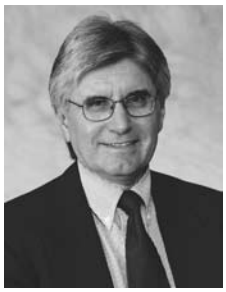
FINANCIAL CONDITION AND PERFORMANCE

CITY OF TORONTO
2007 FINANCIAL REPORT

MESSAGE FROM THE DEPUTY CITY MANAGER AND CHIEF FINANCIAL OFFICER



May 2, 2008

The 2007 Consolidated Financial Statements contained in this report are intended to provide Council, the public and the City's debenture holders an overview of the state of the City's finances at the end of the fiscal year, and how the revenues raised by the City during the previous year was spent.

2007 Financial Highlights of the Consolidated financial Statements:

- The City collected consolidated revenues of $8.83 billion (2006- $8.53 billion) and spent $9.37 billion (2006 – $8.60 billion) for a net consolidated expenditure of $543 million (2006 – $64 million) which includes both operating and capital revenues and expenditures.
- The City's net liabilities increased from $2.29 billion in 2006 to $2.84 billion at December 31, 2007.
- Capital spending for the year was $1.85 billion (2006 – $1.51 billion).
- The level of unfinanced capital expenditure decreased $23 million from $194 in 2006 million to $171 million at December 31, 2007.
- Cash and investments increased by $748 million to a total of $3.70 billion (2006 – $2.95 billion).
- The City's investment in its government business enterprises increased by $62 million (2006 – $68 million) to total $1.14 billion (2006 – $1.08 billion).
- Deferred Revenue increased by $367 million (2006 - $14 million decrease) to $1.23 billion (2006 - $868 million)
- Net long-term debt to third parties increased by $497 million (2006 – $296 million) to $2.76 billion at December 31, 2007 (2006 – $2.26 billion).
- Mortgage debt obligations of Toronto Community Housing Corporation declined by $31 million (2006 – $35 million) to a total of $899 million at year end (2006 – $930 million).
- The employee benefits liability increased by $87 million (2006 – $133 million) to $2.33 billion (2006 – $2.25 billion).

The most significant challenge facing the City is its capacity to finance operating programs predominantly from property taxes. City Council identified three key funding strategies for addressing the City's financial challenges:

- The City must obtain new and diverse sources of revenues.
- The City's programs be reviewed constantly to ensure cost-efficient service delivery.
- The Province of Ontario to provide permanent operating budget support for the Toronto Transit Commission (TTC) and that social service programs be funded by the Province.

In 2007, the Municipal Land Transfer Tax and Personal Vehicle Ownership Tax were recommended as the most appropriate and cost effective tax measures after consideration of public input collected at consultations, impact on residents, businesses and City competitiveness, alignment with City public policy initiatives, administrative feasibility and revenue diversification objectives. The estimated net revenue from the proposed land transfer tax is $240 million per year ($155 million in 2008) and the estimated net revenue from the proposed personal vehicle ownership tax is $56 million per year ($20 million in 2008).

The reality of the City's fiscal challenges became apparent in August 2007 when the City's senior management team announced a series of cost containment measures to offset a budget shortfall in 2008, projected to be $575 million. City divisions found savings of $34 million in 2007 and $83 million in 2008 to help offset this budget shortfall, but were limited to only 25 per cent of the City budget to find the majority of budget reductions, as the remainder of the City's budget is used to pay for provincially-mandated programs, transit and emergency services.

Currently, one-third of the City's total operating budget continues to pay the cost of provincially-mandated programs where the standards and level of service, and therefore the costs, are dictated by the Province of Ontario. Ontario is the only province in Canada where social programs are paid for through property taxes. In 2007 alone, more than $729 million was diverted from property taxes to pay for these provincially mandated programs.

The City of Toronto and Province of Ontario has made it a priority to work in partnership and undertake a wide-ranging review of the provincial-municipal relationship. The Provincial-Municipal Fiscal and Service Delivery Review will help shape the future of the provincial-municipal relationship in Ontario and allow the Province and the municipal sector to improve the delivery and funding of services for Ontarians. Together, the partners in the Provincial-Municipal Fiscal and Service Delivery Review will examine how Ontario's communities can prosper through initiatives such as: Better Service Delivery, and Improved Infrastructure Investment.

The Province also announced a 12-year, 17-billion-dollar plan, "Move Ontario 2020," to improve transit in the Greater Toronto Area, Hamilton and Waterloo region. Part of this plan includes provincial funding for the TTC's Transit City plan which includes a strategy for light-rail networks and an extension of the Yonge subway line.

In 2007, the City's efforts in expenditure restraint and long-term financial planning have been positively received by the City's independent rating agencies. Strong stable credit ratings of AA (DBRS) and Aa1 (Moody's Investor Service) and an upgraded credit rating of AA with a positive outlook (S&P's) reflect the City's financial endurance and optimistic outlook for working with other orders of government and ensuring that the City's debt burden remains manageable. The City also won the Canadian Award for Excellence in Financial Reporting from the international Government Finance Officers Association (GFOA) of the United States and Canada for the 2006 Annual Financial Report which recognizes the City's spirit of transparency and full disclosure.

The major milestones in 2007 for the City of Toronto can only help the Toronto Public Service do more and strengthen its commitment in managing City finances in a new era of municipal financing. The financial flexibility from the new City of Toronto Act coupled with ongoing prudent financial management and planning will help deliver the best value for services in a prosperous, liveable city.

Joseph P. Pennachetti
Deputy City Manager and Chief Financial Officer

FISCAL CAPACITY

Toronto enjoys a highly diverse economy which positions it to be internationally competitive. Yet every year, the City faces the challenge of matching its spending needs to its ability to raise revenues. There is a permanent or "structural" mismatch between spending and revenues. This has been caused by three main reasons:

- The City's primary revenue sources, property taxes and user fees, do not grow with the economy like income and sales taxes do. Residential property taxes and user fee increases over the years have generally followed the rate of general inflation. As well, high property tax yielding industrial properties are being converted to low tax yielding residential properties.
- The City's operating costs have been increasing faster than the rate of general inflation because of unique and diverse needs, higher construction, energy and labour costs, and because of increasing demands for service and service enhancements.
- The City's physical infrastructure is getting older and is now beginning to be replaced with increased debt and concurrent tax and rate pressures. At the same time, the City's unfunded liabilities are growing, particularly in the area of employee benefits.

The Conference Board of Canada provided a clear and objective analysis of this issue. In its June 2005 report titled "Measuring Toronto's Fiscal Capacity: An Executive Summary," it indicated that the City faced a combined capital and operating annual fiscal shortfall of $1.1 billion in 2006 to fulfill its current program responsibilities and begin to address its infrastructure gap. The study also indicated that the imbalance would grow by over $100 million each year unless property taxes were able to grow by the same amount. The study identified an upload of financial responsibilities and/or transfer of sales or income tax revenue capacity from the provincial or federal government as a solution to the shortfall.

City Council in 2007 approved two new taxes under the provisions of the new City of Toronto Act, for implementation in 2008. These two new taxes are: Municipal Land Transfer Tax and Personal Vehicle Ownership Tax. Although the revenue generated from these new taxes will not be a significant proportion of the City's revenue budget, they will help improve the City's fiscal capacity by reducing the City's reliance on the property tax base.

PHYSICAL INFRASTRUCTURE

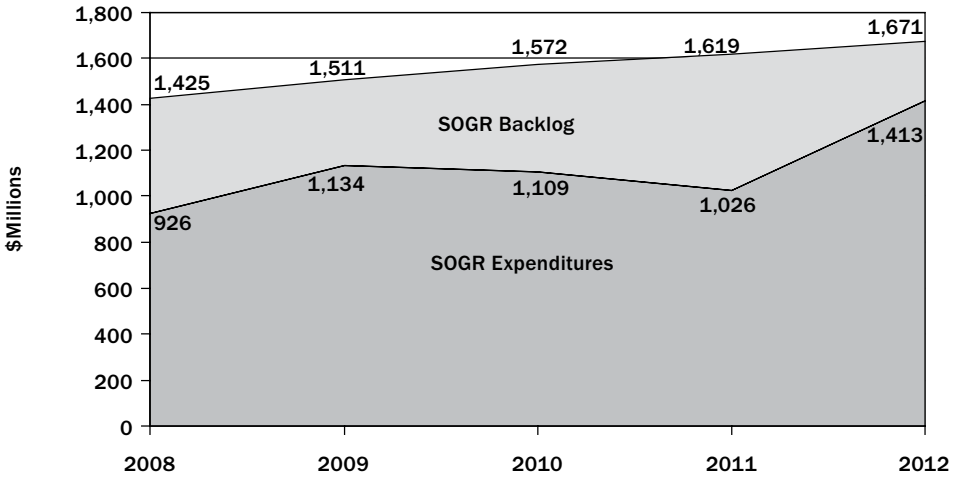
The City owns a significant amount of physical assets comprising of roads, expressways, bridges, street lighting and traffic signal controls, water and wastewater treatment facilities, distribution and collection pipes, reservoirs, pumping stations, subways, streetcars, buses, civic centres, recreation facilities, public housing buildings, parkland and other lands. This infrastructure, excluding land, is currently estimated to be worth in excess of $61 billion (replacement value). The City's capital program is driven largely by the costs of maintaining its physical assets in a state of good repair.

	Estimated Asset Value
Transportation Infrastructure	$10 Billion
Water & Wastewater Infrastructure	$27 Billion
Public Transit System	$10 Billion
Buildings, Facilities & Fleet	$9 Billion
Housing Infrastructure	$6 Billion
Total	$61 Billion ++

Excludes Parkland and Land

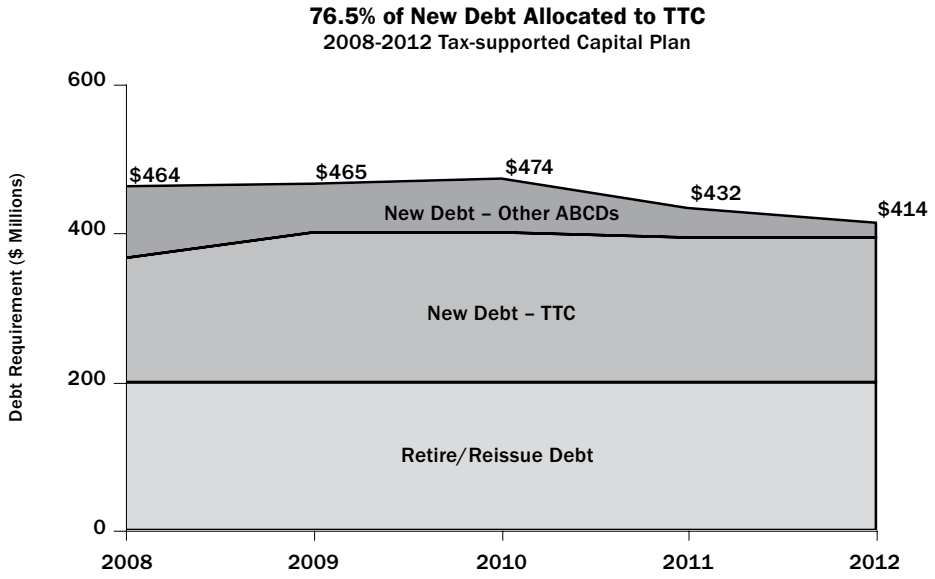
The City's road network, the majority of which was constructed in the 1950s and 1960s, is in need of major repair and rehabilitation. The City's water and wastewater network is similarly aged — 50 % of the water pipes and 30 % of wastewater pipes are more than 50 years old, while 7 % of watermains and 3 % of wastewater infrastructure are more than 100 years old. Due to fiscal constraints, the City's current spending in the capital program is less than ideal. Despite planning on spending two-third of the total capital expenditures on the State-of-Good-Repair (SOGR) in the next five years, the City still faces mounting backlog, which is estimated to be over $1.43 billion. This SOGR backlog is estimated to escalate to $1.67 billion by 2012, as shown in the chart below. In addition, capital requirements resulting from population growth and demographic changes will add financial pressures. The City's 2002 Official Plan projects population growth of up to a million people in the City of Toronto, raising the population to 3.5 million people in 30 years. More buses, social housing, recreation centres, etc. are required, which will put pressures on the City's capital and operating budgets.

Backlog Significant Despite 2008–2012
Commitment of $5.6 Billion to SOGR

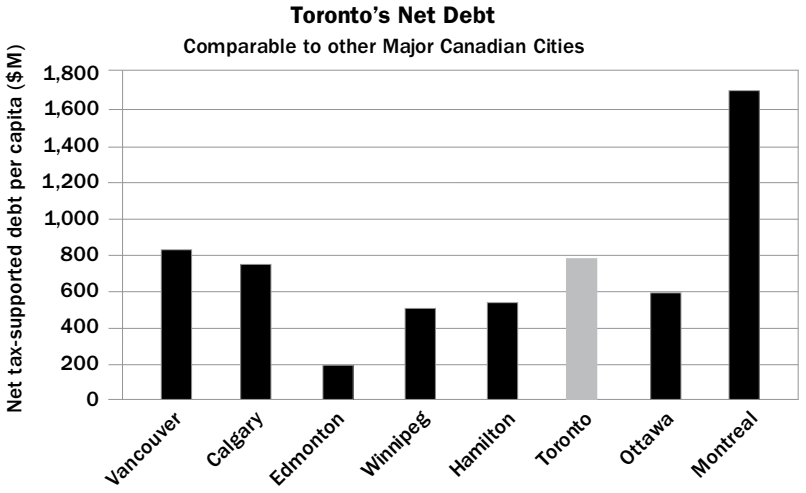


CAPITAL FINANCING AND DEBT

The City borrows to fund capital expenditures and it cannot borrow to fund operating expenditures under the City of Toronto Act. Toronto has enjoyed relatively low debt levels; however, there is a sizeable gap between future capital expenditure needs and ongoing sustainable revenue sources. The City does not have the financial capacity for necessary growth related expenditures, e.g. TTC, Transportation, Social Housing, etc. For the next five years, the TTC is driving the majority of the new debt required to fund the City's capital requirement. In fact, 76.5% of the new debt is allocated to the TTC.

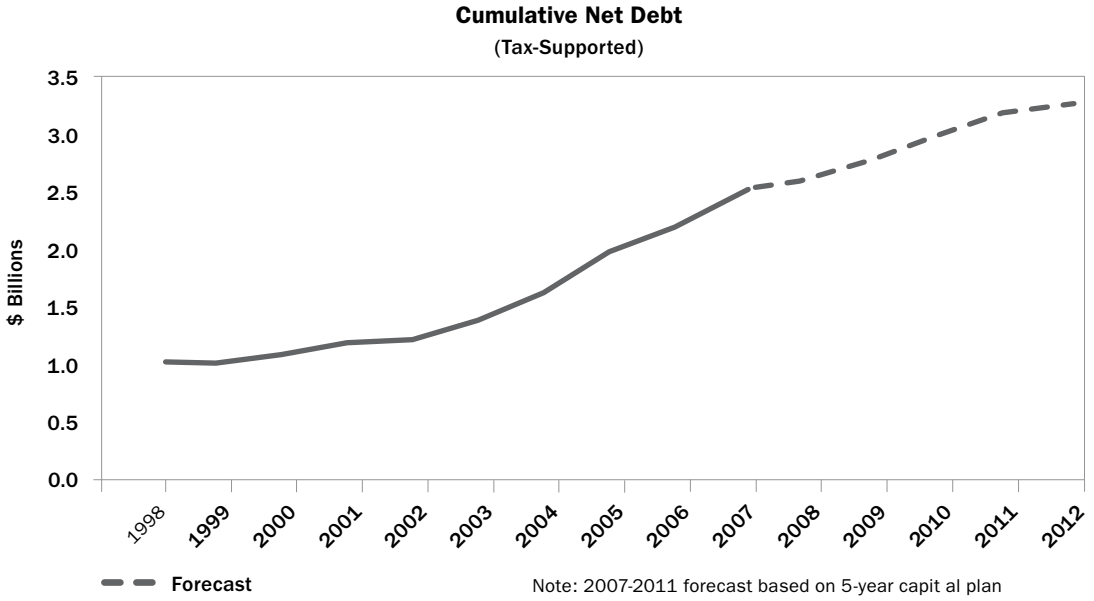


Overall, the City's debt burden is relatively modest and its net tax-supported debt per capita is comparable to other major Canadian municipalities.

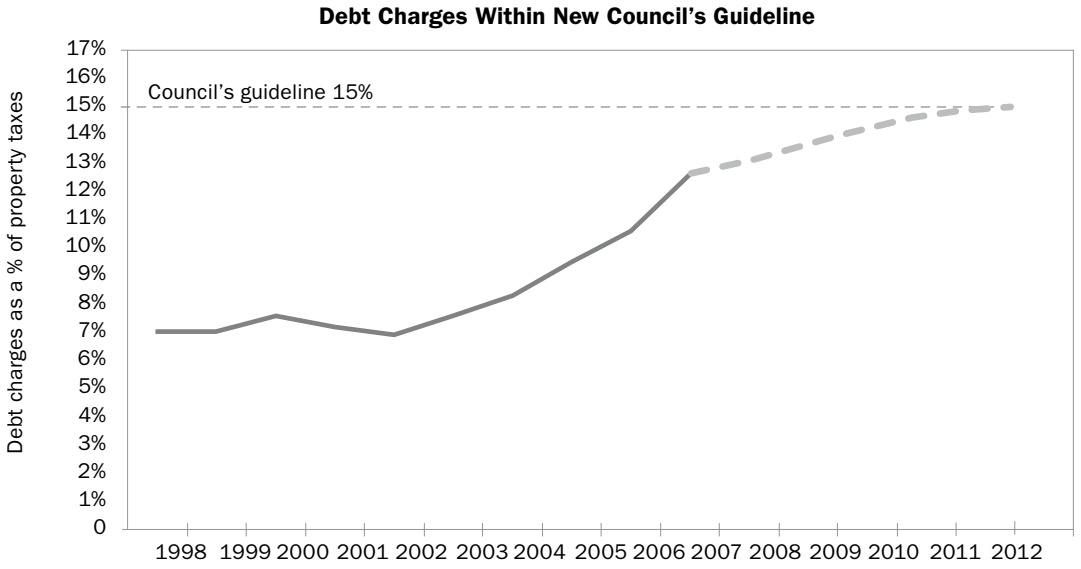


Source: DBRS Canadian Municipal Government Fact Sheet February 2007

Going forward, preliminary estimates as at the end of 2007 showed that the City's net long-term outstanding debentures would increase by 16% in five years. Gas tax funding from the federal and provincial governments, as well as provincial transit funding, has alleviated some of the capital financing pressures and will help to lessen future debt requirements. In 2007, Council approved the Financial Planning Process and a pilot of the 2008 Service Planning Process, which set the framework for developing multi-year capital and operating budgets, and ensured that limited resources are aligned to priorities to maximize the benefits for Toronto's residents.



Debt charges are the second largest component of the property tax bill (behind police services). In 2006, City Council approved a new debt service guideline such that the debt service cost should not exceed 15 per cent (up from 10 per cent) of property tax revenues in a given year. Although only a guideline, this limit means that at least 85 cents on each tax dollar raised is available for operating purposes. Current forecast shows that the City's debt charges will fall within this guideline in the next few years.



CAPITAL MARKET FINANCING ACTIVITIES

In 2007, the Canadian economy faced several challenges, including stronger-than-expected domestic demand, high energy prices, and a rapid rise in the value of the Canadian dollar against the U.S.-dollar. The Bank of Canada was successful in keeping the average rate of CPI inflation within the 1 to 3 per cent target range and close to the 2 per cent target.

After strong economic growth and inflation in the first half of 2007, the economy began to experience slower growth in the second half of the year due to turbulence in the global financial markets. Credit conditions in Canada and the US began to tighten in response to the volatile market conditions and the cost of borrowing increased during this period. Credit spreads continued to widen because of losses in the sub-prime lending market. Nevertheless, during 2007 the City was able to issue debt with two successful bond issues with ten-year terms and an all-in cost of less than 5.00%. It should be noted that the City did not have any exposure to the sub-prime mortgage lending market.

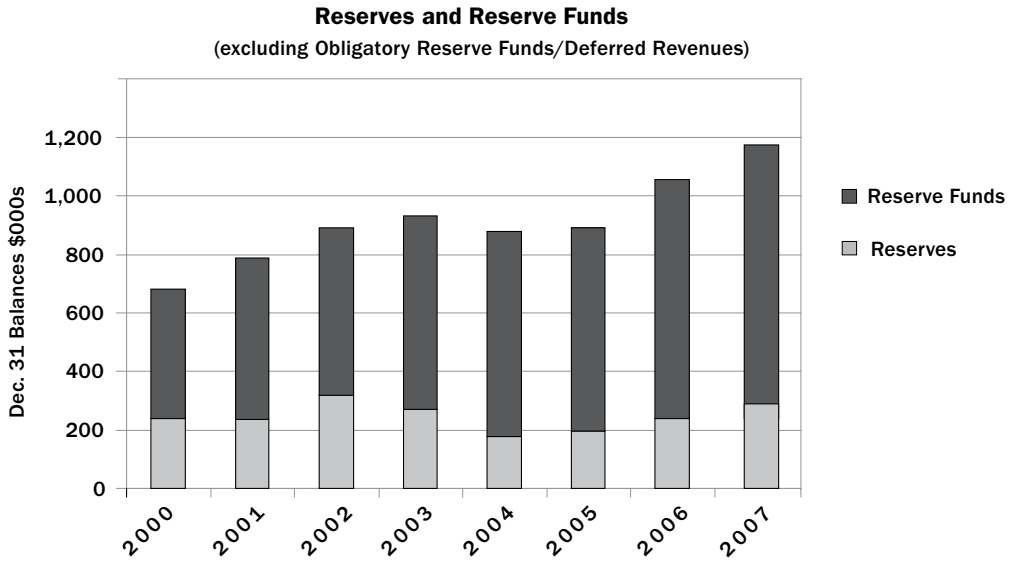
At the beginning of 2007, the City authorized the issuance of up to $500 million in debentures in order to fulfill a portion of its capital financing requirements.

In July 2007, the City issued $200 million sinking fund debentures with a term of 10 years and an interest rate of 5.05% per annum and a $100 million amortizing debenture with a term of 20 years and an interest rate of 5.34%. The proceeds of this issue were used to partially finance the purchase of the Green Lane Landfill and will be recoverable from revenue generated by the landfill. In November 2007, the July 2007 debenture issue was reopened and $200 million in sinking fund debenture with a 10-year term and an interest rate of 5.05% per annum were added to create a $400 million issue. These transactions were well-received in an attractive and stable bond market and achieved the lowest cost of funds available relative to other potential structures, markets and currencies as permitted by provincial legislation.

RESERVES AND RESERVE FUNDS

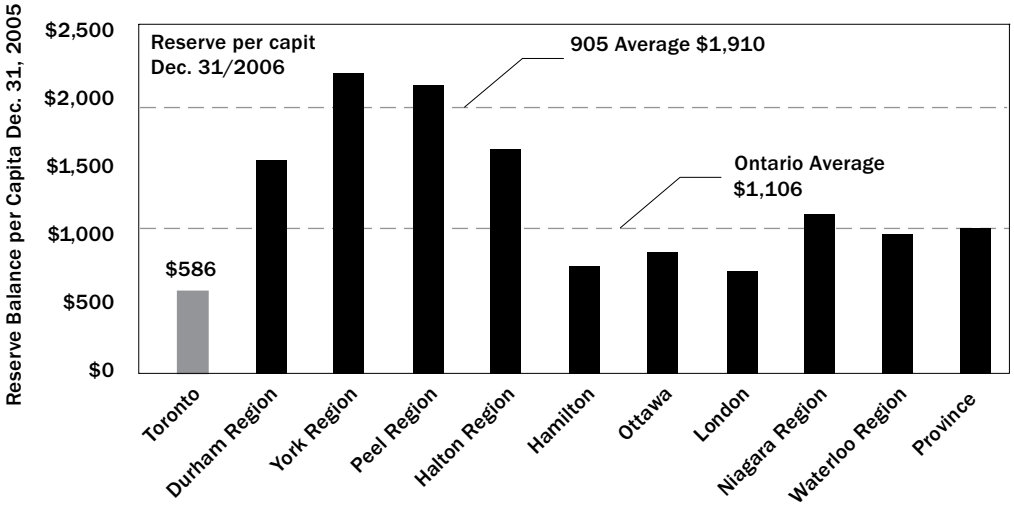
As at December 31, 2007, the city had $1.2 billion in Council-directed reserves and reserve funds, comprising $254.9 million in reserves and $922.5 million in reserve funds. These funds have been set aside by Council to earmark revenues to finance a future expenditure for which it has authority to spend money, to defend the City against unbudgeted an unforeseen events that may result in a budget deficit such as an economic downturn, to smooth out future program expenditures which may fluctuate from one year to the next, or to accumulate funds for future capital requirements.

While the reserves and reserve fund balance in Council-directed funds would appear to be a large sum, it should be noted that the majority of these funds are committed. Due to its structural financial deficit mentioned earlier, the City has relied on reserve draws as a one-time revenue source to offset annual operating pressures. Since amalgamation, the total reserve draw to fund the operating budgets was estimated to be over $1 billion, with $282 million withdrawn in 2007 alone. It should be noted, however, that the majority of these reserves were funded from year-end surplus transfers. Notwithstanding, these one-time draws have limited the City's future financial flexibility in responding to risk and adverse circumstances.



On a comparative basis, the City's overall fund balance on a per capita basis is much lower than most Ontario municipalities — just over half of the Ontario average and just over a quarter of the average of the rest of the Greater Toronto Area (GTA), as shown in the following figure. If the City were to have the same reserve per capita as the average of the rest of GTA, it would have over $5 billion in reserves, or almost three times the current balance, with enough funds to offset its outstanding debt and fully fund its employee liabilities. The City is in the process of establishing a long-term reserve strategy to address and mitigate the inadequacy, including determining needs and establishing contribution policies.

Reserve Levels are Lower than Other Municipalities



Source: Ontario Ministry of Municipal Affairs & Housing, City of Toronto
Regional data consolidated for upper and lower tiers
Balances include Obligatory Reserve Funds/Deferred Revenues

DEFERRED REVENUES

Funds that are set aside for specific purposes by legislation, regulation or agreement and may only be used in the conduct of certain programs or the completion of specific work are reported as Deferred Revenues (previously Obligatory Reserve Funds). These include funds set aside relating to Development Charges, Parkland Acquisition, Homes for the Aged, and Social Housing. These amounts are recognized as liabilities in the year the funds are deposited, and received into revenue in the fiscal year the related expenditures are incurred or services performed. The balance of such funds categorized as Obligatory Reserve Funds as at December 31, 2007 was $981.4 million. These funds are all committed and are not available at Council's discretion.

REVENUES

2007 PROPERTY TAXES AND ASSESSMENT

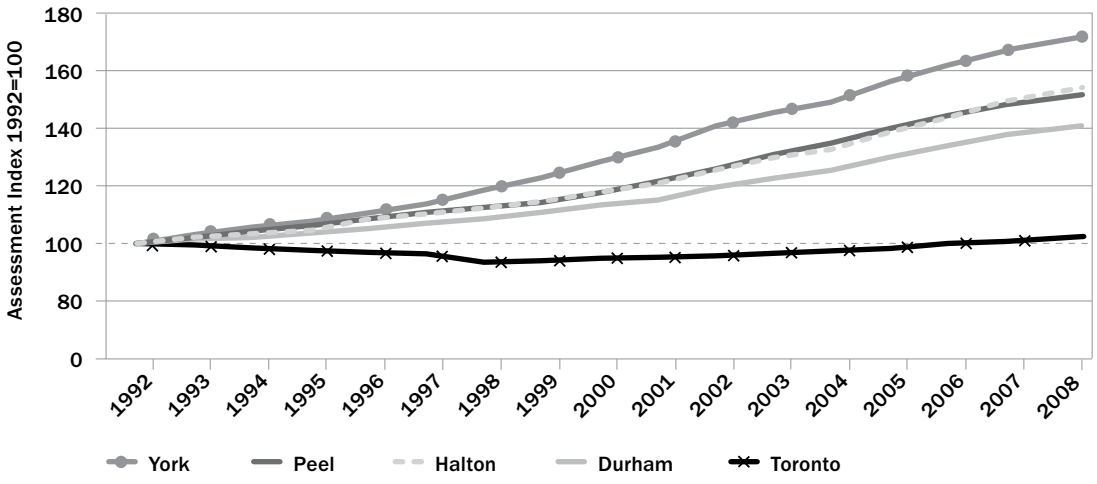
Property tax revenue is the City's single largest source of revenue. The City collects $3.3 billion from residential and business property owners, which represented 42% of the total operating revenues.

Every year, the City is required by provincial legislation to establish tax rates that raise property tax revenues in the amount of the City's budgetary requirement. In addition, the City is also required to levy and collect property taxes for school purposes at the education tax rates prescribed by the Province.

The amount of property taxes payable by a property is determined by multiplying the Current Value Assessment (CVA) of a property by the applicable tax rate for that class of property (e.g., residential, commercial, industrial, or multi-residential). The total tax rate for a property class consists of a municipal tax rate necessary to meet the City's budgetary requirement and the education tax rate necessary to fund the costs of education.

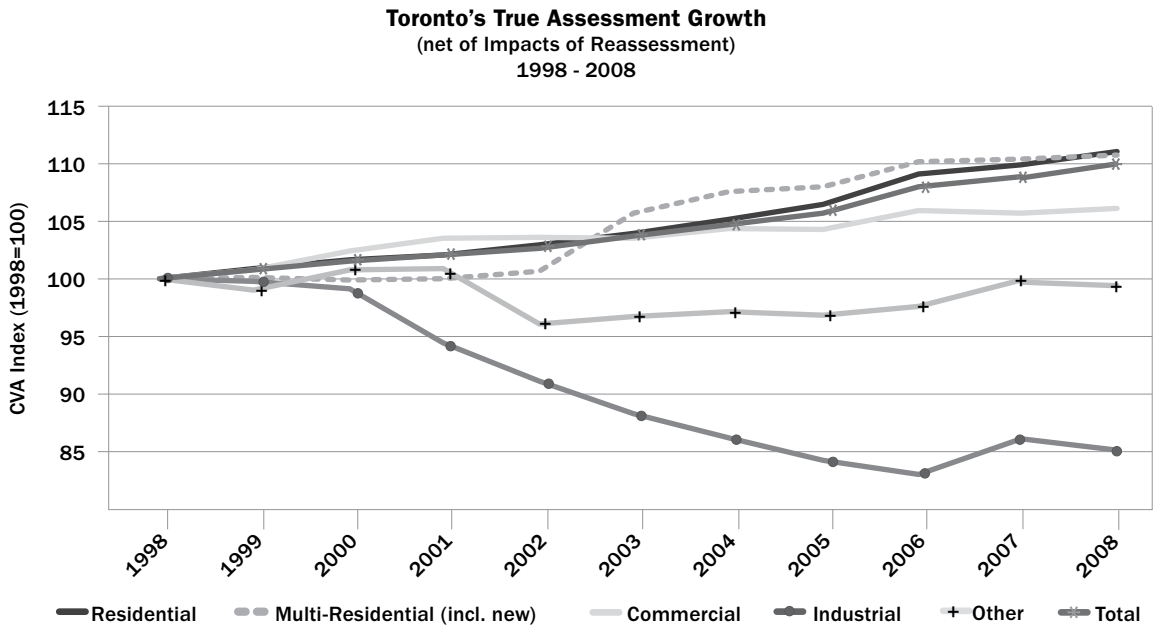
Over the last sixteen years, the GTA experienced quite remarkable economic and population growths following the recession of the 1990s. The Toronto region (CMA) contains a number of the fastest-growing municipalities in Canada with respect to population between 2001 and 2006, such as Milton (71.4%), Brampton (33.3%), Vaughan (31.2%), Markham (25.4%), Richmond Hill (23.2%) and Ajax (22.3%). The bulk of the new construction and the associated assessment increase are located in the surrounding areas in the GTA. For example, from 1992 to 2008 York Region's total assessment increased by 72%, Halton Region (which contains Milton) saw a 53% increase, Peel Region's increased by 51%, and Durham Region's increased by 41%. By comparison, the City of Toronto saw a gradual decline in assessment from 1992 to 1998, and there has been only a minimal increase since then. In fact, Toronto's property assessment has just returned to its 1992 level.

Unlike the Rest of GTA Enjoying Sizable Assessment Growth, Toronto Has Just Returned to its 1992 Level



Source: MMAH's MARS, MPAC, Annual Financial Reports of the respective regions and survey.

From 1998 to 2008, the total CVA of the City's properties saw a total true net growth of 10% when the impacts of property reassessment are removed. Within the various property classes, the residential and multi-residential property classes each saw an increase of about 11%. For the non-residential properties, while commercial properties increased by a modest 6%, industrial properties saw a net decrease of over 15%. This is illustrated in the chart below.



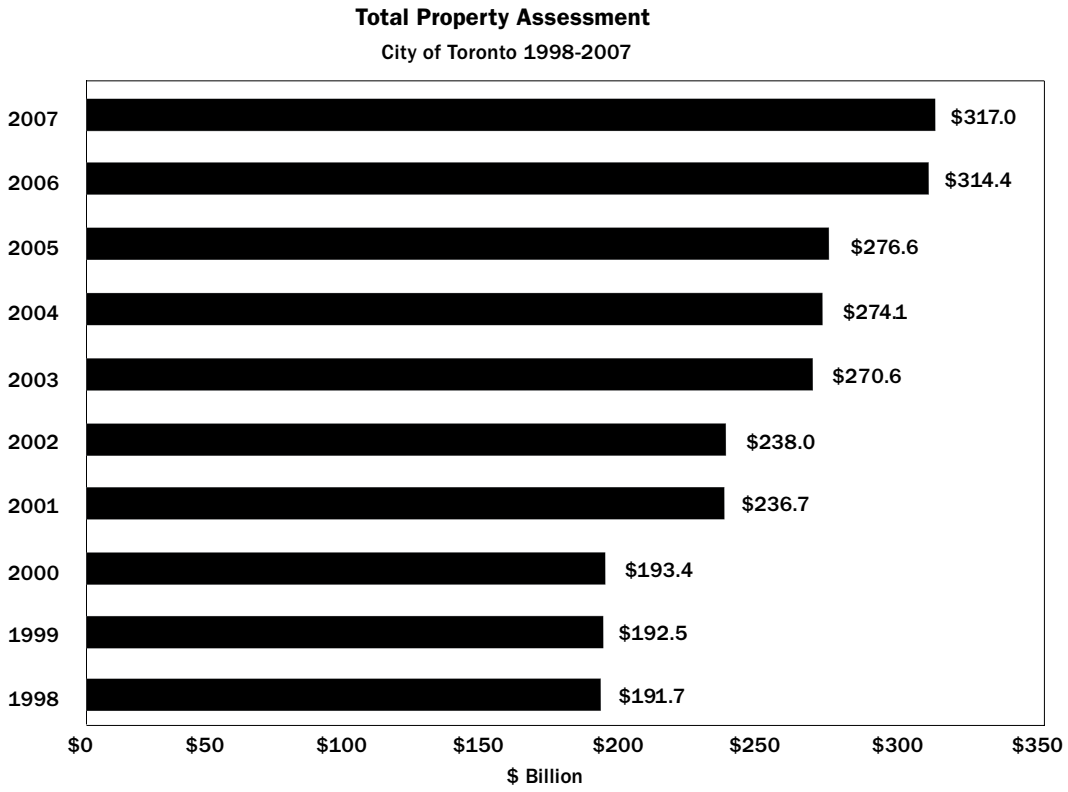
In 1998, the Province of Ontario reformed the property assessment and taxation system in Ontario with the implementation of the Current Value Assessment (CVA) system. The CVA of a property represents an estimated market value, or the amount that the property would sell for in an open market, arm's length sale between a willing seller and a willing buyer at a fixed point in time. The Municipal Property Assessment Corporation (MPAC) is responsible for property assessment in Ontario and preparing the assessment rolls for municipalities.

Up until 2004, Toronto had been the only municipality in the GTA that was prohibited by provincial legislation from increasing property tax levies on businesses for budgetary reasons. Ontario municipalities whose commercial, industrial or multi-residential tax ratios exceed threshold ratios established by the Province, are restricted from passing on municipal levy increase to those classes. In Toronto, tax ratios for the commercial, industrial and multi-residential tax classes all exceeded the provincial thresholds which meant that no municipal levy increases could be passed on to these classes. This meant that instead of accessing the full assessment base, the City could increase tax rates only on the residential class. While each one percent property tax increase would generate $32 million if the whole assessment base could be accessed, when the budgeting increases are not levied on businesses, the City could raise only $12 million from the residential class.

Since 2004, the Ontario Government has on an annual basis passed special regulations which allowed Toronto's tax rate increases on the non-residential classes to be no more than 50% of the rate for the residential tax class. However, as part of a plan to improve business competitiveness, starting in 2006, Toronto's commercial, industrial and multi-residential tax rate increase is limited to one-third of any year-over-year increase in residential tax rates.

In 2006, the provincial Ombudsman reviewed the Municipal Property Assessment Corporation (MPAC), and the Province subsequently suspended all property reassessment until 2009, at which time the values will be updated to reflect the January 1, 2008 valuation date. Reassessments will take place every four years thereafter. With each reassessment, tax rates are adjusted to reflect CVA changes. For 2006 and 2007 property values were based on January 1, 2005 valuation date and were used to calculate property taxes.

The City of Toronto Act mandates limits on re-assessment related tax increases to 5% per year for the commercial, industrial and multi-residential property classes. Special provisions to provide tax relief for low-income seniors and disabled persons, as well as charities and similar organizations, are also required.
.



The chart below illustrates the 2007 taxes payable for the average household in Toronto with an assessed value of $369,300.

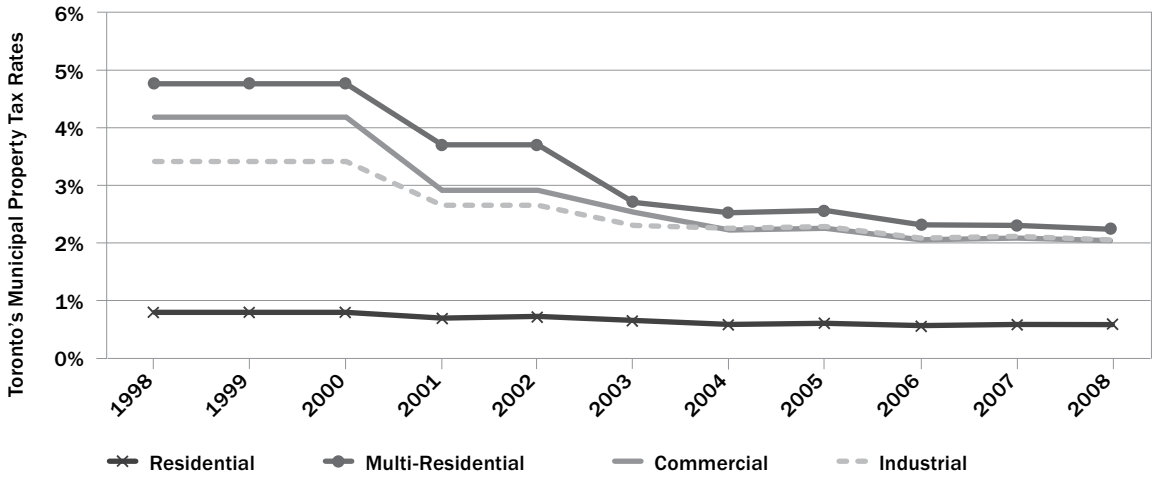
2007 Average Household Property Taxes
Average residential assessed value – $369,300

	2007 Tax Rate	2007 Property
Municipal Purposes	0.5888434%	$2,175
Education Purposes	0.2640000%	$975
Total	0.8528434%	$3,150

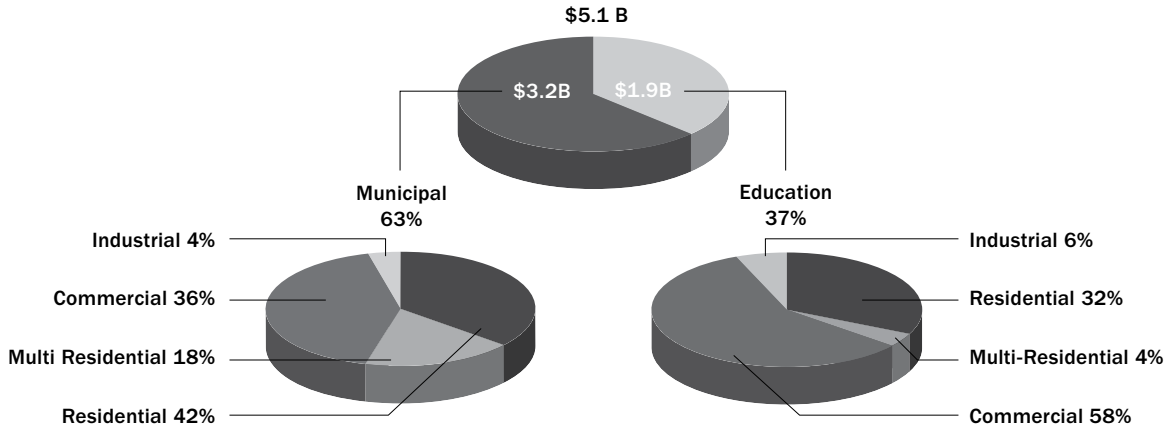
Toronto's Tax Ratios Vs. Provincial Threshold Ratios

	2001 Taxation Year	2002 Taxation Year	2003 Taxation Year	2004 Taxation Year	2005 Taxation Year	2006 Taxation Year	2007 Taxation Year	Provincial Threshold Ratios
Multi-residential	4.174	4.001	3.870	3.802	3.761	3.635	3.546	2.74
Commerical	3.798	3.513	3.516	3.762	3.802	3.674	3.584	1.98
Industrial	5.301	4.120	4.120	4.273	4.273	4.090	3.920	2.63

Toronto's Tax Rates Reduced
1998 – 2008



Toronto 2007 Total Property Tax Levy



Enhancing Toronto's Business Climate:

In late 2005, Council approved a comprehensive property tax policy contained in the Plan titled "Enhancing Toronto's Business Climate – It's Everybody's Business." The fairness principles and business cost competitiveness initiatives contained in the plan were intended to help to level the playing field with the surrounding municipalities and make Toronto's businesses more competitiveness globally. These initiatives would create the conditions to maintain and expand the City's property tax assessment base with a net positive impact on the City over the long term. In 2006 the City implemented, amongst other things, the policy of allowing for up to one-third of any residential tax rate increase to be applied to the Commercial, Neighbourhood Retail, Industrial, and Multi-residential tax classes (i.e. a one percent non-residential tax increase for a residential tax increase of three percent), which would reduce its non-residential tax ratios to 2.5 times the residential rate over 15 years. This tax policy would reduce Toronto businesses' taxes by an estimated $300 million.

On October 22, 2007, City Council approved the "Update to Enhancing Toronto's Business Climate" status report that highlighted 12 new initiatives to enhance the City's economic competitiveness over the long term. The report recommended property tax relief measures for small- and medium-sized neighbourhood retail properties, and for non-retail office, hotel and industrial developments to be implemented in 2008. It included a new property tax program to provide relief to a new residual commercial class (neighbourhood retail) for implementation in 2008, which would provide an accelerated phase-in over a maximum 8-year period, commencing in 2008, to reduce the target tax ratio for the first band of assessed value in the residual commercial class to 2.5 times the municipal residential tax rate by 2015.

Other City efforts to enhance competitiveness have resulted in a successful agreement with the provincial government to reduce business education tax (BET) rates for the City of Toronto businesses closer to the average of the surrounding GTA municipalities, creating a new, fair water rate structure for industrial and manufacturing companies and continuing the relief of development charges for the city's commercial industry.

Property Tax Relief for Seniors and Charities:

In addition to providing tax relief for businesses, the City also provided tax relief for seniors and disabled people, as well as charities. Tax relief policies in effect for 2007 include:

- The cancellation of any tax increase for seniors aged 65 or older, or disabled person living with a household income of $26,000 or less, which residential property assessed value is less then $454,000 and have occupied his home for at least one year.
- The interest free deferral of any tax increase for seniors aged 50 years or older or disabled persons, whose household income is $40,000 or less and have owned the property for at least one year.
- A 40% rebate of taxes paid for registered charities owning or occupying space in commercial or industrial properties.

USER FEES

User fees are the City's second largest source of revenue. Total user fee revenues including water and wastewater charges were $2.0 billion, representing 25% of total operating revenues. The City's current user fee structures, such as transit fares, public swimming and skating fees, and water and wastewater rates, are at levels generally comparable to, and competitive with, the surrounding municipalities. There is very limited room for rate increases or significant additional sources of revenues.

OTHER REVENUES

The City receives other revenues such as grants and subsidies from other orders of government which are mainly for mandated programs such as Social Assistance, Child Care, Public Health and Social Housing, as well as other income such as earnings from business enterprises and investment income. The total of these revenues in 2007 was $2.6 billion (or 33% of total operating revenues).

NEW TAXATION

In 2007 the City undertook an intensive consultation process to solicit public and stakeholder feedback on the new revenue tools under the provisions of the City of Toronto Act, 2006, with the intent to diversify the City's revenue base.

Billboard tax and liquor tax on sales to non-licensed customer were recommended for further consideration. Subsequently, the liquor tax option eliminated by Council.

Parking tax and road pricing were found to be more suitable for application on a coordinated GTA-wide basis. Funding options such as these are being studied by the newly formed Greater Toronto Transportation Authority (Metrolinx).

As a result of those consultations and further research, in October 2007, City Council approved new taxes:

- Municipal Land Transfer Tax (MLTT)
- Personal Vehicle Ownership Tax (PVT)

Both new taxes (MLTT and PVT) will be implemented in 2008 (MLTT – February 1, 2008 and PVT – September 1, 2008). It was estimated that these two new taxes would generate a total of $175 million in 2008.

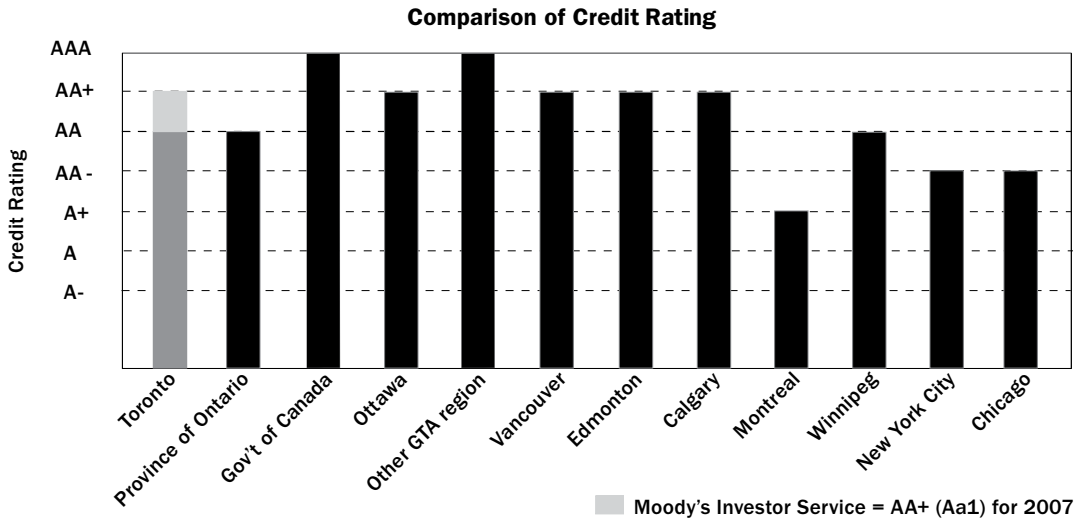
CREDIT RATINGS

The City of Toronto is recognized as an important participant in global financial markets. The maintenance of a high quality credit rating is essential to insure that the City's ability to access the most cost-effective world capital markets will continue.

A municipality's credit rating helps to determine the ability to borrow funds. Credit rating agencies assess the City's financial position by comparing it with other cities and regions. A number of factors affect the credit rating such as quality of management, strength of economy, level of reserves, state of repair of assets, debt levels, etc. If a municipality's current debt levels and future trends appear to be high; this will have a negative impact on its credit rating. If debt levels are considered low; this will have a positive impact. The rating essentially indicates the City's ability to make payments on the debt now and in the future.

While the City's debt affects its rating, the rating affects the City's ability to borrow, as well as the cost of borrowing. A higher rating translates into a lower cost of borrowing, as well as a wider market for investors to invest in City debt. Below a certain rating, investors may have policies that don't allow them to purchase the City's debt. Then the City would have to offer a higher interest rate to attract investors.

The City's credit rating remains among the highest of comparably sized or larger North American cities such as Chicago, New York, Vancouver and Montreal.



Currently, the City of Toronto's credit ratings are:

- AA with a stable trend from the Dominion Bond Rating Service Ltd.(DBRS) reaffirmed July 26, 2007
- AA with a positive outlook from Standard and Poor's Canada (S&P's) upgraded March 19, 2008
- Aa1 with a stable outlook from Moody's Investor Service reaffirmed February 12, 2008

	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
DBRS	AA	AA	AA	AA	AA	AA	AA (high)	AA (high)	AA (high)	AA (high)	AAA
Standard and Poor's	AA	AA	AA	AA	AA	AA	AA+	AA+	AA+	AA+	AA+/ AAA
Moody's Investors Service	Aa1	Aa1	Aa1	Aa1	Aa1	Aa1	Aa2	Aa2	Aa2	Aa2	Aa2

"The positive outlook reflects our expectation that the city will implement two new taxes and that the new tax revenues, coupled with increasing grants from senior governments, will significantly improve operating and after-capital results. Debt issuance should not exceed what the current capital plan forecasts. We also expect that the local economy will continue to produce solid results and positive taxable assessment base growth. Cash and investment balances should remain in line with 2006 year-end totals at a minimum. A significant and sustained increase in operating surpluses leading to a reduction of planned debt issuance in the next three years, coupled with material progress on the city's infrastructure deficiency, could lead us to raise the ratings."

"City of Toronto Outlook To Positive On Robust Economic Performance; 'AA' Ratings Affirmed"
Standard & Poor's, March 12, 2008

"Toronto's stable rating outlook reflects management's commitment to maintaining fiscal discipline, ensuring that the City's debt burden remains manageable and consistent with the current high rating Toronto's debt rating of Aa1 reflects positive operating results over the past several years despite numerous challenges requiring budgetary adjustments. Debt has remained relatively low, despite the challenges, providing support to the rating. Furthermore, the Aa1 rating reflects a large, diversified economy. The City retains an important economic role as Canada's largest urban center and its financial capital. It is also a focal point of the Province of Ontario's industrial and commercial heartland…….As a reflection of the application of Moody's Joint-Default Analysis (JDA) rating methodology for regional and local governments, Toronto's Aa1 rating is composed of two principal inputs: a baseline credit assessment (BCA) of 2 on a scale of 1 to 21, in which 1 represents the lowest credit risk, and a very high likelihood that the Province of Ontario (Aa1, stable) would act to prevent a default by the City. The very high likelihood of support reflects Moody's assessment of the risk to Ontario's reputation as a regulator of municipalities if Toronto, or any municipality, were to default."

February 2008 Credit Analysis Report
Moody's Credit Rating

TORONTO'S 2006 PERFORMANCE MEASUREMENT AND BENCHMARKING REPORT

The City of Toronto provides service level and performance measurement results in nineteen of the City of Toronto's service areas. The following information includes up to seven years of Toronto's historical data to examine trends, and compare results externally to fourteen other municipalities through the Ontario Municipal CAOs Benchmarking Initiative (OMBI).

It often takes a year or more for performance measurement information to be collected, compared to other municipalities, analyzed and reported. By examining past performance this provides context for resource allocation and target setting decisions in forward looking processes such as the annual budget process.

At the end of the calendar year the City's general ledger and annual financial statements must first be finalized. At this point we commence the blending of this financial information along with non-financial data to develop performance measurement results.

Once these results are derived, discussions then take place between Toronto staff and those of other Ontario municipalities that we benchmark with to ensure that the results are as comparable as possible. This in turn is followed by analysis to better understand Toronto's results in relation to other municipalities so that this information can be provided along with the raw data.

Toronto is unique among Ontario municipalities because of its size and its role as the centre of business, culture, entertainment, sporting and provincial and international governance activities in the Greater Toronto Area. The most accurate comparison for Toronto is to examine our own year-over-year performance and longer-term historical trends.

All of Toronto's service areas continue to look for opportunities to improve operations and performance and a number of these initiatives completed in 2007 and planned in 2008, have been described in this report.

There is also value in comparing Toronto to other municipalities. In December 2007, the fifteen OMBI member municipalities released a joint report entitled OMBI 2006 Performance Benchmarking Report (OMBI Joint Report) *www.ombi.ca.*

The OMBI Joint Report provides 2005 and 2006 summary data in sixteen service areas.

The report includes:

- Three service areas not covered in the OMBI Joint Report (Children's Services, Hostel Services and Governance and Corporate Management).
- Additional performance measures and service level indicators not included with the sixteen service areas in the OMBI Joint Report.
- Up to seven years of Toronto's historical data, to better understand trends in our own internal service levels and performance, and the description of Toronto's 2005 to 2006 change as either favourable, stable or unfavourable.
- Ranking of Toronto's results, by quartile in relation to the other municipalities, to assist in interpreting how well Toronto is doing.
- Factors that have been identified as significantly influencing Toronto's results.
- Achievements from 2007 and initiatives planned for 2008 that could further improve Toronto's operations in the future.

OMBI has developed detailed technical definitions and standardized methodologies to collect consistent performance information to ensure results are as comparable as possible between municipalities.

The Performance Measurement and Benchmarking report is intended to strengthen accountability and enhance the level of transparency in the way performance of Toronto's services is reported.

Toronto's Performance Measurement Framework for Service Delivery

The City of Toronto's performance measurement framework for service delivery is similar to that used by other OMBI municipalities and includes the following four categories of indicators and measures:

- **Service Level Indicators** — provide an indication of the service levels, or amount of resources approved by Council or volumes of service delivered to residents. For the purposes of comparing to other municipalities it is often expressed on a common basis, such as the number of units of service per 100,000 population.

- **Performance Measures**
    - Efficiency — compares the resources used to the number of units of service provided or delivered. Typically this is expressed in terms of cost per unit of service.
    - Customer Service — measures the quality of service delivered relative to service standards or the customer's needs and expectations.
    - Community Impact — measures the outcome, impact or benefit the City program is having on the communities they serve in relation to the intended purpose or societal outcomes expected. These often tie to the mission statements of the program or service.

It is the responsibility of staff, with the financial resources and associated service levels and/or standards approved by Council, to deliver service as efficiently, and with the highest customer service and/or positive impact on the community, as possible.

Balancing the optimal combination of efficiency and customer service is an ongoing challenge. Too much focus on efficiency, in isolation, may have an adverse impact on customer service or community impact, and vice versa.

With respect to community impact measures, it is also a challenge to separate the portion of these impacts or outcomes that are related to City programs versus the efforts or responsibilities of partners, such as other orders of government or the private sector.

Using this performance measurement framework, Toronto's results can be examined from an internal perspective over a period of years, and from an external perspective in relation to other municipalities.

Comparing Toronto's Results Externally

Despite the unique characteristics of Toronto, such as our much higher population density, there is also value in making comparisons of performance measurement results to other municipalities to assist in understanding how well Toronto is doing.

For a number of years Toronto has been an active participant in the Ontario Municipal CAOs Benchmarking Initiative (OMBI). The fifteen municipalities that comprise OMBI serve more than 9.1 million residents or 72% of Ontario's population for regional services. OMBI's members are comprised of the following eight single-tier cities/ counties and seven regional or upper tier municipalities which are listed in the table below.

Single-Tier Municipalities
County of Brant
City of Hamilton
City of London
City of Ottawa
City of Greater Sudbury
City of Thunder Bay
City of Toronto
City of Windsor
Upper Tier Municipalities
Regional Municipality of Durham
Regional Municipality of Halton
District of Muskoka
Regional Municipality of Niagara
Regional Municipality of Peel
Regional Municipality of Waterloo
Regional Municipality of York

Through the OMBI partnership, performance measurement results are shared between municipalities and can be used in reports such as this.

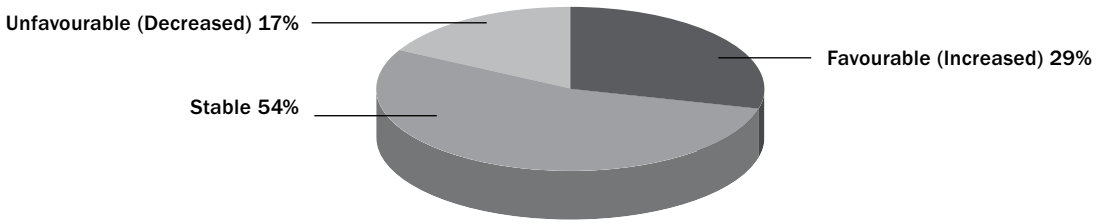
In order to determine Toronto's ranking relative to other municipalities, OMBI data has been sorted according to what would be considered as the most desirable result (the highest service level or levels of efficiency, customer service or community impact) to the least desirable result. The purpose of this is to provide context to Toronto's own results.

It is important to note that the presentation of sorted municipal data in the charts in no way intended to make inferences on the relative service levels or performance of other municipalities. Each of the OMBI municipalities have different factors that influence their results to varying degrees. It would therefore be unfair to interpret or make conclusions about the efficiency or effectiveness of their operations without that understanding and without speaking to staff in those municipalities.

Internal Comparison – How Have Toronto's Service Levels changed between 2006 and 2005?

Of the thirty-five service level indicators included in Toronto's 2006 Performance Measurement and Benchmarking Report, 2006 service levels have been maintained (stable) or have increased (favourable) for 83% of the indicators in relation to 2005.

Toronto Report - Internal Comparison of Service Levels
2006 vs. 2005 (35 Indicators)
Service Levels (23 Indicators)



Examples of some of the areas in which Toronto's service levels or levels of activity have increased in 2006 are:

- more ICI (Industrial, Commercial and Institutional) building permits were issued
- there was an increased investment in Children's Services and increased number of both regulated and subsidized child care spaces
- an increase in the number of emergency medical calls responded to by EMS
- there are more hostel beds in shelters
- increased kilometres of trails in the Parks system
- additional police officers
- the capacity for registered sports and recreation programming was increased
- more public transit vehicle hours were provided

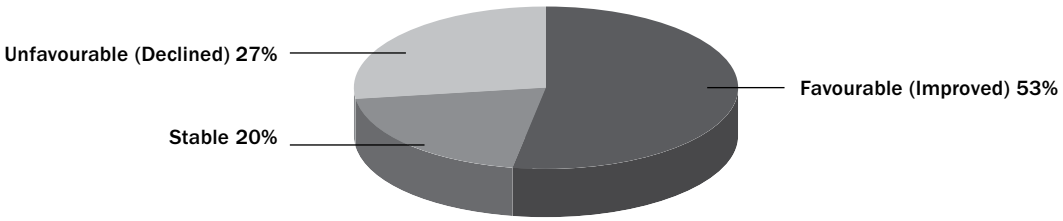
The areas where Toronto's service levels have decreased is related to lower number of service units delivered in 2006 such as:

- fewer residential building permits were issued by Building Services
- lower levels of EMS vehicle hours
- fewer incidents responded to by Fire Services
- lower volumes of drinking water distributed and wastewater treated

Internal Comparison – How Have Toronto's Performance Measurement Results Changed Between 2006 and 2005?

Of the eighty-seven performance measurement results of efficiency, customer service and community impact included in Toronto's 2006 Performance Measurement and Benchmarking Report, 73% of the measures examined had 2006 results that were either improved or stable relative to 2005.

Toronto Report - Internal Comparison of Performance Measures
2006 vs. 2005 (87 Measures)



Examples of areas in which Toronto's 2006 performance has improved include:

- increasing construction value of ICI building permits issued
- increasing supply of regulated and subsidized child care spaces relative to the child population
- shorter EMS response times and a decreasing cost per patient transported
- decreasing rates of residential structural fires, and fire related injuries and fatalities, and a shorter response time to emergency calls
- increasing usage by residents of both electronic and non-electronic library services
- reduced/shorter length of stay for families in shelters
- continuing high rate of resident satisfaction in homes for the aged
- decreasing total (non-traffic) crime and violent crime rates and an increased clearance rate for total (non-traffic) crimes
- decreasing vehicle collision rate
- improving pavement condition of Toronto's roads system
- decreasing costs of winter maintenance on roads
- decreasing (improving) length of time clients are receiving social assistance, and decreasing administration costs per case
- decreasing cost of social housing per unit
- increasing solid waste diversion rates and reduced rate of complaints regarding collection
- increasing use of registered sports and recreation programs
- decreasing amounts of property tax arrears
- increasing public transit trips per person
- decreasing costs of wastewater collection
- decreasing rates of drinking water used in homes, fewer water main breaks and lower costs of water treatment and distribution

The areas where the internal trends in Toronto's performance measurement results are unfavourable or have declined include:

- ten efficiency measures, where the costs of providing a unit of service have increased in 2006, due to wage increases in collective agreements
- decreasing construction value of residential building permits issued
- increased costs of solid waste disposal arising from contractual agreements with haulers of the waste to Michigan
- increased costs of solid waste diversion as new programs are introduced in order to achieve higher diversion rates
- higher costs of wastewater treatment relating to higher costs of energy and the disposal of biosolids

Continuous Improvement Initiatives – What Actions are Toronto's Service Areas Taking to Further Improve Operations and Performance?

The City continues to look at ways to improve performance, examples of some initiatives from the service areas are:

- In early 2008, the Children's Services Division introduced a quality ratings system for all child care centres that have a service contract with the City of Toronto.
- In 2007, EMS implemented a new wireless electronic patient charting system that will make paramedics more efficient and effective in terms of patient care paperwork processing time, which in turn will increase their availability for response to other calls.
- In 2008, Fire Services will implement mobile data terminals and software to improve the efficiency of fire prevention inspectors.
- In 2008, the Parks, Forestry and Recreation Division will be analyzing the proximity of parkland in relation to Toronto's population and Toronto's Capital Plan proposes the development of trails and may include the utilization of bicycle lanes on streets as part of the City's bike plan.
- Since 2006, the Toronto Police Service has redeployed 200 officers to front-line operations.
- The Solid Waste Management Division has a pilot project underway in 30 high-rise apartment complexes to test the feasibility and cost effectiveness of collecting organics.
- The Revenue Services Division will be introducing new user fees related to tax collections (i.e. statement fees and fees for notification), which is expected to result in lower costs for the collection process and improvements in the overall collection rate for tax arrears.
- In 2008, the Toronto Transit Commission is expanding to match service to ridership in order to both address overcrowding on some routes and accommodate the expected increase in ridership.
- For Wastewater Services (Toronto Water), the Wet Weather Flow Master Plan over the next 25 years will help reduce the amount of wastewater that bypasses treatment during rain storms.
- In 2007, Water Services (Toronto Water) completed a water loss detection study that identified a number of measures that can be implemented during 2008 and beyond to reduce the amount of water lost throughout the distribution system.

External Comparison – How Do Toronto's 2006 Service Levels Compare to Other Municipalities?

There are forty-three service level indicators in Toronto's 2006 Performance Measurement and Benchmarking Report where Toronto's results can be compared and ranked with other municipalities and placed in quartiles. Between Toronto's 2005 and 2006 Benchmarking Reports, there has been very little change in Toronto's quartile ranking for each of the service level indicators in relation to other municipalities. Changes in Toronto's quartile ranking for individual service level indicators would likely only occur over much longer time periods.

Some of the key factors that influence Toronto's results and rankings, such as Toronto's much higher population density, are common to multiple service areas. Results have been grouped by these key influencing factors and are described below.

- Services where Toronto's size and high population density requires higher service levels, which are indicative of large densely populated cities
  - the highest number of police staff (officers and civilians) per 100,000 population
  - the highest number of transit vehicle hours per capita, because of Toronto's multi-modal system and high transit use
  - the highest number of library holdings (collection) per capita, due to our extensive research and reference collections, electronic products and multilingual collections

- Services where there is a higher need or demand for social programs in large cities
  - the highest childcare investment per child aged 12 and under
  - the highest number of social assistance cases per 100,000 households
  - the highest number of emergency shelter beds per 100,000 population
  - the highest number of social housing units per 1,000 households

- Services where a different service delivery model may be used in Toronto than in other municipalities.
  - Toronto has a higher number of medical incidents and high number of total incidents responded to by fire services per 1,000 population
  - Toronto has the highest proportion (53%) of paramedics that are qualified as Advanced Care Paramedics
  - Toronto has a lower proportion of municipally operated long-term care beds in relation to all beds in the community from all service providers

Areas where Toronto's service levels or levels of activity are lower (3rd or 4th quartile) relative to other municipalities, are primarily related to much higher population densities in Toronto than in the other OMBI municipalities, this includes:

- Fewer facilities or less infrastructure required in densely populated municipalities like Toronto because of proximity and ease of access, while other less densely populated municipalities require proportionately more facilities or infrastructure to be within a reasonable travel distance of their residents.
  - lower numbers of large and small sports and recreation community centres, and indoor ice pads per 100,000 population (in contrast Toronto has a higher number of indoor pools)
  - lower number of library hours per capita (resulting from a lower number of library branches)
  - lowest number of road lane kilometres per 1,000 population
  - lowest hectares of parkland and kilometres of trails in relation to population
  - the lowest number of residential building permits and lower levels of ICI permits issued per 100,000 population because most of Toronto's geographic area is fully developed

- Fewer emergency services vehicle-hours may be required in densely populated municipalities like Toronto for emergency response because of the close proximity of vehicles and stations to residents. Those municipalities with lower population densities (including rural areas in some municipalities) may require proportionately more vehicle hours in order to provide acceptable response times.
  - lower number of fire vehicle hours per capita
  - lower number of EMS vehicle hours per 1,000 population

- Older age of Toronto's infrastructure in relation to other municipalities.
  - Toronto's indoor ice pads and indoor pools are older
  - Toronto's underground water distribution and wastewater collection pipes are older

External Comparison – How Do Toronto's 2006 Performance Measurement Results Compare To Other Municipalities?

There are eighty-nine performance measures of efficiency, customer service and community impact, in Toronto's 2006 Performance Measurement and Benchmarking Report where Toronto's results can be compared and ranked with other municipalities and placed in quartiles. Between Toronto's 2005 and 2006 Benchmarking Reports, there has been very little change in Toronto's quartile ranking for each of the performance measures in relation to other municipalities. Changes in Toronto's quartile ranking for individual measures is more likely to occur over a five-year or longer period.

Areas where Toronto has the top/best result of the OMBI municipalities are:

- shortest EMS response time to emergency calls
- lowest rate of residential fire related injuries per 100,000 population
- lowest rate of governance and corporate management costs as a percentage of total operating expenditures (single-tier municipalities)
- highest rate of total library uses, electronic library uses and non-electronic uses per capita, as well as the highest turnover rate (number of times an item is borrowed) of the circulating collection
- highest percentage of a municipality's geographic area that is parkland (both maintained parks and natural areas)
- highest rate of decrease in the 2006 total non-traffic crime rate
- highest pavement quality rating for our roads system
- highest possible result (100%) for the number of winter event responses on roads meeting standard
- lowest social housing administrative cost per social housing unit
- highest rate of residential solid waste diversion for single unit homes/houses
- lowest amount of current and prior years property tax arrears outstanding
- highest rate of transit trips per capita and the highest number of transit trips per vehicle hour
- lowest cost of drinking water treatment per megalitre
- best possible result for drinking water quality (no boil water advisories)

Performance measures where Toronto's result is better than the OMBI median (1st or 2nd quartile) include:

- higher number of regulated child care spaces per 1,000 children and higher number of subsidized spaces per 1,000 children from low income families, as well as lower child care costs per subsidized space
- lower rate of residential structural fires, lower rate of fire related fatalities and a lower fire response time (at median) to emergencies
- higher occupancy rate of beds in emergency shelters
- lower cost per library use
- high rates of long term care resident satisfaction and low costs per bed day
- lower property crime rate and lower youth crime rate and a higher rate of decrease in the 2006 rate of reported violent crime
- lower administration cost of social assistance per case, and lower (shorter) response times for eligibility notification of social assistance clients
- lower overall residential (single-unit homes/houses and apartments) solid waste diversion rate and lower solid waste collection cost per tonne
- higher usage (visits) of registered sports and recreation programming per capita and a higher percentage of the available capacity utilized in these programs
- lower cost of providing transit services per passenger trip
- lower water use per household

There are also a number of the areas in which Toronto's performance measurement results fall below the OMBI median. Some of the key factors that influence Toronto's lower rankings, such as Toronto's much higher population density, are common to multiple service areas. Measures where Toronto falls below the OMBI median in the 3rd or 4th quartile have been grouped by these key influencing factors described below.

Measures in social programs that Toronto has little control over:

- the highest percentage of children that are in low income families
- high length of stay in Toronto's emergency shelters due to shortage of available social housing and the availability of transitional shelter beds in Toronto, which have longer stays
- a lower rate of long term care beds (both municipal and other providers) as a percentage of the population age 75 and over
- higher benefits costs per social assistance case due to a greater percentage of Toronto's clients reaching the maximum of the shelter component resulting from higher housing costs in Toronto
- low percentage of the social housing waiting list is placed annually (longer wait times) because of a shortage of social housing
- higher subsidy costs per social housing unit because initial land and construction costs were higher in Toronto (resulting in higher mortgage costs) and a higher proportion of Rent Geared to Income (RGI) units with RGI costs directly related to the high market rents in Toronto

Measures impacted by Toronto's high population density and urban form include:

- lower residential and ICI construction values per capita of building permits issued and lower levels of new residential housing is being created because of Toronto's fully developed urban form
- higher violent crime and total (non-traffic) crime rate and a higher rate of increase in the 2006 property and youth crime rates (Densely populated municipalities tend to have higher violent crime rates. Toronto's results compare favourably to other heavily urbanized municipalities in Canada and the United States)
- highest rate of traffic congestion on roads and the highest vehicle collision rate on these congested roads
- higher cost of solid waste transfer/disposal per tonne. Without our own local municipal landfill site, which is not practical in this urban setting, Toronto's cost of waste transfer and disposal will always be higher than those municipalities that have the advantage of a local landfill site

Measures where Toronto's less favourable results are heavily influenced by the advanced age of our infrastructure include:

- higher cost of wastewater collection per km. of pipe, higher rate of sewer back-ups per 100 km of sewer line and higher percent of wastewater by-passing treatment – more than 30% of the Toronto sewer system is over 50 years old and 24% of it is combined sanitary/storm sewers, requiring higher and more costly maintenance levels (There are also approximately 80,000 homes, which have downspouts connected to the sanitary/storm sewer system, contributing to sewer back-ups and by-pass events, especially during rain storms.)
- higher costs of wastewater treatment per megalitre, due the age of our plants (the oldest has been in operation since 1929) and the costs of disposing of biosolids
- higher cost of water distribution per km. of pipe and higher number of water main breaks per km. of pipe – more than 20% of Toronto's water system is over 80 years old, leading to more watermain breaks and higher costs relative to municipalities with newer water distribution systems

Measures with high costs required for more effective service delivery or because of the service delivery model used:

- higher costs of shelters per bed night due to the operation of our own shelters (36% of beds), while most other municipalities contract out or purchase all of their shelter beds
- Toronto has high costs of roads maintenance but also has the highest pavement condition rating of the OMBI municipalities
- higher cost of winter roads maintenance per lane km. but Toronto also has high winter maintenance standards, the driveway windrows clearing program and our urban form, including narrow streets, on-street parking and traffic congestion during storm events, add to our costs
- high costs for solid waste diversion per tonne but Toronto also has the highest diversion rate for single unit homes/houses of the OMBI municipalities
- high transit cost per vehicle hour and per revenue vehicle hour, however this is due to Toronto's multi-modal system with subways, streetcars and the light rail transit being more expensive to maintain than buses, which are used exclusively in other municipalities (This multi-modal system leads to the highest transit use per capita of the OMBI municipalities.)

Other performance measures where Toronto's results fall below the OMBI median and where improvements in efficiency and effectiveness can be made over time include:

- higher EMS cost per in-service vehicle hour and per patient transported
- higher fire costs per in-service vehicle hour
- highest cost of parks maintenance per hectare
- lower clearance rates for violent and total non-traffic criminal code incidents and a lower number of Criminal Code incidents in the municipality per police officer
- higher average time period that an individual or family receives social assistance – Toronto staff that support social assistance cases, carry a high case load in relation to other municipalities which could be a factor
- lower solid waste diversion rates in apartments and higher level of complaints regarding solid waste collection often associated with the introduction of new diversion programs
- higher costs of maintaining a property tax account and a lower percentage of accounts enrolled in pre-authorized payment plans
- lower percentage of the population using registered sports and recreation programs at least once

World Bank Initiative to Develop City Indicators

Toronto also recognizes the value in extending its benchmarking work beyond Ontario and is one of nine North and South American cities involved in a pilot project with the World Bank to develop city indicators of quality of life and service delivery.

- Canada — Cities of Toronto, Montreal and Vancouver
- United States — King County, Washington
- Brazil — Cities of São Paulo, Belo Horizonte and Porto Alegre
- Columbia — Cities of Bogotá and Cali

City Services	Quality of Life
Education	Civic Engagement
Energy	Culture
Finance	Economy
Fire and Emergency Response	Environment
Governance	Shelter
Health	Social Equity
Recreation	Subjective Well-Being
Safety	Technology & Innovation
Social Services	
Solid Waste	
Transportation	
Urban Planning	
Wastewater	
Water	

The objective for the indicators developed in this pilot process was that they would be applicable to all cities in the world regardless of geography, culture, affluence, size, economic strength, or political structure. The indicators identified to date cover a total of twenty-two theme areas, fourteen of which relate to services provided by city governments and eight, which are quality of life indicators.

Commencing in May 2008, the City Indicators Initiative will be managed by a newly established "City Indicators Facility" within the Cities Center at the University of Toronto and discussions are taking place on expanding the pilot program to cities in a number of other countries.

It is expected that this initiative will take a number of years before comparable results will become available, but if successful it will provide a valuable additional source of information to assess how well Toronto is doing from both a service delivery and quality of life perspective.

Conclusion

The City continues to promote a continuous improvement culture in order to provide our citizens and businesses with services that are as efficient and effective as possible, looking for the optimal combination of efficiency and quality and beneficial impact on our communities.

For more detailed information on this report visit our website at *www.toronto.ca.*