

## **COVID-19 Intergovernmental Funding Update**

**Date:** December 8, 2021

**To:** City Council

**From:** City Manager and the Chief Financial Officer and Treasurer

**Wards:** All

### **SUMMARY**

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Partnerships between governments have been critical in our country's response to COVID-19, including efforts to contain the pandemic, roll-out vaccines and safely re-open the economy. Investments from the federal and provincial governments, including through the Safe Restart Agreement, have been fundamental to this effort by supporting the preservation of the City's essential services and allowing job-creating capital investments to proceed.

However, Toronto and other large cities continue to face a precarious multi-year recovery. Federal and provincial partnerships will be required to mitigate pressures related to COVID-19 in 2022 and beyond, including those caused by transit ridership losses and additional expenditures in areas such as the shelter system. According to preliminary estimates, \$1.0 billion to \$1.4 billion in further funding commitments are required to address 2022 COVID-19 related impacts alone. Commitments are required in the short term to address this situation so that City staff can present a balanced budget for 2022, and avoid a reduction in service offerings (including pandemic response) and capital offsets/deferrals, which would both delay and hinder the City's recovery. As the economic driver of the province and country, Toronto's rapid recovery from the economic shock of COVID-19 is critical.

### **RECOMMENDATIONS**

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

1. City Council request that the Government of Canada and the Ontario Government provide funding commitments to address the City's COVID-19 related financial impacts in 2022 and 2023.
2. City Council request that the Government of Canada and the Ontario Government allocate COVID-19 related support to municipal governments on a needs basis, including recently announced provincial operating funding for public transit systems.

3. City Council request that the Ontario Government confirm that \$28 million in provincial emergency funding that has been previously committed to the City for public transit as part of Phase 2 funding can be rolled over past the end of the provincial fiscal year (March 31, 2021).

## **FINANCIAL IMPACT**

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The budgeted COVID-19 related financial impacts total \$1.596 billion in 2021 across all City Programs and Agencies. Federal and provincial COVID-19 funding support applied to the City's 2021 Budget total \$1.521 billion, reflecting over 95% of budgeted COVID-19 funding requirements. The 2021 year-end funding shortfall is at \$74.5 million which is all related to public transit; however, on November 4, 2021 the Province of Ontario announced \$345 million in province-wide assistance to municipal public transit systems in 2021–22. While Toronto's allocation is not yet known, it is expected that remaining \$74.5 million 2021 COVID-19 funding shortfall will be addressed through this funding.

From March 2020 to November 2021, the City has received nearly \$2.8 billion in COVID-19 related emergency funding commitments from other governments, coupled with \$1.1 billion in savings and offsets generated from City led mitigation strategies over that same time period, to manage financial impacts experienced as a result of the pandemic. Of the \$2.8 billion in intergovernmental funding, approximately \$1.8 billion was received from the Ontario Government and almost \$1.0 billion from the Government of Canada, based on assumed federal and provincial allocations to Safe Restart Agreement funding. Additionally, a further \$107.3 million was received that the City has flowed to community agencies.

According to preliminary estimates, \$1.0 billion to \$1.4 billion in further funding commitments are required to address 2022 COVID-19 related impacts after savings and offsets from continued City led mitigation strategies. Over 75% of the pressure is expected to arise from Transit, Shelters and Public Health impacts (added costs and lost revenues). COVID-19 funding pressures will also continue into 2023, 2024 and future years. Further, non-COVID pressures related to supporting vulnerable populations will also continue into 2022 and 2023.

Multi-year, sustainable partnerships are needed with other governments in order to address systemic gaps in a predictable manner.

## **DECISION HISTORY**

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On November 9, 2021, City Council adopted item EX27.1, City Manager's October 2021 COVID-19 Recovery and Rebuild Update, which provided an update on the financial impacts of the pandemic, and provided authority to City staff to apply for and receive intergovernmental funding until the first scheduled City Council meeting after January 31, 2022.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2021.EX27.1>

## COMMENTS

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The City, along with other large urban centres, has experienced significant and unprecedented financial impacts both in the form of added costs and revenue losses as a result of the COVID-19 pandemic.

Partnerships between governments coupled with the City's strong fiscal management, cost mitigation actions and a unified Council have thus far preserved essential services and begun to set the stage for the country's recovery. These intergovernmental partnerships and City actions have enabled the City to preserve its credit rating position despite the financial challenges created by the pandemic.

However, growth in Toronto's prosperity, like other large cities, continues to face headwinds including:

- Transit ridership at approximately 48% of pre-pandemic levels.
- High usage of foodbanks and shelters, and sustained reliance on employment insurance and other income supports.
- Robust vaccination efforts required to grow two dose coverage for those aged 12 and over in Toronto to 90%, including outreach to equity-deserving communities, and the ramp up of booster doses and vaccines for children as this is approved.
- Lower economic activity and foot traffic on main streets and downtown, particularly in retail, accommodation, culture, tourism and food service sectors.

The economic and social health of Toronto will require further investments to sustain the safe re-opening and preserve the City's job-creating capital investments.

### **Emergency Funding Received To Date**

Federal, provincial and municipal government partnerships enabled a quick and effective response to the public health, social and economic shocks brought on by COVID-19 throughout 2020 and 2021. Investments, along with coordinated policies and programs, supported both the City's front-line response and emergency operating needs and provided flow-through funding which supported essential workers and partners who deliver critical services to vulnerable populations.

From March 2020 to November 2021, the City has received nearly \$2.8 billion in COVID-19 related emergency funding commitments from other governments (approximately \$1.8 billion from the Ontario Government and almost \$1.0 billion from the Government of Canada based on assumed federal and provincial allocations to Safe Restart Agreement funding) and an additional \$107.3 million that the City has flowed to community agencies. A majority of funding was provided under the Safe Restart Agreement and provincial and federal programs that have supported emergency shelters (Social Services Relief Fund and the Reaching Home Program). Funding programs have largely been designed to respond to immediate needs as the pandemic has progressed.

This \$2.8 billion total now includes \$76 million in additional funding from the Ontario Government for local public health extraordinary costs and for vaccination efforts. This

funding was previously outstanding but was confirmed by the Province on November 3, 2021.

Figure 1 - COVID-19 Related Funding Commitments from Other Governments

| Funding Program   | Division | Provincial           | Federal              | Total                |
|---|----------|----------------------|----------------------|----------------------|
| <b>Safe Restart Agreement/Reaching Home</b>   |          |                      |                      |                      |
| Municipal Operating Pressures   | All      | 490,380,905          | 217,583,240          | 707,964,145          |
| Public Transit  | All      | 697,947,345          | 606,739,087          | 1,304,686,431        |
| Social Services Relief Fund   | SSHA     | 327,269,445          | 63,204,393           | 390,473,838          |
| Reaching Home Program Expansion   | SSHA     | -                    | 82,333,827           | 82,333,827           |
| <b>Total Safe Restart Agreement/Reaching Home</b>   |          | <b>1,515,597,695</b> | <b>969,860,546</b>   | <b>2,485,458,241</b> |
| <b>Total Other Programs</b>   |          |                      |                      |                      |
|   |          | <b>340,993,349</b>   | <b>62,285,755</b>    | <b>403,279,104</b>   |
| <b>Total Funding</b>  |          |                      |                      |                      |
|   |          | <b>1,856,591,044</b> | <b>1,032,146,301</b> | <b>2,888,737,345</b> |
| <b>Less Flow-Through Funding</b>  |          |                      |                      |                      |
|   |          | <b>37,961,410</b>    | <b>69,323,346</b>    | <b>107,284,756</b>   |
| <b>Total Funding Excluding Flow-Through</b>   |          |                      |                      |                      |
|   |          | <b>1,818,629,634</b> | <b>962,822,956</b>   | <b>2,781,452,589</b> |
| Flow-through funding is distributed to community agencies by City Divisions and will not support the City's COVID-19 expense. |          |                      |                      |                      |

In addition, on November 4, 2021 the Ontario Government announced \$345 million in province-wide assistance to municipal public transit systems in 2021–22, to help cover shortfalls resulting from lower ridership and other transit impacts, and also to cover year-over-year declines in Provincial Gas Tax revenue (a portion of Provincial Gas Tax is flowed to municipalities with transit systems on an annual basis). Toronto's allocation is not yet known; however, it is expected that remaining 2021 COVID-19 pressures noted below will be addressed using this funding prior to any allocation of funds to address continued 2022 shortfalls.

## 2021 COVID-19 Financial Pressures

The budgeted COVID-19 related financial impacts total \$1.596 billion in 2021 across all City Programs and Agencies. Federal and provincial COVID-19 funding support applied to the City's 2021 Budget total \$1.521 billion, reflecting over 95% of budgeted COVID-19 funding requirements.

This leaves the 2021 year-end funding shortfall at \$74.5 million which is all related to public transit. Separate from the remaining \$74.5 million gap, the City awaits confirmation that \$28 million in provincial emergency funding that has been previously committed to the City for public transit as part of Phase 2 funding can be rolled over past the end of the provincial fiscal year (March 31, 2021). Rolling over funding will offset eligible impacts experienced by the City following March 31, 2021.

Additional funding announced on November 4, 2021 by the Ontario Government (noted above) is expected to address these gaps. It is recommended that City Council request that the Ontario Government allocate this new funding for the loss of provincial gas tax revenues and for public transit ridership declines on a needs basis, and that the City receive \$74.5 million in new funding from the portion announced to help cover shortfalls resulting from lower ridership to fully resolve the remaining 2021 gap; as well as roll over \$28.8 million in existing Phase 2 funding.

## 2022 COVID-19 Financial Impacts

According to preliminary estimates, \$1.0 billion to \$1.4 billion in further funding commitments are required to address 2022 COVID-19 related impacts. Over 75% of the pressure is expected to arise from Transit, Shelters and Public Health impacts (added costs and lost revenues). This is common to the pressures felt in other large cities, particularly those with large public transit systems and shelter services.

An early commitment to emergency operating support will be required in the coming weeks to enable staff to present a balanced budget for 2022. Needs based funding is required for Toronto and other large cities to:

- Continue to support public health efforts and limit the spread of the pandemic.
- Sustain vital services such as shelters, and supports for equity-deserving groups.
- Keep much-needed capital projects on track, including those funded in partnership with other governments, which will sustain and create jobs and support our local, regional, and national economic recoveries.
- As noted during the 2021 budget process in the briefing note "Potential Impact of Reduced City Capital Budget on Employment," it is estimated that 4.7 to 13.5 person-years of employment are generated for every \$1 million in public infrastructure spending. A reduction in the City's capital program can be assumed to have a similar opposite impact.

<https://www.toronto.ca/legdocs/mmis/2021/bu/bgrd/backgroundfile-163078.pdf>

The precarious nature of recovery, particularly of public transit ridership, means that funding pressures will continue into 2023, 2024 and future years. The City will continue to work with other governments to explore multi-year, sustainable partnerships that can address these systemic gaps in a predictable manner.

## Non-COVID Funding Pressures

The City's 2021 budget included requests to the Government of Ontario and Government of Canada to provide funding for services which are the responsibility of other governments (such as operating funding for supportive housing and funding to provide temporary shelter accommodation to refugee individuals and families). This is in addition to the financial pressures that arise from programs that are mandated or formally cost shared with other governments.

Funding for these pressures will continue to be required in 2022 in order to continue supporting vulnerable populations. Preliminary budget planning has identified continued pressures related to supportive housing that is expected to have financial impacts of approximately \$28 million in 2022 and \$48 million by 2023. Temporary shelter accommodations for refugees are expected to have impacts as high as \$61 million in 2022, which is an increase from the 2021 experience due to the reopening of borders.

## Intergovernmental Funding

City staff continue to pursue opportunities available to fund non-COVID pressures, including through federal and provincial infrastructure programs, and will submit an

infrastructure funding report on approved projects to City Council in February 2022 as part of the Budget process.

Further recovery commitments have also been made by the Government of Canada, including through the election campaign, to support investments in public transit, housing and other programs such as community safety. However as noted, there has yet to be a firm commitment to cover ongoing operating costs related to COVID-19, which is a foundational element to this work.

## **Budget Planning**

Investments from other governments will:

- Address the limited fiscal and revenue generating capacity of local governments;
- Acknowledge the requirement for municipalities to run balanced budgets;
- Recognize the need to align local, provincial and federal policies and programs including preserving necessary capital investments;
- Better match investments with outcomes and associated cost savings/revenue growth (such as savings to justice, healthcare and other systems as a result of supportive housing investments, and the growth in income taxes as a result of infrastructure); and
- Ultimately help meet the shared objectives of all governments (such as reducing chronic homelessness, growing the economy and addressing climate change).

The absence of significant federal and provincial commitments to address COVID-19 related pressures and pressures in other areas by December 31, 2021 will again require the City to investigate a variety of measures and scenarios which may affect service offerings (including pandemic response), further cost mitigation efforts, and capital offsets/deferrals. A collective response, with aligned federal, provincial, and City approaches, will be critical in leading Toronto on a sustained path as we continue to respond to, and recover from, COVID-19.

City Council's approval of the recommendations in this report to secure funding from other orders of government complements the City's focus of intergovernmental relations on strengthening partnerships in the delivery of the City's programs and services, with mutual benefit to all orders of government. With the required investments, Toronto can continue to be the driving engine of Canada's economy and recovery.

## **CONTACT**

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## **SIGNATURE**

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