



Ville de Montréal

AHUNTSIC-CARTIERVILLE ANJOU BEACONSFIELD-BAIE D'URFÉ CÔTE-DES-NEIGES-NOTRE-DAME-DE-GRÂCE
CÔTE-SAINT-LUC-HAMPSTEAD-MONTRÉAL-OUEST DOLLARD-DES-ORMEAUX-ROXBORO DORVAL-L'ÎLE-DORVAL
KIRKLAND LACHINE LASALLE L'ÎLE-BIZARD-SAINTE-GENEVIÈVE-SAINTE-ANNE-DE-BELLEVUE
MERCIER-HOCHELAGA-MAISONNEUVE MONT-ROYAL MONTRÉAL-NORD OUTREMONT PIERREFONDS-SENNEVILLE
PLATEAU-MONT-ROYAL POINTE-CLAIRE RIVIÈRE-DES-PRAIRIES-POINTE-AUX-TREMBLES-MONTRÉAL-EST
ROSEMONT-LA PETITE-PATRIE SAINT-LAURENT SAINT-LÉONARD SUD-OUEST VERDUN VILLE-MARIE
VILLERAY-SAINT-MICHEL-PARC-EXTENSION WESTMOUNT

Annual Report



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Annual Report

Prepared by the Direction de la comptabilité et du contrôle financier
of the Service des finances and by the Direction des communications
et des relations avec les citoyens of the Service des affaires corporatives

Canadian Award for Financial Reporting

Presented to

City of Montreal,
Quebec

For its Annual
Financial Report
for the Year Ended
December 31, 2002

A Canadian Award for Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to municipalities whose annual financial reports achieve the high program standards for Canadian Government accounting and financial reporting.



Edward Harrington
President

Jeffrey L. Esser
Executive Director

Canadian Award for Financial Reporting

The Government Finance Officers Association of the United States and Canada (GFOA) presented a Canadian Award for Financial Reporting to the Ville de Montréal for its annual financial report for the fiscal year ended December, 31, 2002. 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. We believe our current report continues to conform to the Canadian Award for Financial Reporting program requirements, and we are submitting it to GFOA.

Contents

Message from the Mayor and the Chairman of the Executive Committee	6
Message from the City Manager and the Treasurer	8
Montréal: Overview of a Great Metropolis	10
– Montréal and its 27 Boroughs—Map	10
– A Whole World to Discover in the City of Montréal	11
– Montréal Facts and Figures	12
– Montréal’s Sound and Dynamic Economy in 2003	14
– Councillors by Borough	16
– The Executive Committee	18
– The Council’s Standing Committees and the Commission de la sécurité publique	19
– The City of Montréal—2003 Organizational Chart	20
Highlights of 2003: Governance Consistent with City Administration Principles	21
One City with Stronger Boroughs	23
– Decentralization and the Organizational Model	23
– Follow-up to the Montréal Summit	24
– The City Contract	29
More Effective Services for Residents	31
– Three-year Capital Works (TCW) Program—List of Achievements in 2003	31
– Water Management	33
– The Business Plan and Performance Indicators	33
– The Ombudsman	34
– Integration of Employees and Negotiation of Collective Agreements	35
More Diligent Financial Management	36
– The Current Administration’s First Budget	36
– Tax Harmonization	36
– Refinancing of the Initial Unfunded Liability	37
– Policies Impacting the Budget	38
– The Audit	39
Financial Results of 2003	41
– The Surplus	41
– Revenues	41
– Operating Expenditures and Other Financial Activities	42
– Investment Activities	43
– Surplus and Reserved Funds	44
– Net Direct Debt and Long-term Unfunded Expenditures	44

Message from the Mayor and the Chairman of the Executive Committee

Dear Montrealers,

The publication of an annual report serves as an opportunity to re-examine work that has been accomplished and review initiatives that are now underway. In the case of a city like Montréal, whose history is currently in the process of being rewritten, a great deal of work remains to be carried out! This effort can be summed up as one of “Ensuring Montréal’s Success Together,” a project of vital importance to the city and its boroughs as well as to the Greater Montréal region and the entire province of Québec.

The city and its boroughs accompanied by elected officials and our employees are committed to providing residents, visitors and businesses with quality services at the lowest cost possible as well as promoting the unique character of Montréal and harnessing its full potential.

In our efforts to build the new city of Montréal, we are driven by unyielding determination and conviction. The sound financial results we posted in 2003 were due to the implementation of sound management principles. This was the second fiscal year in a row that ended with a surplus—this one totalling more than \$83 million. At the same time, expenditures have remained generally equivalent to the amounts forecast in the 2003 Budget.

A great deal of work and a number of projects serve as the backdrop for these figures and are part of the vast process involved in making Montréal one of North America’s leading metropolises—a metropolis that places great value on quality of life and respect for residents as well as on preserving the autonomy and distinct character of the boroughs.

Much success has been registered over the past year in carrying out this process. One example is the City Contract, a historic agreement with the Government of Québec that considerably enhances Montréal’s status as a metropolis. The same applies to the Summit of Montréal, where follow-up work has mobilized thousands of city partners. The different levels of government, local organizations, businesspeople, artists, unions, boroughs and city departments (to name just a few), are now working together on dozens of projects that are taking shape across the city.

Our team is fortunate to have this unprecedented opportunity to be at the helm of the new city of Montréal during its first years of existence and to be fulfilling this role in a responsible manner. Through our choices and decisions we have already provided the municipal apparatus with the tools it needs to achieve fully effective operations. In particular, we have formulated a new organizational model that offers the boroughs even greater powers to serve their residents.

In a similar fashion, we have supported the boroughs in their capital works initiatives. Additional funds were accordingly granted to boroughs that submitted projects aimed at serving their communities. The Beaconsfield-Baie d'Urfé Borough, for example, has received financial assistance to rebuild the infrastructure of Beaconsfield Blvd., the Ville-Marie Borough has completed infrastructure work around the Palais des congrès and the Quartier international, the Ahuntsic-Cartierville Borough built a youth centre in Mésy Park and the L'Île-Bizard-Sainte-Geneviève-Sainte-Anne-de-Bellevue Borough was able to renovate a firehouse in the Sainte-Anne-de-Bellevue sector.

In the area of taxation, we have left the overall burden unchanged and initiated the tax harmonization process while making every effort to maintain, and where possible, improve the quality of services for residents.

Over the past year, we have also taken action on behalf of future generations of Montrealers. We believe it is our duty to reduce the amounts taxpayers of the former city of Montréal will have to pay over the next 40 years to repay the debt that arose from the initial unfunded liability that resulted from retirement plans of the former city of Montréal. That is why we have devoted our time, energy and imagination to formulating a new financing strategy aimed at alleviating this financial burden from the past.

Our values have also guided our actions with respect to water management and we initiated a set of measures, including a new Water Fund that is aimed at revitalizing the water supply system and ensuring equitable consumption of this precious but limited resource.

Finally, we would like to thank our partners who have played an integral role in allowing us to pursue the challenge of building the new city of Montréal. Foremost among these partners are the governments of Québec and of Canada, a variety of Montréal stakeholders as well as all of our municipal employees. All of these people and institutions are committed to the same result: "Ensuring Montréal's Success Together" for the benefit of all Montrealers.



Gérald Tremblay
Mayor of Montréal



Frank Zampino, FCA
Chairman of the
Executive Committee

Message from the City Manager and the Treasurer

Dear Montrealers,

The new city of Montréal has already been in existence for more than two years. While inevitable questions and uncertainties emerged in its first year, given the challenge that lay ahead, the second has permitted us to move forward with confidence.

Moving forward means defining the structures and implementing the measures that will make Montréal an efficiently managed city that is in tune with its residents' needs. Put more simply, we have adopted new ways of doing things—and that is just the start. The same rule applies to municipal finances where results for 2003 already attest to the changes that have been implemented.

Maintaining a rigorous approach to management has enabled us to achieve a surplus of \$83.1 million. Through strict controls, expenditures have stayed within budget forecasts and the increase over 2002 can be partially explained by a more significant contribution to the Société de transport de Montréal, which needed this aid to help balance its expenditures. Real revenues exceeded the amounts provided in the budget by more than \$82 million. One reason was the enormous vitality of the construction sector, which in 2003 alone boosted Montréal's property tax base by approximately \$1 billion more than anticipated in the budget.

In the area of taxation, the city administration continued its harmonization efforts over 2003 through a gradual and well-planned process of transition. In keeping with its charter, the city set a 5% cap (with respect to 2002 figures) on the increase in the tax burden for any given sector. This ceiling applies to each building category within each sector (the former municipalities). To compensate for the loss of revenues resulting from this constraint, the city has also set a maximum reduction of 1.53% in the tax burden for residential properties and 1.66% for non-residential properties in sectors where the tax burden was to decrease in 2003.

The city also eliminated the business tax in the 10 sectors where it had previously been levied on occupants of business establishments and adjusted the general property tax rate applicable to non-residential buildings. Grant programs have already been established to reduce imbalances in taxation due to this change. The city has ultimately adopted a general property tax system with different rates applying to different building categories.

What purpose, however, would such precautions serve, if they were not backed by the efficient administration of public funds? Always keeping in mind the main beneficiary of our efforts, the citizen, we renewed our organizational model in a way that the boroughs, which will now enjoy greater authority, are better able to meet the needs of residents. We asked our managers to formulate short- and medium-term objectives in their business plans and to include clear performance indicators that will serve to assess if their goals have been met.

All of these activities will clearly help provide Montréal with the framework required for the city as a whole and for its various component parts. We have also proceeded swiftly with the process of bringing job categories throughout the city in line with each other. We have accomplished this daunting task while negotiating new labour contracts with representatives of the 10 municipal unions. Furthermore, we are pleased to have signed four labour agreements in 2003, representing nearly two-thirds of all city of Montréal employees.

Montréal intends to rank among the five best cities in North America by the year 2008. We believe we took appropriate action in 2003 to proceed toward this goal. City employees have displayed exemplary professionalism and cooperation in every area and we would like to thank them for this effort. With them, we are making the city of Montréal's administration one that continues to work harder and more efficiently.



Robert Abdallah
City Manager



Robert Lamontagne
Chief financial director and Treasurer

Montréal: Overview of a Great Metropolis



A Whole World to Discover in the City of Montréal

Montréal is a unique city that makes the most of its differences and contrasts.

With a wealth of experience that has been acquired over its 361 years of existence, Montréal remains remarkably young and vibrant, although it is one of North America's oldest cities. The second largest French-speaking city in the world, Montréal is also home to dozens of different communities, each speaking its own language. But there is even more to Montréal's unique character.

Montréal is an ode to diversity. Its residents are living proof that "Man and His World" is attainable. Montrealers by birth or by adoption and those who are merely passing through live together in harmony with each other. This multicultural make-up fosters exceptional artistic activity. Many Montréal artists and performing groups, such as the Cirque du Soleil, Michel Tremblay, Betty Goodwin and Leonard Cohen, have made their marks on the international scene.

Such diversity is also evident in daily life. Commercial thoroughfares and public markets are cosmopolitan centres of exchange. We have a Chinatown, a Little Italy and a Little Portugal, yet all our neighbourhoods share in the multicultural mix that is Montréal. The city's variety also extends to its climate, where changing seasons provide ever-new urban backdrops—at no extra charge!

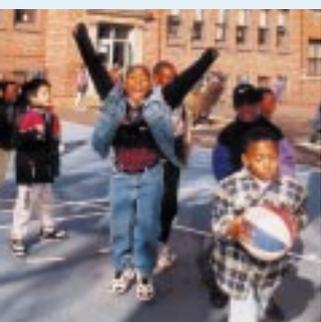
While Montréal is noted for the comfortable style of living that it offers, it is also well known for its nightlife. Openness to the world makes Montréal a fun city with great dining opportunities. Such qualities are not only apparent in its many restaurants and cafés, but in the broad range of international festivals and events that the city hosts. Montrealers certainly celebrate life to the fullest during cultural and sports activities—but always in a peaceful manner.

How can we explain the exceptional atmosphere, simultaneously serene and charged, that characterizes our great city? Perhaps the answer lies in the fact that Montréal is also an island, and that its shores, mountain, canal and vast parks have managed to preserve a rural and tranquil quality.

Although some of Montréal's boroughs still maintain a "village feel," our city is unquestionably a bustling urban centre with a thriving business community. In addition to the lively downtown area with its skyscrapers and commercial buildings, the city has numerous industrial parks, where a wide variety of high-tech products are designed, developed and manufactured. The Montréal economy is carving out a large niche for itself in knowledge-based industries, such as biopharmaceuticals, aerospace and telecommunications.

Montréal is a well-situated island. At the entrance to the Great Lakes, it not only has excellent access to North America's heartlands, but is within quick reach of the New England states. This strategic position has consistently provided the city with a significant edge. Many multinational corporations choose Montréal as their gateway to the United States' East Coast market. At the same time, it is home to dozens of financial centres, international organizations and consulates.

While Montréal is a city open to the world, it is also a whole world to discover—a unique, contrasting, fascinating and constantly evolving world. The world of Montréal!



Montréal: Overview of a Great Metropolis

Montréal Facts and Figures

1

One great metropolis

27

Boroughs make up the city of Montréal.

105

Elected officials including the mayor and 104 borough councillors, 73 of whom also sit on the City Council.

\$3,869,908,000

The 2004 operating budget of the city of Montréal

23,322

City employees serving Montrealers, in person-years

1,862,608

Residents of Montréal. They account for over half the 3,436,143 people living in Greater Montréal (Census Metropolitan Area), and more than a quarter of Québec's population. The mosaic that is Montréal includes members of some 100 different cultural communities.

482.8

Square kilometres of Montréal territory, including 11 islands. The largest, the island of Montréal, is 50 kilometres long and 16 kilometres wide at its broadest point.

\$129,300,000,000

Total value of properties in the 2004 valuation roll within the city of Montréal (411,500 valuation units)

805,815

Housing units in Montréal, making the city the North American price-space ratio leader (and the fifth-ranked city internationally in this category): 64% of Montréal residents are tenants and 36% are home-owners.

450

University and private research centres that make Montréal a major centre for innovation.

260

Companies operating in the aerospace industry, providing jobs for some 40,000 people. Sixty percent of Canada's aerospace activities occur in Greater Montréal.



Montréal: Overview of a Great Metropolis

Montréal Facts and Figures

20,780,294

Metric tonnes of merchandise that, in 2003, transitted through the port of Montréal, the second largest port on North America's East Coast.

290,256

Conventioners in Montréal in 2002; the city ranks third in North America for the annual number of international conventions.

11,900,000

Visitors to the metropolitan region in 2002. That year, tourists spent more than \$2 billion.

40

International festivals and events presented each year. Such events contribute to Montréal's cultural wealth, and place it on a par with other leading cultural cities, such as London, Paris and New York.

4

Universities. Two are primarily French-speaking (the Université de Montréal and the Université du Québec à Montréal) and two primarily English-speaking (McGill University and Concordia University). Montréal is also home to their renowned affiliated institutions, including the École des hautes études commerciales (HEC Montréal), the École polytechnique, the École nationale d'administration publique,

the École de technologie supérieure and the Institut national de la recherche scientifique.

33

Hospitals are at the heart of a healthcare network that also includes 30 CLSCs (community centres).

5,617

Kilometres of roadways, 883 km of railroad tracks, 350 km of bicycle paths, 121 km of natural shorelines and 1,175 parks and green spaces.

33

Kilometres of corridors, indoor malls and tunnels, making Montréal the international leader for underground complexes of this type. Each day, some half million people get from point A to point B through these subterranean passageways, sheltered from the elements.

88

Major corporations have their headquarters in Montréal. The city is also home to 71 international organizations, 45 consulates general and 112 international financial centres.



Montréal: Overview of a Great Metropolis

Montréal's Sound and Dynamic Economy in 2003

Since the terrorist attacks of September 11, 2001, national, regional and municipal economies have clearly felt the impact of the tragic events marking North America. Canada was also forced to respond in 2003 to concerns caused by the appearance of two potentially fatal diseases: Severe Acute Respiratory Syndrome (SARS) and Bovine Spongiform Encephalopathy (mad cow disease).

Consumer confidence

How did Montréal's economy fare under these circumstances? From 2001 through 2003, the city has demonstrated remarkable resilience, which is largely explained by vigorous domestic

demand with respect to both consumption and to public and private investment. Such demand stems from very low interest rates as well as

from government support for a wide range of different projects.

In 2003, this combination led to a 5.4% rise in retail sales and to a very sharp hike in construction investments. The recovery in this sector that had begun in the late 1990s continued throughout 2003, with the value of construction permits climbing from \$1.8 billion in 2002 to \$2.1 billion

in 2003. Residential construction benefited in particular from relatively low interest rates, with the value of construction permits quadrupling in eight years to \$1.1 billion in 2003.

A number of major projects remain

The propitious climate of 2003 also benefited the non-residential construction sector, despite the 2002 completion of a number of major commercial and institutional developments, such as redevelopment of Eaton's former downtown department store and construction of the Caisse de dépôt et placement du Québec building. Notable examples of institutional sector construction projects included the building of the Grande Bibliothèque du Québec, the redevelopment of Dorval International Airport (now known as the "Pierre Elliot Trudeau International Airport") and the Port of Montréal, as well as the expansion of facilities at the Université de Montréal and Concordia University.

Leading accomplishments in the commercial and industrial fields have included E-Commerce Place and renovations of Shell and Petro-Canada facilities, as well as the CEPSA petrochemical development.

More jobs and better incomes

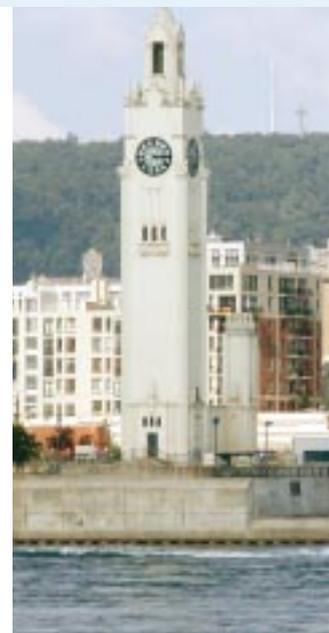
Despite a higher exchange rate, which provides such benefits as the acquisition of new technologies and foreign commodities at lower cost, Montréal's economy posted rising inflation. From a figure of 2.0% in 2002, the inflation rate edged up to 2.3% in 2003.



Montréal: Overview of a Great Metropolis

Montréal has, nonetheless, been successful in creating new jobs. Following a difficult start to the year, a net 15,000 jobs were created in 2003, a 1.7% increase over 2002 figures. This result was slightly higher than the Québec average. However, in view of the massive arrival of new job seekers on the labour market, Montréal's unemployment rate climbed to 11.5%.

Montréal remains the primary economic hub of Québec. Responsible for one quarter of Québec's GDP and a similar proportion of its jobs, the city was the recipient of 27.8% of Québec's public and private investments in 2003. Finally, average per capita income, which was in excess of \$30,000, was 12% higher than the Québec average, also testifying to the metropolis's economic vitality.



Councillors by Borough¹

Gérald Tremblay
Mayor

Boroughs

Ahuntsic-Cartierville

- **Beauchamp, Maurice**
District of Saint-Sulpice
- **Belleli, Hasmig**
District of l'Acadie
- **Eloyan, Noushig**
District of Cartierville
- **Lapointe, Pierre**
District of Ahuntsic
- **Polcaro, Achille**
District of Sault-au-Récollet

Anjou

- **Beaupré, Carol**
- **Miranda, Luis**
- **Hénault, Andrée**

Beaconsfield-Baie d'Urfé²

- **Myles, Anne**
- **Birnie, James A. (Jim)**
District of James-Morgan
- **Parent, Anne-Marie**
District of Beaugreuil

Côte-des-Neiges– Notre-Dame-de-Grâce

- **Applebaum, Michael**
District of Notre-Dame-de-Grâce
- **Rotrand, Marvin**
District of Snowdon
- **Searle, Jeremy**
District of Loyola
- **Senécal, Francine**
District of Côte-des-Neiges
- **Tremblay, Marcel**
District of Décarie
- **Zajdel, Saulie**
District of Darlington

Côte-Saint-Luc–Hampstead– Montréal-Ouest

- **Berku, Dida**
- **Libman, Robert**
- **Housefather, Anthony**

Dollard-Des Ormeaux–Roxboro

- **Janiszewski, Edward**
- **Zingboim, Howard**
- **Bayouk, Zoe**

Dorval–L'Île-Dorval

- **Yeomans, Peter B.**
- **Bourbeau, Robert M.**
District of Strathmore
- **Rouleau, Edgar A.**
District of Désiré-Girouard

Kirkland

- **Meaney, John W.**
- **Gibson, Michel**
District of Côte-Sainte-Marie
- **MacDonald, Brian B.**
District of Brunswick

Lachine

- **Cowell-Postras, Jane**
- **Dauphin, Claude**
- **Blanchet, Bernard**

LaSalle

- **Barbe, Manon**
- **Deschamps, Richard**
- **Farinacci, Alvaro**
- **Kaluzny, Oksana**
District of Sault-Saint-Louis
- **Vadacchino, Michael**
District of Cécil-P.-Newman

L'Île-Bizard–Sainte-Geneviève– Sainte-Anne-de-Bellevue

- **Cardinal, Jacques**
- **Bélanger, Richard**
District of Jacques-Bizard
- **Tierney, Bill**
District of l'Anse-à-l'Orme

Mercier–Hochelaga-Maisonneuve

- **Dompierre, Richer**
District of Maisonneuve
- **Faust, Lyn**
District of Louis-Riel
- **Larivée, Luc**
District of Hochelaga
- **Le Duc, Ivon**
District of Tétéreaultville
- **Saint-Arnaud, Claire**
District of Longue-Pointe

Montréal-Nord

- **Gibeau, Jean-Marc**
- **Infantino, James V.**
- **Parent, Marcel**
- **Fortin, Normand**
District of Ovide-Clermont
- **Morin, Georgette L.**
District of Marie-Clarac

Mont-Royal

- **Caron, Suzanne**
- **Carrie, Cliff**
District of Frederick-G.-Todd
- **Stephens, Nicholas**
District of Rockland

Outremont

- **Harbour, Stéphane**
- **Cinq-Mars, Marie**
District of Joseph-Beaubien
- **Piquette, Claude B.**
District of Jeanne-Sauvé

Pierrefonds-Senneville

- **Ward, Bertrand A.**
- **Worth, Monique**
- **Leblanc, René E.**

Plateau-Mont-Royal

- **Fotopulos, Helen**
District of Mile End
- **Poulin, Christine**
District of Laurier
- **Prescott, Michel**
District of Jeanne-Mance
- **Tétrault, Nicolas**
District of Plateau-Mont-Royal

Pointe-Claire

- **McMurchie, Bill**
- **Iermieri, Aldo**
District of Donegani
- **Trudeau, Morris**
District of Valois

Rivière-des-Prairies–Pointe-aux-Trembles–Montréal-Est

- **Maciocia, Cosmo**
District of Marc-Aurèle-Fortin
- **Minier, Marius**
District of Pointe-aux-Trembles
- **Paul, Colette**
District of Bout-de-l'Île
- **Plante, Michel**
District of Rivière-des-Prairies

Rosemont–La Petite-Patrie

- **Bourque, Pierre**
District of Marie-Victorin
- **Larouche, Denise**
District of Vieux-Rosemont
- **Plante, Jean-François**
District of Louis-Hébert
- **Purcell, François**
District of Saint-Édouard
- **Thibault, Nicole**
District of Étienne-Desmarteau

Saint-Laurent

- **DeSousa, Alan**
- **Dussault, René**
- **Grundman, Irving**
- **Biron, Michèle D.**
District of Norman-McLaren
- **Cohen, Maurice**
District of Côte-de-Liesse

Saint-Léonard

- **Bissonnet, Yvette**
- **Perri, Dominic**
- **Zampino, Frank**
- **Battista, Mario**
District of Port-Maurice
- **Zambito, Robert L.**
District of Grande-Prairie

Sud-Ouest

- **Bousquet, Robert**
District of Émard
- **Hamel, Line**
District of Louis-Cyr
- **Montpetit, Jacqueline**
District of Pointe-Saint-Charles

Verdun

- **Bossé, Georges**
- **Dugas, Laurent**
- **Trudel, Claude**
- **Gallagher, John**
District of Desmarchais-Crawford
- **Marotte, Ginette**
District of Champlain

Ville-Marie

- **Laramée, Robert**
District of Saint-Jacques
- **Lemay, Martin**
District of Sainte-Marie
- **O'Sullivan-Boyne, Louise**
District of Peter-McGill

Villeray–Saint-Michel–Parc-Extension

- **Deros, Mary**
District of Parc-Extension
- **Lachance, Sylvain**
District of Villeray
- **Samson, Anie**
District of Jarry
- **Tamburello, Paolo**
District of Saint-Michel
- **Venneri, Frank**
District of Jean-Rivard

Westmount

- **Marks, Karin**
- **De Castell, John**
District of Côte-Saint-Antoine
- **Lulham, Cynthia**
District of W.-D.-Lighthall

¹ In conformity with the act on municipal mergers, certain boroughs are divided into electoral districts. In these cases, the district name is indicated below that of the councillor.

² Please note the deaths, in the course of 2003, of Mr. Roy Kemp and Mrs. Florence Grassby, president and borough councillor, respectively, of the Beaconsfield-Baie d'Urfé Borough.

- member of the City Council and of the borough council
- borough councillor

The Executive Committee



Gérald Tremblay
Mayor



Frank Zampino
Chairman of the
Executive Committee



Francine Sénécal
Vice-chairwoman of the
Executive Committee



Michel Prescott
Vice-chairman of the
Executive Committee



Georges Bossé
Member of the
Executive Committee



Claude Dauphin
Member of the
Executive Committee



Alan DeSousa
Member of the
Executive Committee



Helen Fotopulos
Member of the
Executive Committee



Robert Libman
Member of the
Executive Committee



Cosmo Maciocia
Member of the
Executive Committee



Louise O'Sullivan-Boyne
Member of the
Executive Committee



Peter B. Yeomans
Member of the
Executive Committee

Associate councillors

Michael Applebaum, Manon Barbe, Stéphane Harbour, Marvin Rotrand, Claude Trudel.

The Council's Standing Committees and the Commission de la sécurité publique

Commission sur la présidence

Chairman
Marcel Parent

Vice-chairwoman
Claire Saint-Arnaud

Members
Dida Berku
Luc Larivée
Cosmo Maciocia
Marvin Rotrand
Anie Samson

Commission sur les arts, la culture et le patrimoine

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Commission de la sécurité publique

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Monique Worth
Samir Rizkalla (representative of the Québec government)

Highlights of 2003:

Governance Consistent with City Administration Principles

This annual report describes the primary accomplishments and financial developments for the city of Montréal in 2003.

The past 12 months have enabled the city administration to take concrete measures with respect to the two key principles that it advocates: ensuring the quality of life of Montréal residents and overseeing development of the metropolis. The city administration undertook this effort out of respect for borough autonomy and distinctiveness, accompanied by its concern for the quality of services provided to residents and its dedication to diligent administration of public finances.

Out of respect for the boroughs

- In the fall of 2003, the city of Montréal formulated a new **organizational model** that gives greater autonomy and powers to Montréal's boroughs. The borough president has, for example, become a "borough mayor," elected by universal suffrage. Under the new model, each borough is free to draft and to administer its own budget, to adopt borrowing by-laws, to charge fees for services, to amend its organizational structure, to hire and to fire its employees and go to court on behalf of the city, in their particular areas of authority. The organizational plan entitled *Ensuring Montréal's Success Together* was adopted last fall by the City Council and, at the city's request, the Government of Québec adopted Bill 33, *An Act to amend the Charter of the Ville de Montréal*, which brought about the changes necessary for implementing the new organizational model.

- The city has granted an additional \$25 million to boroughs that are seeking to contribute to the quality of resident life or to the economic development of the city through mainstay projects under the **Three-year Capital Works Program**.

For the quality of services provided to residents

- Following the **Montréal Summit**, which was held in the spring of 2002, partners in its 19 undertakings proposed dozens of projects aimed either at improving services for residents or at enhancing the city's development and influence.

- The Government of Québec and the city of Montréal have signed the first **City Contract**,

which entails financial commitments of \$2.5 billion through 2007.

These sums will be primarily applied to cultural, social and community development, to urban planning and to economic development.

- The City Council has named Montréal's first ombudsman. Residents who are dissatisfied with services received or with the manner in which their complaints are handled can now submit their grievances to a politically neutral and independent party.



Highlights of 2003:

Governance Consistent with City Administration Principles

- In view of sustainable development, the city administration has created the Water Fund, which will serve in restoring those portions of the water supply system most in need of repair. The city has also begun to restructure its water-related services so that this precious resource will be better managed on behalf of current and future generations of Montrealers.
 - The boroughs and municipal departments have, for the first time, produced **business plans** and **performance indicators** that will help them meet established goals, within originally determined budgets and deadlines.
 - The city of Montréal has formulated six **policies with budgetary implications** that are aimed at guiding the administration of public funds.
 - The City Council has set up an **Audit Committee** and assigned it the task of ensuring the proper presentation and communication of financial information.
 - The city of Montréal has signed new **labour contracts** with four unions, representing nearly two thirds of municipal employees.
- For sound management of public finances**
- In view of alleviating the heavy debt that had been accumulated over the years by the former city of Montréal, the city administration has taken advantage of the positive financial environment to formulate and to execute a **plan for refinancing the unfunded liability**.
 - The city of Montréal has undertaken the task of **harmonizing the tax regimes** of the former municipalities. In particular, it has abolished the business tax in the 10 sectors in which it remained and has extended the variable property tax rate throughout the city.

Book 1 of the Annual Report provides an overview of the primary activities of the city administration and reports on last year's financial results.

For detailed financial statements and additional information, please refer to Book 2.

One City with Stronger Boroughs

Decentralization and the Organizational Model

The success of a major city like Montréal requires a proper distribution of tasks and responsibilities within the city administration. Since its creation, the new city of Montréal has been operating on the basis of a temporary organizational structure, formulated by the Transition Committee. In 2003, the city administration sought to propose an organizational model more likely to respond to its residents' concerns and to have that model approved.

Some one hundred public consultations for an essential project

The new model is intended to emphasize a decentralization of powers in favour of the boroughs as a means of bringing the city of Montréal closer to its residents. The *Chantier sur la réorganisation* was launched in the spring of 2003. Following some one hundred meetings with Montréal Summit partners, elected officials, union representatives, and borough and municipal department managers, those engaged in this reorganization process succeeded in formulating a new organizational model.

On September 5, 2003, City Council adopted a reorganization plan entitled *Ensuring Montréal's Success Together*, which required the amendment of Montréal's Charter. The city subsequently asked the Government of Québec to draft and to adopt a law that would allow this new organizational model. Bill 33, *An Act to amend the Charter of the Ville de Montréal*, was approved on December 18, 2003, turning this project into a reality.

Better equipped boroughs

The governance structure was modified to increase borough autonomy. Borough presidents have accordingly become borough mayors, who will be elected by universal suffrage in the next municipal elections. In that capacity, they have the same powers, rights and obligations as the mayor of a local municipality. Furthermore, a borough council and the City Council may conclude a contract ensuring that the borough council will receive 50% of additional revenues generated by new development projects within its territory for a 10-year period.

Boroughs are tending to bolster their responsibilities toward the "local residents" with whom they obviously maintain closer ties. Municipal departments, on the other hand, focus on Montréal-wide infrastructure, facilities and organizations, the development of skills and strategic issues that affect the city as a whole, while ensuring coordination with the boroughs.

The new organizational model eliminates overlaps in responsibility, clarifies the roles of boroughs and municipal departments and facilitates coordination between these units. It was designed so that each borough can evolve in keeping with its own character. In other words, the distribution of power and authority within the city of Montréal has been revised.

Local autonomy has also been expanded through the assignment of new areas of authority. Beginning with the preparation of the 2005 budget and pursuant to an order issued by the Government of Québec, each borough will



One City with Stronger Boroughs

continue to receive a budgetary allocation, but it will now be able to draw up and manage its own budget. Boroughs will also be entitled to adopt certain borrowing by-laws, to charge fees for services and to levy special borough taxes to finance particular services. Furthermore, boroughs will be able to modify their organizational structures, hire and fire their employees and go to court on behalf of the city, in their particular areas of authority.

These new powers are supplemented by existing ones, such as the right of boroughs to acquire or to alienate certain lands or buildings, to manage their libraries and their parks, to regulate zoning and to enforce their by-laws.

Better oriented municipal departments

The new organizational model assigns clearer levels of authority to the municipal departments. Responsible for major citywide issues, these departments will be better able to focus on resident needs and to make Montréal a strong city that is competitive on the international scene and that serves as a centre for the creation of wealth.

Deployment of the new organizational model began in early 2004 and should be completed by 2005.

Follow-up to the Montréal Summit

The Montréal Summit was held in the spring of 2002, but the effort did not end there, as the Summit merely represented a start to new undertakings. Following months of intensive preparations and enthusiastic participation by

more than 3,000 individuals representing all spheres of Montréal activity, the Summit took on a second life in the form of dozens of projects that are to be carried out over the next five years.

A critical year

In this respect, 2003 was a critical year. Summit participants were to begin taking action on numerous fronts to develop a wide variety of projects. Such sequels to the Summit have lived up to expectations. Over the past year, nearly 2,000 partners from Montréal have been involved in one or another of 19 Summit undertakings and have mobilized thousands of residents from all parts of the city in these efforts. In response to the \$4 million that was contributed by the city of Montréal to seed and to support mainstay projects, these partners then invested more than \$3 million. What better reaction could there have been to the mayor's call to "ensure Montréal's success together!"

We should bear in mind that the Montréal Summit invited Montréal residents and stakeholders to work together to help make their new city one of the best metropolises in the world. From all of the ideas submitted, some 200 projects were born, 90 of which were considered priorities. These projects covered the main aspects of urban living. Ranging from security to sustainable development, they also included the local economy, the city's international influence and transportation.

Nine mainstay projects that will have a major impact

In June 2003, this new style of cooperation between the city and its people was further enhanced when 200 representatives from all constituencies



One City with Stronger Boroughs

met to reiterate their commitment to carrying out projects stemming from the Summit. Their energies and attention came to focus on nine mainstay projects with the potential for swift realization (see box on the following page).

These mainstay projects will have a major impact on Montréal's development and future. They are aimed at consolidating the downtown area, bolstering promising economic sectors, enhancing the living environment and heightening the city's attractiveness abroad.

A city on the go

Overall, the work performed in 2003 served to create solid foundations for providing a meaningful follow-up to the Montréal Summit. Certain projects will make substantial headway in 2004, while others will be completed.

A number of discussions, in the form of public consultations, also will be held between the city administration and its residents, particularly in view of formulating the city's urban plan. The new city of Montréal is on the right track.



One City with Stronger Boroughs

The Montréal Summit's Nine Principal Mainstay Projects

Rehabilitation of Downtown Montréal

1. **Renewal of the Port of Montréal**, a project involving the participation of more than 50 partners (institutions and businesses), three boroughs and some 160 volunteer workers. This project involves the production of a master plan and the proposal of a structure responsible for deployment and financing of the renewal effort. Action plans that were adopted in 2003 are to be followed by feasibility studies in 2004, with work beginning in 2005.
2. **Development of the Quartier des spectacles** in Montréal's downtown area, a project which combines efforts of the city, the artistic, the university and the business communities, all working together within an organization known as Le Partenariat du Quartier des spectacles. In 2003, key areas of action were defined for the Place des festivals, the Grande Bibliothèque du Québec as well as Saint-Laurent Blvd. and Sainte-Catherine St. The implementation plan will begin to take shape in 2004.

Strengthening of Economic Sectors

3. Creation of a **bio-food hub**, a project involving the construction of a business park devoted to the transformation of food products and the establishment of an incubator for new businesses. In 2003, the project's partners submitted the hub's financial package and business plan. The incubator should begin operations in 2005.
4. Creation and deployment of an **action plan for the fashion sector**. The plan will seek to preserve the specialized and leading-edge niches of this sector, to boost productivity and to enhance the renown of Montréal's fashion industry. The Comité de promotion de la mode de Montréal was established in 2003 and a study documenting certain strategic aspects of this sector was tabled.

5. Enhancement of the city's western **life sciences hub**, which encompasses the Cité scientifique, the Technoparc Saint-Laurent, the Macdonald campus of McGill University and various pharmaceutical firms. A positioning study was conducted in 2003 and a steering committee was formed.

Enhanced Quality of Life and International Image

6. Formulation and adoption of the **urban plan**, an essential reference document for the new city of Montréal, which sets out the city's goals and its intended actions with respect to major planning issues and which will enable the boroughs to highlight their individual characteristics. A draft urban plan was prepared in 2003 and will be submitted to public consultations in 2004, prior to its adoption.
7. Drafting and adoption of the **Montréal Charter of Rights and Responsibilities** of residents, which is aimed at making Montréal a city that promotes human dignity, tolerance, equality and peace. In December 2003, Montréal's mayor unveiled a draft charter that is to be the subject of public consultations in 2004.
8. Creation of the **Cité universitaire internationale**, to offer foreign students a complete residential community. Prefeasibility and feasibility studies were conducted in 2003 and the search for funding was launched. The project could begin in 2004, once necessary funds are acquired.
9. The **bicycle belt—a cycling path ringing the island**, is aimed at creating new installations for cyclists and completing a path that loops around the island. Excellent progress was made on this bicycle belt in 2003. Although work was interrupted by the winter freeze, it will be completed in the spring of 2004. Paths facilitating access to the downtown area will also be established within the near future.

One City with Stronger Boroughs

The Montréal Summit: Dozens of Projects Underway

In 2003, the 19 undertakings stemming from the Montréal Summit served to advance dozens of projects. The boroughs have focused on their local priorities, while they and municipal departments have joined forces in projects of broader scope. A few examples of these projects and of their respective states of advancement in 2003 follow. These projects have been broken down into the five major topics covered at the Summit.

TOPIC 1:

Montréal, a Centre of Creation and Innovation with a Window on the World

- **Cultural development policy:** A consulting group consisting of outside partners has completed its work and has begun to draft the policy. This policy will be the subject of public consultations in 2004.
- **Consolidation of the Jean-Talon Market, Rosemont–La Petite-Patrie Borough:** Zoning was modified to allow completion of this project, which is aimed at improving access to this highly popular location.
- **Renovation of building façades, Plateau-Mont-Royal Borough:** A joint committee has pursued its efforts to create and to promote the Programme de rénovation de façades.

- **Revitalization of commercial thoroughfares, the Ville-Marie and Verdun boroughs:**

The Opération commerce program was maintained in 2003 and 2004 to promote the development of Sainte-Catherine St. in Ville-Marie, and Wellington and de l'Église streets in Verdun.

- **Improved access to Dorval International Airport** (now known as Pierre Elliott Trudeau International Airport),

Dorval–L'Île-Dorval Borough:

The partners have defined needs and action strategies aimed at enhancing airport access. Studies will be conducted in 2004 to detail an ideal plan for improving such access.

TOPIC 2:

Montréal, City of Sustainable Development

- **Sustainable development strategy:** The mayor and 80 partners have signed a statement of principle for the Montréal community with respect to sustainable development. The strategy will be completed in the late spring of 2004.
- **Use of vacant lots, Outremont and Ville-Marie boroughs:** The development plan for the Outremont switching yard is now under study. An index of vacant land

and street-level parking lots in the downtown area has been produced in view of real-estate development.

- **Preservation of the city's natural heritage:** Policy statements have been drafted, diagnoses have been produced and action priorities have been defined for Montréal's major parks, its Blue Network, its natural environments and Mount Royal.

- **Pointe-aux-Prairies Interpretation Centre, Rivière-des-Prairies–Pointe-aux-Trembles–Montréal-Est Borough:**

A new section of the park has been opened to the public. Work on the park pavilion, chalet and its ponds will continue until 2007.

- **Des Rapides Park, LaSalle Borough:** A search for funding to develop the park is underway. Pedestrian footpaths running along the bicycle path will be completed in 2004.

- **Conversion of parking to park, Ville-Marie Borough:** Students from McGill University and the Université de Montréal competed to produce a development plan for the future Place Eugène-Lapierre. The selected concept will become a reality in 2004.

One City with Stronger Boroughs

The Montréal Summit: Dozens of Projects Underway

TOPIC 3:

Montréal: A Pleasant, Cohesive and All-encompassing Community

■ Public peace and security:

Numerous partners have helped draft their thoughts on the city's various public peace and security services. Once completed, the resulting document should serve as the basis for the provision of such services.

- **Opération Solidarité 5 000 logements:** This broad-scale operation was launched in 2002. By the end of 2003, 640 new community housing units were made available to Montréal households, construction began on 892 such units and 1,567 others were the subject of preparatory work, for a total of 3,099 housing units.

Implemented by the city of Montréal, this operation is aimed at the construction of 5,000 social and community housing units by late 2005 to assist individuals of low and moderate income in finding housing at affordable prices. With costs assessed at over \$500 million, production of these units is a complex and multi-stage process involving the amendment of zoning by-laws, the production of drawings and specifications and soil analyses. Opération

Solidarité 5 000 logements is being accomplished in partnership with the governments of Québec and of Canada, the city's boroughs, community associations, developer organizations, technical resource groups and the private sector.

- **Access to housing, Sud-Ouest Borough:** The borough has placed its emphasis on housing, by holding public information sessions and by carrying out projects that improve quality of life and that promote a mixed social environment.
- **Urban revitalization to fight poverty:** Planning and testing of a vast urban revitalization project began in three priority sectors: the Sainte-Marie neighbourhood in Ville-Marie, the Ville-Émard and Côte-Saint-Paul sectors in the Sud-Ouest and the Saint-Pierre neighbourhood in Lachine.
- **Multipurpose sports complex, Saint-Laurent Borough:** The borough has completed the master plan for the future structure.
- **Recreational facilities, Beaconsfield-Baie d'Urfé Borough:** The borough has set up play equipment and constructed a skateboard park.

- **Playing fields, Kirkland Borough:** The borough has built a baseball field in des Bénévoles Park and has rehabilitated the soccer field in Meades Park.

TOPIC 4:

Montréal: A Democratic, Equitable and Open City

- **Participation in public management:** To increase resident participation, a number of boroughs have adopted special measures.
- **Support for community life:** Ten roundtables were created in economically disadvantaged areas to promote resident participation in social and urban development.
- **Invitation to public meetings and assemblies, Côte-des-Neiges–Notre-Dame-de-Grâce Borough:** The borough has put together an email address list so that it may notify residents of local meetings.
- **Public consultations, Montréal-Nord Borough:** With the assistance of 10 organizations, the borough has contacted 1,000 residents so that it can consider their needs and their suggestions with respect to the future community centre.

One City with Stronger Boroughs

The Montréal Summit: Dozens of Projects Underway

■ **Reception and information, Pointe-Claire Borough:** The borough has overhauled its Web site and created a reception and information division.

TOPIC 5:

Montréal: An Effective Administration at the Service of its Residents

■ **Responsible management:** The city of Montréal wishes to provide its employees with training that corresponds to

their duties and that serves to develop their techniques and practices. In 2003, the city determined which courses were most important for its employees and began planning target programs.

■ **Financial framework:** The city of Montréal has refinanced the initial unfunded liability of the former city of Montréal's retirement plans and, pursuant to the City Contract, implemented a cost-cutting plan

providing for recurring savings of \$36 million, while continuing to ensure effective and quality services.

■ **Services for residents:** The city administration has formulated a master plan for the creation of eCity, its future electronic city, designed to provide optimal integration of the various means by which residents can obtain services.

The City Contract

The City Contract is clearly a promising commitment that in and of itself provides for the completion of numerous projects. The year 2003 started off on an excellent note when the Government of Québec and the city of Montréal signed the City Contract on January 30. This contract was the first of its kind in the history of their relationship.

For a more autonomous metropolis

Numerous committees began work on formulating this contract immediately after the Summit. The City Contract actually pertains to a number of different boroughs and municipal departments, as well as to 10 departments of the Government of Québec. It is aimed at modernizing the relationship between the Government of Québec and the city of Montréal by granting the latter greater autonomy and by providing it with more flexible operating rules and means of action. Certain functions have, for example, already

been decentralized and *a posteriori* accounting mechanisms will be established. The City Contract provides Montréal with specific areas of authority, focusing on key sectors such as housing, transportation, infrastructure, environment, culture, heritage, anti-poverty efforts and social exclusion.

Furthermore, the City Contract includes financial commitments of \$2.5 billion for the years 2003 to 2007. On the basis of this contract, the Government of Québec and the city of Montréal will respectively allocate \$1.4 billion and \$1.1 billion for carrying out various activities and operations.

Such cooperation has initially resulted in a search for means to alleviate the tax burden of Montréal residents. As an initial gesture, the Government of Québec has accordingly agreed to contribute a total of \$240 million to the reduction of the initial unfunded liability from the pension funds of the former city of Montréal. For its part, the city

One City with Stronger Boroughs

administration has invested \$30 million in this undertaking, an amount that was taken from the 2001 surplus of the former city of Montréal. The city has also adopted a refinancing strategy that will generate savings of \$1.1 billion over the next 42 years. A second effort by the Québec government pertains to the acquisition of the collection of the Montréal central library by the Bibliothèque nationale du Québec for the sum of \$35 million.



In addition to the amounts devoted to improving the city's finances, this money will be invested in two areas of action: the first concerns local targeted and integrated activities, pertaining to land-use management, social and community development or economic development. The second concerns metropolitan initiatives pertaining to the water supply system, urban transit and such mainstay sectors as culture and science.

to the improvement of Montréal's financial situation represent commitments of some \$1.1 billion by the Government of Québec and \$513 million by the city of Montréal.

The City Contract was adopted by City Council on February 4, 2003. It represents the first phase of renewal of relations between its two signatories. The second phase, which is scheduled for 2004, will serve to help the city finance mass transit services and to negotiate participation by the federal government in Montréal's development. In the third and final phase, the city and the Government of Québec will seek to diversify municipal sources of revenue.

Investments benefiting the community as a whole

The City Contract is designed to help generate wealth for the Montréal community. The Government of Québec has agreed to invest nearly \$1.4 billion, \$587 million of which constitutes a new commitment. For its part, the city of Montréal has assessed its financial commitment at \$1.1 billion, \$525 million of which will result from cost-cutting measures. Efforts not pertaining

More Effective Services for Residents

Three-year Capital Works (TCW) Program—List of Achievements in 2003

Keeping the Montréal Summit in mind, the city administration gave strong encouragement to capital works projects in 2003 that would contribute to resident quality of life or to the city's economic development. The city accordingly allocated additional amounts to the boroughs and to the municipal departments. To be entitled to use this money, the boroughs and departments must submit mainstay projects or take part in the *Renouveau urbain* program, a Government of Québec urban renewal initiative, while agreeing to match the city's contribution to their project.

In compliance with local needs

This new form of partnership, based on a respect for borough autonomy, was well received. In particular, this partnership grants the boroughs the funds they require to develop on the basis of their individual characteristics and priorities.

In 2003 alone, boroughs and municipal departments submitted mainstay projects representing investments of \$74.5 million. The city administration injected an additional sum of \$50.1 million to carry out these projects, with \$12.7 million taken from its surpluses. The remainder of the funding came from subsidies and the regular budgets of the entity in question.

The *Renouveau urbain* program, for its part, is to provide subsidies totalling \$32 million to projects involving investments of \$64 million; out of this total, an amount of \$10 million was invested in 2003. As a result of this program, a number of

programs aimed at restoring the city's physical and natural environments have been carried out, thereby also contributing to the economic revitalization of certain urban sectors (see box on the following page).

With respect to the boroughs, the city administration carried over TCW program expenses not incurred in 2002, increasing the program budget by \$36.6 million. The lion's share of the TCW budget was devoted in 2003 to the street network and to the water supply and sewage systems, in the cases of both the boroughs and the municipal departments.



More Effective Services for Residents

Main Capital Works Projects in 2003

Roadway and Underground Infrastructures

- Continued redevelopment of the Acadie traffic circle and initiation of work on the Atwater tunnel (\$19 million).
- Repair of a portion of the arterial street system (\$11.6 million).
- Construction of streets in new residential sectors of the Saint-Laurent (\$10.5 million) and Pierrefonds-Senneville boroughs (\$7.5 million).
- Rivière-des-Prairies–Pointe-aux-Trembles–Montréal-Est Borough: Construction of the Charles-Renard retention pond and of an industrial collecting sewer (\$19.6 million).
- Ville-Marie Borough: Completion of infrastructural work surrounding the Palais des congrès and the Quartier international (mainstay project: \$10.6 million).
- Verdun Borough: Construction of the Rhéaume retention pond (\$7.8 million).
- Dollard-Des Ormeaux–Roxboro Borough: Repair of streets and underground infrastructure (\$4.3 million).
- Beaconsfield-Baie d'Urfé Borough: Reconstruction of infrastructure of Beaconsfield Blvd. (mainstay project: \$4 million).
- Lachine Borough: Pavement repair in the industrial sector (\$2.8 million).
- LaSalle Borough: Pavement repair (\$3.5 million).
- Dorval–L'Île-Dorval Borough: Reconstruction of Saint-Louis Ave. and repair of pavement, sidewalks and curbs (\$2.9 million); drinking water supply for Dorval Island (mainstay project: \$0.5 million).
- Outremont Borough: Repair of streets and sidewalks (\$1.4 million).

Information Technologies

- Installation of new security-related telecommunications and electronic listening systems (\$3 million).
- Updating of the municipal computerized evaluation system (\$1.8 million).
- Launching of the Web portal (eCity) (\$0.5 million).

Buildings

- Start of construction of a new aquatic complex at Jean-Drapeau Park (mainstay project: \$1.9 million).
- Construction of firehouses and bringing firehouses up to standards in various boroughs (mainstay projects: \$0.5 million).
- Ahuntsic-Cartierville Borough: Construction of a youth centre in Mésy Park (Renouveau urbain program: \$0.9 million).
- Mercier–Hochelaga-Maisonnette Borough: Renovation of Château Dufresne (\$0.9 million) and expansion of the Hochelaga library (\$0.7 million).
- Sud-Ouest Borough: Restoration of sports and cultural buildings and bringing such buildings up to standards (Renouveau urbain program: \$0.6 million).
- Montréal-Nord Borough: Renovation of the borough office (\$0.5 million).

Parks, Open Spaces and Playing Fields

- Protection work in the large metropolitan parks (\$17.5 million).
- Westmount Borough: Renovation of the Westmount greenhouse (mainstay project: \$1.1 million).
- Mercier–Hochelaga-Maisonnette Borough: Development of Place Valois (mainstay project) and Place Gennevilliers-Laliberté (\$1.9 million).
- Kirkland Borough: Development of des Bénévoles Park—soccer, football and baseball fields (\$1 million).
- Pointe-Claire Borough: Rehabilitation of Edgewater and du Voyageur parks (\$0.5 million).
- Saint-Laurent Borough: Upgrading of Hartenstein and Cousineau parks (Renouveau urbain program: \$0.4 million).

Vehicles

- Replacement of obsolete vehicles in the boroughs of Ahuntsic-Cartierville (\$0.9 million), Côte-des-Neiges–Notre-Dame-de-Grâce (\$0.9 million), Côte-Saint-Luc–Hampstead–Montréal-Ouest (\$1.1 million), Montréal-Nord (\$1.9 million), Outremont (\$0.4 million) and Pointe-Claire (\$0.4 million).

More Effective Services for Residents

Water Management

In 2003, the city of Montréal also sought to better manage a very precious resource: water. In dealing with this critical issue, the city administration sought to reassert its commitment to improving resident quality of life for current as well as for future generations.

For a better water supply system

Based on numerous studies, leakage prevents nearly 40% of Montréal's drinking water from arriving at its destination. In view of the poor condition of numerous sections of the drinking water supply system resulting from chronic under-financing, the city has formulated a strategy aimed at remedying this situation.

Designed in view of sustainable development, the strategy is primarily aimed at creating a Water Fund budget in which the city plans to pay \$25 million in 2004, and then \$20 million more for each year through 2013. These monies will be used to restore the water supply infrastructure (drinking water production plants, the water supply and sewage systems and wastewater treatment plant) and in restructuring water-related services.

Money paid into the Water Fund will come from a special water management improvement tax. This tax, the rate of which varies by property category, will enable taxpayers to know how their money is being used.

Rates corresponding more closely to actual consumption

This fund will be supplemented by other measures, such as consolidation of the water expenditures

budget and rebalancing of user fees. In this manner, different types of users can thus participate equitably in the financing of this service.

Meters installed in plants, businesses and institutional facilities will make it possible to bill such users based on their actual water consumption.

Finally, the manner in which water is managed will itself be reconsidered on the basis of the best standards and exemplary practices. Furthermore, many of the water system's strategic functions have, for this reason, been entrusted to a single municipal department and a water management development group has been set up.

The Business Plan and Performance Indicators

Participants at the Montréal Summit agreed to build a world-class metropolis that would prove both effective and resident-oriented. Such a goal can only be achieved through a highly structured process. The city administration has thus engaged in the effort of designing management tools to serve this purpose.

For greater efficiency

In its 2003 budget, the city introduced two new tools: the business plan and performance indicators.



More Effective Services for Residents

For purposes of the budget year, the boroughs and the municipal departments began by producing business plans that clearly and concisely set out what needed to be done to improve their performance and to better respond to resident needs. Each entity set out its short- and medium-term orientations and strategies, its key issues, the commitments it made at the Montréal Summit and its governmental obligations, including those stipulated in the City Contract.

With respect to performance indicators, the boroughs and municipal departments highlighted in their business plans the main concerns and issues involved in each of their fields of activity. They also provided a synopsis of their strategies and action plans aimed at boosting their efficiency. Finally, they defined indicators that could be used to monitor the evolution of their work.

It should be noted that the business plan and performance indicator concepts both stem from the City Contract, in which the city administration undertook to improve its performance and to save money. Indeed, these two tools offer the dual advantage of serving strictly for the purposes of performance assessment and of permitting a satisfactory interpretation of results.

A better knowledge of different operating procedures to come

Over the course of 2003, the city also initiated an accountability process based on the business plan and performance indicator concepts. At the same time, it began reviewing municipal programs to find ways of boosting efficiency. Libraries, garbage collection and snow removal were the first activities to have been screened in all boroughs.

Preliminary observations were published in the 2004 budget. This profile remains to be completed, requiring formulation of a cost structure, determination of exemplary practices and identification of cost-cutting measures.

The Ombudsman

Creation of the new city of Montréal has provided an excellent opportunity to improve services offered to Montrealers and to enhance relationships between residents and city officials. In this spirit and in response to a recommendation made at the Montréal Summit, the City Council appointed Montréal's first ombudsman on October 22, 2003.

The ombudsman ensures that Montrealers receive the services to which they are entitled and that they are treated by the city in an equitable and respectful manner. The ombudsman will take action if he or she has reasonable grounds to believe that a person or group of persons has been or is likely to be wronged by an action, a decision, a recommendation or an omission. Such a wrong would be one caused by an action of the city, of a paramunicipal corporation, of a city-controlled corporation or of the employees or representatives of one of the foregoing entities.

However, the ombudsman will only take action as a final recourse. Residents who seek action from the ombudsman must demonstrate that they have already tried to settle the problem directly with the department or borough in question.

Weighty recommendations

The ombudsman has broad investigatory powers and municipal representatives must cooperate with

More Effective Services for Residents

this official. Following his or her intervention or investigation, the ombudsman may recommend any measure that he or she deems to be appropriate. If the ombudsman fails to receive a positive response from the department or borough in question, he or she may submit a report to the borough council, the City Council or the Executive Committee.

The ombudsman's position is politically neutral and independent. Appointed for a four-year term, the ombudsman must maintain a reputation of credibility, independence and impartiality if he or she is to properly fulfill the duties of the position. Montréal's first ombudsman is the lawyer, Johanne Savard.

Integration of Employees and Negotiation of Collective Agreements

The process of harmonizing employee working conditions and job descriptions throughout the city represents a colossal task in which the city administration has progressed significantly over the past year. A key point during that year was the signing of four collective agreements applying to nearly two thirds of the municipal workforce and providing compliance with the rule of 11.7% in wage increases over a five-year period.

Agreements with four unions

Reunited in a single island-wide force for the last 30 years, police officers were the first to sign a new agreement on June 19, 2003. The agreement emphasizes equity and work-life balance, while providing for greater flexibility in the use of resources.

On September 25, 2003, the Association des pompiers de Montréal was next to accept the terms of a new labour agreement for its 2,300 members. This agreement makes prevention a priority and will extend first responder service, which has already been established in several boroughs, to all boroughs.

Finally, on December 18, the Syndicat des fonctionnaires municipaux de Montréal and the Syndicat professionnel des scientifiques à pratique exclusive de Montréal signed their first contracts with the new city. The Syndicat des fonctionnaires municipaux de Montréal, which represents some 10,000 white-collar workers, has concluded an agreement that significantly improves working conditions for its 5,000 auxiliary members, most of whom are women and members of cultural communities. This agreement also harmonizes work schedules, which has the effect of increasing the number of hours of service offered to Montrealers.

For their part, the 185 members of the Syndicat professionnel des scientifiques à pratique exclusive have achieved additional recognition for their skills as the agreement provides increased compensation for those who have risen to the top of their respective pay scales.



More Diligent Financial Management

The Current Administration's First Budget

The year 2003 marked the first real budget of the first municipal administration of the new city of Montréal, as the preceding budget was largely based on work performed by the Transition Committee. In a situation where expectations were high and the city was being closely watched by many interested parties, the administration presented and implemented a budget faithful to its commitments and to its principles.



As it had promised to do, the city of Montréal maintained the overall tax burden of ratepayers at the same level as that of 2002. In managing to keep the

increase in expenditures at a rate below the anticipated level of inflation, the city was, nonetheless, able to enhance services for residents, particularly by allocating more money to the boroughs. The latter received \$37.2 million more than they did in 2002, a 4.2% increase for a total budget of \$913.4 million.

Additional credits of \$14 million and \$5.6 million were also granted to the public housing and to the mass transit sectors, respectively. Overall, the 2003 budget included expenditures of \$3.7 billion.

Better management of public finances

As a management tool, the municipal budget of 2003 was modernized. All of the boroughs and all of the municipal departments, in fact, included their business plans and performance indicators in it. As a result, this document presented a new system of results-oriented governance that was based on achieving optimal management of public funds.

The Government Finance Officers Association of the United States and Canada has, furthermore, given the city of Montréal an Award for Excellence for the presentation of its 2003 budget documents, and a Certificate of Recognition of Excellence in the "Outstanding Policy Document" category.

Tax Harmonization

Pursuant to the law and in view of achieving equitable treatment for all Montréal taxpayers, the city must gradually harmonize tax rates throughout the island, while making certain not to increase by more than 5% the burden on the set of taxpayers in any one sector (former municipalities) for any property category. The city administration, accordingly, pursued these tax harmonization efforts in 2003.

Removal of an outdated tax

To achieve a single tax structure, as provided by law, the city also undertook the gradual harmonization of various tax regimes inherited from the former municipalities. In particular, it abolished the business tax in the 10 sectors in which it was still being levied, thereby subjecting all non-residential buildings to a single property tax system.

More Diligent Financial Management

In replacing the business tax (a form of rental tax that may result in loss of revenues) by a specific property tax rate, the city thereby modernized its operating procedures and introduced a fairer system of tax collection, thereby also reducing costs related to the preparation of the roll of rental values and to the management of its taxes.

Two new subsidy programs

This change in tax regime could, however, occasionally result in imbalances in taxation between different properties. A subsidy program for affected owners was created in 2003 and was designed to offset such transfers. More than 4,000 taxpayers benefited from this program last year, receiving a total of more than \$8.5 million.

A second subsidy program was set up for the occupants of taxable buildings that had previously been exempted from the business tax. In 2003, \$3.6 million in subsidies was accordingly paid to some 1,300 occupants, primarily consisting of non-profit organizations, religious institutions and daycare centres.

Refinancing of the Initial Unfunded Liability

Guided by principles of sound management of public funds, the city administration strived, throughout 2003, to find means of refinancing the initial unfunded liability, a heavy burden for the taxpayers of the former city of Montréal.

This complex challenge mobilized the imagination, the efforts and the goodwill of numerous players. As a result, the city was able to announce in the fall of 2003 a less burdensome solution to the

reimbursement of this deficit. We might note that the unfunded liability for retirement plans of employees of the former city of Montréal increased until the early 1980s partly because of contribution holidays that had been granted in the late 1960s, but mostly because of insufficient contributions relative to the benefits that were being paid out by these plans.

Despite the signature of agreements in 1983-1984 and then again in 1998 alleviating pressures resulting from the initial liability, substantial increases in contributions had been scheduled beginning in 2004. The city has accordingly responded to this issue, which held the potential to force a tax hike. The economic climate, accompanied by low interest rates, proved propitious for the refinancing of debt at a lower cost.

In 2003, Moody's raised the city's credit outlook, increasing it from "A2 stable" to "A2 positive."

But prompt action was needed. The city thus formulated a new financing strategy, then renegotiated new agreements with employee representatives, engaged in discussions with the Government of Québec, requested the opinion of a committee of experts and evaluated the impact of its strategy on its credit rating.

A solution enjoying broad support

The cornerstone of this solution was a contribution of funds by the Government of Québec, which agreed to grant an amount of \$240 million to reduce the initial unfunded liability and, accordingly, the new amount to be borrowed by the city. Thanks to this support, the new financing strategy

More Diligent Financial Management

was implemented. Four of the six employee retirement plans have subsequently subscribed to it.

The four components of the strategy for refinancing the unfunded liability

- A contribution of funds from the Government of Québec to reduce the initial unfunded liability.
- Borrowing at better rates.
- Use of the balance of actuarial gains provided in the 1998 agreements.
- Use of \$30 million in reserves.

There are numerous budgetary, fiscal and financial advantages to this strategy. In terms of taxation, it reduces the cost of the debt over the medium and long terms. In the year 2004 alone, taxpayers of the former city of Montréal will be responsible for \$70.8 million, compared to an initially anticipated amount of \$80.4 million, a \$9.6 million decrease. Over the next 42 years, the overall cost savings resulting from the refinancing has been assessed at \$1.1 billion.

Policies Impacting The Budget

To fulfill its mission within a healthy and responsible management framework, which also responds to residents' ability to pay, the city administration adopted a budget management framework in 2003 based on six policies.

The balanced budget policy

Required by law to maintain a balanced annual budget, the city of Montréal now has a policy that will help it maintain such balance over the medium and long terms. Under this policy, the municipal

budget must, for example, always be properly documented and contain a contingency reserve of at least 1% of its expenditures to cover unbudgeted costs, the claims settlement and payments made following legal actions. Three-year revenue and expenditure forecasts and quarterly reports on the city's budgetary position must also be prepared.

The reserve fund policy

The city administration must preserve an adequate margin of financial and budgetary manoeuvre to deal with contingencies. This aspect is all the more important given the fact that the city must contend with an aging infrastructure and high levels of indebtedness.

The reserve fund policy specifically requires the boroughs to create stabilization funds for the cost of snow removal and to transfer into such funds all snow removal surpluses of up to 50% of the snow removal budget. For its part, the city must create a general contingency reserve.

The revenue source policy

How should the city of Montréal finance its activities? In this area, every decision counts. The city should also have an excellent knowledge of its sources of revenue. Part of this policy stipulates that, to the extent possible, recurring revenues must be equal or superior to recurring expenditures. Furthermore, the city should not only consider each source of revenue in view of maximizing cash inflow, but also the behaviour of this source of revenue with respect to inflation and to economic growth.

More Diligent Financial Management

The facility and infrastructure policy

The financial requirements involved in properly maintaining municipal infrastructure and in replacing certain components must be diligently planned. Under this new policy, the city must maintain a permanent inventory of the components of its capital assets, assess the risk of their premature breakdown or wear, formulate a structured preventive maintenance program and assign 75% of the annual budget to protecting facilities and 25% to development projects.

The debt management policy

To avoid excessive indebtedness, the city administration must pay special attention to expenditures financed through long-term borrowing. It must continue to ensure that every loan is diligently and responsibly contracted. It must also finance capital expenditures, primarily through long-term borrowing and maintain a balanced structure for its debt over the short, medium and long terms. The city must also find means other than borrowing to finance a portion of its facilities and its infrastructure, constitute reserves at above normal levels and protect itself against exchange rate fluctuations through the use of financial derivatives.

The expenditure management policy

The city of Montréal seeks to establish tight controls over expenditures related to personnel, supplies and materials, travel costs and expense charges among its various entities. It must, accordingly, formulate an annual workforce plan and submit that plan to the approval of the Executive Committee, while documenting and justifying files submitted to the Executive

Committee pertaining to the creation, abolition or modification of job positions. The policy also stipulates that new skills must be sought from suppliers and that the city must benefit from the technological or economic opportunities that they offer.

The Audit

The city administration is responsible for presenting faithful information on its financial situation, as well as on the results of its activities, according to accounting principles generally accepted in municipal accounting in Québec. The city administration places the greatest emphasis on this responsibility, which earned it the Award for Excellence in the Financial Reports category of the Government Finance Officers Association of the United States and Canada for the fiscal year ended December 31, 2002. The city administration is also responsible for creating and for deploying an effective system of internal control and for ensuring the protection of assets, as well as for preventing and detecting errors and fraud.

To enhance the credibility of its financial statements and the governance process, the city set up an Audit Committee in September 2003.

The Audit Committee

Created by the City Council, this committee consists of Frank Zampino, Chairman of the Executive Committee, Peter B. Yeomans, member of the Executive Committee, Jacques Fortin, Economist, G. André Harel, Chartered Accountant, as well as of a member of the Commission permanente du conseil sur les finances, le capital humain et les services aux citoyens. This latter member has not yet been appointed.

More Diligent Financial Management

The City Council has delegated to the Audit Committee its responsibility for overseeing the process of presenting and communicating the city's financial information. The Committee plays a key role in relations between elected officials on the one hand and management and auditors on the other. The Committee thereby enhances the independence of the auditors, increases the credibility and objectiveness of financial reports and reinforces member roles by promoting in-depth discussions with management and with the auditors.

The Committee's responsibilities can be summed up as:

- Ensuring the monitoring of risks, the financial information process and compliance with laws and by-laws.
- Overseeing the control environment and the financial information process and promoting ongoing improvement in these areas.
- Reviewing annual financial statements.
- Meeting with the city administration and the auditors to discuss the annual financial statements and the effectiveness of internal controls.
- Reviewing the audit plan and discussing it with the auditors.

The Auditor General and the External Auditor

In compliance with the provisions of the *Act respecting cities and towns*, the city of Montréal also appointed an auditor general in 2002 for a non-renewable seven-year term. The auditor general must provide the City Council with an independent audit of the city's accounts and affairs and of any legal entity in which the city directly or indirectly holds 50% of the voting shares or for which it appoints more than 50% of the members of the board of directors.

The auditor general must also provide the Council with a report on the results of his or her compliance of city activities with laws, by-laws, policies and directives, as well as his or her value-for-money audits. The independence of the auditor general is ensured through the manner in which he or she is appointed to this office and through guarantees of non-compellability and immunity.

In conjunction with the auditor general, an external auditor who is appointed by the city performs the financial audit of the city's accounts and affairs. This responsibility is currently jointly assumed by chartered accountants Samson Bélair/Deloitte & Touche s.e.n.c.r.l. and KPMG LLP.

Financial Results of 2003

<i>(In thousands of dollars)</i>	2003		2002
	Budget	Actual	Actual
Revenues	3,639,670	3,721,954	3,591,545
Operating expenditures	3,212,582	3,234,967	3,155,371
Other financial activities	469,382	479,699	432,537
Surplus (deficiency)	(42,294)	7,288	3,637
Appropriations – restricted surplus	45,000	72,871	84,833
Appropriations – reserved funds	(2,706)	1,394	(3,997)
Repayment of net obligation of pension plans		1,194,354	
Long-term financing of financial activity expenditures		1,195,910	30,027
Surplus for the year		83,109	114,500

The Surplus

As in 2002, revenues for fiscal 2003 were sufficient for funding operating expenditures, reimbursing the long-term debt and paying cash for capital expenditures. A deficiency of nearly \$42.3 million had been forecast at the time the budget was tabled, whereas actual results gave a slight surplus of some \$7.3 million.

With the appropriation that had been previously provided in the budget of surpluses and reserved funds (nearly \$42.3 million) and the use of such funds during the year (\$31.9 million), the city concluded the year on a positive note, in the amount of \$83.1 million. This result testified to the city's ability to achieve economies of scale and gains in productivity of \$36 million, which were included in the 2003 operating expenditures budget.

Over the course of the fiscal year, the city was able to refinance an important share (nearly \$1.2 billion) of its net obligation related to pension plans, thanks to the very favourable climate of the

financial markets and to the conclusion of its negotiations with the Government of Québec and various employee representatives.

The city seeks to avoid the use of long-term financing for its operating expenditures. However, to comply with the conditions of certain government grant programs, it must borrow to fund some of these expenditures. Such expenditures totalled more than \$1.5 million in 2003.

Revenues

The economic climate that prevailed in 2003 has continued to promote building construction which serves as the city's main tax base. This tax base has increased to such an extent that it is worth nearly \$1 billion more than what had been forecast in the 2003 budget, thus generating additional revenues of some \$33.4 million. A higher building occupancy rate has resulted in a \$3.1 million increase in revenues.

Financial Results of 2003

	2003			2002	
	Budget	Actual	Difference between budget and actual	Actual	Difference between 2002-2003
<i>(In thousands of dollars)</i>					
Taxes	2,443,041	2 479,598	36,557	2,422,750	56,848
Payments in lieu of taxes	201,770	204,171	2,401	198,430	5,741
Other revenues from local sources	552,215	608,653	56,438	566,476	42,177
Transfers	442,644	429,532	(13,112)	403,889	25,643
Total	3,639,670	3,721,954	82,284	3,591,545	130,409

Among the four categories of revenues, “other revenues from local sources” is the least homogeneous. This category includes such revenues as those generated by services provided to municipal organizations (almost exclusively revenues from the Montréal Metropolitan Community (MMC)), services provided to individuals and to other organizations, real-estate transfer fees, fines for tickets, interest revenue, the sale of capital assets and developer’s contributions. The variations thus result from numerous sources.

The greatest spreads are primarily explained by the following factors: a downward revision of \$10.4 million in the MMC’s contribution to the AccèsLogis program, a \$26.7 million increase in property transfer fees and in revenues from permits associated with a positive real-estate market, additional revenues of \$6.9 million from the Complexe environnemental de Saint-Michel landfill site, additional recovery of salaries totalling \$7 million for activities at Jean-Drapeau Park and for parking and, finally, an additional amount of \$2 million recovered from parking activity charges and compensations.

With respect to transfers from the Government of Québec, an amount of \$35 million that had been budgeted in 2003 for the sale of the collection of the central library to the Bibliothèque nationale du

Québec was carried forward to 2005. With respect to the municipal library network, a budgeted amount of \$6.9 million was also carried forward to a subsequent year, in view of the agreement with the government that will come into effect on this matter.

Unanticipated subsidies of \$5 million for the Cité des arts du cirque and of \$2.3 million for agreements on sensitive and targeted neighbourhoods, as well as for graffiti removal, have been entered as revenues for the period. An additional subsidy of \$19.4 million has been taken into consideration, in view of the fact that certain real-estate projects were launched ahead of schedule.

Operating Expenditures and Other Financial Activities

A review of operating expenditures associated with city activities reveals favourable and unfavourable variations with respect to the budget. This set of variations results in an unfavourable spread of nearly \$22.4 million or 0.7% of the original budget. These over-budget expenditures do not represent a budget deficiency, as they were funded through the appropriation of surpluses and of reserved funds from prior years totalling more than \$31.9 million.

Financial Results of 2003

	2003			2002	
	Budget	Actual	Difference between budget and actual	Actual	Difference between 2002-2003
<i>(In thousands of dollars)</i>					
General administration	519,938	498,784	21,154	438,476	60,308
Public safety	683,579	705,576	(21,997)	706,253	(677)
Transportation	593,692	599,339	(5,647)	560,486	38,853
Environmental health	272,937	291,042	(18,105)	289,567	1,475
Health and welfare	117,748	108,169	9,579	102,692	5,477
Urban planning and development	123,273	133,141	(9,868)	139,174	(6,033)
Recreation and culture	431,208	452,313	(21,105)	441,935	10,378
Electricity	20,040	20,656	(616)	19,451	1,205
Financing expenses	450,167	425,947	24,220	457,337	(31,390)
Total operating expenditures	3,212,582	3,234,967	(22,385)	3,155,371	79,596
Repayment of long-term debt	406,032	387,282	18,750	386,498	784
Transfer to Statement of Investment Activities	63,350	92,417	(29,067)	46,039	46,378
Total operating expenditures and other financial activities	3,681,964	3,714,666	(32,702)	3,587,908	126,758

Excluding the over-expenditures that were funded through the use of surpluses and reserved funds, the budget variance was favourable by nearly \$9.5 million (0.3%). The city was thus able to control its expenditures with respect to its overall budget. It is normal for budgetary reallocations to take place in the course of a fiscal period, as original figures had been based on forecasts.

The approximate \$79.6-million rise in expenditures that occurred in 2003, in contrast with 2002, can largely be explained by a budget increase of \$57.2 million and by an additional contribution of \$14 million to the Société de transport de Montréal (STM). This contribution was needed to enable the STM to balance its expenditures.

Long-term debt repayment was \$18.7 million less than forecast in the budget. This favourable variation essentially resulted from the positive cash position, which made it possible to delay certain

loans on the financial markets. In 2003, the city borrowed \$498.8 million to finance its investment works, compared with \$73.6 million in 2002.

With respect to transfers to the transfer to Statement of Investment Activities, an actual amount of \$92.4 million was used without the need to borrow for real-estate acquisitions. Real-estate developers contributions added to \$15.6 million of this amount and the Government of Québec, another \$45 million through its various programs. Funding of the \$31.8-million remainder was provided entirely through 2003 revenues.

Investment Activities

In the course of 2003, the city issued long-term debt securities at a more normal pace. The \$170.2-million surplus from various sources of funding of investment activities was used to partially offset the financing deficiency of \$242.8 million from the previous year.

Financial Results of 2003

Of those sources of financing that were used to pay cash to acquire assets, \$92.4 million came from current credits and \$13 million from surpluses and prior year reserved funds. These payments, totalling \$105.4 million, represented 24% of the city's investment expenditures for the year 2003. The comparable rate for 2002 was 17%.

Surplus and Reserved Funds

Balances at the end of 2003 and of 2002 were quite similar. The fact that the city of Montréal achieved adequate revenues to fund its operating expenditures and its other financial activities

The \$257.7 million surplus consists of an unrestricted surplus of \$21.7 million and an restricted surplus of \$236 million. While the latter is assigned to various activities, a good portion of this sum may, by Council resolution, be applied to fund unexpected expenditures.

Net Direct Debt and Long-term Unfunded Expenditures

Net direct debt represents the amount that taxpayers will be required to pay in the future. It can be calculated by deducting the amounts for which

<i>(In thousands of dollars)</i>	2003			2002	
	Budget	Actual	Difference between budget and actual	Actual	Difference between 2002-2003
Sources of financing					
Transfer from Statement of Financial Activities	103,189	92,417	10,772	46,039	46,378
Other sources		13,050	(13,050)	18,305	(5,255)
Issue of long-term loans	453,094	498,813	(45,719)	73,630	425,183
Total financing	556,283	604,280	(47,997)	137,974	466,306
Investment expenditures	556,283	434,059	122,224	380,845	53,214
Surplus (deficiency)		170,221	(170,221)	(242,871)	413,092

allowed the city to maintain its surpluses and its reserved funds at the same levels.

Two comments may be made with respect to these balances. To reduce the tax burden of some residents, the city decided over the past two fiscal years to fund certain operating expenditures, totalling some \$31.6 million, through long-term financing. Furthermore, the city paid \$31.3 million in cash for certain expenditures using its surpluses and reserved funds, thereby offsetting the effect on its financial situation of this type of financing.

<i>(In thousands of dollars)</i>	2003	2002	Difference
Surplus	257,724	254,849	2,875
Reserved funds	33,719	40,191	(6,472)
Total	291,443	295,040	(3,597)

residents were taxed in prior years and that were invested in the sinking fund, while awaiting maturity of the debts. Amounts to be recovered from the Government of Québec through various grant programs associated, for example, with the acquisition of capital assets, are also deducted. Another large amount, primarily consisting of debt that will be reimbursed through fees that are to be

Financial Results of 2003

<i>(In thousands of dollars)</i>	2003	2002
Long-term debt	6,268,675	5,503,548
Add		
Long-term unfunded expenditures	471,573	314,679
Deduct		
Amounts recoverable from the Government of Québec	1,186,966	1,246,237
Investments in the sinking fund	1,110,938	1,252,406
Miscellaneous	221,880	233,580
Net direct debt and long-term unfunded expenditures	4,220,464	3,086,004

charged for the use of underground conduits (primarily by Hydro-Québec) must also be deducted. On the whole, these deductions represented \$2.5 billion as at December 31, 2003 (\$2.7 billion as at December 31, 2002).

To these debts must be added expenditures of \$471.5 million that were contracted under borrowing by-laws and that are temporarily being financed through cash flow.

Overall, net direct debt for which taxpayers are responsible includes loans issued (\$6.3 billion), expenditures to be covered by long-term financing (\$471.5 million) and deductions to take into account earmarked amounts and amounts for which third parties are responsible (\$2.5 billion). As at December 31, 2003, net direct debt totalled \$4.2 billion, compared with \$3.1 billion the previous year, an increase of \$1.1 billion.

The primary variation results from the debt financing of the initial unfunded liability of four pension plans of employees of the former city of Montréal, which represents an amount of nearly \$1.2 billion. New debt issued to finance investment expenditures totalled \$498.8 million and repayment of long-term debt during the fiscal year totalled \$535.8 million,

for a decrease of \$37 million (\$535.8 million minus \$498.8 million). The increase in value of the Canadian dollar over its American counterpart resulted in a gain of \$67.1 million on those debts denominated in foreign currency that were subject to currency fluctuation.

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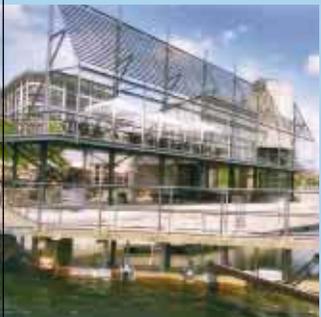
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