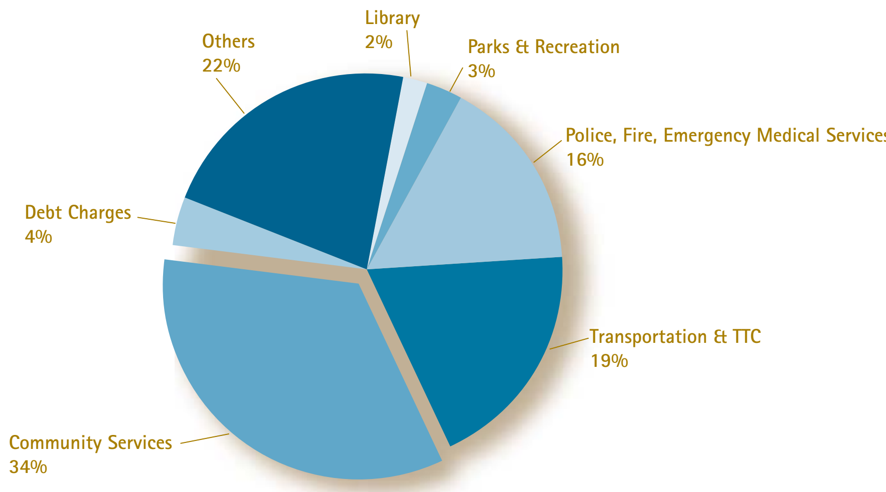
FINANCIAL CONDITION

2003 BUDGET OVERVIEW

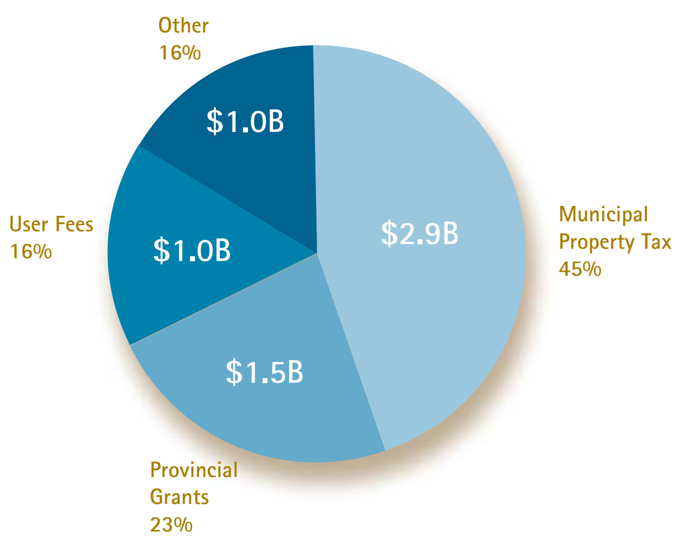
CITY OF TORONTO 2003 – WHERE THE MONEY GOES . . . AND COMES FROM

(Gross Expenditures) – $6.4 Billion Tax-Supported Operating Budget:

Expenditures by Major Program (Gross Expenditures $6.4 Billion)



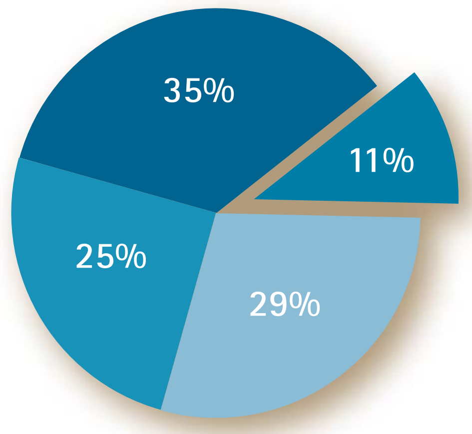
Revenues by Major Source ($6.4 Billion)



Budget Components
(Property Taxes $2.90 Billion)

Special Purpose Bodies 35%
- Toronto Public Library
- Exhibition Place
- Theatres
- Toronto Zoo
- Arena Boards of Management
- Toronto & Region Conservation Authority
- Association of Community Centers
- Toronto Transit Commission
- Toronto Police Service & Board

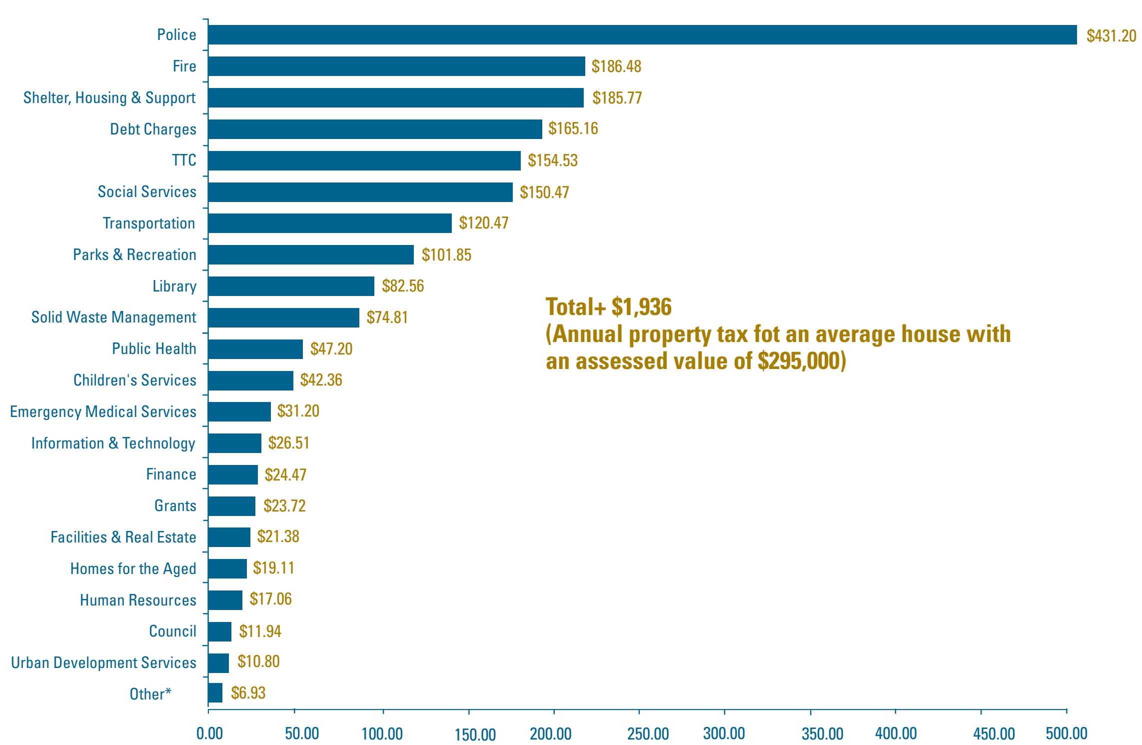
Provincially Mandated 25%
- Children's Services
- Homes for the Aged
- Shelter, Housing & Support
- Social Development & Admin
- Social Services
- Court Services
- Emergency & Medical Services
- Toronto Public Health



Capital Financing & Corporate Accounts 11%
- City Clerk's
- Service Improvement & Innovation
- Corporate Communications
- Facilities & Real Estate
- Fleet Management Services
- Human Resources
- Information & Technology
- Legal
- Finance
- Auditor General
- Chief Administrator's Office
- Council
- Mayor's Office
- Consolidated Grant Program
- Capital & Corporate Financing
- Non-Program

Directly Controlled 29%
- Emergency Preparedness Management
- Culture
- Customer & Business Support
- Urban Development Services
- Economic Development
- Parks & Recreation
- Tourism
- Yonge Dundas Square
- Solid Waste Management
- Fire
- Transportation
- WES - Support
- WES - Technical

How Your City Tax Dollars Worked For You In 2003



FISCAL SUSTAINABILITY

The City of Toronto presently maintains relatively low debt levels and high credit ratings through prudent spending decisions and sound financial management. Since the 1998 amalgamation, the City has been able to hold the line on property taxes – cumulative property tax increases between 1998 and 2003 (12.8 percent for homeowners and zero percent for commercial, industrial and multi-residential property owners) are below the rate of inflation (15.1 percent).

The City was able to balance its budget by using several one-time revenues every year. These include one-time Provincial support, funds freed up as a result of the Ontario Municipal Employee Retirement System (OMERS) pension contribution holiday and prior-year surpluses. Although faced with one-time transition costs, wage harmonization and service level harmonization costs, the City achieved $153 million in amalgamation savings and $36 million in efficiency savings, totalling $190 million of permanent annual reductions.

Performance measures are monitored annually through the budget process. The City has embarked on multi-year business plans, program reviews and prioritization, the goals of which are to ensure that key services are delivered in the most efficient and effective manner. As well, the City has introduced rigorous contract management, purchasing and financial controls to ensure that proper checks and balances are in place.

These measures include a new Corporate Financial Policy and Procedures Manual, and mandatory business cases for consulting contracts with measurable standards and acceptance criteria. Accountability and transparency have been further enhanced with the creation of both a new Auditor General's office and Internal Audit function.

Toronto will continue to benefit from the improved planning processes and internal administrative and financial controls; however, the current financial condition is not sustainable. The City faces the daunting challenge of funding the significant capital expenditures required to maintain and rehabilitate the City's infrastructure, as well as to meet growth requirements.

Provincial legislation continues to restrict the City's access to the entire assessment base for budgetary tax increases. Besides, Toronto's business education property tax rates as set by the Province remain higher than those of the surrounding areas, which limits the City's competitiveness. The City has significant liabilities related to future requirements, including employee benefits. These liabilities will put pressure on the City's operating budget as the City increases its reserves to meet its obligations.

Large urban centres in the United States and Europe, when compared to Toronto, have more diverse sources of revenue and are less dependent on property taxes. They receive more financial assistance from the other orders of government, and have more flexible legislative tools. The City requires a New Deal to meet its funding responsibilities. Toronto needs the fiscal resources and provincial legislative tools to fulfil its financial responsibilities. The environmental sustainability, the quality of life and the nation's economic competitiveness depend on overcoming the challenges facing the nation's largest city.

In early 2004 the City has seen some positive developments from the two other orders of government:

- The Federal Government has implemented effective February 1, 2004, a permanent GST rebate for municipalities, increasing the rebate from 57.1% to 100%. The benefit to the City has been estimated to be approximately $50 million annually.
- The announcement of a $1.05 billion, five-year tripartite agreement between the Federal Government, Provincial Government and the City of Toronto to cost share specified transit capital expenditures. The Government of Canada's contribution will come from the Canada Strategic Infrastructure Fund. This agreement will provide an average $70 million per year from each government over five years to improve, modernize and expand the TTC and help provide better transit service to the TTC's 1.3 million daily riders.
- The announcement of adjustments to the municipal rules under the Ontario Property Tax System for 2004, allowing tax rate increases on the non-residential classes for 2004 to be no more than 50 percent of the rate for the residential tax class, thus providing partial relief from the budgetary levy restrictions imposed by Bill 140 for 2004 only.
- The announcement of a tripartite agreement between the Federal Government, Provincial Government and GO Transit with a total investment of $1.05 billion for 12 projects scheduled to be implemented over seven years

2004-2010. Each of the two other orders of government is responsible for $385 million in funding (with the Federal contribution coming from the Canada Strategic Infrastructure Fund). The municipalities in the GTA and Golden Horseshoe, including Toronto, are expected to contribute a total of $235 million of the $1.05 billion. This initiative will improve the access, efficiency and capacity of GO Transit.

- The 2004 City budget included a provision for $20 million in revenue as a down-payment for future gas tax revenues from the Province.

The tripartite agreements in which the other orders of government share the capital project costs for the TTC and GO transit will cover only a portion of their total multi-billion multi-year capital requirements for the state-of-good-repair and expansion plans. Both transit bodies still require significant additional funding to meet the needs of their long-term business plans.

The above announcements and changes are a positive start, yet the City still faces a significant funding gap estimated to be hundreds of millions of dollars every year. Hence, the City continues to urge the other orders of government to negotiate a New Deal with the City and other municipalities which would include:

- new sustainable revenue sources, such as a share of the provincial and federal gas tax
- the legislative tools and the autonomy to be able to deal with the challenges and opportunities facing the City
- a seat at the table – involving major hub cities including the City of Toronto as partners in Federal and Provincial policy, program and budget deliberations on issues that have a direct impact on major urban centres.

PHYSICAL INFRASTRUCTURE

Beside monetary assets, the City owns a significant amount of physical assets. They include roads, expressways, bridges, street lighting and traffic signal controls, water and wastewater distribution pipes, reservoirs, pumping stations, subways, trains, 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 $52 billion. The City's capital program is driven largely by the costs of maintaining its physical assets in a state of good repair.

City's Infrastructure is Substantial

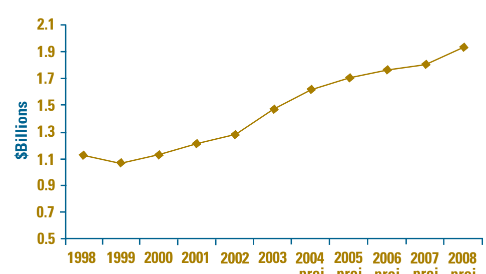
	Estimated Asset Value
Transportation Infrastructure	$9.5 Billion
Water & Wastewater Infrastructure	$21.2 Billion
Public Transit System	$8.9 Billion
Buildings, Facilities & Fleet	$6.0 Billion
Housing Infrastructure	$6.0 Billion
Parkland & Other Land	To Be Determined
	$52.0 Billion ++

Due to fiscal constraints, the City's current spending in the capital program is less than ideal. Insufficient funding to the state of good repair for all programs has created backlogs worth hundreds of million of dollars. In addition, capital requirements resulting from population growth and demographic changes further exacerbate capital underfunding. The City's 2002 Official Plan projects an increase in population of up to a million people in the City of Toronto, raising the population to 3.5 million people in 30 years. More buses, housing, recreation centres, etc. are required, which puts pressures on the capital and operating budgets.

CAPITAL FINANCING AND DEBT

The City borrows to fund capital expenditures. (It cannot borrow to fund operating expenditures under the Municipal Act.). Toronto has enjoyed relatively low debt levels, however, there is a sizeable gap between future capital expenditure needs and on-going sustainable revenue sources. The City does not have the financial capacity for necessary growth related expenditures, e.g. TTC, Transportation,

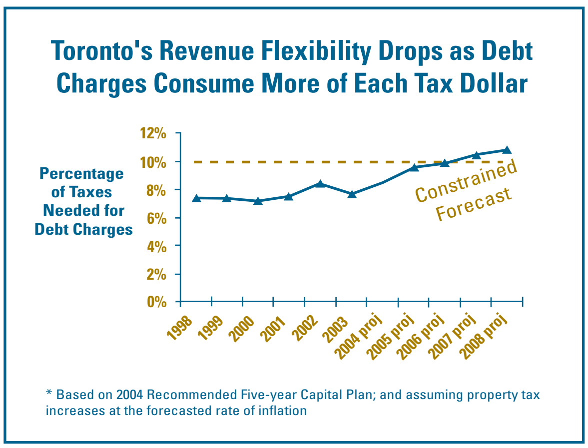
Cumulative Net Debt
(Tax-Supported)



Note: Net Debt is Debt Net of Sinking Funds
Based on 2004 - 2008 Capital Forecast

Housing, etc. As a result, debt will grow. Current estimates show that the City's net debt even under a constrained forecast (no new debt except for the TTC) will increase by more than 40% in the next five years.

Debt charges is the fourth largest component of the property tax bill (after police services, fire services and shelter, housing and support). In 1999, the City of Toronto implemented a debt service guideline such that the debt service cost should not exceed 10% of property tax revenues in a given year. Although only a guideline, this limit means that 90 cents on each tax dollar raised is available for operating purposes. However, given the current debt forecast, the guideline would likely be exceeded in 2007 if the City does not get new sustainable revenues to support the capital program.

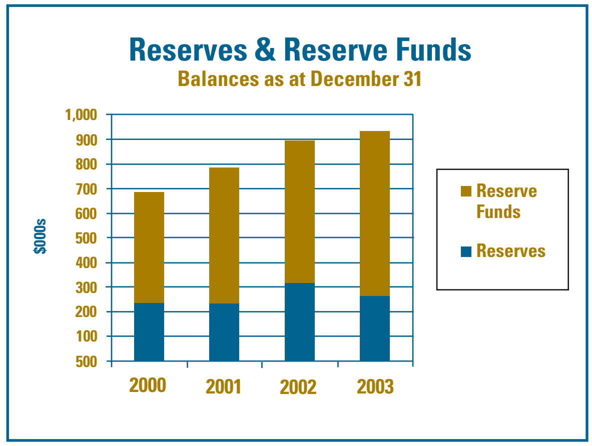


RESERVES AND RESERVE FUNDS

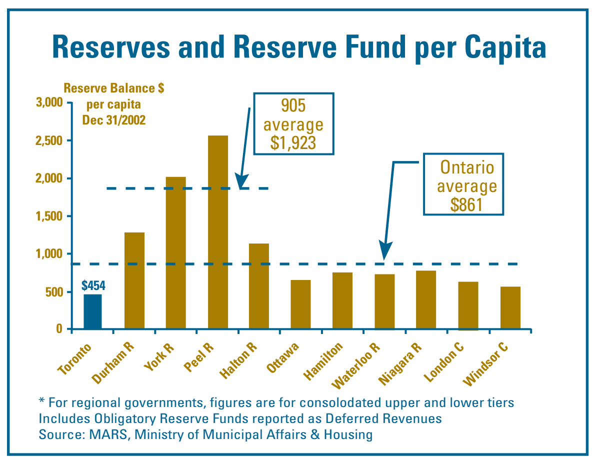
Reserves and reserve funds are established because:

- the City is not able to deficit finance, so it needs to maintain some degree of "rainy day" funding, e.g. Social Assistance Stabilization;
- they allow "smoothing" of funding, e.g. municipal election expenses every three years, major equipment purchases and capital expenditures; and
- of other future funding needs, e.g. self insurance.

As at December 31, 2003, the City had $933.2 million in reserves and reserve funds, comprising $269.7 million in Reserves and $663.5 in Reserve Funds. The total 2003 year-end balance represents an increase of $41.8 million (or 4.7%) compared to the previous year.



Although there was an increase in reserves and reserve funds in 2003 from 2002, the City's overall fund balance on a per capita basis is much lower than most Ontario municipalities, as shown in the preceding figure. The City of Toronto's reserve fund balance per capita (as at December 31, 2002) was just over half of the Ontario average and less than one-quarter of the average of the surrounding (905) areas.



In addition, it has been determined that a number of reserves are underfunded in relation to the liabilities for which the funds were established. 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.

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 Development Charges, Parkland

Acquisition, Homes for the Aged, and Social Housing, to name a few. 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 as at December 31, 2003 was $382.2 million (2002: $297.6 million)

MUNICIPAL PERFORMANCE MEASUREMENT PROGRAM (MPMP)

Toronto performs relatively well when compared with other Ontario municipalities on a number of municipal service indicators, as evidenced by attestations from outside bodies.

A report by the Canadian Taxpayer's Federation in 2003 confirmed that "Toronto fares well when compared to the municipalities on its borders". The Toronto Star reported that Toronto managed its ratepayers' dollars better than most other cities in the province.

Toronto Fares Well in Many Performance Measures

2002 MPMP Measures (Samples only)	Toronto	Municipal Average
Governance and corporate management costs as a % of total operating costs	2.3%	3.9%
Operating costs for Fire Services per $1,000 of assessment	$1.44	$1.52
Operating costs for Conventional Transit per regular service trip	$2.01	$3.61
Operating costs for Wastewater Treatment and Disposal per megalitre of wastewater treated	$194	$229
Operating costs for Police Services per household	*$640*	*$441*

Source: MPMP, various municipal websites

The Municipal Performance Measurement Program (MPMP), introduced by the Province in 2000, compares Ontario municipalities in 25 performance measures (33 including component measures, of which 32 were applicable to Toronto). In 2002, approximately 63 percent of the measures have the maximum possible result, an improved result, or a stable result relative to 2001. As well, two-thirds of Toronto's 2002 MPMP results are better than the municipal average.

The table lists five 2002 selected performance measures under the Municipal Performance Measurement Program (MPMP). The first four measures show that Toronto was more efficient than the Ontario municipal average in areas of Governance and Corporate Management Cost, Fire Service, Conventional Transit as well as Waste water Treatment and Disposal.

The last item shows that Toronto has a Police Service Operating Cost per Household much higher than the Ontario municipal average. This can be explained by the fact that Toronto is an international city requiring specialized services at elevated levels that may not be available or necessary in other municipalities.

Toronto's position as the centre of business, culture, entertainment, corporate headquarters and sporting activities in the Greater Toronto Area, together with its ethnically and culturally diverse population, pose special demands on the police service.

In addition, there are a number of other groups that also benefit from police services that are not recognized in the calculation of the performance measure, such as an estimated daily influx of 286,900 vehicles and 351,300 persons from the surrounding areas during morning rush hours, approximately 16 million tourists per year and the business sectors.

REVENUES

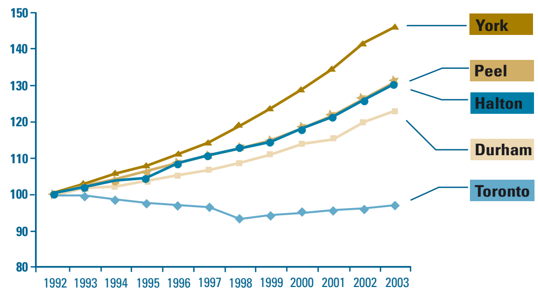
Property Tax

Property tax revenue is the City's single largest source of revenue. In 2003, the City collected $2.9 billion from residential and business property owners, which represented over 40% of the total operating revenues including rate-supported revenues.

Over the last eleven years, the Greater Toronto Area experienced quite remarkable growths in population and property assessment, during a period when the economy recovered from the recession of the 1990's. The Toronto region, the third fastest-growing CMA in Canada between 1996 and 2001, contains five of the country's 25 fastest-growing municipalities: Caledon, Markham, Vaughan, Richmond Hill and Brampton, all having 5-year population growth rates in excess of 20%.

The bulk of the new construction and the associated assessment increase are located in the surrounding (905) areas. For example, York Region's total assessment increased by more than 46% during this period, as shown in the chart. By comparison, the

Unlike the 905's Sizable Assessment Growth, Toronto is Still Behind 1992



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

* For regional governments, figures are for consolidated upper and lower tiers

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 not yet returned to its 1992 level.

Up until 2004, Toronto has been the only municipality in the Greater Toronto Area that is prohibited by provincial legislation (Bill 140 – Continued Protection for Property Taxpayers Act, 2000) from increasing property tax levies on businesses for budgetary reasons. The primary implication of this legislation is a restriction from passing on municipal levy increases to the commercial, industrial and multi-residential classes in those municipalities (such as Toronto, Ottawa and Hamilton) where tax ratios of commercial, industrial and multi-residential property tax rates relative to those for the residential class exceed the provincial threshold ratios.

This means 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 $28 million if the whole assessment base could be accessed, under the previous arrangement the City could raise only $11 million from the residential class.

In March 2004, the Ontario Government announced adjustments to the municipal rules under the Ontario Property Tax System for 2004, which amongst other things, allowed tax rate increases on the non-residential classes for 2004 to be no more than 50 percent of the rate for the residential tax class, and thus would provide partial relief from the budgetary levy restrictions imposed by Bill 140.

User Fees

User fees are the City's second largest source of revenue. In 2003 total user fee revenues including water and wastewater charges were $1.6 billion, representing 22% 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 limited room for rate increases or significant additional sources of revenues.

Other Revenues

The City receives other revenues such as transfer payments from other orders of government which are mainly for mandated programs such as social assistance, as well as other income such as parking fines and investment income.

Under the provincially mandated Local Services Realignment (LSR), costs for Social Assistance and Social Housing are pooled amongst the GTA municipalities, and then allocated to the City of Toronto and the other regions using a formula based on weighted property assessment. Included in this Other Revenues category are GTA Pooling revenues for these two programs, representing contributions from other regions in the GTA towards the Toronto's pooled costs.

CREDIT RATING

The City of Toronto is recognized as an important participant in global financial markets. The City's credit rating remains among the highest of comparably sized or larger North American cities such as New York and Montreal.

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

- AA (stable) from the Dominion Bond Rating Service Ltd.(DBRS)
- AA with a stable outlook from Standard and Poor's Canada
- Aa1 with a stable outlook from Moody's Investor Service

In its rating considerations for the City of Toronto, DBRS recognized the City's strengths and challenges:

The following shows the City of Toronto's credit rating history:

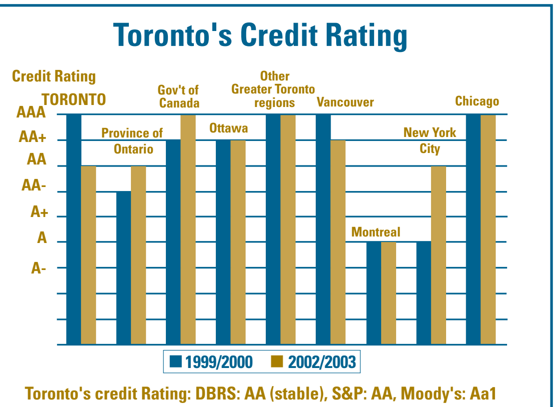
	2003	2002	2001	2000	1999	1998	1997
DBRS	AA	AA	AA(high)	AA(high)	AA(high)	AA(high)	AAA
Standard and Poor's	AA	AA	AA+	AA+	AA+	AA+	AA+/AAA
Moody's Investors Service	Aa1	Aa2	Aa2	Aa2	Aa2	Aa2	Aa2

Strengths:

- Strong and diversified economy
- Good fiscal management
- Ownership of Toronto Hydro Corporation
- Strong financial control

Challenges:

- Ongoing management of capital funding pressures
- Uncertainty regarding provincial and federal funding
- Heavy business property tax burden
- Exposure to economy-sensitive program expenditures
- Relatively high employee benefit liabilities



Toronto's credit Rating: DBRS: AA (stable), S&P: AA, Moody's: Aa1

Standard and Poor's made the following observation in its annual Industry Report Card for Canadian Municipalities:

- Toronto's economy is the country's strongest and most diverse.
- Direct debt as a share of operating revenue was about 40% at the end of 2002, placing Toronto in an intermediate position with international peers
- Debt has been rising
- Liquidity levels are healthy
- Recent operating performances (surpluses) have not been strong, averaging 8% of operating revenues from 2000 to 2002

Moody's confirmed its debt ratings for the City, which was upgraded to Aa1 (stable outlook) from Aa2 in September 2002. In its review, Moody's wrote:

"The upgrade of Toronto's debt rating ... reflected strong fiscal performance and a re-emergence of the provincial government as a provider of funding for infrastructure. Further supporting the City's high rating is its sizable and diverse economy which amply supports its financial and debt obligations. .... Toronto has registered positive financial performance in its first four years as an amalgamated entity despite numerous challenges..."

Moody's summarized its opinion for the City as follows:

Strengths:

- Consistent, positive financial results
- The City has managed fiscal challenges (e.g. amalgamation, Local Services Realignment) effectively through service efficiencies and the annual savings generated by the amalgamation
- Modest debt burden; debt serving costs as a ratio of total revenues would remain easily manageable within the City's current fiscal framework
- Large, diversified economy

Challenges:

- Operating budget pressures
- Pressures for infrastructure spending
- Modest level of new construction /assessment growth