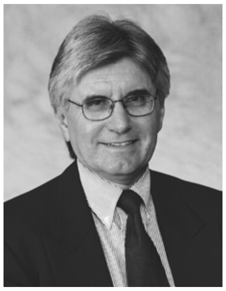
# MESSAGE FROM THE DEPUTY CITY MANAGER AND CHIEF FINANCIAL OFFICER



May 2, 2007

The City of Toronto continues to maintain stable financial results despite challenges in its fiscal capacity from supporting a large, diverse economy and growing long-term debt.

The 2006 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 were spent.

2006 Financial Highlights of the Consolidated Financial Statements:

- The City collected consolidated revenues of $8.51 billion (2005- $7.73 billion) and spent $8.58 billion (2005 – $7.96 billion) for a net consolidated expenditure of $64 million (2005 – $232 million).
- The City's net liabilities increased from $2.24 billion in 2005 to $2.29 billion at December 31, 2006.
- The employee benefits liability increased by $133 million to $2.25 billion (2005 - $2.11 billion).
- Capital spending for the year was $1.51 billion (2005 – $1.15 billion).
- The level of unfinanced capital expenditure decreased $51 million from $245 million in 2005 to $194 million at December 31, 2006.
- Cash and investments increased by $304 million to a total of $2.95 billion (2005 – $2.64 billion).
- The City's investment in its government business enterprises increased by $68 million to total $1.08 billion (2005 – $1.01 billion).
- Net long-term debt to third parties increased by $296 million to $2.26 billion at December 31, 2006 (2005 – $1.96 billion).
- Mortgage debt obligations of Toronto Community Housing Corporation declined by $35 million to a total of $931 million at year end (2005 – $965 million).

The City's efforts to control expenditures and its increased capital transfers from other levels of government were the main reasons for Toronto's stable financial results. Gas tax funding from the federal and provincial governments have alleviated some of the capital debt pressures and will help to lessen future debt requirements. In the interim, staff continue to review the five-year capital plan with the intent of limiting capital expenditures in order to bring debt to a more sustainable level.

In 2006, Council's Operating Budget Directions emphasized fiscal constraint, maximization of efficiencies and cost containment measures. As a result, staff were asked to focus on services that were aligned to

Council's highest priorities, to increase user fees while protecting access for the most vulnerable and to consider service reductions. In addition to Council directions, a target of no more than a two per cent increase over the 2005 Approved Net Operating Expenditure Budget was approved for 2006, and target of zero per cent increases were set for 2007 and 2008.

As well as making changes to internal budget directions, in 2006 the City also made strides in improving the City's business climate. New property tax policies to reduce business property taxes were established for 2005 to enhance the City's economic competitiveness over the long term. The City is in the midst of reporting back on options for a new water rate structure that will assist in retaining and improving the City's industrial and manufacturing base. Both measures were developed after consultations and workshops with stakeholders and the general public to provide fair policies for everyone.

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 S&P's) and Aa1 (Moody's) reflect the City's financial endurance and optimistic outlook for working with other orders of government. Some of this work includes the use of the City's Long-Term Fiscal Plan as a guide in implementing tax policies that enhance economic competitiveness, user rate adjustments for environment and cost control purposes, and efforts with the Province to upload the cost of social service programs in 2008 and beyond. High credit ratings and relatively low debt levels highlighted by independent credit rating agencies reflect the City's prudent financial management that continues to yield positive results for city building.

With day-to-day operations, City of Toronto staff continue to earn accolades for their management of Toronto's public purse. In 2006, the Corporate Finance division's investment program earned a total return of 5.56% (as confirmed by Royal Trust Analytics), as compared to the municipal average of 4.5%. Also, the Accounting Services division launched a corporate-wide initiative to maximize early payment discounts offered by vendors, which has resulted in savings of $1 million and earned a Silver Award at the 2006 Public Service Quality Fair. The City's 2005 Financial Annual Report and 2006 Budget Summary Book also won the Distinguished Award for Budget Presentation from the international Government Finance Officers Association of the United States and Canada, and the City's Long-Term Fiscal Plan won a Silver Award at the Public Sector Quality Fair.

The potential for a more prosperous Toronto became more attainable through the Province's new City of Toronto Act. The City now has the financial flexibility to establish new revenue tools to support city-building initiatives and service improvements to programs such as transportation, parks and recreation, culture and climate change. Although these taxation powers do not address the City's long-term fiscal imbalance, they do support a more optimistic future, with stronger inter-government relations needed for financial sustainability.

The developments in 2006 for the City of Toronto government can only help the Toronto Public Service do more and strengthen its commitment to 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 will help deliver the best value for services.

While financial challenges continue, the City's Long-Term Financial Plan is being implemented as follows: tax policies which enhance economic competitiveness, utilization of user rate adjustments for environmental and cost control purposes, and working with the Province to realize the upload of the social service programs in 2008 and beyond.

Both the City's current financial condition as stated in the Consolidated Financial Statements and City's financial plans as outlined above are assessed and graded independently by its credit rating agencies. They have recently confirmed the City's credit ratings as follows:

- Moody's Investor Service — Aa1 with a stable outlook (reaffirmed in February , 12, 2007)
- Dominion Bond Rating Service (DBRS) — AA with a stable outlook (reaffirmed April 19, 2006)
- Standard and Poor's Canada (S&P) — AA with a stable outlook (reaffirmed March 10, 2006)

The link to the full Long-term Fiscal Plan document is *www.toronto.ca/finance/pdf/long_term_fiscal_plan.pdf.*

Joseph P. Pennachetti
Deputy City Manager and Chief Financial Officer

# FISCAL CAPACITY

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:

- The City's primary revenue sources, property taxes and user fees, do not grow with the economy like income and sales taxes do. The City is not allowed to collect income and sales taxes. Residential property taxes and user fee increases over the years have generally followed the rate of general inflation.
- The City's operating costs have been increasing faster than the rate of general inflation because of population growth, higher construction, energy and labour costs, and because of increasing demands for service.
- The City's physical infrastructure is getting older and is now beginning to be replaced with increased debt and concurrent tax and rate pressures.
- High property tax yielding industrial properties are being converted to low tax yielding residential properties.

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 and/or federal government as a solution to the shortfall.

# PHYSICAL INFRASTRUCTURE

The City owns a significant amount of physical assets, subways, streetcars, buses, comprising roads, expressways, bridges and traffic signal controls, water and wastewater treatment facilities, distribution and collection pipes, reservoirs, pumping stations, 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. 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 | $9 Billion |
| Buildings, Facilities & Fleet | $9 Billion |
| Housing Infrastructure | $6 Billion |
| **Total (excluding land)** | **$61 Billion ++** |

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. Insufficient funding to the state of good repair for all programs has created repair and replacement backlogs worth $1.1 billion, which will grow to 1.4 billion by 2011, an increase of $300 million as shown in the table below. The current backlog of Transportation Services alone is estimated to be $301 million, made up of $163 million in roads and sidewalks, $49 million in bridge rehabilitation, and $89 million related to the western Gardiner Expressway. 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, social housing, recreation centres, etc., are required, which will put pressures on the City's capital and operating budgets.

### State of Good Repair Backlog ($000s)

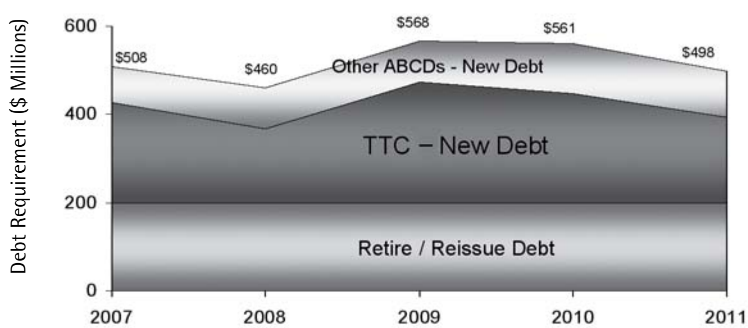
| Category | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2011 Change from 2006 Increase (Decrease) |
|---|---|---|---|---|---|---|---|
| Citizen Centred Services – A | 229,967 | 283,080 | 294,895 | 308,768 | 331,376 | 351,327 | 121,360 |
| Citizen Centred Services – B | 305,800 | 310,092 | 322,335 | 349,052 | 399,029 | 420,291 | 114,491 |
| Internal Services | 222,820 | 203,585 | 178,699 | 161,020 | 137,172 | 108,424 | (114,396) |
| Other City Programs | 11,925 | 7,925 | 3,975 | 1,125 | 550 | 830 | (11,095) |
| Total – City Operations | 770,512 | 804,682 | 799,904 | 819,965 | 868,127 | 880,872 | 110,360 |
| Special Purpose Bodies | 325,181 | 362,886 | 400,298 | 443,541 | 483,989 | 510,841 | 185,660 |
| **Total – Tax Supported Programs** | **1,095,693** | **1,167,568** | **1,200,202** | **1,263,506** | **1,352,116** | **1,391,713** | **296,020** |

# CAPITAL FINANCING AND DEBT

At the beginning of 2006, 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, 2006, the City issued $300 million sinking fund debentures with a term of 10 years and an interest rate of 4.85% per annum. In September 2006, a total of $200 million in sinking fund debentures consisting of $100 million for a term of five years and a yield of 4.20% per annum and $100 million for a 10 year term and an interest rate of $4.50%, per annum.

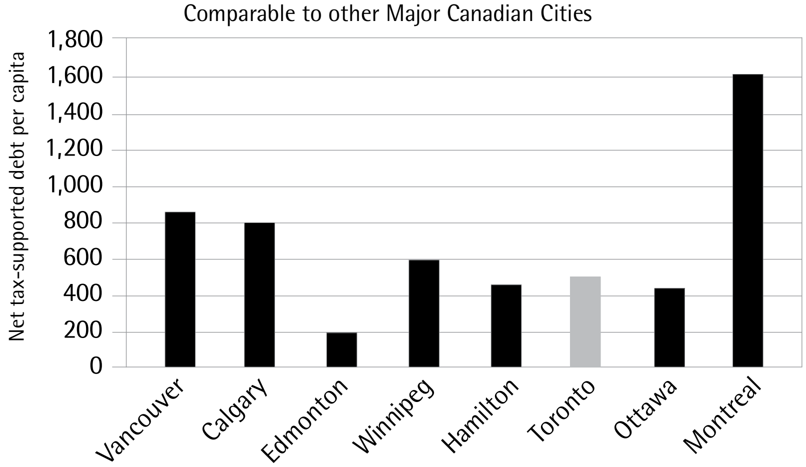
Like other Ontario municipalities, the City is only allowed to borrow to fund capital expenditures. Toronto has enjoyed relatively low debt levels; however, there is a sizeable gap between future capital expenditure needs and ongoing revenue sources. For the next five years, the Toronto Transit Commission (TTC) is driving the majority of the new debt required. In fact, 69% of the new debt is allocated to the TTC.

**69% of New Debt Allocated to TTC**
2007-2011 Tax-supported Capital Plan



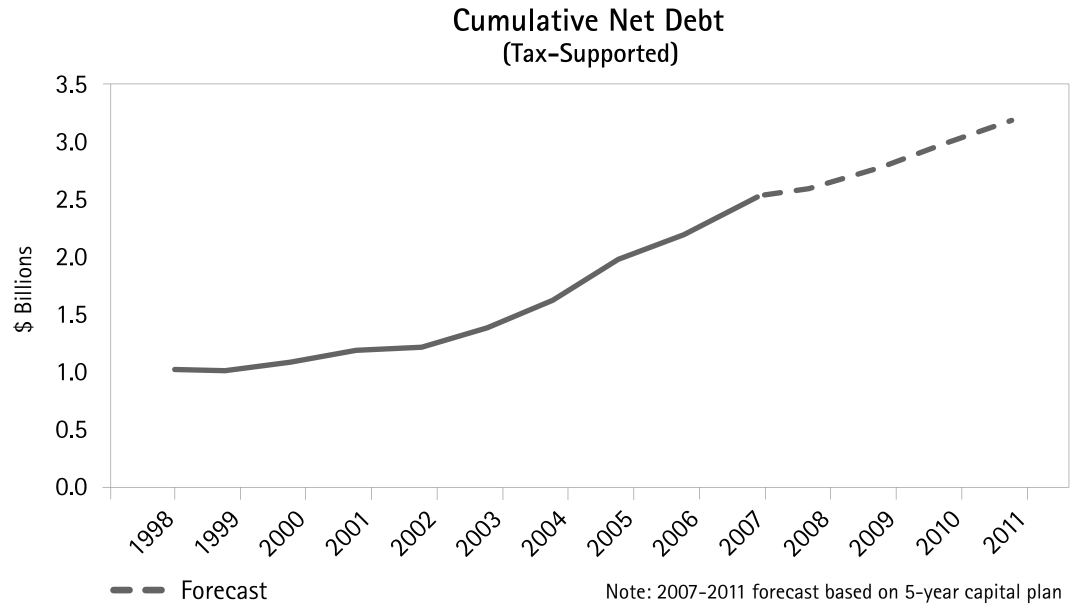

Toronto's net tax-supported debt per capita is comparable to other major Canadian municipalities.

**Toronto's Net Debt**
Comparable to other Major Canadian Cities

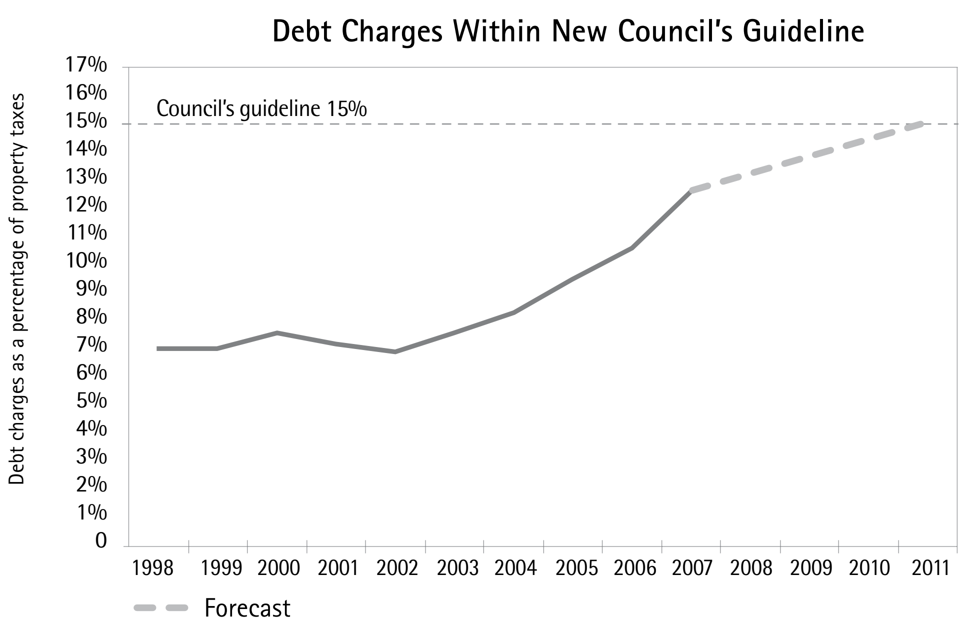



Source: DBRS Canadian Municipal Government Fact Sheet February 2007

Going forward, preliminary estimates show that the City's net debt will escalate significantly if all capital needs that have been identified were to be funded. Gas tax funding from the federal and provincial governments has eased some of the capital financing pressures and will help to lessen future debt requirements.




Debt charges are the second largest part of the property tax bill (behind police services). In 2006, City Council approved a new debt service guideline of 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, but could reach the target as early as 2011.

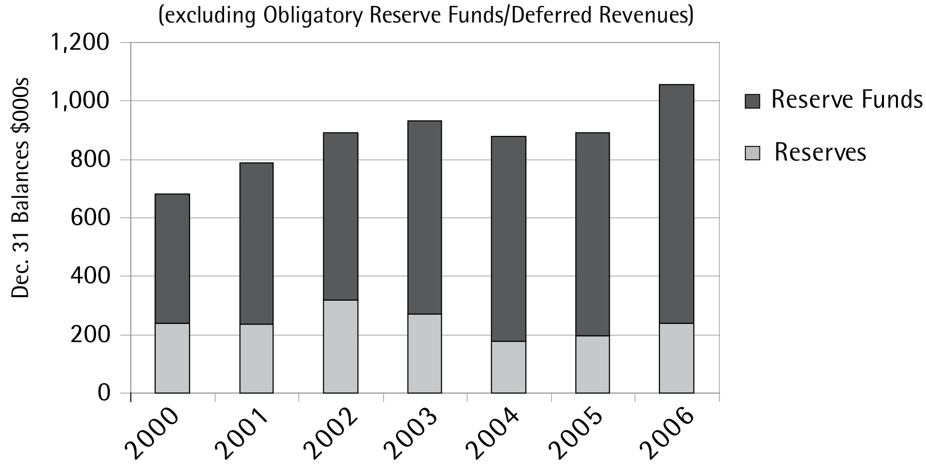


# RESERVES AND RESERVE FUNDS

As at December 31, 2006, the City had $1.1 billion in Council-directed reserves and reserve funds, comprising $238.9 million in Reserves and $818.6 million in Reserve Funds. These funds have been set aside by Council to pay certain liabilities, to defend the City against an economic downturn or other factors that result in a budget deficit, to smooth out program expenditures which may fluctuate from one year to the next, and to accumulate funds for future capital requirements. While the reserves and reserve funds balance would appear to be a large sum, the City's liabilities that the reserves and reserve funds are associated with are currently estimated to be in excess of $2.5 billion. The lion's share of the liability is for employee benefits that have been earned but are payable in the future when employees leave the City's workforce.

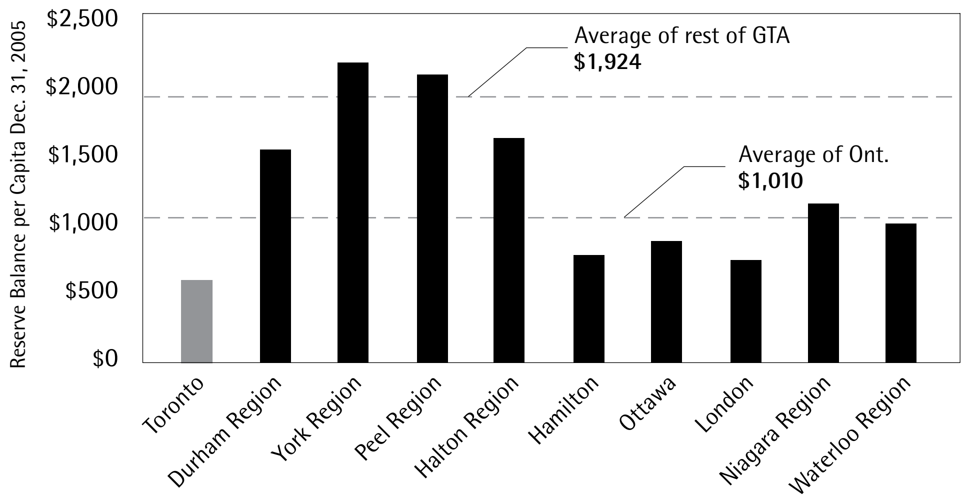
**Reserves and Reserve Funds**

(excluding Obligatory Reserve Funds/Deferred Revenues)




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, more than enough 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.

**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 as at December 31, 2006 was $640.5 million. These funds are all committed and are not available at Council's discretion.

# REVENUES

## 2006 PROPERTY TAXES AND ASSESSMENT

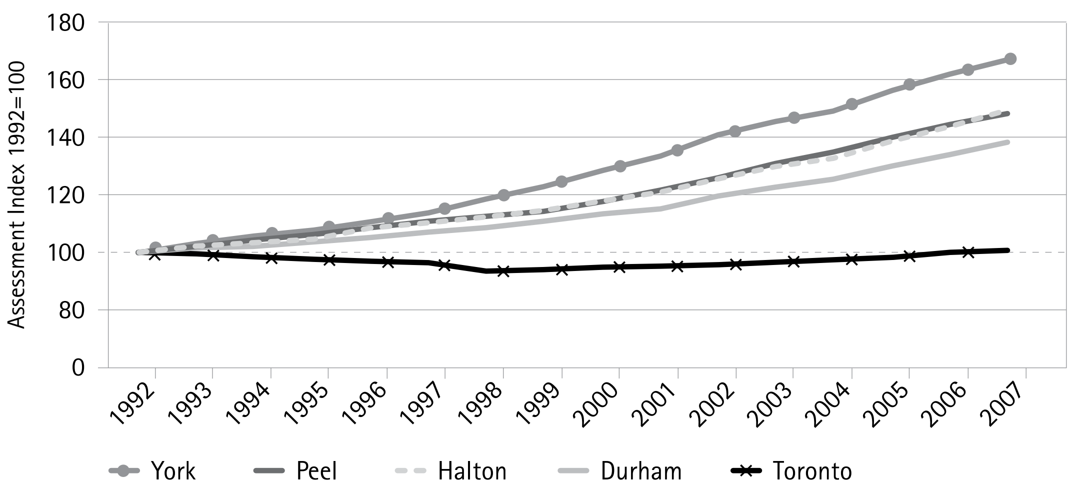
Property tax revenue is the City's single largest source of revenue. The City collects over $3.2 billion from residential and business property owners, which represented over 41% of the total operating revenues.

In each 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.

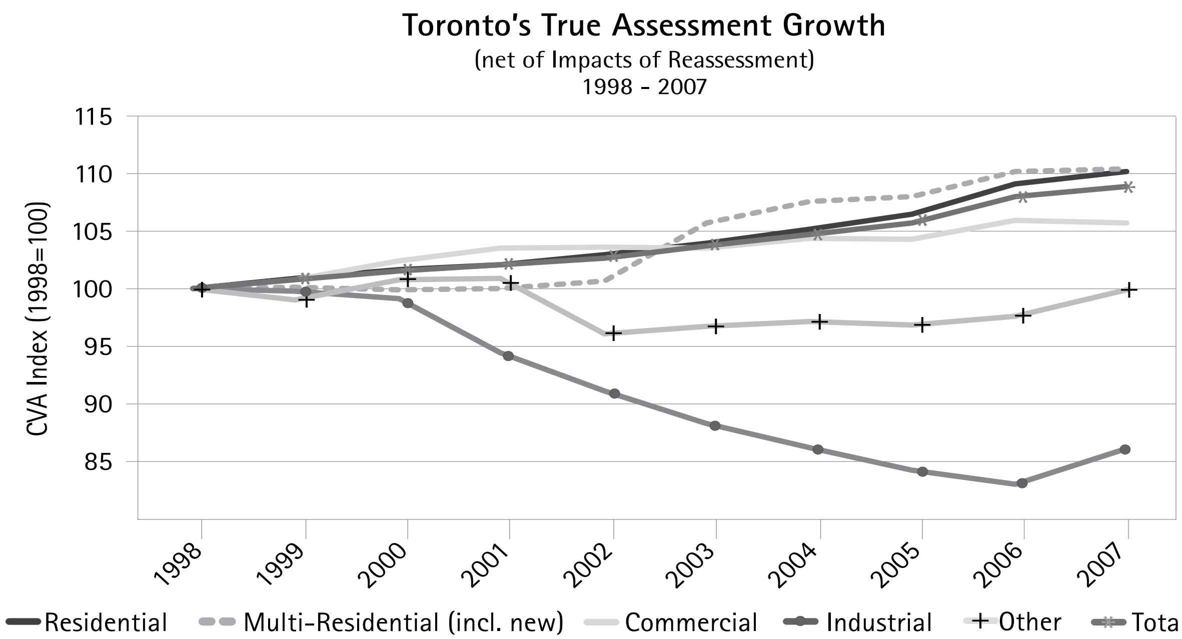
Over the last fifteen years, the Greater Toronto Area experienced quite remarkable economic and population growth following the recession of the 1990s. The Toronto region (CMA) contains a number of the fastest-growing municipalities in Canada between 2001 and 2006. The bulk of the new construction and the associated assessment increase are located in the surrounding areas in the GTA. For example, York Region's total assessment increased by more than 67% during this period, as shown in the following 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 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 2007 the total property assessment of the City's properties saw a total true net growth of 9% when the impacts of property reassessment (updates to more current valuation dates) are removed. Within the various property classes, the residential and multi-residential property classes each saw an increase of about 10%. For the non-residential properties, commercial properties increased by a modest 5.6% and industrial properties had a net decrease of almost 14%. 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.

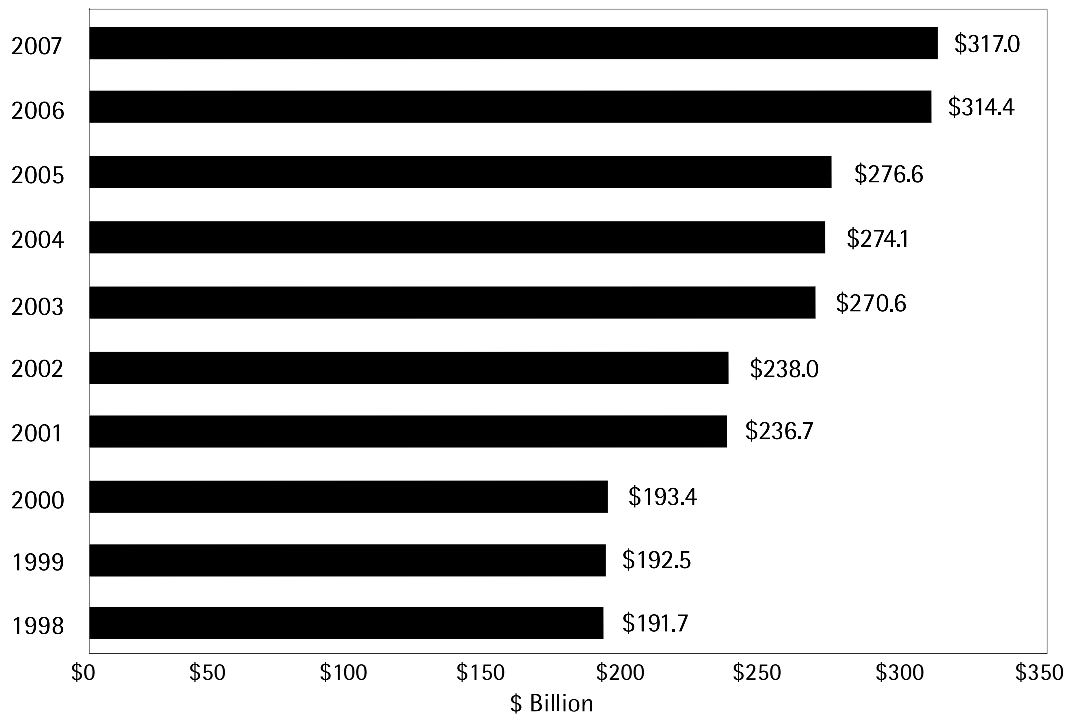
Up until 2004, Toronto had been the only municipality in the GTA that was prohibited by provincial legislation from increasing property tax levies on businesses for budgetary reasons. Ontario municipalities whose commercial, industrial or multi-residential tax ratios exceed threshold ratios established 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.

**Total Property Assessment**
City of Toronto 1998-2007




The chart below illustrates the 2006 taxes payable for the average household in Toronto with an assessed value of $369,300.

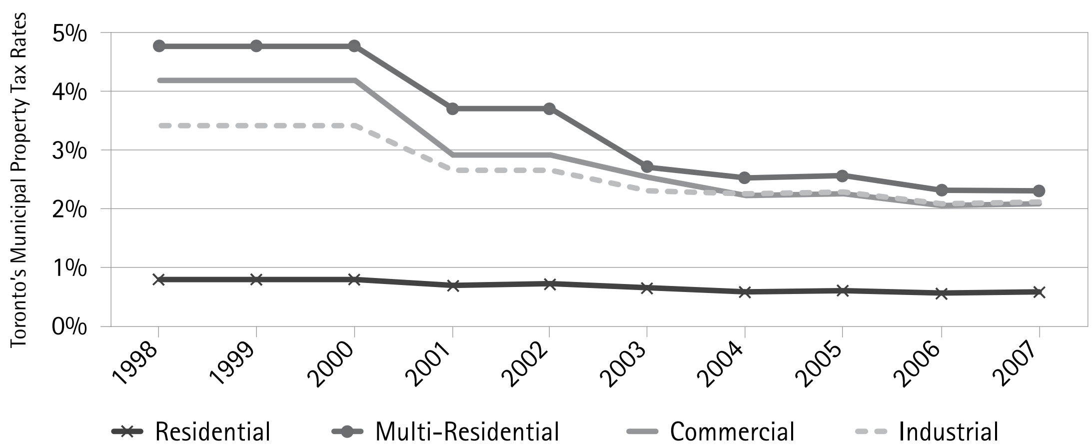
**Chart 2: 2006 Average Household Property Taxes**
**Average residential assessed value – $369,300**

| | 2006 Tax Rate | 2006 Property Tax |
|---|---|---|
| Municipal Purposes | 0.5668587% | $2,093 |
| Education Purposes | 0.2640000% | $975 |
| **Total** | **0.8308587%** | **$3,068** |

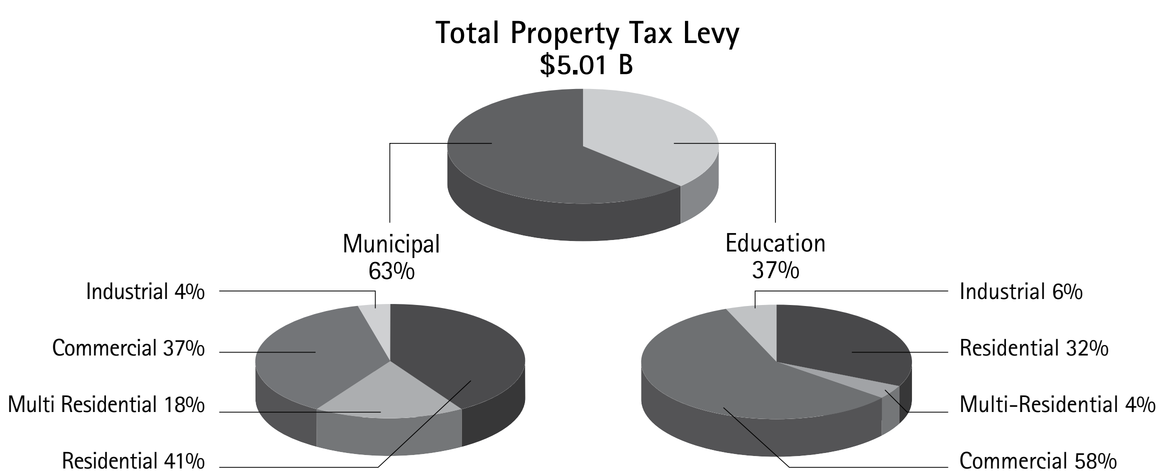
**Toronto's Tax Ratios vs. Provincial Threshold Ratios** (Municipal Portion Only)

| | Taxation Year | | | | | | Provincial Threshold Ratios |
|---|---|---|---|---|---|---|---|
| | 2001 Taxation Year | 2002 Taxation Year | 2003 Taxation Year | 2004 Taxation Year | 2005 Taxation Year | 2006 Taxation Year | |
| Multi-residential | 4.174 | 4.001 | 3.870 | 3.802 | 3.761 | 3.707 | 2.74 |
| Commercial | 3.798 | 3.513 | 3.516 | 3.762 | 3.802 | 3.746 | 1.98 |
| Industrial | 5.301 | 4.120 | 4.120 | 4.273 | 4.273 | 4.171 | 2.63 |

**Toronto Tax Rate Comparison 1998-2007 (%CVA)**




**Toronto 2006 Property Tax Levy**



**Property Tax Relief for Businesses and Seniors**

In late 2005 Council approved a comprehensive property tax policy to improve the business climate in the City, and consequently in 2006 implemented 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 will reduce businesses' taxes by an estimated $300 million. Other tax strategies include tax relief for neighbourhood retail properties, and a lower tax rate for new non-retail commercial and industrial developments.

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 waste-water charges were $1.9 billion, representing almost 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 the surrounding municipalities. There is very limited room for significant rate increases over and above inflationary cost recovery increases.

## 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 a participant in global financial markets. The maintenance of a high quality credit rating is essential to the City's access to the most cost-effective world capital markets.

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 and debt levels. The rating indicates the City's ability to make payments on the debt now and in the future.

The credit rating also establishes the City's cost of borrowing. A higher rating means less risk for investors. Investors are willing to collect lower interest on lower risk investments.

Currently, the City of Toronto's credit ratings are:
- Aa1 with a stable outlook from Moody's Investor Service – reaffirmed February 12, 2007
- AA with a stable trend from the Dominion Bond Rating Service Ltd. (DBRS) – reaffirmed April 19, 2006
- AA with a stable outlook from Standard and Poor's Canada (S&P's) – reaffirmed March 10, 2006

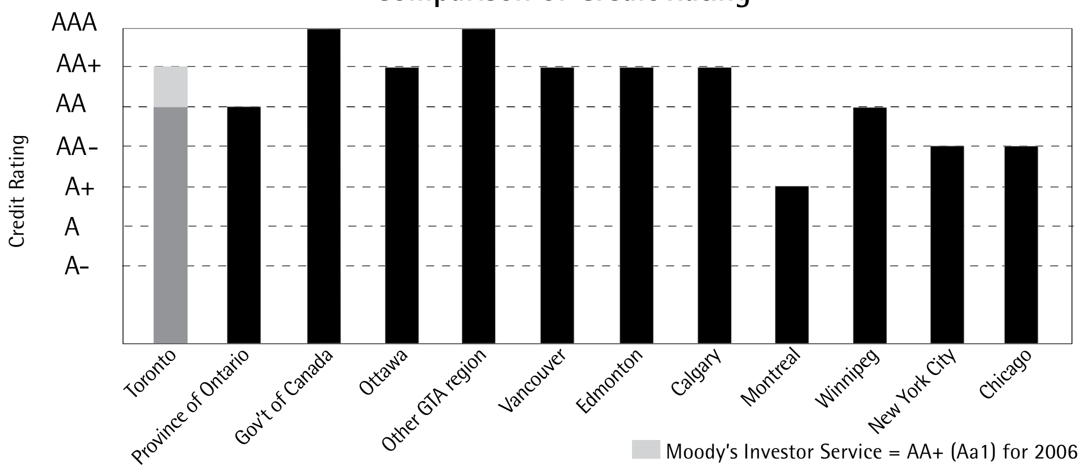
| | 2006 | 2005 | 2004 | 2003 | 2002 | 2001 | 2000 | 1999 | 1998 | 1997 |
|---|---|---|---|---|---|---|---|---|---|---|
| DBRS | AA | AA | AA | AA | AA | AA(high) | AA(high) | AA(high) | AA(high) | AAA |
| Standard and Poor's | AA | AA | AA | AA | AA | AA+ | AA+ | AA+ | AA+ | AA+/AAA |
| Moody's Investors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

In reaffirming the City of Toronto's Aa1 rating and stable outlook in February 2007, Moody's Investors' Services wrote "Toronto's Aa1 debt rating, with stable outlook, is supported by a history of strong fiscal results, despite ongoing operating pressures, a large, diverse economy and a growing but manageable debt burden."

In its Public Finance Report Card: Canadian Municipalities released May 2006, Moody's wrote "Toronto financial flexibility has increased as it has benefited from new provincial and federal grant programs aimed at helping municipalities address infrastructure funding shortfalls. It is expected that a new provincial statute (City of Toronto Act) will expand the City's state of powers, giving it the ability to levy (new) taxes."

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

## Comparison of Credit Rating



## TORONTO'S 2005 PERFORMANCE MEASUREMENT AND BENCHMARKING REPORT

The City of Toronto continues to promote a continuous improvement culture in order to provide the best service value with municipal tax dollars. One way of assessing how well the City is using its resources is through the examination of performance measurement results.

For the past five years the City Manager has prepared a series of reports on Toronto's performance measurement results under the Municipal Performance Measurement Program (MPMP), a provincially-mandated program that requires all Ontario municipalities to report annually to the Ministry of Municipal Affairs & Housing on forty-four performance measures in twelve different service areas.

In April 2007, Toronto issued its *2005 Performance Measurement and Benchmarking Report* which strengthened accountability and enhanced the level of transparency in the way performance measures are reported. This report can be accessed through the following link
*http://www.toronto.ca/city_performance/pdf/2005-ombi-measure-benchmark.pdf.*

The report includes:

- five-year trends in Toronto's internal performance measurement results and a description of those trends as favourable, stable or unfavourable
- an external comparison of Toronto's results to other Ontario municipalities and the ranking of Toronto by quartile
- results for over a hundred service level indicators and performance measures in seventeen different service areas, each supported by detailed charts and narratives

Noted below is a summary and highlights of this report.

**Background**
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. Given Toronto's unique nature, examining Toronto's own year-over-year performance and longer-term historical trends is important, and provides the most comparable performance information.

**Toronto's Performance Measurement framework**
Toronto's performance measurement framework for service delivery includes the following four categories of indicators and measures:

- **ServiceLevel 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 internally over a period of years or externally in relation to other municipalities.

There are also a number of qualitative factors, such as achievements or innovative initiatives currently being piloted, that are not captured in performance measurement results. This information is equally as important and must also be considered in any evaluation. In the past three years for example, Toronto has won more than 50 awards for quality and innovation in delivering public services.

**External Comparison Through OMBI**

There is also value in comparing Toronto's service level and performance measurement results externally to other municipalities, in order to provide a better understanding of Toronto's own municipal performance.

For a number of years, Toronto has been working with fourteen other municipalities as part of the Ontario Municipal CAOs Benchmarking Initiative (OMBI), which together serve more than 9.1 million residents or 72% of Ontario's population. Through the joint work of municipalities undertaken through OMBI, Toronto's service levels and performance measurement results can be compared to similar information provided by other municipalities.

With the development of the Ontario Municipal CAOs Benchmarking Initiative (OMBI), which is more comprehensive than MPMP, the City of Toronto will continue to focus on the reporting of OMBI results.

The approach and methodologies developed through OMBI, have been constructed over a number of years to enhance the comparability of information and include:

- detailed technical definitions for each performance measure
- costing methodologies based on the Financial Information Return (FIR)
- a methodology to allocate program support costs (such as Human Resources and Information & Technology) to operating programs (In this way, differences in organizational structure (centralized, de-centralized or mixed program support model) are not a factor in comparisons of costs)

- identification of factors that can influence municipal results for each measure
- a web-based data warehouse used to collect and share information

Panels of experts in each service area have been established with representatives from member municipalities meeting on a periodic basis, to plan for, and review data that has been collected.

In January 2007, OMBI released its first joint report from its fifteen member municipalities, entitled OMBI 2005 Performance Benchmarking Report (OMBI Joint Report), which can be found on the City's website at *http://www.toronto.ca/city_performance/pdf/OMBI-public-report-2007-01-08.pdf.*

The benefits of this collaboration through OMBI extend beyond the generation of performance measurement results to the identification and sharing of best practices that contribute to superior performance measurement results. A number of best practices have been identified in the roads, solid waste management and water and wastewater service areas, which are listed in Appendix D of the Joint OMBI Report.

There are also a number of qualitative factors, such as achievements or innovative initiatives currently being piloted, that are not captured in performance measurement results. This information is equally as important and must also be considered in any evaluation.

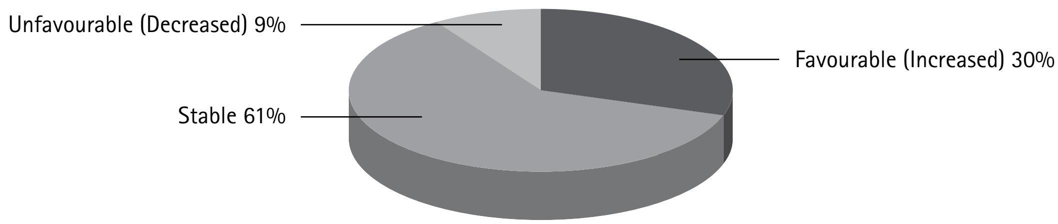
**What Services are Included in Toronto's 2005 Performance Measurement and Benchmarking Report?**
Toronto's 2005 Performance Measurement and Benchmarking Report builds on the OMBI Joint Report and includes five-year internal trends and external comparisons for over 100 indicators and measures in the following 17 service areas:

Child Care Services
Court /POA Services
Emergency Medical Services
Fire Services
Governance and Corporate Management
Hostel Services
Library Services
Long Term Care/Homes for the Aged
Police Services
Road/Transportation Services
Social Assistance Services
Social Housing Services
Solid Waste Management Services
Sports and Recreation Services
Transit Services
Wastewater Services
Water Services

**How Have Toronto's Service Levels Changed Over the Past Few Years?**
Figure 1 below, provides a summary of Toronto's internal trends for 23 service level indicators included in Toronto's 2005 Performance Measurement and Benchmarking Report. Examples of service level indicators are the lane kilometres of roads per 1,000 persons or the in-service transit vehicle hours per capita.

Results show that for 91% of the service level indicators, Toronto's service levels have been maintained (stable) or have increased (favourable) in recent years.

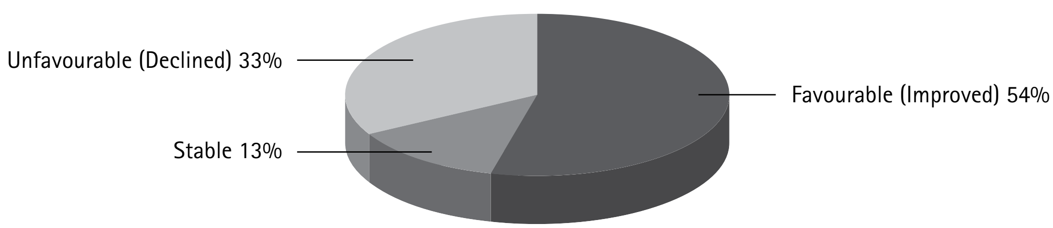
**Figure 1**
**Toronto Report - Internal Historical Trends**
**Service Levels (23 Indicators)**




**What Are the Internal Trends in Toronto's Performance Measurement Results Over the Past Few Years?**
Figure 2 below, provides a summary of Toronto's internal trends over the past few years, of 61 performance measurement results included in Toronto's 2005 Performance Measurement and Benchmarking Report. This includes efficiency, customer service and community impact measures.

Results indicate that 67% of the performance measures examined, had results that were either improved or stable in recent years.

**Figure 2**
**Toronto Report - Internal Historical Trends**
**Performance Measures (61 Measures)**




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

- increasing supply of regulated and subsidized child care spaces relative to the child population
- decreasing costs of court services, per charge filed
- decreasing rates of residential structural fires, and fire related injuries and fatalities
- increasing usage by residents of electronic and non-electronic library services, and decreasing costs per library use
- continuing high rate of resident satisfaction in homes for the aged
- decreasing total (non-traffic) crime and property crime rates
- decreasing vehicle collision rate
- improving pavement condition of Toronto's roads system
- decreasing (improving) response times for eligibility notification of Social Assistance clients, and decreasing administration costs per case
- increasing solid waste diversion rates

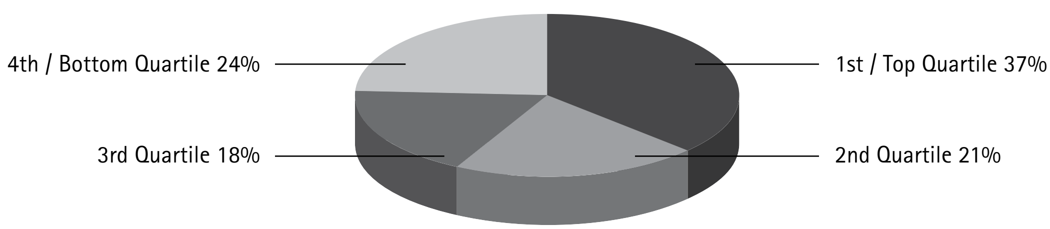
- increasing use per capita (participant hours), of registered sports and recreation programs
- increasing transit trips per person
- decreasing rates of sewer back ups
- decreasing rate of wastewater by-passing treatment

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

- twelve efficiency measures, where costs are increasing each year, primarily due to wage increases in collective agreements
- longer response times in EMS (hospital offload delays) and Fire
- the time to trial for POA offences has increased due to shortages of Justices of the Peace
- increased violent crime rate in 2005 (prior to 2005 there had been a decreasing trend)

**How Do Toronto's 2005 Service Levels Compare to Other Municipalities?**
Figure 3 below, summarizes Toronto's 2005 service levels in relation to other OMBI municipalities. Of the 33 service level indicators, Toronto is higher than the OMBI median (the 1st and 2nd quartiles) for 58% of the indicators.

Figure 3
Toronto Report – Results Compared Externally
Service Levels (33 Indicators)




Most of the areas where Toronto's service levels are high (1st quartile) relative to the other municipalities, can generally be attributed to:

- services where Toronto's size and high population density requires higher service levels which are indicative of large cities
  - > high number of police staff (officers and civilians) per 100,000 population and high policing costs per capita
  - > high number of transit vehicle hours per capita, because of Toronto's multi-modal system and high transit use
  - > high number of library holdings (collection) per capita, due to our extensive research and reference collections, electronic products and multilingual collections
  - > high number of POA charges filed per capita, along with higher amounts of court hours per 1,000 persons
- Higher need or demand for social services in large cities
  - > high childcare investment per child
  - > high rate of social assistance cases per 100,000 households

> high number of emergency shelter beds per 100,000 population
> high number of social housing units per 1,000 households

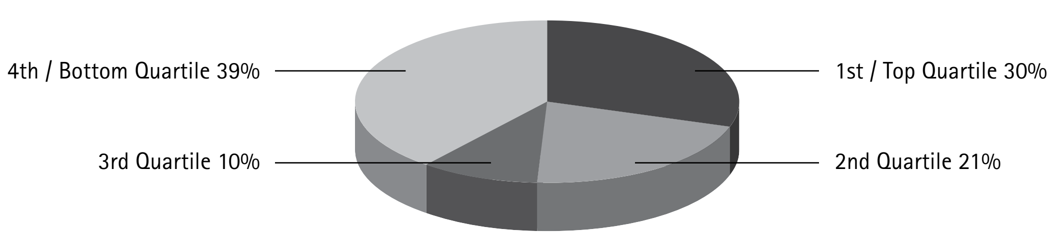
- Service delivery model
  > Toronto has a high number of medical incidents responded to by fire, per 1,000 population
  > high rate of registered sports and recreation programming (participant hours) offered per capita

Areas where Toronto's service levels appear to be low (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
  > low number of large and small sports and recreation community centres, and indoor ice pads per 100,000 population
  > low number of library hours per capita (impacted by number of library branches)
  > low number of road lane km. per 1,000 population
- 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.)
  > low number of fire vehicle hours per capita
  > low number of EMS vehicle hours per 1,000 population

**How Do Toronto's 2005 Performance Measurement Results Compare to Other Municipalities?**
Figure 4 summarizes Toronto's 2005 performance measurement results in relation to other OMBI municipalities, for seventy-one measures of efficiency, customer service and community impact. Results indicate that Toronto is better than the OMBI median (1st and 2nd quartile) for 51% of these performance measures. These results are comparable to the other large single-tier municipalities in OMBI who also have responsibility for the full range of services included in this report.

**Figure 4**
**Toronto Report - Results Compared Externally**
**Performance Measures (71 Measures)**



Some of the areas in which Toronto is performing well include:

- performance measures where Toronto has the top/best result of the OMBI municipalities:
  - > highest collection rate for POA fines (court services)
  - > 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 and electronic library uses per capita, as well as the highest turnover rate (number of times an item is borrowed) of the circulating collection
  - > within 0.01% of having the highest rate of long term care resident satisfaction (98%)
  - > highest pavement quality rating for our roads system
  - > highest possible result (100%), for the number of winter event responses on roads meeting standard
  - > highest rate of residential solid waste diversion for houses
  - > highest rate of transit trips per capita
  - > lowest cost of providing transit services per passenger trip
  - > 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 median (1st or 2nd quartile) of the other OMBI municipalities 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 costs of court/POA services per charge filed
  - > lower rate of residential structural fires (at median), lower rate of fire related fatalities and a lower/better fire response time to emergencies
  - > higher occupancy rate of emergency shelters
  - > higher rate of non-electronic library use and lower cost per library use
  - > lower long-term care costs per bed-day
  - > lower property crime rate and lower youth crime rate (based on youths cleared by charge or cleared otherwise)
  - > lower administration cost of social assistance per case, and lower (shorter) response times for eligibility notification of social assistance clients
  - > lower overall residential (houses and apartments) solid waste diversion rate and lower solid waste collection costs per tonne
  - > higher participant hour usage per capita, of registered sports and recreation programs
  - > lower amounts of wastewater by-passing treatment
  - > lower water use per household

There are also a number of the areas in which Toronto's performance measurement results fall below, or are not as good as the OMBI median, falling in the 3rd or 4th quartile.

Some of these results can be attributed to the following factors:

- Measures that Toronto has little control over:
  - > high wait time, for trial of POA offences, due to shortage of Justices of the Peace
  - > higher benefits and total cost per social assistance cases 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
  - > 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 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 density urban form include:
  - > higher violent crime and total (non-traffic) crime rate and a higher rate of increase in the 2005 violent crime rate (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.)
  - > 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.)
  - > high rate of traffic congestion on roads and a higher vehicle collision rate on these congested roads

- Measures where Toronto's less favourable results are heavily influenced by the advanced age of our infrastructure:
  - > 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.)
  - > higher cost of wastewater collection per km. of pipe and higher rate of sewer back-ups per 100 km. of sewer line (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, leading to sewer back-ups especially during storm events.)
  - > higher costs of wastewater treatment per megalitre, due to the age of our plants (the oldest has been in operation since 1929)

- Measures with high costs required for effective service delivery:
  - > high costs for solid waste diversion per tonne but Toronto also has the highest diversion rate for houses of the OMBI municipalities

> 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 and our urban form, including narrow streets, on-street parking and traffic congestion during storm events, add to our costs
> 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 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 falls below the OMBI median:
  > higher Emergency Medical Services cost per in-service vehicle hour
  > higher fire costs per in-service vehicle hour
  > lower clearance rates for total (non-traffic) crime and violent crime
  > lower number of criminal code incidents in the municipality per police officer
  > rate of decrease in Toronto's 2005 total (non-traffic) crime rate and property crime rate was not as large as the decrease in other municipalities
  > Toronto's 2005 youth crime rate (cleared by charge or cleared otherwise) increased slightly from 2004 but in most other municipalities youth crime decreased in 2005 (excluding the 2005 vs. 2004 change Toronto's 2005 youth crime rate is still low, in the top quartile of the municipalities).
  > 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 percentage of the population using registered sports and recreation programs at least once

**Continuous Improvement**
**The City continues to look for ways in which performance can be improved. Examples of some of the initiatives that have or are taking place include:**

- Winter maintenance of roads – in 2005, Toronto received a gold award at the Public Sector Quality Fair for our salt management plan which has reduced the volume of salt used while maintaining safe winter driving conditions for vehicular and pedestrian movements.
- Road maintenance – new street sweeping equipment, technology and routing is expected to reduce costs and alternatives are being examined for diversion of residual material.

- **Water and Wastewater**
  > Emerging technologies in the relining and trenchless technology field, may reduce the renewal costs and avoid the need for a complete system replacement.
  > Programs to reduce sewer back-ups include the free disconnection of downspouts for residents who request it, and a subsidized program to assist homeowners with the repair and replacement of sewer laterals, which are damaged or blocked by city trees.
  > Wastewater treatment plants have implemented energy efficiency measures and are continuing to do so as opportunities arise.

- **Solid Waste Diversion**
  - > will be implementing efficiencies at organics processing facility to increase the processing capacity of source separated organics (Also are examining optical sorting technology to improve mechanical sorting of single stream materials.)
  - > In 2005, the City instituted a single-stream recycling pick-up for residents allowing them to mix recyclables all in the same box. This has the dual advantage of making recycling easier for residents and improving collection efficiency. The City also utilizes co-collection vehicles to optimize collection activities, collecting garbage and green-bin materials on a single vehicle one week and then recyclables and green-bin materials on a single vehicle the next week.
- Solid Waste Disposal – compressed hours of operation at transfer stations to eliminate need for night shift.
- Solid Waste Collection – re-routing of collection routes.

**Conclusion**

Further work is to be done with our municipal partners to expand the program areas we are able to report benchmarking results on, and identify and validate best practices that can lead to superior performance that can then be collectively shared.

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 by specific service area visit
*http://www.toronto.ca/city_performance/pdf/2005-ombi-measure-benchmark.pdf.*