for the City to make big changes in its capital allocation practices by looking at what are the key activities and programs of the City and making decisions on priority areas for investment. In fact, we believe that while keeping all its assets may be the line of least resistance politically, the City may be forced to sell assets in the near future if it does not make some room now by reducing the debt. If the City decides that owning particular assets is not a key City priority, or that there are ways to enhance the financial return from the assets it continues to own, then there are abundant and various opportunities to monetize existing holdings and using the proceeds to pay down debt or invest in other infrastructure areas like transit.

Perhaps the best way to identify these opportunities is to systematically review each ABCC or asset and ask whether or not the City is getting the kind of return on its investment that is reasonable in the circumstance, consistent with any public policy goals that may be served by each holding. This method of approaching the matter focuses on the opportunity costs of the City maintaining its present portfolio of capital assets, and passing up other possibilities as a result.

From our look at the City's holdings, the Panel feels that major City assets should be carefully reviewed to see if they are underutilized, unnecessary for the City to operate, or provide low rates of return to the City. Some of the key holdings that should be reviewed include:

Toronto Hydro is wholly owned by the City but operates independent of its control in a highly regulated environment that would continue if ownership changed. The City's equity stake in Toronto Hydro has a current book value of just under $1 billion. Last year the City received a dividend of $46 million from Toronto Hydro and a matching $46 million in retained earnings. It also received an annual repayment on the debt it holds with a current outstanding balance of approximately $750 million. The City expects the dividend to decline in the future as a result of increasing capital expenditures. A portion of the City's holding will be monetized for the City in coming years as a result of a provincially-mandated increase in Toronto Hydro's debt-to-equity ratio. However some analysts suggest that Toronto Hydro's market value to the City may be considerably higher than its book value, perhaps as much as $2.5 to $3 billion or more, less the company's debt of $1.2 billion. The City's involvement in Toronto Hydro has also reflected public policy goals, such as the development of a reliable electricity infrastructure and, more recently, environmental goals. However, whoever owns Toronto Hydro, its rates, reliability, expansion, and conservation programs will continue to be heavily regulated by the Ontario Energy Board and the Ontario Power Authority. There may be ways for the City to realize more financial value from its holding in Toronto Hydro, which could assist considerably in reducing the City's current debt and debt service charges.

The Toronto Parking Authority is the City's wholly-owned parking operations business, which generates approximately $50 million annually in profits. It manages 150 parking lots and oversees street parking across the City. Some recent estimates of its market value are between $300 and $500 million if the operating contract was monetized for a period of time, if it was converted into a public entity, or if another value-unlocking strategy was pursued. Several of the other options worth considering would involve the assets staying within the City's control or reverting back to the City over time. In addition, the Toronto Parking Authority controls some extremely valuable real estate assets which, if developed or sold, could be worth hundreds of millions of dollars.

Enwave exploits the temperature difference between deep lake water and the air to sell heat or air conditioning to major downtown office towers. The City played a leading role (including through its equity investment) in developing this world-recognized environmental initiative. The City has already sold 53% of its holding to a third-party partner which has effectively taken over operating control. A recent estimate of the value of the City's remaining 47% interest is well over $100 million.

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 Value from Real Estate Holdings and Infrastructure Management

The City owns an expansive real estate portfolio comprising all property types (office buildings, single-family homes, apartments, parking structures, land, retail assets, air rights, rights-of-way, etc.) in all parts of the city. In fact, the corporate real estate portfolio under the stewardship of the Facilities and Real Estate Division at City Hall consists of 5,274 properties with an estimated value of $12.4 billion. Within the control of the ABCCs is another 1,822 assets with an estimated value of $5.5 billion. As a result, the City is the largest landlord in Toronto, with 7,096 properties conservatively valued at some $17.9 billion.

This is one area within the City where we believe that, through a more efficient and consolidated organization structure, and a new focus on achieving a highest and best use for all its real estate assets, the City can be much more efficient and generate hundreds of million of dollars of value. In fact, this may be its most underutilized resource base and among its largest opportunities for enhancing revenues in the future.

Realizing this opportunity, however, will not be easy as there are several distinct "owners" of real estate within the City structure, often with competing goals. For example, the TTC, the Toronto Parking Authority, TEDCO, Toronto Community Housing Corporation, the Toronto Zoo, and several other entities effectively control significant blocks of strategic real estate. Moreover, there has been very little incentive for the various groups to work jointly on projects or monetize non-strategic assets. The "turf wars" between departments are well documented.

Ultimately, we believe now is the time to focus attention on this vast asset base. By converting inert space into revenue, it has the potential to contribute to long-term investment into the infrastructure and services provided by the City. The joint ventures, partnerships, and cross-department initiatives needed to make this happen will require creativity on the part of the Mayor, Councilors, and City staff.

The primary issues we identified related to real estate include:

1. Since amalgamation ten years ago, the City has sold only approximately $200 million of real estate while buying $200 million. The downsizing and "City Hall sell-off" benefits promised from amalgamation have not materialized.

2. There is a built-in institutional bias to own real estate versus lease it. This is primarily driven by internal "funding" issues where managers are less sensitive to capital build-up than operating cost increases. This is not necessarily the right approach to making real estate decisions and is certainly not the way it is done in the private sector.

3. There is an ongoing challenge to ensure that owned assets provide maximum benefit to the City. There are also limited incentives for City and ABCC staff to monetize assets or capitalize on entrepreneurial real estate projects, joint ventures and partnerships, air rights transactions, etc.

4. The City has a "Housing First" Policy. Before a City-owned property can be deemed surplus or sold, it must first be considered for use as social housing. This blanket approach can be a highly impractical and expensive option in certain circumstances. Not only that, the policy is ineffective as it appears to be money, not more land, that is holding back the expansion of social housing. In general, the social housing component must become more integrated with the City's overall real estate strategy.

5. There is also no mechanism to work with other public or non-profit land-holding entities in Toronto such as the School Board, the YMCA, and other levels of government to complete mutually beneficial projects and opportunities.

We believe the City should immediately embark upon a comprehensive review of its real estate portfolio and overarching real estate strategy. This review should also include in its terms of reference the possibility of consolidating all of the real estate departments touched by the City into one or perhaps two division(s) led by either an existing entity like TEDCO (which is presently undergoing a review) or some new structure. Similar government entities exist across Canada, including Ontario Realty Corporation. A highly professional and fully dedicated real estate team can then deal with all the needs of its internal "clients" — including leasing transactions, sales transactions, developments and joint ventures, facilities management, and property management.

Within this structure, in our view, there needs to be one individual who has influence and control of all real estate matters in the City, not merely isolated divisions.

The Panel believes, on a conservative basis, that the City should be able to generate several hundred millions of dollars from selling, leasing, and developing real estate on a proactive basis and/or through partnerships with proven developers. Given the magnitude of these holdings, in excess of $17 billion, it should be possible for the City to realize at least $150 million annually for the foreseeable future.

Many of the same problems that affect the City from a real estate standpoint are found in the area of infrastructure. This massive priority area of the City, encompassing so many key service areas and capital projects, still does not have one central division or overarching leader responsible for driving a Citywide program of implementing or monitoring. The overlap, confusion, and lack of coordination between departments is immense. As a result, we feel the

City also needs one individual who has influence and some degree of control over this important component of City life. We have therefore recommended that the City retain a new all-powerful senior infrastructure officer to coordinate, drive and monitor major projects. We see this individual working closely with his or her real estate counterpart to unlock or build significant value and opportunity for the City.

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

The City's labour costs (including those associated with the various ABCCs) account for approximately 50% of all City spending. Effective management of human resource and labour relations issues is essential to both the City's fiscal health, and the quality and effectiveness of the services it delivers. As a result, a comprehensive, progressive human resources strategy must include focused efforts to improve the performance of both the City and its unions.

The City's workforce is one of its greatest assets: the people we met were, for the most part, dedicated, professional, skilled, and honest. Yet the City's overall human resources policies and practices can clearly be improved to maximize productivity, flexibility, and morale — all consistent with the goals of delivering high-quality, cost-effective services and acting as a responsible employer.

Most City employees are unionized and have collective bargaining rights, and hence changes in compensation and work practices cannot be made unilaterally. They must be negotiated. The City and its unions must constructively and creatively approach the task of optimizing work practices and controlling the growth of labour costs in light of overall economic conditions and the City's fiscal situation. We believe this can be done in a manner consistent with a high level of job security for City employees, especially through the utilization of the City's 6% annual attrition rate.

Like other longer-term priorities which have been placed on the fiscal back burner for far too long, human resources must be a bigger part of the City's overall financial and cost strategy. This includes not only addressing the efficiency matters mentioned above but also in investing in both training and health and safety practices. A comprehensive and progressive human resources strategy must include focused efforts to improve performance by both the City and its unions.

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

Over the years, many of the 119 ABCCs have developed their own operating cultures. In some cases, this has led to an isolationist or bunker mentality when dealing with the City. There are disquieting examples of ABCCs following their own agendas and resisting attempts by the City to constrain costs, coordinate their joint activities, cooperate, or even share financial and other important information. The decisions made by these entities have a huge impact on the financial health of the City, yet under the current relationship structure, the City has difficulties in directing them to follow its policies or adhere to its stated financial goals. The ABCCs have to recognize that they must play a central role in planning for and securing the City's fiscal stability.

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

For many years, the pre-amalgamation City of Toronto enjoyed considerable economic advantages relative to surrounding communities and Canada as a whole. It had an important industrial and manufacturing base, a large financial services sector, substantial colleges and universities, and unquestioned dominance in head offices and most of Canada's leading industries. For the most part its manufacturing base was protected by tariff walls and a large amount of its trade was inter-provincial. If you were doing big business in Canada, it was almost mandatory to have a strong presence in Toronto.

That situation has not existed for many years. The post-amalgamation City of Toronto is much larger, but also subject to much more competition regionally, nationally and globally.

It is clear that in order to improve Toronto's national and international competitiveness a big part of its future will depend on its approach to economic development and urban planning. Toronto's economy is not perfect. Employment levels are 50,000 jobs lower than they were in 1989. Toronto's GDP growth is lagging that of Canada, Ontario, and the GTA. Furthermore, a slow-down in economic growth is anticipated in 2008. The City must do everything it can to improve its position.

There are certainly some clear and strong actions that the City can take to strengthen its competitiveness. These include adopting an economic development roadmap with clear timeframes and costs; ensuring economic development investment is adequate and effective; promoting growth through new and existing planning, infrastructure and economic programs; utilizing innovative location incentives to promote development; making the development approvals process a competitive advantage; maintaining and enhancing employment levels in order to attract investment; and utilizing other outside partnerships to encourage capital expansion … the list goes on.

Recently, the City has taken some positive steps by establishing an Economic Development Committee of Council and an Economic Competitiveness Advisory Committee to the Mayor. These are positive initiatives and should be applauded. The recent publication of An Agenda for Prosperity is an important step forward in getting the wider business community engaged in promoting the economic wellbeing of the City and in pointing out to the City what it should be doing to attract new investment.

Our Panel endorses the general goals stated in An Agenda for Prosperity and feels that it offers the City an opportunity to move forward to encourage robust development in the clusters where the City's economy is already strong: manufacturing; knowledge-based industries like information technology; science-based research and development; and the cultural industries. There is also an opportunity to link up with global economies by capitalizing on the diversity of the workforce.

To drive this agenda, we feel that the City needs to create a position for an Economic Development Senior Officer who will be able to coordinate the different economic development strategies of the City and to reach out beyond its borders to help drive regional growth. As no less an authority than Hazel McCallion told a member of our Panel, "The region needs a strong City of Toronto and the City of Toronto needs a strong region." This view seems to be universally held, even among those who may be considered competitors.

We also believe that the City needs to expand its planning resources. The function of the planning department should be to encourage development, not to put bureaucratic roadblocks in place. While we heard several compliments about the ability of the senior staff in this area, there is considerable anecdotal evidence to the effect that the communities surrounding the City have more streamlined procedures and display a "can do" attitude when it comes to planning matters.

Planning is an important tool for the economic development of the City. One area within it that we believe needs reform is how the City handles Planning Act section 37 cash payments for easing of density or other controls. At the moment, these funds stay in the ward where the development is occurring. Over the last three years, more than $60 million has come from developers under this provincially-allowed exception to the City's Official Plan.

The basic problem with the s.37 payments is that certain wards attract most of this development money and the areas of the City most in need of new infrastructure investment or the social programs of the City in high priority areas do not usually figure into the equation. We believe that there are many areas of City social services, such as social housing, which could benefit hugely from some of these s.37 funds. The more investment in programs and services that help provide employment or grow the total economic base the better. Hence, we are recommending that at least 50% of all s.37 funds be allotted on a city-wide basis in accord with what the city determines are its highest priorities for social development.

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

The legacy of downloading still haunts the City's relations with the Province. There remains widespread disagreement about how much it costs to provide certain provincially-mandated services. Fortunately, great strides have been made recently between the Province and the City. Current negotiations between them are of great symbolic value. The challenge that lies ahead is to make sure that this new spirit of cooperation translates into effective action. There is little doubt that ongoing collaboration is still needed.

We cannot predict the outcome of the ongoing talks between the Province and the City and other municipalities on what services will be uploaded or receive more funding by the Province. What is clear is that it has taken ten years to get to this point. It should not be beyond the capacities of the City and the Province to develop a mechanism that is transparent and rapid to settle these bookkeeping matters. In this process, the Province must recognize that programs that redistribute social benefits should not be funded from property taxes. In turn, the City must recognize that it has a duty to its residents to deliver all services in the most efficient way possible.

In our view, the focus of such talks should always be on what serves the public best. The overarching consideration should be efficiency in the delivery of government services. A consistent theme of the Panel in this report is that an important step for the City is to demonstrate it is doing everything in its power to control its own finances before the Province can be expected to make real, multi-year commitments. The City should also investigate and drive appropriate alternative partnership opportunities, including deals with Canada's own Pension Funds, to demonstrate its entrepreneurial ability. As the City proves it can do these things, both parties need to develop a fair, reasonable, and open-book system to obtain a better short-term funding balance for services that have been downloaded. As this is achieved, the way should also be clear for agreements on fixed long-term commitments for operational and capital investments in such areas as social housing, public transit, and other infrastructure needs that are consistent with a defined vision.

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

Traffic congestion costs the City of Toronto an estimated $2 billion a year. Just-in-time manufacturing schedules pay no attention to arbitrary municipal boundaries. Pollution from traffic congestion adds significantly to the "bad air days" already endured by residents of the Golden Horseshoe Region. The City of Toronto has a vested interest in seeing that the major road, rail and transit links to the City function as efficiently as possible. The City owns the Gardiner and Don Valley Expressways. The Province owns the 427 and the 401 highways. A Provincial Crown Corporation owns and operates GO Transit. The City owns the TTC, by far the biggest provider of transit services in the nation, let alone the region. All of these are essential pieces to the bigger puzzle, yet there appears to be limited actual coordination even on big matters that require a regional vision and multi-governmental funding.

What makes matters worse is that there is so little long-term commitment by all levels of government to the staggering capital funds required to make regional transport work in the present, let alone the future. To the best of our knowledge, all major conurbations face similar problems. Yet, the City of New York has recently adopted a plan to create a dedicated pool of capital for needed transit and transport requirements. According to this plan, the City would commit hundreds of millions a year from its revenues; the State of New York would match these, and the funds from a new congestion tax would form the third leg of the stool. This would provide an assured pool of capital which would in turn be used for a bond issue which would provide more working capital for transit needs in the short, medium, and long term.

The City of Vancouver also appears to have done an excellent job at pulling together a manageable and forward-thinking transportation system without insisting that all the stakeholders have to be rolled into one entity. From our assessment an uploading of the TTC to the Province is neither necessary nor practical at this time. But we do feel strongly that the City needs to establish a long-range plan for transit funding similar to that of Vancouver with the surrounding region and the Province, almost certainly by cooperating with Metrolinx. The Panel also believes that the City and the TTC need to change their focus and start to look outward at the total transit and transportation needs of the region. Frankly, the City needs the cooperation of the Province and the surrounding municipalities to do this, as they in turn need the full cooperation of the City and the TTC to build a better system for the region as a whole. In our view, in three to five years, a fully integrated system with complete uploading (buses and streetcars included) of all transit responsibilities may make sense to support the bigger regional picture. This can be determined over time but it makes no sense to slow down doing the right thing today for fear of what might evolve tomorrow.

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

In the end, the Panel hopes that these recommendations are taken seriously and that they can help the City in the months and years ahead. As we pointed out in the letter from the Chairman at the beginning of this report, we took our job as Panel members seriously and we have treated it as both a privilege and a responsibility. In exchange for our effort in connection with this report, we have asked the Mayor for only one thing — the opportunity to meet with him on an annual basis to determine how our recommendations have been acted upon by the Mayor, Council, and management of the City.

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.