

Tax Supported 2021 Operating Budget and 2021-2030 Capital Budget and Plan

Date: January 13, 2021
To: Budget Committee
From: Chief Financial Officer and Treasurer
Wards: All

SUMMARY

This report presents the City of Toronto Staff Recommended Tax Supported 2021 Operating Budget and 2021 – 2030 Capital Budget and Plan and seeks City Council approval for the Non Program accounts, which are not included in Program/Agency Budget Notes.

The 2021 Operating Budget and the 2021 – 2030 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 3.0 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 City has experienced significant and unprecedented financial impacts, both in the form of added costs and revenue losses as a direct result of the COVID-19 pandemic. A series of mitigation measures were implemented in 2020 to achieve savings including workforce and spending restraints. However, the COVID-19 related financial impacts experienced in 2020 are expected to continue into 2021 and future years.

In an effort to address/mitigate challenges presented by the ongoing impacts of COVID-19, the development of the 2021 Operating Budget was guided by four key principles, as follows:

- Manage COVID-19 impact and recovery;

- Preserve existing services (consistent with health guidelines);
- Keeping property taxes affordable; and
- Building a prosperous Toronto with a focus on equity.

RECOMMENDATIONS

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

1. City Council approve the 2021 Budget Committee Recommended Operating Budget for Corporate Accounts of \$1.740 billion gross and (\$1.382) billion 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	1,100,847.4	92,946.3	1,007,901.1
Non-Program Expenditures	541,465.0	174,248.4	367,216.6
Non-Program Revenues	97,906.3	2,855,510.1	(2,757,603.8)
Total Non-Program Budget	1,740,218.7	3,122,704.8	(1,382,486.1)

2. City Council approve the associated staff complement of 394 operating positions for Non-Program, consistent with 2020 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 \$141.290 million;
4. City Council approve one-time withdrawal of \$5.0 million in 2021 and \$6.0 million in 2022 from Tax Rate Stabilization Reserve to provide start-up funding for the City's Vacant Home Tax program, and that the Tax Rate Stabilization Reserve be reimbursed with revenue generated from the implementation of Vacant Home Tax in the future;

5. City Council approve a one-time contribution of \$380.6 million to the Tax Rate Stabilization Reserve to be used to offset COVID financial impacts in the event adequate Federal/Provincial funding support is not forthcoming in 2021, through the following adjustments to the **2020 Operating Budget** achievable from actions undertaken in 2020 to manage COVID-19 financial impacts:
 - i. City Council approve the one-time allocation of \$117.5 million of provincial gas tax revenue to fund TTC 2020 operating expense, with an offsetting one-time reduction in the 2020 net subsidy provided to the TTC resulting in no net change in overall budgeted expenditures or revenues for the TTC in 2020, while making available \$117.5 million in City funding to be allocated to the Tax Rate Stabilization Reserve;
 - ii. City Council approve a further one-time contribution of \$263.1 million to the Tax Rate Stabilization Reserve through the reallocation of 2020 Capital from Current funding, with this change predominantly achievable through underspending/reductions in 2020 capital spending.
6. City Council approve the 2021 sinking fund levies of \$416.303 million in respect of the City's capital financing requirements;
7. City Council approve a 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;
8. City Council approve 2021 Staff Recommended Capital Budget for Corporate Initiatives with cash flows and future year commitments totaling \$3.746 million as detailed by project in appendix 2.1.1.
9. City Council, in approving the 2021-2030 Capital Budget and Plan, express its intent to ensure that:
 - i. the increase in need for services attributable to anticipated development will be met;
 - ii. that any future excess capacity identified will be paid for by development charges or other similar charges; and
10. City Council approve contributions and withdrawals to/from reserves in Corporate Accounts as indicated in Appendix 3.

FINANCIAL IMPACT

Staff Recommended Tax Supported 2021 Operating Budget and 2021-2030 Capital Budget and Plan Summary

This report seeks Council approval of the 2021 Corporate Accounts Budget for expenditures and revenues totalling \$1.740 billion and \$3.123 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 \$3.746 million as detailed in Appendix 2.1.1.

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 2021 Operating Budget and 2021-2030 Capital Budget and Plan

Total Tax Supported Budget & Plan (\$M)	Operating Budget		Capital Budget & Plan			
	2021		2021		2022-2030	
Programs	Gross	Net*	Gross	Debt	Gross	Debt
City Operations	5,995	2,569	1,623	1,020	13,970	7,746
City Agencies	4,353	3,302	1,326	221	12,130	1,318
Corporate & Capital Financing	1,740	(1,382)				
Total Budget	12,088	4,489	2,949	1,241	26,100	9,064

*Excludes special dedicated levy

2021 Staff Recommended Tax Supported Operating Budget Overview

The 2021 Staff Recommended Tax Supported Operating Budget is \$12.088 billion gross and \$4.489 billion net. The budget preserves existing essential services, while adhering to health guidelines; addresses continued COVID-19 pressures; maintains an inflationary residential tax rate increase for City Operations; focuses on equity and prosperity for all; and includes \$56 million in new or enhanced investments.

Continuous and new investments include a \$1.6 billion investment to manage COVID-19, \$11.7 billion to preserve existing service levels, \$22.0 million for building a prosperous Toronto, and \$34.0 million for investments in modernization, mobility and transit, road safety, and culture.

The Staff Recommended Operating budget primarily allocates funds to social programs (29.9%), TTC services (17.8%), and emergency services (16.6%), with the funding coming from property taxes (37.1%), Federal and Provincial revenues, which includes continued COVID-19 support (33.9%), Fee and Fine revenues (6.2%) and TTC fares which have significantly reduced from prior years due to the impacts of COVID-19 (4.5%).

2021-2030 Staff Recommended Capital Budget and Plan Overview

The 2021-2030 Staff Recommended Capital Plan focuses on investments in transit funding (\$13.3 billion), transportation (\$5.2 billion), environment (\$3.2 billion) and housing (\$2.9 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, continues to allocate funds generated from the increase to the City Building Fund, addresses recent Council commitments, government partnerships and develops a capital asset management plan.

DECISION HISTORY

At its July 28 and 29, 2020 Meeting, City Council adopted the City Manager's report on Update on the City's Response to COVID-19 and Financial Impacts. This report provided direction to the City Manager to report in September on any commitments of financial support received from the Federal and Provincial governments to the City.
<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2020.CC23.3>

At its meeting on September 30 and October 1, 2020, City Council adopted the report providing details on COVID-19 related financial impacts experienced as of August 20, 2020, the estimated impacts to year-end based on the trends experienced since the declaration of a pandemic in mid-March, and mitigations strategies initiated by the City to offset COVID-19 related financial impacts while acknowledging the initial funding received under the Safe Restart Agreement. This report recommended the City Manager report to City Council in Fall 2020 with an update on further funding received from the Safe Restart Agreement that would offset the remaining 2020 budget pressure and any further mitigation options required to address COVID-19 financial impacts.
<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2020.CC24.2>

At its meeting on December 16 and 17, 2020, City Council adopted the report directing the Chief Financial Officer and Treasurer to develop a vacant home tax program and to report back with a recommended taxation, collection, exemptions and enforcement design for a vacant home tax by the end of Q2 2021 for implementation commencing in the 2022 taxation year.
<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2020.EX19.3>

COMMENTS

Corporate Recommendations

This report presents the City of Toronto Staff Recommended Tax Supported 2021 Operating Budget and 2021 – 2030 Capital Budget and Plan and it seeks City Council approval for the Non Program accounts, which are not included in Program/Agency Budget Notes.

- COVID-19 Impact on Corporate Revenue

Since mid-March 2020, the City of Toronto, consistent with other major Canadian and Greater Toronto and Hamilton Area (GTHA) municipalities has been experiencing significant financial impacts, both in the form of added costs and revenue losses as a direct result of the COVID-19 pandemic.

In 2021, it is expected that the City will incur an added \$1.6 billion in COVID-19 related financial impacts. The Three major areas that are impacted are the TTC (\$796 million); Shelters (\$281 million) and Corporate Revenues (\$277 million).

Key adjustments to Corporate Revenues in the 2021 Operating Budget based on estimated COVID-19 related financial impacts include:

- Municipal Land Transfer Tax - \$100.0 million;
- Parking Authority Revenues - \$54.7 million;
- Parking Enforcement - \$34.2 million;
- Municipal Accommodation Tax - \$47.1 million;
- Casino Woodbine - \$23.9 million;
- Toronto Hydro Dividend - \$17.0 million; and
- Payment in Lieu of Taxes - \$3.2 million.

The 2021 recommended Operating Budget for Non-Program Revenues includes \$1.6 billion in continued COVID-19 funding from the government of Canada and province of Ontario.

- Through partnerships with the federal and provincial governments, the City secured over \$1.9 billion in Safe Restart Agreement funding in 2020, of which \$740 million is available for costs incurred in 2021.
- Continued support from government of Canada and province of Ontario is critical to offset anticipated remaining 2021 COVID-19 financial impacts.
- The City is optimistic that funding is forthcoming from the Provincial and Federal governments. If Provincial and Federal government funding is not received, there will be a significant impact to the City's ability to proceed with capital & infrastructure projects and there may also be an adjustment to City services.

- Tax Rate Stabilization Reserve

The City experiences unprecedented financial challenges resulting from the pandemic. A series of mitigation strategies and cost saving measures including workforce restraints, spending constraints and cost avoidance were implemented with the intent to partially offset COVID-19 related financial impacts.

At the onset of COVID-19, due to the uncertainty of the financial impact and the amount of financial assistance from other levels of government, capital projects funded by Capital from Current (CFC) and Provincial Gas Tax (PGT) were slowed to enable potential offsets to COVID-19 financial impacts.

As a result of these actions, coupled with reallocation of capital funding from permanent underspending, a one-time contribution of \$380.6 million to the Tax Rate Stabilization Reserve is recommended and will be used to offset COVID financial impacts in the event adequate Federal/Provincial funding support is not forthcoming. Capital needs associated with impacted projects were reassessed as part of the 2021 budget process.

Further steps were also taken in 2020 to provide for an added one-time contribution to the Tax Rate Stabilization Reserve. On December 16, City Council approve a \$213.7 million contribution to the Tax Rate Stabilization Reserve from a portion of the 2019 Operating Budget surplus that is also to be used to offset COVID financial impacts in the event adequate Federal/Provincial funding support is not provided.

The 2020 closing balance of the City's Tax Rate Stabilization Reserve was projected to be \$113.2 million, prior to actions detailed above. Following the above actions, the 2021 opening balance of this Reserve will be \$707.5 million, prior to budgeted non-COVID related reserve contributions and draws.

- The \$594.3 million in contributions added to the Tax Rate Stabilization Reserve reflects potential one-time measures to address COVID impacts in the event adequate funding from the government of Canada and province of Ontario is not received.
- These reflect one-time funds only that would not be sufficient to address the ongoing impacts of COVID-19 on the City's budget. Furthermore, in a pre-pandemic environment these funds would have been reinvested in the City's capital program to address capital infrastructure needs.
- As the City is required to approve a balanced operating budget, these funds ensure the City can maintain a balanced 2021 operating budget, while limiting further impacts to the capital budget or reductions to services within the operating budget if adequate COVID support is not provided by the federal and provincial governments.
- These funds can ultimately be re-directed to the current or future year capital plans if the City is successful in securing permanent and ongoing funding

support for 2021 and future year COVID related financial pressures from the government of Canada and province of Ontario.

The Reserve also provides a contingency to temporarily address any unanticipated shortfalls associated with additional costs or underachieved revenues that may arise from COVID-19 or other financial challenges.

- Approval of 2021 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 2021 sinking fund levies of \$416,302,547.00 in respect of the City's capital financing requirements.

Debt Issuance

Authority to Issue Debentures During 2021

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 2021 has been authorized under By-law No. 254-2019.

Issuance Activity during 2020

The debenture authority approved by Council for 2020 was \$1 billion. Due to favourable capital market conditions and strategic timing considerations, debenture issuance of \$986.25 million, including \$6.25 million for the CMHC loan for modular housing, was completed during the year.

The details of the 2020 public debenture issuance that was approved by the Debenture Committee are:

Issue Date	01-May-20	17-Jun-20	11-Aug-20	26-Oct-20	01-Dec-20
Settlement Date	15-May-20	30-Jun-20	25-Aug-20	09-Nov-20	16-Dec-20
Size	\$200,000,000	\$100,000,000	\$300,000,000	\$250,000,000	\$130,000,000
Coupon	2.65%	1.60%	2.15%	2.80%	2.60%
Maturity Date	09-Nov-29	02-Dec-30	25-Aug-40	22-Nov-49	24-Sep-39
Term (years)	10	10	20	30	20
Issue Yield	1.631%	1.602%	2.174%	2.404%	2.140%

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SIGNATURE

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ATTACHMENTS

Appendix 1: 2021 Staff Recommended Operating Budget

- Appendix 1.1.1 - 2021 Gross Expenditure Budget
- 1.1.2 - 2021 Revenue Budget
- 1.1.3 - 2021 Net Expenditure Budget
- 1.1.4 - 2021 Total New and Enhanced Service Investments

Appendix 2: 2021 Staff Recommended Capital Budget

- Appendix 2.1.1 - 2021 Cash Flow & Future Year Commitments for Corporate Initiatives

Appendix 3: Contributions and Withdrawals to/from Reserves in Corporate Accounts