FINANCIAL CONDITION

2004 BUDGET

OPERATING

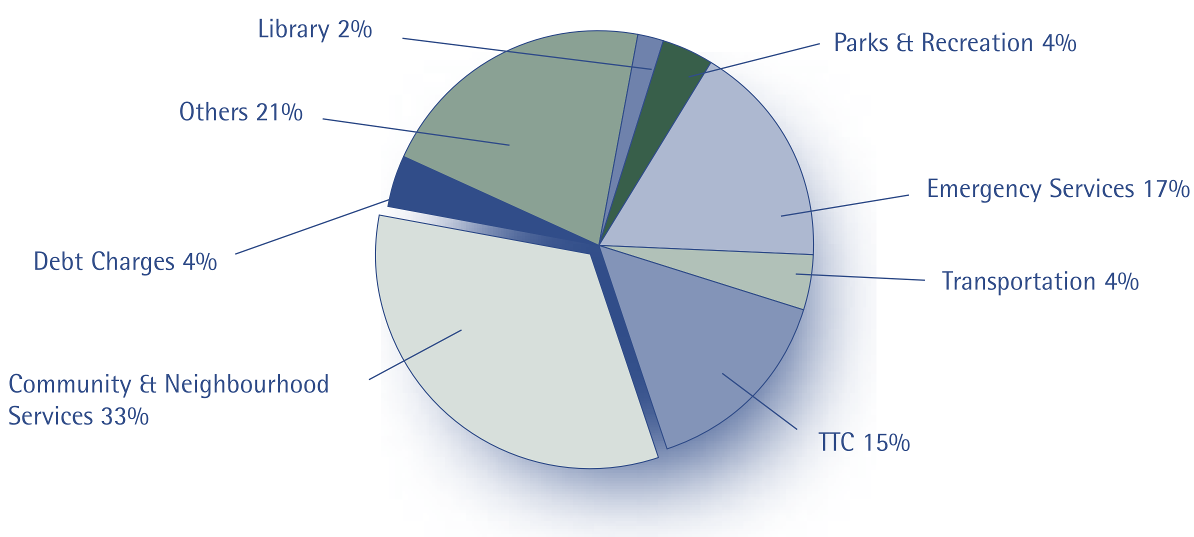
The 2004 Operating Budget process focused on linking resources to service levels, service priorities and resultant community impacts. The 2004 Approved Operating Gross Budget in the amount of $6.6 billion achieved the goal of maintaining core services and service levels. As well, it achieved cost savings by ensuring that services are being delivered efficiently. Consistent with Council direction, the 2004 Operating Budget has had minimal impact on the services provides to its residents.

To mitigate the pressures in 2004, the Federal Government announced that the GST rebate would increase from 57.14% to 100 percent effective February 1, 2004. Also, the Provincial Government provided assistance by deferring the Provincial loan repayment and also made regulatory changes to Bill 140 allowing the City to increase taxes on commercial, industrial and multi-residential properties by 1.5% which is 50% of the 3% increase to residential properties.

A New Deal with the Federal and Provincial governments is required for the City to move towards finding long-term fiscal solutions and tools. As a long-term strategy, the New Deal will rationalize existing revenue and cost sharing arrangements with the other levels of governments.

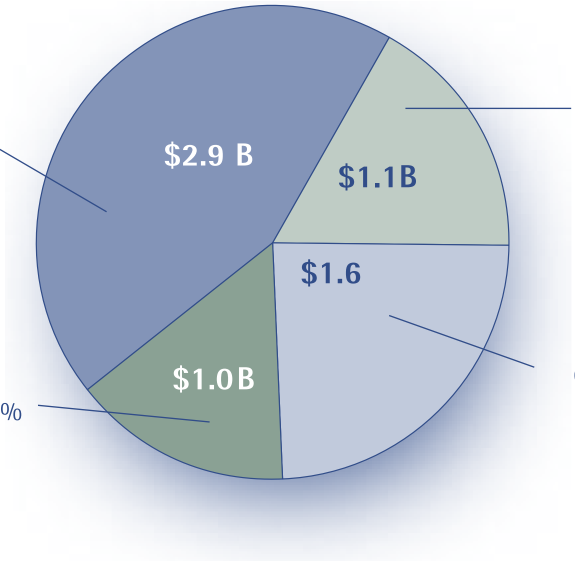
The following chart provides gross expenditures by major programs with 33% for Community & Neighbourhood Services, 15% for TTC and Emergency Services at 17%.

EXPENDITURES BY MAJOR TAX SUPPORTED PROGRAM
GROSS EXPENDITURES $6.6 BILLION



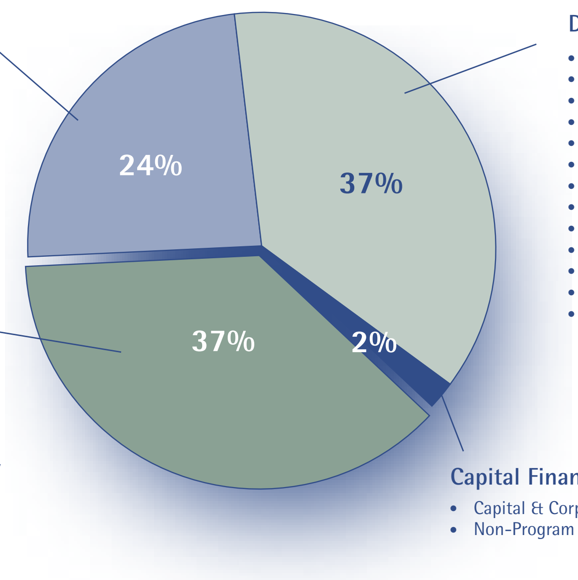
Also, the 2004 Operating Budget optimizes non-tax revenues while ensuring fair access to all programs by all residence. Property taxes, which comprise 44%, continue to be the biggest revenue source.

WHERE THE MONEY COMES FROM IN 2004 ($6.6 BILLION) FOR TAX SUPPORTED PROGRAMS



Based on the 2004 Net Operating Budget of $2.9 billion, the City has direct control of $1.1 billion or 37% as shown in the chart below.

BUDGET COMPONENTS (Based on Net $2.9 Billion)



Provincially Mandated $0.7B

- Children's Services
- Homes for the Aged
- Shelter, Housing & Support
- Social Development & Administration
- Social Services
- Court Services
- Emergency Medical Services
- Toronto Public Health

Special Purpose Bodies $1.1B

- Toronto Public Library
- Exhibition Place
- Heritage Toronto
- Theatres
- Toronto Zoo
- Arena Boards of Management
- Toronto & Region Conservation Authority
- Association of Community Centres
- Toronto Transit Commission
- Toronto Police Board

Directly Controlled $1.1B

- Art & Culture
- Customer & Business Support
- Economic Development
- Parks & Rectreation
- Tourism
- Yonge Dundas Square
- Solid Waste Management Services
- Fire Services
- Transportation Services
- WES-Support Services
- WES-Technical Services
- Urban Development Services
- Other Programs

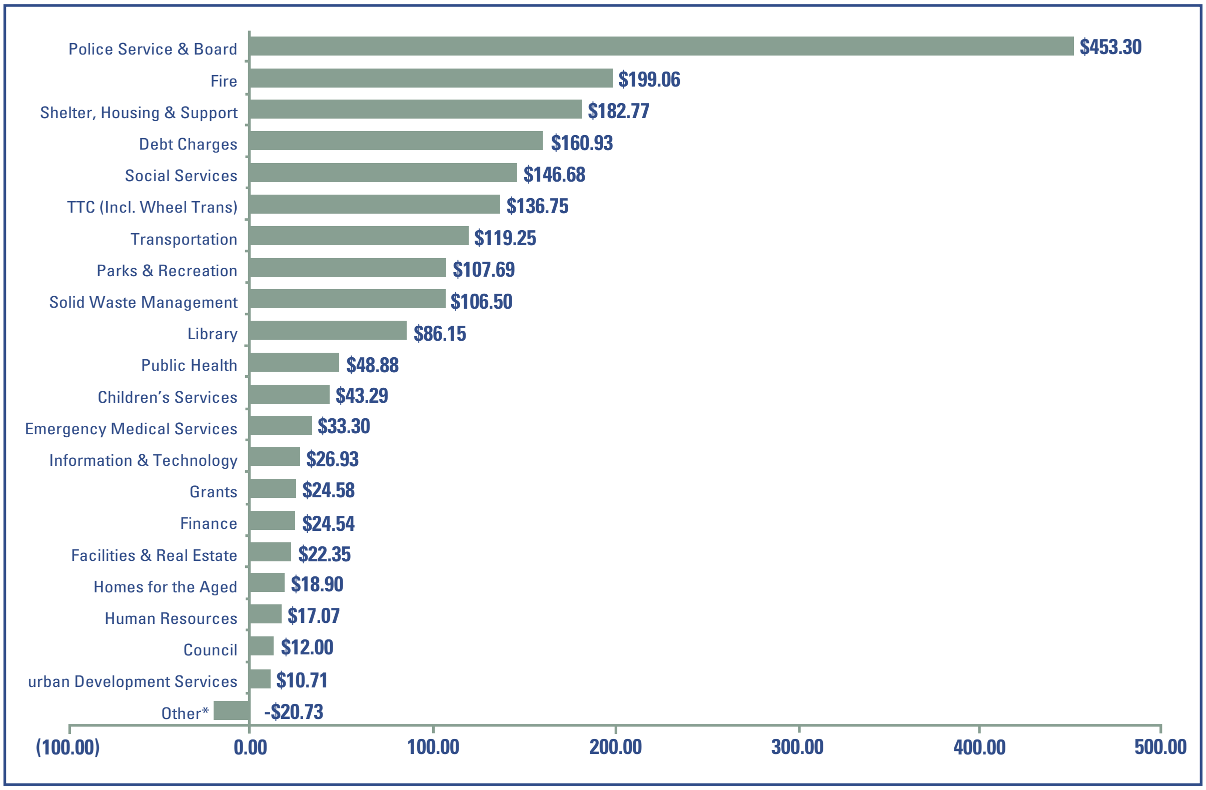
Capital Financing & Non-programs $0.1B

- Capital & Corporate Financing
- Non-Program Expenditures & Revenues

The chart below gives the breakdown of how tax dollars are spent for an average house with an assessed value of $330,700 and calculated Property Taxes of $1,960.

HOW YOUR TAX DOLLAR WILL WORK FOR YOU IN 2004

Based on Property Tax of $1,960 for an average house with an assessed value of $330,700



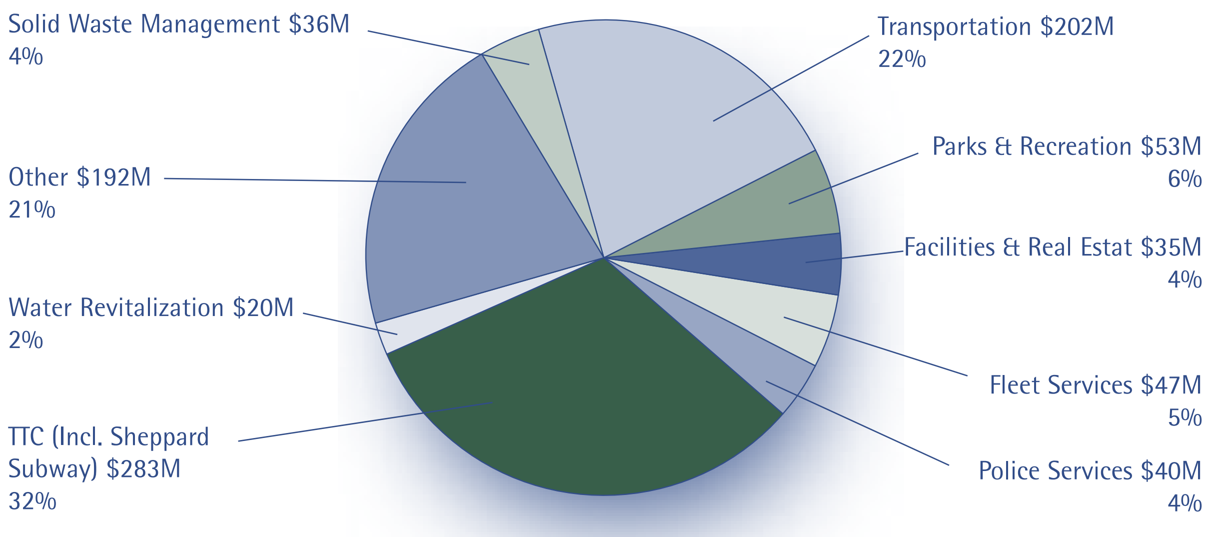
CAPITAL

The 2004 Council Approved Capital Budget ensured that the capital program remained within an affordable fiscal framework, maximized partnerships in order to minimize debt and minimized the incremental impact of the capital budget on the operating budget. The process used historical trends as part of the analysis and also ensured that all stakeholders had an opportunity to participate in the budget process. In the City of Toronto, capital expenditures generally include any expenditure on an asset which has been acquired, constructed or developed with the intention of being used on a continuous basis beyond the current budget year and where assets are not intended for sale in the ordinary course of business.

Council reviewed and prioritized its strategic directions and approved a set of goals and strategies that incorporated multi-year service plans to guide the budget process. Some significant elements were addressed during the budget process, for example, the carry forward principle and identifying completed capital projects for closure.

The following chart indicates the 2004 Council Approved Capital Budget for Tax Supported Program in the amount of $908 million cash flow broken down by major program area. The chart shows that the two largest programs are TTC which make up $283 million or 32% while Transportation is $202 million or 22%.

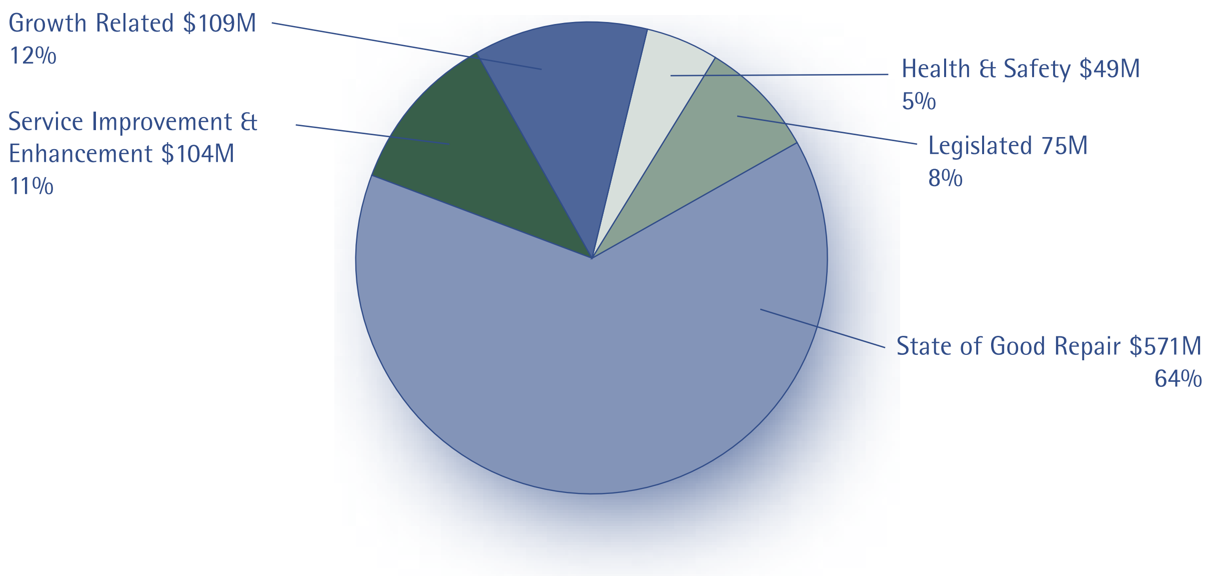
2004 COUNCIL APPROVED CAPITAL BUDGET TAX SUPPORTED PROGRAM $907.932 MILLION CASH FLOW



The long-term strategy has to recognize the significant role the City plays in the national and provincial economies and the need to address the structural fiscal problem that has placed stress on the ability to maintain the City's infrastructure in a state of good repair and to address the growth demand in the community.

The chart below shows that 64% or $571 million of the 2004 Recommended Capital Budget has been allocated to state of good repair projects and 12% or $109 million have been dedicated to growth related projects.. This is consistent with the direction to focus first on ensuring that existing assets are properly maintained in order to maximize utility of the assets.

2004 COUNCIL APPROVED CAPITAL BUDGET TAX SUPPORTED PROGRAM BY CATEGORY $907.932 MILLION



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, 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 $57 billion. The City's capital program is driven largely by the costs of maintaining its physical assets in a state of good repair.

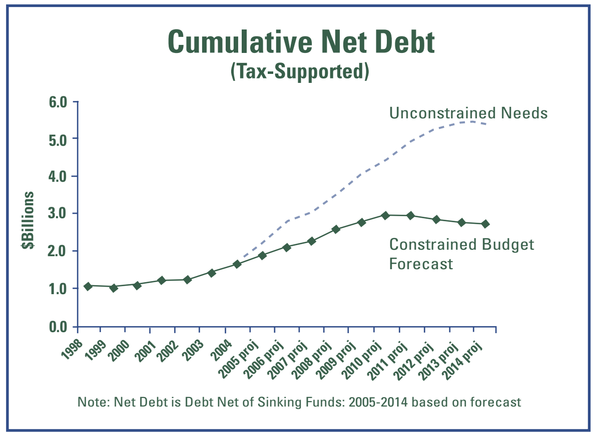
City's Infrastructure is Substantial

	Estimated Asset Value
Transportation Infrastructure	$9.5 Billion
Water & Wastewater Infrastructure	$26.6 Billion
Public Transit System	$8.9 Billion
Buildings, Facilities & Fleet	$6.0 Billion
Housing Infrastructure	$6.0 Billion
Parkland & Other Land	To Be Determined
	$57.0 Billion ++

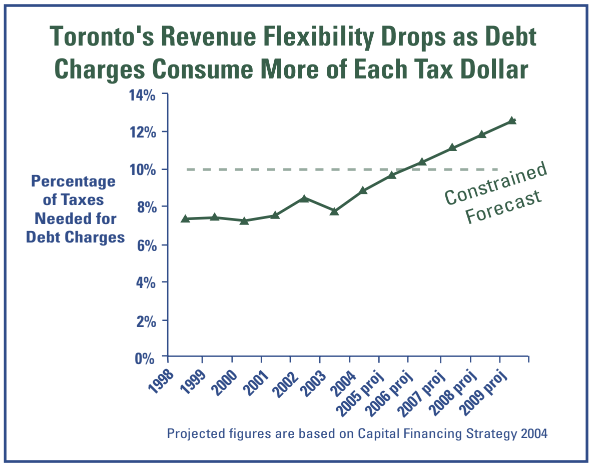
The City's road network, the majority of which was constructed in the 1950's and 1960's, is in need of major repair and rehabilitation. The City's water and wastewater network is similarly aged - 50% of the water pipes and 30% of wastewater pipes are more than 50 years old, while 7% of watermains and 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. 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 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, housing, recreation centres, etc. are required, which will put pressures on the capital and operating budgets.

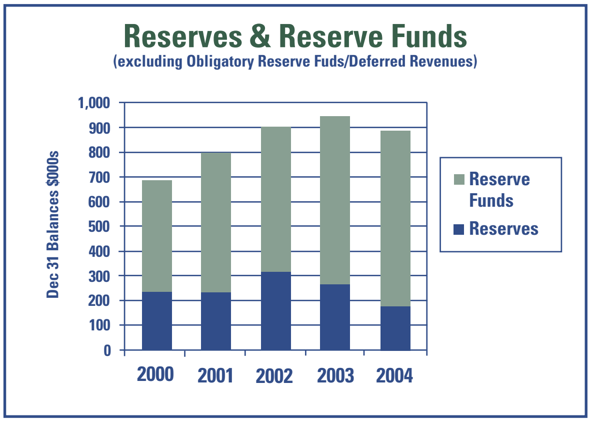
CAPITAL FINANCING AND DEBT

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 ongoing sustainable revenue sources. The City does not have the financial capacity for necessary growth related expenditures, e.g. TTC, Transportation, 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. If all capital needs that have been identified were funded, the City's debt would rise even faster to unsustainable levels. Recent gas tax sharing agreements with the Federal and Ontario Governments, has alleviated some of the capital financing pressures and will help to lessen future debt requirements.



Debt charges is the forth largest component of the property tax bill (behind police and fire services). In 1999, City Council implemented a debt service guideline such that the debt service cost should not exceed 10% of property tax revenues in a given year. This has been re-confirmed in 2005. 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 2006 if the City does not get sufficient and sustainable new revenues to support the capital program.





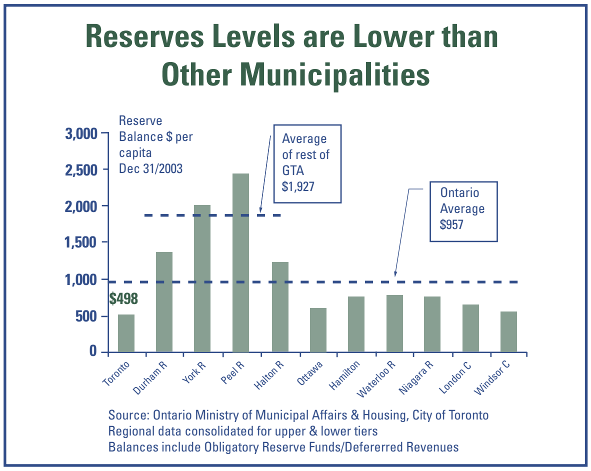
RESERVES AND RESERVE FUNDS

As at December 31, 2004, the City had $879 million in Council-directed reserves and reserve funds, comprising $179 million in Reserves and $700 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 "rainy days", e.g. economic downturn or other extraneous factors that resulted in a budget deficit, to smooth out future program expenditures which may fluctuate from one year to the next, or to accumulate funds for future capital requirements.

Certain funds are associated with an estimated requirement / liability / target level. One example is the Employee Benefits Reserve. Although there is $238 million in the reserve on December 31, 2004, the actuarial liability for the City as at Dec 31, 2004 is estimated at $1,978 million, resulting in an unfunded liability of over $1.74 billion. Other examples include reserve funds for Capital / State of Good Repair. As discussed earlier, the City has total physical assets estimated at more than $57 billion. Most physical infrastructure is old and in need of repair and replacement. If the asset's average life is 50 years, the annual replacement rate should be 2%, or $1.14 billion. Some assets have shorter life, e.g. vehicle & equipment, and therefore the annual replacement requirement could be significantly higher. However, the current reserve balance for State of Good Repair/ Capital Financing purpose is under $200 million.

While the reserve balance of $879 million in Council-directed funds would appear to be a large sum, the City's liabilities with which the reserve funds are associated are currently estimated to be in excess of $4.4 billion, and certain liabilities, such as those relating to the environment are yet to be determined or quantified.

On a comparative basis, the City's overall fund balance on a per capita basis is much lower than most Ontario municipalities - half of the Ontario average and just over a quarter of the average of the rest of 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 $4.8 billion in reserves, or almost four times the current balance, with enough funds to completely 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.

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 as at December 31, 2004 was $519 million.

MUNICIPAL PERFORMANCE MEASUREMENT PROGRAM (MPMP)

Toronto performs relatively well as compared with other Ontario municipalities on a number of municipal service indicators, which has been well documented by other independent bodies. A 2003 report by the Canadian Taxpayer's Federation confirmed that "Toronto fares well when compared to the municipalities on its borders".

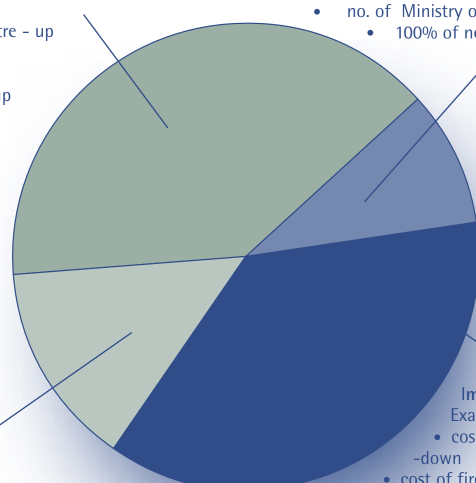
The Municipal Performance Measurement Program (MPMP), introduced by the Province in 2000, was reported for the fifth year in 2004. The program compares Ontario municipalities in selected service areas with respect to efficiency and effectiveness. They include: Local Government, Fire, Police, Roads, Public Transit, Wastewater, Stormwater, Water, Solid Waste, Land-Use Planning, Parks and Recreation and Libraries. The last two were added in 2004.

In 2004, of the 43 performance measures reported, approximately 63% of the measures achieved the maximum possible result, an improved result, or a stable result relative to 2003.

In addition to comparing the City's own performance measures year over year, Toronto is also compared with other Ontario municipalities using MPMP results. When Toronto was compared to other municipalities in the Province using the latest information available (2003), 55% (or 18 out of 33) of the performance measures were better than the municipal average.

The table below lists five selected performance measures under the Municipal Performance Measurement Program (MPMP). It shows how

TORONTO'S 2004 vs. 2003 MPMP RESULTS (TOTAL OF 43 MEASURES)



Less Favourable Result - 37.2% (16 measures)
- policing costs per household - up
- cost of wastewater treatment and disposal per megalitre - up
- cost of wastewater collection per km. - up
- consolidated cost of wastewater per megalitre - up
- cost of water treatment per megalitre - up
- water distribution cost per km. of pipe- up
- consolidated cost of water per megalitre - up
- cost of solid waste collection per tonne-up
- cost of solid waste disposal per tonne-up
- consolidated cost of solid waste management-up
- solid waste complaints per 1,000 households - up
- cost of recreation program per person- up
- cost of recreation facilities per person- up
- consolidated cost of parks and rec. - up
- cost of libraries per person- up
- cost of libraries per use- up

Maximum Possible Result - 9.3% (4 measures)
- 100% of roads cleared in winter, met or exceeded standards
- no. of boil water advisories
- no. of Ministry of Env. compliance orders at solid waste facilities
- 100% of new development within settlement areas

Stable Result - 14.0% (6 measures)
- transit costs per trip - stable
- cost of stormwater management per km- stable
- cost of parks per person- stable
- hectares of open space (parks) per 1,000 persons - stable
- km. of trails per 1,000 persons -stable
- sq. metres of recreation facilities per 1,000 persons - stable

Improved Results - 39.5% (17 measures)
Examples include:
- cost of governance and corporate management -down
- cost of fire services per $1,000 assessment- down
- rates of total crime, violent crime, property crime, youth crime and other criminal code offences - all down
- cost of roads maintenance per lane km (excluding utility cuts) - down
- cost of winter roads maintenance per lane km - down
- % of paved roads rated good to very good - up
- # of transit trips per person- up
- rate of sewer main backups- down
- % wastewater by-passing treatment- down
- rate of water main breaks- down
- cost of solid waste diversion- down
- waste diversion rate - up
- library uses per person- up

Toronto results changed from 2003 to 2004, as well as compares Toronto's 2003 results with the municipal average. The first four measures show that in 2003 Toronto was more efficient than the Ontario municipal average in areas of Governance and Corporate Management Cost, Fire Service, Conventional Transit and Wastewater 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 is the result of 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 GTA, together with its ethnically and culturally diverse population, poses 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.

Toronto Fares Well in Many Performance Measures

(55% measures better than municipal average in 2003)

MPMP(Samples only)	Toronto (2004)	Toronto (2003)	Municipal Average (2003)
Governance and corporate management costs as a % of total operating costs	2.3%	2.7%	4.4% (single tiers)
Operating costs for Fire Services per $1,000 of assessment	$1.04	$1.11	$1.48
Operating costs for Conventional Transit per regular service trip	$2.20	$2.20	$3.75
Operating costs for Wastewater Treatment and Disposal per megalitre	$236	$231	$264
Operating costs for Police Services per household	$719	$683	$451

Source: CAO's Office

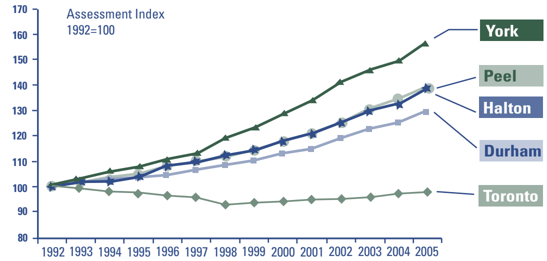
REVENUES

Property Tax

Property tax revenue is the City's single largest source of revenue. In 2004, the City collected over $3 billion from residential and business property owners, which represented over 44% of the total operating revenues.

Over the last thirteen years, the Greater Toronto Area experienced quite remarkable economic and population growth following 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 five-year population growth rates in excess of 20%. The bulk of the new construction and the associated assessment increases are located in the surrounding areas in the GTA. For example, York Region's total assessment increased by more than 56% during this period, as shown in the chart. 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 not yet returned to its 1992 level.

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. Excludes PILs

Up until 2004, Toronto has been the only municipality in the GTA that is prohibited by provincial legislation (Continued Protection for Property Taxpayers Act, 2000, or "Bill 140") 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 the 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 $30 million if the whole assessment base could be accessed, under the previous arrangement the City could raise only $12 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% of the rate for the residential tax class, and thus would provide partial relief from the budgetary levy restrictions imposed by Provincial legislation.

User Fees

User fees are the City's second largest source of revenue. In 2004 total user fee revenues including water and wastewater charges were $1.7 billion, representing 24% 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

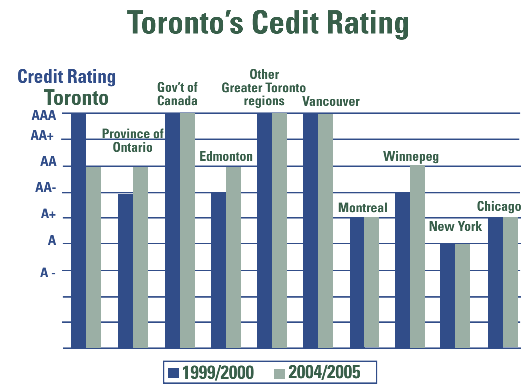
The City receives other revenues such as grants and subsidies from other orders of government which are mainly for mandated programs such as social assistance, as well as other income such as parking fines and investment income. Under provincial rules, costs for Social Assistance and Social Housing are 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.

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 (S&P's)
- Aa1 with a stable outlook from Moody's Investor Service



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

In its latest rating considerations for the City of Toronto, DBRS recognized the City's strengths and challenges. Strengths include a strong and diversified economy, good fiscal management, ownership of Toronto Hydro Corporation, and strong financial controls. Challenges include ongoing management of capital funding pressures, uncertainty regarding provincial and federal funding, heavy business property tax burden, exposure to economy-sensitive program expenditures, and relatively high employee benefit liabilities.

In Standard and Poor's Canada Public Finance Report Card for Canadian Municipalities, it confirmed its ratings for the City as AA (Stable), and had the following comments for the City:

"Toronto is the capital of Ontario and its deep and diversified economy is the economic engine of the country. Labour force results in 2004 improved relative to 2003 as the labour force and employment grew and the unemployment rate fell in the Toronto Census Metropolitan Area. The City's direct debt burden, which has been moderate and very stable in the long term, stood at 41% of operating revenues at the end of 2003 and is little changed from the previous year. Liquidity support generally has been very good: cash and investment balances have averaged 11% of annual operating revenues from 1998 - 2003. The City does have a large infrastructure deficiency and it is very possible that the City will have to increase its level of annual borrowing as it begins to address this gap."

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

S&P had the following outlook for the City:

"The stable outlook reflects our expectation that operating surpluses will improve as the City begins to receive new grants from the provincial and federal governments. Direct debt is expected to increase moderately this year and each year through to 2008, irrespective of the expected new grant revenues. In addition, we also expect that the economy of Toronto and the Greater Toronto Area will continue to grow, create jobs, new taxable assessment and tax revenues."

Moody's Investor Service described Toronto's financial and debt profile as having "strong fiscal results despite operating fund pressures":

"The City of Toronto (Aa1, stable) continues to post positive operating fund outcomes, in the order of 5% of revenues, despite significant pressures that require ongoing budgetary adjustments. Since amalgamation in 1998, the City has faced numerous budgetary challenges, due to the impact of modest increases in the property tax base on revenue growth, and expenditure pressures resulting, in part, from a transfer of service responsibilities from the provincial government . . . "

"To date, shortfalls have been met, predominantly, through various efficiency savings, one-time provincial grants and a redirection of revenues linked to ownership of Toronto Hydro. The City has developed a long-term financial plan that aims to redress these shortfalls on a more permanent basis, thereby generating operating surpluses and adding to reserves . . ."

"The long-term financial plan includes seeking new financial arrangements with the provincial government concerning cost-sharing of various programs . . ."

"The City and the provincial government have also begun review of the City of Toronto Act, which is to be completed by early 2005. Through a new act, the City hopes to gain flexibility to manage financial pressures, including, perhaps, access to new revenue sources linked to economic activity".