Appendix B (2011 Audited Consolidated Financial Statements)

Key Issues/Risks Facing the City of Toronto

Issues / Risk	Actions Taken in 2011	Actions planned for 2012 and beyond
City has a higher cost structure than other municipalities in the GTA	• Continuous improvement initiatives and programs continued, to ensure appropriate use of resources. • City Council continued to adopt strict budget guidelines for City divisions and ABCs. (10% reduction over 2010 and 2011). • Cost containment measures remained in place. • Continued to develop the new Financial Planning, Analysis and Reporting system, approved by Council in 2007 with Phase 1 implementation planned for April 2013 for the 2014 budget process and full implementation scheduled for Jan. 2014. The new system sets the foundation for multi-year performance / service-oriented operating budgets. The system will: o track and report performance measures and service level indicators; o align complement management and complement planning processes; o assess cost performance efficiency; o enable better alignment of the City's limited resources to Council priorities; o provide flexibility to incorporate and track long-term service planning initiatives; o establish the framework to balance service levels and priorities with affordability. • Continued to benchmark operations with other Ontario municipalities.	• Apply aggressive budget reduction targets: (10% for 2012). • Contracts for Local 79 and 416 are up for renegotiation and management will be seeking further relief from the rising costs. • Continue to implement recommendations from the Core Service Review that were adopted by Council such as request for proposal to determine options for sale, lease, operation or other arrangement in respect of the Toronto Zoo, City owned theatres. • Continue with the Service Efficiency Studies that were recommended. • Maintain continuous improvement initiatives including enhanced performance measures and benchmarking. • Continue to develop and implement the new Financial Planning, Analysis and Reporting system to improve budget analysis and program 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.

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	• A multi-year approach is planned to address the operating pressure and capital funding gap. A Service Review Program was implemented in 2011 to identify what services the City should deliver, how they can be more efficient and cost effective, and how we should pay for them. The Service Review Program has three parts: o The Core Service Review (completed in 2011) identified what services the City should be delivering. It sets the foundation for the City's services going forward and assists with moving towards a multi-year financial planning and budgeting process in 2012. o The User Fee Review (completed in 2011) examined how City's services are paid for. It provides guidelines on how user fee prices are set with the objective of full cost recovery. o The Service Efficiency Studies (which commenced in 2011 and will continue into 2012 and 2013) will make sure that services do not cost more than they should, and identify new and more efficient ways to deliver services at a lower cost. • Established "Ideas that Work", an employee engagement strategy that uses various ways to gather employee ideas and suggestions for identifying service efficiencies and cost savings. • Implemented a voluntary separation program which reduced the staff complement by 714.	

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Demands for growth as laid out in the Official Plan or other Sectoral and Program plans are not adequately funded	• 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 was made. 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 $4.6 billion Eglinton line from Kennedy Station to Pearson airport; the $1.2 billion Finch West line from Humber College to Don Mills Subway station; and the $1.4 billion Scarborough Rapid Transit (RT) rehabilitation and extension. Although the timelines have been extended as part of the 2010 Ontario Budget, the Provincial commitment to these projects remains. • Finished more than 500 infrastructure projects with the help of federal/provincial economic stimulus programs. The combined funding under the Infrastructure Stimulus Fund (ISF), Recreational Infrastructure Canada (RInC-REC) and Social Housing Renovation and Retrofit Program (SHRRP) totalled $460 million, and has created local jobs and improved infrastructure. Funding was available for two years for projects that were materially built by October 2011. • Executed a $20 million loan through the Municipal Infrastructure Loan Program to finance municipal infrastructure related to social housing	• Continue to refine cost estimates related to growth plans. • Province, Metrolinx and the City to jointly begin planning for the new transit plans with the Province contributing $8.4 billion towards the plan. Metrolinx is responsible for delivering the Scarborough RT, Eglinton Scarborough Crosstown, Finch West and Sheppard Ave East Light Rail Transit (LRT) projects. • Update Development Charges By-law to reflect updated growth figures and capital spending plans. • Continue to direct funding to the infrastructure backlog.

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	redevelopment (so that the total value of the 3 loans executed over 2010 & 2011 is $120 million); and continued to complete capital projects funded under this low interest rate federal program administered by CMHC. • Infrastructure backlog continues to grow especially for transportation and parks and recreation while for some the backlog is being addressed such as water and city facilities.	
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	• 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 ODSP was completed in 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. • Continued to work with the Province on a Toronto-Ontario partnership agreement on permanent, sustainable transit operating funding. • Continued to take actions on other risks impacting the City with potential financial impacts: o Climate change adaptation and environmental risks management. o Closely monitored the impacts of interest rate changes on Social Housing costs, investment returns and debt charges.	• Continue to work with the Province to operationalize the upload and refine the relationship regarding social and related services: OW benefit costs began in 2010 & will be completed by 2018; OW COA started 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. • Continue to negotiate with the Province on permanent, sustainable transit operating funding (50% of transit operating costs) and the need for additional capital funds as noted above. • Closely monitor key economic indicators and market conditions to identify trends

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		and forecast impacts on expenditures and revenues, and continue to develop funding strategies to mitigate financial risks.
Business property taxes are not competitive with the surrounding urban area (905 area code)	• 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 ratio for property tax rates 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). The estimated benefit to businesses over the 15-year period is approximately $250 million. • For 2011, Council has continued to accelerate tax rate reductions for properties that are included in the "Residual Commercial" tax class. For these properties, a lower tax rate applies to the first million dollars of a property's assessment (Band 1). The portion of the assessment above one million dollars is taxed at the "Commercial General" tax class rate (Band 2).	• Council approved a modest property tax increase for residents and businesses for 2012 with similar expectations for 2013. • Council is on track to meet its targets of 2015 and 2020. • 2013 is a reassessment year for taxes paid between 2013 and 2016 which may require a re-examination of tax policies. Council will reconsider its tax policies after reviewing the new assessment data.
The City lacks adequate revenue sources to fund its municipal responsibilities	• Funding for capital projects from other orders of government has been secured over the years – e.g. Share of federal and provincial gas taxes ($300 million per year); Transit Plan ($9 billion); Economic Stimulus Project funding ($460 million 2009 to 2011); one-time transit funding between 2006 and 2009 has ranged from $58 to $360 million per year.	• Update the Long Term Fiscal Plan in 2012 / 2013. • Continue to petition the Province to restore permanent, sustainable transit operating funding (50% of transit operating costs). • Continue to work with the Provincial and Federal governments to secure long term permanent funding solutions for such items

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	• Cancelled Personal Vehicle Tax (PVT) in 2011. • Volatile Municipal Land Transfer Tax (MLTT) continued in 2011 attracting a record level of revenue ($320 million) and contributing almost $100 million to the 2011 operating surplus. • The new City-wide Sign Bylaw and the Third-Party Sign Tax came into effect on April 6, 2010. However, a subsequent court ruling has limited the full application of the Sign Tax, potentially reducing revenues that the City would otherwise collect, subject to appeal by the City.	as housing. • Continue to budget cautiously for MLTT to avoid negative budget impacts and contribute to any surplus to fund the capital shortfall. • The City won its appeal from a lower court ruling so that it can fully implement the tax subject the failure of a third party requested leave to further appeal to the Supreme Court.
Improper funding of Provincial cost-shared programs has resulted in significant financial pressures to the City	• Province to continue honoring its cost sharing formulae for Ontario Works. .	• Province to continue honoring its cost sharing formulae for Ontario Works and Court Security. • Continue to highlight costs and requirements in areas of joint responsibility, such as social housing and transit and childcare.
City's investment in ageing infrastructure has been lagging	• The City continued to plan for capital on a 10 year basis. • Continued to invest funds in State of Good Repair Reserve Fund. • $700 million capital budget shortfall for TTC vehicles to be funded through a combination of asset monetization proceeds, operating surpluses, and potential new funding from other orders of government over three years.	• Approval of firm 10-year Capital Plan with an emphasis on the state of good repair activities. • Continue to plan for a three year operating plan. • Continue to increase direct operating budget contribution to capital program to offset a portion of debt requirements. • Continue the plan to find a $700 million TTC vehicle shortfall through a combination of asset monetization proceeds, operating surpluses, and potential new funding from other orders of government over three years.

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		• 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	• The City updated the actuarial reviews of its employee benefit plans. • Implemented effective Jan 1, 2010 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. For management and non-union staff, a similar Short Term Disability Plan was already implemented on March 1, 2008. • Surplus funds in the order of $12 million directed toward benefit reserve funds as a one-time additional contribution. Even with this increase there is still a $122 million shortfall from the City's policy that the Reserve accounts should contain two times its annual costs.	• Implementation of approved strategies to reduce the funding gap between employee benefits reserve and the liabilities: o First stage: to require ABCs to contribute annual funding to the Sick Leave Reserve Fund to match budgeted withdrawals (pay as you go); and, o Second stage: to revise the annual benefit charges to Divisions and applicable ABCs to reflect additional funding requirements for retired employees, employees on long-term disability, workplace safety (pre-amalgamation) and sick leave gratuity payouts. • Contracts for Local 79 and 416 are up for renegotiation and management will be seeking further relief from the rising costs of benefits.