

Appendix B (2009 Audited Consolidated Financial Statements)

Key Issues/Risks Facing the City of Toronto

| Issues / Risk | Actions Taken in 2009 | Actions planned for 2010 and beyond |
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| <p>City has a higher cost structure than other municipalities in the GTA</p> | <ul style="list-style-type: none"> • Continuous improvement initiatives and programs continued, to ensure appropriate use of resources. • City Council continued to adopt strict budget increase guidelines for City divisions and ABCs. • Cost containment measures remained in place. • Continued to develop the new Financial Planning, Analysis and Reporting system, approved by Council in 2007 for implementation (of Interim Plan) in 2011 for the 2012 budget process. The new system sets the foundation for multi-year performance / service-oriented operating budgets. The system will: <ul style="list-style-type: none"> ○ track and report performance measures and service level indicators; ○ align of complement management and complement planning processes; ○ assess cost performance efficiency; ○ enable better alignment of the City's limited resources to Council priorities; ○ provide flexibility to incorporate and track long-term service planning initiatives; ○ establish the framework to balance service levels and priorities with affordability. | <ul style="list-style-type: none"> • Maintain continuous improvement initiatives including efficiency reviews, and enhanced performance measures and benchmarking. • Continue to implement Program Reviews. • Continue to develop and implement the new Financial Planning, Analysis and Reporting system to improve budget analysis and program rationalization. • Apply aggressive budget reduction targets for 2010 and 2011. The City's goal is to reduce its budget by 10% or \$340 million over 2 years. Strategies to achieve reduction targets include efficiency measures, revenue strategies, service changes and service rationalization. • Internal Audit and Auditor General continue to conduct audit reviews with a view to maintain and improve internal controls and identify opportunities for further efficiencies. • Continue to benchmark operations with other Ontario municipalities. In 2010, expand benchmarking efforts to Calgary, Winnipeg and other world cities. Continue to identify additional benchmarking opportunities. |

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| | <ul style="list-style-type: none"> • Negotiated a new Illness or Injury Plan (IIP) for TCEU Local 416 and CUPE Local 79 which resulted in all employees hired after July 31, 2009, not being provided with a sick pay plan. In addition, existing employees had a one-time option to switch to the new IIP plan. As a result, 40% of employees switched to the new IIP plan resulting in a net reduction in current and future sick leave liability of \$174.1 million. | |
| <p>Demands for growth as laid out in the Official Plan or other Sectoral and Program plans are not adequately funded</p> | <ul style="list-style-type: none"> • Move Ontario Trust was established in March 2006 for the purpose of holding, investing and disbursing funds to the Toronto York Spadina Subway Expansion project. A total investment of \$870 million from the provincial government plus \$75 million from the federal government has increased to approximately \$1 billion at the end of 2008. These funds are not included in the City's Financial Statements as they are held in a separate Trust Fund. • April 1, 2009 the Province of Ontario announced full funding for 3 significant components of the Transit City plan: the \$4.6B Eglinton line from Kennedy Station to Pearson airport; the \$1.2B Finch West line from Humber College to Don Mills Subway station; and the \$1.4B Scarborough RT rehabilitation and extension. Although the timelines have been extended as part of the 2010 Ontario Budget, the Provincial commitment to these projects remains. | <ul style="list-style-type: none"> • Continue to estimate the costs related to growth plans. • Continue to urge the Federal Government to: <ul style="list-style-type: none"> ○ establish a permanent, federally funded National Transit Strategy ○ deliver a national action plan on housing and homelessness – National Housing Strategy ○ share the equivalent value of 1 cent of the GST with municipal governments. |

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| <p>There is a variability in certain program expenditures from year to year, some of which are vulnerable to economic down turns and interest rate fluctuations</p> | <ul style="list-style-type: none"> In 2007, the Province (through the Provincial Municipal Fiscal and Service Delivery Review - PMFSDR) agreed to fully fund the Ontario Disability Support Program (ODSP) and the Ontario Drug Benefit (ODB) program. ODB upload was completed in 2008 and the OSDP will be completed by 2011. Additionally, the Province agreed to: upload the cost of Ontario Works and Court Security by 2018; and, fully fund their 50% share of Ontario Work (OW) Cost of Administration (COA) starting in 2010. | <ul style="list-style-type: none"> Continue to work with the Province to operationalize the upload and refine the relationship regarding social and related services. The upload of: ODB was completed in 2008; OSDP will be completed in 2011; OW benefit costs begins in 2010 & will be completed by 2018; OW COA starts in 2010. Through the Social Service upload, the Province has re-established the principle that income support programs should not be funded from the property tax base. As such, the City will continue its discussion with the Province regarding its funding responsibilities for Social Housing. Continue to work with the Province on the agreed upload of court security costs by 2018. Closely monitor key economic indicators and market conditions to identify trends and forecast impacts on expenditures and revenues. |
| <p>Business property taxes are not competitive with the surrounding urban area (905 area code)</p> | <ul style="list-style-type: none"> The City has continued the implementation of "Enhancing Toronto's Business Climate" initiative, adopted by City Council in October 2005 – a plan to reduce the tax ratios for businesses (i.e. commercial and industrial) and multi-residential properties to 2.5 times the residential tax rate by 2020 (a 15 year plan); and further, to provide for an accelerated reduction in tax rates for smaller businesses, with a target of 2.5 times the residential rate by 2015 (a 10 year plan). Since the program took effect, the estimated benefit to businesses is approximately \$250 million. | <ul style="list-style-type: none"> Based on tax ratios adopted by City Council in 2009 and 2010, the City has accelerated its move to lower tax ratios for business and multi-residential properties. If continued, this trend will result in the City reaching its tax reduction targets of 2.5 times the residential rate 2-3 years earlier - 2013 for small businesses instead of 2015, and 2017 instead of 2020 for the rest of commercial, industrial and multi-residential properties. |

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| The City lacks adequate revenue sources to fund its municipal responsibilities | <ul style="list-style-type: none"> • Funding for capital projects from other orders of government has been secured over the years – e.g. Share of Gas Tax (\$320 million per year); Transit City (\$9 billion); Economic Stimulus Project funding (\$460 million 2009 to 2011); one-time transit funding between 2006 and 2009 has ranged from \$58 million to \$238 per year. | <ul style="list-style-type: none"> • Update the Long Term Fiscal Plan in 2009 / 2010 • Conclude a Toronto-Ontario partnership agreement on permanent, sustainable transit operating funding by December 2010. • Continue to work with the Provincial and Federal governments to secure long term permanent funding solutions, such as a share of sales tax revenues that grow with the economy, a National Housing Strategy and a National Transit strategy. |
| Improper funding of Provincial cost-shared programs has resulted in significant financial pressures to the City | <ul style="list-style-type: none"> • Received provincial commitment to fund their share of administration costs of Ontario Works. | <ul style="list-style-type: none"> • Continue to lobby for the Province to honour its cost sharing formulae. • Continue to highlight costs and requirements in areas of joint responsibility, such as social housing and transit. |
| City's investment in ageing infrastructure has been lagging | <ul style="list-style-type: none"> • The City continued to plan for capital on a 10 year basis. • Continued to invest funds in State of Good Repair Reserve Fund. • Completed the data gathering for tangible capital assets, for recording in the 2009 consolidated financial statements. | <ul style="list-style-type: none"> • Approval of firm 10-year Capital Plan. • Continue to increase direct operating budget contribution to capital program to offset a portion of debt requirements. • Complete the Capital Asset Accounting Project. • Further enhance asset management planning. • Continue to seek funding for transit projects from provincial and federal governments. |
| Employee benefits and other long-term liabilities are not adequately funded | <ul style="list-style-type: none"> • The City completed full actuarial reviews of its employee benefit plans. • The City negotiated an Illness and Injury (IIP) Plan and provided existing employees the one time option of switching to this plan and stopped the Sick Pay Plan for employees hired after July 31, 2009. | <ul style="list-style-type: none"> • Further implementation of approved strategies to reduce employee benefit liabilities. • Further implementation of cost containment and employee education strategies consistent with recommendations made by the Mayor's Fiscal Review Panel and the Auditor General's Office. |