Appendix B: Key Issues/Risks Facing the City of Toronto

Issues / Risk	Actions Taken in 2012	Actions planned for 2013 and beyond
City has a higher cost structure than other municipalities in the GTA	• City Council continued to adopt strict budget guidelines for City divisions, agencies and corporations: 10% reduction target set and achieved overall for 2012. • The City, in approving the 2012 Operating Budget, reduced the use of one-time surplus revenue by more than 75% cutting it from $346 million in 2011 to $102 million in 2012. • Negotiated collective agreements / union contracts with CUPE Local 416 and CUPE Local 79 for four years (2012 to 2016) on favourable terms. Cost of living increases are below inflation in the first two years. Additionally, the City is expected to achieve efficiencies, savings and liability reductions of approximately $150 million over 2012 to 2015 through negotiated changes to workplace practices and benefits. Increased management flexibility as a result of the new agreements will also provide improvements and further cost reductions. • Continued to develop the new Financial Planning, Analysis and Reporting system, approved by Council in 2007 with Phase 1 implementation planned for May 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:	• Apply budget targets - 0% for 2013. • Implement strategies to eliminate reliance on prior year, one-time operating surplus revenues to balance the operating budget. • Continue to implement recommendations from the Core Service Review that were adopted by Council in 2011 (including 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 commenced in 2012. • 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. (Phase 1 go-live April 2013 for 2014 operating budget preparation.) • 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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	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. • 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. 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	• Continue to investigate and evaluate possible merger of the City`s five Pre-OMERS pension plans with OMERS.

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	2012 and 2013) will look at how certain services are delivered to identify new and more efficient ways to deliver services at a lower cost. • The City completed eight (8) Service Efficiency Studies with savings being realized in 2012 through to 2014 (Fleet Services; Shelter & Housing; Real Estate Services; Solid Waste Management; Toronto Public Library; TTC; Transportation Services). • During 2012 and into 2013, a number of other Service Efficiency Studies were initiated with savings expected for future years (311 Toronto; Children's Services; City Planning; Communications; Counter Services; Court Services; Environment and Energy; Long Term Care Homes; Museum Services; Parks, Forestry and Recreation; Shared Services; Emergency Medical Services; Toronto Fire Services). • Other continuous improvement, program review and cost containment initiatives also continued, to ensure appropriate and efficient use of resources.	
Demands for growth as laid out in the Official Plan or other Sectoral and Program plans are not adequately funded	• Infrastructure backlog continues to grow especially for transportation and parks and recreation, while the backlog is being addressed for some services, (water and city facilities). • Put a funding plan in place to fund the $700 million shortfall in TTC funding consisting of funds from operating budget surpluses, sale of assets and dividends from City agencies and corporations.	• 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)

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	• Strategy developed to fund a reduction in the infrastructure backlog consisting of focusing capital dollars on state-of-good-repair, increase contribution to capital from current, more reliance on development charges, and debt restructuring. • Implemented a property tax exemption for certain Toronto Community Housing Corporation (TCHC) properties thus allow the TCHC to re-invest approximately $6.9 million per year (in education taxes that are no longer required to be paid to the Province) into state-of-good-repair.	projects. • Develop and begin implementing new non-debt capital funding strategy to fund additional TTC and Transportation Capital shortfall identified in the 2013 Budget of $1.205 billion over ten years by earmarking funds from future operating surpluses, anticipated increases in development charge revenues, future Build Toronto dividends, proceeds from the monetization of the City's marketable assets and future year transit/transportation funding from the Federal/Provincial governments. • Update Development Charges By-law to reflect updated growth figures and capital spending plans. • Continue to direct funding to the infrastructure backlog. • Continue to adopt sectoral plans which will require funding – such as Parks Plan, Community Arts action Plan, Workforce development Strategy. • Develop a funding strategy to support the waterfront revitalization and any sectoral plans adopted by City Council.
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	• 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	• 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

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	risks management. o Closely monitored the impacts of interest rate changes on Social Housing costs, investment returns and debt charges. o Affordable housing alternatives and the end of federal subsidies. • Continued to work with OMERS on urging the Province to file the required regulations under the Pension Benefits Act governing pension plan mergers.	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. • Implement the new Community Homelessness Prevention Initiative (CHPI). • 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. • Continue to request the Province to file the required regulations under the Pension Benefits Act regarding plan mergers.
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	• Council approved a modest property tax increase for residents and businesses for 2013 with similar expectations for 2014. • Continue the implementation of the "Enhancing Toronto's Business Climate" initiative. Council is on track to meet its targets of 2015 and 2020. • 2013 is a reassessment year for property

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	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.	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. • Municipal Land Transfer Tax (MLTT) continued in 2012 attracting a record level of revenue ($350 million).	• Update the Long Term Fiscal Plan in 2013 / 2014. • 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 as social housing. • Continue to budget cautiously for MLTT to avoid negative budget impacts and contribute to any surplus to fund the capital shortfall.
Improper funding of Provincial cost-shared programs has resulted in significant financial pressures to the City	• Province continued 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	• 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

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	surpluses, and potential new funding from other orders of government over three years.	portion of debt requirements. • Begin implementing new non-debt capital funding strategy to fund additional TTC and Transportation Capital shortfall identified in the 2013 Budget of $1.205 billion over ten years by earmarking funds from future operating surpluses, anticipated increases in development charge revenues, future Build Toronto dividends, proceeds from the monetization of the City's marketable assets, and future year transit/transportation funding from the Federal/Provincial governments. • 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-	• Implementation of approved strategies to reduce the funding gap between employee benefits reserve and the liabilities: o First stage: to require City's agencies and corporations 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 City's agencies and corporations to reflect additional funding requirements for retired employees, employees on long-term disability, workplace safety (pre-amalgamation) and sick leave gratuity payouts. This is scheduled for implementation in

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	time additional contribution. Even with this increase there is still a $193 million shortfall from the City's policy that the Reserve accounts should contain two times its annual benefit costs.	2014/2015. • Contributions to both the employee benefits reserve funds and the insurance reserve fund in 2013.