

Tax Supported 2020 Operating Budget and 2020-2029 Capital Budget and Plan

Date: January 10, 2020
To: Budget Committee
From: Chief Financial Officer and Treasurer
Wards: All

SUMMARY

This report presents the City of Toronto Staff Recommended Tax Supported 2020 Operating Budget and 2020 – 2029 Capital Budget and Plan and it seeks City Council approval for the Non Program accounts, which are not included in Program/Agency Budget Notes.

The 2020 Operating Budget and the 2020 – 2029 Capital Budget and Plan enables the City of Toronto to provide over 150 distinct services that are supported by capital assets and infrastructure to meet the needs of a diverse population of more than 2.9 million people.

The City employs a financial planning and budgeting process that is transparent, accessible and focused on service outcomes and accountability. It accounts for the public's needs as translated by Council in its approved strategies and priorities and ensures that value is achieved through the efficient use of resources for the most effective delivery of City services and stewardship of City assets. Grounded in good governance, the City's financial planning and budgeting practices are aimed to garner the public's trust and confidence in the management of public resources.

The development of the 2020 Budget was guided by five key principles: preserving existing services; keeping the property tax increase for City operations at the level of inflation and minimizing the risk of unpredictable funding sources, investing in Council priorities and key challenges, modernizing the budget process and considering how the budget impacts all Torontonians.

RECOMMENDATIONS

The City Manager and Chief Financial Officer and Treasurer recommend that:

1. City Council approve the 2020 Staff Recommended Operating Budget for Corporate Accounts of \$1.654 billion gross and (\$170.217) million net revenue comprised of the following accounts:

<u>Accounts:</u>	Gross Exp. <u>(\$000s)</u>	Revenue <u>(\$000s)</u>	Net Exp. / (Rev) <u>(\$000s)</u>
Capital & Corporate Financing	1,026,796.8	68,250.5	958,546.3
Non-Program Expenditures	541,016.0	187,366.5	353,649.4
Non-Program Revenues	119,288.7	1,601,665.4	(1,482,376.8)
Total Non-Program Budget	1,687,101.5	1,857,282.4	(170,181.0)

2. City Council approve the staff complement of 397 operating positions for Non-Program, consistent with 2019 approved levels.
3. City Council approve a contribution to the City Building Reserve Fund from the dedicated City Building levy for priority transit and housing capital projects of \$91.461 million;
4. City Council approve one-time contributions to and from the Tax Rate Stabilization Reserve as shown below:
 - i. Contribution from the Tax Rate Stabilization Reserve of \$23.862 million;
 - ii. Contribution to the Tax Rate Stabilization of \$33.062 million
5. City Council approve the 2020 sinking fund levies of \$366.894 million in respect of the City's capital financing requirements;
6. City Council approve the contribution to the Scarborough Transit Reserve Fund from the dedicated special property tax levy of \$40.699 million, in support of commitments to transit investments;
7. City Council approve the following adjustments to the 2020 Solid Waste Management Services Rebate for single family and residential units above commercial customers, effective January 1, 2020:
 - i. adjust the Small Bin Rebate from \$160.04 to \$80.59; and,

- ii. adjust the Medium Bin Rate from \$73.69 to \$0.
8. City Council approve 2020 Staff Recommended Capital Budget for Corporate Initiatives with cash flows and future year commitments totaling \$1.541 billion as detailed by project in appendix 2.1.1.
 9. City Council, in approving the 2020-2029 Capital Budget and Plan, express its intent to ensure that:
 - i. the increase in need for services attributable to anticipated development will be met; and
 - ii. that any future excess capacity identified will be paid for by development charges or other similar charges.
 10. City Council authorize the Chief Financial Officer & Treasurer to pay the FCM (Federation of Canadian Municipalities) membership fees of \$525,364.28 in 2020 and to pay membership fees in subsequent years, provided the annual fee increase is not more than 3.5% of the previous year's fee except in the year(s) when FCM calculates the fee based on new Census information.

FINANCIAL IMPACT

Staff Recommended Tax Supported 2020 Operating Budget and 2020-2029 Capital Budget and Plan Summary

This report seeks Council approval of the 2020 Corporate Accounts Budget for expenditures and revenues totalling \$1.687 billion and \$1.857 billion respectively.

Corporate Accounts include Capital and Corporate Financing, and Non Program expenditures and revenues that are detailed in Appendix 1.

This report also seeks authority for approval of corporate capital initiatives totalling \$1.541 billion as detailed in Appendix 2.

Capital Financing and Non Program expenditures and revenues forms part of the overall City's Operating Budget and corporate capital initiatives for part of the City's overall 10-year capital program, as summarized below.

Table 1: Staff Recommended Tax Supported 2020 Operating Budget and 2020-2029 Capital Budget and Plan

Total Tax Supported Budget & Plan (\$M)	Operating Budget		Capital Budget & Plan			
	2020		2020		2021-2029	
Programs	Gross	Net*	Gross	Debt	Gross	Debt
City Operations	5,601	2,183	1,353	723	13,302	7,782
City Agencies	4,297	2,412	1,003	166	12,284	1,077
Corporate & Capital Financing	1,687	(170)				
Total Budget	11,585	4,424	2,356	888	25,585	8,858

*Excludes special dedicated levy

2020 Staff Recommended Tax Supported Operating Budget Overview

The 2020 Staff Recommended Tax Supported Operating Budget is \$11.585 billion gross and \$4.424 billion net. The budget preserves existing services, addresses regional pressures, maintains an inflationary residential tax rate increase for City Operations, and includes \$67 million in new or enhanced investments.

New investments include \$15.3 million for poverty reduction, \$5.9 million for climate change, \$27.8 million for safety initiatives, \$9.5 million for transit investments and \$8.5 million for other City priorities.

64% of the Staff Recommended Operating budget is allocated to social programs (28.4%), TTC services (18.5%), and emergency services (17.0%), with the funding primarily coming from property taxes (38.2%), Federal and Provincial revenues (21.3%), and TTC fares (11.6%)

2020-2029 Staff Recommended Capital Budget and Plan Overview

The 2020-2029 Staff Recommended Capital Plan focuses on investments in transit funding (\$13.2 billion), transportation (\$4.9 billion), environment (\$2.9 billion) and housing (\$2.6 billion); and includes increase investments for new capital projects such as redevelopment of Carefree Lodge, park development and community centres.

The Staff Recommended Capital Budget and Plan addresses capital plan achievability and affordability, recent Council commitments, government partnerships and develops a capital asset management plan.

DECISION HISTORY

At its meeting on June 18 and 19, 2019, City Council adopted the report on the Impact of Provincial Announcement on City's 2019 Budget and 2020 Budget Process. This report provided City Council with an update on the impact of the Province of Ontario's May 27, 2019 announcement to reverse the April 1, 2019 retroactivity of the provincial program and funding changes for child care, public health and land ambulance on the City's 2019 Budget and 2020 Budget process.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2019.EX6.10>

At the Executive Committee meeting on December 17, 2019, the City Manager and the Chief Financial Officer and Treasurer gave a presentation on State of the City and Value-Based Outcomes Review. This report transmits the findings of the recently completed Value-Based Outcomes Review, conducted on behalf of the City of Toronto. The Value-Based Outcomes Review analysis and findings will inform the City's strategy for modernizing our financial decision-making to achieve Council's priorities and long-term financial sustainability.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2019.EX11.1>

COMMENTS

Corporate Recommendations

This report presents the City of Toronto Staff Recommended Tax Supported 2020 Operating Budget and 2020 – 2029 Capital Budget and Plan and it seeks City Council approval for the Non Program accounts, which are not included in Program/Agency Budget Notes.

- Tax Rate Stabilization Reserve

The projected 2020 opening balance of the City's Tax Rate Stabilization Reserve is \$87.146 million, prior to any 2019 surplus allocation. Withdrawals of \$23.861 million from this Reserve fund are recommended to fund one-time costs that will not require permanent funding beyond 2020, as summarized in the table below.

Staff are also recommending a one-time contribution of \$33.062 million to this reserve in 2020 to both offset the one-time draws as well as contribute to the growth of this reserve. The 2020 contribution is funded by anticipated 2020 MLTT revenue, reflecting more than 50 per cent of the increase experienced in 2019 above 2018 actuals.

The reserve is projected to have a 2020 year-end balance of \$96.347 million. The anticipated growth in the Reserve balance is required to adequately support any emergency requirements associated with an \$11.6 billion operating budget and one-

time costs for recommended expenditures, where permanent tax based funding should not be applied.

The Reserve also provides a contingency to temporarily address any shortfalls associated with expected Federal or Provincial partnerships.

2020 Reserve Activity

2020 Opening Balance (\$Millions)	\$87.1
One Time Draws	
2 year phase in of VBOR savings	(\$20.0)
Other one-time expenses	(\$3.9)
Sub-Total	(\$23.9)
One Time Contributions	
2020 MLTT Contribution	\$33.1
2020 Projected Ending Balance	\$96.3
YoY Changes in Reserve Balance	\$9.2

* Excluded Potential 2019 Surplus Allocation

- Solid Waste Rebate Reduction

For a number of years, many Solid Waste Management Services single-family ratepayers have received a rebate or credit on each utility bill, funded from the property tax base.

During last year's budget process, City Council approved a three-year plan to phase out the bin rebates based on a recommendation from City staff. This included the single-family residential large garbage bin rebate being phased out entirely in 2019, the medium garbage bin rebate over 2019 and 2020 and the small garbage bin rebate over 2019, 2020 and 2021.

The phasing out of the single-family rebate supports the transitioning of Solid Waste Management Services to a sustainable utility where operating expenses are covered by rate revenues. This does not change the principles behind the volume-based rate structure. When the rebate is completely phased out, the extra-large garbage bin will still be more expensive than the small bin on an annual basis. Eliminating the rebate ensures more funds in the operating budget can go towards taxpayer-funded operations including transit, recreation programs, and community safety.

To minimize the impact of rebate reductions on low-income ratepayers, a Single-Family Residential Low-Income Relief Program was created. The program offers assistance to seniors or persons living with a disability who have a household income of \$50,000 or less and either a small, medium or large garbage bin or bag-only collection.

- Anticipated Capital Development – Technical Recommendation

This is a technical requirement under the Development Charge (DC) Act to ensure that the City can continue to recover DCs for any excess capacity created in a growth project. Either before or at the time the excess capacity is created, Council must express clear intention that the excess capacity would be paid for by DCs or other similar charges.

- Federation of Canadian Municipalities Fees

The Federation of Canadian Municipalities (FCM) is the national voice of Canadian municipal governments, advocating for local interests on policy and program matters within federal jurisdiction. Included in FCM is the Big City Mayor's Caucus (BCMC). The City of Toronto is FCM and BCMC's largest member and benefits from advocacy in Ottawa which has resulted in significant federal commitments in areas such as infrastructure, transit and housing. Toronto has two members on the FCM Board of Directors, and four (non-board) members on its Standing Committees.

At its September 2019 board meeting, FCM passed a revised fee structure which includes a one-time increase in member fees of 25% in 2020, and an annual escalator of 3.5% for each of the following three years (2021-2024). The revised fee structure was approved by the FCM Board to ensure that resources are available for the organization to fulfil its mandate. The fee structure was last revised 10 years ago, and fees have not kept up with the growing expectations members have had for the organization.

FCM calculates membership fees based on census population. Statistics Canada will conduct a new census in 2021, and Toronto's FCM membership fee will be calculated using this new population count starting in 2023. Based on the annual increased fee of 3.5% and population growth, staff estimate the impact on the City's FCM membership fees as follows:

Year		FCM Total Member Fee (not including HST)	Annual Growth	Census Year Used for Calculation
2019 (Actual)		416,661.42	-	2016
2020 (Actual)		525,364.28	26.09%	2016
2021 (City Staff Estimate)		543,846.00	3.52%	2016
2022 (City Staff Estimate)		563,147.00	3.55%	2016
2023 (City Staff Estimate)*	High	642,760.60	14.14%	2021
	Low	628,881.80	11.67%	

* City staff estimate that the member fee for 2023 will increase between 11-14% from the prior year, largely due to population growth. Estimates for 2023 were calculated based on the 2021 Natural Growth (3.168 million) and Places to Grow Target (3.099 million) population scenarios from the Housing Market Analysis, which was presented to City Council in February 2019.

In 2002, City Council authorized the Chief Financial Officer & Treasurer to pay the invoice for the FCM membership fee in 2002 and in subsequent years as long as the membership fee did not increase by more than the Consumer Price Index (CPI). Since 2003, FCM fees have increased by an average of 2.3% per year (excluding the one-time growth due to changes in Census population) while CPI has grown on average of 1.9% in Toronto. City member dues are paid out of Corporate Membership account in Non-Programs (NP2260).

- Approval of 2020 Sinking Fund Levies Recommendation

The City of Toronto Act, 2006 (COTA), sub-section 255 (4) states that, "If in any year an amount is or will be required by law to be raised for a sinking fund or retirement fund of the City, the City Treasurer shall prepare for City Council, before the budget for the year is adopted, a statement of the amount."

This report requests Council's approval for the 2020 sinking fund levies of \$366,894,362.71 in respect of the City's capital financing requirements.

Debt Issuance

Authority to Issue Debentures During 2020

The proceeds from the issuance of debentures will be used to finance capital expenditures that have been incurred or committed to projects approved by Council. The authority to borrow up to \$1.0 billion in 2020 has been authorized under By-law No. 254-2019.

Issuance Activity during 2019

The debenture authority approved by Council for 2019 was \$1 billion. Due to favourable capital market conditions and timing considerations, debenture issuance of \$950 million was completed during the year.

The details of the 2019 debenture issuance that was approved by the Debenture Committee are:

Issue Date	26-Apr-19	09-Sep-19	07-Nov-19	02-Dec-19
Settlement Date	09-May-19	24-Sep-19	22-Nov-19	16-Dec-19
Size	\$300,000,000	\$200,000,000	\$350,000,000	\$100,000,000
Coupon	2.65%	2.60%	2.80%	2.65%
Maturity Date	09-Nov-29	24-Sep-39	22-Nov-49	09-Nov-29
Term	10 years	20 years	30 years	10 years
Issue Yield	2.67%	2.65%	2.81%	2.35%

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SIGNATURE

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ATTACHMENTS

Appendix 1: 2020 Staff Recommended Operating Budget

- Appendix 1.1.1 - 2020 Gross Expenditure Budget
- 1.1.2 - 2020 Revenue Budget
- 1.1.3 - 2020 Net Expenditure Budget
- 1.1.4 - 2020 Total New and Enhanced Service Investments

Appendix 2: 2020 Staff Recommended Capital Budget

- Appendix: 2.1.1 - 2020 Cash Flow & Future Year Commitments for Corporate Initiatives