REPORT ON THE CITY'S FINANCIAL SITUATION

Tabled by Gérald Tremblay, mayor of Montréal

At the city council meeting of October 11, 2005

Montréal

As prescribed by the *Cities and Towns Act*, I am filing a report pertaining to the financial situation of the Ville de Montréal in 2004, to its budgetary outlook through the end of the current year and to our principal budgetary objectives for 2006 with respect to the operating budget and the Three-Year Capital Works Program.

Audited financial statements for 2004

The remarkable vitality of Montréal's real estate market, combined with strict and rigorous management by city administration served to generate a $129 million surplus over the 2004 fiscal year. The city will accordingly post a budget surplus for the third consecutive year.

Property taxes and real estate transfer fees generated some $85 million in surplus revenues due to the positive state of the real estate sector. Savings of $36 million in operating expenditures resulted from our responsible management methods.

The boroughs also contributed to this $129 million surplus through their own responsible management efforts. This share of the surplus (totalling $27.9 million) has been returned to them. Furthermore, we have also been able to repay $9 million in a third instalment serving to refund contributions that the boroughs made to balance the budget in fiscal 2002.

A $24-million share of the fiscal 2004 surplus was allocated to balancing the 2005 budget. This allocation is less than that of the previous year, in keeping with the administration's concern for reducing the use of surplus allocations to balance the budget.

Public transit also benefited from these good results. The city paid the Société de transport de Montréal (STM) $8.2 million as an additional contribution.

Furthermore, a reserve of more than $57 million was created at the close of fiscal 2004 for unforeseen expenditures.

As at December 31, 2004, the city's net debt and long-term financial expenditures totalled $4.01 billion, a decline of nearly $200 million from the figure of $4.21 billion that was posted on the same date in 2003.

Moody's Investors Service has once again recognized the quality of our management and the excellence of the city's financial health, as well as efforts pertaining to our indebtedness. In March 2005, Moody's boosted our credit rating to A-1. This endorsement clearly indicates that the rigorous system of management applied by city administration since 2002 is bearing fruit. Montréal primarily owes this good performance to more effective management. Such management is guided by our constant concern for boosting public satisfaction with the services provided.

General outlook for the current fiscal year

To raise Montréal to the ranks of one of the world great and dynamic metropolises, the city must continue to rely on a responsible system of management and to offer Montrealers effective services as well as a pleasant living environment. We currently expect that the economic growth of the metropolis and the continued good performance of the real estate market will produce a continued increase in city revenues for 2005. Montréal can accordingly anticipate a budget surplus of some $20 million for this fiscal year.

It is most likely that a good share of this surplus will be set aside to help balance the 2006 budget. To make these predictions a reality, we must continue to provide diligent and efficient management, while maintaining the quality of services we offer to residents.

The year 2005 will be significant in terms of refinancing the initial actuarial liability of the former Ville de Montréal's pension plans. Negotiations that began in 2003 have already produced signed agreements for four of the six plans in question. Our agreement with the firefighters was signed in 2005. In and of itself, this agreement will permit the city to generate substantial savings totalling some $220 million over the next 40 years, to the benefit of present and future taxpayers.

General outlook for the 2006 budget

Despite all of the efforts that have been deployed, the preliminary financial framework for 2006 poses a major challenge to the city: that of absorbing an imbalance between revenues and expenditures under particularly difficult circumstances. Contrary to our expectations, discussions on renegotiating the Pacte fiscal (tax agreement) with the Government of Québec have not yet yielded an agreement. We must also contend with fact that certain revenues appearing in the 2005 Budget will not recur this year. This factor significantly boosts the constraints on our financial framework. We must finally take into account the issue of funding for public transit. The problem remains unchanged for 2006, since the Government of Québec has not provided its anticipated financial framework for public transit. Furthermore, no initiative has yet been announced that would ensure new sources of reliable and recurring revenues. We do however hope that negotiations between the various partners will give way to effective solutions. In addition to difficulties pertaining to revenues, we face enormous pressure on the expenditure side. For example, we must conduct new actuarial valuations of the pension plans as at December 31, 2004.

The task of coordinating activities aimed at producing a balance between revenues and expenditures will be that of Frank Zampino, chairman of the executive committee.

As was the case in past budget years, both the boroughs and the city's departments will submit their 2006 business plans and budgets.

Preliminary results to date that were obtained in the course of preparing the 2006 Budget, suggest we shall be able to:

- Maintain and improve the quality and diversity of community services.

- Proceed with the project of reinvesting in the water supply system.

- Boost efforts to reinvest in the road system.
- Rein in the growth of expenditures.
- Generate savings of $66 million.

With respect to taxpayer accounts, we are in the last year of the three-year assessment roll that came into effect on January 1, 2004. The final year of this roll will thus be incorporated into the 2006 Budget.

The 2006 budget year will result in the first budget to include expenditures and revenues falling under the heading of "agglomeration activities." The Ville de Montréal will thus continue to provide common services and manage equipment for all Island of Montréal residents, including the 15 former suburban municipalities that decided in the June 2004 referendum to re-establish themselves as independent entities. The common services budget will represent more than half of the Ville de Montréal's total budget. However, the community services budget will only pertain to services dispensed to residents of Montréal's boroughs.

General outlook for the 2006-2008 Three-Year Capital Works Program

The 2006-2008 Three-Year Capital Works Program includes a range of projects planned by the city administration in view of building a city that meets resident expectations while offering conditions propitious to the harmonious development of economic, cultural and social activities. This program specifically reflects actions that the administration intends to take in restructuring, enhancing and increasing the municipal heritage of infrastructure, facilities and equipment.

The 2006-2008 Three-Year Capital Works Program falls within the major structure defined by the plan entitled *Imagining – Building Montréal 2025* and also within the framework of the administration's overall commitments. Adopting a strategic plan gives the city an opportunity to meet the economic, cultural, environmental and social challenges of tomorrow.

In preparing the 2006-2008 Three-Year Capital Works Program, emphasis will be placed on:

- Water treatment and management, road repair, Montréal's economic and cultural development and public safety.
- Full borough autonomy in managing neighbourhood services.
- Emphasis on projects that present opportunities for wealth creation and that are financially supported by our partners.

Despite rigorous management efforts, our investment requirements remain much greater than the resources available. We must thus maintain or increase support levels from the provincial and federal governments if we are to meet the city's priorities. Such support includes funding from the fuel excise tax and additional contributions from the Government of Québec through the Société de financement des infrastructures locales (SOFIL).

Remuneration of elected officials

An Act respecting the remuneration of elected municipal officers requires that the incomes of elected municipal officers appear in this report. The chart that has been appended herein and filed with the council thus lists the amounts that will be paid to elected municipal officers by the end of the year.

The list of contracts exceeding $25,000 in value

Furthermore, it is my duty under the *Cities and Towns Act* to file during this meeting of the council a list of all contracts involving expenditures of over $25,000, including those of more than $2,000 concluded with a single contractor if the sum of such contracts is greater than $25,000.

In conclusion

We have acquired effective and powerful tools for carrying out our mission. We intend to vigorously pursue our efforts in view of boosting the public's levels of satisfaction with services provided by the city. It is through the diligent management efforts of our administration that we can register the achievements of 2005 within our vision as outlined in *Imagining – Building Montréal 2025*.