

## Appendix B (2010 Audited Consolidated Financial Statements)

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

Issues / Risk	Actions Taken in 2010	Actions planned for 2011 and beyond
<p>City has a higher cost structure than other municipalities in the GTA</p>	<ul style="list-style-type: none"> <li>• Continuous improvement initiatives and programs continued, to ensure appropriate use of resources.</li> <li>• City Council continued to adopt strict budget increase guidelines for City divisions and ABCs.</li> <li>• Cost containment measures remained in place.</li> <li>• 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"> <li>○ track and report performance measures and service level indicators;</li> <li>○ align complement management and complement planning processes;</li> <li>○ assess cost performance efficiency;</li> <li>○ enable better alignment of the City's limited resources to Council priorities;</li> <li>○ provide flexibility to incorporate and track long-term service planning initiatives;</li> <li>○ establish the framework to balance service levels and priorities with affordability.</li> </ul> </li> <li>• Continued to benchmark operations with other Ontario municipalities, and expanded benchmarking efforts to Calgary, Winnipeg and</li> </ul>	<ul style="list-style-type: none"> <li>• Apply aggressive budget reduction targets: (10% over 2010 and 2011, and 10% for 2012).</li> <li>• A multi-year approach is planned to address the operating pressure and capital funding gap. A Service Review Program will be implemented 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:               <ul style="list-style-type: none"> <li>○ The Core Service Review will identify what services the City should be delivering, It will set the foundation for the City's services going forward and assist with moving towards a multi-year financial planning and budgeting process in 2013.</li> <li>○ The User Fee Review will examine how City's services are paid for. It will develop guidelines on how user fee prices are set.</li> <li>○ The Service Efficiency Studies will make sure that services do not cost more than they should, and identify new and more efficient ways to deliver them at a lower</li> </ul> </li> </ul>

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	<p>other world cities in 2010.</p> <ul style="list-style-type: none"> <li>• 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.</li> </ul>	<p>cost.</p> <ul style="list-style-type: none"> <li>• Implement “Ideas that Work”, an employee engagement strategy, that will use various ways to gather employee ideas and suggestions for identifying service efficiencies and cost savings.</li> <li>• Maintain continuous improvement initiatives including enhanced performance measures and benchmarking.</li> <li>• Continue to develop and implement the new Financial Planning, Analysis and Reporting system to improve budget analysis and program rationalization.</li> <li>• 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.</li> <li>• Continue to benchmark operations with other Ontario municipalities.</li> </ul>
<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"> <li>• 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.</li> <li>• April 1, 2009 the Province of Ontario announced full funding for 3 significant components of the</li> </ul>	<ul style="list-style-type: none"> <li>• Continue to estimate the costs related to growth plans.</li> <li>• Province, Metrolinx and the City to jointly begin planning for the new transit plan "Transportation City", subject to Council approval, with the Province contributing \$8.4 B towards the plan. Metrolinx is responsible for delivering the Eglinton Scarborough Crosstown LRT project. Toronto would be responsible for delivering the subway extensions along Sheppard</li> </ul>

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	<p>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.</p> <ul style="list-style-type: none"> <li>• Moved forward on more than 500 infrastructure projects with the help of the federal/provincial economic stimulus program. 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 will be materially built by Spring 2011.</li> <li>• Executed two loans totaling \$100M through Municipal Infrastructure Lending Program (MILP, also part of the federal stimulus budget) to finance capital works for roads and bridge improvements.</li> </ul>	<p>Avenue (east and west).</p> <ul style="list-style-type: none"> <li>• Continue to complete infrastructure projects funded under the federal /provincial economic stimulus program with an extension to October 2011.</li> <li>• Execute a \$20M loan through MILP to finance municipal infrastructure related to social housing redevelopment (so that the total value of the 3 loans executed over 2010 &amp; 2011 is \$120M); and continue to complete capital projects funded under this program.</li> </ul>
<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"> <li>• 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 will be completed by 2011. Additionally, the Province</li> </ul>	<ul style="list-style-type: none"> <li>• 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; ODSP will be completed in 2011; OW benefit costs begins in 2010 &amp; will be completed by 2018; OW COA</li> </ul>

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	<p>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.</p> <ul style="list-style-type: none"> <li>• Continued to work with the Province on a Toronto-Ontario partnership agreement on permanent, sustainable transit operating funding by December 2010.</li> <li>• Continued to take actions on other risks impacting the City with potential financial impacts: <ul style="list-style-type: none"> <li>○ Climate change adaptation and environmental risks management</li> <li>○ Funding strategies for extreme weather by establishing Weather Risk Reserves</li> <li>○ Establishing and funding Tax Rate Stabilization Reserve and Commodity Price Stabilization Reserve</li> <li>○ Closely monitored the impacts of interest rate changes on Social Housing costs, investment returns and debt charges.</li> </ul> </li> </ul>	<p>started in 2010.</p> <ul style="list-style-type: none"> <li>• 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.</li> <li>• Continue to work with the Province on the agreed upload of court security costs by 2018.</li> <li>• Continue to negotiate with the Province on permanent, sustainable transit operating funding (50% of transit operating costs).</li> <li>• Closely monitor key economic indicators and market conditions to identify trends and forecast impacts on expenditures and revenues, and continue to develop funding strategies to mitigate financial risks.</li> </ul>
<p>Business property taxes are not competitive with the surrounding urban area (905 area code)</p>	<ul style="list-style-type: none"> <li>• 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</li> </ul>	<ul style="list-style-type: none"> <li>• Council approved a zero property tax increase for residents and businesses for 2011.</li> <li>• 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).</li> </ul>

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The City lacks adequate revenue sources to fund its municipal responsibilities	<p>approximately \$250 million.</p> <ul style="list-style-type: none"> <li>• 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.</li> <li>• 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.</li> </ul>	<ul style="list-style-type: none"> <li>• Update the Long Term Fiscal Plan in 2011 / 2012.</li> <li>• Continue to negotiate with the Province on permanent, sustainable transit operating funding (50% of transit operating costs).</li> <li>• Continue to work with the Provincial and Federal governments to secure long term permanent funding solutions.</li> <li>• Continue the appeal process for the Third Party Sign Tax.</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>• Received provincial commitment to fund their share of administration costs of Ontario Works.</li> </ul>	<ul style="list-style-type: none"> <li>• Province to continue honour its cost sharing formulae for Ontario Works.</li> <li>• Continue to highlight costs and requirements in areas of joint responsibility, such as social housing and transit.</li> </ul>
City's investment in ageing infrastructure has been lagging	<ul style="list-style-type: none"> <li>• The City continued to plan for capital on a 10 year basis.</li> <li>• Continued to invest funds in State of Good Repair Reserve Fund.</li> </ul>	<ul style="list-style-type: none"> <li>• Approval of firm 10-year Capital Plan.</li> <li>• Continue to increase direct operating budget contribution to capital program to offset a portion of debt requirements.</li> <li>• Further enhance asset management planning.</li> <li>• Continue to seek funding for transit projects from provincial and federal governments.</li> </ul>
Employee benefits and other long-term liabilities are not adequately funded	<ul style="list-style-type: none"> <li>• The City completed full actuarial reviews of its employee benefit plans.</li> <li>• Implemented effective Jan 1, 2010 a new Illness or Injury Plan (IIP) for TCEU Local 416 and</li> </ul>	<ul style="list-style-type: none"> <li>• Implementation of approved strategies to reduce the funding gap between employee benefits reserve and the liabilities <ul style="list-style-type: none"> <li>○ First stage: to require ABCs to</li> </ul> </li> </ul>

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	<p>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.</p>	<p>contribute annual funding to the Sick Leave Reserve Fund to match budgeted withdrawals (pay as you go) and</p> <ul style="list-style-type: none"> <li>○ 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.</li> <li>● 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.</li> </ul>