City of Toronto 2001 budget information

Long term financial planning

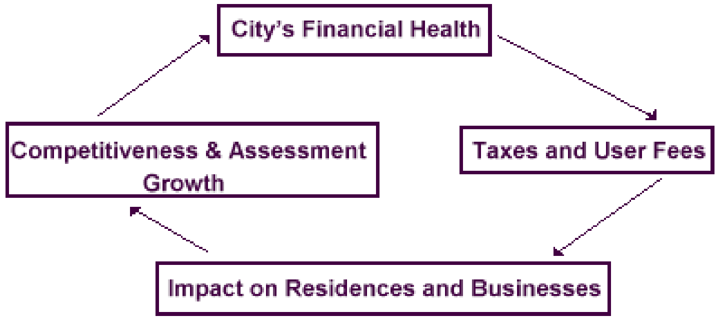
Developing a long term financial plan can help to minimize the City's financial risk, while strengthening its financial capabilities. Long term planning allows the City to manage large projects, such as the capital works program, by spreading the costs of building and maintenance over several years. The process also allows the City to protect itself against future known and unknown events such as a major snow storm, vehicle replacement or election costs.

The City of Toronto's financial health determines:

- tax competitiveness and international reputation
- assessment growth or loss, based on competitiveness
- affordability of taxes for homeowners & businesses
- ability to fund programs especially unique ones
- credit ratings which determine cost of debt
- the ability to maintain buildings, roads, subways, and other infrastructure in a state of good repair

Financial linkages

There is a circular and causal link between the City's financial health, amount and types of revenues raised, the impact on homeowners, tenants and businesses, the City's competitiveness vis-à-vis other municipalities and the City's financial health. If the City is in good financial shape, its debt service costs are low and the pressure to raise taxes or user fees is low. With competitive municipal costs, residents and businesses look favourably on the City as a place to locate and do business. The generation of new development from growth of existing businesses' floor space and the relocation of businesses and people increases the City's assessment base, which contributes to the City's continued financial health.



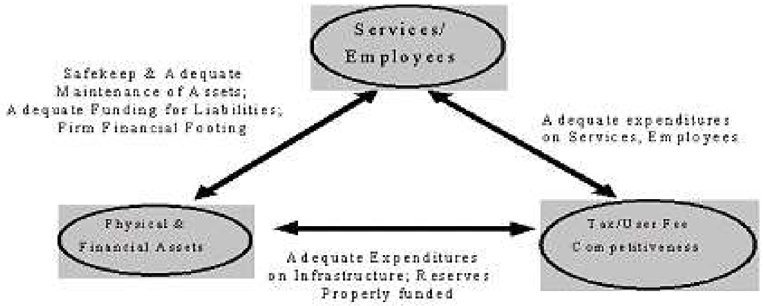
The balance of fiscal sustainability

Fiscal sustainability is hinged on balancing three inter-dependent elements - services, competitiveness and resources:

Services/employees: Good service levels and satisfied employees require adequate program funding and compensation packages.

Tax/User Fee Competitiveness and Cost Effectiveness: Competitive pricing of taxes and user fees along with demonstrated cost effective expenditures ensures that the City receives sufficient revenues and spends them appropriately and adequately on programs, employees and infrastructure.

Physical and Financial Assets: Setting of service levels and staff compensation is closely related to the expenditures on infrastructure (state of good repair) and other assets, adequate funding of liabilities and commitments and funding of reserves.



Indicators of Government Financial Condition

The Canadian Institute of Chartered Accountants' has established three indicators to demonstrate the financial health of municipalities:

1. Sustainability - ability to maintain programs without increasing debt. To maintain its financial condition, the City must maintain its infrastructure while keeping good financial health. Toronto's infrastructure is aging, has not been kept in a state of good repair and does not have adequate funding base to maintain it. In addition the City has unique infrastructure such as subways and elevated expressways.

Debt levels will rise dramatically in the absence of significant new sources of capital revenues and reserves are comparatively low with many are underfunded.

2. Flexibility - ability to fund rising commitments with additional revenues or new debt. The City's credit rating has fallen from AAA to AA+. Revenue flexibility will drop as debt charges consume more of each tax dollar. While user fees are generally comparable to other GTA municipalities, the City depends more on them than others.

Unlike income taxes or sales taxes, property taxes do not fluctuate with the business cycle nor adjust automatically for inflation. The City's assessment base is still below its 1992 level. Property taxes, especially on commercial and industrial properties are out of line with our GTA competitors.

3. Vulnerability - dependence upon revenues and expenditures not under government's control. The City has unique service demands because of its demographics, which places undue pressures on the City's finances. Toronto is susceptible to changes in the economy and demographics, over which it has little control. While City does not benefit from economic growth, it is impacted by downturns such as TTC ridership, social assistance and other social services, and user fees (building permits, recreational revenues).

The City's revenue vulnerability is at the lowest level in Canadian government structure and is therefore more susceptible to reductions in transfer payments. The percentage o government revenues from more senior levels of government are:

Federal	0%
Province	8%
City	20% (mainly mandatory social assistance transfers)

In addition, property tax policy decisions are being increasingly made by the Province.

A long-term financial plan will address these issues and identify the steps that should be taken to put the City on the road to firm financial health.