2015 City of Toronto Financial Report
For the fiscal year ending December 31, 2015

City of Toronto, Ontario, Canada
This report was prepared by:
The City of Toronto, Accounting Services, Corporate Finance,
Design Services and Strategic Communications
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The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Canadian Award of Financial Reporting to the City of Toronto for its annual financial report for the fiscal year ending December 31, 2014. The Canadian Award for Financial Reporting program was established to encourage municipal governments throughout Canada to publish high quality financial reports and to provide peer recognition and technical guidance for officials preparing these reports.

In order to be awarded a Canadian Award for Financial Reporting, a government unit must publish an easily readable and efficiently organized annual financial report, whose contents conform to program standards. Such reports should go beyond the minimum requirements of generally accepted accounting principles and demonstrate an effort to clearly communicate the municipal government’s financial picture, enhance an understanding of financial reporting by municipal governments, and address user needs.

A Canadian Award for Financial Reporting is valid for a period of one year only. The City of Toronto is continuing this standard of high quality reporting for the submission and evaluation to the GFOA for the 2015 Award Program.
A message from the Toronto Mayor

John Tory

Toronto is a vibrant and growing city, but it is changing quickly.

As Mayor, I'm focused on helping Toronto compete in today's global economy and maintaining our city's character as vibrant, welcoming and affordable for all ages and income levels.

Along with my Council colleagues and City staff, we're providing services with a direct, positive impact for the public. We continue to build a modern city through our transit network expansion and mobility improvements, and continued investments in the city's poverty reduction strategy, affordable housing efforts and programs that contribute to Toronto's standing as one of the most liveable cities in the world.

We are modernizing our services while investing in our citizens and celebrating the values and character that make Toronto great.

With an unprecedented alignment between all three levels of government, Toronto is at the forefront of vital economic growth, innovation and important ongoing efforts to ensure equality of opportunity for all our residents.

I look forward to working with my colleagues on City Council and our counterparts at Queen's Park and on Parliament Hill to realize a bold and inclusive vision for Toronto.

Sincerely,

Mayor John Tory
City of Toronto
A message from the City Manager

Peter Wallace

I am pleased to present the City of Toronto’s 2015 Annual Financial Report. This report provides details about the City’s financial performance, progress and achievements in the past year.

When I joined the City of Toronto in mid-July, the Pan Am Games were underway and the City of Toronto never looked better. For six weeks running, City staff demonstrated great teamwork and collaboration in helping to host the largest multi-sport event and athletic competition ever held in Canada, casting Toronto in a very favorable light, across Canada and internationally.

In October, a number of proposed amendments to the existing City of Toronto Act (COTA) were brought forward and subsequently approved by Council. The proposed amendments were submitted to the Province of Ontario as part of the Act’s ongoing five-year review process. The proposed amendments are intended to increase the City’s authority for more effective decision-making in key areas, provide improved flexibility to enhance service delivery, support financial sustainability and improve accountability and transparency.

With almost three million residents, Toronto is a thriving and growing city. The City strives to balance the need to provide high quality, affordable services and invest in infrastructure to support city building, while keeping taxes low for businesses and residents. The City has established ambitious plans to provide comprehensive services to its residents. Toronto, like other large cities, is addressing urban challenges that include population growth, aging infrastructure, traffic congestion, lack of investment in social housing, poverty, and the distribution of community services.

From a staff perspective, the Toronto Public Service By-Law came into effect on December 31, 2015. This by-law codifies our public service values and sets out the rights and responsibilities of members of the Toronto Public Service in ethical areas, including conflict of interest and confidentiality, political activity and the disclosure of wrongdoing and reprisal protection.

As well, the City of Toronto was recently named one of Greater Toronto’s Top Employers for the second year in a row and the third time overall. I take great pride in this City and the accolades that it receives through the dedication of the Toronto Public Service. For the first time ever, the City of Toronto won a Canada’s Best Diversity Employers award from Mediacorp Canada Inc. for our successful diversity initiatives in a variety of areas including programs for employees from five groups: women; members of visible minorities; persons with disabilities; Aboriginal peoples; and Lesbian, Gay, Bisexual and Transgendered (LGBT) peoples.

Best regards,

Peter Wallace
City Manager
Profile on Toronto

Toronto in World Rankings
Toronto is one of the most liveable and competitive cities in the world as demonstrated by various international rankings and reports. In addition to securing its position on the world stage, Toronto’s rankings confirm that it continues to offer a high quality of life for about 2.8 million residents who choose to live and work here.

Best Place to Live – Economist Intelligence Unit
*The Economist*

According to the Economist Intelligence Unit, Toronto is the best place to live among 50 global cities included in the study. The survey evaluated safety, liveability, cost of living, business environment, democracy and global food security.

Most Competitive, Sustainable and Livable Metropolis
*PwC*

PwC in conjunction with the Asia-Pacific Economic Cooperation (APEC), named Toronto the best city among 28 global cities in the Asia Pacific region to live and do business. The ranking was based on 39 indicators grouped under five themes, including culture and social health, connectivity, health and welfare, environmental sustainability and economics.

Most Livable City
*Metropolis Magazine*

Architecture and design trade publication, Metropolis Magazine, named Toronto as the most livable city in the world, based on rankings completed by a team of experts in urban planning and architecture. The rankings were based on criterial related to smart infrastructure, walkability and preservation.

Best Economy for Young People
*Youth Economic Strategy Index – Citi Foundation/Economist Intelligence Unit*

According to a study done by the Economist Intelligence Unit, Toronto is the best economic environment for young people. The Index, based on 31 economic indicators, evaluates economic drivers and enablers in 35 cities across the world under four themes, including government support, employment and entrepreneurship, education and training, and human and social capital.

Second Most High-Rise Buildings Under Construction in North America
*Emporis.com*

According to Emporis, a global provider of building information, Toronto continues to rank high in their survey of cities with the most high-rise buildings under construction in North America, with a second place ranking next to top ranked New York City and third ranked Houston.
Best City to Invest in Real Estate in the Long Term (Most Resilient City)

Grosvenor Group

According to Grosvenor Group, a U.K.-based real estate developer, Toronto is the best bet for long-term investment in real estate according to their global resiliency ranking of 50 global cities. In fact, Canadian cities (Toronto, Vancouver and Calgary) were ranked as the top three cities based on a combination of low vulnerability and high adaptive capacity. Also according to the research, Canadian cities are well governed and well planned.

Most Tax-Competitive Major Global City

KPMG

According to KPMG, in a report entitled “Competitive Alternatives 2014: Focus on Tax”, Toronto ranked first overall among 51 major international cities studied. The study assessed tax competitiveness by comparing various tax rates in each location including: corporate income tax, property taxes, capital taxes, sales taxes, miscellaneous local business taxes and statutory labour costs.

City of Toronto, GTA and CMA

Toronto is Canada’s largest city with a population of 2.8 million residents. It is the heart of a large urban agglomeration of 6.4 million called the Greater Toronto Area (GTA). The city has one of the most ethnically diverse populations in North America. Almost one in four visible minority persons in Canada resides in Toronto. Nearly half of the city’s population (47%) considers itself as part of a visible minority group.

Toronto, with 89,000 businesses, is the major economic engine of the country. The city is both the political capital of the Province of Ontario and the corporate capital of Canada. As well, it is the major centre for culture, entertainment and finance in the country. The city is the home to more national and internationally ranked companies than any other city in Canada.

The GTA is one of the largest regional economies in North America, characterized by concentrated and fast-growing finance-related industries and highly specialized knowledge-based jobs. An estimated $317 billion of goods and services (2007 $s) are produced in the Toronto Census Metropolitan Area (CMA) according to the Conference Board of Canada. Toronto accounts for approximately half of this total.

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1 Greater Toronto Area (GTA) refers to the City of Toronto plus the surrounding regions of Durham, York, Peel and Halton which include four upper tier and 24 lower tier municipalities.

2 Toronto CMA (Census Metropolitan Area) refers to the municipalities assigned by Statistics Canada on the basis of labour market and commuting criteria. It comprises the City of Toronto and 23 other municipalities.
In addition to the modern network of highways and transcontinental railway lines that traverse Toronto, local businesses are also well served by two airports: Pearson International Airport, the largest in Canada and Billy Bishop Toronto City Airport which is located near the downtown core. Union Station, the city’s central, multimodal transportation hub is the busiest, multimodal, passenger transportation hub in Canada, serving a quarter-million people daily. It is connected to numerous methods of travel, including subway, commuter rail, commuter bus, passenger rail and bicycle. Union Station is undergoing a major revitalization to improve the quality and capacity of pedestrian movement, restore heritage elements and to transform Union Station into a major destination for shopping, dining and visiting. The revitalization project is expected to be completed in 2016.
Key Employment Sectors

Toronto has one of the most diverse economies in North America and provides companies with an equally rich mix of partners, suppliers and talented professionals to meet the demands of business today.

The financial services sector is emerging as one of Toronto’s highest growth industries with a large and highly concentrated workforce. The Toronto region is home to the functional head offices of the five major banks in Canada and the majority of foreign banks/subsidiaries/branches in Canada. Toronto was ranked 8th of 84 cities in the 2015 Global Financial Centres Index. According to a November 2015 Conference Board of Canada report, Toronto’s financial services sector directly employs over 250,000 people in Toronto and is home to 30% of all financial services headquarters in Canada. Also, according to the report, the share of financial services employment in the Metropolitan Toronto area has risen from 28.2% in 2004 to 32.3% in 2014.

As part of the health sector, the biomedical and biotechnology cluster in Toronto is the fourth largest in North America. The Discovery District is a downtown research park with 7 million square feet of facilities — Canada’s largest concentration of research institutes, business incubators and business support services. The Medical and Related Sciences (MaRS) project, the Faculty of Pharmacy building at the University of Toronto, and the Centre for Cellular and Biomolecular Research (CCBR) help give the Discovery District its name. According to BIOTECanada, the national industry association for Biotechnology, Canada is the second largest nation in the world for biotechnology. The Toronto/Ontario cluster is the largest in the country with 163 companies. Toronto is also home to 55% of Canada’s pharmaceutical companies.

Continued investment in the Arts, Entertainment and Recreation sector is vitally important for the attraction of tourists and film production to the city. Toronto has undergone a ‘cultural renaissance’ with the unprecedented building and architectural transformation of close to a dozen major arts and cultural institutions, including the Michael Lee-Chin Crystal (an expansion of the Royal Ontario Museum), the Art Gallery of Ontario, the new home of the Toronto International Film Festival, the Four Seasons Centre for the Performing Arts which is the new home of the National Ballet of Canada and the Canadian Opera Company, and the Gardiner Museum of Ceramic Art. In fall 2013, Ripley’s Aquarium of Canada opened its doors as a major new tourist attraction in the city featuring 450 species of more than 15,000 fish. The production of domestic and foreign film and television is a major local industry. Toronto contains the headquarters of major English language Canadian television networks such as CBC, CTV, Citytv and Global. Toronto is home to two national daily newspapers (Globe and Mail and National Post), two local daily newspapers (Toronto Star and Toronto Sun), approximately 79 ethnic newspapers/magazines, and many other community papers.

The technology cluster in the Toronto CMA is the largest in Canada and third largest in North America, behind San Francisco and New York, employing over 200,000 people at more than 14,600 technology companies. Of the top 250 technology companies, 40% are based in Toronto Region. Toronto has a vibrant web start-up scene and growing mobile application development community. Google Canada recently opened offices on Richmond Street, in the heart of the downtown core, showing a commitment to Toronto’s technology sector. Likewise, three of the world’s largest social networking sites - LinkedIn, Facebook Canada and Twitter Canada also established their head offices in Toronto.

The backbone of the technology sector in the Toronto CMA is its telecommunication infrastructure. Home to two of the three largest telecommunications companies in Canada as well as to smaller service providers, Toronto is connected by sophisticated high speed networks. A critical mass of talent and growing number of experienced developers has also helped Toronto become a successful mobile application development hub. Mobile development camps, incubators for mobile start-ups, and investments in Toronto mobile firm mean that mobile companies continue to thrive here.
One significant trend is that employment in the manufacturing industry in the city, though still one of the largest sectors, declined at an average annual rate of 4.3% from 2001 to 2011. By 2011, the number of employed people in the manufacturing industry was less than two-thirds of what it was in 2001.

**Workforce**

Toronto has a large educated, skilled and multilingual workforce. Toronto is the home to four universities (University of Toronto, York University, Ryerson University, and Ontario College of Art and Design), and four community colleges (Centennial, Seneca, Humber and George Brown). More than 60% of Toronto workers have post-secondary degrees, diplomas or certificates.

With an estimated 1.55 million people working in Toronto, it continues to be a net importer of labour from the surrounding regions. The net inflow of people to the city is estimated to be over 200,000 people every day. However the surrounding regions are changing rapidly in that they are experiencing growth in manufacturing and other types of employment and thus transforming themselves from residential suburbs to employment destinations. The rest of the GTA has now also become a net importer of labour from the surrounding regions beyond the GTA.
Economic Growth

The Canadian economy is expected to grow at a slow pace in 2016, held back by the prolonged slump in the energy sector but also by weak consumer spending. Canada's real GDP is forecasted to grow by a moderate 1.7% in 2016 and then inch upward to 2.3% growth in 2017 and 2.2% growth in 2018 before settling back to 2.0% growth in 2019 and 2020.

Ontario is expected to benefit from a growing U.S. economy and a low Canadian dollar which is helping to boost export growth. The Conference Board is forecasting that Ontario's real GDP will grow by 2.4% in 2016, before returning to moderate economic growth of 2.1% from 2017 to 2019. A bounce-back in economic strength is expected in 2020 with 2.4% GDP growth anticipated.

In Toronto, the outlook for the non-residential construction sector remains bright as a large number of office building construction and transit expansion projects will continue to keep the construction industry busy. In particular, the Toronto-York Spadina Subway line extension and Eglinton Crosstown, Finch West and Sheppard East LRT lines are large transit projects that will continue to support the local construction industry.

As the following chart illustrates, the Conference Board is forecasting that Toronto CMA is expected to encounter growth of 2.8% real GDP growth in 2016, 2.5% growth from 2017-2019 and 2.6% growth in 2020. The higher economic growth in the forecast period is supported by an expectation of strong growth in the service sector, including finance, insurance, real estate and personal services industries.

Source: Conference Board of Canada Metropolitan Outlook: Winter 2016
Real GDP Growth
Major Canadian Cities (CMAs)
The following chart compares the economic growth of major Canadian city-regions (CMAs). Toronto is expected to have healthy growth through the forecast period.

Source: Conference Board of Canada Metropolitan Outlook Winter 2016
Economic Indicators

Unemployment Rate

Within the Toronto region, the city and the rest of the CMA region (“905”) exhibited different economic growth patterns. In the city, job losses during the recession coupled with decreased participation rates led the city’s unemployment rate to average 10% in 2009 and 2010, a level not seen since the early/mid-1990s. Toronto’s unemployment rate remained stubbornly high until the final quarter of 2014 when the unemployment rate started to decline steadily to reach a low of 6.8% (seasonally adjusted) by July 2015. Since then, the city’s unemployment rate moved slowly upward, reaching 8.7% in December 2015.

Unemployment Rate Trend - 2010 to 2016
City of Toronto, 905 Municipalities, Ontario and Canada
Social Assistance Caseload
The number of cases and people on social assistance is largely associated with the unemployment rate, and to a certain extent, population and participation rate. The City’s Social Assistance (Ontario Works) caseload has followed a similar historical trend as its unemployment rate (although lagging by anywhere from 6 to 12 months). Since 2006, the average monthly caseload has risen from approximately 72,000 average monthly cases to a peak of approximately 104,000 average monthly cases in 2012, before dropping back as a result of improved employment conditions to approximately 90,000 average monthly cases in 2015.

Transit Ridership
Transit ridership continued its upward trend with a record 535 million riders in 2014 and slightly higher ridership of 538 million in 2015. While the Toronto Transit Commission (“TTC”) budgeted 553 million riders for 2016, early ridership results in 2016 were below expectation. Management are currently reviewing actions that could be taken to get ridership numbers back on target. The impact of low gasoline prices and ridesharing were identified as contributors to the declining ridership performance in 2016 to-date.
Map of Electoral Wards

Municipal Wards 2014 - 2018
2014-2018 Executive Committee and Standing Committee Mandates

EXECUTIVE COMMITTEE:
The Executive Committee’s mandate is to monitor and make recommendations on the priorities, plans, international and intergovernmental relations, and the financial integrity of the City.

The responsibilities of the Executive Committee include:
(1) Council’s strategic policy and priorities in setting the agenda;
(2) Governance policy and structure;
(3) Financial planning and budgeting;
(4) Fiscal policy including revenue and tax policies;
(5) Intergovernmental and international relations;
(6) Council and its operations; and
(7) Human resources and labour relations.

The Executive Committee makes recommendations or refers to another committee any matter not within the Standing Committee’s mandate or that relates to more than one Standing Committee.

AUDIT COMMITTEE
The responsibilities of the Audit Committee include:
1. Recommending the appointment of the City’s external auditor;
2. Recommending the appointment of an external auditor to conduct the annual audit of the Auditor General's office;
3. Considering the annual external audit of the financial statements of the City and its agencies and corporations;
4. Considering the external audit of the Auditor General’s office;
5. Considering the Auditor General’s reports and audit plan;
6. Conducting an annual review of the Auditor General’s accomplishments;
7. Making recommendations to Council on reports the Audit Committee considers.

Note: Reference should be made to the Municipal Code – Chapter 27, Council Procedures, for the specific responsibilities of each committee.

STANDING COMMITTEES
The standing committees are organized along seven broad policy areas:

Community Development and Recreation Committee – will focus on social inclusion and undertake work to strengthen services to communities and neighbourhoods.

Economic Development Committee – will focus on the economy and undertake work to strengthen Toronto’s economy and investment climate.

Public Works and Infrastructure Committee – will focus on infrastructure and undertake work to deliver and maintain Toronto’s infrastructure needs and services.

Government Management Committee – will focus on government assets and resources and undertake work related to the administrative operations of the City.

Parks and Environment Committee – will focus on the natural environment and undertake work to ensure the sustainable use of Toronto’s natural environment.

Planning and Growth Management Committee – will focus on the urban form and undertake work related to good city planning and sustainable growth and development.

Licensing and Standards Committee – will focus on consumer safety and protection and undertake work related to licensing of businesses and enforcement of property standards.
NOTE:
The City Clerk and City Solicitor report to City Council for statutory purposes and to the City Manager for administrative purposes.

The Medical Officer of Health reports to the Board of Health and coordinates with the Deputy City Manager on administrative matters affecting City employees within Toronto Public Health.
# City of Toronto Special Purpose Bodies

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<th>AGENCIES&lt;sup&gt;1&lt;/sup&gt;</th>
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<tr>
<td>Service Agencies</td>
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<tr>
<td>Quasi-Judicial &amp; Adjudicative Boards</td>
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<tr>
<td>Partnered Agency</td>
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- Board of Health
- Exhibition Place
- Heritage Toronto
- Police Services Board
- Public Library Board
- Sony Centre for the Performing Arts (operating name for Hummingbird Centre)
- St. Lawrence Centre for the Arts
- Toronto Atmospheric Fund
- Toronto Centre for the Arts
- Toronto Parking Authority
- Toronto Transit Commission
- Toronto Zoo
- Yonge-Dundas Square

### Community-Based:
- 8 Arena Boards
- 10 Association of Community Centre Boards (AOCCs)
- 81 Business Improvement Areas (BIAs)
- Committee of Adjustment
- Committee of Revision
- Compliance Audit Committee
- Property Standards Committee/Fence Viewers
- Rooming House Licensing Commissioner and Deputy<sup>3</sup>
- Sign Variance Committee
- Toronto Licensing Tribunal
- Toronto and Region Conservation Authority

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<th>CORPORATIONS&lt;sup&gt;2&lt;/sup&gt;</th>
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<tr>
<td>City Corporations</td>
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<tr>
<td>Partnered Corporations</td>
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- Build Toronto Inc.
- Casa Loma Corporation
- Invest Toronto Inc.
- MasterCard Centre (operating name for Lakeshore Arena Corporation)
- Toronto Community Housing
- Toronto Hydro Corporation
- Toronto Port Lands Company (operating name for Toronto Economic Development Corporation)
- Toronto Pan Am Sports Centre Inc. (TPASC)
- Waterfront Toronto

**Notes:**
1. Previously referred to as agencies, boards and commissions.
3. Rooming House Licensing Commissioner and Deputy are Officers, rather than an agency of the City, but in all other respects function as a quasi-judicial and adjudicative board.
A message from the Deputy City Manager & Chief Financial Officer

ROBERTO ROSSINI

The 2015 Annual Financial Report for the City of Toronto provides an in-depth look at the City’s financial performance over the past year, and highlights our progress toward the City’s major goals for Toronto’s residents and businesses.

Reliable public transit plays a crucial role in the overall well-being and prosperity of the city, connecting Toronto residents to jobs and services. The City is undertaking work as part of the Official Plan review to identify the next phase of transit expansion priorities through the development of a comprehensive transit plan.

In addition to hard infrastructure investments, the City is also focused on key social development initiatives to protect the City’s vulnerable population. In November, City Council adopted the vision, objectives, recommendations, and actions contained in the TO Prosperity: Toronto Poverty Reduction Strategy. While this strategy was being developed, funding was allocated in the 2015 Budget to undertake some immediate measures to address poverty in Toronto, including:

- Expanding the Student Nutrition program
- Launching a pilot program to assist single parents on Ontario Works to achieve meaningful employment
- Free TTC rides for children under 12 years of age
- Doubling the number of employers participating with the City’s Partnership to Advance Youth Employment (PAYE) program to increase access to jobs for young people
- Increasing transportation options for seniors to get to appointments, access services and participate in community events

As the City launched the 2016-2025 Capital Budget and Plan at the end of 2015, a key area of focus was infrastructure rehabilitation. In October, Council approved a plan in principle to use an alternative financing and procurement (“AFP”) approach to rehabilitate the Gardiner Expressway, potentially accelerating the rehabilitation and decreasing the construction period from 12 to 6 years. Compared to the 2015-2024 Capital Budget and Plan, the 2016-2025 Capital Budget and Plan is expected to increase capital expenditures for the common nine years of the Plan by $2.2 billion. The majority of this additional funding is required to fully fund the Gardiner rehabilitation.

For the ninth consecutive year, the City of Toronto has won the Government Finance Officers Association of the United States and Canada Award for Excellence in Financial Reporting. The City of Toronto also won the Government Finance Officers Association’s Distinguished Budget Presentation Award. These awards would not have been possible without the dedication of the professional team that I am privileged to work with every day.

Sincerely,

Roberto Rossini
Deputy City Manager & Chief Financial Officer
Physical Infrastructure

The City owns a significant amount of physical assets - comprising roads, expressways, bridges, traffic signal controls, water and wastewater treatment facilities, distribution and collection pipes, reservoirs, pumping stations, subways, streetcars, buses, civic centres, recreation facilities, public housing buildings, parkland and other lands. This infrastructure, excluding land, is currently estimated to be worth in excess of $76 billion. The City’s capital program is driven largely by the costs of maintaining these physical assets in a state of good repair.

<table>
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<tr>
<th>City’s Physical Infrastructure</th>
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<tr>
<td>Transportation</td>
<td>$11 Billion</td>
</tr>
<tr>
<td>Public Transit</td>
<td>$15 Billion</td>
</tr>
<tr>
<td>Water &amp; Wastewater</td>
<td>$29 Billion</td>
</tr>
<tr>
<td>Facilities including Parks, Forestry &amp; Recreation, Fleet</td>
<td>$ 9 Billion</td>
</tr>
<tr>
<td>Community Housing Infrastructure</td>
<td>$ 9 Billion</td>
</tr>
<tr>
<td>Parkland &amp; Other Land</td>
<td>$ 3 Billion</td>
</tr>
<tr>
<td><strong>Total (Replacement Cost Estimates)</strong></td>
<td><strong>$76 Billion</strong></td>
</tr>
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The City’s road network, the majority of which was constructed in the 1950s and 1960s, is in need of major repair and rehabilitation. In recognition of the need to reduce the State-of-Good Repair backlog related to the City’s transportation infrastructure, 84% of the 2016-2025 Capital Plan for Transportation Services is dedicated to State-of-Good-Repair projects, compared to approximately 57% across all other Programs. The City’s water and wastewater network is similarly aged — the average age of the City’s watermains and pipes is 60 years and nearly 13% of them are more than 80 years old. Recognizing the need to eliminate the State-of-Good-Repair backlog by 2025, City Council approved $1.1 billion in additional capital investments for Toronto Water in the 2016-2025 Capital Budget and Plan, largely funded through the approval of water rate increases of 8% 2016 and 5% for 2017 and 2018, and 3% thereafter.

In addition, capital requirements resulting from population growth and demographic changes will add additional financial pressures. The City’s 2002 Official Plan projected population growth of up to a million people in the city of Toronto, raising the population to 3.5 million people by 2031. More buses, social housing, recreation centres, etc. are required, which will put pressure on the City’s capital and operating budgets to provide additional services, and build and operate new facilities.

Investment in physical infrastructure is typically funded by the following sources: federal and provincial funding where applicable, reserve and/or reserve funds, development charges, donations, operating contribution and debt. Debt is the funding source of last resort for capital purposes.
Capital Financing and Debt

The City borrows money to finance capital expenditures. It cannot borrow to finance operating expenditures under the City of Toronto Act. The goal for capital financing is to maximize all funding from external sources, including federal and provincial governments, development charges, donations and reserve funding, before using the City’s own revenue sources, namely operating contributions to capital and the issuance of debt. Toronto has enjoyed relatively low debt levels in the past; however, in light of the growing capital infrastructure needs, there is a sizeable and growing gap between future capital expenditure needs and ongoing sustainable revenue sources. As well, the City does not have the fiscal capacity for all necessary growth related expenditures, e.g. TTC and Transportation Services needs. For the next 10 years, the TTC is projected to make up the majority of the new debt required to fund the City’s capital requirements, most of which is for new infrastructure and enhancement projects rather than State-of-Good-Repair projects.

The City has implemented a framework for developing multi-year capital and operating budgets that ensure that limited resources are aligned to priorities to maximize the benefits for Toronto’s residents.

The City in 2010 refinanced parts of its debt by paying down existing debt and borrowing funds for selected projects on 30-year terms as opposed to 10-year terms. The 30-year debt was used to finance long-term assets to more closely match the life span of the infrastructure being built or purchased, e.g. subway tunnels and subway cars.

Even with the above-noted actions, estimates showed that the City’s net long-term outstanding debt would increase from $3.9 billion in 2016 to peak at approximately $5.1 billion in 2021, and then decrease to $4.5 billion by 2025 as shown in the chart below.

![City of Toronto Net Tax-Supported Debt](chart)

(Include Scarborough Subway)

($ Millions)
City Council has ultimate authority in setting borrowing restrictions as the City of Toronto is exempt under the City of Toronto Act from the Provincial Municipal Act requirement that generally limits long-term borrowing of other municipalities to 25% of most own-source revenues (excluding development charges). Nevertheless, the City of Toronto’s debt service limit is well under the provincial standard.

City Council previously approved a debt service limit such that the debt service cost (annual principal and interest payments) would not exceed 15% of property tax revenues in a given year. This limit means that at least 85 cents on each tax dollar raised is available for operating purposes. As shown in the chart to follow, the City is expected to stay below the 15% debt charges to Property Tax Levy ratio limit over the next ten years.

**Debt Charges as a % of the Property Tax Levy – 2015 to 2025**

Compared to the 2015-2024 Capital Budget and Plan, the 2016-2025 Capital Budget and Plan increased capital expenditures for the common nine years of the Plan by $2.2 billion. The majority of this additional funding is required to fully fund the rehabilitation of the F. G. Gardiner Expressway. $1.3 billion has been added to accelerate repairs that could further accelerate the work by up to six years.

All non-debt sources of funding were maximized in 2016. It should be noted that, debt still represents 39% of total funding required for capital work, while Capital-from-Current (CFC) accounts only for 10% of funding. Accordingly, the City capital financing strategy seeks to increase the level of capital investment funded from property taxes (ie. CFC).

To meet its borrowing obligations, the City budgets debt service charges in its Operating Budget to repay both the principal and interest cost associated with its debt issuance for capital projects. In 2016, the debt service charge is budgeted at $486 million, increasing to $631 million by 2025.
City of Toronto Debt Charges
($ Millions)

<table>
<thead>
<tr>
<th>Year</th>
<th>Debt Charges</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>486</td>
</tr>
<tr>
<td>2017</td>
<td>531</td>
</tr>
<tr>
<td>2018</td>
<td>602</td>
</tr>
<tr>
<td>2019</td>
<td>627</td>
</tr>
<tr>
<td>2020</td>
<td>641</td>
</tr>
<tr>
<td>2021</td>
<td>620</td>
</tr>
<tr>
<td>2022</td>
<td>603</td>
</tr>
<tr>
<td>2023</td>
<td>640</td>
</tr>
<tr>
<td>2024</td>
<td>630</td>
</tr>
<tr>
<td>2025</td>
<td>631</td>
</tr>
</tbody>
</table>
Investment Activities and Capital Markets

Investment Activity

The City owns and manages the General Group of Funds and the Sinking Fund, each having specific goals and objectives. The General Group of Funds portfolio is composed of two individual funds (the Bond and Money Market Funds) that are managed interactively. The Bond Fund is positioned to fund the City’s future reserve and reserve fund requirements and therefore takes a longer view of the market. The Money Market portfolio is primarily focused on ensuring that adequate liquidity is maintained to meet the immediate cash flow requirements of the City’s daily operations. The Sinking Fund is for the use of retiring the City’s debt as it becomes due and payable. The City also manages other smaller funds where the assets are not owned by the City (e.g. Trust Funds).

Investment earnings are composed of the annual earned interest income and capital gains/losses that are realized on each portfolio. In 2015, investment earnings on the City’s managed funds totalled $137.4 million. The earnings were allocated to the Operating Budget ($120.9 million) and reserve funds ($16.5 million) according to the Council approved interest allocation policy.

The 2015 distribution of investment earnings is summarized in the following table:

<table>
<thead>
<tr>
<th>Portfolio ($ million)</th>
<th>Average Capital Balance</th>
<th>Earned Income</th>
<th>Return on Capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Bond Fund</td>
<td>$2,935.3</td>
<td>$118.3</td>
<td>4.0%</td>
</tr>
<tr>
<td>2. Money Market</td>
<td>$2,134.6</td>
<td>$19.1</td>
<td>0.9%</td>
</tr>
<tr>
<td>Total General Funds</td>
<td>$5,069.9</td>
<td>$137.4</td>
<td>2.7%</td>
</tr>
</tbody>
</table>

The Operating Budget component was under budget in the Non-Program account by $0.9 million. This variance was due to a higher than targeted income allocation to the reserve funds which was attributable to slower than forecasted spending of the reserve funds. The $137.4 million in investment revenue generated in 2015 was lower than the $143.7 million generated in 2014 as forecasted. The decline was due to persistent low interest rates. Indeed, interest rates made new historic lows in 2015.

The City’s General Group of Funds portfolio continues to exhibit high credit quality and liquidity (see following pie charts for Money Market and Bond Funds), especially during these extended periods of economic turbulence and market turmoil. The following pie charts show a breakdown of the two funds by credit quality (ie. AAA, AA+, AA, AA-).
Credit Quality – Money Market and Bond Funds
As at December 31, 2015

Credit Quality – Money Market

<table>
<thead>
<tr>
<th>Credit Quality</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>AA-</td>
<td>4%</td>
</tr>
<tr>
<td>AAA</td>
<td>13%</td>
</tr>
<tr>
<td>P1</td>
<td>11%</td>
</tr>
<tr>
<td>AA</td>
<td>60%</td>
</tr>
</tbody>
</table>

Credit Quality – Bond Fund

<table>
<thead>
<tr>
<th>Credit Quality</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>AA-</td>
<td>3%</td>
</tr>
<tr>
<td>AA+</td>
<td>11%</td>
</tr>
<tr>
<td>AAA</td>
<td>33%</td>
</tr>
<tr>
<td>AA</td>
<td>53%</td>
</tr>
</tbody>
</table>

Sinking funds were established by the City and are required by legislation when a municipality issues debt. Currently, the City has six separate sinking fund portfolios that accept annual contributions in support of 25 individual debenture issues that are invested and earn income to accumulate sufficient funds to repay the sinking fund debt on maturity.

Sinking fund assets as at December 31, 2015 were $2.1 billion. These assets are invested in high quality fixed-income securities issued and guaranteed by the federal, provincial and municipal governments and corporate bonds to refund debt of $5.4 billion (2014 - $5.0 billion) maturing in various years between 2016 and 2044. Additional contributions from the City will be received annually during the period from 2016 to 2044.

2015 Capital Markets Review

2015 was a volatile year for Canadian fixed income markets. International factors such as the slowdown in Chinese economy and the ongoing decline in oil and other resource prices, had a big influence on the Canadian market. The Bank of Canada (BoC) cut rates by 25 basis points on January 21, 2015. The BoC cited the spillover effect of the oil price decline beyond the oil sector itself to the broader economy, and also the effect that the declining price of exports relative to imports would have on the incomes of all Canadians as reasons for the cut. BoC cut rates for a second time in July 2015 as a result of continued weakness in commodities and GDP growth.

The Canadian dollar depreciated by 16% against the U.S. dollar in 2015. It was driven by weak commodities, weak GDP data, and by the Bank of Canada’s unanticipated rate cut in July.

During 2015, the City issued in the public capital market $700 million of the $900 million that was approved for the year, consisting of $300 million 10-year debentures and $400 million 20-year debentures.
Reserves and Reserve Funds

Reserves and Reserve Funds are monies set aside by Council to finance future expenditures for which it has authority to spend money, to defend the City against an unbudgeted or unforeseen event that may result in a budget deficit such as an economic downturn, to smooth out future program expenditures which may fluctuate from one year to the next, or to accumulate funds for future capital requirements or contingent liabilities. While the reserve fund balances would appear to be a large sum, it should be noted that the majority of these funds are committed to special purposes.

Toronto Municipal Code, Chapter 227 - Reserves and Reserve Funds - provides all pertinent information regarding the City’s reserves and reserve funds, including definitions, the authority to establish new reserves and reserve funds, closing out inactive reserves and reserve funds, as well as the use and administration of reserves and reserve fund monies. A link to Chapter 227 of the Toronto Municipal Code is provided below:


On a comparative basis, the City’s overall reserve fund balance on a per capita basis is much lower than those in other Ontario jurisdictions. Toronto’s 2014 reserve per capita of $1,281 was considerably less than the rest of the GTA ($2,806), and 69% of the provincial average ($1,868). The City has established long-term reserve strategies for major reserves, e.g. employee benefits reserves, landfill sites and water and wastewater stabilization reserves, and make sure that adequate funds are in place, by determining needs and establishing contribution policies.

Comparison of Per Capita Reserves and Reserve Fund Balances

Sources: Ontario Ministry of Municipal Affairs & Housing - 2014 FIR
Regional data consolidated for upper and lower tiers
Balances include Obligatory Reserve Funds/Deferred Revenues
The following chart shows the historical trend of reserve and reserve fund balances since 2006. While the overall trend had been rising, there was a brief dip between 2009 and 2011 after the recession. Growth resumed in 2012 and 2013 as a result of funds being directed to the Capital Financing Reserve and other underfunded Reserves and Reserve Funds as mandated by Toronto City Council’s Surplus Management Policy.

**Reserves and Reserve Funds**
(Excluding 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 received from the other orders of government, Development Charges from third parties earmarked for certain purposes, e.g. Transit, Social Housing, Parkland Acquisition, Long Term Care Homes and Services. 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. These funds are all committed, for uses including funding the City’s priority capital needs like transit expansion.
Revenues

Property Tax
Property tax revenue is the City’s single largest source of revenue. The City collects $3.9 billion from residential and business property owners for municipal purposes, which represents 39% of its total tax-supported Operating Budget.

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 set 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) subject to any legislative or Council-mandated adjustments. The total tax rate for a class consists of a municipal tax rate necessary to meet the City’s budgetary requirement and the education tax rate necessary to raise the amount required by the Province for education funding.

The Municipal Property Assessment Corporation (MPAC), a provincial agency, is responsible for property assessment in Ontario and preparing the assessment rolls for municipalities on a Current Value Assessment (CVA) basis. 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.

Over the last two decades, the GTA experienced quite remarkable economic and population growth following the recession of the early 1990s. The Toronto region (CMA) contains a number of the fastest-growing municipalities in Canada. The bulk of the new construction and the associated assessment increases are located in the surrounding areas in the GTA. For example, from 2001 to 2015 the rest of the GTA had cumulative assessment increases in excess of 40%: York Region: 55%, Halton Region: 50%, Peel Region: 41%, and Durham Region: 40%. By contrast, Toronto’s property assessment in 2015 is just 21% above its 2001 level, partly due to the conversion of certain industrial properties into residential properties.
This trend is illustrated in the chart below:

**TORONTO DOES NOT HAVE THE SAME ASSESSMENT GROWTH ENJOYED BY THE NEIGHBOURING REGIONS**

Source: Municipal Property Assessment Corporation
Property Assessment
The following chart depicts the total value of all property classes of the City of Toronto's current value assessment in each of the years from 2007 to 2016.

Beginning in 1998, Ontario municipalities whose commercial, industrial or multi-residential tax ratios exceeded threshold ratios established by the Province were restricted from passing on municipal property levy increases to those classes. In the years prior to 2004, this meant that no municipal levy (budgetary) increases could be passed on to these classes as the tax ratios exceeded the threshold limits. Instead of accessing the full assessment base, the City could increase tax rates only on the residential class at the time.

Since 2004, the Ontario Government made adjustments to the municipal rules under the Ontario Property Tax System, which amongst other things, allowed tax rate increases on the non-residential classes to be no more than 50% of the tax rate increase for the residential tax class. Although the relaxing of the restriction on non-residential classes is not permanent, it does provide partial relief from the budgetary levy restrictions imposed by Provincial legislation. In Toronto, tax ratios for the commercial, industrial and multi-residential classes all exceed the provincial thresholds, as shown in the following chart.