

## APPENDIX B (2007 Annual Financial Report)

### Key issues/Risks Facing the City of Toronto

Issue/Risk	Actions taken in 2007	Actions Planned for 2008 & Beyond
<p>City has a higher cost structure than other municipalities in GTA</p>	<ul style="list-style-type: none"> <li>• Continuous improvement initiatives and program reviews underway to ensure appropriate use of resources</li> <li>• City Council adopted strict budget increase guidelines for City divisions to adhere to</li> <li>• Council approved Financial Planning Process and a pilot of the 2008 Service Planning Process               <ul style="list-style-type: none"> <li>○ Service levels and priorities must be balanced with affordability</li> <li>○ Set the framework for developing multi-year capital and operating budgets, and ensured that limited resources are aligned to priorities to maximize benefits for residents</li> </ul> </li> <li>• Implemented cost containment measures in 2007 which were carried over into budget planning for 2008</li> <li>• Completed 13 Program Reviews since 2006:               <ul style="list-style-type: none"> <li>○ Children's Services</li> <li>○ Court Services</li> <li>○ Human Resources</li> <li>○ Strategic Communications</li> <li>○ Social Development, Finance and Administration</li> <li>○ Community Partnership and Investment Program</li> <li>○ Economic Development, Culture and Tourism</li> <li>○ Parks, Forestry and Recreation</li> <li>○ Information and Technology</li> <li>○ Toronto Animal Services</li> <li>○ Fire Services and Emergency Medical Services</li> <li>○ Transportation Services</li> <li>○ Social Services</li> </ul> </li> <li>• Mayor Miller established a City of Toronto Independent Fiscal Review Panel with instruction to report by February 2008, the purpose of which is to:               <ol style="list-style-type: none"> <li>1. provide a high level, impartial and objective assessment of the City's relative competitiveness, financial position, revenue opportunities and savings potential in the near to medium term, and</li> <li>2. make a series of comments and recommendations with a view towards helping enable the City to</li> </ol> </li> </ul>	<ul style="list-style-type: none"> <li>• Maintain continuous improvement initiatives including efficiency reviews, performance measures and benchmarking</li> <li>• Continue to implement cost containment measures</li> <li>• Continue to implement Program Reviews (five to commence in 2008 and three in future years)               <ul style="list-style-type: none"> <li>○ 2008:                   <ul style="list-style-type: none"> <li>▪ Accounting Services</li> <li>▪ Inspections, Enforcement and Prosecution</li> <li>▪ Facilities and Real Estate</li> <li>▪ City Planning</li> <li>▪ Office of Emergency Management</li> </ul> </li> <li>○ Future years:                   <ul style="list-style-type: none"> <li>▪ Shelter, Support and Housing Administration/ Affordable Housing Office</li> <li>▪ eServices</li> <li>▪ Fleet Services</li> </ul> </li> </ul> </li> <li>• Incorporate results of 2008 Service Planning review in the 2009 Operating Budget process</li> <li>• Develop multi-year operating budget process with roll out for 2009-11</li> <li>• Internal Audit and Auditor General continue to conduct audit reviews with a view to maintain and improve internal controls</li> <li>• Review shared service areas to identify opportunities to streamline inclusive of ABC's</li> <li>• Review and implement Fiscal Review Panel recommendations where appropriate</li> <li>• Identify additional benchmarking opportunities</li> </ul>

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	<p>improve its efficiency, effectiveness, economic prosperity, liveability and create opportunity for all</p> <ul style="list-style-type: none"> <li>Participated in a World Bank's performance measure pilot project to develop a comprehensive approach to measure and monitor service delivery performance and quality of life in international cities</li> </ul>	
<p>Demands for growth as laid out in Official Plan or other Sectoral and Program plans are not adequately funded</p>	<ul style="list-style-type: none"> <li>Preliminary funding commitment from Province under the MoveOntario2020 initiative for Toronto Transit City – Light Rapid Transit Plan</li> <li>The City of Toronto Act, 2006 (COTA) came into effect Jan 1, 2007, and in October, 2007 Council approved two new taxes under COTA: <ul style="list-style-type: none"> <li>Municipal Land Transfer Tax (MLTT)</li> <li>Personal Vehicle Tax (PVT)</li> </ul> </li> <li>Toronto led Canadian municipalities in the One Cent Now campaign, which asked the Federal Government for a permanent transfer equal to 1 cent of the GST. The campaign, supported by the Province, would mean more than \$400 million annually for Toronto</li> <li>Secured Federal Government extension of Gas Tax funding (Federal Budget 2007) and ultimately making the funding permanent (Federal Budget 2008)</li> </ul>	<ul style="list-style-type: none"> <li>The two new taxes, to be implemented in 2008 (MLTT – Feb 1, 2008, PVT – Sep 1, 2008), are estimated to generate \$175 million in revenues in 2008 to offset operating budget pressures. New tax revenues are estimated to reach \$300M annually by 2011.</li> <li>Review provisions under COTA as prescribed by the Act to continue to streamline City operations with amendments in 2009</li> <li>Continue to urge the Federal Government to: <ul style="list-style-type: none"> <li>establish a permanent, federally funded National Transit Strategy</li> <li>deliver a national action plan on housing and homelessness – National Housing Strategy</li> <li>share the equivalent value of 1 cent of the GST with municipal governments that grow with the economy</li> </ul> </li> <li>Establish a framework for evaluating and prioritizing new and expansion facility capital projects to be in place for the 2010 capital budget process</li> </ul>
<p>There is variability in certain program expenditures from year to year, some of which are vulnerable to economic downturns and interest rate fluctuations</p>	<ul style="list-style-type: none"> <li>Utilized stabilization reserves to smooth out annual expenditure requirements and balance the operating budget</li> <li>Continued to closely monitor Social Assistance caseload levels which are susceptible to changes in the economy</li> <li>Purchased Green Lane Landfill in order to stabilize long-term solid waste disposal costs and reduce City's vulnerability to external forces impacting costs</li> </ul>	<ul style="list-style-type: none"> <li>Continue to seek upload of certain Social Services program costs (e.g. Ontario Disability Support Program, Social Housing, and Ontario Works Program) which should be funded by the Province</li> </ul>
<p>Business property taxes are not competitive</p>	<ul style="list-style-type: none"> <li>2007 was the second 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</li> <li>Achieved property tax reductions for small business to a 10 year phased reduction</li> </ul>	<ul style="list-style-type: none"> <li>Continue to take steps to make Toronto more competitive, including taking action on the Agenda for Prosperity released in January 2008</li> <li>Approved implementation property tax policies to create financial incentives for new developments such as:- Tax Increment Equivalent Grants (TIEG) for Employment Lands</li> </ul>

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	<ul style="list-style-type: none"> <li>• Council policy caps commercial and other non-residential tax rate increases to 33% of the residential rate increases</li> <li>• Province announced long term plan to reduce Business Education Tax rates (to be phased in over seven years) which would ultimately save Toronto businesses over \$230 million annually according to provincial forecasts</li> <li>• Completed Water Rate Structure Review: New lower water rates for industrial and manufacturing sector approved in 2007 to be effective in 2008</li> </ul>	<ul style="list-style-type: none"> <li>• Develop a framework for public interest partnerships, a city-wide donation policy, a city-wide naming policy and other strategies to attract partners.</li> </ul>
The City lacks adequate revenue sources to fund its municipal responsibilities	<ul style="list-style-type: none"> <li>• Council approved two new taxes under COTA: MLTT and PVT (see above)</li> <li>• Toronto led other Canadian municipalities in the One Cent Now campaign (see above)</li> <li>• Implemented full cost recovery methodology for building permits and Planning</li> </ul>	<ul style="list-style-type: none"> <li>• The two new taxes, implemented in 2008 (MLTT – Feb 1 2008, PVT – Sep 1, 2008), are estimated to generate \$175 million in revenues in 2008 to offset operating budget pressures (\$300 million in 2011)</li> <li>• Continue to explore revenue diversification and new opportunities under the provisions of COTA</li> <li>• Approve city-wide User Fee Policy and Framework</li> <li>• Update the Long-Term Fiscal Plan in 2008</li> <li>• Update the Development Charges By-law in 2008</li> <li>• Continue to work with the Province to secure long term funding solutions. It is expected the Province will announce the results of the PMFSDR in the spring 2008</li> </ul>
Improper funding of Provincial cost-shared programs has resulted in significant financial pressures to the City	<ul style="list-style-type: none"> <li>• The City continued its participation in the Provincial Municipal Fiscal and Services Delivery Review (PMFSDR) which began in 2006 along with the Association of Municipalities of Ontario (AMO), the purpose of which is to identify options for improving the fiscal sustainability and competitiveness of the Province and Ontario municipalities</li> </ul>	<ul style="list-style-type: none"> <li>• It is expected the Province will announce the results of the PMFSDR in July 2008</li> <li>• Continue to seek long term financial solutions from other orders of government including: <ul style="list-style-type: none"> <li>○ having the Province honour its cost sharing formulas</li> <li>○ uploading selected programs to the Province</li> <li>○ securing revenues that grow with the economy</li> <li>○ a National Transit Strategy</li> <li>○ a National Housing Strategy</li> </ul> </li> </ul>
City's investment in ageing infrastructure has been lagging	<ul style="list-style-type: none"> <li>• City adopted updated 10-year Capital forecast and with revised funding sources and debt targets</li> <li>• Leveraged City funding with increased federal and provincial funding for Transit</li> <li>• Engaged private sector partners to assist in infrastructure projects such as: Co-ordinated Street Furniture, Hummingbird/Sony Centre Redevelopment, Lakeshore Lions Quadplex, National Soccer Stadium (BMO field at Exhibition Place)</li> <li>• Established the Toronto Office of Partnerships to</li> </ul>	<ul style="list-style-type: none"> <li>• Develop a comprehensive capital asset management strategy, including real estate rationalization, and options to maximize the financial values of Enwave and Toronto Hydro Telecom capital assets</li> <li>• Fulfil 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.</li> <li>• Continue to seek public interest partnership opportunities</li> </ul>

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	<p>develop public interest partnerships</p>	<ul style="list-style-type: none"> <li>• Continue to urge the Federal Government to:               <ul style="list-style-type: none"> <li>○ establish a permanent, federally funded National Transit Strategy</li> <li>○ deliver a national action plan on housing and homelessness</li> <li>○ share the equivalent value of 1 cent of the GST with municipal governments that grow with the economy</li> </ul> </li> </ul>
<p>Employee benefits and other long-term liabilities are not adequately funded</p>	<ul style="list-style-type: none"> <li>• City continued reserve fund adequacy reviews in order to establish optimal reserve fund balances and long term funding strategies</li> <li>• 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</li> <li>• Completed full actuarial evaluation of Employee Benefits liability as at December 31, 2007</li> </ul>	<ul style="list-style-type: none"> <li>• Continue reserve fund adequacy reviews and develop funding strategies, including those for the Employee Benefits Reserve Funds</li> </ul>