TORONTO

STAFF REPORT
ACTION REQUIRED

2006 Audited Consolidated Financial Statements

Date:	May 30, 2007
To:	Audit Committee
From:	Deputy City Manager and Chief Financial Officer
Wards:	All
Reference Number:	P:\2007\Internal Services\acc\ac07013acc (AFS# 3397)

SUMMARY

The purpose of this report is to present the City of Toronto's Consolidated Financial Statements for the year ended December 31, 2006 to Council for approval.

The most important measure of any government’s financial condition is its net financial liability position, which is its financial assets (cash, receivables, investments and inventory) less its financial liabilities (trade and employment payables, mortgages and debentures). Despite growth in the City’s debenture debt and employee benefit liabilities, the City’s net liability position was basically maintained in 2006 as compared to 2005, increasing by $43 million to $2.29 billion. Expenditure restraint and increased capital transfers from other levels of government were the main reasons behind this stability.

While the City’s financial challenges continue, the City's Long Term Financial Plan is being implemented as follows: tax policies which enhance economic competitiveness, utilization of user rate adjustments for environmental and cost control purposes, and working with the Province to realize the upload of the social service programs in 2008 and beyond.

While the debt financing has and will grow due to unmet state of good repair needs, the City’s financing plans inclusive of enhanced federal and provincial funding combined with the City's strategic infrastructure partnership reserve fund ensures a firm financing plan for the next five years.

The implementation of these financial plans are reflected in the recent confirmation of the City’s AA and AA+ independent credit ratings. Thus, the credit rating agencies have indicated our strong stable credit rating based on positive financial management actions by the City.

RECOMMENDATIONS

The Deputy City Manager/Chief Financial Officer recommends that:

1. the 2006 Consolidated Financial Statements as attached in Appendix A be approved.

Financial Impact

There are no financial implications as a result of this report.

DECISION HISTORY

On an annual basis, as required by the *Municipal Act*, the City prepares and publishes an annual financial statement that consolidates all of the operations for which the City is responsible.

ISSUE BACKGROUND

The Consolidated Financial Statements are intended to provide Council, the public and the City's debenture holders an overview of the state of the City's finances at the end of the fiscal year and how the revenues raised by the City during the previous year were spent.

The preparation, content and accuracy of the Consolidated Financial Statements and all other information included in the financial report are the responsibility of management. The financial statements are prepared in accordance with generally accepted accounting principles as set by the Canadian Institute of Chartered Accountant's (CICA) Public Sector Accounting Board (PSAB).

These Consolidated Financial Statements have been audited by Ernst & Young LLP whose role is to express an independent opinion on the fair presentation of the City's financial position and operating results and to confirm that the statements are free from material misstatement. The external auditor's opinion is to provide comfort to third parties that the financial statements can be relied upon. The Consolidated Financial Statements includes the following individual statements:

Name	**Purpose**
Consolidated Statement of Financial Position	Provides a summary of the City's financial assets and liabilities (the net resources the City has for future services and/or what future revenues need to be raised to pay for past transactions).
Consolidated Statement of Financial Activities	Outlines funds raised by the City in the year and what those funds were used for. This statement reflects the combined operations of the operating, capital, reserve and reserve funds for the City and its consolidated entities.

Name	Purpose
Consolidated Statement of Cash Flows	Summarizes how the City's cash position changed during the year by highlighting the City's sources and uses of cash.
Analysis of Current Operations	Outlines funds raised by the City in the year for current operations, what those funds were used for and how they compared to the budget.
Analysis of Capital Operations	Outlines funds raised by the City in the year for capital operations, what those funds were used for and how they compared to the budget.
Analysis of Reserves and Reserve Funds	Summarizes funds raised by the City in the year for reserve and reserve funds, what those funds were used for and how they compared to the budget.

The Consolidated Financial Statements combine the financial results of the City's divisions with the financial results of the agencies, boards, commissions and government business enterprises that the City effectively controls. There are 88 entities that are included in the financial statements and these are listed in Note 1 to the Consolidated Financial Statements. The remaining notes to the statements provide further detail about the City's financial results and are an integral part of the statements.

Under PSAB rules, only the Consolidated Statement of Financial Position, Consolidated Statement of Financial Activities and Consolidated Statement of Cash Flow are required statements. However, to aid readers in understanding the financial statements, schedules have been prepared for current operations, capital operations, and reserves and reserve funds.

The Consolidated Statement of Financial Position is the municipal equivalent of the private sector's balance sheet with the exception that physical or "fixed" assets are not recorded. This statement focuses on the City's financial assets and liabilities. The difference between the two is the City's net liability position and represents the net amount that must be financed from future budgets. The City's net liabilities are broken down in the "Municipal Position" portion of the statement and is divided between the funds (assets) the City has set aside for future purposes and the gross amount of the City's debt that is intended to be funded in the future. The City has three funds:

The *Operating Fund* is primarily made up of the City's financial interest in its government business enterprises which consist of Toronto Hydro, Toronto Parking Authority, TEDCO and Enwave. It also includes the net financial interest in the City's agencies, boards and commissions (ABCs) of which the TTC, Toronto Community Housing Corporation (TCHC) and the Toronto Atmospheric Fund are the most prominent. The Operating Funds also contains the 2006 surplus which will be distributed in 2007 in accordance with the 2007 Budget.

The *Capital Fund* represents the net position of the City's capital projects. If the capital fund is in a deficit position, it indicates that the financing (such as a debt issuance) for these projects has yet to occur.

The *Reserves and Reserve Funds* represent past revenues and contributions that have been set aside for future use. The majority of these funds are earmarked for future capital financing and for stabilizing the peaks and valleys of operating expenditures and revenue levels from year to year. A break down of the City's reserves and reserve funds can be found in Appendix 1 to the Consolidated Financial Statements.

In addition to the reserves and reserve funds, the City also has received funds for specific purposes under legislation, regulation or agreements. The recognition of these funds as revenues has been deferred until related expenditures occur in the future. For example, development charges and parkland dedication fees received are not recognized as revenues until such time as the projects for which the funds were raised are constructed. These funds are included the Financial Liabilities and not in the Municipal Position. A breakdown of the City's deferred revenues can be found in Note 5 to the Consolidated Financial Statements.

The Consolidated Statement of Financial Activities is considered to be the municipal equivalent to the private sector's income statement. However, like the Consolidated Statement of Financial Position, there is an important distinction. Although the statements are on an accrual basis of accounting for most assets and liabilities, it is not "full" accrual accounting in that the cost of the City's physical assets are not amortized and depreciated over their useful life. Instead, the costs of the City's physical assets are expensed 100% in the year they were purchased or built. This statement provides a summary of the source, allocation and use of the City's financial resources throughout the reporting period and reflects the combined operations of the operating, capital, reserve and reserve funds for the City and its consolidated entities.

The focus of the Consolidated Statement of Financial Activities is the net expenditure/revenue figure found in the middle of the statement. A net expenditure figure represents an amount that the City has to finance from sources other than operating revenue. A net revenue figure represents an amount that the City could use to repay past financing or could set aside in reserves for future use. The financing section of the statement below this figure outlines the new long-term debt the City has issued (debentures) or assumed (employee benefits, solid waste obligation) in the year and the debt retired in the year.

COMMENTS

2006 Financial Highlights

- The City collected consolidated revenues of $8.51 billion (2005- $7.73 billion) and spent $8.58 billion (2005 - $7.96 billion) for a net consolidated expenditure of $64 million (2005 - $232 million).
- The City's net liabilities increased from $2.24 billion in 2005 to $2.29 billion at December 31, 2006.
- Capital spending for the year was $1.51 billion (2005 - $1.15 billion)
- The level of unfinanced capital expenditure decreased $51 million from $245 in 2005 million to $194 million at December 31, 2006.
- Cash and investments increased by $304 million to a total of $2.95 billion (2005 - $2.64 billion).
- The City's investment in its government business enterprises increased by $68 million (2005 - $23 million decrease) to total $1.08 billion (2005 - $1.01 billion).
- Net long-term debt to third parties increased by $296 million (2005 - $284 million) to $2.26 billion at December 31, 2006 (2005 - $1.96 billion).
- Mortgage debt obligations of Toronto Community Housing Corporation declined by $35 million (2005 - $27 million) to a total of $931 million at year end (2005 - $965 million).
- The employee benefits liability increased by $133 million (2005 - $135 million) to $2.25 billion (2005 - $2.11 billion).

Reconciliation to the Operating Budget Surplus

At the time the 2005 financial results were presented to Audit Committee, a request was made to reconcile the "accounting surplus" to the operating budget surplus reported in the budget variance reports. The "accounting surplus" is represented by the increase in the Operating Fund as shown in Schedule 1 of the financial statements and reconciles to the surplus reported for budget purposes as follows:

	(in thousands of dollars)
Surplus as reported in 2006 Preliminary Year-end Operating Variance Report	81,429
Adjustment previously reported in preliminary variance report – transfer of tax credit balances	49,000
Additional Year End Adjustments / Accruals (based on actuals vs. estimates)	12,148
Final 2006 Operating Budget Surplus (City ONLY)	**142,577**
Accounting Adjustments for Financial Statement Presentation Purposes	
Non cash adjustments to the ABC surpluses reported in the Consolidated Statement of Financial Activities	10,371
Net increase in City's equity in Government Business Enterprises (GBE's) (Toronto Hydro, TEDCO, Enwave, Toronto Parking Authority)	61,622
2005 Surplus carried forward and distributed in the 2006 Budget	(99,680)
PSAB Adjustments including adjustment for TCHC debt expense and employee benefits for future years	(11,925)
Increase in Operating Fund Balance for the year as reported on the Analysis of Consolidated Current Operations - Schedule 1	**102,965**

Financial Condition

The most important measure of any government's financial condition is its net financial asset (liability) position, which are its financial assets (cash, receivables, investments and inventory) less its financial liabilities (trade and employment payables, mortgages and debentures). The City's net liability position in 2006 as compared to 2005 was stable, increasing by $43 million to $2.29 billion. Expenditure restraint and increased capital transfers from other levels of government were the main reasons behind this stability. The City's capital assets, namely its capital infrastructure will not be reported on the City's financial statements until fiscal year 2009.

Another key indicator of a government's financial condition is the liability amount that must be paid from future revenues (see Note 10 of Consolidated Financial Statements). These liabilities include TCHC mortgages, debentures, employee benefit liabilities, property and liability claim provisions and landfill liabilities. In 2006, the total amount that will be recovered from future property taxes and other revenues sources grew by $350 million to $5.34 billion. Two thirds of the increase was due to debentures issued to finance capital expenditures and the remainder of the increase was due to growth in the employee benefit liability.

Table 1 below, outlines the trend in financial asset and liability growth over the last 5 years.

Table 1

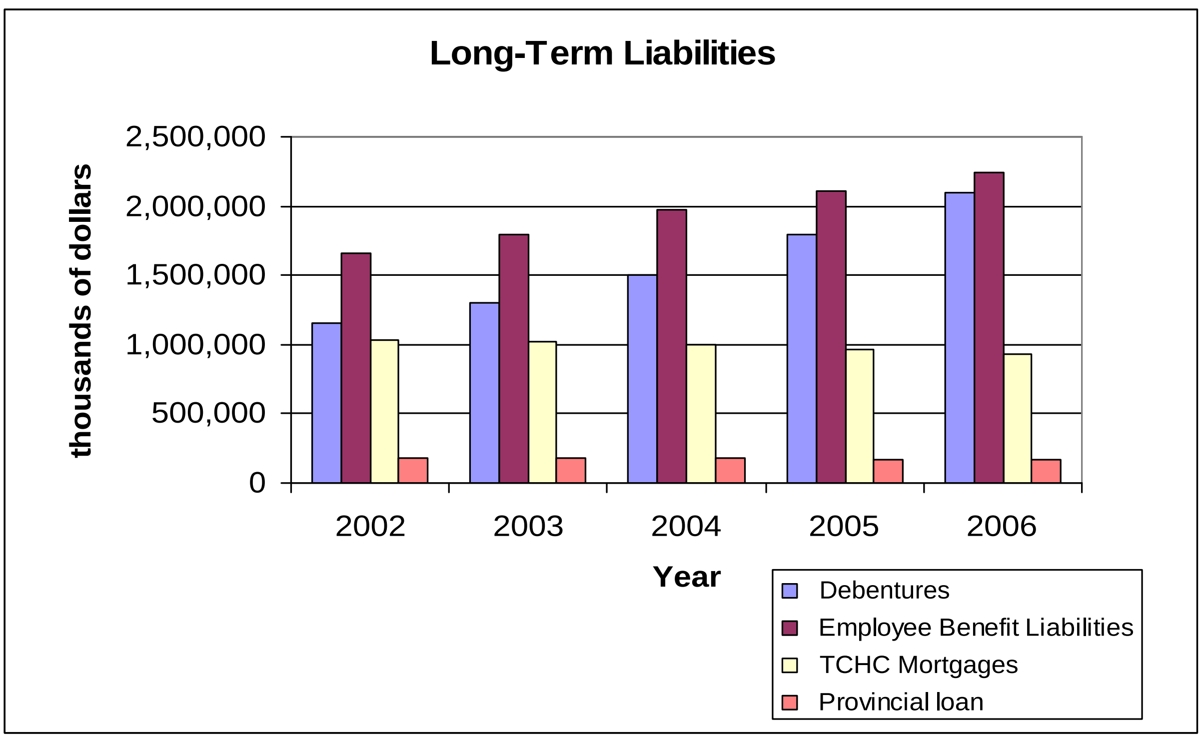
Net Liabilities – 5 year Summary

(in thousands of dollars)

Net Financial Liabilities	5 Year Average Annual Increase	**2006**	**2005**	**2004**	**2003**	**2002**
Financial Liabilities	7.15%	8,451,699	8,067,913	7,526,205	6,615,416	6,431,411
Financial and Non-financial assets	5.12%	6,166,534	5,825,636	5,514,894	5,163,189	5,052,657
Net Liabilities	14.31%	2,285,165	2,242,277	2,011,311	1,452,227	1,378,754
Percentage Increase		1.91%	11.48%	38.50%	5.33%	

The City's net liabilities have increased by an average annual rate of 14.31% over the last five years and are attributable to increases in long-term debt to third parties and in employee benefit liabilities. The significant growth in debt has been driven mainly by the need to finance transit capital expenditures. Chart A provides the breakdown of long-term liability growth by debt type.

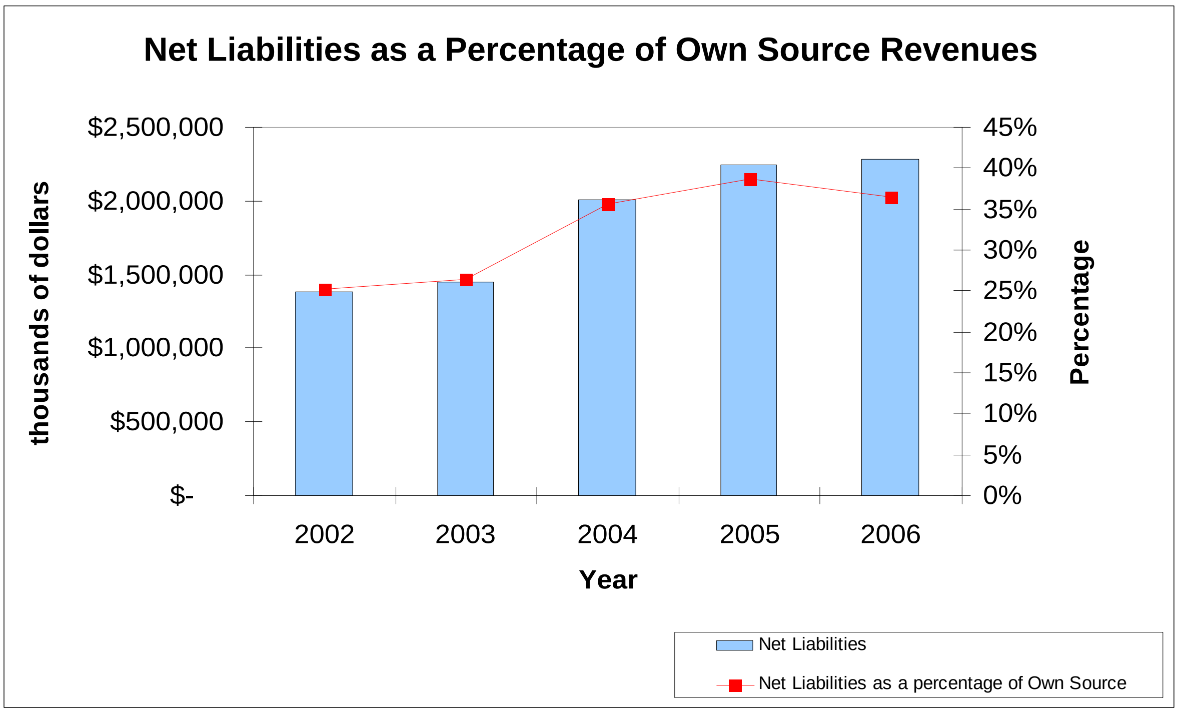
Chart A



Additional information on the mortgage liabilities of TCHC can be found in Note 7 of the Consolidated Financial Statements. Note 8 provides additional information about the provincial loan and the City's debenture debt. Further detail about the City's employee benefit liabilities can be found in Note 9 of the Consolidated Financial Statements.

To put the City's net liability into a different context, Chart B expresses the net liability as a percentage of the City's own source revenues (excluding government transfers). The net liability as a percentage of own source revenues has grown from 25% to 36% in the last five years.

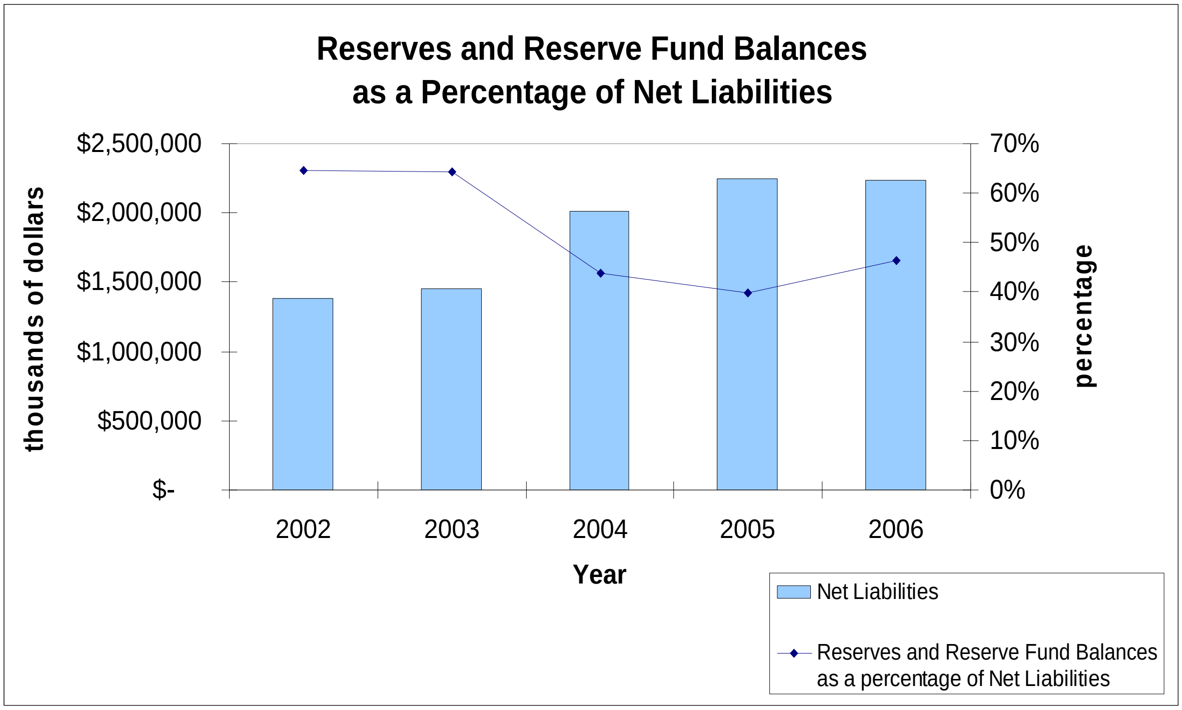
Chart B



The City's net liabilities substantially exceed the City's reserve and reserve fund balances as shown in Chart C. While the reserve and reserve fund balances have remained relatively constant, the long-term expenses the reserves are intended to fund such as the post employment benefit liability continue to increase at a much higher rate.

For financial statement purposes, PSAB requires that obligatory reserve fund balances (such as development charges) be classified as deferred revenue (see Note 5 of Consolidated Financial Statements). Therefore, the reserve and reserve fund balances included in staff reports to the Budget Committee and Council are higher since they include obligatory reserve fund balances.

Chart C



Appendix 1 of the Consolidated Financial Statements provides a breakdown of the City's reserves and reserve funds.

Comparison to Other Jurisdictions

Table 2 provides a comparison of key financial indicators for a selection of large Canadian cities – 2005 figures.

Table 2

2005

(in millions of dollars)

	Toronto	Montreal	Ottawa	Calgary	Edmonton	Vancouver
Investments	2,590	1,222	720	1,236	1,327	720
Investment in GBEs*	1,993	-	254	1,305	1,758	-
Interest bearing long-term debt	2,931	6,150	722	1,323	470	566
Net financial assets(liabilities) (not a total)	(2,388)	(6,049)	(253)	561	2,531	(7)

* Government Business Enterprises - In other Canadian municipalities as compared above, these types of investments are primarily in electric utility systems and other utility systems such as natural gas and water. Details of Toronto's investments are provided in Note 4 to the Consolidated Financial Statements and include the note receivable from Toronto Hydro

The City compares favourably on its investment level. Calgary and Edmonton compare favourably on their net financial position largely because of their government business enterprises and lack of social housing debt.

Analysis of Key Current Asset Accounts

Note 2 to the Consolidated Financial Statements provides details about the City's investment portfolios and their yields. Note 3 provides additional information on the City's note receivable from Toronto Hydro. Information about the City's government business enterprises is found in Note 4 and Appendix 2 and Note 5 provides additional details for the deferred revenue.

Accounts Receivable

Accounts receivable balances declined slightly as compared to 2005. The increase in the amount receivable from the Government of Canada relates to approximately $35 million in one-time recoveries for various public health studies and projects.

	(in thousands of dollars)	
Accounts Receivable	**2006**	**2005**
Government of Canada	176,276	149,092
Government of Ontario	122,377	131,663
Other municipal governments	767	978
School board	900	1,345
Water fees	96,715	88,229
Other Fees and Charges	317,031	353,951
Total	714,066	725,258

Taxes Receivable

Taxes receivable includes all outstanding taxes, items that have been added to the tax roll such as utilities arrears, drainage charges, local improvement charges, and the accumulated penalties and interest charges against such taxes, less any allowance for uncollectible taxes. A breakdown of this receivable is noted below:

	(in thousands of dollars)	
Taxes Receivable	**2006**	**2005**
Current year	161,217	180,346
Prior year	25,100	37,300
Previous years	28,300	21,900
Interest/penalty	29,000	29,400
Less: allowance for doubtful accounts	(22,000)	(14,000)
Net receivables	221,617	254,946

The decrease in current year taxes receivable is due to improved collection of outstanding tax balances and the 2006 final supplementary tax billing being completed well before year-end. In 2005, a supplementary tax billing was processed in December.

Accounts Payable

The breakdown of accounts payable and accrued liabilities at December 31, 2006 with 2005 comparatives is as follows:

	(in thousands of dollars)	
	2006	**2005**
Local Board trade payables	402,559	331,942
City trade payables and accruals	725,056	743,937
Payable to school boards	210,273	262,533
Provision for assessment appeals	361,099	314,521
Credit balances on property tax accounts	64,204	66,415
Payroll liabilities	79,784	81,644
Total	1,842,975	1,800,992

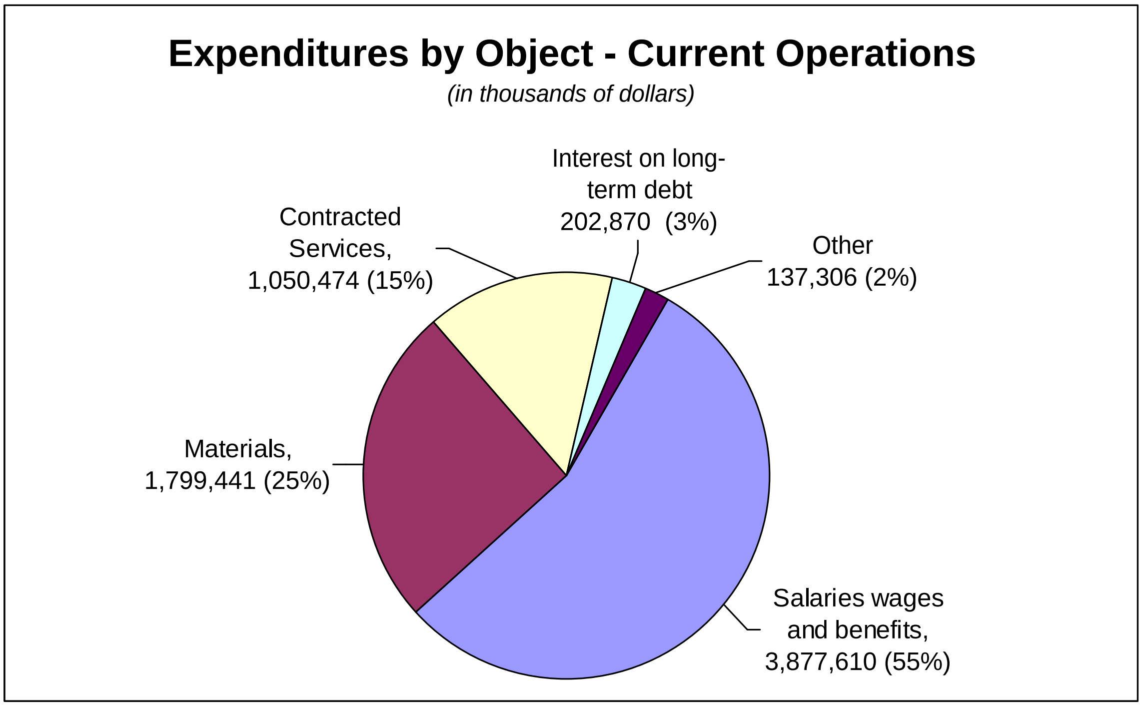
Accounts Payable increased slightly over last year. The lower payable to the school boards is due to supplementary tax being billed earlier in the year in 2006. The provision for tax assessment appeals increased due to the slow pace of appeals being cleared by the Assessment Review Board.

Current Operating Expenditures

Gross operating expenditures for 2006 totalled $7.1 billion ($6.8 billion – 2005). The increase was generated by inflationary increases (wages, materials and contracted services) and increased interest charges on long-term debt.

Chart E breaks down the gross expenditures by cost object. Salaries, wages and benefits accounted for the largest portion at 55% of the total amount. It should be noted that principal re-payments on debt are not included as they are considered financing transactions for accounting purposes and are not considered expenses.

Chart E



Note 12 to the Consolidated Financial Statements provides a consolidated (operating and capital) summary of expenditures by object.

Table 3 provides a comparison of 2006 actual expenditures by program as compared to budget and Table 4 provides a comparison with the previous year.

Table 3

Current Operating Expenditures by Programs

(in thousands of dollars)

Expenditures	2006 Budget	2006 Actual	Difference	Change %
General government	549,161	476,412	72,749	15.3%
Protection to persons and property	1,212,607	1,248,960	(36,353)	(2.9%)
Transportation	1,497,545	1,499,067	(1,522)	(0.1%)
Environmental services	580,983	580,467	516	0.1%
Health services	334,254	331,021	3,233	1.0%
Social and family services	1,842,195	1,700,236	141,959	8.3%
Social housing	589,485	578,953	10,532	1.8%
Recreational and cultural services	611,757	608,001	3,756	0.6%
Planning and development	42,975	44,584	(1,609)	(3.6%)
Total	**7,260,962**	**7,067,701**	**193,261**	**2.7%**

The budget column included in the Consolidated Financial Statements reflects the approved budget at the time the tax levy is approved by Council. Although City Council approves revisions to the budget throughout the year, these amendments are not reflected in the budget column shown in the Consolidated Financial Statements.

Table 3 indicates that actual expenditures in 2006 were $193 million under-budget. This favourable expenditure performance is primarily attributed to the following programs:

The General Government category is under budget due to the provision for property and liability claims decreasing by $43 million (from $160 million to $117 million) and due to tax write-offs from successful assessment appeals were less than projected.

Actual costs for protection to persons and property (Police, Fire, Building Services and Conservation Authority levies and the Provincial Offences Act Courts) were higher than budget due to the $17.9 million retroactive cost of living wage adjustment settlement reached with Fire Local Association 3888 in November 2006. This adjustment was previously reported to Council and the 2006 budget for Fire was amended accordingly. Also, $25.8 million of the variance is attributable to PSAB accrual adjustments for retirement and post employment benefits which are budgeted for on cash basis.

Social and Family Services was under spent because of lower than forecasted Ontario Works caseload and the delayed opening of child care centres under the Best Start program resulting in less than planned enrolment levels.

Social Housing was under spent due to housing providers not making capital repairs as planned and because of delays in delivery of projects under the Supporting Communities Partnership Initiative caused by partners not being able to proceed.

Table 4

Current Operating Expenditures by Program with Previous Year Comparison and Percentage Change

(in thousands of dollars)

Expenditures	**2006 Actual**	**2005 Actual**	**Difference**	**Change %**
General government	476,412	520,988	(44,576)	(8.6%)
Protection to persons and property	1,248,960	1,186,236	62,724	5.3%
Transportation	1,499,067	1,409,655	89,412	6.3%
Environmental services	580,467	555,938	24,529	4.4%
Health services	331,021	315,260	15,761	5.0%
Social and family services	1,700,236	1,596,895	103,341	6.5%
Social housing	578,953	582,648	(3,695)	(0.6%)
Recreational and cultural services	608,011	596,922	11,079	1.9%
Planning and development	44,584	40,391	4,193	10.4%
Total	**7,067,701**	**6,804,933**	**262,768**	**3.9%**

Overall 2006 spending on current operations was 3.9% higher in 2006 than in 2005.

City Revenues

While the annual budget process focuses primarily on property tax increases, it must be emphasized that property taxes are only one revenue source of many for the City. In 2006, property taxes made up 37.2% of the City's operating revenue.

The five year summary of revenues outlined in Table 5 demonstrates that property taxes continue to be the slowest growing revenue source for the City. During this period, assessment growth has been minimal. In addition, the City has been limited by provincial legislation from extending tax rate increases on the commercial, industrial and multi-residential assessment base. As of 2005, Council has adopted a tax policy whereby only one third of residential tax increases are passed on to the non-residential classes. The commercial, industrial and multi-residential assessment base represents approximately 61% of the City's tax revenue base.

As a result of the slow growth of property tax revenue, more reliance has been placed on user fees, senior government transfers and other sources of revenue to meet expenditures.

Table 5

Consolidated Revenues – 5 year Summary

(in thousands of dollars)

Revenues	Avg. Annual Increase	2006	2005	2004	2003	2002
Property taxes	2.68%	3,164,450	3,082,009	2,974,975	2,864,064	2,848,000
User charges	3.30%	1,850,107	1,766,557	1,681,994	1,635,996	1,625,970
Government transfers	9.78%	2,254,726	1,831,399	1,600,688	1,636,202	1,576,589
Other	8.20%	1,242,389	1,045,713	975,388	974,944	913,338
Total	**5.20%**	**8,511,672**	**7,725,678**	**7,233,045**	**7,111,206**	**6,963,897**

Increases in property tax revenues averaged 2.68% over past 5 years which is slightly higher than the average annual CPI increase of 2.03% for the same period but lower when compared to the other indices that drive the City's operations such as the average public sector wage increases of 3% and the construction price index of 4.8%. Fuel and utility costs have also increased by a higher rate over the same period.

Government transfers increased significantly in 2006 in part due to $200 million in additional provincial transit subsidies received for the 2006 and 2007 budget years. The increase in other revenue in 2006 as compared to 2005 is attributed to a $53 million increase in investment income, $49 million in tax credit write-offs and increased equity in GBE's and ABC revenues.

Table 6 provides a comparison of 2006 actual revenues by type as compared to budget and Table 7 provides a comparison with the previous year.

Table 6

Current Operating Revenue
Budget to Actual Comparison (2006 Performance)

(in thousands of dollars)

Revenue	2006 Budget	2006 Actual	Difference	Change %
Property Tax revenues	3,150,257	3,164,450	14,193	0.4%
User charges	1,929,052	1,850,107	(78,945)	(4.3%)
Government transfers	1,924,801	1,795,710	(129,091)	(7.2%)
Other Revenue	551,501	787,758	236,257	30.0%
	7,555,611	**7,598,025**	**42,414**	**0.6%**

The unfavourable variance in user charges revenue is attributed to reduced water usage during summer months due to the wet summer and lower sales of water to York Region, a revenue shortfall in Court Services due to fewer Toronto Police Service officers attending court and court closures arising from shortages of Justices of Peace and a shortfall in concessions revenue for Parks, Forestry & Recreation.

Government transfers are lower than budget due to the Provincial funding shortfall for land ambulance services, loss of a federal medical grant that was budgeted for 2006, lower Provincial subsidy and grants for homes for the aged.

The favourable variance in other revenue has been explained in the commentary under table 6 above.

Table 7

2006 Current Operating Revenue Comparison to Prior Year

(in thousands of dollars)

Net revenues	**2006** Actual	**2005** Actual	**Difference**	**Change** %
Property tax revenues	3,164,450	3,082,009	82,441	2.7%
User charges	1,850,107	1,766,557	83,550	4.7%
Government transfers	1,795,710	1,591,894	203,816	12.8%
Other revenues	787,758	693,175	94,583	13.6%
	7,598,025	**7,133,635**	**464,390**	**6.5%**
Expenditures	7,067,701	6,804,933	262,768	3.9%
Net revenues	**530,324**	**328,702**	**201,622**	**61.3%**

Property tax revenues increased in 2006 due to 3.0% tax rate increase on residential property (1.0% increase on commercial & other non-residential property) and a $42.7 million increase in supplementary taxes due to assessment growth. Government transfers increased due to $100 million in provincial funding for transit (2006 portion) and additional funding tied to increased spending in cost shared programs. Other revenues increased primarily because of an increase in gross investment earnings.

Capital Operations

Table 8 provides a comparison of 2006 capital expenditures and financing to budget and Table 9 provides a comparison with the previous year.

Table 8

Capital Operations Budget to Actual Comparisons

(in thousands of dollars)

	2006 Budget	2006 Actual	Difference	Change %
Expenditures	1,894,338	1,508,230	386,108	25.6%
Revenues	993,257	716,419	276,838	38.6%
Debentures	544,480	532,644	11,836	2.2%
Operating fund transfers	203,667	236,284	(32,617)	(13.8%)
Net reserve/reserve fund transfers	137,137	70,660	66,477	94.1%
Landfill obligations	-	3,699	(3,699)	(100%)
Total revenue & financing	1,878,541	1,559,706	318,835	20.4%
Net expenditures (financing)	15,797	(51,476)	67,273	(131%)

Capital expenditure levels continue to be under budget. The under-expenditure was primarily attributed to the inability to find or secure suitable sites in accordance with planned timeframes; unanticipated delays in securing funds from cost-sharing partners; and, significantly higher than expected rainfall which delayed performance of roofing and asphalt projects, exterior site work, park construction projects and playground replacement work. In addition, several projects were completed under-budget.

Table 9

Capital Expenditures by Program
with Previous Year Comparison and Percentage Change

(in thousands of dollars)

Expenditures by Programs	2006	2005	Difference	Change %
General Government	70,000	62,141	7,859	12.6%
Protection to persons and property	73,859	67,644	6,215	9.2%
Transportation	742,670	546,356	196,314	35.9%
Environmental services	261,327	225,768	35,559	15.8%
Health services	5,642	8,931	(3,289)	(36.8%)
Social and family services	22,675	13,354	9,321	69.8%
Social Housing	168,541	99,562	68,979	69.3%
Recreational and cultural services	132,743	94,032	38,711	41.2%
Planning and development	30,773	35,030	(4,257)	(12.2%)
Total	**1,508,230**	**1,152,818**	**355,412**	**30.8%**

Although capital spending has remained under budget, actual spending increased significantly over the previous year for a majority of the programs in line with Council's direction to increase the level of capital completion rates. Transit and transportation capital spending experienced the highest increase.

Appendix C to this report provides a five year summary of consolidated expenditures and revenues.

Risks and Mitigates

The City faces a number of risks that could have a negative impact on the City's financial future. Council unanimously adopted the City's first-ever Long-Term Fiscal Plan in April 2005, which serves as a blueprint or framework for future financial planning and discussions with funding partners. The plan's 24 financial strategies, 17 fiscal principles and five financial policies have and will continue to assist programs and services in their planning and decision-making process to ensure the City is fiscally sustainable, financially flexible and remain competitive in the global economy.

Council Budget Guidelines and implementation of Program Reviews combined with emphasis in program performance measurement and service level reviews have been implemented at the City to ensure continuous improvement initiatives achieve cost control. Also, significant strides have occurred related to capital plans and financing with Council approval of the 5 Year Capital Plan (2007 - 2011). This includes the securing of gas tax and infrastructure funding for capital transit which results in a 1/3 funding partnership for transit capital amongst the City, Federal and Provincial governments. While the debt financing has and will grow due to unmet state of good repair needs, the financing plans inclusive of enhanced federal and provincial funding combined with the City's strategic infrastructure partnership reserve fund ensures a firm financing plan for the next five years.

The Long-Term Fiscal Plan further identifies eight specific financial related issues and provides recommended actions to be taken in order to address these issues. In 2006, a number of these recommendations were acted upon. Appendix B to this report lists the issues and action taken in 2006 or planned for 2007.

While financial challenges continue, the City's Long Term Financial Plan is being implemented as follows: tax policies which enhance economic competitiveness, utilization of user rate adjustments for environmental and cost control purposes, and working with the Province to realize the upload of the social service programs in 2008 and beyond.

Both the City's current financial condition as stated in the Consolidated Financial Statements and City's financial plans as outlined above are assessed and graded independently by its credit rating agencies. They have recently confirmed the City's credit ratings as follows:

- Dominion Bond Rating Service (DBRS) — AA with a stable outlook (reaffirmed April 19, 2006)
- Standard and Poor's Canada (S&P) — AA with a stable outlook (reaffirmed March 10, 2006)
- Moody's Investor Service — Aa1 with a stable outlook (reaffirmed in February , 12, 2007)

The link to the full Long-term Fiscal Plan document is www.toronto.ca/finance/pdf/long_term_fiscal_plan.pdf.

Evaluating the City's Performance

The financial statements and the credit ratings do not provide an assessment of value for money. The City examines its performance internally and externally, relative to other municipalities, and performance measures are an integral part of the budget preparation and review process.

Results from the provincially mandated, Municipal Performance Measurement Program (MPMP) and the Ontario Municipal CAO's Benchmarking Initiative (OMBI) reveal that Toronto compares favourably against other Ontario municipalities in a number of areas. A detailed report outlining all the services areas and ranking by municipalities entitled "Toronto's 2005 Performance Measurement and Benchmarking Report" was presented to the Executive Committee on April 30, 2007. The report disclosed that Toronto ranked higher than the median in 52% of the service level, efficiency, and customer service and community impact performance indicators.

The report also includes a summary of the City's internal trends for twenty-three service level indicators. For 91% of the service level indicators, Toronto's service levels have been maintained (stable) or have increased (favourable) in recent years. For 67% of the efficiency performance measures relating to customer service and community impact, measures either improved or remained stable in recent years.

The full report entitled Toronto's 2005 Performance Measurement and Benchmarking Report can be found on the City's website at www.toronto.ca/legdocs/mmis/2007/ex/bgrd/backgroundfile-3161.pdf.

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SIGNATURE

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ATTACHMENTS

Appendix A: 2006 Consolidated Financial Statements
Appendix B: Key Issues/Risks Facing the City of Toronto
Appendix C: Five Year Summary of Consolidated Revenues and Expenditures