REPORT FOR ACTION

2016 Audited Consolidated Financial Statements

Date: June 14, 2017
To: Audit Committee
From: Treasurer and Deputy City Manager & Chief Financial Officer
Wards: All

SUMMARY

This report presents the City of Toronto's Consolidated Financial Statements for the year ended December 31, 2016 to Committee and Council for approval and provides highlights of the City's financial performance during 2016 and financial condition as of December 31, 2016.

RECOMMENDATIONS

The Deputy City Manager & Chief Financial Officer and the Treasurer recommend that:

1. City Council approve the 2016 Consolidated Financial Statements as attached in Appendix A.

FINANCIAL IMPACT

There are no financial implications contained in this report.

This report and the accompanying 2016 Consolidated Financial Statements (attached as Appendix A) provide information about the City's overall financial position as at December 31, 2016 and its financial performance during the year. For 2016, the City had consolidated revenues of $12.2B, consolidated expenses of $11B, and a resulting annual accounting surplus of $1.2B. It is important to note that this 'accounting surplus' is presented on an accrual accounting basis which includes reserve, reserve fund and capital spending and revenues, and therefore does not represent the operating surplus that the City reports on a budget basis. The City ended 2016 with consolidated assets (financial and non-financial) of $38.3B, offset by consolidated liabilities of $15.8B, resulting in an accumulated surplus as at December 31, 2016 of $22.5B (representing the amount by which both financial and non-financial assets exceed liabilities). It is important to recognize that the accumulated surplus of $22.5B is largely driven by the City's significant investment in Tangible Capital Assets ($28.6B net of accumulated depreciation). These assets are non-financial in nature and represent items such as roads, bridges, parks, facilities, transit, water infrastructure, etc. These assets do not provide liquidity, and in many cases do not generate income, and are not available for sale. The accumulated surplus ($22.5B) is less than the City's total non-financial assets ($29B), resulting in consolidated Net Debt of $6.5B as at December 31, 2016. Net Debt, as shown in the Financial Statements (i.e. financial assets less financial liabilities), is a public sector accounting term, and is not the same as Long Term Debt shown in the City's budget presentation.

DECISION HISTORY

Annually, as required by Sections 231 and 232 of the City of Toronto Act, the City prepares and publishes an annual financial statement that consolidates the financial results of all City divisions and the agencies, corporations and government business enterprises that the City controls.

COMMENTS

The Consolidated Financial Statements are intended to provide Council, the public, the City’s debenture holders, and other stakeholders, an overview of the state of the City’s finances at the end of the fiscal year, and indicate revenues, expenses and funding for the year.

The preparation, content and accuracy of the Consolidated Financial Statements and all other information included in the financial report are the responsibility of management.

As required under Section 231 of the *City of Toronto Act*, the financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as set by the Chartered Professional Accountants of Canada (CPA Canada) Public Sector Accounting Board (PSAB).

These Consolidated Financial Statements have been audited by PricewaterhouseCoopers LLP whose role is to express an independent opinion on the fair presentation of the City’s financial position and operating results, and to confirm that the statements are free from material misstatement. The external auditor’s opinion is to provide comfort to third parties that the financial statements can be relied upon by all stakeholders.

Consolidated Financial Statements

The Consolidated Financial Statements include the following individual statements:

Name	Purpose
Consolidated Statement of Financial Position	Summarizes the assets (financial and non-financial), liabilities, net debt (financial assets less financial liabilities), and accumulated surplus (all assets less all liabilities) as at December 31st.
Consolidated Statement of Operations and Accumulated Surplus	Outlines revenues, expenses, surplus for the year and accumulated surplus at year end. This statement reflects the combined operations of the operating, capital, reserve and reserve funds for the City and its consolidated entities, and provides the calculation of the City's accumulated surplus at year end.
Consolidated Statement of Change in Net Debt	Outlines the changes in net debt as a result of annual operations, tangible capital asset transactions, as well as changes in other non-financial assets.
Consolidated Statement of Cash Flows	Summarizes the City's cash position and changes during the year by outlining the City's sources and uses of cash.

The Consolidated Financial Statements combine the financial results of the City's divisions with the financial results of the agencies and corporations, and government business enterprises that the City effectively controls. There are 123 entities that are directly included in the financial statements and these are listed in Note 1 to the Consolidated Financial Statements. There are also a number of subsidiaries of agencies and corporations which are not included in the entity count above. The notes to the statements provide further detail about the City's financial results and are an integral part of the statements.

Plain Language Approach

At its meeting held on July 10, 2008, the Audit Committee, in its consideration of the City's 2007 Consolidated Financial Statements, requested staff to move towards a plain language approach when submitting future Financial Statements. Various sections of this report and the notes to this year's Consolidated Financial Statements have been written to incorporate plainer language. As generally accepted accounting principles require specific disclosures, and as certain items are complex, on occasion this limits management's ability to simplify the language. A Glossary, which explains various terms used in the financial statements, has been included as Appendix C of this report.

Consolidated Statement of Financial Position
The Consolidated Statement of Financial Position is the municipal equivalent of the private sector's balance sheet. This statement focuses on the City's assets (financial and non-financial) and liabilities. The difference between the liabilities and financial assets is the City's Net Debt, which represents the net liabilities that must be financed from future budgets.

The detailed breakdown of the accumulated surplus, including all of its components:

- amount invested in capital assets;
- operating fund, capital fund, reserve and reserve fund balances; and,
- amounts to be recovered from future revenues,

is reflected in Note 17 to the Consolidated Financial Statements.

The City has received funds for specific purposes under legislation, regulation or agreements. The recognition of these funds as revenues has been deferred until related expenses occur in the future. For example, development charges, parkland dedication fees and certain Federal and Provincial Government transfers received (such as public transit funding), are not recognized as revenues until such time as the projects are constructed. These restricted funds are included in liabilities as "Deferred Revenue" and not in the accumulated surplus. A breakdown of the City's deferred revenue obligatory reserve funds can be found in Note 8(a) to the Consolidated Financial Statements.

As a result of the significant investment in tangible capital assets, there is a large accumulated surplus, which occurs at the same time that the City has a significant net debt, which must be financed through future revenues. Although tangible capital asset balances are considerable for municipalities – much larger on a percentage basis than any other level of government – they do not provide liquidity (i.e. cash), and are not typically available for sale, the proceeds of which could be used for other purposes. It is for this purpose that tangible capital assets are not included in the calculation of net debt, arguably the most important financial statistic for governments.

Consolidated Statement of Operations and Accumulated Surplus

The Consolidated Statement of Operations and Accumulated Surplus is considered to be the municipal equivalent to the private sector's Statement of Income and Retained Earnings.

The Consolidated Statement of Operations and Accumulated Surplus provides a summary of the revenues, expenses, and surplus throughout the reporting period and outlines the change in accumulated surplus.

The 2016 budget values presented in this statement have been adjusted to reflect the differences between amounts as budgeted at the City on a modified "cash requirements" basis and amounts recorded in these financial statements on a "full accrual" basis. Note 18 outlines the adjustments to the approved budget, particularly exclusion of debt proceeds, principal payments, and tangible capital asset purchases, and inclusion of estimated amortization expense. These adjustments to budgeted values were required to provide comparative budget values based on the full accrual basis of accounting. The accrual based budget typically results in a surplus, as the City must fund reinvestment in assets at amounts greater than their historical cost.

Consolidated Statement of Change in Net Debt

The Consolidated Statement of Net Debt is unique to governments. This statement focuses on the debt of the City, adjusting the annual surplus for the impact of tangible capital assets: mainly deducting the costs to acquire assets, and adding back amortization (i.e. depreciation) charged during the year.

Net Debt is a term defined by the Public Sector Accounting Board (PSAB) as all liabilities (both shorter and longer term liabilities) less financial assets. Net Debt (also referred to as net liabilities) may be materially different than the amount of the City's consolidated outstanding debt captured as "Net long-term debt" on the City's Consolidated Statement of Financial Position, details of which are provided in Note 12 of the Consolidated Statements.

The City's 2016 Consolidated Financial Statements, presented in Appendix A of this report, provide details of the state of the City's finances at the end of the fiscal year, and the revenues and expenses for the year ended December 31, 2016.

2016 Financial Highlights

The net value of the City's tangible capital assets has increased by $1.6B. The historical cost and accumulated amortization of assets as at December 31, 2016 were $44.5B and $15.9B respectively for a net book value of $28.6B (2015 - $27.0B). Tangible capital asset purchases during 2016 totalled $2.6B (2015 - $2.9B) while amortization charged was $974M (2015 - $851M).

The City's accumulated surplus increased to $22.5B as at December 31, 2016 as a result of the 2016 accounting surplus of $1.2B. A reconciliation of the City's operating budget surplus (as reported in the year-end operating budget variance report) to the accounting surplus reflected in the City's financial statements is shown on page 6 of this report.

The City's Net Debt (i.e. net liabilities - the amount by which liabilities exceed financial assets) increased by $0.4B to $6.5B (2015 - $6.1B).

Long-term debt, including both debentures (captured as Net long-term debt on the Financial Statements), and mortgage debt obligations of Toronto Community Housing Corporation, increased by $179M to $5.4B (2015 - $5.3B). Total long term debt issued during the year was approximately $754M, while debt repayments including sinking fund earnings totalled $428M. Pages 15 to 16 of this report provides a breakdown of debt and debt repayments by entity.

The gross employee benefits liability increased by $99.2M to $3.6B (2015 - $3.5B), while the net liability increased by $158M to $3.8B (2015 - $3.6B). Additional detail on this change are included on pages 17 to 18 of this report.

The City collected consolidated revenues of $12.2B (2015 - $12.1B) and had consolidated expenses of $11B (2015 - $10.9B) for a net annual surplus on a full accrual accounting basis of $1.2B (2015 - $1.2B).

Deferred revenue (largely revenues received that have been set aside for specific purposes by legislation, bylaws or third party agreements) increased by $178M to $2.4B (2015 - $2.2B).

Cash and investments increased by $339M to $5.7B (2015 - $5.4B), while accounts payable and accrued liabilities increased by $158M to $3.3B (2015 - $3.1B).

The City's investment in its government business enterprises increased by $44M to $2.1B (2015 - $2.0B).

Reconciliation to the Operating Budget Surplus

The following schedule reconciles the "accounting surplus" reported in the Consolidated Financial Statements to the cash based "operating budget surplus" as reported in the 2016 final operating budget variance report to the Budget Committee for budgeting and rate setting purposes.

	(in $000's) 2016	2015
Surplus as reported in the Final Year-end Operating Variance Report	187,728	130,928
Accounting Adjustments for Financial Statement Presentation Purposes:		
Council Direction/Legislative Requirements: Transfer to Reserve and Reserve Funds	25,180	21,574
Differences between budget and financial reporting: Build Toronto Dividend, transferred to reserve for operating budget purposes	25,000	15,000
Gain on Sale of York Concourse	-	2,321
City's agencies and corporations amounts reported in Consolidated Statement of Operations and Accumulated Surplus	(128,668)	(69,736)
Government Business Enterprises' earnings, net of distributions	43,699	120,247
Water and Solid Waste (non-levy) City Operations	100,566	46,210
PSAB Adjustments (See Note 1 following)	20,869	5,011
Fund Balances (See Note 2 following)	712,540	720,962
Amounts to be recovered impacts (see Note 3 following)	261,179	201,898
Accounting Surplus for the year	**1,248,093**	**1,194,415**

Note 1: PSAB adjustments relate to differences between amounts recorded in the consolidated financial statements and those budgeted, and are due to:

	2016 *$000's*	**2015** *$000's*
Accrued vacation pay and lieu time	(4,636)	(643)
Loan related Deferred Revenue adjustment	6,384	45,455
Surplus properties transferred from Tangible Capital Assets to inventory	19,121	(39,801)
Total	**20,869**	**5,011**

Note 2: Fund balances:

	2016 *$000's*	**2015** *$000's*
Capital Fund Activity	(811,809)	(865,930)
Net Change to Reserve Fund Balances	(94,541)	(407,946)
Net Change to Tangible Capital Assets	1,618,890	1,994,838
Total	**712,540**	**720,962**

Note 3: Amounts to be recovered impacts:

	2016 *$000's*	**2015** *$000's*
Principal Repayments on Long Term Debt	263,720	254,997
Write off – Provincial Loan	93,171	77,000
Interest earned on Sinking Funds	64,853	71,517
Changes in solid waste landfill liabilities	3,469	(2,254)
Change in Contaminated Sites liabilities	(240)	(6,549)
Changes in property and liability claims	(5,798)	(4,212)
Changes in employee benefit liabilities	(157,996)	(188,601)
Total	**261,179**	**201,898**

Financial Condition

An important measure of any government's financial condition is its Net Debt (also referred to as net liabilities): calculated as liabilities (e.g. trade and employment payables, mortgages and debentures) less financial assets (e.g. cash, receivables, and investments).

The City's Net Debt as at December 31, 2016 increased by $0.4B to $6.5B (2015 - $6.1B). This increase is due primarily to the City's financing of tangible capital assets, offset by its considerable accounting surplus during 2016. For more information on the change in Net Debt, please refer to the Consolidated Statement of Change in Net Debt in the Consolidated Financial Statements.

Table 1
Net Debt – 5 year Summary ($000's)

Net Debt	4 Year Average Annual Increase	2016	2015	2014	2013	2012
Liabilities	6.01%	15,791,731	15,151,299	13,828,081	13,117,281	12,505,032
Financial assets	2.99%	9,293,459	9,071,480	8,533,390	8,554,867	8,259,997
Net Debt	**11.23%**	**6,498,272**	**6,079,819**	**5,294,691**	**4,562,414**	**4,245,035**
Percentage Increase (decrease)		**6.9%**	**14.8%**	**16.1%**	**7.5%**	

The City's Net Debt has increased by a compound annual rate of 11.23% over the last four years, attributable mainly to increases in long-term debt to third parties and in long-term net employee benefit liabilities. Both of these items are dealt with in more detail later in this report.

In order to improve the City's financial position, the City is developing an updated framework that will include strategies and processes to strengthen the City's multi-year financial and budget processes, including a multi-year expense management plan, a multi-year revenue strategy, and asset optimization plans.

Debt financing has grown and will continue to grow due to state of good repair funding requirements and increased focus on expanding public transit infrastructure to meet the demands of a growing population. The City will be reviewing its capital budget and related financing strategies including debt policies.

Another key indicator of a government's financial condition is the amount that must be recovered from future revenues as included in Note 17 of Consolidated Financial Statements. These liabilities include TCHC mortgages, debentures, employee benefit liabilities, property and liability claim provisions, landfill liabilities, contaminated sites liabilities and environmental liabilities. In 2016, the total amount that must be recovered from future property taxes and other revenues grew by $345M to $9.7B (2015 - $9.4B).

This increase mainly consists of:

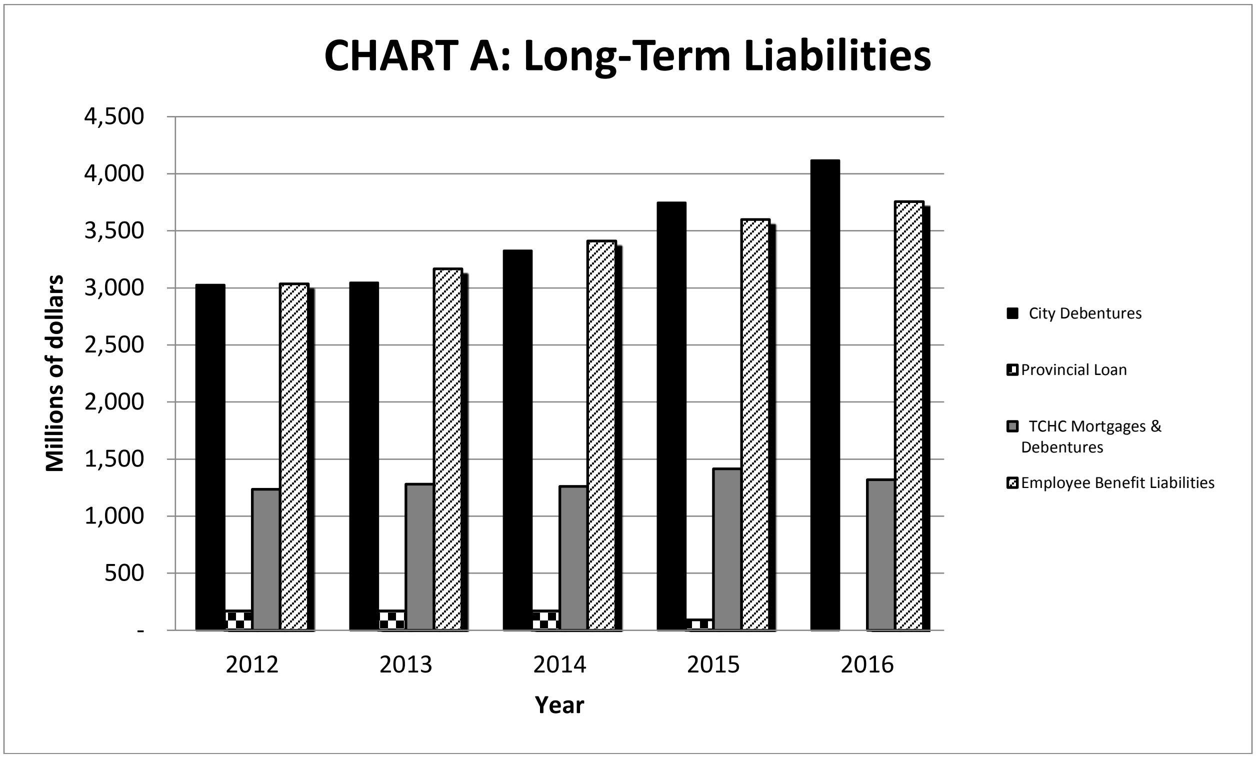
- an increase of $158M in the net employee benefits liabilities as gross employee benefit liabilities increased by $99M and increase in unamortized gain of $59M. Further information is detailed on page 17 to 18 of this report; and

- a net increase of $185M in mortgages and net long term debt.

The significant growth in net long-term debt has been driven mainly by the need to finance transit capital expenditures and other transportation projects.

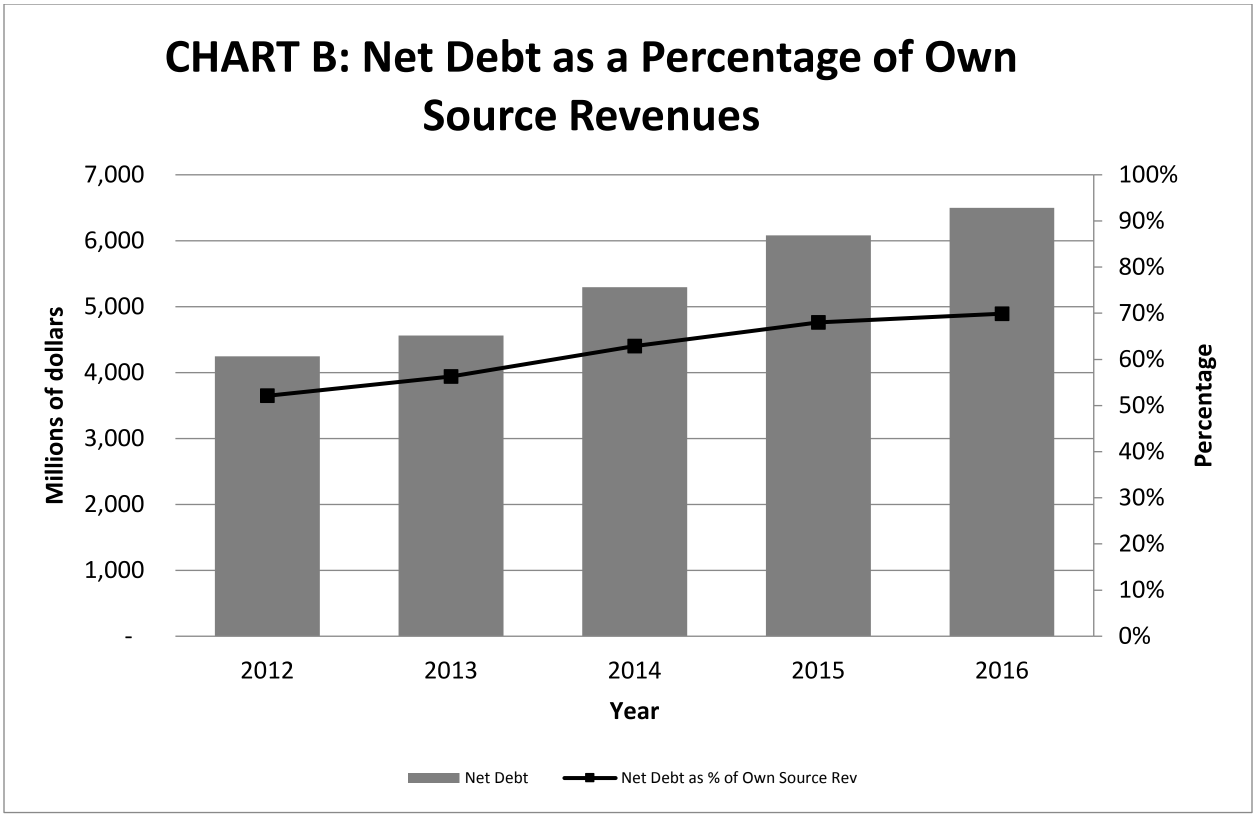
Gross employee benefit liabilities grew 2.8% in 2016 primarily due to an 8.5% increase in WSIB obligations. Council has contained some of the growth of employee benefit liabilities through changes in benefit plans and other cost containment initiatives, which is reflected in actuarial gains that will reduce the net liability in future years.

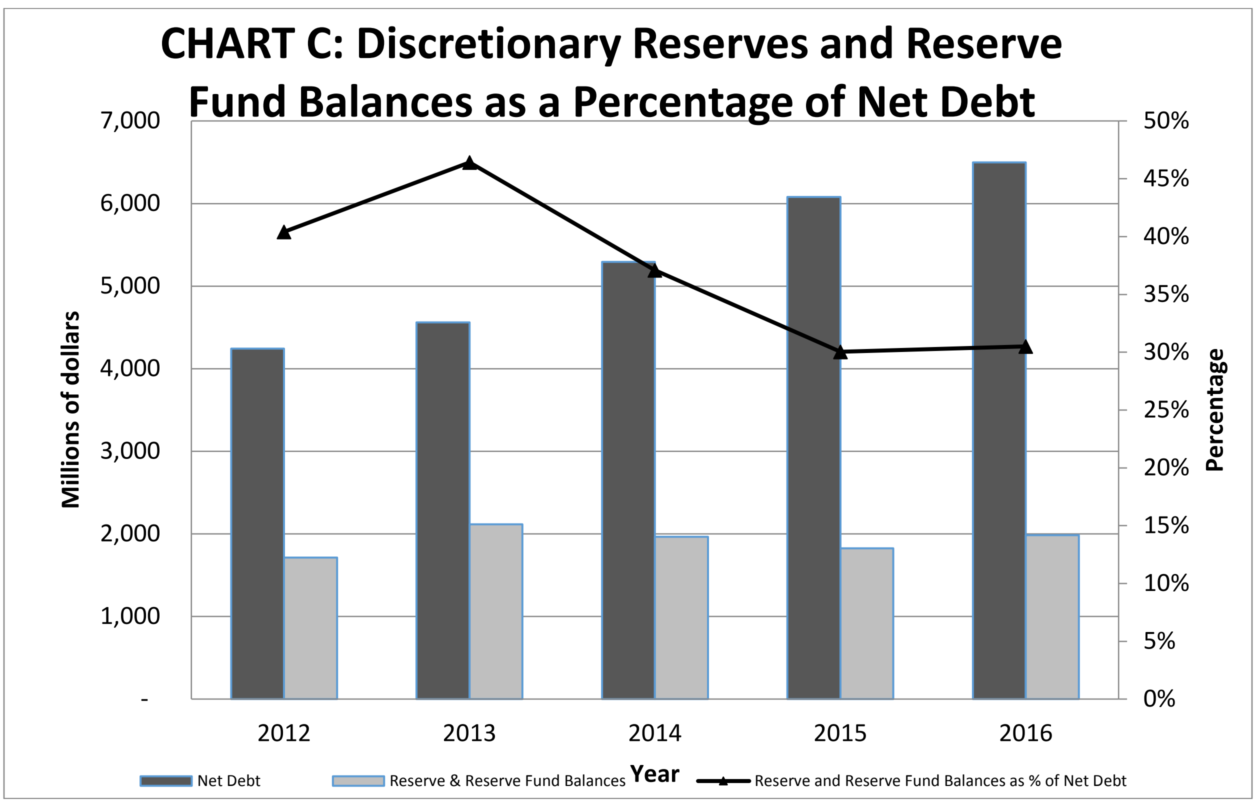
Chart A provides the breakdown of long-term liability growth by debt type.



Information on the mortgage liabilities of TCHC is provided in Note 11, the provincial loan and debenture debt is outlined in Note 12, while further detail about employee benefit liabilities is provided in Note 13 of the Consolidated Financial Statements.

To put the City's net liability (i.e. Net Debt) into a different context, Chart B expresses the Net Debt as a percentage of the City's own source revenues (excluding government transfers and earnings from government business enterprises). The net liability as a percentage of own source revenues has gone from 52.1% to 69.9% over the last five years.





Note: Reserve and Reserve Funds exclude Obligatory Reserve Funds because they are required to be shown as Deferred Revenues in the Financial Statement.

The City's Net Debt substantially exceeds the City's reserve and reserve fund balances as shown in Chart C. Reserves and Reserve Fund balances increased in 2016 by $157M mainly due to transfer of the 2016 surplus from Water and Wastewater operations, ($91M), to the Water and Wastewater Stabilization Reserve, as well as receipt of additional contributions and transfers of $66M to various Reserve Funds. The vast majority of the reserve and reserve funds are committed to fund capital projects identified in the ten (10) year capital plan and future known liabilities, leaving only a small portion available for discretionary spending. Also, the current balances of some reserve funds (e.g. Employee Benefits) provide only a small portion of the funding required to pay the relevant future obligations.

The balances of all the Obligatory Reserve Funds are restricted for specific purposes as designated by legislation or contractual agreements, and all capital reserves/reserve funds are required to replace and maintain capital assets.

If the Obligatory Reserve Funds were included in Chart C, then the Reserve and Reserve Fund Balances would be 61.9% of Net Debt (2015 – 60.9%).

For financial statement purposes, PSAB requires that Obligatory Reserve Fund balances (such as development charges and unspent provincial public transit funding) be classified as deferred revenue (Note 8(a) of the Consolidated Financial Statements). As a result, the reserve and reserve fund balances in the financial statements (Note 17), are lower than those included in staff reports to the Budget Committee.

Comparison to Other Jurisdictions

Table 2 provides a comparison of key financial indicators for a selection of large Canadian cities – 2016 figures.

Table 2
2016
($ millions)

	Toronto	Montreal	Ottawa	Calgary	Edmonton	Vancouver
Financial Investments	4,248	3,474	1,273	4,096	1,899	1,630
Investments in GBE's*	2,069	-	427	2,291	2,672	-
Interest bearing long-term debt	5,436	10,892	1,948	3,317	3,339	1,034
(Net Debt) / Net Financial Assets **	(6,498)	(6,152)	(1,833)	1,359	959	79
Tangible capital assets	28,584	13,150	14,495	16,014	13,342	6,759

* Government Business Enterprises – In other Canadian municipalities as compared above, these types of investments are primarily in electric utility systems and other utility systems such as natural gas and water. Details of Toronto's GBEs are provided in Note 5 to the Consolidated Financial Statements.

** Net Debt / Net Financial Assets is a measure on the Statement of Financial Position, and not a summary of items in this table.

The City compares favourably on its investment level. Edmonton compares favourably on its net financial position largely because of its significant investment in Epcor, a subsidiary involved in electricity transmission and distribution, water, wastewater and infrastructure.

Analysis of Key Asset and Liability Accounts

Accounts Receivable (Note 2)

The breakdown of accounts receivable at December 31, 2016 with 2015 comparatives is as follows:

Accounts Receivable	*(in $000's)* 2016	2015
Government of Canada	161,336	153,554
Government of Ontario	194,477	335,282
Other municipal governments	24,817	32,884
School board	1,323	2,809
Utility fees	200,896	159,951
Other fees and charges	421,426	512,145
Total	**1,004,275**	**1,196,625**

Accounts receivable balances decreased by $192M in 2016. The decrease consists primarily of the following:

- decrease in receivable from Government of Ontario ($141M) due primarily to:

	($ millions) **Increase (Decrease)**
Receipt of payment in 2016 from Move Ontario Trust (MTO) which was accrued in 2015.	(56.5)
Receipt of payment in 2016 ($10.7M) from Metrolinx for Union Station offset by accrual in 2016 of $4.8M.	(5.9)
Ice-storm receivable from the Province fully paid in 2016	(41.2)
Receipt of payment for Pan Am Games in 2016	(38.0)
Other increases and decreases	0.6
Total	**(141.0)**

- increase in Utility fees receivable ($41M) primarily attributable to increase in 2016 water billings.

- decrease in other fees and charges ($91M) due primarily to:

	($ millions) **Increase (Decrease)**
Receipt of funds from TPA in 2016 for 2015 accrual for City's share of air rights revenues.	(65.0)
Decrease in receivable for Court Services as compared to 2015.	(6.4)
Decrease in interest receivable due to lower interest rates.	(10.5)
Other increases and decreases	(9.1)
Total	**(91.0)**

Property Taxes Receivable
Property Taxes receivable consists of all outstanding taxes, items that have been added to the tax roll (such as utilities arrears, drainage charges, and local improvement charges), accumulated penalties and interest charges, net of an allowance for uncollectible taxes.

A breakdown of this receivable is as follows:

	(in $000's)	
Property Taxes Receivable	**2016**	**2015**
Current year	176,368	164,662
Prior year	49,452	48,956
Previous years	35,481	32,498
Interest/penalty	56,014	50,399
Less: allowance for doubtful accounts	(56,244)	(55,815)
Net receivables	**261,071**	**240,700**

Other Assets (Note 3)
Other Assets increased by $17M to $213M (2015 - $196M) due primarily to

- increase in Build Toronto Inc.'s (BTI) Vendor-take-back (VTB) mortgage receivable and a promissory in total amounting to $20.6M;
- increase in TCHC's other assets by $11.4M; offset by
- decrease in Provincial affordability housing grants $2.1M for four TCHC projects;
- decrease in market value of $6.1M for Real Estate inventory at Build Toronto; and

- decrease in TWRC construction deposit of $5.9M.

Investments (Note 4)
Investments decreased by $905M to $4.2B (2015 - $5.2B) as more funds were kept in the bank, which offered a higher interest rate than money market products as at December 31.

Investment in government business enterprises (GBEs) (Note 5)
Investment in government business enterprises increased by $44M to $2.1B (2015 - $2.0B). This is primarily due to the Toronto Hydro surplus of $29.5M (net of IFRS adjustment and dividends), an increase in Toronto Parking Authority, net of distributions, of $7M and an increase in Toronto Portlands Company, net of distribution, of $7.4M.

Additional information regarding the City's GBEs as at December 31, 2016, including 2016 transactions for all GBEs with the City and condensed financial results, are provided in Note 5 and Appendix 1 to the Consolidated Financial Statements.

Accounts Payable and Accrued Liabilities (Note7)
The breakdown of accounts payable and accrued liabilities at December 31, 2016, with 2015 comparatives, is as follows:

	(in $000's)	
Accounts Payable	**2016**	**2015**
Agencies & corporations trade payables	976,636	983,745
City trade payables and accruals	1,341,451	1,243,329
Payable to school boards	452,427	454,349
Provision for tax appeals & rebates	265,796	253,893
Credit balances on property tax accounts	125,796	94,129
Wages accruals	128,346	113,214
Total	**3,290,252**	**3,142,659**

City trade payables and accruals are higher ($98M) primarily due to:

	($ millions) **Increase (Decrease)**
Increase in Municipal Services Damage Guarantee (MSDG) deposits	12.4
Higher accruals at year end	70.9
Increase in Holdbacks for Toronto Water Construction	13.6
Other increases and decreases	1.1
Total	**98.0**

The provision for tax assessment appeals increased by $12M as there were higher number of pending appeals as at December 31, 2016.

The $31M increase in credit balances on property tax accounts is primarily due to the timing of processing refunds for re-assessments.

Wages accruals increased by $15M primarily due to an extra day of accrual in 2016 and increase in vacation accrual.

Deferred Revenue (Note 8)
Deferred Revenue increased by $178M to $2.4B (2015 - $2.2B) primarily as a result of:

- increase in net funds received for Development Charges, Building Code and Planning Act of $87M;
- increase in Obligatory Reserve Funds for Water and Wastewater of $71M due to higher contributions as compared to withdrawals for capital purchases;
- increase in funds for Building Code Act of $15M; and
- increase in funds received for park levy payments of $5M.

Other Liabilities (Note 9)
Other Liabilities decreased by $17M to $689M (2015 - $706M), mainly as a result of:

- a decrease in Toronto Transit Commission (TTC) unsettled accident claims of $5.8M;
- a decrease in tree planting donations liability of $7.7M;
- Fuel Hedging liability for TTC outstanding in 2015 of $2.6M paid in 2016;
- Funds held in deposit for Exhibition Place paid in 2016 $1.3M;
- Alternate Park Levy Clearing account – cleared in 2016 $3.3M; and
- decrease in outstanding legal liabilities for Toronto Police Services for $2.9M; offset by
- an increase in property and liability claims provision of $5.8M.

Net Long-Term Debt, including TCHC Mortgages (Notes 11 and 12)
Net long-term debt increased by $179M to $5.4B (2015 - $5.2B) as follows:

	($ millions) **Increase (Decrease)**
Issuance of Debt – City	700.0
– TCHC	53.9
– TAF	0.7
Debt Repayment – City	(360.8)
Debt Repayment – TCHC	(2.5)
Interest earned on sinking funds	(64.9)
Mortgage repayments	(147.7)
Total	178.7

Table 3 below lists all consolidated debt issued in 2016.

Table 3: Debt Issued - 2016 ($000's)

Summary by Service	Total	City & TAF 10 years	City 20 years	City &TCHC 30 years
Children's Services	2,100	2,100	-	-
Emergency Medical Services	3,069	3,069	-	-
Exhibition Place	2,525	2,525	-	-
Facilities & Real Estate	40,548	12,865	27,683	-
FCM-TAF	679	679	-	-
Finance	3,200	3,200	-	-
Fire Services	40,148	5,500	34,648	-
Long-Term Care	49,500	-	49,500	-
Pan Am Games	41,357	7,330	34,027	-
Police	38,700	38,700	-	-
Public Health	4,500	4,500	-	-
Social Housing	53,895	-	115	53,780
Toronto Public Library	6,075	6,075	-	-
Transportation	25,910	25,910	-	-
Transit	388,226	188,226	-	200,000
Waterfront Secretariat	54,142	-	54,142	-
Total	**754,574**	**300,679**	**200,115**	**253,780**

Table 4 lists consolidated net long-term debt from all sources for the past five years:

Table 4: Five year comparison of Net Long-Term Debt & Mortgages ($000's)

	2016	2015	2014	2013	2012
Property taxes and user charges	3,792,248	3,490,977	3,201,340	2,880,269	2,841,620
Solid Waste	264,365	266,478	237,969	252,098	265,667
FCM Energy Retrofit	1,300	2,029	2,758	3,488	4,217
TCHC	955,976	1,431,940	1,277,914	1,298,895	1,254,372
Build Toronto Inc.	33,407	33,407	-	-	-
Lakeshore Arena Corporation	19,259	19,602	19,932	38,937	39,234
Leaside Arena	915	956	991	1,052	-
Sony Centre	340	425	-	-	-
TDSB	4,600	10,974	17,013	22,410	26,371
Net long-term debt	**5,072,410**	**5,256,788**	**4,757,917**	**4,497,149**	**4,431,481**

Employee Benefit Liabilities (Note 13)

Employee benefit liabilities represent the amounts payable to employees or third parties in future years for services that were provided by employees in the current or past years. These amounts represent amounts payable for items such as workers' compensation, long term disability, health care benefits for early retirees, and benefits for those retirees covered by the City's legacy pension plans. Actuarial valuations are undertaken every three years to calculate the liabilities, estimating expected future costs and then calculating the present value based on the applicable municipal bond rate (the discount rate) as at December 31 in accordance with PSAB standards.

The gross employee benefits liability for the City and its consolidated entities (identified as "Total employee accrued benefit obligation" in Note 13 of the Consolidated Financial Statements) increased by $99M to $3.6B (2015 - $3.5B), primarily due to the following:

- increase in post-employment benefits ($52M), primarily due to the change in discount rate which increased creating an actuarial gain resulting in higher liability; and
- increase in workers' compensation benefits ($47M), primarily due to more coverages of additional cancers presumed to be work related for Toronto Firefighters and changes in administration fees.

Table 5: Employee Benefit Liabilities by Type for the City and its Consolidated Entities ($000's)

	2016	2015	2014	2013	2012
Sick Leave	522,742	522,834	552,420	489,170	471,472
WSIB	601,062	553,983	548,985	432,533	428,767
Post Retirement and LTD	2,473,792	2,421,622	2,436,744	2,102,038	2,076,852
Pension	-	-	-	7,969	26,694
Gross Liabilities	**3,597,596**	**3,498,439**	**3,538,149**	**3,031,710**	**3,003,785**
Unamortized Gain/(Loss)	159,248	100,409	(127,902)	134,772	32,208
Net Liabilities	**3,756,844**	**3,598,848**	**3,410,247**	**3,166,482**	**3,035,993**

The gross employee benefit liabilities increased by $99M and the unamortized actuarial gain also increased by $59M, thus resulting in an overall increase in net employee benefit liabilities of $158M (from $3.6B in 2015 to $3.8B in 2016).

Unamortized gains and losses are the amount of actuarial gains or losses, relating to gains or losses upon valuation of employee future liabilities, which must be recognized in income over the expected average remaining service life of the employee group.

The $59M change in unamortized gains and losses, is primarily related to:
an increase in the discount rate of approximately 0.1% to 0.3% for the various benefits; and difference between actual and expected benefits payments in 2016 which created actuarial gains.

As actuarial gains and losses are amortized over the estimated average remaining service life of the employee group, these actuarial gains and losses will be recognized over the next 12.4 to 16.3 years.

Table 6 shows employee benefits liabilities by entity.

Table 6: Employee Benefit Liabilities by Entity ($000's)

	2016	2015	2014	2013	2012
City	2,117,734	2,069,029	2,033,942	1,703,964	1,720,870
City Legacy Pensions	-	-	-	7,969	26,694
Police	596,387	573,943	695,038	599,325	568,949
Other Entities	883,475	855,467	809,169	720,452	687,272
Gross Liabilities	**3,597,596**	**3,498,439**	**3,538,149**	**3,031,710**	**3,003,785**
Unamortized Gain/(Loss)	159,248	100,409	(127,902)	134,772	32,208
Net Liabilities	**3,756,844**	**3,598,848**	**3,410,247**	**3,166,482**	**3,035,993**

Over the last few years, the City's consolidated gross liabilities have been increasing, primarily due to the low interest rate used to discount this future liability. Although measures have been undertaken by the City to contain the growth in employee benefit liabilities (such as actions to reduce drug costs, negotiated benefit plan design changes for Unionized and Management employees, and changes in the post-65 retiree benefit plan for Fire fighters) these have been offset in recent years by increases in WSIB costs due to expansion of Ontario Government regulations to include additional cancers which are presumed to be work related for fire fighters.

The improvement in the legacy pension plans is a result of the improved economy and better investment returns than projected.

Tangible Capital Assets (Note 14)

Note 1 to the consolidated financial statements outlines the significant accounting policies including an overview of the policy for recording tangible capital assets. In short, tangible capital assets are recorded at cost and amortized over their useful lives.

The breakdown of tangible capital assets, as well as accumulated amortization, as at December 31, 2016 with 2015 comparatives, is presented in Note 14 and Schedule 1. Tangible capital assets by entity are presented in Appendix 4.

During the year, consolidated asset additions totalled $2.6B, with the most significant portion being:

- Building and Building Improvements of $662M (consisting of $284.2M at the TTC, $258M at the TCHC, $6M at the Library, and $113.8 M at the City.
- Transit Infrastructure of $431.4 M; and,
- Vehicles additions of $180M, primarily: $125M for TTC, $48M for City and $7M for Toronto Police Services.
- Machinery and Equipment purchases of $749M, primarily:
    - Infrastructure equipment of $489.4M for Water and Wastewater treatment plant equipment, pumping stations and Road Traffic Signals; and
    - General equipment of $259.6M, primarily: Green Lane Landfill gas and leachate collection systems, computer hardware, water meters, security systems, police and transit equipment.
- Linear assets of $504.7M: $388.2M for Water & Wastewater and $116.5M for Roads.
- Land Improvement of $60.5M: $ 26.6M represent Corktown Common Park project developed by Waterfront and handover to the City.

During the year, amortization of tangible capital assets increased by $122M to $974M (2015 - $851M), mainly as a result of an increase in TTC amortization of $78M and $33M for the City.

Consolidated Annual Accounting Surplus
Table 7

Consolidated Accounting Surplus (in thousands of dollars)					
	2016 Budget	2016 Actual	Difference: Positive / (Negative) Variance	Change	2015 Actual
Revenues					
Property Taxation	3,927,000	3,938,802	11,802	0.3%	3,879,877
Municipal Land Transfer Tax	526,528	644,590	118,062	22.4%	524,000
Taxation from other governments	102,830	112,211	9,381	9.1%	86,302
User Charges	3,211,865	3,083,725	(128,140)	(4.0%)	2,780,791
Funding transfers from other governments	2,984,886	2,738,317	(246,569)	(8.3%)	2,862,220
Government Business Enterprise Earnings	-	165,810	165,810	-	294,189
Investment Income	197,941	197,231	(710)	(0.4%)	259,679
Development Charges	290,867	184,125	(106,742)	(36.7%)	221,192
Rent and Concessions	439,271	450,740	11,469	2.6%	451,776
Other	629,203	686,412	57,209	9.1%	737,497
Total	**12,310,391**	**12,201,963**	**(108,428)**	**(0.9%)**	**12,097,523**
Expenses					
General Government	895,164	760,339	134,825	15.1%	824,196
Protection to persons and property	1,816,682	1,808,310	8,372	0.5%	1,807,909
Transportation	3,361,487	3,067,408	294,079	8.7%	2,943,786
Environmental services	1,190,346	933,176	257,170	21.6%	940,017
Health services	446,868	449,621	(2,753)	(0.6%)	452,389
Social and family services	2,141,477	2,038,215	103,262	4.8%	2,023,910
Social Housing	829,429	779,499	49,930	6.0%	775,450
Recreational and cultural services	1,084,888	1,001,753	83,135	7.7%	989,349
Planning and development	135,355	115,549	19,806	14.6%	146,102
Total	**11,901,696**	**10,953,870**	**947,826**	**8.0%**	**10,903,108**
CONSOLIDATED ANNUAL ACCOUNTING SURPLUS	**408,695**	**1,248,093**	**839,398**	**205.4%**	**1,194,415**

Table 7 provides a comparison of 2016 Consolidated Revenues and Expenses versus budget, and also shows 2015 actuals. The table also provides a comparison of expense by type or category of service.

The budget column included in the Consolidated Financial Statements reflects the approved budget at the time the tax levy is approved by Council. Although City Council approves revisions to the budget throughout the year, these amendments are not reflected in the budget column shown in the Consolidated Financial Statements (see Note 18 in the Consolidated Financial Statements). The budget is however, adjusted to exclude purchases of tangible capital assets from expenses, to also exclude debt principal from revenues and expenses, and to allow for amortization of tangible capital assets.

Consolidated Revenues
While the annual budget process focuses primarily on property tax increases, it must be emphasized that property taxes are only one of the City's many revenue sources. In 2016 property taxes made up 32.5% (2015 – 32.3%) of the City's consolidated operating revenue.

Property Taxation revenue exceeded budget by $12M primarily due to supplementary/omitted rolls being higher than forecast.

Municipal Land Transfer Tax (MLTT) exceeded budget by $118M primarily due to stronger than expected average home prices and sales volumes.

Taxation from other governments (Payment in Lieu (PIL) of Taxes) revenue exceeded budget by $9M primarily due to lower than budgeted appeals and adjustments.

User Charges were under budget by $128M due primarily to:

- delayed capital expenditures resulting in lower than budgeted spending of $162M on Capital projects funded from obligatory reserve funds for Water/Wastewater, resulting in lower revenue being recognized in 2016 than budgeted;
- lower revenues at TTC of $49M primarily due to lower than budgeted ridership; offset by
- higher than budgeted revenues at Toronto Water of $58M primarily from stronger than anticipated volume of water sold, due to a dry, hot summer, increase in new water and sewer service connections and industrial waste agreements;
- higher than budgeted revenues at Parking Tags Enforcement & Operations of $6.4M due to increased volume in plate denial fees;
- higher than budgeted revenues at Toronto Parking Authority of $9M due primarily to higher off-street parking revenues in downtown garages and surface carparks as a result of stronger than anticipated customer volume; and
- higher than budgeted revenues of $7M at City Planning due to higher development application review fees and robust application volumes in Committee of Adjustment Units.

Funding Transfers from other governments were under budget by $246M primarily due to:

- Lower than budget spending on the Toronto-York Spadina Subway Extension by $200M; and
- Ontario Works operating subsidies lower by $45M, due primarily to lower subsidies for the Ontario Works Financial Assistance Program.

Government Business Enterprise Earnings ($166M) represent the earnings from Toronto Hydro Corporation, Toronto Parking Authority and Toronto Port Lands Company. Details are available in Note 5 and Appendix 1 of the Consolidated Financial Statements.

Development Charges applied to capital spending were under budget by $106M, due to lower than budget spending on capital projects. As an obligatory reserve, development charge revenues are not recognized until the funds are spent for the intended purposes.

Rent and Concessions were higher than budget by $11M due primarily to higher rental income at the City's agencies and corporations.

Other Income was higher than budget by $57M due primarily to the Provincial Loan write-off of $93M offset by lower than expected revenue from recoveries from third parties for damages due to utility cuts of $36M.

Five Year Summary of Consolidated Revenues

The five year summary of revenues outlined in Table 8, demonstrates that property taxes continue to be one the slowest growing revenue sources for the City. The City is limited by provincial legislation and Council policy from extending tax rate increases on the commercial, industrial and multi-residential assessment base on the same basis as the residential base.

As a result of the slow growth of property tax revenue, more reliance has been placed on user fees, the Municipal Land Transfer Tax, senior government transfers and other sources of revenue to meet expenses and minimize property tax rate increases.

Table 8: Consolidated Revenues – 5 year Summary

		(in thousands of dollars)				
Revenues	**Avg. Annual Increase**	**2016**	**2015**	**2014**	**2013**	**2012**
Property taxes	1.6%	4,051,013	3,966,179	3,879,607	3,808,030	3,807,904
Municipal land transfer tax (MLTT)	16.5%	644,590	524,000	449,604	360,884	349,798
User charges	5.6%	3,083,725	2,780,791	2,753,273	2,638,543	2,482,754
Government transfers	(2.7%)	2,738,317	2,862,220	2,752,112	2,952,158	3,054,218
Gain on Sale of Enwave	N/A	-	-	-	-	96,611

		(in thousands of dollars)				
Revenues	**Avg. Annual Increase**	**2016**	**2015**	**2014**	**2013**	**2012**
GBE Earnings	(2.1%)	165,810	294,189	174,326	175,544	180,097
Investment Income	(5.4%)	197,231	259,679	270,603	232,244	246,760
Development Charges	6.9%	184,125	221,192	132,523	164,004	141,133
Rent and Concessions	3.3%	450,740	451,776	426,929	438,698	395,470
Other	(1.2%)	686,412	737,497	511,685	462,454	720,915
Total	**1.6%**	**12,201,963**	**12,097,523**	**11,350,662**	**11,232,559**	**11,475,660**
Percentage Increase		0.9%	6.6%	1.1%	(2.1%)	

Consolidated Expenses
Gross consolidated expenses for 2016 totalled $10.8B (2015 - $10.8B).
Expense variance explanations by major program areas, are as follows:

- Costs for General Government were lower than budget by $135M, primarily due to;
  - lower spending of $121M in Facilities due to various State of Goods Repair (SOGR) maintenance projects and lower spending in Finance and Information Technology due to delaying system upgrades and maintenance of various projects; and
  - lower than budgeted spending of $14M at I&T primarily due to operating vacancies.

- Costs for Protection to persons and property were $8M lower than budget primarily due to:
  - lower than budgeted spending at the Toronto Police Services due to the hiring moratorium and expenditure reduction efforts.

- Costs for Transportation were $294M lower than budget primarily due to:
  - lower than budgeted net spending of $36M in Transportation Services due to lower costs in the winter maintenance program due to mild winter conditions, and under-spending in road/bridge repair contracts due to lower than expected utility cut repair volumes, partially offset by higher than budgeted expenditures for traffic signal operations;
  - lower spending in TTC of $53M primarily due to savings in salaries and employee benefits ($41.7M), diesel fuel consumption ($7.5M) and leasing expense for bus storage ($4M); and
  - lower spending at Transportation of $156M due to delay in State of Good Repair projects such as neighbourhood improvements, side walk repairs and other road maintenance work.

- Environmental services spending was lower than budget by $257M due primarily to:
    - lower spending at Toronto Water of $198M related to $165M from various State of Good Repair maintenance projects, and $33M primarily due to savings in salaries and benefits from vacancies and lower than anticipated electricity rates and usage; and
    - lower spending at Solid Waste of $37M, with $25M attributable to various maintenance projects and $12M due to lower than planned expenditures for salaries and benefits, lower spending on contracted services due to lower waste haulage costs from low fuel prices.

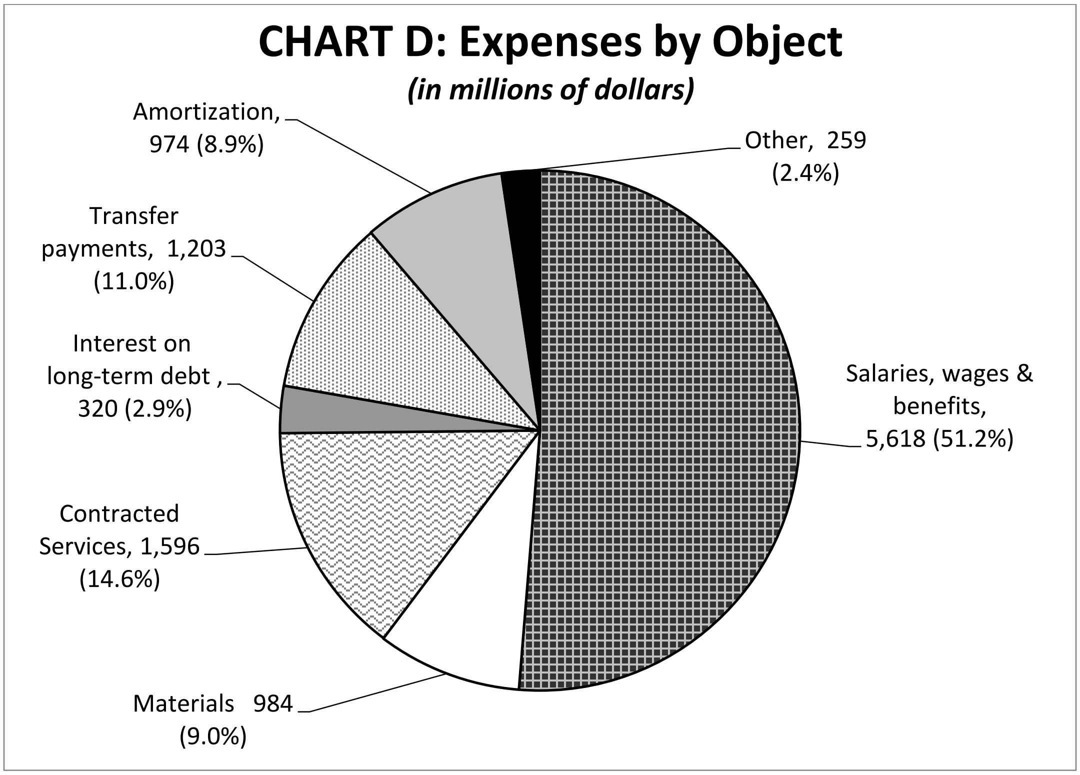
- Social and Family Services spending was lower than budget by $103M, primarily due to:
    - Ontario Works (OW) financial benefits were under spent by $48M due to a lower than budgeted OW caseload;
    - Children's Services was under budget by $18M primarily due to case mix differences from planned, delays in hiring staff and in opening two Toronto Early Learning Child Care Services (TELCCS) centres;
    - Long Term Care Homes and Services was under budget by $18M primarily due to under spending in salary and benefits and other non-salary accounts primarily attributable to the delay in re-opening of Kipling Acres facility; and
    - Social Development, Finance & Administration was under spent by $11M primarily due to lower than expected spending for the Tower Renewal, Hi-RIS Retrofit Improvement program; the Provincially funded Healthy Kids Community Challenge initiative; and under spending in salary and benefits.

- Social housing spending was lower than budget by $50M, primarily due to:
    - lower than planned expenditures at TCHC. Under spending resulted from savings in salaries and benefits due to vacant positions, savings in social housing provider subsidies and project delays in the implementation of the Social Infrastructure Fund (SIF) and Social Housing Apartment Retrofit Program (SHARP).

- Recreational and cultural services was lower than budget by $83M due primarily to:
    - lower spending of $38M on repairs and maintenance for Recreation and State of Good repair projects at Arenas, community centres, special facilities, pools and water play areas; and
    - lower spending of $45M on various Parks maintenance projects such as trail and path maintenance, camp sites maintenance, tree maintenance, and other preventative maintenance projects.

- Planning and development was lower than budget by $20M due primarily to:
    - lower than planned expenditures at Build Toronto of $11M; and
    - lower spending of $4.2M on various streetscape and façade improvement projects.

Consolidated Expenses by Object
Chart D breaks down gross expenses by cost object. Salaries, wages and benefits accounted for the largest portion at 51.3% of the total amount. Principal re-payments on debt are not included in accounting analyses, as they are considered financing transactions for accounting purposes and are not considered expenses.



Note 20 to the Consolidated Financial Statements provides a consolidated (operating and capital) summary of expenses by object.

Risks and Mitigation
The City continues to face a number of risks that could have a negative impact on the City's financial future. These risks include:

- growing demand for services;
- lack of long-term dedicated funding to assist the City in addressing its infrastructure deficit, including building and expanding the transit system to meet the City's growth;
- accessing non-property tax revenue sources that grow with the economy to ensure long term sustainable funding; and
- inadequate funding of Provincial cost-shared programs and reduced funding for Social Housing has resulted in significant financial pressure to the City.

In 2016, the City continued to make progress to address these risks by continuing to implement its Long Term Financial Plan. Appendix B lists eight (8) specific financial issues/risks and the actions taken in 2016 to help address them.

Highlights include:

- The City continued to adopt strict budget guidelines for City divisions, agencies and corporations: resulting in a 0.9% increase in net expenditures for the 2016 Approved Operating Budget;
- As part of the 2016 Budget, Council approved a new dedicated property tax levy for priority transit and housing capital projects (Capital Building Fund) to be phased in over 5 years starting in 2017;
- The 2016 Operating Budget included efficiency savings, base budget reductions and line-by-line savings totalling $158.6 million;
- In 2016, City successfully reached collective bargaining agreements with Local 416 and 79 with modest 5% cumulative base pay increase over the four year term and a one-time, non-base, non-pensionable lump sum payment of 0.25% in 2019;
- During 2015, the City Council had directed the Deputy City Manager & Chief Financial Officer to implement shared services in the following areas: learning, Insurance, Procurement and Information & Technology, and to report annually to City Council on the status of Shared Services projects and benefits delivered. By the end of 2016, work was expected to be completed on 17 of the 22 Shared Services projects recommended. Cumulative efficiencies have been estimated to be $37 million with the majority being realized in the areas of Fleet Services and I & T;
- The Province, Metrolinx and the City continued to jointly plan for new transit lines with Provincial contributions of $8.4B towards the plan. Metrolinx is responsible for delivering the Eglinton Scarborough Crosstown, Finch West and Sheppard Ave East Light Rail Transit (LRT) projects, and the Province/Metrolinx have agreed to contribute to the City's Scarborough RT replacement (subway) project;
- During 2016, City Council considered the report "Transit Network Plan Update and Transit Strategy" and approved a recommendation to advance the development of the capital funding and financing strategy for SmartTrack;
- Council referred a number of new revenue options to Budget Committee for consideration as part of the 2017 budget process, and endorsed other revenue measures that will require legislation reform from the province;
- The City continued to plan for capital on a 10 year basis, and continued to set aside surplus operating funds in the Capital Financing Reserve and other Capital Replacement Reserve Funds; and

- For 2016, the City continued to reduce tax rate ratios for business/non-residential properties. Council is on track to meet its objectives of reducing the tax ratio for commercial, industrial and multi-residential properties to 2.5 times the residential tax rate by 2020, with an accelerated reduction in tax rates for smaller businesses, with a target of 2.5 times the residential rate by 2015, which was met in 2015. For 2017, Council agreed to slow the tax ratio reduction that would see the target ratio of 2.5 reached in 2023, as opposed to 2020.

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SIGNATURE

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Mike St. Amant
Treasurer

ATTACHMENTS

Appendix A: 2016 Consolidated Financial Statements
Appendix B: Key Issues/Risks Facing the City of Toronto
Appendix C: Glossary