Appendix B

Key Issues/Risks Facing the City of Toronto

Issue/Risk	Action taken in 2006	Action Planned for 2007 & beyond
City's higher cost structure due to its size and density, than other Municipalities in GTA	▪ Continuous improvement initiatives and program reviews underway to ensure appropriate use of resources ▪ City Council adopted strict budget increase guidelines for City divisions to adhere to.	▪ Program reviews continued (20 identified, 6 completed, 6 underway and 4 identified to begin in 2008) ▪ Ongoing review of service levels
Demands for growth as laid out in Official Plan or other Sectoral and Program plans are not adequately funded	▪ Secured senior government funding for the extension of the Spadina subway line to York University	▪ Using City of Toronto Act (COTA) and other legislation to explore new revenue and financing tools including tax incremental Financing (TIF's)
There is variability in certain program expenditures from year to year	▪ Utilized stabilization reserves to smooth out annual expenditure requirements and balance 2006 operating budget.	▪ Establish targets for adequacy of Stabilization Reserve Balances ▪ Significant draw from reserves of $202.3 million was required to balance the 2007 Operating Budget ▪ Seeking upload of certain programs (e.g. Ontario Disability Support Program, Social Housing, Ontario Works Program) and revenues that grow with the economy. For example, the Mayor launched National 1 cent of GST campaign ▪ Purchased Green Lane Landfill in order to stabilize long-term solid waste disposal costs and reduce City's vulnerability to external forces impacting costs.
Commercial property taxes are not competitive	▪ 2006 was the first year of implementation of the "Enhancing Toronto's Business Climate – It's Everybody's Business" adopted by City Council in October 2005, which is a 15-year plan to reduce business and multi-residential taxes. ▪ Council policy caps commercial & other non-residential tax rate increases to 33% of the residential rate increases, while provincial legislated is 50%	▪ Continue to take steps to make Toronto more competitive. ▪ Province announced long term plan to reduce Business Education Tax rates which they forecast will ultimately save Toronto businesses over $230 million annually.
The City lacks adequate revenue sources to fund its municipal responsibilities	▪ Province initiated Provincial Municipal Fiscal and Services Delivery Review (PMFSDR)	▪ The City will continue to work with the Province to secure long term funding solutions.

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	which, along with Toronto and the Association of Municipalities of Ontario (AMO) will identify options for improving the fiscal sustainability and competitiveness of the Province and Ontario municipalities. ▪ The Province also approved the City of Toronto Act, 2006 (COTA) which provides the City with additional powers, including some limited new taxation authorities.	▪ Toronto is seeking long term financial solutions from other orders of government including having the Province honour its cost sharing formulas, uploading selected programs to the Province, securing revenues that grow with the economy and a National Transit Strategy. As part of this approach, the Mayor launched National 1 cent of GST campaign ▪ Staff currently evaluating the feasibility of implementing the new revenue sources under the COTA and engaging public input. ▪ Full costing model to be adopted corporately and followed in the user fee review.
Improper funding of Provincial cost--shared programs has resulted in significant financial pressures to the City: • Capping of provincial share • Tentative capping of GTA pooling revenues • Social services costs/risk exposure	• The impact of provincial capping of funding for cost shared programs was again highlighted during the budget review and presentation. • The Province initiated the PMFSDR process (see above)	▪ During the 2007 Budget Process, significant efforts were expended to quantify annual impact of the Province's capping of cost shared programs at $71 million. Council requested a judicial interpretation with respect to the Province's obligations regarding those programs. ▪ The Province announced a phase out of GTA pooling revenues which, although of no direct financial benefit to the City, will eliminate unilateral capping of payments by some GTA municipalities
City's investment in aging infrastructure has been lagging	▪ City adopted updated 10-year Capital forecast and with revised funding sources and debt targets. ▪ Leveraged City funding with increased federal and provincial funding for Transit. ▪ Engaged private sector partners to assist in infrastructure projects such as: National Soccer Stadium, Regent Park, Waterfront Revitalization Projects	▪ Mayor launched public campaign to secure a share equal to 1 cent of GST to Canadian municipalities ($400 million annually to City of Toronto) ▪ Continue to leverage increased federal and provincial funding for transit related initiatives. ▪ The Mayor has asked for a National Transit Strategy. ▪ Fulfill Public Sector Accounting Board's (PSAB) requirement to have tangible capital assets to be recorded in City's financial statements including applicable policies effective 2009 year-end.
Employee benefits and other long-term liabilities are not adequately funded	▪ City continued reserve fund adequacy reviews in order to establish optimal reserve fund balances and long term funding strategies.	▪ Continue reserve fund adequacy reviews and develop funding strategies.

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	▪ Approved significant amendment to non-union sick leave plan, which capped the City's long-term liability, while costs will be spread out over a number of years.	
City vulnerable to economic down turns	▪ City continues to build stabilization reserves. Contributions to in better years and draw from in slower economic conditions	▪ City continues to work with Province to take back full funding of Social programs as these costs escalate in slower economic climate. ▪ City also, seeking revenue sources from other orders of government that grow with the economy such as a share equal to 1 cent of the GST.
Fluctuating Interest Rates	• In the case of the City issuing debt, City staff monitors trends and make recommendations as to best time to borrow in light of any forecasted rate increases within the current year. • From the investment perspective, the City budgets investment income carefully taking into consideration forecasted short-term and long-term interest rate fluctuations and anticipated rates of returns on bond market instruments in order to maintain a balanced and diversified investment portfolio. The annual budget for investment income is set based on these factors in effort to minimize the impact of market forces creating a deficit in the City's annual operating budget by not achieving investment income targets. Note 2 of the Consolidated Financial Statements provides details about the City's investment portfolios and their yields.	▪ Continuation of the same approach as followed in 2006 and previous years.
Employee Pension Costs	• For the City of Toronto, pension risk is very low since, the City participates in the Ontario Municipal Employees Retirement System (OMERS). This is a multi- employers plan and, as such, risks are spend over all Ontario municipalities (very broad base) therefore minimizing the risk on individual municipalities. The Toronto Transit Commission (TTC) participates in a multi-employer pension plan. The City also sponsors five defined benefit plans that provide pension benefits to employees that were employed prior to the establishment of OMERS. These plans are nominal in relation to	▪ Continuation of the same approach as followed in 2006 and previous years.

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	the City's overall Pension Obligations as at December 31, 2006 as there were only 28 active members, 5,744 pensioners and 2,889 spousal beneficiaries. Further detail regarding the City's pension plans can be found in Note 9 of the Consolidated Financial Statements.	